



# A typology of human resource management practices in terms of their contribution to organizational performance

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## ABSTRACT

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### Keywords:

*Human Resource Management Practices, Performance, Typology of Human Resources Management, Typology of Cost of Human Resource Management Practices*

This paper describes the state of already carried out studies studying the relationship between human resource management practices and outputs of a company, in particular the financial and operational performance. The paper also introduces still unsolved problems like the lack of a typology of practices, not yet addressed problem of overlooking the level of individual practices, as well as the unresolved issue of a causal relationship between human resource management practices and performance. The current paper introduces a typology of human resources management practices and a typology of costs.

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Recently, the issue of the relationship between human resource management practices (HRMP) and the organizational performance has become highly discussed. A large number of studies (Delaney & Huselid, 1996; Huselid, 1995; Moidenkutty, Al- Lamki, & Murthy, 2011; Razouk, 2011) have confirmed a positive, statistically significant relationship between practices and performance as well as between the set of practices and performance. Despite all the causal relationship between practices and performance, it still remains poorly understood. It turns out

that such moves would lack justification without presenting the benefits of investing in human resource management practices.

Another problem which has not been fully addressed yet is that there is no standard set of practices which would be subject to proper examination. Each of the authors examined a set that he/she deemed appropriate; thus, the outcomes are scarcely comparable. In addition, practices may vary from company to company (Becker & Gerhardt, 1996; Guest, 1997, 2011). Previous research papers usually focused on the correlation link between a practice or a set of practices and performance or other outputs like fluctuations. However, it is usually implied that the very presence of a practice is a guarantee of a positive impact on the output indicators. In other words, the actual level of practices is not taken into consideration. Each of the implemented practices may be of low or highly sophisticated level. The implementation of any practice bears certain costs of its introduction, operation, and monitoring. If we are to objectively assess the impact of a certain practice on organizational performance, we have to take into consideration its costs. These costs are incurred at the department of human resources as well as other line departments. In order to evaluate the effectiveness of human resource management, it is necessary to take into account the costs of practices depending on when and where were these costs incurred. The aim of this paper is to propose a typology of HRM practices and specify associated costs. By doing so we would like to create a base for the evaluation of their efficiency.

### **The Literature Review**

Since the human resources management had become the subject of serious scientific research, the attention of scientists has turned to the relationship between human resource management practices and performance and the possibility of its quantitative measurement. Following this and considering other scientific research papers, the attention is now focused on sophisticated statistical methods that can prove the importance of investments into the human resources. Such studies were conducted in the US, UK, Germany, France, Taiwan, India, and many other countries. The most notable studies include the research by Guerrero and Barraud-Didier, 2004; Katou and Budhwar, 2006; Som, 2008 ; and Truss, Mankin, and Kelliher, 2012. The amount of studies is so large that according to CIPD it is stated that there is no doubt about a clear link between human resource management practices and organizational performance.

Huselid (1995) states that human resource practices (HRP) described as high-performance practices like education, bonuses, and recruiting process have an impact on the productivity of employees and financial performance. Research by Guest, Michie, Conway, and Sheenan (2003) and Gooderham, Nordhaug, and Ringdal (1999) concluded that high-performance practices affect the performance of a company.

Combs, Liu, Hall, and Ketchen (2006) in his meta-analysis of 92 studies (including a total of 19,319 companies) found a positive correlation between HRP and performance (productivity) as well as between financial performance, for example the return on investments.

The best way for department of human resource management to obtain a credit is to measure the costs and benefits of actions they implement. The outcomes should be presented to top managers in a very clear way – in the form of financial statements. More about the subject can be found in the studies by Arthur (1994); Ferguson and Reio (2009); Huselid (1995); and

Pfeffer (1994). Despite the large number of studies on the subject it can be concluded that the relationship between human resource management practices and organizational performance is still not fully explored. Likewise, typology of human resource practices (HRMP) and typology of costs is still missing.

### **The Current Dividing of Human Resources Management Practices**

Lado and Wilson (1994) define the human resource management practices (HRMP) as a set of specific but interrelated activities, functions, and processes that are focused on the acquisition, development, and retention of human resources. These practices, which are often referred to as "high performance work practices", can include individual practices as well as sets of practices or even whole systems of human resource management practices (Ferguson & Reio, 2009). There are different sets of such practices varying from author to author.

Individual practices are described by Barney (1991), who is the author of "The Resource-Based View". He defines individual practices as intangible sources of competitive advantage. These include recruitment process, training and development of employees, bonuses, dispute settlement procedures, and performance evaluation. A number of studies confirm a positive, statistically significant relationship between the practices and organizational performance (Bartel, 1994; Holzer, Block, & Cheatham, 1993).

The system of HRM practices pays attention to sets of individual practices focused on increasing job and organizational performance. Lawson and Hepp (2001) carried out a series of studies to determine the impact of HRM practices on key performance indicators of a company. These indicators included employee satisfaction, customer satisfaction, and financial performance measured by ROA and ROE. Following this, the practices were divided into those affecting mainly job performance and others affecting mainly organizational performance.

Job performance is the outcome of human resources and organizational processes. It is also a key indicator of the effectiveness of the entire human resources management system and can affect the organizational performance. Motowidlo, Borman, and Schmit (1997) states that job performance is episodic, evaluative, and multidimensional. Moreover, some researchers distinguish between the notions of behaviour and performance. The behaviour is actually how people perform their tasks and the performance is the anticipated value of what people do.

Borman and Motwidlo (1993) further distinguish two types of job performance, namely task performance and contextual performance. The task performance contains items that are usually mentioned in the job description and include the process of transforming materials into finished products. Contextual performance, on the other hand, is defined as a behaviour that affects the broad organizational, social, and psychological environment of a company in contrast to the behaviour that fosters technical core of a company (Borman & Motowidlo, 1993).

In the same line of the argument, virtually, all the studies carried out on this topic showed a positive, statistically significant relationship between the practices and outcomes of selected indicators. None of the studies addressed costs of these practices. The cost evaluation is a crucial part of the whole process. Furthermore, there are no studies that would satisfyingly prove that certain practices have high performance while others show poor performance. There is a lack of objective and quantifiable criteria for distinguishing high-performance practices from other practices.

Furthermore, the presented studies featured sets of practices that in addition to true HRM practices also contained “principles” or “policies”. Some authors use terms policies and practices interchangeably. It follows that it is necessary to draw up a typology of practices from the point of view of costs and also break down the current set of practices into “practices” and “policies”. On that basis and in accordance with Lado and Wilson (1994), practices constitute a set of specific and interrelated activities, functions, and processes that are focused on the acquisition, development, and retention of human resources. However, if we talk about a single practice, it can be defined as intentionally created and interconnected set of activities and processes oriented to achieve specific objectives within the defined area of HRM activities. Practices are generally oriented towards a specific area, for example the practice, namely “Performance Evaluation” requires specific activities and hence entails cost associated with the development of a selective system, activities, and costs associated with its implementation, operation, and monitoring.

In contrast, the policies are certain rules, and coherent sets of rules and principles that are more of a contextual nature and represent principles governing general instructions and human resource management rules. At the same time, they affect decision-making processes in specific areas of HRM. Following this, it can be stated that the current set of practices can be divided into two groups; the first group consists of practices in the true sense, while the other one consist of principles or rules which should be referred to as policies. In terms of typology, it seems appropriate to put these policies to a separate category. Policies can be either formalized (in the form of rules, policies, and principles) or not formalized (required or enforced by the company’s management).

Pfeffer’s set of 13 practices (Pfeffer, 1998) includes the following practices:

**Employment Security:** If a company can guarantee its employees employment, employees become more loyal and committed to the company; in turn, the company can expect better performance.

**Selective Choice:** It is necessary to select the right person in accordance with the requirements of the job.

**Attractive Remuneration:** Attractive remuneration attracts good employees.

**Bonuses:** This feature involves awarding employees with bonuses depending on their job performance.

**Employee Stock Ownership:** If a company gives employees a chance to own company’s shares, employees would become interested in the company’s long-term prosperity.

**Information Sharing:** To ensure high performance, it is necessary for employees to have all the necessary information.

**Participation and Delegation of Powers:** Decentralization and delegation of powers help to increase satisfaction and performance.

**Self-Managed Teams:** Principles of self-management increase job performance.

**Education and Skill Development:** A company should support education and skill development of its employees and at the same time carry out necessary structural changes for proper deployment of staff.

**Acquisition and Use of Multiple Skills:** This feature allows for higher performance of employees.

**Symbolic Egalitarianism:** Removing symbols indicating a hierarchical superiority leads to a better performance.

**Reducing a Pay Gap:** Reducing a pay gap between different groups of employees improves cooperation and performance.

**Recruitment from Internal Resources:** Creating an internal labor market (ILM) helps to strengthen solidarity and increases confidence.

If we are to review the above set of 13 practices, then we can state that employment security, employee stock ownership, information sharing, participation and delegation of powers, symbolic egalitarianism, reducing a pay gap, and recruitment from internal resources can be described as policies. Others can be described as practices in the true sense. With regards to costs, policies usually mean little or no costs for a company. For example, if a company decides to implement the principle (policy), namely symbolic egalitarianism., its implementation bears little to no costs at all. Typically, certain policies or practices may be associated with processing or implementation costs. However, the practice, namely performance evaluation in addition to costs of its development also bears costs associated with monitoring and regular evaluation. These costs will need to be taken into account when evaluating the benefits of the presented practice. Thus, if a policy with no special costs proves to be effective, it is not necessary to carry out sophisticated and costly surveys regarding its impact on the outputs of the company. In case of the practice "Performance Evaluation" costs for the development and evaluation are usually borne by the department of human resources management, while operating costs are borne by line departments.

It is imperative to state that, it does not matter how the performance is measured -whether using objective financial indicators or observing one's performance- each measurement confirmed a positive correlation between performance and HRM practices (Den Hartog & Verburg, 2004). It should be noted that policies and practices of human resource management are core elements of the human resources management system.

### **Proposal for Dividing of Human Resources Management Elements**

Since practices and policies are core elements of the human resources management system, it is necessary as first step to break down the current sets of HRM policies into practices in the true sense and policies as presented in Figure 1.

### **The Dividing of Practices and Policies according to the Necessity for the Operation of a Company**

Practices can be broken down into practices necessary for the operation of a company and auxiliary practices. The recruitment process is an absolute necessity for the proper functioning of any company since no company can handle its processes without employees. This practice is therefore a necessity, regardless of its level or whether it is effective or not. On the other hand, the practice, namely "Work-Life Balance" is not vital for the operation of the organization although in terms of competitive advantage it is needed.

Figure 1 shows the dividing of HRM practices and policies.

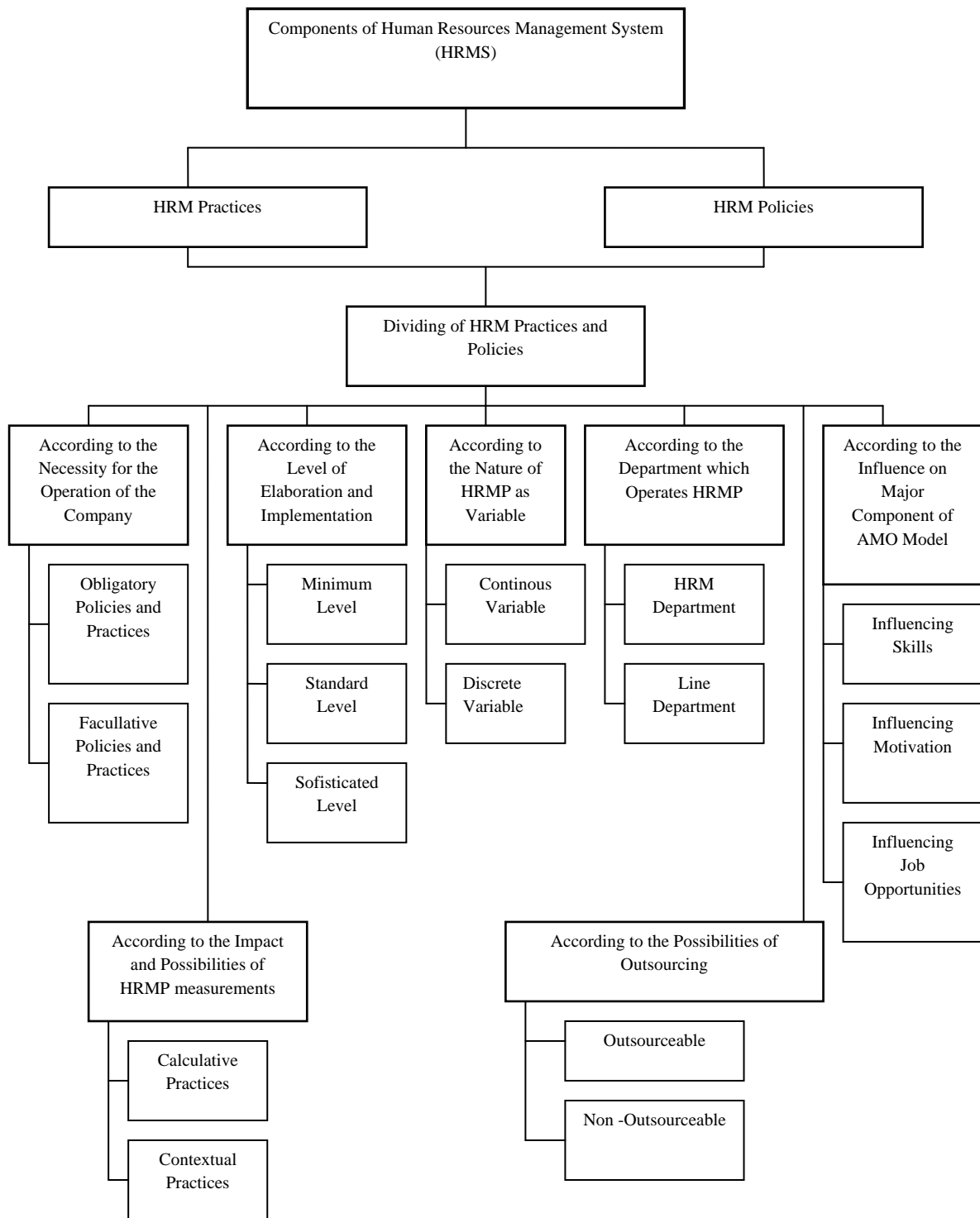


Figure 1. Dividing of HRM practices and policies

**The Dividing of Practices and Policies according to the Level of Elaboration and Implementation**

Following the previous breakdown of practices, it is necessary to take into account the level of the relevant practices. Marking a certain set of practices as “high-performance practices” is not justified. For instance, new employees can be recruited after a short unstructured interview or after a week-long stay in an assessment centre. The two approaches give different results as they assess abilities in different ways and also entail different costs. With regard to the level of a given practice we can work with at least three different levels of HRMP including minimum level HRMP, standard level HRMP, and sophisticated level of HRMP. What exactly is meant by the minimum, standard and sophisticated level should be established for each practice previously.

### **The Dividing of Practices and Policies into Continuous or Discrete Variables**

Depending on the nature of the practice/ policy we distinguish between discrete variables (zero-one) or continuous variables. According to the vast majority of authors the employment security is a discrete value; either it is or it is not implemented. In contrast, remuneration is rather a continuous variable since it can be changed at any time. The same goes for the Recruitment Process – by refining the recruitment process companies can increase its level. Basically, nearly all policies are discrete variables.

### **The Dividing of Practices and Policies according to the Department Which Operates Practices and Policies**

The process of development, implementation, monitoring and operation of practices may involve different departments of the company like the human resources management department or other line departments. Depending on the varying involvement of departments in the development, implementation, monitoring, and operation, HRM practices can be divided into developed, implemented, monitored and operated by departments of human resources management, HR department and operated by line departments; drawn up by HR departments, implemented and operated by line departments, and monitored by HR departments; and drawn up, implemented and operated by line departments, monitored by HR departments. These specification requires mutual cooperation between HR departments and line departments and all the combinations should leave monitoring to the HR department.

### **The Dividing of Practices and Policies in accordance with Major Components of the AMO Model**

The authors of the model AMO (Ability, Motivation, Opportunity) argue that in order to achieve desired financial performance via employees, employees have to possess necessary skills to perform the work; following this, they must be adequately motivated and have the opportunity to perform the work and work in suitable working conditions. To this end, the practices through which inputs are transformed into outputs should impact one or all individual components creating the AMO model. With this perception, practices can be divided into practices primarily affecting motivation, practices primarily affecting skills of employees, and practices primarily affecting the availability of all resources necessary for the operation.

### The Dividing of Practices and Policies according to the Impact on the Performance and Ability to Calculate the Impact

Based on the computability criteria, practices can be broken down into calculative practices and contextual practices.

Calculative practices feature for instance education, where costs can be estimated along with their influence on job performance or even financial performance. The practice, namely "Employment Security" is more contextual.

### Dividing the Practices and Policies according to the Possibility to Outsource it

Human resource management practices are currently quite often outsourced. Not all practices, however, can be outsourced effectively, e.g. performance evaluation where the person assessed and his/her instant superior need to be available. According to this criterion practices can be divided into outsourceable and non-outsourceable. This principle presents whether outsourcing is a more desirable option than ensuring resources from within own capacities.

The typology in accordance with the above breakdown can be seen in Figure 1.

### Costs of Practices

The costs of practices can be divided according to the aspects as represented in Figure 2.

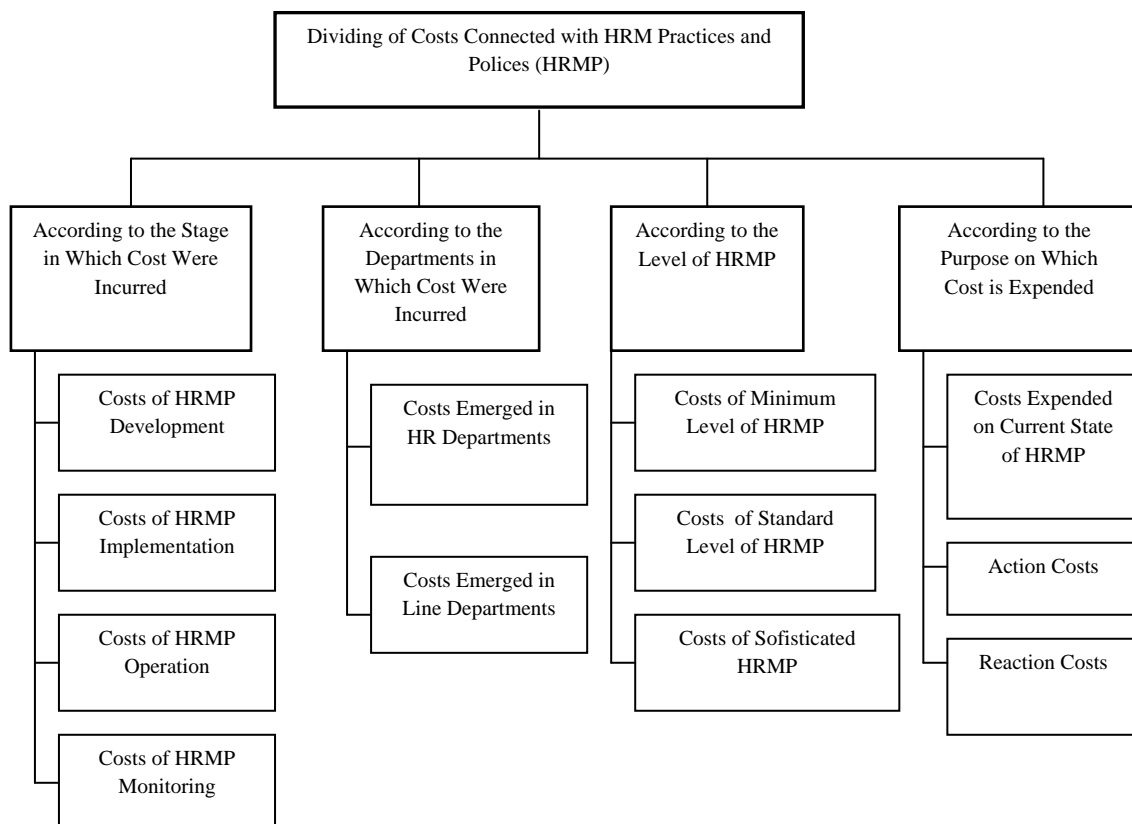


Figure 2. Dividing of costs connected with human resource practices and policies



### **The Dividing of Costs according to the Stage in which They Were Incurred**

Based on the given typology of practices we can now determine costs of individual practices with regard to the stage and department they were incurred in.

According to Figure 2, the first breakdown takes into account the stages in which costs incurred. Each practice or policy should be developed in a formalized way, either in one's own company or by external partner. The process of formalization costs something, even though it is done by a company itself - either at the department of human resource management or at line departments.

The second item consists of the costs associated with the introduction of practices and policies into practice. These costs are usually of one-time nature and are incurred when introducing a certain practice or policy into practice. In some cases, these costs may also entail costs associated with personnel. Depending on the nature of a policy/ practice these costs may be incurred by HR departments or line departments.

Operating costs include, for example, costs associated with performance assessment carried out by HR departments or other line departments. Practices almost always entail costs of operation. Policies usually do not entail any such costs, e.g. the implementation process of the policy, namely "Reducing Status Differences" do not entail any additional costs.

Costs of monitoring are usually incurred by HR departments which usually take care about this activity. This subgroup usually includes the costs of the development of corrective actions needed to be taken after examining the results of the monitoring.

### **The Dividing of Costs according to the Level of Their Development and Implementation**

The second criterion assesses the level of the development and implementation of practices. For example, the practice, namely "Performance Assessment" can be carried out as an informal assessment by a manager without any written records or as a well prepared appraisal interview with written records in cooperation with several other managers or employees who have a say in this subject matter. Besides, the level and quantity of documents submitted for evaluation can vary. It is logical that also costs of such evaluations vary and that various evaluations have different impact on organizational outcomes. Individual stages of practices have to take into account the development costs, introduction costs, operating costs, and the monitoring costs.

### **The Dividing of the Costs according to the Departments in Which They Incur**

Another criterion assesses costs according to the departments in which they incur. The costs related to the development, implementation, operation and monitoring of practices can be expended in human resource departments and line departments.

### **The Dividing of Costs according to the Purpose on Which They Are Expended**

According to their use the costs can be divided into different groups, including current state-oriented which is associated with the already implemented HR practices; action-oriented that is associated with the provision of certain actions in the field of HR practices like software and hardware costs used for the introduction of flexible working hours; and reaction-oriented which

refers to the costs incurred when a company has to react to an unexpected situation in the field of human resources like high sickness rate and extremely low performance.

### **Cost Monitoring Model and HR Management Practices**

When assessing the benefits of human resource management practices one of the first steps is to divide practices in a broad sense into own practices and policies, then specify the necessary practices to ensure the operation of any company, specify costs of these practices (minimum level, standard level, and sophisticated level) if the practice allows, and then specify other auxiliary practices (minimum level, standard level, and sophisticated level).

It is also necessary to determine which practices are calculative - those that affect job performance (training, performance evaluation, and remuneration). These practices ultimately enhance the financial performance of a company. It is necessary to specify costs associated with contextual as well as calculative practices, i.e. development, implementation and operation costs (costs associated with running a company).

The same procedure should also be applied in the case of policies, i.e. specify the set of policies, set the costs associated with the development and implementation of individual policies, operation and monitoring costs by departments.

Based on the above specifications it is then possible to calculate the total cost of HRM practices. This calculation should be done on a monthly, semi-annual, and annual basis. The resulting costs can then be compared with the produced outputs like the number of units produced, the total number of employees or the total value of the profits for the given period. If the calculated values will be monitored for a certain period of time, it is possible to follow the development of costs incurred for individual practices as well as the level of outputs associated with such practices.

The given breakdown, in particular the breakdown into minimum, standard, and sophisticated practices examined in relation with the attained level of outputs allows for the calculation of the correlation dependence between practices and affected outcomes. The best way to achieve this is through an experiment – a gradual improvement of a practice under unchanged conditions will help to determine the relationship between the practice and its output (employee turnover, job performance, and customer satisfaction). In the event it is not possible to carry out an experiment; it is advised to use a method of mathematical-statistical survey on the basis of the perceived level of outputs.

Using the given typology of practices, HR managers can follow costs of individual practices and policies in connection with the level and stage of their development and implementation. Especially in cases where the costs of operation and monitoring are minimal, the implementation of such policies is extremely useful. The given typology of practices and costs can serve as a suitable basis for creating various ratios of indicators such as the ratio of costs incurred for practices used in the human resources management department to the cost of HRM practices incurred in other (line) departments; and the ratio of total costs spent on HR practices, i.e. costs incurred by HR departments and other departments to total number of employees or selected outputs such as operational efficiency, financial performance, employee satisfaction, and turnover.

## Conclusion

The current paper analyses the main problems of the relationship between human resource management practices and organizational performance. It was found out that this relationship, particularly from the perspective of a causal relationship, has not been satisfactorily resolved yet. One of the reasons is the lack of suitable typology of HR practices and the typology of costs associated with the implementation of these practices. The paper proposes the HR practices typology and the typology of costs (development, implementation, operation and monitoring of HR practices) and also suggests a possible solution. The paper stresses that it is not enough to research only the relationship between HR practices and performance but also costs of these practices. Moreover, the paper also suggests that it is necessary to monitor costs of these practices within relevant departments. The outlined typology provides a basis for further research.

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