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## Theory of SHRM: Strategy and Performance<sup>1</sup>

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### Abstract

Theory of strategic human resource management is based on four factors: strategy, performance, HR systems, and human capital. Basically, theory of SHRM covers strategy and performance dimensions at the beginning. Strategy argument began with Michigan School in 1980s, and it says that HRM departments involve with firm-level strategies to increase competitive advantage of firms. That approach is valuable between 1981 and 2000, when theoretical foundation of SHRM is not clear. Performance literature advocates that HRM contributes to performance of firm via moderators as resource based view and AMO model (attribution-motivation-opportunity). Performance dimension overwhelms the literature between 1990 and 2010. Today currently, HR scholars define SHRM with HR systems approach. Assumption of this approach is that HR systems rather than individual HRM practices have impact on performance of firms. In addition, today, theoretical foundation of SHRM is clear, yet firms do not start to apply SHRM in organizations. Furthermore, this study also discusses how firms may apply theory of SHRM in their organizations. Response might be HR systems and p-HRM model (personnel Human Resource Management).

**Keywords:** SHRM, Theory, HR Systems, Firm, Performance

**JEL Classification:** J08, J21, M12, M54

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## S.İKY Teorisi: Strateji ve Performans

### Öz

Bu araştırmada stratejik insan kaynakları yönetiminin (s.İKY) dört boyutu tartışılmaktadır. Bunlar stratejik yönetim, işletme performansı, İK sistemi ve beşeri sermayedir. S.İKY'nin teorik olarak tartışılması 1980'li yıllarda Michigan Okulu ile başlamıştır. Alanın gelişimi, 2000'li yıllara kadar sınırlı olsa da son 20 yılda önemli bir gelişme kaydetmiştir. Fakat pratikte, henüz s.İKY işletmeler tarafından uygulanmamaktadır. Strateji boyutu literatürdeki egemenliğini 2000'li yıllara kadar sürdürmüştür. 1990 ve 2010'lar arasında ise performans boyutu literatüre hakimdir. Strateji boyutunda İKY stratejik yönetim ile bütünleştirilmektedir. Performans boyutunda ise, İKY'nin işletme performansına nasıl etki edebileceği tartışılmaktadır. Günümüzde İK bilim insanları S.İKY'yi İK sistemi ile tanımlamaktadır. Bu yaklaşıma göre, bireysel uygulamalardan ziyade İK'nın sistem olarak uygulanması işletme performansını daha çok etkiler. Öte yandan, Lepak (2007), Wright ve Nishii (2007) ve diğer bilim insanları, S.İKY'nin geleceğini beşeri sermayede görmektedir. Buna göre, önümüzdeki yıllarda dördüncü boyut olarak S.İKY beşeri sermaye ile tanımlanabilir.

**Anahtar Kelimeler:** S.İKY, Teori, İK Sistemi, İşletme, Performans

**JEL Sınıflandırması:** J08, J21, M12, M54

### Introduction

Two dimensions of strategic human resource management (SHRM) have dominated the literature since 1981. Academic discussion for SHRM research simultaneously begins with theoretical development of human resource management (HRM). HRM is set in firms and theoretically. Theoretical framework of SHRM is not set and firms do not implement SHRM yet. At the beginning between 1981-2000, strategy dimension dominated the SHRM literature. After 2000, HR scholars started to mention for performance dimension in SHRM research. Most researchers in SHRM tend to strategy dimension, while less are in favor of performance dimension. Uysal (2014, 2019, 2020) tends to performance dimension in SHRM research. In addition, this study discusses human capital dimension as a next step in SHRM research.

There are two dimensions in SHRM research: strategy and performance. Strategy perspective dominated the academy since 1981. Today scholars still argue strategy perspective in SHRM in addition to performance view. Performance viewers discuss job performance and employee performance as mediators between HRM and firm

performance. The other HR scholars study market performance and organizational performance.

If strategy perspective dominate the literature so much, what policy HRM departments may pursue? HRM departments may pursue 4 policies: best fit approach, resource based view (RBV), strategic integration and strategic planning. Best fit approach, vertical and horizontal, advocates fit between HR strategies and business strategies. RBV discusses that HR are firm resources that enable firms to gain competitive advantage. Strategic integration is that HR strategies contribute to business-level strategies, and HR managers are involved with top management process for strategy formulation and HR related decisions. In addition, HR policymakers join process of strategic planning on determining business goals. Via those 4 policies, strategy perspective becomes effective in organizations, firms may implement SHRM via those policies.

## 1. SHRM Research

Through 1980s and 1990s, SHRM research possesses lack of theoretical foundation. In the first 20 years of SHRM until 2000, strategy dimension dominated to literature. Strategic integration and strategy formulation are discussed in SHRM research, i.e., HR strategies contribute to firm-level business strategies, and HR joins strategy formulation process of firm, not strategy implementation. Becker and Huselid (2006) put strategy implementation as key mediating variable between HRM and firm performance. Verma (2012) still emphasizes business strategy and strategy in HRM practices in SHRM, while in that era Wright et al. (2007) argue performance in SHRM. Cania (2014) defends that HR strategies are integral part of business strategies. She tends to best fit approach in SHRM.

After 2000s, performance dimension is spoken in SHRM literature. Wright and Nishii (2007) mention for literature studies that they set link between HR practices and firm performance. Empirical studies to show link between HR and firm performance dominated the SHRM research in these years. According to Cania (2014), performance-SHRM debate dominate the literature for more than two decades. For example, Wright et al. (2005) investigate a number of studies that demonstrate significant relationships between HR and firm performance. Definition is that, HRM has impact on firm performance. Including resource based view and human capital, various moderators are found as black box. For example, Becker and Huselid (2006) discusses firm performance in SHRM theory and they put HR systems, strategy implementation and resource-based view as black box between HR and performance. Wright et al. (2001) also aim to integrate RBV into SHRM research. There are three causes for this

integration: First, internal firm resources are sources of competitive advantage. Further, HR practices lead to competitive advantage, if practices are aligned with firm's competitive strategies. Human resources can not be imitated; therefore, providing competitive advantage for firm.

In 1990s and 2000s, in addition to strategy dimension, resource based view (RBV) is also argued by scholars in SHRM research (Becker, Huselid, 2006, Wright, 2007, Boxall, Purcell, 2000). RBV assumes that, HR is resources and core competence of firm; it implements differentiation strategy to achieve firm performance.

Today (2020), theoretical framework of SHRM is still ambiguous. Strategy and Performance dominate the literature and theoretical frameworks. In 2000 Boxall and Purcell argue significant diversity about the meaning of SHRM and its components. There are strategic HR directors in firms in 2020s. and HR managers join top management. and it is observed, there is strategic integration process in top level. In addition, strategic HR directors are to affect employee-related decisions at top level. Because each department has employees, and strategic HR directors affect top level decisions for implementation of SHRM.

Wright (1992) discusses that SHRM has lack of theoretical framework. This study aims to contribute this discussion by human capital approach. According to Obamwonyi study (2014), there isn't widely accepted model of SHRM. There is strategy model in SHRM in 1990s and performance model in 2000s. In strategy dimension, there is strategic integration, i.e., HR involves with top-level strategies, and HR affects top-level human-related decisions. In performance dimension, HR practices affect firm performance through individual and departments performance. Gautam (2015) discusses that for strategic integration, HR managers must be involved in board of directors to affect top-level decisions. Alcazar et al. (2005) say that universalistic perspective explains SHRM with impact on human factor on organizational performance.

In 2007 there is still debate about meaning of SHRM in literature (Altarawneh, Aldehayyat, 2011), and still European HR scholars define SHRM with business strategies; strategic integration, formulation and implementation. Between 2000-2010 European scholars define SHRM with strategy, while American HR scholars begin to define with firm performance. Between 2000-2010 and later, they aim to explain the link between HRM and firm performance.

Boxall and Purcell (2000, 2003) emphasize strategy and performance in SHRM, and they make comments of shareholder's and stakeholder's differences. Shareholders

demand firm performance; therefore, in American HRM, HR makes innovations for business performance, universalistic perspective. In Europe, stakeholders demand happiness of employees and society; thus, their demands restrict firm in management of HR. In so far, it is understood that most HR scholars emphasize strategy, strategic integration and strategic management in SHRM, which is based on the Michigan model by Devanna et al (1981, 1984). Only Wright and some little (2007) HR scholars argue performance dimension in SHRM. If HR scholars possess strategic intent against strategy dimension in SHRM, what to do? What strategy and policy SHRM may develop? Codreanu (2019) tends to strategy perspective and system approach in SHRM. She considers strategic management to achieve business goals, and considers system approach to achieve integrity in organizations for organizational outcomes.

### **1.1. Black Box Issue**

In addition to strategy or performance issue; second research question in SHRM is black box issue between HRM and firm performance. Many studies explain mediators between HRM and performance. However, black box is not clear yet. Bhatnagar (2013) says that psychological empowerment is important mediator between HRM and firm performance.

According to Bhatnagar (2013), Academy do not explain mediators between HRM and performance. More work is needed to explain mechanism between HRM, individual performance and firm performance. Moreover, prior SHRM researches suggest HR system- firm performance link in black box issue.

Uysal (2020) discusses in his model that, HRM has positive impact on individual performance of employees. Employees work for organizational departments such as finance department, marketing department, logistics department and others. Assumption that individual performance of employees increases performance of each department, which is very important to American HRM. and whole departments bring together, and have positive impact on firm performance. These relationships may explain black box issue in SHRM research for performance dimension.

## **2. Implementation of SHRM in Firms**

Implementation of SHRM in firms depends on two factors: HR systems and p-HRM model (personnel Human Resource Management). In American theory, strategy, performance and HR systems are dimensions of SHRM. To apply SHRM in firms, Western firms need HR systems approach in HRM. Firms apply interrelated HRM practices in HR system. HR scholars approved positive impact of HR system on performance. In Turkey, to apply SHRM in organizations, p-HRM model is needed

(Uysal, 2016). Turkish firms may apply personnel management and human resources management together in HRM department. Application of personnel management is strong in Turkey, while application of HRM is effective. SHRM is not applied yet. To apply SHRM, firms are to implement p-HRM. For example, Ondokuz Mayıs University has personnel department. The department also possesses human resource office. Department strongly implements personnel management with administrative roles, Daily routines, personnel records, while human resource office implements talent management practices. If personnel department affect top-level decisions, this could become strategic HRM and p-HRM.

Today, practitioners speak about strategic HR managers in firms. Strategic HR managers must be responsible for apply of HR systems to increase individual performance. In HRM department, there must be HR manager, personnel supervisor and strategic HR supervisor. HR managers are responsible for managing whole department, while role of personnel supervisor is administrative functions, and role of strategic HR manager is managing HR systems and/or p-HRM. HR scholars suggest two ways for implementation of SHRM in firms: first, involvement of HR directors in strategic planning process, and aligning HRM with strategic goals of firm (Altarawneh, Aldehayyat, 2011).

## **2.1. HRM Systems and Performance**

Wright and Nishii (2007) argue how HRM affect firm performance? They propose human resources systems (HR systems). HR systems enable HRM to affect firm performance. Because certain set of HRM practices elicits affective, cognitive, and behavioral responses from employees that are necessary for organizational success.

Performance management, reward management, wage management, career management, talent management are activities of HR bundles and HR systems. For example, Absar et al (2012) find in Indian context that HRM practices are strongly correlated to each other that make up HR bundles. For instance, HR manager applies talent management activity in organization: interrelationship of staffing, training, performance evaluations, career planning, compensation and reward. First of all, firm hires best candidates in applicants' pool. HR departments train new employees for task duties. HR establishes talents pool in organization according to performance evaluation results. Star employees make up the talent pool. HR develops succession planning and career planning for star employees. and HR awards and compensates best employees because it is important for firm to hire and hold best-potential employees, stars. Because interrelated HRM practices affects performance than individual HRM practices (MacDuffie, 1995: 197). Turkish firms apply of individual HRM practices for

performance; while American firms apply of interrelated HR systems. Thus, interrelated HRM practices make up HR system or HR bundle. HR systems have an impact on performance because it enables employees to have skill acquisition.

Therefore, to apply HR system and SHRM in organizations, HR managers must possess and consider interrelationship of HRM practices in mind. Because HRM practices have system potential, and they are bundle of HRM practices. HRM practices are interrelated to each other. Therefore, HR manager must have system thinking in mind to apply SHRM.

Delery and Doty (1996) mention for universalistic, configurational and contingency perspectives in SHRM. For this study, universalistic perspective and configurational perspective are in favor of SHRM definition and HR system approach. Universalistic perspective considers relationship of HR, innovation and performance. It is linear relation between HR and performance. HR makes innovations in organization as an intellectual capital, and those innovations enable firm to become competitive. Configurational perspective has strategic intent for the impact of HR systems on performance. Delery and Doty (1996) remarks that SHRM has lack of theoretical foundation. In 2020, it still remains lack of theory and implementation.

In SHRM, Wright and MacMahan (1992) are in favor of HR systems such as link between performance appraisal and selection. For HR systems, American HR scholars believe that particular sets of HRM practices yield better performance. For example, Lengnick et al. (2009) cites Huselid et al. study (1997) that HR systems have influence on individual performance. Further, Arthur (1994), Huselid (1995), MacDuffie (1995) finds positive relations between HR systems and productivity and individual performance (Lengnick-Hall et al, 2009).

### **3. Human Capital Theory in SHRM: Quality**

This study argues human capital approach in SHRM. Assumption is that, in 2020s, SHRM must be based on human capitals of firm. Lepak (2007) defines human capital as skills, Lengnick-Hall et al. (2009) defines with capability. Skills, capability and competency of employees increases firm performance through quality of products. Therefore, due to impact on performance, human capital dimension is maybe considered as new dimension in SHRM.

In theory of SHRM, in 1980s and in 1990s there is strategy dimension in SHRM; performance dimension (Wright, McMahan, 1992), and Wright and Nishii (2007) and HR system dimension are added to SHRM theory during 2000s by strategic HR scholars. Next step of SHRM might be human capital approach in 2020s. While Lepak

(2007) defines human capital with skills; Lengnick-Hall et al. (2009) defines with capability. This study defines human capital as accomplishing works and competency of employees. Human capitals increase quality of products through skills and competencies. For example, Giorgio Milano produces high quality watches with skilled employees. It is expected, quality of products enhances performance of firm. According to Lengnick-Hall et al. (2009), leveraging human capital has positive effect on performance.

Future implication of SHRM research might be human capital approach. Human capital is related to skills, competence, capability and accomplishing works. Human capitals increase quality of products of firms that increases firm performance. Therefore, human capital approach may be used in SHRM research due to its impact on firm performance through quality and customer service and loyalty.

Lepak and Snell (1999) proposes that skills affect quality of products, and it has impact on firm performance. Human capitals affect firm performance through quality of products. Therefore, it may be a new dimension in SHRM. Saarinen (2014) supposes that capability of workforce is human resource advantage that gains competitive advantage for firms.

### **Conclusion**

Firstly, this study discusses role of human capital in theory development of SHRM. New definition of SHRM might be made with human capital. Secondly, this study discusses implementation of SHRM in firms. In western World, SHRM may be applied in firms by HR system approach. However, to apply, HR managers must have system thinking in HRM. Because HR system has positive impact of performance (Arthur, 1994, Huselid, 1995, MacDuffie, 1995). In Turkey context, SHRM may be applied in firms by p-HRM model. Firms apply personnel management and human resource management together in organization (Uysal, 2016). PM has administrative role and HRM has performance and talent management roles.

They review SHRM with strategy dimension suggested by Devanna et al. (1981), and Fombrun, et al. (1984). On the other hand, there may be performance model (Wright, McMahan, 1992; Wright, Nishii, 2007) and HR systems model of SHRM (Uysal, 2014, 2019). Future implication of SHRM must be based on human capital theory, which is related to firm performance. Wright and other HR scholars (1990s) say about lack of theoretical foundation of SHRM; and in 2000s, there is lack of clear model of SHRM. How is today in 2020s? Firms start applying SHRM gradually in their



organizations. To apply SHRM, firms may apply HR system approach and p-HRM model.

Devanna et al. (1981) discusses strategic perspective for HRM. Contribution of HR to strategy formulation and implementation make HRM strategic. That policy is called as strategic integration today. HR may join strategy formulation process by setting business business goals in strategic planning, i.e. HR planning is aligned with strategic planning. Lengnick-Hall and Lengnick-Hall (1988) also have strategic intent on strategy formulation and implementation in SHRM. They define SHRM as impact of SHRM on corporate growth. Therefore, HR planning gains priority in strategic planning. For example, firm aims to build new plant abroad. HR planning requires expatriate management for managers appointments.

Kim and Wright (2010) discusses SHRM with contingency factors in Chinese context: It is HCWSs (high commitment work systems). Their proposal, social Exchange theory and organizational trust make HCWS to contribute firm performance in SHRM. Further, in China context, firms adopt similar HRM systems with USA firms, but firms do not leave traditional Soviet system yet.

Tichy et al. (1981) links HRM with strategic management. They assume that past human resources management lacks strategic management approach. Finally, SHRM research between 1980 and 2000 focus on strategy dimension; while research between 2000 and 2020 investigate mixed variables in SHRM.

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