

Akram Narsh

HR METRICS & THE FIRM'S FINANCIAL PERFORMANCE

Exploring the Link between HR Measures and Profitability



Abstract

Over the past decade the concern in exploring the correlation between HR measures and organizational performance has grown remarkably. The research history has contributed significantly to the understanding of the relationship of Human Resources practices and the firm's performance. There is mounting evidence that a positive correlation exists between HR practices and the firm's performance. Nevertheless, there is still a vital need for finding supplementary evidence to validate this relationship from a different perspective. Most recent studies indicated that human capital is a major contributor to achieving organizational effectiveness. Yet the exact mechanism of this sequential association remains debatable. That is, what leads to what is still unclear? This study aims at furthering research on the association between human resource measures and the firm's performance; as well as, to develop a framework that elucidates the role of mediating factors between HR Metrics and the financial performance of the firm. The key theoretical concept of this study is grounded on the hypothesis that HR measures do not directly affect the firm's financial performance. Actually they have an effect on HRM practices which in turn influence a set of mediating factors that in turn affect more distal outcomes. Furthermore, this study introduced a conceptual Human Capital Framework linking HR Metrics to the financial performance of the organization. It introduced a practical approach depicting how HR metrics can be utilized to enhance the firm's profits. It contributed to the existing body of research by exploring the functional correlation between human capital and organizational performance. The underlying rationale is that if firms understand the value of their human resources in their revenue generating process they can better devise strategies to capitalize on such intangible asset in order to enhance their profitability.