The influence of Strategic Human Resource Management on Firm Performance of Jordan’s Corporate Organizations

1Zeyad Alkhazali, 2Mohd Ab. Halim
School of Business Innovation & Technopreneurship, University Malaysia Perlis
1Email: d_zeyad2014@yahoo.com
2Email: suberi@unimap.edu.my


Abstract
This paper investigate the extent to which Strategic Human Resource Management (SHRM) influences Firm Performance. Quick environmental changes, competition to extend innovative products, changing customer and angel demands and globalization have become the criterion backdrop for firms. Sustained Competitive Advantage (CA) could be generated from a firm’s Human Capital by styling SHRM to diagnose a firm’s strategic needs which is wanted to implement a CA and achieve operational goals. Effective Human Resource Management HRM systematically organizes all individual HRM measures to directly impact employee attitude and behavior in a way that leads business to achieve its CA. Finally, this article develops a conceptual framework that explains the relationship between SHRM, CA and FP.

Key Words: Strategic human resource management, Competitive strategy, Firm performance, Management development, Organizational Performance (OP), Human Resources (HR)

1. Introduction
Organizations have increasingly become conscious of the importance of SHRM this consciousness in a system is a critical dimension in FP (Abdul-Halim, Che-Ha, & Geare, 2009). The real life experiences confirm the assumption that no matter how developed, it will be very difficult to sustain its development and effectiveness unless there are strategies that sequel its operations. Business competitiveness is a recurring theme thoughtful by academicians, consultants and practitioners. The recurrent and uncertain changes, greater contest between firms, the need for continuous innovations, quality increase and cost lowering force companies to face the challenge of beneficent their competitiveness and consequently their performance. This investigation has propelled SHRM as a major field of study and the renewed interest has facilitated the development of newer approaches in managing organizations and HRM (Alagaraja, 2013).

According to Benevene & Cortini, (2010), SHRM emphasizes the need for the HR plans and strategies to be formulated within Organizational Performance OP and objectives and to be reacting to the changing nature of the firms external environment. It is an approach which
demand translation and adaptation by practitioners to ensure the most fit between HR business strategies and plans. Thus, the overall themes of SHRM are the integration of all HRM functions, adherence to broad organization goals (Blackman, O’Flynn, & Mishra, 2010). There are a number of studies (Appelbaum, 2000; Huselid, 2005; Wright, 2005; Schuler & Jackson, 2001) focusing on the main competitive factors of business because of their contribution in global economy. The quest for CA has long been a central tenet of the field of strategic management (Buller & McEvoy, 2012). Within this field, the configurational theory has emerged as a promising new framework for analyzing the sources and sustainability of competitive advantage, in SHRM internal fit and external fit are the two main research streams. Scholars have long held that in addition to internal organization characteristics, environmental characteristics also significantly influence firm performance since the external environmental characteristics represent customer demands.

1.1 Background of the Study

Corporate organizations in Jordan contribute around 16.3% to Gross Domestic Product GDP and this has remained in general unchanged since 2008 (Jordan Economic Development report, 2013), and are faced with challenges including rapid environmental changes, competition to provide innovative products and services, changing customer and investor demands, poor infrastructure and globalization. Therefore, they are also faced with major challenges of constantly improving their performance by reducing costs, enhancing quality and differentiating their products and services. The market environment in the country has been extremely turbulent during the past decade, and to maintain continuous success in the face of global competition, firms must identify and analyze environmental characteristics and develop strategies to meet changing market needs. According to Jordan Economic Development report, corporate organizations in Jordan employ 25 % of the labour force and contribute over 16.3 % of Jordan’s gross domestic product. The sector is also among the largest employers in Jordan in addition to the tax opportunities it presents. According to this report, the economies of most successful countries in the world originated from their successful business organizations which drive the economy of the country. These organizations need to respond to greater global imperatives and challenges to compete effectively in local and global markets.

1.2 Strategic Human Resource Management and Firm Performance

According to Chen & Huang, (2009), human and their collective skills and experience, coupled with their capacity to deploy these in the interests of the employing organization, known as making a significant contribution to organizational success and as constituting a major source of CA. The practices of SHRM such as resourcing, training and development, reward management and employee relations are concerned with how human are employed and managed in organizations so as to achieve CA through the strategic deployment of a highly committed and capable HR. (Chuang, & Liao, 2010) emphasize that the HR function brings in the strategic value of human in organization by making contribution to value added to CA. The organization relies on HR as its employee’s effective SHRM organizes all individual HRM measures to directly
impact employee attitude and behavior in a way that leads business to achieve its CA (Grant, & Newell, 2013). In view of the fact that the goals and the necessities of each of the CA types are different, the management of HR of the firm should be aligned with the overall corporate strategy. The firm can thus obtain a CA and thus achieve performance (Gurbuz & Mert, 2011). There has been a debate by numerous researchers whether SHRM should always be positively related. Universalistic scholars argue that there is a global set of HRM best practices that can maintain a firm performance (Hertog, Iterson, & Mari, 2010). Contingency scholars hold different points of view and argue that the assumptions underlying the SHRM performance link are applicable only under high external fit conditions, termed the ‘best fit’ school (Kalyani & Prakashan Sahoo, 2011).

According to A. Kim & Lee, (2012) proposed the notion of the configurational perspective which focuses on how unique patterns or configurations of multiple independent variables are related to the dependent variable, by aiming to identify ideal type categories of not only the organizations but also the HR strategy. In most firms today, it is the employees’ skills and commitment that create CA for an organization. Therefore, important that organizations truly leverage on the human resource as a competitive weapon to develop a CA. Although most of the studies speak of SHRM leading to organizational performance, such a one way of causation is unsatisfied (J. Kim, 2010). The usual key critique of SHRM and OP is that sound theoretical development that explains how such HR practices operate is absent (Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009). In a potential to address such theoretical developments in this area, researchers have proposed further studies to believe intermediate linkages between SHRM and OP (Lepak, & Shaw, 2008). Accordingly, a better understanding of the role of SHRM in creating OP and CA should be achieved through further theoretical development. Most studies seeking the relationship between SHRM and OP have been conducted mostly in developed countries (Marler, 2009), and that only a few researchers have measured the mediators importance.

The majority in SHRM adopts the resource based show perspective which tends to ignore contextual variables, competitive strategies, which influence OP, the lack of such studies showing association between SHRM and OP and also the mediating role of CA in the Jordanian context makes it important to further explore the critical role of SHRM. As the role of corporate organizations continue to increase in importance in Jordan, they continue facing the challenges of improving quality and people skills, managing HR diversity, responding to greater globalization and stimulating innovation and change. This paper seeks to determine the influence of SHRM on OP, and establish the moderating role of competitive strategies on SHRM performance in Jordan as firms must increase their accesses to markets and knowledge by reading correctly changes in external market. This study may, therefore, be valuable to researchers and academicians in providing more knowledge on contributions of CA to organization’s performance. The corporate organizations have a great potential for improvement of profits, quality, competitiveness and innovation.
2. Theoretical Review
In an attempt to explain the relationship between SHRM and FP, the researchers have focused on three competing normative theories as debated by numerous researchers: universalistic, contingency and configurational theories.

2.1 Universalistic theory
It is also referred to as the best practice model, which is based on the assumption that there is a set of superior best HRM practices, and that adopting them will inevitably lead to superior OP (Nigam, Nongmaithem, Sharma, & Tripathi, 2011). The notion of best practice was identified initially in the early US models of HRM, many of which mooted the idea that the adoption of certain ‘best’ HR practices would result in enhanced OP, manifested in improved employee attitudes and behaviors, lower levels of absenteeism and turnover, higher levels of skills and therefore higher productivity, enhanced quality and efficiency and of course increased profitability (Nigam et al., 2011). Here, it is argued that all organizations will benefit and see improvements in OP if they can identify, gain commitment to and implement a set of best HRM practices. Thus, universalistic perspective maintains that firms will see performance gains by identifying and implementing best practice irrespective of the product market situation, industry or location of the firm. However, the notion of a single set of best HRM practices has been overstated. There are examples in every industry of firms that have very distinctive management practices, distinctive HR practices which shape the core competences that determine how firms compete. What works well in one organization will not necessarily work well in another because it may not fit its strategy, technology or working practices.

2.2 Contingency theory
For the contingency theory, otherwise known as best fit HRM, there are no universal prescription of HR policies and practices. It is all contingent on the organization’s context, culture and its business strategy (Nigam et al., 2011). Contingency scholars have argued that HR strategy would be more effective only when appropriately integrated with a specific organizational and environmental context. The best fit theory emphasizes the importance of ensuring that HR strategies are appropriate to the circumstances of the organization, including the culture, operational processes and external environment. HR strategies have to take account of the particular needs of both the organization and its people. It explores the close link between strategic management and HRM by assessing the extent to which there is vertical integration between an organization’s business strategy and its HRM policies and practices (Schuler, & Jackson, 1987; Dyer, 2005). State that vertical integration between business strategies or the objective of the business and individual behavior and ultimately individual, team and OP is at the fore of core models of SHRM. Inherent in most treatments of fit is the premise that organizations are more efficient and effective when they achieve fit relative to when a lack of fit exists (Legge, 2005). This vertical integration or fit where ‘leverage’ is gained through procedures, policies and processes is widely acknowledged to be a crucial part of any strategic approach to the management of people (Dyer, 2005). The best fit therefore ensures an explicit link or relationship between internal people processes and policies and the external
market in business strategy, and thereby ensures that competences are created which have a potential to be a key source of CA (Wright, & Allen, 2005).

According to the contingency approach, SHRM is not the ultimate factor that contributes to improved firm performance; it has to be integrated with other factors and the impact of HR practices in FP is conditioned by an organization’s strategic posture. A firm’s approach to competition depends on, or makes use of the talents and capabilities of employees, then HR practices would be more likely to have an impact on performance; otherwise the connection between HR and performance might be minimal. One criticism often leveled at the contingency model is that it tends to oversimplify organizational reality, in attempting to relate one dominant variable to the organization for example, compete on innovation, quality or cost to another internal variable, they tend to assume a linear, non-problematic relationship. According to (Purcell 2001), this theory is limited by the impossibility of modeling all the contingent variables, the difficult of showing their interconnection, and the way in which changes in one variable have an impact on others. (Boxall, and Purcell, 2003) further emphasize the complexity of matching HR and business strategy by stating the need to keep up with ongoing environmental change. They bring attention to a model by (Wright, 2005) asserting that SHRM should simultaneously promote fit and flexibility to cope with the future. However, responding to those external demands may undermine the possibility of achieving internal fit (Legge, 2005). Models of external fit fail to recognize the needs of employees. More evident in highly competitive markets, businesses cannot survive without balancing the pressures from social norms, labour laws and critical employee interests. Conclusively, an alignment of business and employee needs is needed. The best fit school also lacks emphasis on the internal context of individual businesses within the same sector and the unique characteristics and practices that may provide its main source of sustainable competitive advantage.

2.3 Configurational theory

A strategy’s success turns on combining external fit and internal fit. A firm with bundles of HR practices should have a high level of performance, provided it also achieves high levels of fit with its competitive strategy. Emphasis is given to the importance of bundling SHRM practices and competitive strategy so that they are interrelated and therefore complement and reinforce each other. Implicit in is the idea that practices within bundles are interrelated and internally consistent, and has an impact on performance because of multiple practices. Employee performance is a function of both ability and motivation. Thus; there are several ways in which employees can acquire needed skills such as careful selection and training and multiple incentives to enhance motivation different forms of financial and non-financial rewards. A key theme that emerges in relation to best practice HRM is that individual practices cannot be implemented effectively in isolation (Storey, 2007) but rather combining them into integrated and complementary bundles is crucial. (MacDuffie, 2005) argues that a bundle creates the multiple, reinforcing conditions that support employee motivation, given that employees have the necessary knowledge and skills to perform their work effectively in the configuration school, cohesion is thought likely to create synergistic benefits which in turn enable the organization’s strategic goals to be met, the aim of bundling is to achieve coherence which
exists when a mutually reinforcing set of HR practices have been developed that jointly contribute to the attainment of the organization’s strategies for matching resources to organization needs, improving performance and quality and achieving CA in commercial enterprises. The approach of bundling is holistic as it is concerned with the organization as a total entity and addresses what needs to be done as a whole in order to enable it to achieve its corporate strategic objectives. The notion of a link between business strategy and the performance of every individual in the organization is central to ‘fit’ or vertical integration. Internal fit advocates bundles of practice, to ensure that organizations gain benefits from implementing a number of complementary practices rather than only a single practice (MacDuffie, 2005). Most models of best fit focus on ways to achieve external fit. The most influential model of external fit is that from (Schuler, 1987) which argues that business performance will improve if their HR practices support their choice of CA: cost leadership, quality enhancement and innovation. Under this model, organizations need to work out the required employee behaviors to implement a chosen CA and devise supporting HR practices to enable those behaviors to be encouraged in the workforce. Vertical integration can be explicitly demonstrated through the linking of a business goal to individual objective setting, to the measurement and rewarding of attainment of that business goal. (Schuler, 1987) defined the appropriate HR policies and practices to ‘fit’ the generic strategies of cost reduction, quality enhancement and innovation. The significant difference between the contingency and configurational approach is that these configurations represent non-linear synergistic effects and high order interactions that can result in maximum performance (Delery, & Doty, 2000). Note that the key point about configurational perspective is that it seeks to derive an internally consistent set of HR practices that maximize horizontal integration and then link these to alternative strategic configurations in order to maximize vertical integration and therefore OP. Thus put simply, SHRM according to configuration theorists requires an organization to develop a HR system that achieves both horizontal and vertical integration. The configuration approach contributes to the SHRM debate in recognizing the need for organizations to achieve both vertical and horizontal fit through their HR practices, so as to contribute to an organization’s CA and therefore be deemed strategic, the use of performance management practices and competency frameworks are typically adopted to provide for coherence across a range of HR activities.

3. Conceptual Model

The purpose of this study is to develop a model to show the relationship between SHRM and FP. As argued in the earlier discussions, SHRM is the independent variable that influences FP which is the dependent variable in this study based on the reviewed literature, it is postulated that CA moderates the relationship between SHRM and FP, hence it is the moderating variable that has a strong contingent effect on the independent dependent variables relationship, this is diagrammatically illustrated in Figure (1).
3.1 Strategic Human Resource Management

According to Oraman, Unakıtan, & Selen, (2011), HRM practices make procedures that model the building of employees' skills and knowledge throughout the organization to raise valued and unique organizational competencies which support CA and SHRM is a new paradigm in HR in the modern organization which is hinged on the understanding that the most critical resource that any organization must provide itself of is HR, since it is the HR that is responsible for coordinating the other factors of production to spur corporate performance. SHRM aims to achieve strategic fit. It produces SHRM that are integrated vertically with the business strategy. Vertical integration is indispensable to provide congruence between business and HR strategy so that the latter supports the accomplishment of the business strategy and helps to define it. SHRM is also about horizontal integration which aims to ensure that the different elements of the HR strategy fit together and are mutually supportive (Othman, 2009). It enables strategic decisions to be made that have a major and long term impact on the behavior and success of the organization by ensuring that the organization has the skilled, committed and well-motivated employees it needs to achieve CA.

According to Schuler, Jackson, & Tarique, (2011) asserted that SHRM is an active function that copes with environmental changes. It directly and indirectly benefits companies because it changes passivity into initiative, transmits organizational goals clearly and encourages the involvement of line managers. (Sheehan & Cooper, 2011) argue that SHRM influences Firm performance because it generates structural cohesion, an employee generated synergy that propels a company forward, enabling the organization to respond to its environment while still moving forward. (Stanton & Nankervis, 2011) the HRM practices of firms in declining industries. They found that most high performance adopted SHRM measures. On the contrary, low performance tended to employ conventional methods. Various researchers (Uyar & Deniz, 2012) have found a positive relation between SHRM and firm financial performance. They found that the strategic orientation of HR in high productivity differed obviously from that in low productivity firms. Developments in SHRM thinking are thus explored through the best fit, best configurational approaches which have a profound effect in the understanding of the contribution SHRM can enhance OP, through increased CA and added value. Also, it becomes clear that whether the focus of SHRM is on prejudice with the external context or on the internal context of the firm, the meaning of SHRM can only be really understood in the context of OP, whether that be in economic value added and increased shareholder value customer value added and increased market share or people added value through increased employee commitment and knowledge and talent. According to Wang, (Dan-Shang, & Shyu, 2008), theoretical research view that SHRM practices are not standardized and as such researchers tend to select a set of HRM practices depending on the theoretical perspective used. Regarding which HR practices are relevant, the literature often focuses on bundles of HR practices as determinants of organizational performance (Zhang, Dolan, & Zhou, 2009). The bundle of HRM practices for this study is adopted selective resourcing, training and development, use of teams and decentralization, sharing information and incentives on performance.
3.2 Competitive strategies

Competitive advantage argues that employers have three basic strategic in order to gain CA: cost reduction, innovation and quality enhancement (Benevene & Cortini, 2010). Among the key business issues that may effect on HR strategies include proposals on increasing CA through innovation leading to product service differentiation, productivity gains, improved quality and cost reduction (Alagaraja, 2013). Business strategies may be influenced by SHRM which are concerned with making business strategies work. (Abdul-Halim et al., 2009) suggest that seeking fit requires knowledge of the HRM practices necessary to elicit those skills and behavior, and the ability to quickly implement the desired system of HRM practices. The CA tend to apply Porter’s (1985) ideas on strategic choice. Porter identified three key basis of CA: cost leadership, differentiation through quality and service and focus on niche markets. (Chen & Huang, 2009) used this as their model of SHRM where they defined the appropriate HR practices and policies to fit the generic strategies of cost reduction, quality enhancement and innovation. They argued that business performance will improve when HR practices mutually reinforce the organization’s choice of CA. Thus, in Schuler and Jackson’s model, the organization’s mission and values are expressed through their desired CA. This in turn leads to a set of required employee behaviors, which would be reinforced by an appropriate set of HR practices, the outcome of this would be desired employee behavior that is aligned with the corporate goals, thus demonstrating the achievement of vertical integration.

3.3 Firm Performance

The measurement of OP is not easy for organizations with multiple objectives of profitability, productivity, employee satisfaction, development, social responsibility and ability to adapt to the ever changing environment among other objectives. Although performance has been traditionally conceptualized in terms of financial measures, some scholars have proposed a broader performance build that incorporates non-financial measures including among others market, product quality, and company image, extant research findings have shown that perceived measures of performance can be a reasonable substitute of objective measures of performance (Gurbuz & Mert, 2011) and have a significant correlation with objective measures of financial performance. Additionally, cross industry OP is influenced by external economic factors (Abdul-Halim et al., 2009), hence subjective evaluations may be even more appropriate than objective measures in this study. Studies by (Hertog et al., 2010) recognize the difficulty in obtaining objective measures of performance and suggest asking managers to assess their own firm’s performance relative to others in the same industry or sector. To minimize the impact of random errors, researchers have suggested the use of multiple items to assess performance. Given this scenario, the researchers in this study have opted to use multiple items in order to assess the performance of the organizations to be studied. These items relate to sales growth and profitability.
Figure 1: Conceptual Framework linking Strategic Human Resource Management, Competitive Advantage and Firm Performance

4. Summary and Concluding Remarks
This paper has reviewed the relevant literature and the considerable discussion of SHRM, various elements of CA and the links between these elements. The researchers have examined the way in which HR policies and practices may be used to provide comprehensive HR bundles. This has led to suggestions that there is best way in which HRM should be delivered and moreover that this has a positive effect on OP. Review examining how SHRM can be aligned with wider organizational goals has also been examined. Best fit HRM is the idea that HR practice should and does between organizations depending on business strategy. This approach is useful not only for reply the more simplistic versions to reflect organizational reality-at least at a broad level. The access view HR as having an important role in supporting OP and still play an important role in developing SHRM. Generic HR processes can benefit from best practice theories while best fit should be applied when context matters to align management and employee interests. CA are deemed strategic in linking HR policies and practices to the goals of the business and the external context of the firm, and are therefore contributing in different ways to performance. Increasingly, many organizations and firms are pursuing CA aimed at cost reduction, innovation and quality improvement with the goal of gaining CA through HR. Conclusively, the contribution that SHRM may make to an firms performance and effectiveness is closely linked to the changes in different business environment including macro and micro contexts, thus the bundling of these practices with the competitive strategy of the firm.
References


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