

## **“A Study on Relationship between Human Resource Management (HRM) and Performance.”**

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### **Abstract**

*Human Resource Management is mainly about people at work, second element - resource - refers to the assumption that workers can be a powerful source of organisational success, and the final element of the concept of HRM refers to the notion that worker attitudes and behaviours can be influenced and affected by managerial interventions. For a better theoretical understanding of the impact of HRM on performance, the AMO model (ability, motivation, opportunity) or AMO theory will be explained in this section. Together with the RBV (resource-based view), the AMO theory is one of the most popular theories in contemporary HRM. The resource-based view, the VRIO framework and the human capital theory provide frameworks for answering the why question, organizational success and performance are defined in terms of achieving certain goals that are directly linked to contemporary organisational challenges related to economics, social issues and technology. These social phenomena form the starting point of the search for the potential added value from employees through human resource management.*

**Keywords:** HRM, Performance, VRIO, RVM, AMO.

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### **I. Introduction**

Human resource management (HRM) in organisations can contribute to achieve organisational goals. These goals are strongly related and partly dependent on challenges. Organisations are confronted with major challenges with regard to economic, social, and technological developments. The search for the potential of HRM which can add value to performance has started in the mid-1990s with empirical studies, as the results showed positive effects of human resource practices such as selective recruitment and selection, performance-related pay, extensive training and development, performance appraisal and employee participation on outcome measures such as employee retention (in contrast to employee turnover), labour productivity and firm profits. New theory was developed in the 1990s suggesting the alignment of individual human resource practices into human resource systems is even more powerful for increasing performance than applying individual best practices in HRM (Delery 1998; Wall and Wood 2005). The fit or alignment between, for example, selection, socialisation, training, appraisal, rewards and participation is thought to contribute to get the best out of employees. The Swedish company IKEA, for example, has a strong corporate culture supported by a human resource system in which individual human resource practices are aligned to support the strong culture. IKEA employees are recruited and selected not just to fit the job, but to fit the organisation's norms and values. After selection, employees are socialised and trained in a way that strengthens the culture and makes all workers aware of IKEA's business model and way of working.

The concept of human resource management basically contains three elements that refer to successful people management. The first element – human - refers to the research object. HRM is mainly about people at work, second element - resource - refers to the assumption that workers can be a powerful source of organisational success, and the final element of the concept of HRM refers to the notion that worker attitudes and behaviours can be influenced and affected by managerial interventions.

Theoretical overview based on the resource-based-view including VRIO (Value, Rarity, Imitability, and Organization) framework and human capital theory. These theoretical insights help understand why HRM is considered a potential source of organisational success. For a better theoretical understanding of the impact of HRM on performance, the AMO model (ability, motivation, opportunity) or AMO theory will be explained in this section. Together with the RBV (resource-based view), the AMO theory is one of the most popular theories in contemporary HRM (Boselie 2010). Applying a simple list of best practices in HRM is not likely to solve the major challenges (economic, social and technological) that contemporary organisations confront. A critical evaluation of the organisation's internal and external context is essential for creating an HR value chain in which HRM adds to performance and contributes to achieving goals set by the organisation. The main focus is on the resource element of the concept of HRM. Empirical evidence in combination with the AMO theory (e.g.

Appelbaum et al. 2000) is used to show evidence for the added value of HRM and to provide a framework for understanding how certain HR practices and HR systems contribute to performance.

When asked what is the most important organisational asset, top managers often reply: our human assets or our employees. This answer might be a socially desirable answer, but it might also be the case that there is a growing awareness that employees can really make the difference between average performance and excellent organizational performance. Just claiming employees are important assets is not sufficient. For a full understanding of the contribution of HRM we need theory: the resource-based view of the firm and human capital theory (Wright et al. 2001). These two theoretical frameworks help to structure an understanding of HRM and performance. According to Delery and Shaw (2001), there is general agreement that (1) human capital (for example in terms of employee knowledge and skills) can be a source of competitive advantage, (2) that HR practices such as training and development have the most direct influence on the human capital of a firm, and (3) that the complex nature of HR systems of practice can enhance the inimitability of the system. According to academic literature, human resources belong to a firm's most valuable assets (Boxall and Purcell 2003). Since the late 1990s there is a growing body of literature focused on creating (sustained) competitive advantage for organisations through the development of core competences, tacit knowledge and dynamic capabilities.

## **II. Literature Review**

The HRM and performance debate of the last twenty-five years is actually threefold. Firstly, the majority of HR research in this area is focused on empirically testing the impact of HRM on performance. These studies were undertaken in different countries, in different branches of industry, with input from different respondents (including HR professionals, line managers, employees and employee representatives), at different levels of analysis (including the individual employee level, the team level, strategic business unit level and company level), in profit and non-profit organisations, using different theories and a diversity of outcome measures. For an extensive overview and critical review of over 104 empirical journal articles in international academic journals on HRM and performance, see Boselie et al. (2005). Secondly, there is a stream of HR research from the year 2000 onwards on the methods used to determine the added value of HRM, for example reflected in the article by Gerhart et al. (2000) on measurement error in previous empirical HR research. Finally, recent overview articles and meta-analyses on HRM and performance were published including the studies by Wall and Wood (2005), Paauwe and Boselie (2005a), Combs et al. (2006), Becker and Huselid (2006), Fleetwood and Hesketh (2006), Paauwe (2009) and Guest (2011). The first stream is focused on empirically testing the impact of HRM on performance. The second stream deals with critically evaluating the methods and research designs applied to empirically test the added value of HRM. The third stream represents overview articles and meta-analysis mainly based on input from the first HRM stream. The first and the third stream within the HRM and performance debate generated the most output, with empirical evidence that HRM mainly has a modest positive impact on performance and in some cases no impact at all (Purcell 1999). Becker and Huselid (2000) suggest that the effect of one standard deviation change in an HR system (a statistically technical way to describe the variation in human resource variety and intensity among organisations) is 10 to 20 per cent of a firm's market value. Combs et al. (2006) meta-analysis on 92 empirical studies found that an increase of one standard deviation in the use of a special type of HRM called high performance work practices, is associated with a 4.6 per cent increase in return on assets (ROA). Therefore, these authors conclude that the relationships between HRM and performance are not just statistically significant, but also managerially relevant (Paauwe 2009).

Overall, there is general agreement among HR scholars that HR practices are at least weakly related to firm performance (Purcell 1999; Wright and Gardner 2003; Wall and Wood 2005; Paauwe and Boselie 2005a), however the results should be treated with caution (Boselie et al. 2005; Wall and Wood 2005). The second stream (mainly focused on methods and research design) is much more critical towards the findings because of serious doubts about the research designs (for example surveys sent to organisations to fill in), the quality of the data (for example input from single HR respondents; cross-sectional data), the research methods (for example using simple regression analysis) and the interpretation of the data (for example neglecting contextual factors such as firm size, sectoral differences and country differences caused by institutional differences).

## **III. Objectives**

The study has been conducted to understand the Human Resource Management (HRM) contribute to performance.

## **IV. Methodology**

The present study is a desk research based on the secondary data in the form of previous researches contributed by many scholars related human resource management and HR practices and performance of employees in different organizations.

## V. Discussion

This study provides an overview of the potential contribution of HRM to performance. There are three leading guidelines for the discussion presented here. First, why does HRM potentially contribute to performance? The resource-based view, the VRIO framework and the human capital theory provide frameworks for answering the why question, organizational success and performance are defined in terms of achieving certain goals that are directly linked to contemporary organisational challenges related to economics, social issues and technology. These social phenomena form the starting point of the search for the potential added value from employees through human resource management. Hospitals are challenged by employee retention issues, while financial institutions are confronted with new ways of working (e.g. new performance management systems) required as a direct consequence of the global financial crisis.

For many years Toyota was, therefore, leading in this segment with a strong reputation towards potential customers. Future research on HRM and performance could focus on the potential added value of HRM to institutional innovations.

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