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 outcomes\(^3\). … For instance, companies

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that follow the best HR practices, have more that 50% higher market value then those who
do not... Some recognized HR best practices include:

- 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, co
pared 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 about 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 toll that the influence 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 appropriate 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 proper 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 stetted up targets, over the

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http://books.google.com/books?id=yCe7fQbokC&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 strategy.6

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 performance7.

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

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7 [http://www.anderson.ucla.edu/x8022.xml](http://www.anderson.ucla.edu/x8022.xml)

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 nay 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.

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http://books.google.com/books?id=jslsIEZSvh0C&dq=fair+market+value+definition&source=gbs_navlinks_s
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5. http://www.anderson.ucla.edu/x8022.xml

