

# Measuring Relationships among Strategic Human Resource Management, Human Resource Practices and Organizational Financial Performance

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**ABSTRACT:** The aim of this research is to measure the extent of the relationship between the strategic human resource management and the organization's financial performance. This is a cross-sectional study using quantitative approach with the help of structured questionnaire having five points Likert scale. Employing convenience sampling technique total 200 questionnaires were collected from the commercial banks of Bangladesh. To analysis the surveyed data structural equation modelling approach is used for this study. The measurement model of this study is assessed based on the relationship between the indicators and the latent variables using partial least square technique. This study finds that strategic human resource management positively and significantly affect financial performance of the HR and employees of the organizations under study ( $\beta=0.552$ ;  $t=9.695$ ;  $p=0.00$ ) but the result of Human Resource Practices did not ( $\beta= -0.025$ ;  $t=0.366$ ;  $p=0.715$ ). This study has the limitations that the researcher was unable to gather data from each division in a proportionate manner, which is the first limitation due to the time constraints. Moreover, the researcher did not have the opportunity to examine the influence of each SHRM and HR practice on an organization's performance; further research can be done to determine how each SHRM and HR practice affects a firm's performance. The findings of this study should help management to understand how organizational settings and policies can generate constructive means, which in turn enhance the alignment of HRP according to SHRM in order to bring favourable financial performance of the organizations. This study will add to the human resource management literature by investigating the soundness of the SHRM, HRP, and FP relation in the banking sector in Bangladeshi which is relatively limited in the country under study.

**KEY WORD:** Financial Performance; Strategic Human Resource Management; Human Resource Practices, Banking Sector

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## I. Introduction

The development and application of strategic human resource management (SHRM) methods and their considerable impact on the financial performance of the organization are being considered in the current trend of the worldwide competitive business era. Since it first appeared, SHRM has been the subject of discussion on its foundation in truth vs mere rhetoric. The integration of the Human resource function into the strategic management process, the promotion of human resource practices (HRP) among line managers, and the impact of these practices on business performance are the typical metrics used to evaluate SHRM [2].

The objective of the study is to measure the relationships among SHRM, HRP and financial performance (FP) in a sample of commercial banks and their effects on the financial success of the company. By comparing the organization's financial results to the standard performance indicators, this research recognizes the relationship between the level of SHRM and HRP now in place and those performances. Additionally, it offers the necessary principles for ensuring sustainability and a competitive edge through sound strategic HRM practices and improved financial results. This research paper begins by establishing its goals, and then conducts a thorough literature analysis that is pertinent and focuses on the strategic development and integration of human resource practices and how those practices relate to an organization's financial performance.

## II. Literature Review

The expanding number of studies examining the value that human resources provide to the modern knowledge-based economy demonstrates the growing interest of strategic management researchers in this topic. (Batt, [4]; Bhatti and Qureshi, [6]; Chang and Chen, [12]; Delery and Doty, [15]; Ghebregiosgis and Karsten, [17]; Guest et al., [18]; Guthrie [19]; Hoque, [22]; Huang, [23]; Huang and Lin, [24]; Khatri, [26]; Liao, [27];

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Richard and Johnson, [32]; Wang and Horng, [38]; Wright, Gardner and Moynihan,[39];Tzafirir, [36]).However, concerns have been raised concerning its ability to create value, such as whether HRM can directly contribute to the implementation of organizations' strategic objectives and their improvement of performance.(e.g. Hope-Hailey et al., [21]).

Over the course of the late 1980s and early 1990s, the SHRM notion developed. A proactive, integrative, and value-driven approach to human resource management has also received more attention. (e.g. Butler, Ferris, and Napier, [9]; Schuler, [34]). In accordance with SHRM, managing human resources should be strategic rather than reactive or administrative. (Budhwar, [10]; Buyens and De Vos, [11]).

The 1990s saw the beginning of the advancement of SHRM, which placed a greater emphasis on an integrative and value-driven approach to HRM. SHRM concentrate on a number of topics. It also covers the amalgamation of HRM into corporate strategic management and the alignment of Human Resource practices with organizational strategic goals. encompasses the HR function's participation in senior management teams, the transfer of HR responsibilities to line managers, and the value that HRM adds to corporate performance.(Bowen and Ostroff, [7]; Ulrich, [37]).There is disagreement on SHRM despite study efforts in this area. This is because it is unclear whether firms actually implement SHRM and whether line managers can help the HR department become more strategically oriented.(Martell and Carol, [28]).

Together with line managers, the senior HR manager should form a strategic alliance. Additionally, by offering tools, instruction, and a channel for communication that may guarantee that these HR practices are carried out in accordance with HRM policy (Budhwar, [10]).According to the most recent studies, a firm's HRM practices and stronger financial success are associated to positive performance outcomes. Numerous studies that have looked at the relationship between HRM practices and organizational performance for businesses in the industrial and service sectors.(Ahmad and Schroeder, [1]; Bae and Lawler, [3]; Collins and Smith, [14]; Katou and Budhwar, [25]). It is currently a widely held concept in both the academic and corporate worlds. It demonstrates how an organization's human resources may give it a competitive advantage. It offers guidelines for handling personnel in accordance with company culture and strategic business planning.(Beer et al., [5]).A three-year study by Purcell [31] that assesses the impact of people management on organizational performance has been published. When Purcell Both the academic and business communities currently hold a strong belief in it. It shows how a company's human resources could provide it a competitive advantage. It provides advice on how to manage employees in line with corporate culture and long-term business goals. Found that although some have been able to demonstrate a connection between the application of HR rules and performance results. It was frequently difficult to identify the relationships between events and to explain when, why, and how an association existed. This is the "black box," according to Purcell [31]. He came to the conclusion that the effects of people management on organizational performance are more noticeable in the medium term than it is in the short term.And,it is here that investigations of high commitment management are specially relevant.

A longitudinal study that examines how and why people management techniques impact corporate performance is reported by Hutchinson, Kinnie, and Purcell [20]. Numerous factors illustrating the challenge of proving performance impacts are acknowledged in relation to the ideas of people management and performance. First, there is the connection that can be seen at many levels between HR practices and business performance. Second, there is no agreement on the level of specificity and there is a lack of agreement on what constitutes an HR package. Third, a limited use of performance measures is another method of evaluating HR practices. Fourth, complex measurement methods that are challenging to understand are occasionally applied. Finally, there are not many studies that consider the reaction of employees and it is difficult to understand how the Human resource practices feed through to improved levels of performance and thus causality is an issue. Numerous studies looking for proof of a connection between SHRM and company performance concentrate on intermediate performance metrics such commitment, absenteeism, customer happiness, and innovation.(e. g., Pfeffer, [30]; Chew and Chong, [13]; Bowen, Galang and Pillai, [8]). Research is required so that it can concentrate on key metrics like profitability and return on investment (Richard and Johnson, [32]). When HR managers join the senior management team, CEOs, CFOs, and senior managers will put pressure on HRM to demonstrate how they can provide value to the bottom line (Buyens and De Vos, [11]; Sullivan, [35]).

Despite the fact that there is evidence that Bangladesh understands the position of HRM more thoroughly than the majority of other developing countries in the globe, our examination of the literature suggests that little research has been done on strategic integration and devolvement in Bangladesh. Concerning SHRM and firm performance on the basis of the literature reviewed, our research hypothesis is that there will be a positive relationship between strategic human resource management alignment and perceived firm financial performance.

## **2.1 Human Resource Management in Bangladesh**

Bangladesh achieved the incredible feat of economic graduation to a developing country classification from a least developed country in 2021, marking the country's 50th anniversary of independence. The Wall

Street Journal named Bangladesh the "economic bull case" in the South Asian area [37]. It is the second-largest economy in South Asia, and over the past ten years, thanks to its ready-made garment (RMG) exports, human resources exports, demographic dividend, self-competency in food grains, and durable macroeconomic situation, it has experienced one of the world's fastest rates of growth [38]. Bangladesh's economy would grow to be the 24th largest in the world, according to the "World Economic League Table" published by the Centre for Economics and Business Research (CEBR). Much as the laudable economic development, Bangladesh has been suffering from depressed labor productivity, skill mismatch and deficit, faulty workplace safety records, underemployment and unemployment of skilled human resources [40]. Bangladesh needs to properly and efficiently manage and develop its most important resource, human resources, in order to stay up with economic progress and realize its ambition of 2041 to become a developed country [41, 42].

The quality of human resource activities and the efficiency of human resource management procedures are primarily rely on the devotion and aid of senior management. The human resources division has begun collaborating with top management because it is acted on the board of directors. Human resource managers have recently become more involved in strategic decision-making in some Bangladeshi firms. Although Bangladesh does not have a comprehensive strategic approach, the functions of HRM departments and the continuation of HR strategy have started to move in that direction. companies in light of the results of the relatively few studies that have been done on this topic.

### **III. Study Objectives**

The earlier empirical studies [43, 44] explained that Strategic Human Resource Management and Human Resource practices, when perfectly implemented and vertically/horizontally integrated, enhance organizational performance, particularly financial performance. Numerous empirical studies have examined the relationship between SHRM and a company's financial performance in the West, where the idea of strategic human resource management originated. Bangladesh, a developing nation, has conducted virtually little research on this subject. The objectives of this research paper are:

- i. To measure the extent of the relationship between the strategic human resource management and the organization's financial performance.
- ii. To arrive at an understanding of the extent of the relationship between Human Resource practices on organization's financial performance.

### **IV. Methods**

#### **4.1 Research Design**

Quantitative approach was employed to measure the relationship between the strategic human resource management and human resource practices on organization's financial performance. The survey of this study was conducted in the Bank sector in Bangladesh. Cross-sectional survey was used as the design of this research because in this study data was collected in one particular time. The survey method using questionnaire was used for this study primarily because it concentrated least cost and time related with survey and are able in managing quantitative data.

#### **4.2 Sample and Data Collection**

The survey was conducted in the Banking sector (both in public bank and private bank) of Bangladesh. Due to the time constraints and financial restrictions, the research sample size was 200. Random and snowball sampling method was used to collect data. The managerial level employees of some scheduled public commercial banks and private commercial banks (Agrani Bank, Sonali Bank, Janata Bank, Rupali Bank, IFIC Bank Limited, Standard Chartered Bank Limited, National Bank Limited, Modhumoti Bank Limited, NRBC Bank limited and Prime Bank Limited) in Bangladesh have been surveyed for data collection. The managers and the employees of the bank were asked to answer to the questions arranged with a Likert scale from 1 to 5, where 5 indicates strongly disagree and 1 indicates strongly agree with the statement. The researcher was actively involved in the data collection. The researcher prepared three types of questionnaire. First one comprises SHRM measures. Second one comprises HR measures and the last one comprises financial performance measures. Among 200 responded about 60% of them provided data through online survey (google form).

#### **4.3 Research instrument**

A 10-item scale that was tone downed from Strategic Human Resource Management: A Guide to Action by Michael Armstrong, Devanna, Fombrum, Tichy, and Warren (1982) [45, 46], and Huselid and Becker (1997) [47] was used to measure the SHRM. The Human Resource managers and employees were asked to value the extent to which Human resource policies amalgamated vertically and horizontally with firm's strategy on a five-point Likert-type scale ranging from 1 (strongly agree) to 5 (strongly disagree). An example is, "Overall strategy of the Organization includes HR strategy effectively. A seven-item HR practices assessment

that was taken from Wright et al. and Becker and Huselid (1998) [47]. On a five-point Likert scale with 1 (strongly agree) to 5 (strongly disagree) anchors, human resource managers and employees were asked to rate the prevalence of these activities in their workplaces. As an example "Employee training program enhance business performance effectively. 6-item financial performance scale was modified from Green and Medlin (2001) [49]. Employees and the human resources manager were asked to evaluate the company's success during the previous three years in terms of sales volume growth, net profit, and return on investment, customer satisfaction, and customer services. The scale has an anchor of 1 (very high) and 5 (very low) on a five-point Likert scale.

**4.4 Data Analysis Tool**

To analysis the collected data from the study field, the researcher first imputed data into the SPSS version 23.0 and then data are converted into Comma Delimited (CSV) format. The CSV data were analyzed by busing Smart PLS 3.0 software. As per the analysis criteria of PLS based SEM, the researcher tested the measurement model by the help of Convergent and Discriminant Validity criteria by which the validity and reliability of the observed variables are measured. For the model evaluation the path coefficients and the loadings, a bootstrapping method (5000 resamples) was used [50].

**V. Analysis and Results**

At the time of the data analysis procedure, the researcher first examined the Common Method Variance to justify the biasness of the items of the questionnaire as the questionnaire [56]. To test the CMV, Harman's single factor test was adopted and the result of the data of this study shows that the first factor explained only 34.761% of variance where the threshold is the first factor must explain less than 50%. Thus, the common method was not a persistent dilemma in this study.

**5.1 Measurement model**

The measurement model criterion of testing uses outer loadings, Average Variance Extracted (AVE) and Composite Reliability (CR). Table 1 shows that all item loadings did not exceed the recommended value of 0.6. In such situation, the item loading which are less than 0.60 are discarded (SHRM1, SHRM3, SHRM4, SHRM6, SHRM7, SHRM9, HRP1, HRP2, HRP5, HRP6, HRP6 and HRP7) from the model.

In case of the assessment of CR values, the degree to which the observed items specify the unobserved variables exceeded the threshold of 0.7 [50]. This study shows the CR values in between 0.852 to 0.900 which are satisfactory. According to the rule of AVE which shows the in general amount of variance in the items accounted for by the unobserved variables, exceeded the recommended value of 0.5 [50]. The AVE values of this study are more than 0.5; therefore there is no problem of the data of this study in terms of convergent validity.

Then, it needs to assess the discriminant validity showing in tables 2 and 3 concerning the adequate discriminant validity where Fornell & Larcker test indicating that the square root of the AVE of each construct is more than its corresponding correlation coefficients and the heterotrait-monotrait (HTMT) value is greater than HTMT.85 value of 0.85.

**Table 2: Results of Measurement Model**

Construct	Measurement Items	Loading	AVE	CR
Strategic Human Resource Management	SHRM1	0.445	0.536	0.852
	SHRM2	0.637		
	SHRM3	0.586		
	SHRM4	0.558		
	SHRM5	0.694		
	SHRM6	0.595		
	SHRM7	0.467		
	SHRM8	0.745		
	SHRM9	0.597		
	SHRM10	0.750		
Human Resource Practices	HRP1	0.540	0.819	0.900
	HRP2	0.509		
	HRP3	0.712		
	HRP4	0.674		
	HRP5	0.559		
	HRP6	0.127		
	HRP7	0.448		
Financial Performance	FP1	0.832	0.584	0.893
	FP2	0.838		
	FP3	0.754		
	FP4	0.730		

	FP5	0.691		
	FP6	0.732		

**Table 2:** Discriminant Validity of Constructs-Fornell-Larcker Correlation Check

Construct	FP	HRP	SHRM
FP	0.764		
HRP	0.270	0.905	
SHRM	0.539	0.535	0.732

**Note:** SHRM=Strategic Human Resource Management, HRP= Human Resource Practices, and FP= Financial Performance

**Table 3:** Heterotrit-Monotrait Ratio (HTMT) Criteria

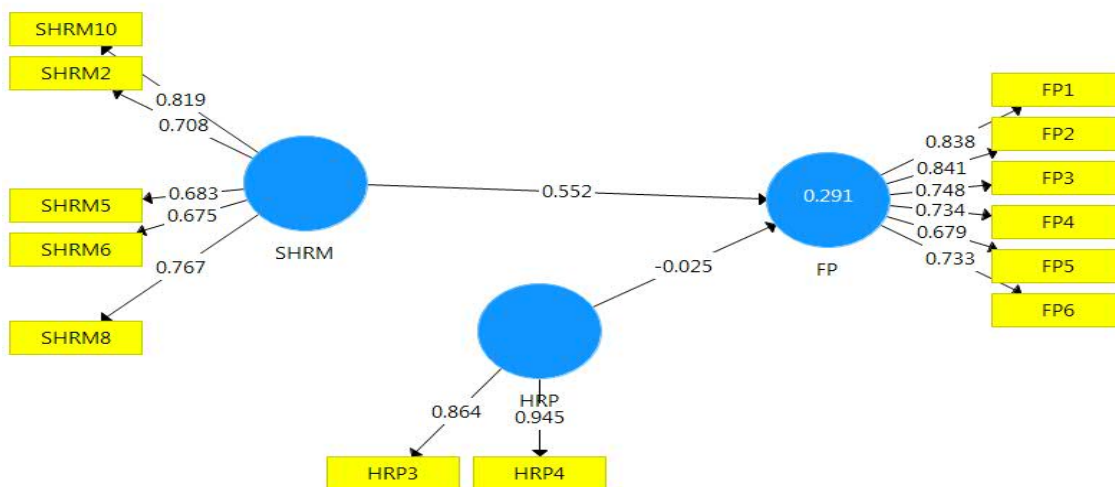
Construct	FP	HRP	SHRM
FP			
HRP	0.313		
SHRM	0.640	0.684	

**5.2 Structural model**

According to the Hair et al. (2013) [53], the structural model can be assessed by looking at the multicollinearity, coefficient determination ( $R^2$ ), beta ( $\beta$ ), and t-values using bootstrapping process having a resample of 5000. It also needs to have the report of the  $Q^2$  of knowing predictive relevance of the structural model.

To perform the measure of the structural model, the first step is to assess the structural model constructs to verify if high multicollinearity is a problem. The variance inflation factor (VIF) values of the items should be below 5.0 to have a free from highly multicollinearity and suitable for assessing structural model in case of the indicators on reflective constructs [51]. This study shows the VIF values in between 1.346 and 3.251 indicates that the items are not problematic for assessing structural model.

Next, the researcher looked at the relationships between the variables. Strategic Human Resource Management positively and significantly affect Financial Performance of the HR and employees of the organizations under study ( $\beta=0.552$ ;  $t=9.695$ ;  $p < 0.05$ ;  $p=0.00$ ) but the result of Human Resource Practices did not ( $\beta= -0.025$ ;  $t=0.366$ ;  $p > 0.05$ ;  $p=0.715$ ).. Moreover, the  $R^2$  is actually a joint effect of independent variables on the dependent variable. The lowest effect of  $R^2$  is 0, and the highest is 1 Hair Jr., et al., 2017) demonstrate that on endogenous variables, the  $R^2$  values of 0.75, 0.50, and 0.25 can be considered large, moderate, and weak respectively. This study found  $R^2$  of FP showing as 0.291 which emphasize that the exogenous variables SHRM and HRP can describe 29.10% of the variability is more than the 0.25 value that Cohen (1992) recommendation would specify a substantial model. This study provided the result of  $Q^2= .160$  for the endogenous variable indicates acceptable predictive relevance where the recommended value of  $Q^2$  must be greater than 0 of having the model has predictive relevance.



Critical t-values 1.96 (P<0.05)

**Figure 2: Structural model.**

**Table 4: Result of the Structural Model Assessment**

Relation	Std. $\beta$	SE	t-values	p-values	f <sup>2</sup>	Decision
HRP -> FP	-0.025	0.068	0.366	0.715	0.001	Not Supported
SHRM -> FP	0.552	0.057	9.695	0.000	0.307	Supported

Critical t-values 1.96 (P<0.05)

## VI. Findings Interpretation and Managerial Implications

The result of this study shows that the HRP has no significant relation with the financial performance as such it is failed to be supported. But the tested result of the 2<sup>nd</sup> relation is supporting the significant relationship between SHRM and financial performance. From the result it can be told that strategic HRM is at all times a suitable approach for the performance of the organization than the human resource management approach this finding is supported by previous work conducted by Chang and Huang [58].

In today, the organizations are significantly focusing on the importance of SHRM. The literature shows that SHRM plays a very important role to organizations performance and financial performance. Human resource becomes an indispensable factor to the development of organization. The strategic thinking of the organization decides the requirement for skills and human resource. Unskilled and unhinged: resourcing, training, development, reward, and appraisal methods have lead to pitiable performance which brings job dissatisfaction in the employees. A study by Sareen [59] found that successful human resource management strategy scientifically organizes human resource management actions to straightforwardly persuade employee performance and behavior. Such actions lead the business to achieve its organizational targets and goals rather than the HRP and such outcome is supported by this study.

SHRM must be designed and implemented such way so that the policies and practices of the organization sure ensure the firm's performance to attaining and bringing desire goals of the firms. Practitioners should with awareness think about the "internal fit" among SHRM, as well as the "external fit" between HR practices and the business strategy. They also should be careful about the approach in which they accompany and maintain each other. The human resource practitioners should fine-tune their attitude and state of mindset which will build their occupational abilities to look and face new challenges. Moreover, it needs from the part of the HR practitioners who should pay out extra time in examining the strategic human resource management of their firms which needs to develop realistic solutions for attaining organizational objectives.

Therefore, by paying attention to the competitive nature of service industries, organization have to design, grow, and maintain their distinctive settings to cope up SHRM with the HRP. The outcomes of this research should help concerned organizations in better aware of HR and employees outlooks regarding SHRM and HRP, thereby bringing favorable financial performance by enlightening them. Therefore, management should consider how organizational settings and policies can generate constructive way, which in twist increases the alignment of HRP according to SHRM in order to bring favorable financial performance in the sector. Satisfaction among HR and employees can add to the economic and overall accomplishment of the organizations and industries.

## VII. Limitations and Further Research Direction

The researcher was unable to gather data from each division in a proportionate manner, which is the first limitation due to the time constraints. Future research will produce more reliable findings if data is collected from respondents in each division in an equal distribution. Furthermore, make sure the researcher has enough time to gather the information. The researcher in this study made an effort to reduce bias by gathering data from a variety of respondents. Data should be gathered from more diverse sources in the future to limit the possibility of bias. akin to CEOs and financial directors. Additionally, as the researcher did not have the opportunity to examine the influence of each SHRM and HR practice on an organization's performance, further research can be done to determine how each SHRM and HR practice affects a firm's performance.

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