Organisational Performance and HRM Practices

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ABSTRACT: Nowadays, HRM has become an important function in the company and a strategic dimension which led many companies to include in their plans and policies. This importance has gone crescendo since the pressure of external environment is hardly strange to the outbreak of HRM and its conspicuous metamorphosis. Hence, more and more companies are implementing HR practices that can boost their organizational performance. Nevertheless, the link between HR practices and performance is not fully explained due to apparently little empirical research. The concern of the current paper is to highlight this relationship through seeking to select HR practices that promote performance based on the adopted business strategy. The objective of this research is to explain how the application of HRM practices can increase organizational performance. To answer our research question, we chose the case study of a Tunisian company that has employed over 600 people specialized in metal construction and boilermaking. Methodologically, to understand the company's practices and its business strategy, we conducted two interviews that concerned the HR manager of the company and the head of operations. The interviews that we conducted revealed that the company recorded a substantial difficulty in aligning HRM practices with business strategy and organizational objectives and it invests very little in the development of skills although it offers a product respecting the highest quality standards. The last deficiency shows that there is lack of strategic planning and lack of shared organizational vision that cause constraints to the identification of objectives and management practices to be implemented.

Keywords: HRM, Strategic Dimension, Business Strategy, Organizational Performance.

I. Introduction

Responding to changes and pressure of the external environment, human resources management appears today as a valuable function of the company. However, this function was confined to be a purely connected to the administrative role. Henceforth, human resource management takes a strategic dimension in organizations that today few corporate organizational charts do not reserve a special place in this direction. In this sense, Drucker (1955) maintains that “The human resource function has consistently a battle in justifying its position in organizations.”

In this sense, there is no doubt that human resources practices contribute to the increase in organizational performance although the human resources (HR) function itself remains limited to the role we attribute to it. It is true that today’s economic parameters have completely transformed this approach. Indeed, the appearance of financial markets has been completely transformed by the apparent disappearance of borders. Henceforth, the business world has to deal with a large number of global competitors who, in some cases, benefit from a number of advantages, such as the cost of labor and the abundant raw materials (Warner, 2002).

However, according Duboulouz, S. (2014), more and more companies have to constantly adapt their business strategy in their management practices so that they could face new challenges. Thus, to withstand a number of increasingly large competitors and to ensure their sustainability and survival, companies need to boost their organizational performance. In fact, with the advance of globalization, the business environment becomes somewhat troubled. It, therefore, encourages companies to do things differently, drives them to be more active, and encourages managers to adapt to this phenomenon through fully engaging into it.

What is worth questioning is that how HR practices can fit with organizational performance. The answer comes from Arcand (2006), Charbonneau, M. (2010), Laaboubi, M. (2011), and Ndao, A. (2012) who argue that HR practices need to incorporate the specific objectives of the firm so that its performance can be improved. This denotes that any business has inherently dynamic capabilities that give various possibilities for the use of HR practices. This suggests that depending on its business strategy, its human capital and its internal and external environment, the company must identify practices that may increase organizational performance (Guillard, A. and Roussel, J. 2010), Teece (2007), Hounkou, E. (2011) and Diouf, D. (2012) argue that dynamic capabilities are part and parcel of business strategy and goals.

Therefore, it is worth signaling that since the last thirty years, the impact of HR practices on performance has been favoring researchers greater interest in this phenomenon. Nowadays, this interest has still persisted and has even become increasingly important given the strategic nature of HR that has become increasingly recognized...
Thus, according to Hounkou, E. (2011) and Ndao, A. (2012), the relationship between HRM and organizational performance is still a true “black box” despite the large number of studies conducted on this theme and how even the interest seems to grow. In this paper, we aim to provide an update on knowledge available so far regarding the nature of the contribution of HRM practices on organizational performance. This constitutes a great opportunity to bring a fresh look at what may explain the association between HR and the business strategy practice across a glance at a steel construction company. However, before talking about organizational performance, we will debate in the first place the concept of strategic human resource management.

II. Literature Review

2.1 Strategic Management of Human Resources

A flashback on trends and changes over time related to HR function has enabled the understanding the evolution of HR functions in the organizational context, and to highlight the importance of performance in HR activities. This function has moved from a simple administrative to a major player in the development of strategies and in the conduct of organizational performance (Laaboubi, M., 2011; Ndao, A., 2012; Dubouloz, S., 2014). Market globalization and its impact on the increase in competition between companies have hatched for a number of years (Warner, 2002). Now, it is up to companies to use innovative solutions to survive through setting themselves apart from competition. Entrepreneurs should also be looking for competitive advantages to improve the efficiency of their businesses and, hence, ensure their future. In this sense, HRM faces several organizational issues that highlight the importance of having a competitive advantage since the link is strong between HRM and organizational performance.

In this sphere, Guerin and Wills (2002) argue that though skilled labor is scarce, the need for innovation increases and employee involvement is even required. Furthermore, research in HRM has shown that the way human resources are managed can have an impact on performance (Huselid, 1995; Charbonneau, M., 2010; Hounkou, E., 2011).

In any event, the pressure of the environment requires companies to seek to better understand and better situate the competitive advantages that they hold over competition. In this sense, Porter (1980) argues that the competitive advantage is perceived as a set of capabilities or resources that give an organization the opportunity to be distinguished from its competitors. Note that managers have for a long time sought to benefit from an increase in physical capital at the expense of human capital. Increase in physical capital is simpler; therefore, it can be considered as a desirable solution. Indeed, financial capital only requires that capital contributes to the acquisition of technology.

However, this contradicts the opinion of Souren, A.; Tom, E.; Wouter, S. (2014) who admit that modern businesses can easily obtain the same traditional advantages. Conversely, the company that seeks to be distinguished from its competitors relies on its human capital to take advantage of real competitive advantages (McMahan et al., 1999; Pfeffer 1994; Guillard, A. and Roussel, J., 2010). Human capital has more features that can give a competitive advantage to the firm. It is noted that according to Teece (2007) and Fabi et al. (2011), human capital appears as a determining factor in the strategy of the firm. This also includes the need to worry about the dynamic capabilities of the firm that can enhance the effect of alignment between business strategy and HRM practices.

The evolution of HRM can only be a backdrop to introduce the main approaches in strategic management of human resources, and to illustrate the required features and the link with organizational performance.

2.2 The Search for Performance

Huselid (1995); Pfeffer and Veiga (1999); Lengnick-Hall, Mr. L., Lengnick-Hall, C. A. Andrade, L. S. and Drake, B. (2009); DIOUF D. (2012) are among the various authors who have discussed the strategic importance of human resources. HRM is very often linked to the increase in productivity (Hounkou, E., 2011), to the best customer service (Fox et al, 1999), to efficiency improvement (Becker, B., Huselid, M., 1999), to the increase in the value of the firm (Huselid, 1995), and to greater profitability (Becker, B., Huselid, M., 1999, Leap-Han, and L. Loo -See, B., 2013). Several HRM practices can be considered as critical and can be the source of competitive advantage (Pfeffer and Veiga, 1999 and Dubouloz, S., 2014). Conversely, Charbonneau, M. (2010) and Dubouloz, S. (2014) argue that no consensus has emerged in relation to HR practical use. Several authors (Miles and Snow, 1984; Jean-Jacques Pluchart, 2013) maintain that the impact of HR practices on performance increases when these practices are related to the business strategy. According to Arcand (2000) and Arcand (2006), there is a strong relationship between HR practices and performance. This suggests that researchers recognize in HR practices there exists an improved organizational performance without showing a
A consensus on how to get there. As figure 1 below indicates, three approaches to HRM have established the relationship between HR practices and organizational performance.

![Diagram of the Strategic Approaches to Human Resources Management](image)

**Figure 1: The Strategic Approaches to Human Resources Management**

To begin with, the universalist approach to human resources recognizes only one assumption that there exist HRM practices which allow organizations to significantly increase their level of organizational performance, regardless of the strategic context (Allani et al., 2005). Under this approach, certain HR practices would be the best to be adopted as they bring higher yields because they are expected to produce a positive effect on the organization. The activities which are related to incentive compensation, employee involvement, training, development of the workforce, and safety are among the HRM practices often cited for their strategic nature, (Pfeffer, 1998; Becker, B., Huselid, M., 1999; Pfeffer and Veiga 1999). Then, the approach of contingency supports that to be effective, human resources policies must be consistent with the contingencies that prevail in the internal and external environment of the company (Barette and Carrière, 2003). In this context, this approach focuses, according to Miles and Snow (1978) and Porter (1985), on the contextualisation of HRM. For DeSarbo et al. (2005), the proponents of this approach, there are as many practices as there are contexts. On this basis, we reject any suggestion insisting on the requiring best practices and supporting the contingency factor that dictates how to proceed (Barette and Carrière, 2003 Peretti, J. M., 2010). Finally, the configurational approach requires the most complete and the most complex reasoning in the three approaches to HRM (Arcand, and G. Gagnon, O., 2011). Through this approach, and to validate the increased performance of the firm, HRM activities must be grouped into coherent systems that can influence each other to create a real chain reaction (Baron and Kreeps, 1999).

Regarding our concern, we seek to highlight the contingency approach that retains the business strategy as the main contingency. To make appropriate links and explain the behavior of the firm, it is essential to develop a business strategy. This constitutes the cornerstone that will inform the firm of management practices to be adopted. However, there are as many practices as contexts. Understanding the determination of the business strategy is an important part to develop explanations of the reasons for which a company will favor certain HRM practices over others.

### 2.3 Business Strategy: A Basic Contingency

Companies must have recourse to multiple strategies to stand aloof from competition. They must follow an organizational strategy that helps achieve the required performance levels. Indeed, two companies can offer the same product without gaining the same result. A match between the business strategy, the understanding of the internal and external environment and implementation of HR practices is needed. This resulted in significant configurations from a strategic perspective.

The business strategy is a central element from which the strategic directions of the company are concatenated. According to the literature, several models in business strategy resisted to time and continued to be frequently used in various studies. Porter (1985) is the main author who proposed a model that classifies three different strategies. They are the cost domination, differentiation and focus. The difference between these strategies is the chosen target and the type of competitive advantage it provides. Other researchers have developed other models to understand the behavior of the firm and its business strategy. So, Venkatraman (1989) has developed six dimensions of the strategy that describe the company's behavior. Hitt and Ireland (1985) and Tracy and Weisma (1995), meanwhile, have developed models that attempt to provide explanations for organizational strategies and behavior.

Miles and Snow (1978) proposed a model that consists of four typologies allowing the organization to establish the characteristics of its business strategy. In this model, the company may consist of prospector, defender, analyst or reactor. As Figure 2 below illustrates, this model explains the behavior of the firm and the choice of management practices that meet organizational needs. On this basis, DeSarbo et al. (2005) consider that the classification of Miles and Snow (1978) is the most prevalent pattern in the field.
In their analysis, Miles and Snow (1994), argue that to maximize organizational performance, it is necessary to obtain alignment between the strategy of the firm and HR practices. With this strategic alignment, Miles and Snow (1984) and DeSarbo et al. (2005) defend the idea that we maximize the relationship between the internal and external environment of the company. This is in line with the idea that adaptation to contingencies helps developing the best management practices and optimizing organizational performance. The model of Miles and Snow (1978) allows to decide the nature of the behavior of the firm. In this approach, the field implementation of these concepts will respond to our research problem and show how HR practices that are aligned to the business strategy, can increase organizational performance.

III. Methodology

Still, for the scientific community, it is necessary to know whether HR practices increased organizational performance. The universalist approach has proved most studies on the subject (Huselid 1995; Delary and Doty, 1996). These studies have highlighted the relationship between HRM practices and organizational performance (Perreti, J.M., 2013). But, the why and the how have rarely been demonstrated (DeSarbo et al., 2005). Figure 3 below shows the alignment cycle of HRM practices to business strategy so as to increase organizational performance. We also note that determining the business strategy influences the objectives of the firm. This must take into account its dynamic capabilities and the selection of HRM practices that are suitable for retaining business strategy. Otherwise, the company can not, according to the proponents of this contingency approach, maximize its results and benefits.

Let us recall that the goal of this research is to explain how the application of HRM practices in the specific context of the firm can increase organizational performance. To answer our research question, we have chosen the case study, which can effectively respond to the intended objectives (Yin, 1994; Laaboubi, M., 2011. Charbonneau, M., 2010, Ndao, A., 2012). This method consists of developing and analyzing in depth the
research problem from a particular case or a small number of cases. It is a method which allows flexibility in data collection. It also reinforces the rigor imposed by scientific research, and allows to get close to the research theme, which enables observing it in its natural environment. Rispal (2002) argues that this method allows a reading and an understanding of this phenomenon. Moreover, depending on its flows, we note that the semi-structured interview is a crucial tool enabling to identify general themes to obtain a rich understanding of the phenomenon.

It should be noted that the researcher can collect accurate information by retaining the flexibility to interact with the respondent when using this instrument. Two interviews are needed to define the business strategy and HR practices under study. In our case, we use the secondary documentation to better understand the specific situation of the targeted company. The information made available on HR practices, financial results, and analysis of the industry have enriched the understanding of the case. The observation will promote better deepening of the obtained statements through semi-structured interviews. We used an interview guide to better structure our approach. Our interviews concerned the HR manager of the company, and the head of operations. In this sense, Peretti, J. M. (2010) and Ndao, A. (2012) argue that qualitative research, taken as the contribution of the interview guide due to the structure of the questions, is used as a benchmark. The interviewer can adapt, confront the field, and go beyond the questions.

For our research, we chose a Tunisian company operating in the Sfax region. It is a company specialized in metal construction and boilermaking and works for export as well as for the local market. It offers a wide range of products that ranges from soldering to metal structures. The company has increasingly focused on the oil industry for a number of years. It has eight factories and several work units, and employs over 600 people. Since 2011, the company has been facing a downturn. Indeed, the events in Tunisia and Libya appear to have hit hard the company that has seen its business decline and production efforts to be restrained. Consequently, many jobs were lost. However, it is relevant to verify whether this is the only consequence of the Arab Spring events in Tunisia and Libya.

It is worth pointing out that certain management practices are far from supporting the expected results. The company has, indeed, a structured HR department without being aligned to its business strategy. For this, we can hardly validate the reasons.

We conducted a series of interviews with the chief of operations and with the HR manager to understand all of the company's practices and its business strategy. Moreover, the different information has been an opportunity for us to better understand the dynamics of the business.

The interview that we conducted with the chief of operations has allowed us to know a little more about the company's business strategy. At first sight, and according to the typology of Miles and Snow (1978), the company acts as an analyst, and is characterized by behaviors associated to both the prospector and the defender. The analyst is defined as a hybrid that plays the two roles at the same time. This behavior reflects the desire to try to take a minimum risk while seeking to increase profits and expand the market. However, the company does not resist change as it does not focus on creation.

Still, the interviews that we conducted revealed that the company is very active in product innovation. It seeks to conquer other areas and take a clear advantage over its competitors. Thus, we can deduce that this is a very aggressive company in its desire to increase its sales and conquer other markets. In terms of its production system, it is very strong, knowing that the company is trying to maintain its gains through the use of many performance indicators.

According to Mile and Snow (1978), it is common to find that a firm is conducive to having multiple types of behaviors. However, each company has dominant behavior, and enters a specific typological classification. So, for our case, the analysis of these different behaviors reveals that it is too difficult to have a perfect look that can accurately characterize the company.

<table>
<thead>
<tr>
<th>Behaviors</th>
<th>Practices</th>
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<tbody>
<tr>
<td>Conservative (defender)</td>
<td>- Relates to past practices.</td>
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<tr>
<td></td>
<td>- Prudent financial management.</td>
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<tr>
<td>Aggressive (Prospector)</td>
<td>- Seeking new sales.</td>
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<td></td>
<td>- Conquer new territories.</td>
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<tr>
<td>Passive (reactive)</td>
<td>- Reactive rather than proactive management.</td>
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<td></td>
<td>- No strategic plan.</td>
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<tr>
<td>Egaré (prospector)</td>
<td>- Undisciplined Managements with novelties.</td>
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<tr>
<td></td>
<td>- Disoriented in the product range.</td>
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<tr>
<td>Innovator (Prospector)</td>
<td>- Search for miracle product.</td>
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Table 1: Analysis of the business strategy according to Miles and Snow (1978)
Given what has preceded, we can suggest that the company has to increase its efforts so as to support an acceptable level of productivity. It must control its product mainly at the production and quality phases and should be successful in increasing its market share through the territorial and penetration with new products. For the HRM practices, the encounter with the human resources director has revealed that these practices are well established in the company. However, the company must approve the alignment effect on business strategy. We suggest skills development, total compensation, staffing, organization of work, quality of work life, health, work safety and the assessment of performance (Arcand, and G. Gagnon, O., 2011). All these practices are shown in Table 2 below which shows the effect of alignment on the practice of HRM and business strategy. The effects of alignment of HRM practices on the business strategy indicate the extent to which practice is consistent and responsive. Our approach has helped explain and advance certain conditions that are likely to maximize organizational performance.

Table 2: HR Practices and their relationships with the objectives of the firm

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<th>HRM practices</th>
<th>Effects of alignment with the business strategy</th>
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<tbody>
<tr>
<td>Skills development</td>
<td>- Training is done on the job, that is to say, it is the minimum necessary to meet production needs.</td>
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<td></td>
<td>- No structured plan for training and skills support.</td>
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<td>Global compensation</td>
<td>- The remuneration at the salary level is higher than the industry. This allows for better retention of human</td>
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<td></td>
<td>capital and allows to capitalize on higher quality products.</td>
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<tr>
<td></td>
<td>- The presence of a medical clinic minimizes absences from work and consolidates the importance of human</td>
</tr>
<tr>
<td></td>
<td>capital for product quality.</td>
</tr>
<tr>
<td>Endowment</td>
<td>- The staffing process comes to support organizational needs.</td>
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<tr>
<td></td>
<td>- Little planning of the workforce based on the objectives.</td>
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<tr>
<td>Labour organization</td>
<td>- Moderate involvement in work organization.</td>
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<tr>
<td></td>
<td>- Numerous Performance indicators.</td>
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<tr>
<td>Work life quality</td>
<td>- Little work-family balance.</td>
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<tr>
<td></td>
<td>- Moderate physical effort.</td>
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<tr>
<td></td>
<td>- Important repetitve tasks.</td>
</tr>
<tr>
<td>Health and safety at work</td>
<td>- preponderant place of the OSH. (SST)</td>
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<tr>
<td></td>
<td>- Employee participation.</td>
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<tr>
<td>Appreciation of performance</td>
<td>- In terms of production, no performance appreciation system is made at work. The overall results are analyzed</td>
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<td>based on various performance indicators.</td>
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<td></td>
<td>- At the desk level, there is the presence of a performance appreciation form. However, its use provides</td>
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<td></td>
<td>very little positive effect.</td>
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<tr>
<td>Career Management</td>
<td>- No career planning system is formally established so that some talents can leave the organization because</td>
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<td></td>
<td>they may feel restricted in their progression.</td>
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<tr>
<td>Work security</td>
<td>- There is no job security in the context of organizational decline. The layoffs are not performed by</td>
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<td></td>
<td>seniority so that it will weaken the status of each employee.</td>
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</table>

In this approach, the HR practices that we selected are capable of conferring a strategic advantage to the firm and integrating into a needs analysis based on the business strategy. In choosing its management practices, the company is strongly influenced by characteristics such as vision, mission and values. However, we note that the company resolutely seeks to become the leader in its industry. It is strongly oriented towards sales, and tress to get the largest possible market share by having highly customized products that subscribe to the highest quality standards. The company sticks to the quality of its materials, respects its workforce, its customers and the environment. These characteristics are a source of significant influence in the formation of the business strategy, as the choice of management practices.

IV. Results Analysis

In a qualitative study, the case analysis is often taken as the adopted method where the semi-structured interview is the applied information collection technique. In this research, the head of operations provided us with information so that we were able to grasp the complexity of the firm’s business strategy. Besides, we got insights from the director of human resources concerning the operation of the HR department and its various practices. This firm recorded significant difficulty in aligning HRM practices with business strategy and organizational objectives. It invests very little in the development of skills although it offers a product that meets the highest quality standards. The consistency between business strategy and HRM practices suggests a lack of convincing efficacy. This can be explained by the lack of commitment of the owners in the role of the HR function within the company. This lack of commitment results from a paradigm supporting little strategic importance of HR function.
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In terms of performance assessment, we identify another deficiency in the alignment of HR practices to business strategy. Practically, managers who do not have an impact and who lack efficiency are not able to put value on the importance of achieving organizational objectives and to mobilize employees to increase organizational performance. For this company, the best organizational alignment is to increase revenues by penetrating new territories. However, there is no formal evaluation to monitor the work of representatives in a sustained manner. The last deficiency shows the lack of consistency between HRM practices and business strategy. This mainly concerns the planning of the workforce. In our case, there is no process to identify key positions and the potential risk regarding the possibility of losing these resources and expertise. It remains that the biggest flaw in the business management practice, which may explain the lack of alignment of HRM practices with business strategy, is at the level of the owners of this company. Lack of strategic planning and lack of sharing of organizational vision cause deficiencies in defining objectives and management practices to be implemented. In a context where the financial, socio-economic and legal parameters have become more complex, these deficiencies become a major weakness which can lead to a lack of organizational performance.

V. Conclusion

Even though HRM seems to be a relatively young field of study and although no consensus has been found to date, several researchers recognize its theoretical links with the strategy. Certainly, empirical research has been subject to minimal explanation. Thus, they leave academics and businessmen perplexed concerning HRM practices. These practices, when aligned to the business strategy, are carrying performance and make it possible to increase organizational performance. The aim of our research is to shed light on the relationship between business strategy and HR practices in a Tunisian company. The lack of strategic leadership is a major aspect that depletes and impoverishes outcomes. The lack of support devoted to the owners is also an explanation that comes to demonstrate the excessive presence of isolated practices, without thinking about the organizational needs, dynamic capabilities and business strategy. As in any research, some limitations have marred our approach and aroused caution about the results. In this research, we have analyzed a single case, being in a declining situation, which is likely to influence the behavior and management practices. For this reason, we cannot generalize the results. So, in a future study, it is appropriate to combine a company in decline with a growing company in order to compare results. Certainly, explanatory research in HRM are just a beginning. It remains that researchers should eliminate the boundaries of knowledge for companies to better understand the scope of their decisions and the consequences of their management practices.

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