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Strategic human resource management to improve the performance of the financial status of the financial institutes

Abstract. Strategic human resource management (SHRM) is the result of utilizing human resources and planned activities that help the organization achieve its goals. The purpose of the present study is to investigate the relationship between SHRM and financial performance of financial institutes. The present study deals with the effect of SHRM functions on organizational performance, with respect to the financial management variable. This study is based on the purpose of an applied study and category of data collection, it is a survey-descriptive. The statistical population of the study is all banks and credit institutions in Jakarta, and through non-probability sampling, data were collected from 31 banks and credit institutions in the form of a questionnaire and were examined and analyzed. Descriptive and inferential statistical approaches using SPSS software were used to analyze the data. The research findings showed that companies that pursue SHRM activities have better performance and the use of SHRM measures and principles improves the performance of companies. The questionnaires' reliability, calculated by Cronbach's alpha, was above 83% for the functions of human resource management, financial management and performance of companies. The results of data analysis showed that human resource management functions have a positive and significant impact on the management and financial performance of the company; also, financial management has a positive and significant impact on organizational performance.

Keywords: Strategic Human Resource Management; SHRM; HRM; Financial Management; Organizational Performance; Financial Institution; Bank; Credit Institution; Recruitment; Employee

JEL Classifications: E24; E41; E64; I18; J28; J31

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1. Introduction and Brief Literature Review

Human resources, as the main organizational resources, can be utilized properly while managed with a strategic approach. The strategic approach to HRM means employing new approaches that the organization can rely on to respond appropriately to an unstable environment and mobilize human resources to gain competitive advantage. Recent studies (Sarker & Rahman, 2018) have identified SHRM as a factor in increasing competitive advantage, and employees are increasingly aligning their approach, process, and vision with the organization's strategic planning. Strategic human resource management is a method for making decisions about the organization's goals and plans, which are related to the following issues: employment relations, recruitment, training, rewards, and policies and procedures related to employee relations. SHRM also addresses the relationship between HRM and strategic management in the company, and it pays attention to both human capital needs and the development of process capabilities (i.e., the ability to do things efficiently). In general, strategic human resource management pays attention to every major human issue that either affects or is affected by the organization's strategic plan (Rajindra, 2024; Torre et al., 2023). As Orji et al. (2022) emphasize, human resource strategy is not necessarily the result of thinking, but rather the behavioral pattern of the organization in relation to HRM itself defines the human resource strategy.

Many studies have been done to examine the link of HRM functions and organizational performance. According to the research of Lee (2018), there is a significant relationship between SHRM and the organization's financial and human resource performance. Thienphut et al. (2015) studied the relationship between the six human resource management functions and organizational performance in India and concluded that there is a significant relationship between the training and salary functions and the perceived performance of the organization and its market. Al-Khaled & Fenn (2020) reported that organizations that integrate HRM functions with organizational strategies both vertically and horizontally will perform better and have higher employee satisfaction and commitment, and as a result, individual and organizational performance will improve. Luqyana et al. (2023) concluded that there is a positive and significant relationship between HRM functions and organizational performance.

SHRM is the process of linking HRM with the short and long terms strategic goals of the organization to improve its performance and create an organizational culture that can enhance flexibility and creativity in the organization. The goals of the HRM system are influenced by the strategic goals of each institution. The HRM system is expected to consider the interests of the employees in its strategic decision-making process, while paying attention to the interests of the organization. The scattered actions of organizations in the field of HRM and development can be regularly planned in line with the strategies of the organization. SHRM is concerned with long-term problems linked to the internal and external environments of the organization, and its output is policies for the areas of human resources. «The combination of strategic management thinking with human resource management makes human resources seen as strategic resources, and therefore necessitates an approach beyond other factors of production, and makes it inevitable to involve decisions related to human affairs in the formation of the organization's major strategies.»

Odomero and Hasanmi (2013) measured the impact of human resource development on the financial performance of the organization. A survey of 84 questionnaires from employees of two banks in Nigeria showed that there is a positive relationship between employee participation in human resource development and organizational commitment and employee competence. There is also a positive and significant relationship between commitment and competence and the financial performance of the organization. Trigoro et al. (2012) examined the impact of human resource functions (employee commitment) on the financial and non-financial performance of Spanish companies. The results of a statistical survey of 102 companies, as a sample, showed that there is a positive and significant relationship between employee commitment and organizational performance.

Despite the large volume of studies on SHRM, there is no solid evidence on the ways of adopting and implementing different types of human resource management strategies in Indonesia, and how it affects the performance of organizations and companies. Although previous studies have examined the relationship between the use of SHRM and organizational performance in a limited number of organizations, there has not yet been any applied study that describes the impact of some effective factors on the use of SHRM in the private sector, including financial companies (Hussein et al., 2024). The main issue of the research is that SHRM and the use of its main functions and the emphasis on them in a systematic and organized manner in any situation and for any type of company, of any size, in any industry and market are useful and fruitful and lead to strengthening the performance of the company, or the use of strategic human resource management and its functions may not be appropriate in all situations and sometimes traditional human resource management mechanisms have a better impact on organizational performance. In this regard, to satisfy similar needs in financial companies, this research was conducted to answer the question: Is there a relationship between strategic human resource management and financial performance of financial institutions in Jakarta?

2. Method

The current research is descriptive-survey in terms of its applied purpose and data collection approach, and is considered a correlational study since it examines the relationship between variables. The data collection tool is a questionnaire, and since a standard questionnaire (Almanasreh et al., 2019) has been used in numerous studies, the data collection tool has content validity. The statistical population of the current research includes banks and institutions operating in Jakarta, and 31 financial institutions were evaluated for this study.

PLS software and structural equations are employed to investigate the data. The questionnaires reliability are also checked via Cronbach's alpha technique and composite reliability (CR) coefficients. Both the alpha and CR coefficient for all variables were greater than 0.7, so it can be confidently said that the research tool has the necessary reliability and its values are given in Table 1.

The validity of the questionnaire was examined by two criteria of convergent and divergent validity, which are specific to structural equation modeling. The average variance extracted (AVE) criterion was used to assess convergent validity, and the outcomes of this criterion are presented in Table 1.

Table 1:
Reliability and validity of the variables of the research model

| Components | Variable | Items | Cronbach's alpha | CR | AVE |
|----------------------------|--|-------|------------------|------|------|
| SHRM | Human Resources Training and Development | 5 | 0.85 | 0.92 | 0.51 |
| | Compensation for Services | 4 | 0.81 | 0.93 | 0.72 |
| | Performance Evaluation | 3 | 0.75 | 0.93 | 0.82 |
| | Recruitment | 3 | 0.71 | 0.95 | 0.88 |
| | Effective Employee Interaction and Communication | 3 | 0.82 | 0.82 | 0.59 |
| | Equal Employment Opportunity | 2 | 0.83 | 0.85 | 0.68 |
| Financial management | Customer Relationship | 6 | 0.72 | 0.90 | 0.58 |
| | Product Differentiation | 3 | 0.75 | 0.86 | 0.61 |
| | Customer Service | 3 | 0.82 | 0.91 | 0.67 |
| | Marketing Research | 3 | 0.80 | 0.81 | 0.52 |
| | Supply Chain | 4 | 0.81 | 0.89 | 0.51 |
| Organizational performance | | 7 | 0.84 | 0.91 | 0.71 |

Source: Authors' own findings

The fitting of measurement models includes examining the reliability and validity of research constructs. In PLS software, Cronbach's alpha, CR, and factor loadings are used to measure reliability. In general, if the value of Cronbach's alpha and CR is higher than 0.7 and the factor loadings are higher than 0.5, the reliability of that model is approved, and the convergence index (AVE) is utilized to examine validity. The appropriate AVE number should be higher than 0.4. According to the numbers shown in Table 1, all research variables have acceptable reliability and validity. As a result, the research measurement model has a proper fit.

3. Results

In this section, the data analyses are presented, as the independent variables include human resource management functions, the mediating factor is financial management variable, and the dependent factor includes the organizational performance variable. The prediction accuracy index is utilized to examine the structural model fit. The prediction accuracy index (R^2) is utilized

to measure the variance of the dependent structure that is influenced via the independent structure. Based on work of Odumeru & Ilesanmi (2013) the amounts of 0.50, 0.75, or 0.25 represents a strong, medium, and weak prediction levels; according to the numbers shown in Table 2, the structural model has proper prediction and the fit of the structural model is confirmed to be strong. Finally, the overall fit of the model was evaluated using the GOF goodness-of-fit index, which is calculated using two average indices of Commuality and R^2 . The goodness-of-fit for the model was 0.44, which is higher than the minimum acceptable; hence, the proposed model has a proper fit.

Table 2:
Commuality and R^2 values

| Variable | SHRM | Financial management | Organizational performance |
|------------|------|----------------------|----------------------------|
| Commuality | 0.89 | 0.72 | 0.68 |
| R^2 | 0.41 | 0.55 | 0.88 |

Source: Authors' own findings

A main criterion that is calculated by the divergent validity is the degree of link of a construct with its indicators comparing with the link of that construct with others. Divergent validity is at an acceptable level while the AVE value of each construct is greater than the shared variance among that constructs in the model. According to Table 3, the square root (AVE, the principal diameter of the matrix) of all first-order variables is greater than the correlation value among them, which shows proper divergent validity and a good fit of the measurement model.

Table 3:
Fraunhofer Larcker calculations

| Variable | SHRM | Financial management | Organizational performance |
|----------------------------|-------|----------------------|----------------------------|
| SHRM | 1 | | |
| Financial management | 0.902 | 1 | |
| Organizational performance | 0.725 | 0.692 | 1 |

Source: Authors' own findings

Structural equation modeling and PLS software were used to examine the research hypotheses. Figure 1 shows the output of the software in standard mode for path analysis and hypothesis testing.

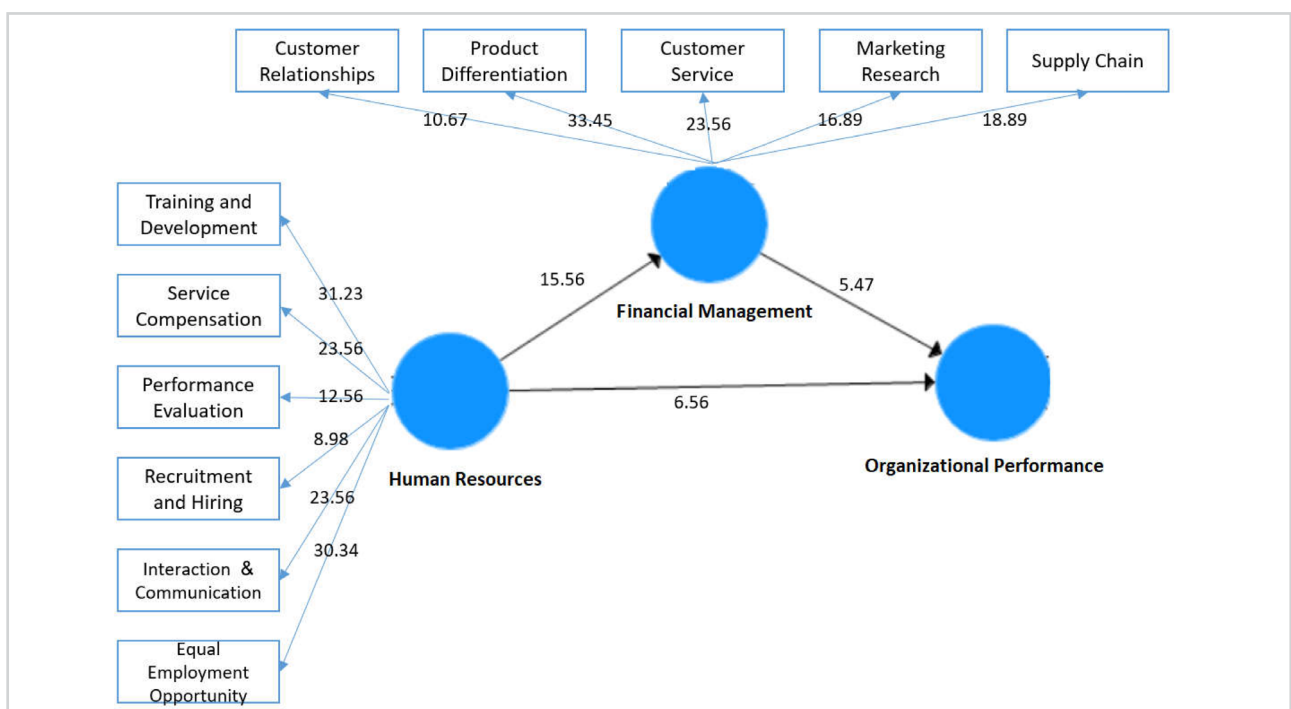


Figure 1:
Tested model of research t -statistics for hypotheses
Source: Authors' own findings

According to the tested model, the T-Value of all variables is above 1.96, which shows the significance of the links. The path coefficient of the variables is given in Table 4. According to Figure 1 and Table 4 and the standardized coefficients between the research variables (greater than 1.96), the research hypotheses are approved.

Table 4:
Results of testing the main research hypothesis

| No. | Hypothesis | Path coefficient | t-statistic | Result |
|-----|--|------------------|-------------|-----------|
| H1 | The impact of SHRM on financial management | 0.877 | 15.56 | confirmed |
| H2 | The impact SHRM on organizational performance | 0.543 | 6.56 | confirmed |
| H3 | The impact of financial management on organizational performance | 0.632 | 5.47 | confirmed |

Source: Authors' own findings

The test results showed that there is a positive and significant correlation between SHRM and the performance of financial companies. Thus, according to the results of Table 4, the first hypothesis was confirmed with an impact intensity of 0.877 and a *t*-statistic of 15.56, the second hypothesis was confirmed with an impact intensity of 0.543 and a *t*-statistic of 6.56, and the third hypothesis was confirmed with an impact intensity of 0.632 and a *t*-statistic of 5.47. As a result, it can be said that SHRM and company performance have a direct and significant relationship.

4. Conclusion

In the present study, the effect of SHRM functions on organizational performance was examined with respect to the financial management variable. The results showed that four indicators had a significant relationship with the performance of companies and more emphasis on them led to improved performance, including:

- human resource policies for compensation for services (high payment as appropriate and based on performance) in the organization;
- human resource policies for hiring in the organization;
- human resource policies for training and developing in the organization;
- human resource policies for management development.

Since the results of the study indicate a very strong link of SHRM and organizational performance, it is recommended that companies pay sufficient attention to HRM. This study showed that human training and development, effective interaction and communication with employees, and employee recruitment and hiring are the most important aspects of human resource management, and therefore it is recommended that more attention be paid to these issues. In addition, and considering the confirmation of all seven sub-hypotheses of the cases, the following suggestions are made to improve the company's performance:

In the field of compensation for services, the company should use appropriate incentives. Compensation for services in the company should be designed based on employee competence. Compensation for services should be based on employee performance and include non-monetary rewards.

In the field of recruitment and hiring, sufficient care should be taken. The company should spend a lot of time finding the most suitable people for the positions. The company's standards should never be lowered to fill a vacant position. In the field of human resource training and development, training should be based on the needs of the employees and a needs assessment should be carried out before implementing the training, and after the end of the training, training feedback should be reviewed after an appropriate period of time.

In Indonesia, SHRM information systems with strategic functions are less common. However, the development of information tools, coupled with the importance of human resources in business, has provided a good opportunity to restructure the performance of SHRM and effectively overcome its challenges with the help of advanced technologies. SHRM pursues three specific goals: productivity; quality of work life; and compliance with the law, which results in increased performance, reduced absenteeism, reduced turnover, and reduced complaints in the organization. Undoubtedly, increasing productivity is one of the most important goals of any organization. Although HR managers and experts cannot directly influence the capital and material factors that affect productivity, they can influence the utilization of labor, senior management's insight into HR, and the way HR works in the organization (which have a significant impact on productivity) in a specific way. The result is increased participation in work, increased job satisfaction, reduced stress, and reduced accidents.

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