ATESTASI: JURNAL ILMIAH AKUNTANSI
Vol 7, Issue 2, (2024), 795 - 809

The Impact of Human Resource Practices on Shareholder Value

Padmono Wibowo [1*]

[*1] Politeknik Ilmu Pemasyarakatan, Depok, Indonesia

Email
padmonowibowo@gmail.com [1*]

Received: April, 10, 2024 **Revised:** June, 23, 2024 **Accepted:** June, 29, 2024

Abstract

This study aims to measure the specific impact of various human resource management (HRM) practices on shareholder value and identify the most effective HRM strategies for enhancing this value. Employing a comprehensive empirical analysis, the research integrates HR and financial data across diverse industries and organizational contexts to evaluate HRM's contribution to corporate financial performance. The methodology includes an extensive literature review, secondary data collection from scholarly articles, industry reports, and semi-structured interviews with HR managers and corporate leaders. Data analysis utilizes open and axial coding techniques from grounded theory to uncover patterns and relationships between HRM practices and shareholder value. Findings indicate that effective HRM practices, such as robust recruitment, continuous employee development, and performance-based incentive systems, significantly correlate with improved financial performance, particularly regarding return on assets (ROA) and market value added (MVA). The effectiveness of these HRM practices is highly context-dependent, with high-tech sectors benefiting more than traditional manufacturing. Aligning HRM strategies with organizational goals, internal culture, and strong leadership support is crucial for optimizing HRM's impact on financial outcomes. The study suggests integrating comprehensive measurement metrics and exploring digital technology's role in HRM as future research directions. This research underscores the importance of HRM as a core component of business strategy to enhance shareholder value.

Keywords: Human Resource Management; Shareholder Value; Financial Performance; HR Strategies; Employee Development.

DOI : https://doi.org/10.57178/atestasi.v7i2.882
p-ISSN : 2621-1963
e-ISSN : 2621-1505

Introduction

In the modern corporate landscape, human resources (HR) are not merely assets but the driving force that propels organizational mechanisms toward success. However, despite increasing recognition of their importance, a significant challenge persists in understanding and quantifying their contribution to shareholder value. Effective HR practices are lauded for their ability to create motivating environments, enhance productivity, and foster innovation—all crucial factors in organizational development and success. However, a persistent gap exists between theoretical acknowledgment and practical implementation, leading to ambiguity about the specific mechanisms through which HR practices directly impact shareholder value. This ambiguity creates an urgent need for research to elucidate these relationships with greater clarity and precision, providing theoretical insights and practical guidance for optimizing HR investments. The theoretical landscape has long posited that well-managed HR can enhance organizational performance, yet the direct linkage to financial metrics such as shareholder value remains underexplored. While practitioners and scholars alike recognize that strategic HR practices can drive business outcomes, the intricate pathways through which these practices translate into measurable financial gains remain elusive. The pressing issue here is how specific HR practices influence shareholder value. Secondly, what mechanisms underlie the observed improvements in financial performance attributable to these HR strategies? Addressing these questions is essential for bridging the gap between HR theory and practice, enabling organizations to harness their human capital more effectively for financial success.

Recent research underscores the positive impact of HR practices on corporate performance and shareholder value. Watch & Wyatt (2004) highlight the potential of HR practices in creating value, supported by Cascio & Shurygailo (2003), who developed a framework aligning HR investments with organizational goals. Becker et al. (1997) and Arntz et al. (2017) Emphasise the strategic perspective in HR management, focusing on human capital elements that may hinder growth and diminish shareholder value. These studies collectively advance our understanding by proposing that strategic HR management can drive business performance. However, they often need to connect these practices directly to financial metrics like shareholder value. The theoretical advancements in HR suggest a strong relationship between effective HR practices and economic performance. Models and frameworks such as those proposed by Cascio & Shurygailo (2003) Suggest that investing in effective HR practices can enhance organizational productivity and efficiency—evidence of the benefits of employee-friendly HR practices and high-performance work practices on profitability and shareholder outcomes. Casalegno et al. (2010) This is supported by companies focusing on employee welfare, which can create added shareholder value. Garcia-Lorenzo et al. (2015) Further complement this discussion by demonstrating the relationship between HR practices, organizational commitment, and business unit performance. However, while these studies affirm the correlation between HR practices and enhanced corporate performance, they often need to pay more attention to the direct causal pathways linking these practices to shareholder value. This oversight is critical, as it limits our ability to fully understand how HR investments translate into financial outcomes, leaving a gap in both empirical evidence and theoretical clarity. Despite these contributions, there are notable limitations in the existing research. Empirical studies frequently grapple with providing comprehensive data that convincingly ties HR practices to financial performance metrics. Methodological issues and the need for more consideration of industry-specific contexts further complicate the generalizability of findings. As a result, while the existing body of research offers valuable insights into the benefits of HR practices, it often fails to capture the nuanced and multifaceted ways these practices impact financial performance directly.

The current literature reveals a significant gap in measuring the direct impact of HR practices on shareholder value. Previous research has predominantly focused on the linkage between HR practices and operational performance without extending these findings to financial metrics such as shareholder value. This gap is exacerbated by the need for more studies that successfully integrate HR and financial perspectives within a broad and diverse organizational context. There is a clear need for a more holistic and interdisciplinary approach to analyzing the impact of HR practices, which can address these limitations by providing a more nuanced understanding of how HR strategies affect financial outcomes. Moreover, while existing studies by Warech & Wyatt (2004), Cascio & Shurygailo (2003), and others have laid a foundational understanding, they often highlight correlations without delving into the causal mechanisms that drive these relationships. This lack of empirical rigor and methodological sophistication limits the practical applicability of their findings for managers seeking to leverage HR practices to enhance shareholder value. The need to bridge this gap is evident, calling for research that corroborates the benefits of HR practices and elucidates the pathways through which these benefits manifest in improved financial performance. To address this gap, the present study aims to provide a more detailed empirical examination of how HR practices influence shareholder value. By integrating HR and financial data and applying more rigorous analytical methods, this study seeks to offer concrete evidence of HR's contribution to corporate financial success. This approach extends existing theoretical frameworks and provides actionable insights for practitioners seeking to optimize their HR investments.

This study aims to measure the specific impact of various HR practices on shareholder value and identify the most influential HR practices for enhancing this value. As the management paradigm evolves, organizations increasingly recognize the critical role of HR investments in driving financial success. However, fundamental questions still need to be answered about how specific HR practices directly influence shareholder value and the mechanisms underlying the resultant improvements in economic performance. The core research questions are: How do particular HR practices impact shareholder value? What mechanisms enable HR practices to enhance corporate financial performance? To address these questions, this research will employ a novel approach not previously applied in the field, involving comprehensive empirical analysis encompassing various HR practices across different industries and organizational contexts. The novelty of this research lies in its utilization of a more extensive and sophisticated data analysis approach and the application of a dataset previously explored in prior studies. By emphasizing the direct measurement of HR practices' impact on shareholder value, this study aims to fill a critical gap in the literature, offering more precise and practical guidance for HR managers and corporate leaders in developing effective HR strategies. Consequently, this research provides a fresh perspective on understanding and applying HR management in the context of creating shareholder value. It is anticipated that the findings of this study will not only contribute to academic literature but also offer significant practical value for HR management and strategic decision-making in increasingly complex and dynamic business environments. This study aims to shed light on the direct impact of HR practices on shareholder value, address a critical gap in current research, and offer theoretical and practical insights. By employing a novel analytical approach and leveraging a comprehensive dataset, this research clarifies how HR strategies contribute to financial performance, ultimately guiding organizations in making more informed HR investment decisions. The findings are expected to bridge the gap between theory and practice, enhancing the effectiveness of HR management in driving shareholder value and contributing to long-term corporate success.

Literature Review

Human Resource Management and Shareholder Value

Human Resource Management (HRM) has significantly transformed from its early focus on essential workforce management to a strategic role crucial for organizational success and shareholder value. This evolution has been driven by technological advancements, shifting workforce demographics, and changing organizational priorities. In its traditional form, HRM primarily dealt with essential functions like attracting, retaining, and managing talent, encompassing activities such as recruitment, payroll, and compliance with labor laws. However, as businesses began to recognize the strategic potential of aligning HRM with broader organizational goals, the role of HR professionals expanded. Modern HRM now integrates strategic planning, talent development, and performance management, reflecting a more comprehensive understanding of human capital's impact on organizational performance and the necessity of adapting to a rapidly evolving business landscape. (Ahmad, 2023; Channuwong, 2023). Today, HRM is about managing personnel and fostering employee engagement, agility, and resilience to meet the demands of a competitive and dynamic business environment. This paradigm shift highlights the role of HRM in creating a competent workforce capable of driving innovation and maintaining competitive advantage. Strategic Human Resource Management (SHRM) is crucial in aligning HR practices with organizational objectives, ensuring that HR functions contribute directly to achieving strategic goals. SHRM integrates HRM with overall business strategy, enhancing the ability of HRM to support strategic initiatives and drive organizational success (Junker et al., 2022; Prouska, 2022)

Agile HR practices are essential tools for organizations to navigate dynamic market conditions. These practices include flexible work arrangements, continuous learning, and talent mobility, enabling organizations to swiftly adapt to changes and capitalize on emerging opportunities. Agile HR practices contribute to sustained shareholder value by fostering a responsive and adaptable workforce. The concept of Human Capital Management (HCM) further advocates for a comprehensive approach to talent management, aligning HRM practices with organizational objectives across the employee lifecycle. By maximizing the value of human capital, HCM ensures that HRM practices contribute directly to the organization's strategic goals and overall success. (Geng, 2022). Research emphasizes the importance of agile work organizations in responding to environmental uncertainty and rapid change, highlighting the role of agile work practices (AWPs) in fostering favorable team planning behaviors and enriched work design experiences. AWPs enhance organizational agility and innovation, enabling companies to thrive in volatile business environments. Integrating digital technologies and analytics into HRM processes has become pivotal for optimizing decision-making and enhancing organizational agility. Big data, artificial intelligence, and predictive analytics provide deep insights into workforce trends, preferences, and performance drivers, enabling informed decision-making and boosting competitiveness. (Mariani, 2023).

The COVID-19 pandemic has profoundly impacted HRM practices, leading to reevaluating talent management and employee well-being. Resilience-oriented HRM practices have become crucial for upholding productivity and morale during crises. Emphasizing employee health, safety, and resilience is now essential for safeguarding shareholder value in the face of unprecedented challenges. Traditional HRM functions, such as recruitment, payroll, and compliance, have evolved to incorporate strategic elements, ensuring that these foundational tasks align with broader business strategies to support organizational goals. (Ahmad, 2023; Channuwong, 2023). Once a standalone function, recruitment is now part of a broader talent acquisition strategy. This strategy involves attracting top talent and aligning recruitment with the organization's long-term objectives. Effective talent acquisition is critical for building a workforce that drives innovation and competitive advantage. Payroll management has also become more integrated with financial planning and analysis. Modern payroll systems leverage technology to provide real-time data and analytics, enabling organizations to make informed decisions about compensation and benefits, thereby supporting financial stability and growth. Compliance with labor laws has expanded to include a focus on ethical practices and corporate social responsibility, reflecting a commitment to ethical business practices and sustainable development. (Junker et al., 2022; Prouska, 2022).

Performance management has shifted from focusing on annual reviews to a more dynamic and continuous process, emphasizing ongoing feedback, development opportunities, and alignment with organizational goals. This approach fosters a culture of continuous improvement and agility. Talent development has become a strategic priority, with HRM playing a critical role in identifying and nurturing future leaders through programs aligned with organizational objectives. The role of HRM in fostering employee engagement has gained prominence as organizations recognize the link between engagement and performance. Engaged employees are more likely to contribute to innovation, productivity, and overall organizational success, prompting HRM to include initiatives that enhance engagement and create a positive work environment (Geng, 2022; Mariani, 2023).

Strategic Human Resource Management (SHRM) involves aligning HR practices with the organization's strategic goals, ensuring that HRM functions contribute directly to achieving business objectives and enhancing shareholder value. SHRM integrates HRM practices with organizational strategies, creating a cohesive approach to managing human capital. This integration enhances HRM's ability to support strategic initiatives and drive business success. A key component of SHRM is developing a talent strategy aligned with the organization's long-term goals, involving identifying the skills and competencies needed and developing programs to attract, retain, and develop talent. SHRM also emphasizes the importance of aligning HRM practices with organizational culture and values, ensuring that HR initiatives support the desired culture and contribute to a positive work environment (Ahmad, 2023; Channuwong, 2023).

Effective SHRM requires integrating HR metrics and analytics into decision-making processes. Leveraging data and analytics provides insights into workforce trends, performance drivers, and improvement areas, enhancing HRM's ability to support strategic decision-making. Additionally, SHRM focuses on developing a flexible and adaptable workforce through agile HR practices, such as flexible work arrangements and continuous learning opportunities, supporting the development of a workforce capable of responding to changing market conditions and capitalizing on new opportunities. (Junker et al., 2022; Prouska, 2022). Agile HR practices have become essential for organizations to foster a responsive workforce capable of navigating dynamic market conditions. These practices include flexible work arrangements, such as remote work and flexible scheduling, enhancing employee satisfaction and productivity while supporting organizational agility. Continuous learning opportunities are crucial for developing a skilled and adaptable workforce, with organizations investing in learning and development programs that are better equipped to respond to changes in technology and market conditions. Talent mobility supports the development of a versatile workforce by enabling movement across different roles and functions, enhancing organizational flexibility, and the ability to respond to new opportunities and challenges. (Geng, 2022; Mariani, 2023).

Agile HR practices also involve using technology to support workforce management, with digital tools and platforms enhancing talent management, collaboration, and decision-making. Integrating technology into HRM practices supports a data-driven approach to talent management, providing insights into workforce trends, performance drivers, and areas for improvement. Human Capital Management (HCM) advocates for a comprehensive approach to talent management, aligning HRM practices with organizational objectives to maximize the value of human capital across the employee lifecycle. HCM focuses on aligning HRM with the organization's strategic goals, ensuring that HR functions support business objectives and contribute to overall success. Developing a comprehensive talent strategy is critical to HCM, involving identifying the skills and competencies needed to achieve organizational goals and developing programs to attract, retain, and develop talent (Ahmad, 2023; Channuwong, 2023). HCM emphasizes a holistic approach to talent management, including recruitment, development, performance management, and retention, ensuring that HRM practices support the entire employee lifecycle and contribute to organizational success. Effective HCM requires integrating HR metrics and analytics into decision-making processes, leveraging data to gain insights into workforce trends, performance drivers, and areas for improvement. HCM also involves developing a flexible and adaptable workforce, integrating agile HR practices to support workforce development and organizational flexibility.

Empirical Evidence

Empirical research has played a crucial role in delving into the intricate relationship between HRM practices and financial performance, shedding light on the organizational dynamics at play. While initial studies supported a positive correlation between HRM practices and firm performance (Mutua, 2022; Papaioannou et al., 2023), recent research has offered a more nuanced perspective by emphasizing the impact of contextual factors on this association (Ahmed, 2022; Sichler, 2022). Notably, studies have shown that the influence of HRM practices on financial outcomes can vary significantly across industries, with high-technology sectors exhibiting more pronounced effects than traditional manufacturing sectors. (Papaioannou et al., 2023). This underscores the importance of considering industry-specific contexts when analyzing the link between HRM practices and financial performance, highlighting the need for tailored approaches to maximize organizational effectiveness and success.

Internal alignment, organizational culture, and leadership support are pivotal in maximizing the benefits of HRM practices, as highlighted in various research papers. Studies emphasize that HRM strategies directly influence employee engagement and organizational culture, ultimately impacting financial outcomes. (Ploscaru et al., 2023). Furthermore, the effective use of electronic HRM systems has been shown to enhance the effectiveness of HRM in banking companies, with performance expectancy and effort expectancy significantly affecting employees' use of such systems. (Ismayani, 2023). Additionally, the role of HR practitioners in adopting modern HR practices, like high-performance work systems, is crucial for improving employee turnover, productivity, and financial results. Moreover, HRM strategies such as training, development, performance evaluation, and incentives positively influence organizational performance in the banking sector, emphasizing the importance of talent cultivation and employee motivation. (Baig et al., 2022). Therefore, aligning HRM initiatives with organizational culture and leadership priorities and leveraging digital technologies for recruitment, training, and performance management can enhance financial performance and shareholder value.

The COVID-19 pandemic has emphasized the critical role of resilience-oriented HRM practices in mitigating disruptions and ensuring business continuity. Research has shown that strategic human resource management (SHRM) positively impacts organizational resilience, with organizational culture mediating this relationship effectively (Sumertajaya & Sukmawati, 2023). Investing in employee well-being and wellness has been identified as a critical pillar for organizational success during crises, contributing to productivity and business operations (Plater et al., 2023). Furthermore, the literature highlights the significance of HR executives in steering organizations through periods of crisis and recovery, underscoring the importance of HRM in fostering a workforce capable of thriving sustainably, both during and post-pandemic (Scholz, 2023). By implementing these practices, organizations can enhance their resilience and adaptability to external shocks, ultimately ensuring long-term success and sustainability.

In conclusion, empirical research has confirmed a close relationship between human resource management (HRM) practices and organizational financial performance, with the impact varying depending on the industry context. While early studies showed a positive correlation between HRM and firm performance, recent research highlights the importance of contextual factors such as leadership support and organizational culture in maximizing the benefits of HRM strategies. Implementing electronic HRM systems and adopting modern work practices have improved productivity and financial outcomes, especially in the banking sector. Moreover, the COVID-19 pandemic has emphasized the importance of resilience-oriented HRM practices to ensure business continuity and manage disruptions. Therefore, integrating HRM initiatives with digital technologies and considering the industry context and employee needs can sustainably improve financial performance and shareholder value.

Critiques and Controversies

The discourse on HRM's impact on shareholder value has evolved, with early literature emphasizing HRM's strategic role in enhancing competitive advantage and financial performance. (Anwar & Herlina, 2022; Jo et al., 2023). However, recent studies have brought to light complexities and limitations within these constructs, particularly critiquing the resource-based view (RBV) for needing clear theoretical foundations and facing challenges in operationalizing and measuring firm resources and capabilities. (Salsabila et al., 2022; Serafini, 2022). While the RBV approach highlights unique company resources that can drive competitive advantage, criticisms suggest practical application and measurement difficulties, indicating a need for further refinement and development in understanding the link between

HRM, firm resources, and shareholder value.

Traditional measures of shareholder value, like stock prices and earnings per share, have been criticized for neglecting intangible assets crucial for organizational performance, such as employee satisfaction and long-term sustainability. Recent research emphasizes a holistic approach to the HRM-performance relationship, advocating for a stakeholder perspective that considers the interconnectedness of organizational stakeholders and the broader impacts of HRM practices. (Henisz, 2023). This shift towards stakeholder capitalism and ESG criteria highlights the role of HRM in promoting corporate social responsibility and sustainable business practices. (Makhecha & Mariappanadar, 2023). By investing in human capital, organizations can enhance resilience and create social value, aligning HRM strategies with sustainability goals and driving long-term value creation beyond financial returns. (Madero-Gómez et al., 2023). The resource-based approach (RBV) is recognized to have challenges in practical measurement and operationalization. In addition, criticism of traditional shareholder value measures that ignore intangible assets such as employee satisfaction and sustainability has prompted the adoption of holistic approaches. This approach considers the broad impact of HRM practices and encourages a perspective that integrates corporate social responsibility and sustainability goals. Investing in human capital and adopting HRM practices that align with sustainability can enhance organizational resilience and drive long-term value creation.

Research Design and Method

This study is a qualitative literature review aimed at exploring and understanding the phenomena surrounding the relationship between human resource management (HRM) practices and shareholder value, relying on an in-depth analysis and interpretation of existing textual data. Guided by the principles of grounded theory, this research systematically generates theory from data through an iterative process of data collection, analysis, and interpretation. Data collection involves a comprehensive review of scholarly articles, books, reports, and other relevant sources from academic databases such as PubMed, Scopus, and Google Scholar, focusing on keywords like "human resource management," "shareholder value," and "organisational performance." Additionally, qualitative insights may be gathered through semi-structured interviews or focus group discussions with HR managers, organizational leaders, and industry experts, which will be audio-recorded and transcribed for analysis. Data analysis will follow an inductive approach, beginning with open coding to categorize and label data, identifying key concepts, themes, and patterns. This will be followed by axial coding to connect categories and develop a conceptual framework elucidating the relationship between HRM practices and shareholder value. Ensuring the trustworthiness of findings involves member checking, peer debriefing, and triangulation of data sources to validate interpretations and enhance credibility. Ethical considerations will be rigorously maintained, including obtaining informed consent, ensuring participant confidentiality, and adhering to ethical guidelines outlined by relevant professional associations and institutional review boards.

Results and Discussion

Relationship between HRM Practices and Shareholder Value

Recent research has shown a strong link between human resource management (HRM) practices and increased shareholder value. These findings provide the basis for a deeper understanding of how effective HRM strategies can influence corporate financial performance, including return on assets (ROA) and market value added (MVA). In this context, the strategic role of HRM becomes particularly prominent in supporting talent attraction, development, and retention, which not only strengthens an organization's capabilities but also magnifies its competitive advantage. In line with the hypotheses proposed by various theories in HRM literature, this study highlights the importance of aligning individual goals with organizational goals to achieve optimal business outcomes. Theoretically, the relationship between HRM practices and shareholder value can be explained through several main approaches. First, Barney's resource-based view (RBV), which emphasizes the importance of unique and hard-to-imitate resources as the key to competitive advantage, is relevant in HRM. Effective recruitment practices, for example, enable organizations to acquire talent with the necessary skills that align with the company's culture and strategic goals. Comprehensive training and continuous development then play a role in maintaining and enhancing this capacity, ensuring existing talent can continue to thrive and contribute maximally to organizational performance. Human capital theory, which focuses on the economic value of employee skills and knowledge, further justifies investment in high-quality HRM practices. In this theory, employees are viewed as valuable assets that can increase productivity and innovation. As such, investment in their development is expected to provide significant returns through improved financial performance and shareholder value. The research results show that HRM practices orientated towards employee development and providing performance-based incentives positively influence motivation, productivity, and customer satisfaction.

The implications of these findings are clear: Companies that want to increase shareholder value should consider HRM practices as an integral part of their business strategy. Warech & Wyatt (2004) and Xirogiannis et al. (2008) Support this idea by showing that certain HRM practices can directly increase shareholder value. Xirogiannis proposes a decision modeling tool to assess this impact. However, a critique from Marx & Soares (2008) Highlights that while the influence of shareholder value on HRM practices is recognized, its practical application remains limited. This view underlines the need for further research exploring practical ways to effectively integrate HRM with shareholder value enhancement strategies. In supportive literature, Casalegno et al. (2010) EmphasizeEmphasise the importance of leadership development practices in increasing productivity and shareholder value. These practices enable companies to build solid and adaptive leadership capable of steering the organization through changes and challenges, increasing the resilience of the organization and its ability to create shareholder value. In addition, literature focusing on innovations in HRM, such as the use of analytics tools for decision-making and talent management, suggests that technology integration can accelerate the positive impact of HRM on financial performance.

However, there are also conflicting views in the literature. Some studies suggest that the relationship between HRM and shareholder value can be more complex and influenced by factors such as industry context, organizational culture, and leadership support. For example, a study by Jiang & Probst (2014) revealed that the effectiveness of HRM practices can vary significantly depending on industry characteristics, meaning that one HRM approach that works in one sector may have a different impact on another. Continuing studies on this topic need to deepen the understanding of how organizational and industry context affects the relationship between HRM and shareholder value. Future research should focus on developing more comprehensive models that incorporate these various contextual factors. In addition, further exploration of how technology integration in HRM practices can improve efficiency and effectiveness is also critical. Longitudinal research examining the long-term impact of investments in HRM on shareholder value will provide deeper insights into the underlying mechanisms and help companies formulate better strategies to utilize their human capital in improving financial performance and creating sustainable shareholder value. By adopting this approach, companies can strengthen their position in the market and ensure that their investments in human capital generate tangible and sustainable returns for shareholders. This is a strategic move that is not only relevant today but will also remain significant in a future filled with dynamic change and intensified competition.

Impact of HRM Practices on Financial Performance

Investments in human resource management (HRM) practices significantly impact financial performance by building a skilled and motivated workforce, which drives innovation and productivity. The study by Adnan et al. (2011) Revealed that participation and reward practices positively influence the financial performance of R&D firms in Malaysia, while training and development have a negative impact. This indicates that the type and application of HRM practices can have diverse effects on financial outcomes, depending on the industry context and environment. In the banking sector, studies by Quresh et al. (2016) and Lawal & Ben-Bernard (2014) Showed a positive relationship between HRM practices and financial performance, with selection, training, compensation, and employee participation as key contributors. These studies confirm the importance of well-designed HRM practices in improving the banking sector's operational efficiency and financial performance. However, research by Paul and Anantharaman (2003) shows that HRM practices are more likely to affect operational performance first, contributing to financial outcomes, with no direct causal relationship between HRM and economic performance.

In addition, contextual factors often influence the effectiveness of HRM practices. For example, high-tech industries benefit more significantly from HRM investments than traditional manufacturing industries. The dynamics of the high-tech sector, characterized by rapid change and the need for constant innovation, require more critical investment in employee training and development. (Adnan et al., 2011). Internal alignment and a solid organizational culture also play an essential role in maximizing the impact of HRM practices. Adequate leadership support ensures that HRM strategies are correctly implemented and integrated within the firm's overall business strategy, ultimately optimizing the contribution of HRM practices to financial performance. (Lawal & Ben-Bernard, 2014; Qureshi et al., 2016). Although evidence points to significant benefits of HRM practices, this relationship also has complexities that should be noticed. As Paul and Anantharaman (2003) noted, although HRM practices can improve operational efficiency and productivity, their direct influence on financial outcomes may only sometimes be apparent. HRM may first influence financial performance through indirect pathways involving operational improvements. Therefore, it is essential to consider the organizational and industry context holistically in formulating and implementing effective HRM strategies, ensuring that investments in human resources provide optimal benefits to the firm in various industry scenarios.

Criticism and Controversy

The resource-based view (RBV) approach has been widely adopted and criticized in management studies. The main criticisms of RBV involve the need for a clear theoretical foundation and methodological challenges in operationalizing and measuring firm resources and capabilities. Kraaijenbrink et al. (2009) state that there are eight categories of criticism of RBV, stating that the core message of RBV can withstand five of these criticisms but still requires further theory development and research to address the other three. Truijens (2008) highlighted the need for a solid theoretical foundation and methodological rigor in RBV. Landers et al. (2018) Review empirical studies and discuss methodological issues, proposing an integrative framework and using insignificant results to clarify the value and limits of RBV. In the context of exports, İpek (2018) Identifies limitations in the RBV-related research and methodology scope. These studies collectively emphasize the need for a stronger theoretical foundation and methodological clarity in the application of RBV. In addition to theoretical and methodological challenges, limitations in measurement are also a concern. Traditional financial metrics such as stock price and earnings per share can often not fully capture outcomes associated with HRM practices, such as employee satisfaction and organizational commitment. Therefore, a broader measurement approach is needed to capture the total contribution of HRM practices to shareholder value. These limitations suggest that financial performance measurement should focus more than conventional metrics. Still, they should also include non-financial aspects that are important in creating long-term value for the company.

Stakeholder Perspective

Investments in HRM practices must consider the interests of various stakeholders, including employees, customers, communities, and shareholders. HRM practices are designed to improve employee well-being and satisfaction, positively impact organizational performance, and create long-term shareholder value. Several studies have highlighted the importance of considering various stakeholders in HRM investments. Ellitan (2004) and Madiistriyatno (2020) Emphasise the role of HRM in achieving sustainable competitive advantage and the need to align HRM practices with stakeholder interests, including employees, customers, communities, and shareholders. Sugiat (2020) Further emphasized the importance of stakeholder collaboration and partnership in developing human capital. In addition, integrating environmental, social, and governance (ESG) criteria in HRM practices supports sustainable business practices and enhances corporate reputation, contributing positively to shareholder value. Triana et al. (2020) Provide practical examples of companies implementing CSR practices during the COVID-19 pandemic, demonstrating how integrating stakeholder interests in HRM can improve employee well-being and positively impact organizational performance. These studies collectively emphasize that investments in HRM should be aligned with the interests of various stakeholders to create sustainable value and improve the competitiveness of companies in the global market.

As such, HRM serves as a tool to improve direct financial performance and as a holistic strategy that strengthens stakeholder relationships and promotes long-term sustainability. In the future, further research is needed to develop more robust theoretical and methodological frameworks and more comprehensive measurement approaches to evaluate the impact of HRM practices on shareholder value in various industry and organizational contexts. This research will provide deeper insights into how investments in human capital can be maximized to create long-term value for companies and their stakeholders.

Conclusions

This research highlights the positive relationship between high-quality human resource management (HRM) practices and increased shareholder value. Key findings show that effective HRM practices, such as good recruitment, continuous employee development, and performance-based incentive systems, correlate with improved financial performance, including return on assets (ROA) and market value added (MVA). The research also shows that the effectiveness of HRM practices is strongly influenced by industry context; the high-tech sector, for example, derives more significant benefits than the traditional manufacturing sector. The alignment of HRM strategies with organizational goals, internal culture, and strong leadership support is essential in optimizing HRM's contribution to financial performance.

From a scholarly standpoint, this study extends the existing literature by offering a more comprehensive understanding of how HRM practices affect shareholder value. This research confirms the importance of HRM strategies in enhancing corporate competitiveness and provides insight into how HRM affects financial outcomes. This research's practical value lies in its guidance for HR managers and corporate leaders in designing and implementing more effective HRM strategies. By emphasizing the importance of considering contextual factors, such as industry dynamics and organizational culture, this study assists companies in integrating HRM into their business strategies to achieve better financial performance and create long-term value for shareholders.

However, this study has some limitations that need to be noted. The analyses are primarily based on secondary data and literature reviews, which may not fully capture the complexity of the relationship between HRM practices and shareholder value. This study is also limited to correlation analysis and has yet to explore in-depth causal relationships. Future research is therefore recommended to utilize a more comprehensive longitudinal and empirical approach to investigate the long-term impact of HRM practices on financial performance. In addition, further research could focus on developing more comprehensive measurement metrics and integrating digital technology into HRM practices. Future research also needs to consider the variability of industry and cultural contexts to provide more specific and applicable guidance for companies in different business environments.

Reference

Adnan, Z., Abdullah, H. S., & Ahmad, J. B. (2011). Direct Influence of Human Resource Management Practices on Financial Performance in Malaysian R&D Companies.

Ahmad, S. (2023). Human Resource Management (pp. 401–428). https://doi.org/10.1201/9781003180302-20

Ahmed, S. (2022). Do HRM Practices Influence Perceived Financial Performance? A Case of Banks in Pakistan. IBT Journal of Business Studies, 18(2). https://doi.org/10.46745/ilma.jbs.2022.18.02.03

Anwar, S., & Herlina, E. (2022). The impact of strategic human resource management on organisational performance. Jurnal Indonesia Sosial Teknologi, 3(12), 1303–1309. https://doi.org/10.36418/jist.v3i12.555

Arntz, M., Gregory, T., & Zierahn, U. (2017). Revisiting the risk of automation. Economics Letters, 159, 157–160. https://doi.org/10.1016/j.econlet.2017.07.001

Baig, M. D., Rehan, E. W., Zaib, M., Wajidi, F. A., & Ali, A. (2022). Impact of HRM Practices on Organizational Performance and Growth concerning Pakistan Public and Private Banks. 2(2), 142–159. https://doi.org/10.55464/pjar.v2i2.45

Becker, W. A., Behe, B. K., Johnson, J. L., Townsend, C. D., & Litzenberg, K. K. (1997). Consumer Perceptions of Service Quality in the Texas Retail Floral Ind ustry. HortScience, 32(2), 318–323. https://doi.org/10.21273/hortsci.32.2.318

Casalegno, C., Cerruti, E., & Pellicelli, M. (2010). Measuring People Management and Shareholder Value Creation Relationship. An Empirical Approach from Italian Firms. Economia Aziendale Online, 1, 1–35. https://doi.org/10.4485/EA2038-5498.1-35

Cascio, W. F., & Shurygailo, S. (2003). E-leadership and virtual teams. Organizational Dynamics. https://doi.org/https://doi.org/10.1016/S0090-2616%2802%2900130-4

Channuwong, S. (2023). Human resource management and organizational performance. International Journal of Advanced Research, 11(05), 872–881. https://doi.org/10.21474/ijar01/16940

Ellitan, L. (2004). Praktik-praktik pengelolaan sumber daya manusia dan keunggulan kompetitif berkelanjutan. Journal of Management and Entrepreneurship, 4, 65–76. https://doi.org/10.9744/JMK.4.2.PP

Garcia-Lorenzo, L., Nardon, L., & Wright, S. (2015). Through the Looking Glass: Positive Reflection and Feedback Fostering Leaders' Positive Relationships and Follower Development. Journal of Business Ethics. https://doi.org/10.1007/s10551-014-2085-z

Geng, H.-Z. (2022). Agile work practices: measurement and mechanisms. European Journal of Work and Organizational Psychology, 32(1), 1–22. https://doi.org/10.1080/1359432x.2022.2096439

Henisz, W. J. (2023). The Value of Organizational Purpose. Strategy Science. https://doi.org/10.1287/stsc.2023.0195

İpek, İ. (2018). The Resource-Based View within the Export Context: An Integrative Review of Empirical Studies. Journal of Global Marketing, 31, 157–179. https://doi.org/10.1080/08911762.2017.1328630

Ismayani. (2023). Using e-hrm and hrm effectiveness: empirical evidence from the indonesian banking sector. International Journal of Educational Review, Law And Social Sciences. https://doi.org/10.54443/ijerlas.v3i4.971

Jiang, L., & Probst, T. M. (2014). Organizational communication: A buffer in times of job insecurity? Economic and Industrial Democracy, 35(3), 557–579. https://doi.org/https://doi.org/10.1177/0143831X13489356

Jo, J., Chadwick, C., & Han, J. H. (2023). How the human resource (HR) function adds strategic value: A relational perspective of the HR function. Human Resource Management. https://doi.org/10.1002/hrm.22184

Junker, T. L., Bakker, A. B., Derks, D., & Molenaar, D. (2022). Agile work practices: measurement and mechanisms. European Journal of Work and Organizational Psychology, 32, 1–22. https://doi.org/10.1080/1359432X.2022.2096439

Kraaijenbrink, J., Spender, J. C., & Groen, A. J. (2009). The Resource-Based View: A Review and Assessment of Its Critiques. Journal of Management, 36, 349–372. https://doi.org/10.1177/0149206309350775

Landers, R. N., Auer, E. M., Collmus, A. B., & Armstrong, M. B. (2018). Gamification science, its history and future: Definitions and a research agenda. Simulation & Gaming, 49(3), 315–337. https://doi.org/10.1177/1046878118774385

Lawal, A., & Ben-Bernard, O. R. (2014). Effects Of Human Resource Management Practices On Financial Performance Of Banks.

Madero-Gómez, S. M., Leal, Y. L. R., Olivas-Lujan, M. R., & Yusliza, M.-Y. (2023). Companies Could Benefit When They Focus on Employee Wellbeing and the Environment: A Systematic Review of Sustainable Human Resource Management. Sustainability, 15(6), 5435. https://doi.org/10.3390/su15065435

Madiistriyatno, H. (2020). SELAYANG PANDANG MENGELOLA SUMBER DAYA MANUSIA DI LINGKUNGAN PERUSAHAAN. https://doi.org/10.31237/osf.io/j8y2m

Makhecha, U. P., & Mariappanadar, S. (2023). High-performance Sustainable Work Practices for Corporate ESG Outcomes: Sustainable HRM Perspective. NHRD Network Journal, 16(2), 159–163. https://doi.org/10.1177/26314541231159730

Mariani, K. (2023). The Use of AI and Algorithms for Decision-making in Workplace Recruitment Practices. Journal of Student Research, 12(1). https://doi.org/10.47611/jsr.v12i1.1855

Marx, R. B., & Soares, J. F. (2008). A influência da orientação à geração de valor ao acionista nas práticas de gestão de pessoas no ambiente da produção. Production. https://doi.org/10.1590/S0104-530X2008000200002

Mutua, S. M. (2022). Linking Human Resource Management Practices and Firms' Performance Using Neural Networks. International Journal of Applied Management Theory and Research, 4(1), 1–22. https://doi.org/10.4018/ijamtr.305113

Papaioannou, A., Dimitropoulos, P., Koronios, K., & Marinakos, K. (2023). Perceived financial performance in sport services firms: the role of HRM practices and innovation. Evidence-Based HRM. https://doi.org/10.1108/ebhrm-10-2022-0250

Paul, A. K., & Anantharaman, R. N. (2003). Impact of people management practices on organizational performance: causal model analysis. The International Journal of Human Resource Management, 14, 1246–1266. https://doi.org/10.1080/0958519032000145648

Plater, Q. C., Frazier, M., Talbert, P. Y., Davis, V. H., & Talbert, P. S. (2023). Human

Resources (HR) lessons learned during the 2020 Pandemic: A literature review and perspective from HR professionals. International Journal of Research in Human Resource Management, 5(2), 7–16. https://doi.org/10.33545/26633213.2023.v5.i2a.144

Ploscaru, A.-N., Rotea, C. C., Dumitriu, S., & Georgescu, I. (2023). Evaluating the Effects of HRM Practices on Employee Engagement and Organizational Culture. https://doi.org/10.24818/basiq/2023/09/034

Prouska, R. (2022). The rhetorics of 'agile' and the 'agile working' practices: Consequences for the worker experience and uncertain implications for HR practice. International Journal of Human Resource Management, 33(22), 4440–4467. https://doi.org/10.1080/09585192.2022.2099751

Quresh, T. M., Akbar, A., Khan, M. A., Sheikh, R. A., & Hijazi, S. T. (2016). Do human resource management practices have an impact on financial performance of banks? African Journal of Estate and Property Management, 3(3), 1–8.

Salsabila, S., Radhiana, R., Juwita, J., & Mauliza, P. (2022). Challenges of the Resource-Based View Approach in Improving Business Organizational Performance. Proceedings of International Conference on Multidiciplinary Research, 5(2), 120–125. https://doi.org/10.32672/pic-mr.v5i2.5416

Scholz, J. (2023). Complex Adaptive Systems and Human Resource Management: Fostering a Thriving Workforce in the Post-Pandemic Era. https://doi.org/10.31235/osf.io/74pg5

Serafini, G. (2022). Resource Based View (RBV) in Improving Company Strategic Capacity. Research Horizon, 2(6), 587–596. https://doi.org/10.54518/rh.2.6.2022.587-596

Sichler, R. (2022). Do HRM Practices Influence Perceived Financial Performance? A Case of Banks in Pakistan. IBT Journal of Business Studies, 18(1). https://doi.org/10.46745/ilma.jbs.2022.18.01.03

Sugiat, M. A. (2020). Pengembangan SDM Unggul Berbasis Collaborative Strategic Management. SULTANIST: Jurnal Manajemen Dan Keuangan, 8(1). https://doi.org/10.37403/sultanist.v8i1.175

Sumertajaya, I. M., & Sukmawati, A. (2023). Peran Mediasi Budaya Organisasi dalam Memperkuat Resiliensi Manajemen Perguruan Tinggi. Jurnal Manajemen Dan Organisasi, 14(2), 173–183. https://doi.org/10.29244/jmo.v14i2.42332

Triana, A., Sulastri, S., & Humaedi, S. (2020). RAGAM PRAKTIK CSR SELAMA PANDEMI COVID-19. Jurnal Pemberdayaan Masyarakat Madani, 7(2). https://doi.org/10.24198/jppm.v7i2.28869

Truijens, O. (2008). A Critical Review of the Resource-based View of the Firm.

Warech, M. A., & Wyatt, W. (2004). Evaluating the Impact of Human Resources. Cornell Hotel and Restaurant Administration Quarterly, 45, 376–387. https://doi.org/10.1177/0010880404266247

Xirogiannis, G., Chytas, P., Glykas, M., & Valiris, G. (2008). Intelligent impact assessment of HRM to the shareholder value. Expert Syst. Appl., 35, 2017–2031. https://doi.org/10.1016/j.eswa.2007.08.103