

# **Enhancing Firm Performance through Human Resource Management (HRM) practices and HR Roles**

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## **Abstract**

The purpose of this paper is to justify that there is an absence of theory to fully convincing the relationship between Human Resource Management (HRM) and firm performance. This paper focuses on developing a conceptual framework as an effort to fill in the missing theory by discussing previous literatures, and therefore to suggest a conceptual mediating framework that complimenting all the findings from previous studies. Based on literature review, this paper hypothesized that HR roles act as a mediator that act as a sense of direction to improve firm performance.

## **Keywords**

Human Resource Management, HR roles, Firm Performance

## **1. Introduction**

Over the past year, there were great deal of attention given when it comes to the study of Human Resource Management (HRM) and its efficacy to deal with the management issues within the organization (Voo *et al.*, 2016). A considerable discussion in the area related to HRM discipline and firm performance has demonstrated that HRM practices are related to sets of organizational measures (Wright and Kehoe, 2008), particularly in lower turnover, productivity increase, and financial performance gains (Farouk *et al.*, 2016). This is due to the modern study of HRM have emerged as relatively focusing on its impact on HRM as a key strategic to create value in a firm (Voo *et al.*, 2016).

Despite numerous studies which have been carried out on the relationship between HRM practices and firm performance, considerable issues remain unexplained regarding the intermediary variables that influence this link. Different studies came out with different framework (Theriou and Chatzoglou, 2015; Farouk *et al.*, 2016; Matin-Tapia *et al.*, 2009). For instance, Theriou and Chatzoglou (2015) investigate the linkage between HRM practices and

firm performance through organizational behavior and organizational learning. Farouk *et al.* (2016) focused their work on innovation as mediating variable. The previous studies use intermediaries such as motivation, genders, behavior, skills, and commitment as an effort to demonstrate the linkage between HRM practices and firm performance. The complexities of HRM practices in its strategic nature leads to various empirical studies which resulted mixed theoretical findings (Khandekar and Sharma, 2005).

While current literature has progressed far enough to support the linkage between HRM practices and firm performance, there is still an absence of theory to fully convincing the linkage between these two variables. Purcell *et al.*, (2003) referred this gap as a missing “black box”, although there are significant findings to support the linkage between HRM practices – performance link, there are still lack of knowledge how HRM practices support firm performance.

Based on the discussion above, the aim of this paper is to discuss the linkage between HRM practices and firm performance based on reviews on the relevant literature and develop hypotheses to uncover the missing “black box” in HRM practices and performance study with few objectives in mind. The first one is to examine the relationship between HRM practices and firm performance. The second objective is to examine the relationship between HRM practices and HR roles. The third is to identify the relationship between HR roles and organizational performance. Finally, to examine the mediating effect of HR roles between HRM practices and firm performance. This includes the discussion on the concept of HRM in previous HRM studies, the relationship between HRM practices and firm performance, HRM practices and HR roles, HR roles and firm performance, and the logical reasoning to explain how HR roles mediate the relationship between HRM practices and firm performance.

## **2. Hypothesis Development**

### **2.1. The Relationship between HRM Practices and Firm Performance**

Extensive previous research has been concerned with the impact of HRM on firm performance (Fu *et al.*, 2015). Zakaria (2013) pointed that there are evidences that HRM gives positive impact to firm success. This suggested by Huselid (1995) that effective HRM practices helps to develop knowledge, skills, and abilities of employees as the firm’s competitive advantage. Although there are an increase studies on HRM practices and firm performance (Panayotopoulou *et al.*, 2003; Zheng *et al.*, 2009; Marchington and Wilkinson, 2008; Theriou and Chatzoglou, 2008; Inyang, 2010; Dimba, 2010; Osman, 2011), there is still lack of explanation on how and why HRM practices create values to support firm success. Despite the overwhelming progress and constant development on the findings related to HRM practices and firm performance, most of the studies focus on new issues labelled as ‘add-on-ism’ (Pauwe, 2009) instead of to discuss about how exactly the mechanism of HRM practices contribute to firm performance (Wielemaker and Flint, 2005).

Firm performance on the other and is an accomplish result that can be defined based on the intended outcome of transformation from inputs to outputs of a process in an organization (Zakaria *et al.*, (2013). In economic perspective, performance generally referred on the firm’s effectiveness and efficiency without excessive use of cost (Chen, 2004). In particular, findings in HRM literature was often found to positively influence financial performance, employee productivity, turnover rate, and productivity (Huselid, 1995; Chen, 2004). Lindstorm and Vanhala (2013) suggested that there are three types of performance that can be affected by HRM practices, those are financial performance, non-financial performance, and HR-related performance. This supported by previous HRM-performance literature.

Regardless on research framework suggested with no consistency of findings on previous studies, several lists of HRM practices have been compared and showed significant outcomes of practices that proven to support firm performance. For example, Dimba (2010) model suggested that HRM practices contribute to firm performance through the level of employee’s motivation as mediator for the relationship. It is suggested that training and development, recruitment and selection, and compensation and benefits can increase employee motivation to support performance. Singh (2004) study measure direct relationship between HRM practices and firm

performance. The study focuses on the impact on a set of HRM practices that believed as a main contributor to prepare and develop their employees to compete in global performance.

Based on the above discussion, the following hypothesis developed:

*H1*: There is positive relationship between HRM practices and organizational performance.

## **2.2. The Relationship between HRM Practices and HR Roles**

The role of HRM in the SHRM literature often discussed in linking its impact to the basic HR function (Wielemaker and Flint, 2005) mainly based two areas which either for the development of core competencies and strengthen competitive advantage, or to pursuit in business strategies related to business survival. The continuous research in SHRM developed an increasing awareness where to be strategic HRM needed to act as a change maker and catalyst reactor to align in parallel direction with organizational vision.

Ulrich Business Partner Role Model is one of the most discussed models when it comes to the Roles or HRM. Ulrich suggest HR roles serves to support the need of SHRM to improves immediate contribution to organizational efficiency, empowerment for employees, and to align HR practices with the business objectives of the firm. Zheng *et al.*, (2009) argued that strategies in HRM is not necessarily making direct impact on business performance. It is because SHRM is viewed as a contingency in making one step further to simultaneous the linkage between HRM, its intended direction, and how it supports the expected outcome. Ulrich HR roles in this study viewed as a support system that carry strategic roles to improve firm performance. This supported by Wielemaker and Flint (2005) study, where legitimizing SHRM should support traditional HRM practices and how it can be strategic to re-coordinating its purposes in a firm.

Previous HR roles literature based on different types of studies found support for the closed link between HRM practices and HR roles. Hayton (2005) studies on innovation claimed that HRM practices should play key roles that support employee development, increase motivation, support business strategic, and perceived as human capital to support innovation between employees. Farouk *et al.*, (2016) study indirectly found that effective HRM practices can promote the desired individual attributes needed by linking HR roles with HRM practices.

Jiang *et al.*, (2012) found that a comprehensive recruitment and selection process can play a major role in creating a talented pool of people that advocate their talents and to develop human capital for long term advantage. The consistency between these two roles act as a strategic orientation in choosing the right employees for the firm.

Kirkbride (2003) suggested that Ulrich (1997) HR roles are a good example to indicate the level of HR's involvement in terms of firm success. Kirkbride (2003) argues that successful HRM departments are based on how effective and efficiently it delivers HR roles as internal strategies to support firm performance. Kirkbride (2003) added the importance of employee advocate as proper people management will contribute to firm's development on intellectual capital.

From the discussion on this section, it is found that there is significant linkage between HRM practices and HR roles based on various source of HRM literature studies. While some studies are directly linking HRM practices with strategic orientation, others support the important roles of employee advocate and developing human capital roles for HRM to be strategic. Therefore, it is proposed that:

*H2*: There is a positive relationship between HRM practices and HR roles.

## **2.3. The Relationship between HR Roles and Firm Performance**

Ulrich's HR roles represent the new dimension of HRM on how it acts as delivering factor for organizational success. Panayotopoulou and Papalexandris (2004) suggested that Ulrich's HR roles are believed to form best perspective that implies positive relationship between HRM practices and firm performance. Ulrich (2005) argued that it is not what HR does, but how it delivers in any meaning to contribute organizational outcomes.

HR roles studies prove concrete evidence that clarify its contribution to firm performance (Choi and Ismail, 2008; Lemmergaard (2009); McDermott and Keating, 2011; Marescaux *et al.*,2013) where large of SHRM literatures indirectly propose HR roles related to firm performance (Kirkbride, 2002; Zupan and Kase, 2007; Abugre and Adebola, 2015; Elorza *et al.*, 2015). Previous research that investigated the link between HR roles and firm performance have shown positive relationship between these two variables (Choi and Ismail, 2008; Othman, 2009; Panayotopoulou and Papalexandris, 2004). It is found that HR roles act as a medium that deliver results and

achieving organizational excellence. This results that the nature of HRM have progressively become broader and strategic (Bahuguna *et al.*, (2009). In terms of HR roles, it acts as the function that sought to become integrated into strategic management process. Based on this, Bahuguna *et al.*, (2009) suggested that HR roles can be used as medium to support firm performance by inter-relating these roles with HRM practices. Based on this discussion, functional expert (one of Ulrich's HR roles) is regarded as a role that delivers the HRM activities that carries strategic employee management, therefore excluded from theoretical framework.

From this discussion, the hypothesis for strategic HR roles and firm performance developed:

*H3*: There is a positive relationship between HR roles and firm performance.

## **2.4. HR Roles as Mediator in the Relationship between HRM Practices and Firm Performance**

In an attempt to fill in the 'missing fit' or 'black box' of HRM practices and performance link, a number of literatures have looked for several intermediary variables in this relationship. Most of the study of HRM and firm performance explained by looking at the other elements to support the relationship (Theriou and Chatzoglou, 2009; Osman *et al.*, 2009; Dimba, 2010; Farouk *et al.*, 2016). Dimba (2010) and Jiang *et al.*, (2013) summarizes a review on HRM practices and firm performance found that much of previous studies uses mediating mechanism in the HR-performance relationship. Some researchers use job satisfaction as their mediator (Barling *et al.*, 2003; Boxall and Macky, 2007), Dimba (2010) use motivation, Theriou and Chatzoglou (2009) uses learning capabilities, and Farouk *et al.*, (2016) on innovation. This highlights that there is mediating factors that support the HRM practices and firm performance relationship. Based on previous literatures (Barling *et al.*, 2007; Theriou and Chatzoglou, 2009; Dimba, 2010; Farouk *et al.*, 2016), it showed that the intermediary variables that used on HRM-performance mediating literatures involves in HR roles function. For example, job satisfaction lies on building employee advocate, and innovation on strategic partner and building human capital, learning capabilities on employee advocates, strategic partner, and developing human capital. This to conclude that, there are still inadequate explanation on the relationship between HRM practices, HR roles, and firm performance.

To develop mediating model between HRM practices, HR roles, and firm performance, this study refers to Baron and Kenny (1986) statistical mediating model to explain the connection between these variables. Baron and Kenny (1986) model explained that rather than there was direct linkage between independent variables and dependent variables, the mediator variables serve as a theory that hypothesizes from independent to mediator, then from mediator to dependent variable. The mediating relationship can only be used if there are significant relationship between independent variables and mediator, mediator and dependent variable, and independent variable and dependent variable.

Based on previous discussion, it is hypothesized the following:

*H4*: HR roles mediates the relationship between HRM practices and firm performance.

## **3. Methodology**

A quantitative approach was used to test the developed hypotheses. Quantitative approach was selected as it offers the possibility of providing empirical confirmation to support the conceptual model and its variables. A four sections questionnaire was designed to collect data from respondents, targeting the owner and managers of SMEs in Malaysia and their perception about HRM practices, HR roles, their overall performances, and demographic info. Questions designed were based on instrument adapted from Conner and Ulrich (1996), and Gates and Langevin (2010) for HR roles, Vanhala and Ahteela (2011), Fong *et al.*, (2011), Moideenkutty *et al.*, (2011), and Theriou and Chatzoglou (2014) for HRM practices, and Bhatnagar and Sharma (2005) and Choi (2008) for firm performance.

Data were collected by using self-administrated survey that distributed and collected using a drop-off and pick-up approach high response rate (Bryman, 2008). A total of 400 questionnaire distributed around SMEs in Sabah, Malaysia, and a total of 300 questionnaires collected. From collected responses, total of 227 questionnaires are usable for data analysis

#### 4. Data Analysis

Based on the hypotheses for this study, the model draws a direct path between HRM practices and firm performance, and an indirect relationship between HRM practices and performance through mediation of HR roles. The proposed model was analyzed by using SPSS and Hayes SPSS extension statistical software, PROCESS which designed to estimate and test structural equation models (SEMs).

The results showed that the model fits are reasonable and acceptable as suggested by Bentler and Bonett (1980). For scale reliability and validity, internal consistency measured by using convergent validity (i.e standard loadings), and discriminate validity (i.e. inter-factor correlations) were used. Cronbach alpha value above cutoff point with value of 0.76, composite reliability ranged from 0.8 to 0.96, and AVE values ranged from 0.64 to 0.73 above the cutoff level of 0.50 (Hair *et al.*, 2006). Based on correlation analysis using PROCESS by Hayes, the hypotheses testing is presented in table 1 and table 2 revealing the following results;

- H1: HRM practices have a positive and significant impact on firm performance ( $\beta = 1.3010, p = 0.000$ )
- H2: HRM practices have a positive and significant impact on HR roles ( $\beta = 0.8915, p = 0.000$ )
- H3: HR Roles has a positive and significant impact on firm performance ( $\beta = 0.4606, p = 0.000$ )
- H4: HR roles mediates the relationship between HRM practices and firm performance ( $\beta = 0.4095, p = 0.000$ ).

To adequate the mediation effect following by Preacher and Hayes (2004), a bootstrapping analysis was conducted to ascertain the mediating effect of HR roles, using a 95 percent confidence interval. Result showed that the standardized indirect effect of HRM practices on firm performance through HR roles was 0.4095. As such, H4 received evidence support from the empirical study. Thus, H4 is accepted and concluded that HRM practices influence firm performance through HR roles by 40.95 percent (Table 2).

Table 1: Coefficient estimates of the research

Independent variables	Dependent variables	Coefficient estimates	SE	t-statistics	p value
HRM practices	HR roles	0.8915	0.0764	11.6755	0.000
HRM practices	Firm Performance	1.3010	0.0503	25.8810	0.000
HR Roles	Firm Performance	0.4606	0.0696	6.7162	0.000

Significant at the  $p < 0.01$  level (two tailed)

Table 2: Mediating effect of the research

Independent variables	Dependent variables	Total effect	Direct effect	Indirect effect
HRM practices	Organizational Performance	1.3010	0.8915	0.4095

#### 5. Discussion and Conclusion

The first hypothesis was to find a significant positive relationship between HRM practices and firm performance. As an important managerial element in an organization, HRM practices has been considered as an antecedent to organizational performance. Findings on data analysis support this hypothesis. This suggest that HRM practices have the potential to affect employee’s ability to contribute more in regard to overall performance. The result relating to this hypothesis are consistent with a number of other studies (Theriou and Chatzoglou, 2015; Farouk *et al.*, 2016; Dimba, 2012; Singh, 2014).

The second hypothesis was to find a relationship between HRM practices and HR roles. A comprehensive HRM practices when aligned with certain roles will advocate the HRM practices to be strategic. When HRM practices turned into strategic value, it become a contingency in making impact on firm’s objectives (Zheng *et al.*, 2009). Kirkbride (2003) suggested that HR roles are a good strategic feature in making HRM practices effective and

efficiently delivers its purpose. Therefore, HR roles play a key role as a sense of direction in making HRM practices strategic.

The third hypothesis assumed to identify a significant positive relationship between HR roles and firm performance. Previous studies showed that HR roles has the ability to improve firm performance. Ulrich and Brockbank (2005) argued that HR roles used as a medium to delivers HR in a way to support positive outcomes in a firm

The fourth hypothesis was designed to examine the mediation effect of HR roles between HRM practices and firm performance. Findings form data analysis showed that there is indirect significant path between HRM practices and firm performance through HR roles. This prove that HR roles mediates moderately the relationship between HRM practices and firm performance.

From the theoretical implication, this study proposed a research model for empirical studies to link HRM practices, HR roles, and firm performance. The result from the data analysis provide strong support for the hypothesized relationship between the variables. Though there are significant contribution between HR roles and HRM practices-performance link, result from this study indicating that the “black box” dilemma is still elusive. This study shows that both HRM practices and HR roles have positive impacts on firm performance with both direct and indirect effect.

According to the result of this study, it can be concluded that HRM practices when linked with strategic roles leads to better firm performance. This can be supported by applying HR roles on each entity in HRM practices. Findings on this study filled in the gap where HR roles act as a catalyzer to mediate intermediate elements in effect of positive HRM practices and firm performance relationship. A mediator effect can be utilized in situations wherein the relationship between construct is strong. Based on this study, HR roles have certain effect to control the rhythm of relationship between HRM practices and firm performance (Voo *et al*, 2017). Drawing from above discussion, it can be concluded that the result of this hypothesis compliment with existent literature, where a certain HR role if applied in HRM practices will help these practices to be strategic and support firm performance.

From a theoretical standpoint, this research has contributed to the existing body of literature. First, the significant lack of knowledge to explain the prior findings and what exactly support the HRM practices and firm performance relationship, this study removed the “black box” dilemma by examining the effect of HR roles which responsible for the unexplained relationship from previous findings. The result from this study have indeed offered new insight, proving that HR roles responsible in mediating the relationship between HRM practices and firm performance. Second, reviews on related literature often neglected HR related performance. To address this oversight, this study includes three types of performance which are financial, non-financial, and HR-related performance. The consideration of various performance filling the gap to extend the literature in understanding HRM practices and its effect on various performances.

Despite the contribution of this study, it has some limitations to be taken into consideration. The study focuses on SMEs in Malaysia context, which the practice of HR may differ in larger organizations and different working culture. Second, this study is limited due to relatively small set of HRM practices and HR roles studied. The future studies should include more HRM practices and HR roles attributes that can support strategic HRM.

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