

THEORETICAL APPROACH FOR IDENTIFYING THE LINKS BETWEEN THE STRATEGIC HUMAN RESOURCE MANAGEMENT AND THE VALUE OF THE COMPANIES

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Abstract:

The purpose of this paper is to give different theoretical approach for linking the strategic human resource management with the business strategies and the value of the companies.

Key words: Strategic Human Resource management, company value

SHRM- Strategic HR Management

The concept of Strategic HR management, were first time formulated by Fombrun *at al* (1984)¹, who wrote that 3 core elements are necessary for firms to function effectively:

- Mission and Strategy
- Organization Structure
- Human Resource Management

Moreover, Rich, integrated theoretical frameworks, will help focus and organize research efforts, and will enable the practice of HR management to become truly strategic discipline (Ulrich, 1997b)².

...A wide array of data, both from academics and consulting firms shows that HR practices really do make significant differences to business outcomes³. ... For instance, companies

¹ M. Armstrong, Strategic human resource management: a guide to action, 2-nd edition, Clays Ltd, St Ives plc, 2000, pg.42, http://books.google.com/books?id=qMmc_89e-l4C&printsec=frontcover&dq=strategic+HR+management&cd=1#v=onepage&q=strategic%20HR%20management&f=false

² R. S. Schuler, S. E. Jackson, Strategic human resource management, 2-nd edition, Blackwell, 2007, pg. 99 <http://books.google.com/books?id=mVP8wILJRO8C&printsec=frontcover&dq=strategic+HR+management&cd=2#v=onepage&q=strategic%20HR%20management&f=false>

that follow the best HR practices, have more than 50% higher market value than those who do not⁴... Some recognized HR best practices include⁵:

- Employment security
- Selective recruiting
- High wages/incentives
- Information sharing / participation
- Training / cross training
- Promotion from within
- Measurement

Employment security helps the employees in long-term thinking for the company and for themselves, and the employees are encouraged to give the best for the company. The ultimate goal is to feel the job as own property, not as working only for money. The company on long run, it is expected to have better performance, which one of the factors for influencing the company value. Dedication and loyalty should be in upper level, compared with companies where the job security is low.

Selective recruiting is related with the market value, especially for recruiting the core positions, because of the direct influence of the business dealing, in every company without exception.

High wages/incentives give the employee abilities to have more comfortable life, especially in the transition and development regions. The motivation for work is always related with the amount of wages/salaries, and it is expected that this category, will influence employee performance, which on the other hand it is influencing factor, of company value.

Information sharing / participation could be used as a tool that influences the employee performance by increasing the motivation and by having precise tasks, defined timelines and defined expected results for every activity of the employees.

Training / cross training usually it is expected to influence the effectiveness and affectivity of job performance, and more over the preparation for the new challenges of the employees, that are going in the same line with the business and company changes, affected by the external factor. It is expected that the company will perform better, if the employees are well and appropriately trained, and they will perform well.

Promotion from within it is expected that this will influence the overall business performance, because of keeping and/or increasing the motivation, dedication and loyalty of the employees, if extra effort, knowledge, skill and abilities are recognized and awarded properly.

Measurement at the end, influence the performance on different levels, like measuring the individual, group, team, department and business unit work. If it is properly measured, preventive and corrective measures could be done properly, which is expected to influence the market value, and it will help the company achieving the set up targets, over the

^{3, 4, 5} R. L. Mathis, J. H. Jackson, Human Resource Management, Thomson Learning, 2008, pg. 37
<http://books.google.com/books?id=yCe7fiQbokC&pg=PA34&dq=strategic+HR+management&cd=5#v=onepage&q=strategic%20HR%20management&f=false>

years. Measurement it should be always connected with the payment of employees, not matter the individual or group targets.

Business and HR strategies

Translating business strategies into HR practices helps a business in three ways. **First**, the business can adapt to change because the time from the conception to the execution of a strategy is shortened. **Second**, the business can better meet customer demands because its customer service strategies have been translated into specific policies and practices. **Third**, the business can achieve financial performance through its more effective execution of strategy⁶.

A recent study that sampled 289 (U.S.) companies, 313 company business units, 457 manufacturing plants, and 249 sales and service field offices of a national insurance company found that HIHRM (high involvement) practices were applied significantly more to core employees than to peripheral employees (Lewin, 2004, 2001b). This same study also analyzed LIHRM (low involvement) practices for their effects on **business performance**⁷.

Concerning the previously mentioned HIHRM & LIHRM practices, the requirements related with efficiency and effectiveness, is not be different for core and peripheral employees.

Efficiency measures relate to the inputs planned to be used against the inputs actually used to produce the output. **Effectiveness** – measures should reflect weather the organizations are achieving the desired results. Results could include any or all of the following⁸:

- Timelines
- Quality
- Quantity
- Cost / price

⁶ Lewin, D. (2004). HRM and Business Performance Research: Empiricism in Search of Theory. 62nd Annual Meeting of the Academy of Management, Denver, CO, 2002, revised., & Lewin, D. (2001b). Low Involvement Work Practices and Business Performance. 53rd Annual Meeting, Industrial Relations Research Association. Champaign, IL: IRRRA, pp. 275-292, <http://www.hrmbusiness.com/2007/12/hrm-increases-your-companys.html>.

⁷ <http://www.anderson.ucla.edu/x8022.xml>

⁸ M. Zairi, Measuring performance for business results, Chapman & Hall, 1994, pg. 11
<http://books.google.com/books?id=5XL4IuJOILIC&printsec=frontcover&dq=measuring+company+performance&cd=2#v=onepage&q=%2Cmeasuring%20company%20performance&f=false>

Company value

It is expected that the excellent business performance, will increase the market value of the company.

Another study shows that the highest consistent positive correlation coefficient obtained was between MVA (Market value added) and EVA (Economic value added) with inflation adjustments to the data⁹.

Generally accepted definition for fair market value is:

The amount expressed in cash (or equivalent), at which a property or any other asset would exchange between a willing buyer and willing seller, each having a reasonable knowledge, of all pertinent facts, neither been under compulsion to buy or sell and with equity to both¹⁰.

In this paper, the recommendation is the fair market value will be measured according the fair market value of the shares at the stock market.

Conclusion

The effectiveness and efficiency should be an important part of the overall Strategic Human Resource Management. The HR practices should implement measurements that will indicate the level of effectiveness and efficiency, for every job place, wherever it is possible. The direct result is expected to be an achievement of the expected business performance, and the indirect result is expected to be creating an additional value for the company.

⁹ Hall & Brummer, The Relationship Between the Market Value of a Company and Internal Performance Measurements, (JEL Classifications: M40, M46, J33), 1999, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=141189

¹⁰ Z. Rezaee, The Definitive Guide To Navigating Today's Financial Services Industry, 2 edition, John Wiley & sons, Inc. 2001, pg. 166
http://books.google.com/books?id=jsIsIEZSvh0C&dq=fair+market+value+definition&source=gbs_navlinks_s

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