Mediating Role of Human Capital Between SHRM and Firm Performance

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This study explores mediating role of human capital between strategic human resource management (SHRM) and firm performance. Some HR scholars, such as Takeuchi, Jiang, and Boon found mediating role of human capital in this relationship. Human capital is firm’s stock of skills and knowledge. This employee-specific skill enhances task performance and firm performance consequently, because knowledge, skills, and abilities (KSAs) of employees increase task performance. Plenty of empirical research found numerous mediating variables in SHRM-performance relation. However, obvious mediating factor is not understood yet. In 1990s, behavioral perspective, resource-based view, ability, motivation, and opportunity (AMO) framework, and social exchange theory are accepted as mediators by HR scholars. Nowadays, HR systems are accepted as current mediator between HR and performance. This study theoretically discusses human capital theory as mediating variable. Furthermore, this study aims to discuss progress of strategic human resource management in Turkey. Turkish firms do not apply SHRM theory in their organizations yet. This study proposes that firms may adopt personnel human resource management (p-HRM) model to progress SHRM. According to p-HRM model, HRM department applies personnel management and human resource management together to develop employee’s performance. Therefore, in HRM department, there must be HR manager, personnel supervisor, and strategic HR director. HR manager becomes manager of the HRM departments; the others are become subordinates.

Keywords: human capital, mediator, SHRM, performance

Introduction

This study aims to discuss mediating role of human capital in theory of strategic human resource management (SHRM). There are three mediators in SHRM field since 1980s: strategic management, performance, and HR systems. Current definition and mediator of SHRM are made by HR systems. This study discusses human capital theory as next step, the fourth mediator, in 2020s.

HR systems in American HRM are defined with three variables: high-performance work systems (HPWSs); high-involvement work systems (HIWSs); and high-commitment work systems (HCWSs). Many studies are implemented in the field of HPWSs and employee-related outcomes. HPWSs are related with SHRM research, because it has focus on attainment of business goals (Festing, 2012).

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Currently, SHRM is defined with HR systems by HR scholars in 2010s. HR systems of firms are HPWSs, HIWSs, and HCWSs. Those systems affect employee-related results that they have impact on organizational outcomes. Recently, especially Lepak and Wright, HR scholars discuss human capital theory as a next step in SHRM. SHRM would be defined with human capital theory in 2020s. Assumption of the study is that human capital affects firm performance through employees’ specific skills and quality of products which are needed in 2020’s competition arena and in Industry 5.0.

**Human Capital Theory**

HR scholars identify human capital with skills, competency, and accomplishing works belonging to employee. Human capital is defined as firm’s stock of skills and capability (Lepak & Snell, 1999). Human capital obtains its skills through knowledge and experiences (Gowan & Lepak, 2007). Assumption of theory is that skill and competency have an impact on task performance, and it has impact on firm performance. In addition, human capital of a firm is related to quality of products that increases firm’s sales and market share. Via those two specifics, task performance and quality of products, human capital is related with firm performance; therefore, it may be included in the definition of SHRM. According to Boon, Eckardt, Lepak, and Boselie (2018), human capital enhances firm performance, because knowledge, skills, and abilities (KSAs) of employees have impact on task performance and firm performance.

Human capital is defined with KSAs analysis. KSAs of employees positively affect task performance of employees (Gowan & Lepak, 2007). Therefore, human capital, i.e., skilled employees, affects firm performance by two factors: quality of products and KSAs and task performance.

Because after 2000s, plenty of studies are implemented in SHRM field to determine the mediators, various mediators are established by HR scholars in SHRM field. Most prominent of them are resource-based view, behavioral perspective, ability, motivation, and opportunity (AMO) framework, and social exchange theory. However, today, scholars accept HR systems as a mediator and definition in SHRM field.

In SHRM research, theory of SHRM is based on performance focus. It establishes link between HRM and firm performance. Mediator might be individual performance. According to theoretical framework of SHRM, HRM has an impact on individual performance of employees that increases task performance. So, task performance has impact on department’s performance, and departments’ performance increases firm performance. Since focus is performance in SHRM theory and human capital is related to firm performance, human capital may become mediating variable in SHRM research.

Human capital is talent and unique resource of the company. Therefore, transferability of HR’s to other firms is important issue in human capital field and SHRM field. Firms invest in human capital long time to cultivate, and transfers result in lots of competitiveness and talent. Therefore, firms are to apply talent management policies for human capitals.

Jiang, Takeuchi, and Lepak (2013) proposed how human capital of firm raises rents in terms of firm performance. Snell and Dean (1992) declared in this sense that human capital enhances productivity of firms by higher level of knowledge and skills. They say that the higher the KSAs, the more human capital impacts firm performance.

In addition, Takeuchi et al. (2007), Youndt and Snell (2004), and Jiang et al. (2013) found that human capital mediates the relationship between HR systems and firm performance. Jiang et al. (2012b) found that
human capital mediates relationship of HRM and operational and financial performance. Therefore, Jiang and Messersmith (2018) said that human capital becomes direction for continued research in SHRM field.

**Strategic Human Resource Management in Turkey**

According to Bayraktaroğlu and Atay (2016), there is not application of SHRM in Turkish firms. Global firms begin to apply SHRM in their organizations gradually. They set up strategic HR director positions. HRM managers started to be involved with top management of global firms.

Turkish firms may apply SHRM in organizations by personnel human resource management (p-HRM) model. In p-HRM, firm applies personnel management and HRM together in organizational structure. That model may increase individual performance of employees, which is very specific to SHRM, because individual performance affects firm performance through departments’ performance. For example, as a fictive case, Terra Company may apply p-HRM by establishing personnel division inside HRM department. The department would have HRM manager and PM division would have personnel manager. If HRM department in Terra Company involves with top-management’s decisions, the department affects top-level decisions and strategies, and the company starts applying SHRM. Further, Ondokuz Mayıs University Personnel Department (OMÜ) possesses HR Office in the Personnel Management Department. If personnel department influences top-level decisions and strategies, SHRM may be applied at OMÜ, because Lepak and Snell (1998) said that HRM becomes strategic business partner of firm by involving in development, planning, and implementation of top-level strategies.

Secondly, in HRM department, there is HRM manager, and there might be strategic HR manager position. Strategic HR manager would be responsible for managing HR systems in organization. Thus, in HRM department of Turkish firms, there would be HR managers, strategic HR directors, and personnel managers. Personnel management and SHRM become division and supervisor roles; however, HR manager has managerial role.

Finally, for applying SHRM, HRM departments of Turkish firms are to include three roles together: HRM, strategic HR role, and personnel management role. In order to apply SHRM in Turkish firms, firms may adopt p-HRM model; and they may set up strategic HR director position in HRM department. Strategic HR director has supervisory role, and it would be responsible for applying HR systems.

**Propositions and Research**

There is not field research in this study. Therefore, hypotheses is not set in the study, instead, propositions about mediating role of human capital are suggested based on literature scanning. For example, Trullen, Bos-Nehles, and Valverde (2020) put strategy as mediator between HRM and firm performance. So, human resource management affects firm performance via individual performance and talent management. Further, in Europe, there is process view of HRM implementation; in USA, there is HRM systems approach in implementation of HRM. In Turkey, firms adopt individual HRM practices; there is not systematic view. Line managers including HR manager are important to implement systematic view and individual implementation of HRM. In Europe to implement process approach, support of top management to HRM is important.

There are four mediators of SHRM in 1990s: resource-based view, ability, motivation, and opportunity framework, behavioral perspective, and social exchange theory. This study argues human capital theory as a mediation in SHRM research. Further, Hamadamin and Atan (2019) found partial effect of human capital on
relationship between SHRM and competitive advantage. In this relationship of SHRM and performance, employees are considered as resources and knowledgeable. So, employees are considered as intellectual capital in relations of SHRM-firm performance. There are two dimension of human capital mediation: intellectual capital and core competence, because in resource-based view, employees are core competence of firm, and human capital approach covers intellectual capital dimension for employees. According to Hamadamin and Atan (2019), human capital provides sustainable competitive advantage for the firm via core competence approach.

![Model of mediating role of human capital.](image)

Hamadamin and Atan (2019) cited Jackson et al.’s (2014) research that finds positive influence of SHRM on employee behaviors. In addition, behavioral perspective demonstrates that SHRM practices positively impact on firm performance by employee commitment. Behavioral perspective might become mediator between HRM and firm performance. Behavioral perspective is suggested by Schuler and Jackson (1987). It is related with role behaviors of employees to which it affects performance, work attitudes, and behaviors (Boon et al., 2018). The third mediator of 1990s is social exchange theory between relationship of HRM and firm performance. Social exchange theory is related to employee performance. Employee contributes to firm’s goals, and it achieves some results from organization. There is reciprocal relationship between employee and firm in social exchange theory. The fourth mediator of 1990s is AMO model for HRM and firm performance. AMO framework is related to KSA analysis (= human capital) and it affects employee performance.

Human capital is resources of firm, and it is related to ability and core competence (Boon et al., 2018). Major definition of human capital development is KSA analysis. KSAs develop human capital in organizations. Therefore, firms are to invest in organizational learning efforts to develop KSAs and human capital.

Boon et al. (2018) believed that human capital is mediating factor between HRM and performance relation. AMO model, resource-based views (RBVs), and KSAs enable human capital to become mediator between SHRM and firm performance.

In SHRM theory, human capital is conceptualized as knowledge, skills, ability, and opportunities (KSAOs) of employees (Boon et al., 2018).

For example, resource-based view theory sets relations between SHRM and human capital in mediating model (Boon et al., 2018). Human resources are valuable resources of organizations. Therefore, firms must invest in human capital by HR systems and HRM practices in order to leverage their skills and competency. Human capital of organizations is valuable employees, because they have specific work-related knowledge and skills. HRM creates value for the firm via performance development, and firms create value for the owners via products (Hui Han Gao & Haworth, 2019). Therefore, to generate value for firm, HRM departments are to build HR architecture in organizational structure (Lepak & Snell, 1999). HR architecture is related with building HR systems in organizations.

Hamadamin and Atan (2019) mentioned that HRM practices have impact on KSAOs analysis. KSAOs are very specific to gaining human capital in firms.

According to above discussions and the model, propositions of this study are:
P1: Human capital of firms is positively and significantly related to firm performance.
P2: SHRM is positively and significantly related to firm performance.
P3: Human capital positively and significantly moderates the relationship between SHRM and firm performance.

The study needs survey of field research, and interviews with HR managers, to understand propositions and to achieve scientific knowledge. According to Farndale (2019), HRM field is related to management of people at work by HRM practices. Therefore, HR professionals are to further their knowledge on HRM theory and practices. In American view of HRM, performance focus and HRM systems are key to implementing HRM in organizations. In Turkey, there are individual practices of HRM, while in USA, there are bundles of practices in HRM as HRM systems. The third dimension of American view is talent management. Uysal (2013) also considered return on investment of HRM in measurement of HRM in organizations. Return on investment (ROI) of HRM is obtaining positive organizational behaviors in employees in organizations. Organizational citizenship behaviors may be the most important ROI of HRM. For example, Hamadamin and Atan (2019) performed that from the point of behavioral perspective, SHRM practices increase positive behaviors on employees, and thus, positive behaviors result work expected organizational outcomes, such as market share and firm performance.

American’s approach to employee is human resources; British approach to employee is personnel. Therefore, in British, there is personnel management and industrial relations; in USA, there is human resources management. In Europe, firms adopt process view against HRM; so, top management support is important, and in USA, there is HRM systems approach to HRM (Trullen et al., 2020). Therefore, how would be the people management in contemporary work settings? Cooke, Dickman, and Parry (2020) replied this question by psychologisation of human resource management, i.e., employee well-being. In this theme, HRM department implements employee-oriented HRM practices. That view would heighten positive employee attitude for HRM practices. Psychologisation of HRM is firstly related to employee well-being, and it is secondly related to quality of workplace relationship. Therefore, HRM is able to build managerial psychology in work settings by psychologisation of HRM.

Finally, a literature study shows positive and direct effect of SHRM practices on human capital development and employee commitment (Emeagwal & Ogbonmuson, 2018; Hamadamin & Atan, 2019). A positive influence of SHRM practice on human capital development is shown in the literature (Hamadamin & Atan, 2019). In addition, some studies (Garavan et al., 2001) propose bidirectional relation between human capital development and organizational performance (Hamadamin & Atan, 2019).

Performance Focus on SHRM Field: Discussion

Focus of SHRM is performance, because HRM affects employee outcomes and organizational outcomes via performance focus. SHRM research mostly argues performance variable until 2010, and then, HR systems during 2010s.

Michigan School states that involvement of HRM with strategic management creates competitive advantage for firms. This is SHRM theory earlier than 2000s. Wright and others relate HRM with firm performance. HR systems discuss relations between individual performance and firm performance. Human capital approach again enhances firm performance. HR systems influence firm performance by affecting employee outcomes, such as individual performance, work attitudes, and behaviors (Jiang & Messersmith, 2018).
The second focus in SHRM might be HPWSs, because it is related with HR systems.

Festing (2012) discussed European model of SHRM. European SHRM has contextual paradigm and institutional environment, similar to Turkey. Institutions in Europe create regulatory contexts for firms in employment decisions. Regulatory contexts protect rights of stakeholders. European HR scholars (e.g., Gooderham and Nordhaug) search for one single European SHRM model. One single European model includes regulatory environments for firms. The European model recently converges with American SHRM model, which has firm performance orientation. In addition, American SHRM is different than European SHRM in universalistic and configurational perspectives. Those are based on firm performance and HR systems approach.

As a key HR scholar, David P. Lepak, Rutgers University, studies SHRM, human capital theory, and HR systems. He is in favor of HR systems in definition of SHRM, he also accept human capital approach as a next step as mediator and definition of SHRM. Lepak says that mediators between HR systems and firm performance are not determined yet in SHRM literature. He built HR architecture knowledge in the field of HRM, which is based on configurational HR systems.

Mediators of SHRM-performance relation are resource-based view, human capital theory, behavioral perspective, ability, motivation, and opportunity framework, and social exchange theory (Jiang & Messersmith, 2018). For example, human capital is firm-level resource, and it contributes to firm-level performance. Human capital is owned by employees.

Jiang et al. (2013) proclaimed that mediating mechanism through which HR practices influence firm performance is not understood. However, plenty of empirical studies are implemented in SHRM field, and those studies demonstrate that there are various mediating variables, which play roles in relationship between SHRM and firm performance. Further, human capital approach is used as a mediator variable as theoretical perspective in SHRM research (McMahan et al., 1999; Takeuchi et al., 2007; Jiang et al., 2013), because mediating factor is key to understanding of influence of HRM on firm performance. In 1990s, there are three mediators in the field of SHRM: behavioral perspective, resource-based view, and ability, motivation, and opportunity framework (AMO). AMO’s are three elements of employee performance. AMO framework argues that individual performance is function of employees’ ability, motivation, and opportunity (Jiang & Messersmith, 2018). In 2010s, there is HR systems approach as a mediator, because bundle of HRM practices is related to employee’s attitudes and behaviors. Further, strategic HR scholars have reached the conclusion that employee outcomes are important mediators of relationship between HR systems and firm performance (Jiang et al., 2013).

Conclusion

To conclude, 2020s would be witnessed Industry 5.0 and it is expected that firms would produce cosmic products in Industry 5.0, such as Elon Musk’s Tesla products. How would a firm compete on Industry 5.0 of 2020s? The answer might be human capital, because human capital is related to core competence theory, and enables firms to implement differentiation strategy in markets. In core competence HR is unique resource of firm, inimitable and rare. This inimitable sense and intellectual capital may create differentiation of products in 2020s and Industry 5.0. This value of human capital has potential to contribute to competitive advantage and core competence of firm (Lepak & Snell, 1999). Human capital is unique resources of firm, because it has intellectual capital-related skills. Therefore, human capital theory may be mediator in SHRM-firm performance
relationship near future. Firms need large investment in leveraging human capital for competitiveness (Lepak & Snell, 1999). Like other organizational assets, employee skills are classified as core or peripheral assets (Barney, 1991; Lepak & Snell, 1999).

Strategic management, firm performance, and HR systems are chronology of SHRM between 1981 and 2019. This study discusses next stage and next mediator for SHRM-firm performance relationship. SHRM may be defined with human capital theory. It would be the fourth chronology in SHRM research. Logic behind this notion is that skills and competency of employees affect task performance, and it affects firm performance. It is important because performance focus has priority in American HRM.

Finally, human capital theory is related to KSAOs analysis. Therefore, firm management and HRM are to invest in organizational learning to develop knowledge of employees, because knowledge and expertise lead to skills and ability, and both knowledge and skill-ability develop human capital in employees. Boon et al. (2018) said that human capital enhances firm performance. Therefore, human capitals of organizations create value for firms, because human capitals have specific work related knowledge and skills. According to Boon et al. (2018), resource-based view provides of relation between SHRM and human capital. Therefore, resource-based view approach may become the mediating factor between SHRM and firm performance. According to Boon et al. (2018), firms are to invest in human capital development by HRM systems and HRM practices. This study suggests organizational learning. Firms are to invest in organizational learning activity to develop human capital in organizations.

To integrate human capital into SHRM, moderator factor is resource-based view, because employees are core competence. Initial studies in SHRM research show positive relations between SHRM and financial performance (e.g. Hatch & Dyer, 2004; Hitt et al., 2001; Kor & Leblebici, 2005; Skaggs & Youndt, 2004; Boon et al., 2018). Crook et al. (2011) said that, cited by Boon et al. (2018), human capital theory is positively related to firm performance.

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MEDIATING ROLE OF HUMAN CAPITAL BETWEEN SHRM AND FIRM PERFORMANCE

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