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# RELATION BETWEEN BUSINESS STRATEGY AND HUMAN RESOURCE MANAGEMENT: CONCEPTUAL REVIEW

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## ABSTRACT

Strategic human resource management (SHRM) has been studied for over the last 30 years and is highly recognized for its impact to the organizational performance. Nevertheless the mechanism of its impact still remains in the discussion within the field. This paper is focused on the systematic review of literature on theories of Strategic human resource management. The objective is to present the literature review of Strategic human resource management studies by explaining the meanings and identifying the variables and their relationship related to Strategic human resource management. The conclusion from review shows that variables used in various studies are business strategy, human resource management system, human resource outcomes and organizational performance. The human resource outcomes are found to be the mechanism, which mediates the human resource management system–organizational performance linkage.

**Keywords:** Strategic Human Resource Management; Business Strategy

## INTRODUCTION

Growing integral between Human Resource Management (HRM) and Business Strategy (BS) is one of the most important requests that are placed upon modern strategic human resource management. Survival and success of organizations increasingly depend on their ability to build highly skilled workforces and to release the full potential of their human resources. During the last two decennia, there has been a set of important developments in the literature of the issues related to the management of people and significant attention has been directed towards HRM practices (Haris and Ogbonna, 2001:158). Several go even further by stating that a firm's human resources form the basis of the firm's competitive advantage. In this view, human resources are the most important assets of an organization. At the same time, in growing to the importance of human resources as such, it is believed to be important that the management of the human resources should be in perfect suitable with the management of the organization as a whole and its strategic plans. HRM strategy systematically organizes all individual HRM measures to directly affect employee behavior in a way that leads businesses to achieve their competitive strategy. (Huang, 2001: 134). In view of the fact that the goals and necessities of each of the competitive strategy types are different, the management of the human resources of the corporation should be in line with the corporation's overall strategy. This means that human resource management carries the promise that if people are regarded and managed as strategic resources, the corporation can obtain a competitive advantage and so achieve excellent performance (Heijltjesa and Witteloostuijn, 2003: 33). Changes or trends that are emerging today such as globalization, changes in the nature of work, and technology affect human resource management to be more business-oriented and strategically focused. Ulrich (1997) referenced that HR managers should not only have administration skills and expertise but should also be champions of employees, change agents, and strategic partners of an organization. In this context, HRM practices can be a source of competitive advantage of the organization, especially when they are aligned with the organization's competitive business strategy (Begin, 1991; Cappelli & Singh, 1992; Jackson & Schuler, 1995).

The objective of this article is to present the literature review of strategic human resource management (SHRM) studies to explain meanings, variables, and their relationship related to SHRM.

## Strategic Human Resource Management (SHRM)

The term "Strategic human resource management (SHRM)" was introduced, according to Devanna, Fombrun, and Tichy (1981). Human resource management: A strategic perspective which shifts the focus on perform role such as training and benefit to integration and organization, driven by human resource management value added.

The evolution of SHRM from human resource management is focused on the issue of human resource management in

organizationperspective context, instead of individual perspective context and its role to support the business (Liao, 2005). The main study context was proven against the relationship and alignment of business strategy and HRMto the organizational performance.

The term strategic human resource management was well-defined by Wright and McMahan (1992) as “the pattern of planned human resourcdeployments and activities intended to enable an organizationto achieve its goals”.

From the literature review, the principle of study has shifted fromtesting various human resource practices individually toward testing the whole human resource management systems as a bundle, because those practices operates with a synergistic effect. In addition, organizationalworkforce does not interact with single practice but all of practices as a systems (Ichniowski et al., 1997; Becker and Huselid, 1998; Lepak et al., 2006).

Therefore, the author defined strategic human resource managementfrom literature review as the effective use of human resource for organization’s strategic needs via the integration of planned human resource practices aligned with business strategy to achieve organizational performance and competitive advantages.

Kaufman and Miller (2011) observed that organizations’ choice of human resource management practices normally followed the three typology developed by Delery and Doty (1996), which are universalistic, contingency, and configurational perspectives. The universalistic was considered to be the best practice. Meanwhile, the contingency and configurational perspectives were considered to be best fit. However, universalistic perspective could be argued on whether or not there are actually a certain best practices that any organizations could benefit by adopting single approach. Contingency perspective could be argued that the best choice to select practices depends on each organization’s context. Configurational perspective could be argued that some configurations are better than others, and can yield more performance.

The author defined human resource management systems as the bundles of human resource practices separated from each other, but are synergistically operated and related. It is consisted of recruitment and selection, training and development, internal mobility, compensation, employment security, performance management, work design, and involvement.

### **Business Strategy**

Porter’s (1985) competitive strategies concept is the main strategy used in SHRM studies (Buller and McEvoy, 2012; Schuler and Jackson, 1989; Huang, 2001). Scholars agreed that the heart of SHRM study is organizations’ competitive advantages, which are derived from alignment of HRM systems and business strategy (Schuler and Jackson, 1989; Huselid et al., 1997; Huang, 2001; Chow et al., 2008; Azmi, 2011; Katou, 2012)

Porter (1985) conceptualized business strategy in three patterns including 1) cost leader strategy 2) differentiate strategy and 3) focus strategy. Schuler and Jackson (1987) has developed strategy to use in HRMstudy based on porter’s three pattern which is 1) innovation strategy 2) quality enhancement strategy and 3) cost reduction strategy that are widely used in SHRM study (Huang, 2001; Liao, 2005; Chow et al., 2008; Bao and Analoui, 2011; Lee et al., 2010).

Business strategy can be defined from literature review as thechoice of pattern that organization choose to position themselves in the market in order to gain competitive advantage, which consist ofinnovation strategy, quality enhancement strategy, and cost reductionstrategy (Porter, 1985; Schuler and Jackson, 1987; Arthur, 1992; Huang, 2001; Liao, 2005; Chow et al., 2008; Bao and Analoui, 2011; Lee et al., 2010)

### **Human Resource Outcomes**

Becker and Huselid (2006) stated that the theoretical and empirical challenge in SHRM literature and study was the linkage between HRM and organizational performance, which many scholars used the term “Black box” to make a clearer picture. Dyer and Reeves (1995) has categorized outcome and suggested that human resource outcomes are the main product of HRM systems which directly impact organizational performance. Hence, in order to understand linkage between HRM and organizational performance, the relationship between HRM and HR outcomes must be studied (Wright et al., 2003). However, there is a limitednumber of study that explored this linkage (Elorza et al., 2011)

Human capital is one of the main interest topic in study of strategicHRM. Wright and McMahan (2011) stated that the issue of human capital is how the organization decide to invest in employee such as, training and development, provide education in form of scholarship. In the empirical studies that employ human capital theory, scholars had shown the effect of human capital on organizational performance through the accumulate of human capital in organization (Youndt

and Snell, 2004; Teo et al., 2011).

The studies of high-performance work systems–HPWS, employees’ attitude and behaviour has been emphasized as a mediate variable (Boxall and Macky, 2007). Many studies conceptualized by blending Resource-based view – RBV theory, Ability, Motivation and Opportunity – AMO theory, Human capital theory and Behavioural perspectives to support the hypothesis (Kaufman and Miller, 2011; Way and Johnson, 2005).

Numbers of empirical studies has confirmed that HRM outcomes is the “black box” variable mediated between HRM and organizational performance in SHRM literature (Way and Johnson, 2005).

Therefore, the author defined HR outcomes as the direct outcome occurred from human resource management consist of human capital, employees’ attitude and employees’ behaviour (Youndt and Snell, 2004; Takeuchi et al., 2007; Guthrie et al., 2011; Katou and Budhwar, 2010; Katou, 2012, 2010, 2008; Park et al., 2003)

### **Organizational Performance**

Dess and Robinson Jr. (1984) indicated that organizational performance is the crucial factor of empirical study in the field of business policy. In the past, financial performance such as return on investment – ROI, and economic value analysis – EVA are widely used as performance indicators for executive in planning and controlling.

Dyer and Reeves (1995) proposed four types of organizational performance measurement as the following: (1) Human resource outcome effect from human resource management practices which concerning attitude (job satisfaction and organization commitment) and behavior (turnover and absenteeism) 2) Operational performance which concerning productivity and shrinkage 3) Financial performance which concerning profitability and 4) Market performance which reflected from share price of organization.

Zupan and Koše (2005) noted that most of SHRM studies measured organizational performance that are profit-related or market-value-related, then proposed indicators for more balance to use as a measurement of organizational performance, which included both objective and subjective performance. Objective performance indicators included, for example, return on asset – ROA, EBIT per employee, return on investment– ROI, Tobin’s q, and market value. On the other hand, subjective performance included customer satisfaction, product or service quality, new product or service, and relative competitive position and organization reputation. Becker et al. (1997) also stated that market-related performance indicators are more appropriate for HRM study because they reflected the present value of organization cash flows.

The author defined organizational performance from literature review as three dimensions of organization’s performance consist of market performance, operational performance, and financial performance (Huselid, 1995; MacDuffie, 1995; Delery and Doty, 1996; Huang, 2001; Wright et al., 2003; Youndt and Snell, 2004; Chow et al., 2008; Bao et al., 2011).

### **OBJECTIVE**

This research aims to assess the acquired knowledge of business strategy and human resource concepts with the purpose of answering the following question: What is the relation between business strategy and human resource management? To answer this question, this study seeks to examine business strategy and human resource management understanding as to the meaning of these two concepts. As specific objectives, we seek : (1) to know the relation between business strategy and human resource, and (2) to identify which concept of busi

### **Relationship between Business Strategy & Human Resource Management**

The relationship of Jackson and Schuler (1987) strategy and human resource management could be explained that organizations which adopt cost reduction strategy required employees to work harder. On the other hand, organizations which adopt quality enhancement strategy required employees to work smarter. And lastly, organizations which adopt innovation strategy required employee to do the job differently from current state (Muduli, 2012).

The author has reviewed empirical study that report business strategy and HRM linkage. There are significant effects such as study of Andersen et al. (2007) found that in Australia, HRM that align with business strategy has positive effects on organizational performance. This idea was in line with Muduli (2012) who reported that business strategy is the crucial factor to plan strategic human resource management. In Greece context, Katou and Budhwar (2010) found that the human resource management designed from business strategy has a significant effect on organizational performance. Moreover, Business strategy also affected on human resource management capability and motivation. Collings et al. (2010) reported the relationship of the alignment of HRM and business strategy directly impact employees’ skills, motivation, and

organizations' financial performance in Turkey.

### **Relationship between Human Resource Management Systems, Human Resource Outcomes, and Organizational Performance**

Previous empirical studies on different human resource managementsystems and organizational performance linkage have been well-studied (Su and Wright, 2012). Many studies depicted direct relationship between human resource management and organizational performance. For instance, study of Huselid (1995) found that organization in diverse industries have improved organizational performance by employing high-performance work system. Organizations also yielded higher productivity and financial performance improvement with lower turnover rate. Moreover, it also shown that one point in standard deviation of using high-performance work system has impact of 7.05 percent on turnover, sales growth \$27,044, market growth \$18,641, and \$3,814 more profit than organizations didn't employ the system. Ichniowski et al. (1997) claimed that the Innovative human resource system was highly impacted the overall performance of employees.

In addition, numbers of studies had shown that human resource management systems has positive impact on employees' attitude and behaviour. This led to greater efficiency in productivity, as well as to the overall performance (Fey et al., 2009; Messersmith et al., 2011; Kazlauskaite et al., 2012). Scholars argued that human resource outcomes (such as human capital, employee commitment, absenteeism, and turnover) are crucial factor between human resource management systems and organizational performance linkage (Klaas et al., 2012; Khan et al., 2013; Guthrie et al., 2009; Kim, 2012). In support the argument, Park et al. (2003) study of Japanese MNCs firms reported that skills, attitude, and motivation were the elements of HR outcomes derived from HRM system. Messersmith et al. (2011) proved this point of impact on employees' attitude and behavior toward better organizational performance with solid evidence from the case on NPO organizations in Wales. Muduli (2012) study of Indian reported that HR outcomes consisted of commitment, satisfaction and motivation together contributed to better organizational performance. In study of Elorza et al. (2011) which exploring the "black box" in Spanish context also found the mediate effect of higher commitment effect on lower absenteeism then contribute to productivity. These diverse context study has confirmed the mediator effect of HR outcomes, which is the "black box" between HRM systems and organizational performance linkage.

### **CONCLUSION**

The topic of the business strategy and human resource management is receiving growing attention and this study highlights the idea that the business strategy and human resource management are becoming important, not fringe activities in organizations today. It also suggests that for many organizations, The business strategy and human resource management appears to be viewed as a value driver with many benefits. The business strategy and human resource management can be a source of opportunity, innovation, and competitive advantage' this paper analyses whether the relation between HRM and business strategy does exist. and from previous literature, it is proved that the business strategy and human resource management has a positive relationship with social responsibility. The finding from this study can summarize that SHRM is one crucial part that contributed to organization performance. The numbers of research has shown that variables used in SHRM study are business strategy, human resource management systems, human resource outcomes, and organizational performance. The black box that mediate the relationship between HRM system and organizational performance, which is HR outcomes also reveal according to the literature reviewed in this study.

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