PERFORMANCE IN ORGANIZATIONS IN A HUMAN RESOURCE PERSPECTIVE

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Abstract

In turbulent financial and economic present conditions a major challenge for the general management of organizations and in particular for the strategic human resources management is to establish a clear, coherent and consistent framework in terms of measuring organizational performance and economic efficiency. This paper aims to conduct an exploratory research of literature concerning measuring organizational performance. Based on the results of research the paper proposes a multi-dimensional model for measuring organizational performance providing a mechanism that will allow quantification of performance based on selected criteria. The model will attempt to eliminate inconsistencies and incongruities of organizational effectiveness models developed by specialists from organization theory area, performance measurement models developed by specialists from accounting management area and models of measuring the efficiency and effectiveness developed by specialists from strategic management and entrepreneurship areas.

Keywords: *organizational performance, HRM, measuring performance, multi-dimensional model*

JEL Classification: *L25, O15*

1. Introduction

Increasing organizational performance has always been a priority of the organization because performance is related to value creation. Given that human resources are the most important factor of an organization's production, it is necessary to determine the influence of practices from human resource management area on organizational performance (Sitnikov and Bocean, 2013).

In recent years, both researchers and practitioners have shown a growing concern about the link between HRM and organizational performance. Rogers and Wright (1998) notes that academic research has tried to demonstrate the HRM impact on firm performance, studying the relationship between different areas of HRM and performance. The first attempts aimed to study the links between organizational performance and various human resource management elements and practices: vocational training (Russell et al., 1985) selection (Terpstra and Rozell, 1993), human resources evaluation (Borman, 1991) 1992). Then other researchers like Huselid (1995) studied the relationship between a calculated index based on human resource practices and financial performance. Another researcher, MacDuffie (1995), studies the link between productivity and quality of work and organizational performance.

Based on exploratory research on literature and using inductive and deductive methods, in this paper we intend to create a model to determine the impact of HRM on organizational performance. Paper structure have five sections. The first section sets out some introductory elements. The second section provides a brief exploratory research on the relationships that can be established between HRM indicators and organizational performance indicators. In the third section we describes the key elements of HRM in order to achieve organizational performance. In the fourth section we developed a system of indicators of HRM. This system is placed in front of a measuring organizational performance system. Section five concludes and presents future research directions.

2. Literature review

In their study on the relationship between human resources strategies and organizational performance, Dyer and Reeves (1995) proposed four types of indicators for organizational performance measurement:

- human resources indicators,
- operational indicators,
- financial-accounting indicators,
- market value indicators.

Dyer and Reeves (1995) found that human resources strategies have the greatest direct impact on human resources indicators, followed by impact on operational indicators, financial-accounting indicators and market value indicators.

If Dyer and Reeves (1995) identified four studies investigating the correlations between human resource practices and company performance, Paauwe and Richardson (1997) identified 9 studies that investigate 22 empirically established relationships between human resource management and performance, and Rogers and Wright (1998) identified a total of 33 studies on this relationship that totally contained 80 distinct empirical observations on human resource management and organizational performance.

Kaplan and Norton (1996) concluded that performance indicators should be built around stakeholder interests as a means of aligning managerial management systems with organizational goals. The Balanced Scorecard approach (Kaplan and Norton, 1996) involves identifying the 3-4 major stakeholder groups (typically shareholders, employees and customers), and then developing objective performance indicators for each group. The Balanced Scorecard approach has been considered as a way for human resources to demonstrate its impact on organizational performance (Yeung & Berman, 1997).

Guest and Others (2003) examined 366 companies in the UK using subjective and objective indicators of organizational performance measurement to investigate the relationship between human resource management and organization performance. They found that there are correlations between the objective indicators of financial performance and human resources management. Chen, Chang and Hwang (2005) have researched and identified empirical support for the idea that companies with higher efficiency of human capital have a higher market value and that intellectual capital efficiency influences the financial performance of companies.

Wright et al. (2005) also concluded that human resource practices have a great influence on organizational performance. Switzer and Huang (2007) suggest, in line with previous research, that organizational variations can be attributed to managerial characteristics of human capital.

Zula and Chermack (2007) have shown that proper planning of human capital has an impact on the organization's profits. Bontis and Serenko (2009) concluded that the strategic management of intellectual capital is an essential vector for the design of performance in the informational age. Waseef and Iqbal (2011) concluded on the basis of previous research and own studies that there is a close correlation between practices in human capital management and organizational performance levels.

Rogers and Wright (1998) consider that the study of the relationship between the HRM analysis models and measurement of performance models is more useful than the identification of a single connection between a composite index of HRM and a composite index measuring organizational performance. We believe this approach is most appropriate. Therefore in this paper we build a model which confront a system of HRM indicators with a system of indicators of measuring organizational performance.

3. HRM Key elements in order to achieve organizational performance

In all models of organizational diagnosis, human resources represent an important vector for success of an organization. Often management decisions can generate feelings of frustration, discontent and distrust among employees, creating a negative climate, having a potentially negative effect on overall organizational performance (Vasconcelos, 2011).

According to Hosmer (2001), attracting and retaining talented human resources is a critical issue for creating a competitive advantage in order to achieve organizational performance. Another author who highlighted the importance of this dimension in the performance of an organization was Reichheld (1993), who showed that a few percent reduction in employee leaving rate could result in an increase in profitability of 50 %.

According to the unanimous opinion of the specialists (Armstrong, 2012; Mondy, 2013; Torrington et al., 2014; Dessler, 2016), an effective human resources policy contributes to achieving a competitive advantage for organizations. Four key elements have been identified to achieve organizational goals and achieve overall performance. These elements related to human resources are (Dessler, 2016):

- value (human resources that can create value are those that can respond to external threats and take advantage of opportunities);
- rarity (special features of the human resource in the organization can provide significant benefits) (Mondy, 2013);
- imitability (human resources have a special strategic value when they cannot be easily imitated by others) (Armstrong, 2012);
- organization (human resources need to be able to work effectively together, and the organization must have human resources policies and social programs to support the people working in the organization) (Bocean, 2011).

If the organization take into account these factors, human resources will be considered as assets and not just simple items of expenditure (Torrington et al., 2014).

4. Developing a model for analyzing the correlations among indicators

Measurement of human resource management performance requires the use of a wide range of indicators in different areas of human resource management:

- productivity indicators,
- cost indicators,
- recruitment indicators,
- training and career development indicators,
- motivation indicators,
- reward indicators,
- loyalty indicators.

Based on the essential HRM elements and previous research, we have developed a system of HRM indicators. In the same time we have selected organizational performance indicators based on collected financial information from companies listed on Bucharest Stock Exchange. The indicators included in the model are shown in Table 1.

Table 1. Model for determining the impact of HRM on organizational performance

Indicator	Category	Category	Indicator
Productivity (per employee) - ratio between turnover and number of employees	Productivity indicators	Rentability indicators	The evolution of gross result (Income-expenses)
			The evolution of net result
Productivity (per employee) - ratio between profit organization and number of employees			Return on assets (ROA)
			Return on equity (ROE)
Productivity (per employee) - ratio between added value and number of employees			Return on sales (ROS)
			Return on investment (ROI)
The cost with an employee	Indicators of cost	Growth indicators	Evolution of turnover
The rate of wage costs (ratio between labor costs and total operating costs)			Evolution of the number of employees
The rate of wage costs (ratio between labor costs and turnover)			Evolution of the assets
The average cost of recruitment	Indicators on recruitment	Liquidity indicators	Current liquidity ratio
The average number of applications received			Quick liquidity ratio
The average time used for recruitment			Immediate liquidity ratio
The average time spent for the development of skills and abilities	Indicators on training and professional development	Leverage indicators	Debt-to-equity
Satisfaction index of persons participating in a training program			Debt-to-assets
The cost of training per employee			
The percentage of employees in total employees is considered "highly motivated"	Indicators of motivation	Efficiency indicators	Total asset turnover
Satisfaction of employees			Working capital turnover
The average time for promotion			Receivables turnover
The average wage in the organization	Indicators of reward	Operational indicators	Labor productivity
Wage package within the organization			Net profit created by an employee
Employee retention rate	Indicators of loyalty	Market value indicators	Adjusted Tobin Q (TQ)
Average duration of employment			Price earnings ratio (PER)
Leavers organization			Price to sales (P/S)
The percentage of employees who would be willing to recommend the organization to friends as a very good job			Price to book value (P/BV)

Source: Adapted from Carton and Hofer, 2006; Bocean, 2015

This model will be the basis of empirical research to be carried out among organizations of the Romanian economy. The model is adaptive because it allows use of those indicators for which exist information. The model is also dynamic because it involves the calculation of correlation between the HRM indicators and organizational performance indicators for different periods of time. Based on research conducted using this model we will determine the impact of HRM variables on organizational performance variables.

5. Conclusions

Universal application of models to determine the impact of HRM on organizational performance by calculating a composite index to characterize these two main variables is cumbersome and often irrelevant given that many influences are lost when calculate composite index. In our opinion it is more efficient an analytical approach to the detriment of a synthetic approach. It can use the synthetic approaches (calculation of composite indicators), but a full analysis unquestionably requires an analytical approach by studying correlations between individual indicators from the two areas studied.

Based on exploratory research on literature and using inductive and deductive methods, we create in this paper a model for determining the HRM impact on organizational performance. During further research we intend to test the model within Romanian companies and to improve it based on the data which we collect and on the interpretation of the results.

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