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# Enhancing Organizational Performance: The Mediating Role of Human Resource Management

**Steven H. Appelbaum, Ph.D. ****
Professor of Management
Senior Professional: Society for Human Resource Management
John Molson School of Business
Concordia University
1450 Guy St. (MB-13-369)
Montréal, Québec, Canada H3H 0A1
E-mail: steven.appelbaum@concordia.ca
Canada

**Zakaria Oulbacha**, **M.Sc.A. and MBA**
7421 Boulevard Saint-Laurent
Montreal, Quebec, Canada H2R 1W8
E-mail: oulbacha.zakaria@gmail.com
Canada

**Barbara T. Shapiro**, **M.S.S.**
Director of JMSB Co-op Program
Senior Lecturer in Management
John Molson School of Business
Concordia University
1450 Guy St. (MB-4355)
Montréal, Québec, Canada H3H 0A1
E-mail: barbara.shapiro@concordia.ca
Canada

## Abstract

*The purpose of this article is to investigate the mediating role of human resource management to enhance organizational performance. A thorough review of scholarly articles and empirical evidence was conducted in order to bring to light the current and mediating role of human resource management in enhancing organizational performance. Even though the majority of scholars advocate that HRM practices have a direct and often positive impact on organizational performance, there is another stream of scholars who argue that HRM practices may have no impact, or at best an indirect effect on organizational performance. This article attempts to gather the obtained published empirical material, and clarify of the various views and findings formalized thus far including conclusions and recommendations for this critical issue.*

**Keywords: Human Resource Management, HRM, Organizational Performance**

## Introduction

In a rapidly evolving economic setting characterized by globalization, deregulation of markets, changing demands, and ever-increasing product-market competition, firms must continuously enhance their performance by reducing costs, innovating products and processes, and improving quality, productivity, as well as speed to market (Becker and Gerhart, 1996).

Human resource management (HRM) is a vital ingredient that contributes to create and develop a highly productive workforce, and lies in the center of the debate on the competitiveness of businesses (Lepak et al., 2006).

The new interest in HRM as a strategic lever that can have economically significant effects on an organization's performance, aims to shift the focus more toward value creation, and suggests that HRM contributes directly to the implementation of the operating and strategic objectives of firms (Becker and Gerhart, 1996).Much of the empirical research pertaining to the HRM and Performance linkage suggested that 'HRM does matter' (Huselid, 1995; Guest et al., 2000; Wright et al., 2003).

The vast majority of the research in the field of HRM focuses on the positive impact of HRM systems and practices on organizational performance (Becker and Smidt, 2016). Practices that promote employee motivation, contribution, knowledge, and skills (Jiang et al., 2012), generate favorable conditions for the development of resources that create value for organizations (Barney and Wright, 1998), and contribute to their performance and to the emergence of sustained competitive advantages (Wright et al., 1994; Huselid, 1995). Such beneficial outcomes have long been the focus to argue that HRM can make a positive contribution to organizations (Beer et al., 1984; Jackson et al., 2014).However, some scholars argue for the lack of evidence linking (HRM) with improved performance, and claim that the relationships are often statistically weak, the results are often ambiguous, and that research design is often inadequate (Becker and Smidt, 2016; de Brito and de Oliveira, 2016).

In this sense, this article will investigate the mediating role of human resource management (HRM) to enhance organizational performance (OP). The article will explore classical and contemporary literature findings, analyze available empirical data and investigate different schools of thought, in order to attempt to formulate a synthesis of existing research. Based on the aforementioned elements, the article will provide conclusions and recommendations to move ahead.

## Organizational Performance

One of the key challenges of understanding organizational performance lies in the alignment of its theoretical definition, methodological design and research objectives (de Brito and de Oliveira, 2016). Organizational performance (OP) is a multidimensional concept, which seeks to measure companies' success in achieving the objectives proposed for different stakeholders in a given period (Richard et al., 2009). The multiple dimensions of organizational performance seek to encompass the diversity of interests in the company's success (de Brito and de Oliveira, 2016).One of the most influential approaches contends that OP involves three dimensions that can be viewed as superimposing spheres that complement each other(Venkatraman and Ramanujam, 1986). Organizational effectiveness is regarded as the broader dimension of organizational performance, and includes economic and social objectives that take into account the firm's link with its stakeholders and society (Venkatraman and Ramanujam, 1986). The operational dimension encompasses aspects such as innovation, technology, productivity, quality, and intercedes the link between the firm's resources and its financial performance. Finally, the financial dimension takes into account aspects of financial returns, market value and growth (Venkatraman and Ramanujam, 1986; Combs et al., 2005).

The study of organizational performance involves challenges between the theoretical approach and the empirical observations of the concept (Combs et al., 2005). On the one hand, the large number of variables used in the operationalization of performance leads to different results and a large variance in conclusions, restraining knowledge accumulation (Boyd et al., 2005). On the other hand, the use of unique variables of profitability brings an oversimplification of a complex and multivariate construct (Combs et al., 2005; Richard et al., 2009).

Moreover, financial performance measures do not necessarily reflect a firm's operational performance and are more subject to value appropriation on the side of actors involved (Coff, 1999; Crook et al., 2011).

Therefore, the choice of performance measures should not disregard a theoretical discussion about the adopted approach (de Brito and de Oliveira, 2016). Far from a consensus, most scholars recognize the existence of different approaches and metrics, and emphasize the importance of linking performance measures to a theoretical approach and even to a greater construct that explains the strategic advantage (Combs et al., 2005; Richard et al., 2009).This would involve a range of types of performance measures at the individual, group, unit and company levels (Kariuki and Murimi, 2015). The measures of performance are generally quantitative (e.g. financial revenue growth) or qualitative (e.g. adherence to budget, employee satisfaction, customer satisfaction) in nature (Ibua, 2014). Quantitative financial measures have been commonly used (Karger and Parnell, 1996), but recently, researches have claimed that qualitative measures could also be incorporated (Bowen and Lawler, 1995; Yang and

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Choi, 2009, Ibua, 2014). Kaplan and Norton (1996; 2008) presented the balance scorecard, which encompasses other non-financial performance measures (e.g. internal business process, customer perspective). Kushner and Poole (1996) assessed organizational performance using several qualitative measures (e.g. reputation, constituent satisfaction, attraction of skilled human resources and diffusion of influence).The qualitative measures are more subjective in nature and tend to focus more on changes in people's behavior and long-term effects (Ibua, 2014). However, several studies indicated that in certain situations, objective measures of OP could also be suitable (Dess and Robinson, 1984; Venkatraman and Ramanujam, 1987). In this sense, several studies have attempted to use a combination of subjective and objective measures, in order to avoid bias toward a given measure (Kariuki and Murimi, 2015).

Moreover, to enhance performance involves giving closer attention to the type of staff to hire and how best they can be motivated (Ibua, 2014). For instance, this could involve achievement recognition, incentives, leadership, autonomy, and involvement in decision-making (Ibua, 2014). Armstrong, (2010) claims that the objective is to generate a work environment that will allow employees to produce results in line with the firm's expectations.

In this sense, increasing efficiency and performance in organizations requires proper human resources (Ibua, 2014). From this legacy, various studies tried to relate human resource management (HRM) with organizational performance (Wright et al., 2005; Combs et al., 2006; Shaw et al., 2013). The next sections will cover the concept of HRM before delving into the investigation of its mediating role to enhance organizational performance.

**Human Resource Management**

Human resource management (HRM) is a multidisciplinary domain, which comprises various social science areas related to work and people management (Gold and Bratton, 2017). The field of HRM covers the "acquisition, development, reward and motivation maintenance and departure" of employees and typical areas of concern include HR planning and capability audits, recruitment and selection of employees, skill development and training, career progression, performance appraisal, formulating employment conditions and compensation and reward (Stone, 1995). Moreover, HRM is also concerned with understanding and interpreting the legal framework and context regulating conditions of employment and employment relations (Wright and Ferris, 1997).

Due to the globalization of businesses and the associated intensification in competitive pressures, there is growing consensus that organizational human resources has become a source of sustainable competitive advantage, provided that HRM policies and practices are integrated with and/or derived from the overall organizational strategies and goals (Raub et al., 2006; Altarawneh and Aldehayyat, 2011). The strategic role of HR professionals focuses on strengthening the organizational value of the HRM system and its contribution toward achieving organization strategic goals (Ulrich, 1997).

This new strategic role for human resource has drawn interest in the topic beyond the traditionally narrower limits of HR research (Becker and Gerhart, 1996). In this sense, many researchers argue that HRM has been developed to strategic HRM to emphasize the importance of the concept for the effective functioning of organizations (Altarawneh, 2016).The literature on strategic HRM relies on two fundamental principles. The first deals with the strategic importance of HR, their competencies and behaviors, whilst the second refers to the role of HRM practices in the development of these very resources (Becker and Gerhart, 1996; Colbert, 2004).

Research on strategic HRM takes into account HR systems as a whole and their impact on the organization, as opposed to the traditional perspective, which assesses HR practices separately and considers their individual impacts on the organization (Becker and Huselid, 2006). Such an approach contends that HR practices and policies must be congruent with each other (horizontal alignment) and target the strategic goals of the firm (vertical alignment) in order to achieve more effectiveness (Delery and Doty, 1996). This movement toward a macro or systemic vision was due to the need for greater clarity regarding the impact of the human resources function on organizational results (Sun et al., 2007).

Several studies (e.g. Huselid, 1995; Youndt et al., 1996) claimed that human resource management is no longer only concerned with the execution of a standard set of procedures, but it rather needs to question and understand the links between choices in managing people, the objectives of the firm and the possibilities presented by the external environment (Ibua, 2014). The interest in the concept that individual performance affects organizational performance has therefore increased with the idea that

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employees provide a unique source of competitive advantage (Barney, 1991; Omari, 2012, Ibua, 2014).

Having explored the concepts of OP and HRM, the next section will investigate the mediating role of HRM to enhance organizational performance.

**The Mediating Role of HRM to Enhance Organizational Performance**

Human Resource Management (HRM) is a key player in the creation and development of a highly productive workforce, and lies in the center of the debate on the competitiveness and performance of businesses (Lepak et al., 2006). The relationship between HRM and organizational performance (OP) has been the topic of a heated debate over the last several decades (e.g. Wright and Snell, 1998). The performance management perspective stresses the need to align HRM practices with the aim of affecting employee and organizational performance (Fita and Bezo, 2015). Many studies tried to link OP and certain HRM functions, such as training (Russel et al., 1985), selection (Terpasticea and Rozell, 1993), appraisals (Borman, 1991) and compensation (Milkovich, 1992). However, the popular management literature, which examines the impact of HRM practices on organizational performance, is controversial (Worsfold, 1999).

During the course of the study concerning the mediating role of HRM to enhance organizational performance, there seems to be two broad research streams emerging (de Brito and de Oliveira, 2016). The first stream advocates that HRM practices have a direct and often positive impact on organizational performance (e.g. Schuler and Jackson, 1999; Chand and Katou, 2007), whilst the second stream claims that HRM practices may have no impact or at best an indirect effect on OP (e.g. Wright et al., 2003; Collins and Clark, 2003).

The scholars who argue that HRM has a direct impact on organizational performance, often report positive and direct relationships between integrated bundles of HRM practices and different measures of organizational performance (e.g. Arthur, 1994; Huselid, 1995; MacDuffie, 1995; Delery and Doty, 1996; Guthrie, 2001; Mitchell et al., 2013).

The research evidencing the direct effects between HRM practices and organizational performance has emphasized sixteen best practices, later consolidated into seven (Pfeffer 1994; 1998). It is argued that the greater application of such practices including teamwork, training, and performance contingency-incentive compensation are believed to enhance organizational performance (Pfeffer, 1994). Such HR practices have been termed as "best practices" (Pfeffer, 1994), "high performance work systems" (Way, 2002; Beltran-Martin et al., 2008; Guthrie et al., 2009), "high-involvement practices" (Lawler, 1986; Wood and de Menezes, 2008) or "high commitment practices" (Wood, 1999). Research thus far has supported the notion that the HR system is one important component that helps organizations to become more effective and to achieve competitive advantage (Fita and Bezo, 2015). Several scholars have also explored the effect of an individual HR practice, or a bundle of HR practices, on organizational-level performance (Delaney and Huselid, 1996).

The pioneering empirical studies on the impact of HRM on organizational performance were published in 1994 (Arthur, 1994; Osterman, 1994) and 1995 (MacDuffie, 1995), including one article by Huselid (1995) which is among the most cited in the topic. The study carried out by Huselid (1995) was very important because it made the dominant theme in HRM research, the relationship with performance. Subsequently, many scholars started empirically investigating the impact on organizational performance by single HRM practices such as performance related pay (Dowling and Richardson, 1997; McNabb and Whitfield, 1997), personnel planning (Koch and McGrath, 1996), training and development (Kalleberg and Moody, 1994), and also by bundles of HRM practices (e.g. Arthur, 1994; Guest et al., 2004).

An example of an empirical study carried out by Delaney and Huselid (1996) attempted to link several (HR) practices to organizational performance by using different models and regression analyses. In their study, Delaney and Huselid (1996) considered several control variables (e.g. training, incentive) and investigated their impact on organizational performance using different models. Each of the HRM practice coefficients reported in the first column was from a separate regression that contained the control variables. According to Delaney and Huselid (1996), the overall results were statistically significant with $R^2$ coefficients ranging from 0.182 to 0.19, and Joint-F tests indicated that a set of HRM practices jointly explained a significant amount of the variance in perceived organizational performance.

Building on this work, Mitchell et al. (2013) carried out an empirical study to investigate the impact of HRM strategic role as a variable on organizational financial performance. The results indicated a positive

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relationship between HRM strategic role and financial performance when line management devolvement was high, and generated an $R^2$ of 0.7, which suggests that the overall model accounted for 70% of the variance in financial performance (Mitchell et al., 2013). These results emphasize the importance of strategic HRM and its impact on organizational financial performance as claimed by Altarawneh, (2016).

The other stream of research claims that, whether in a bundle or separate, HRM practices may have no effect on OP, or at best will indirectly influence OP via some mediating variables (Dyer and Reeves, 1995; Becker and Gerhart, 1996; Paauwe and Richardson, 1997; Guest, 1997; Wright et al., 2003; Collins and Clark, 2003; Katou and Budhwar, 2006; Paauwe, 2009).This is termed as the "black box" issue in HRM-performance research (Fita and Bezo, 2015).

Guest (1997) tried to identify the dimensions of HRM practices that could make up high-performance, and investigated how a set of HRM practices may indirectly lead to higher performance outcomes. According to Guest (1997), some HRM practices (e.g. training, rewards, employee involvement, job design), would ideally create high employee commitment, high quality staff and a highly flexible staff. This would generate positive behavioral outcomes such as effort, motivation, cooperation, involvement and would create positive performance outcomes (e.g. high productivity, quality and innovation, low absence). Consequently, the financial performance of the organization would improve as well with the increase of its profit and ROI.

Building on Guest (1997)' work, Jiang et al., (2012) suggested that HRM practices may be evaluated by their impact on employees' skills, their motivation and effort, and the opportunities they have to contribute.

However, individual HR practices in isolation could produce only a limited amount of competitive advantage (Barney, 1995), while a bundle of HRM practices may generate greater effects as the whole is greater than the sum of its parts (Fita and Bezo, 2015). For instance, to recruit and select good employees without providing them with training, or to otherwise train and develop them without giving them the authority for decision-making would be inefficient; whereas applying the three practices altogether would yield greater effects (Wall and Wood, 2005).

Kanfer (1994) claimed that the distance between HRM practices and some performance indicators (e.g. profits, market value) is very large and may be subject to other business interventions (e.g. marketing strategies).With respect to empirical studies, for instance, Guest and Hoque (1994) explored the impact of HRM practices and HRM strategy have on performance in manufacturing companies. Their results indicated no correlation with performance, in terms of productivity. Altarawaneh (2016) also carried out an empirical study to explore the impact of HRM on organizational performance in the Saudi banking industry.

In his empirical study, Altarawaneh (2016) used self-administered questionnaires to collect data from a sample of 50 managers in the banking industry. This was to consider HRM policies and roles as a variable, as well as performance indicators that are affected by HRM activities. As claimed by Altarawaneh (2016), his results indicated that there was no statistical significant difference at the 0.05 level or less in the responses of the study sample regarding HRM policies and roles as well as HRM impacts on performance.

Empirical results on HRM and performance have been presented in a range of special issues of international academic journals (Fita and Bezo, 2015), but there are still some misunderstood issues as to the set of HR practices that effectively would contribute to higher organizational performance (de Brito and de Oliveira, 2016). Moreover, even though it is possible to identify a set of best HRM practices that can positively affect performance, there is little known about the interrelationships between the various practices, highlighting the possibility of additive, synergistic or substitute effects (Jiang et al., 2012).

This concept of best HR practices seems to have emerged from the first line of research (de Brito and de Oliveira, 2016). However, there is no consensus in relation to the exact practices that should be included in these systems and, consequently, surveys have been conducted with different sets of practices (Delaney and Huselid 1996; Lepak et al., 2006), which makes it difficult for knowledge accumulation (Jiang et al., 2012).

Hesketh and Fleetwood (2006) claimed that the existing empirical evidence for the link between HRM and OP is still inconclusive. Wall and Wood (2005) also claimed that the existing evidence for a link between HRM and performance should be regarded with caution.

In this sense, when relating HRM and organizational performance, it is important to consider a

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more holistic and balanced approach. It is important to take into account the following topics: the nature of the linkage; the relevance and non-relevance of strategy; the importance of the institutional context and arising conflicting demands; the need for multi-level analysis; and how to cope with reverse causality (de Brito and de Oliveira, 2016). Having conducted a thorough literature review to investigate the mediating role of HRM to enhance performance, the next section will provide conclusions and recommendations.

## .Conclusions and Recommendations

### Conclusions

Although significant progress has been made to unravel the impact of HRM on organizational performance, many issues remain. As discussed in this article, the majority of data and research on the subject primarily converges toward the conclusion that HRM practices have a direct and often positive impact on organizational performance. However, another stream of scholars claim that HRM practices may have no impact or at best an indirect effect on organizational performance. The latter stream argues that the relationships are often statistically weak, inconclusive, and should be treated with caution. There are still many unresolved issues regarding the study of the impact of HRM on organizational performance. This is mainly due to inadequate research designs, as claimed by Paauwe, “it is easy to think of better research designs, but quite often the kind of data required are simply not available, or time and money are lacking” (Paauwe, 2009).

There are also other methodological and theoretical issues regarding the study of the impact of HRM on organizational performance. For instance, as Jiang et al., (2012) stated, despite the fact that one can identify HRM practices that can positively affect organizational performance, there are misunderstood areas about the exact practices that should be included in HRM systems and the interrelationships between practices, highlighting the possibility of additive, synergistic or substitute effects. The dispersion of variables is also another issue to be considered, as mentioned by de Brito and de Oliveira (2016).

Moreover, even though a significant progress has been made in research on the HRM-Performance link (Guest, 2000), there are still inaccuracies in the theory, so that empirical testing can confidently refute or support it (Radcliffe, 2005). Also, there are still a limited number of studies that looks at HRM from the employee’s perspective, knowing that the employee is the center and main consumer of HRM (Edgar, 2003).

In this sense, based on the aforementioned elements, this article provides the following recommendations.

### Recommendations

It is recommended to develop more reliable and valid measures of HRM systems, and to test them within different organizations in different industries. It is also recommended to develop a more balanced methodology that equally considers the managerial and functionalist perspectives, and the involvement, concerns and well-being of employees. This would provide a multidimensional perspective on organizational performance and give a more central position of the employment relationship in the equation between HRM and performance. It is also suggested not to standardize a range of specific bundles of “best HRM practices”, because by pursuing an imitation strategy, some companies might ignore potentially crucial contextual influences and miss alternative strategies, which might be more effective in their specific case.

Moreover, with the emergence of the strategic role of human resource management, future research should investigate in-depth whether an effective strategy implementation would be a key mediating variable between HRM and organizational performance at different levels.

Finally, further research is also necessary by studying and comparing data and divergent mechanisms in several cross-cultural settings such as the eastern and western cultures.

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