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The value of human resource management for organizational performance

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Abstract

All executives would like to see their organizations perform better, and most search for tools that can help make this happen. For decades, human resource managers have believed that their function enhances performance. This contention has been met with skepticism on the part of executives, who wonder whether funds allocated to the human resource function are good investments. Dozens of studies have examined this issue, but their inconsistent results have provided no conclusions. To resolve a long-standing and controversial question – does human resource management matter for organizational performance? – we take stock of the available evidence. Based on data from over 19,000 organizations, we conclude that human resource management adds significant value for organizations. In addition, the value added is strongest when human resource systems are emphasized rather than individual practices, when human resource management decisions are tied to strategy, and among manufacturing firms.

"Personnel? That's for [idiots]."—'Dirty Harry' Callahan, upon being assigned to the Personnel Department, *The Enforcer* (1976)

1. From "personnel" to "human resources"

During the late 1970s and early 1980s, a movement occurred whereby corporations' personnel departments were renamed "human resources" departments. This shift acknowledged that employees are important assets, rather than just parts plugged into positions. It also signaled an emerging recognition that organizations should discontinue the historical practice of considering employees as costs, rather than as vital sources of revenues and profits. In

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many firms, however, the shift was more symbolic than substantive. Like Dirty Harry, many executives remain skeptical about the value added by the human resource function. For example, in his book *The Human Equation*, Jeffrey Pfeffer (1998) reports that only about half of executives believe that human resources really matter, and a scant half of that half act upon those beliefs. At least part of the problem can be attributed to the fact that investments in human resources (such as training sessions and incentive programs) can be highly visible, while the return on those investments is difficult to measure.

Researchers interested in human resource management (HRM) have spent considerable time and energy attempting to understand exactly how much, and under what conditions, different investments in HRM enhance a firm's performance. Although progress is being made, scholars' efforts to study the effects of HRM practices have led to conflicting results. The lack of uniformity is not too surprising in that, in general, science tends to move forward in fits and starts. Scientific results can only be important to managers, however, when managers can be confident that acting in the ways suggested offers a high probability of yielding positive outcomes. One way for managers to gain confidence in scientific results entails looking at an entire body of research, rather than any single study. Confidence that HRM investments pay off makes it easier for HRM practitioners to convince other executives about their merits.

As described in Table 1, we discuss the findings from a study that statistically aggregated the results of 92 prior scientific investigations of the effects on performance of 13 HRM practices. These studies collectively include data from over 19,000 organizations. We begin by explaining the process through which HRM practices are expected to affect firm performance. We review 10 popular HRM practices that our evidence shows to be performance enhancing, and describe three important factors that affect the effectiveness of HRM implementation. Because these findings are based on dozens of studies, we can have a great deal of confidence in them. After briefly describing how future research might help us better understand three HRM practices whose performance effects remain unclear, we summarize what our findings mean for practicing HRM professionals and the executives with whom they work.

Table 1 Method and data source

The findings we report were previously conveyed to an academic audience in Combs, Liu, Hall, and Ketchen (2006). Our purpose here is to discuss the value of HRM practices and systems in the context of managerial practice. The initial study used a technique called meta-analysis, which is an important tool that researchers use to take stock of a body of research containing seemingly disparate findings (Dalton & Dalton, 2005). Meta-analysis statistically aggregates findings from multiple studies in order to provide solid conclusions that are widely generalizable. In short, meta-analysis allows researchers to draw conclusions in which there is much greater confidence than what can be drawn from any single study. In this article, we discuss the results of a meta-analysis of 92 studies that investigate HRM's performance implications.

2. Does human resource management matter?

In theory, HRM practices shape firm performance through three key channels. As related by Huselid (1995), HRM practices:

(1) increase employees' knowledge, skills, and abilities (KSAs);

(2) motivate employees to leverage their KSAs for the firm's benefit; and

(3) empower employees to do so.

A high level of KSAs among employees is essential for employees to perform work tasks effectively. When employees only know the routine functions of their jobs, they cannot make significant contributions to the organization beyond their assigned tasks. However, even when employees possess KSAs that allow them to step beyond the routine, they are not likely to do so unless properly motivated. Thus, much of the history of HRM practice and research has focused on motivating employees to exert discretionary effort. Finally, even knowledgeable, skilled, and motivated employees will not deploy their discretionary time and talent if organizational structures and job design block their efforts. HRM practices need to help remove roadblocks and facilitate employee productivity.

We identified 13 HRM practices that researchers have studied as possible antecedents to firm performance. Based on the available evidence, our conclusion is that a modest but meaningful relationship exists between firms' use of these practices and a variety of performance measures. The obvious question is: How meaningful is the relationship? This is truly an important question for managers when deciding how to allocate organizational resources. Part of the answer is that HRM practices have a larger influence on firm performance than other well-researched factors, such as the independence