



STRATEGIC HUMAN RESOURCE MANAGEMENT AND FIRM PERFORMANCE: THE MODERATION OF PSYCHOLOGICAL CONTRACT

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ABSTRACT

Practices and role of HRM is expected to improve business performance. HRM model as a business or a strategic partner developed by Ulrich (1997, 2007) is quite popular and preferable because it can improve the status of HRM into a strategic partner, which means that HRM involved in strategic decision making. But the influence of SHRM to organizational performance has not been conclusive, some studies found a direct influence while others doubted the direct influence. This paper describes the influence of SHRM to organizational performance mediated by OCB and moderated by psychological contracts in the relationship between organizations and employees.

Keywords: SHRM, Company performance, OCB, Psychological Contract



Introduction

Over the past decade HRM professionals increasingly urged to develop new competencies as strategic HRM for integrating business strategy with HRM practices (Caldwell, 2008). HRM competence model was originally developed by Boyatzis in 1982 further developed by Ulrich in 1995. The competency model can be defined in general (contextual) and hierarchical. In general, competency is objective, analytical, grouped into skills, knowledge, self-concept, nature and motives. While in the hierarchical, competencies is expertise or skills and the position of performance in achieving the superior performance of the higher level strategic competencies (Ulrich, 1997).

The study found that the competency model is effective in selecting a strategic partner, but it is less effective in linking the HRM strategy with organizational performance, even this model is very less effective in predicting

performance (Caldwell, 2008). Pritchard (2010) conducted an ethnographic study in the long term to examine the role of HRM as a strategic partner. The result is ironic that is as a strategic partner, HRM considered apart from the restraints of the past but it faces of tensions with transactional issues. Raja et al (2010) conducted a case study on servitization business, the company which developed a complete service such as goods, services, support, personal service and knowledge (as a bundle, a full service business). The results showed that the role of HRM were required as business partners, but in the practice there is few alignment between the organization's policy and the practice of HRM itself.

Instead Hailey et al. (2005) conducted a longitudinal case study that examines the complexity of the relationship of HR department with firm performance. The results showed that increasing the role of the HR department in the organization's



strategy will improve financial performance, but on the other hand there is a decreasing of employee commitment and morale.

Various studies show that the role of HRM began demanded to sit together with the organization's strategy or called by SHRM. However, the results showed the effect of SHRM to organizational performance has not been conclusive. Most studies show SHRM affect on the performance (Huselid et al., 1997) though its influence is small (Caldwell, 2008), others claim that these effects are mediated by other factors such as social networks of the top management team (TMT) (Collins and Clark, 2003), human capital and employee behavior (Wright et al., 1994), resource based employees capabilities (Wright et al., 2001) and organizational citizenship behavior (OCB) (Sun, 2007).

The inconclusive effect provide a gap to reveal any phenomenon between those two variables. This paper aims to reveal that in assessing

the effect of SHRM on organizational performance is mediated by organizational citizenship behavior (OCB). The organization's performance is influenced indirectly through organizational climate that formed by HRM practices. HRM practices will further shape the behavior of individuals within the organization and will affect the organization's performance (Hansen and Wernerfelt, 1989). But the influence of OCB mediation is also determined by the influence of the organization-employee relationship that is established through an psychological contract. As the findings of Tsui et al. (1997) that HRM practices have strong influence on employee performance, OCB and affective commitment to the organization that overinvestment compared to organizations that underinvestment.



SHRM, Organizational Performance and Empirical Research

SHRM was originally initiated by Walker in 1975 whose linking the HRM with organizational strategy, then studied extensively since the 1980s (Wright et al., 2001). The relationship HRM with the organization's strategy can be seen from the three approaches; matching the style of the manager or personnel activities with strategy, forecasting workforce requirements based on strategic goals of the organization or existing environmental conditions and meaning to integrate strategy and HRM with all the existing structures. HRM and strategy of the organization have interdependence relationship each other. Both influenced by multidimensional factors such as economic conditions, organizational structure, market / product, different competencies, the labor market, skills and values and organizational culture

(Lengnick-Hall and Lengnick-Hall, 1988).

HRM practices has been analyzed to predict its influence on organizational outcomes such as survival of the organization (Welbourne and Andrews, 1996), value of the company (Huselid, 1995), productivity (Ichniowski, Shaw, & Prennushi 1997) and labor turnover (Arthur, 1994). In assessing the effect SHRM on performance, resource-based theory (RBV) is a most perspective that used to explain these effects. RBV considers that organizations can gain a competitive advantage from such competitive resource ownership such as rare, valuable and inimitable (Barney and Wright, 1991). HR is a valuable, rare and inimitable are source of competitive advantage because its add value to the company. HR-value viewed from the knowledge, skills and capabilities. While HR-inimitable is developed uniquely in the organization (Delery, 1998).



However, there are two opposing opinions regard to the role of RBV in HRM. One argue that HRM practices did not form a sustainable competitive advantage because of individual HRM practices can be easily copied by competitors. According to this view human capital are more likely to be a source of competitive advantage. Another argue that HRM system can be a source of competitive advantage because it can be unique and competence of the company and also not easily imitated (Wright et al., 2001).

Barney and Wright (2003) uses the value, rarity, inimitable (VRIO) to examine the role of HRM in developing sustainable competitive advantage. VRIO framework presents a number of implications for HRM executives. In general, this framework highlights the fact that the executive HRM plays an important role in managing HR those that have the greatest potential to be a source of sustainable competitive advantage.

More specifically, provides guidance on the HRM function within the organization by creating a competitive advantage.

Several empirical studies assessing the effect of SHRM to organizational performance. Huselid et al. (1997) developed a measurement of the effectiveness of SHRM consisting of; teamwork, participation and empowerment of employees, workforce planning, labor productivity, management and executive development, succession and development managers planning, issue of the strategy extension study and also communication between managers and employees. The company's performance is measured based on the company's financial statements. The sample was 293 public companies in the US. The test results showed that the effectiveness of SHRM effect significantly on the performance of public companies in the US.



Research carried Collins and Clark (2003) has a different basis. They found no direct influence SHRM on organizational performance, but through TMT internal and external social networking. The study was conducted at the level of TMT high-tech companies in the US. SHRM is measured by the index of HRM practices while the company's performance is measured by incentives paid based on the performance of the company. The results showed that the effect of SHRM on company performance fully mediated by TMT internal and external social networks.

In line with the study by Collins and Clark (2007), Sun et al. (2007) also examine the indirect influence SHRM to organizational performance. This research was conducted at the hotels, located in 12 cities in China. Sun et al. (2007) develop measurement of SHRM called high-performance HRM practices. While the organization's performance is measured using the productivity and

employee turnover rate. The study found that the influence of SHRM on organizational performance (productivity and employee turnover rate) mediated by OCB and moderated by business strategy and the unemployment rate. Based on these findings the effect of SHRM on organizational performance has not been conclusive, so it is interested to study the phenomena that exist between the effects of those two variables

SHRM; Role and Competence HRM

HRM professionals have developed new competencies as strategic partners to integrate business strategy with HRM practices (Caldwell, 2008). Competency model was originally developed by Boyatzis in 1982 subsequently followed by Ulrich in 1995 and then revised from 1987, 1992, 1997 to 2002. At the beginning of the competency model is divided into three competence, later



revised to two competencies and revised into five competency.

HRM competence is an attempt to shift the traditional HRM role as delivery becomes HRM strategic partner, administrative expert, employee champion and change agent. But this shift is seen as too ambitious because it shifts the cross-functional boundaries, accountability that has no clear performance measurement and problems of line manager dependence on the HRM delivery. HRM as a strategic partner comes after post-Enron world. But its appearance is not exactly related to ethics, it is more to the generic role of the transaction to the job description, for example; HRM strategic partners are placed in both in the business unit and regional departments. In practice, the implementation of HRM strategic partners are rarely in a single model or in a whole, the main issue is still around to the definition of the function and behavior of how formalized and evaluated the competence is.

The survey results show the effectiveness of HRM strategic partner competency models sequentially seen; effective on the selection of strategic partners, effective on the development of strategic partners, effective in linking the HRM strategy with the business strategy, but is seen as less effective in predicting performance (Caldwell, 2008).

Pritchard (2010) conducted the long-term ethnographic study to assess HRM's role as a strategic partner. The result is seen as a partner of strategic HRM loose from the fetters of the past, but faces tensions with transactional issues. The main purpose of this article is to bridge the gap between the role of strategic partner with the concerns raised by the construction of social identity within the organization, as well as to broaden the understanding of how HRM operates and become strategic partners. This study examines how HRM practitioners work, negotiate and adjust the tension in the role as a strategic partner.



Ethnographic method is engaged with participants, the process of collecting documents, present in team meetings, training courses session of strategic partners and several meetings with business clients. Involvement is done intentionally (though often occurs by chance) tries to discuss the experience of the practitioner into a strategic partner, both informally and through the data. The study found that being a strategic partner in relation to the performance is an active job, not only implementing specific tasks based on the job specifications. The emergence of tension when the HRM practitioner strives to be a strategic partner due to the change from the traditional HRM activities to the new position.

Raja et al (2010) conducted a case study on servitization exploratory business. Servitization develop the company's business is a complete service of goods, services, support, personal service and knowledge (as a bundle, a full service business).

Servitization business demand HRM role as a business partner. This research was conducted using a case study that focuses on the interaction between the ongoing efforts to implement the strategic partnership in the process servitization.

The results showed that many of the senior HRM managers interviewed saw the current shortcomings in implementing the strategic partner role. In a broader context, the role of business partnerships will not always be in a steady state. It is largely depend on the implementation process and the way in which strategic partners interact with other strategic initiatives. In addition interpretation of the Ulrich's model is very poor and still little attention was given to the new modifications model proposed by Ulrich and Brockbank. Findings showed a lot more emphasis on the management of HR infrastructure (administrative expert), and little emphasis on the role of change agents oremployee champion.



There is a tendency to ignore the role of change agents and employee champion as well as the lack of development of the operationalization of the two roles.

Hailey et al. (2005) conducted a longitudinal case study that examines the complexity of the relationship HRM department with performance. They found that the progressive increase in the HRM department will enhance financial performance, but on the other hand there it is decreasing the employee commitment and morale. HRM professionals in the UK survey reported an emphasis on the role of a strategic partner, but the ideals of HRM professionals is to align HRM strategy with business strategy. Ulrich stressed that HRM professionals should be good both strategic and operational, but the role of a potential conflict is not discussed. Based on various studies indicate that the practice of HRM in the organization depends on the role and competence of HRM, namely the role of a strategic

partner, administrative expert, employee champion and change agent. If HRM preoccupied with efforts to harmonize the role of a strategic partner, the other roles may lose concentration and vice versa. So putting HRM as a strategic partner cannot be just a symbol, but it is involved in strategic decision making in efforts to develop human capital systems and can achieve a sustainable competitive advantage. Thus the first proposition can developed as follows;

Proposition 1: The role and competence of HRM is a determinant of high performance HRM practices

SHRM and Employee Behavior

SHRM in relation to HRM practices will shape the behavior and characteristics of employees. Steers and Lee (1983) stated that perception and characteristics of employees in the



workplace is the result of actions taken by the organization consciously or not, making it possible to form the subsequent behavior.

Hansen and Wernerfelt (1989) states that the following factors; environment (social, political, economic and technological), organizational (structure, systems, size and history of the organization) and HR (skills, personality and age) will form the organizational climate (such as the practice of decision-making, communication flow, goals, HRM, leadership, the group process and working conditions). The organizational climate will affect the behavior of individuals within the organization and will ultimately affect the performance of the organization.

HRM practice is a combination of a set of HRM (such as the preparation of personnel, training, career paths, promotion, job security, performance appraisal, open-ended reward, job descriptions, participation), which collectively

affect the organization's performance (Sun et al., 2007). Organizations hire employees, then selecting and reduce or called attraction-selection-attrition (ASA) will affect the behavior of employees in the organization (Schneider, 1987). As stated Wright et al. (2001) that the free will of a person having cognitive and emotional components. How does a person think and feel the conditions where he works and its relationship with the company can influence behavior, including a group of workers who are also affected by HRM practices in the workplace. Thus the second proposition can be developed as follows:

Proposition 2 High-performance HRM practice will positively influence on OCB

Moderation-Employee Relations Organization; Psychological Contract



Psychological contract builds upon an exchange between employees and companies. Blau (1964) states that social exchanges influence the feeling of obligation, gratitude and trust someone. Psychological contract is an exchange agreement between a person's perception of the other parties or between the employee and the company. Psychological contract is an individual belief that there are mutual obligations between the employee and the company (Rousseau, 1989). The study by Robinson (1996) to 125 new managers collect data after they work for 18 months and 30 months. The results showed that psychological contract relating to employee contributions, this relationship is mediated by the trust employees.

Sun et al. (2007) stated that HRM practices particularly affect the job security of the company's long-term relationship with employees. There is unequal relationship between employee-employer, if employees are required to perform a specific

obligation with the open-ended reward system (overinvestment) then they will have a better performance, more committed and has high OCB. If employees undertake broad range of obligations but the short-term and specific rewards system (underinvestment) then they will have lower performance, less committed and lower OCB (Tsui et al., 2007). Based on this exposure, the third proposition is developed as follows;

Proposition 3 High-performance HRM practices influence on OCB moderated by the psychological contract. If the psychological contract breach then it will weaken the influence of high-performance HRM practices on OCB to fizzle

High-performance HRM practices do not directly affect the performance of the organization but is mediated by OCB. But the influence of high-performance HRM practices on



OCB moderated by the psychological contract between employees and employer. Thus the latter proposition can be developed as follows:

Proposition 4 The influence of high-performance HRM practices on firm performance is mediated by OCB and moderated by the psychological contract. If the psychological contract breach then weakness influence of high performance HRM practices on OCB will affect the organization's performance. On the other hand, if the psychological contract maintained the strong influence of high-performance HRM practices on OCB will affect the organization's performance.

Conclusion

This paper describes the influence SHRM on organizational performance. Although there are few

studies that examine the effect of SHRM on the performance but the results showed the effect is inconclusive. Most studies suggest no effect while others states no direct influence. This paper argues that SHRM has no direct influence on organization performance, but mediated by OCB. This is in accordance with the opinion of Schneider (1989) and Hansen and Wernerfelt (1989) that the high-performance HRM practice influence on the behavior of individuals within the organization. Thus the behavior of individuals or OCB mediate the influence of SHRM to organizational performance.

Besides the influence of high performance HRM practice on OCB, it is also influenced by moderating of the psychological contract. If the psychological contract breach then the influence of high performance HRM practice on OCB will be weakened, otherwise if the psychological contract maintain then the influence of high



performance HRM practice on OCB will stronger.

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