

## HR practices and firm performance: the mediating effect of business strategy

### Prakse upravljanja ljudskim resursima i organizacione performanse: medijatorski efekat poslovne strategije

Slobodan Luković<sup>a\*</sup>, Jelena Tepavčević<sup>b</sup>

<sup>a</sup> University of Novi Sad, Faculty of Economics in Subotica, Serbia

<sup>b</sup> University of Novi Sad, Faculty of Sciences, Department of Geography, Tourism and Hotel Management, Serbia

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#### Abstract

*The research aims to determine the impact of HR practice (HRP) on organizational performance (FP), with particular emphasis on the mediating impact of business strategy (BS) in this regard. The starting model for this research was the work of Lee et al. (2010) and Karami et al. (2015). The motive for the realization of this research is to determine the existence of effects between HRP and BS on OP, as well as the strength of this effect. The research was conducted during March 2022 on the territory of AP Vojvodina (Republic of Serbia), which collected 270 valid questionnaires. Data analysis was performed in SmartPLS 3.3.7 software. Based on the results of the research, we conclude that HRP affects on BS and FP, as well as that BS has a mediating effect in the relationship between HRP and FP. The paper primarily brings new knowledge that can benefit HR managers in the business environment of Serbia and the Western Balkans, due to the specifics of the business and cultural environment, but also future scientific research.*

**Keywords:** human resources management, human resources practices, business strategy, firm performance, structural equation modeling

#### Sažetak

*Istraživanje ima za cilj da utvrdi uticaj praksi upravljanja ljudskim resursima (HRP) na performanse organizacije (FP), posebno naglašavajući medijatorski uticaj poslovne strategije (BS) u ovom odnosu. Polazni model za ovo istraživanje su bila dela autora Lee i sar. (2010) i Karami i sar. (2015). Motiv za realizaciju ovog istraživanja jeste utvrđivanje postojanja efekata između HRP i BS na FP, kao i snage tog efekta. Istraživanje je sprovedeno u toku marta 2022. godine na teritoriji AP Vojvodine (Republika Srbija), čime je prikupljeno 270 validnih upitnika. Analiza podataka je izvršena u softveru SmartPLS 3.3.7. Na osnovu rezultata istraživanja može se zaključiti da HRP utiču na BS i FP, kao i da BS ostvaruje medijatorski uticaj u odnosu između HRP i FP. Rad pre svega donosi nova saznanja koja mogu koristiti menadžerima ljudskih resursa u poslovnom okruženju Srbije i Zapadnog Balkana, zbog specifičnosti poslovnog i kulturološkog okruženja, ali i budućim naučnim istraživanjima.*

**Ključne reči:** menadžment ljudskih resursa, prakse upravljanja ljudskim resursima, poslovna strategija, performanse organizacije, Structural equation modeling


### 1. Introduction

In contemporary era, markets based on competitiveness are characterized by organizations that fight each other to attract and retain highly qualified and high-quality workers (Lyly-Yrjänäinen, 2008). In this process, organizations have various instruments, techniques and methods at their disposal and some of them will be covered in this paper. According to various authors, HR

practices have certain effects on firm performance (Kutieshat & Farmanesh, 2022; Capelleras et al., 2021; Irshad et al., 2021), but this effect may be mediated by various factors. One of the factors that can enhance the relationship between HR practice and organizational performance is business strategy (Lee et al., 2010). The basic premise in this research is that HRP affect firm performance, by influencing the final outcomes of firm performance through various methods of HRP. Clear

\*Corresponding author

E-mail address: [slobodan1997lukovic@gmail.com](mailto:slobodan1997lukovic@gmail.com)

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business goals, but also methods and techniques of their realization, translated into business strategy, can greatly enhance the quality and effect of HRP on firm performance. The aim of the research is to determine whether HR practices have an impact primarily on organizational performance, but also on business strategy, with special emphasis on determining the mediating effect of business strategy in the relationship between HR practices and organizational performance.

In order to reach the results and conclusions of the research, different methods were used, both qualitative and quantitative. Methods of induction and deduction, analysis and synthesis were used, but also quantitative method using statistical analysis.

The paper consists of an Introduction, Literature Review and Hypothesis Development, Research Methodology, Results and Discussion, as well as a Conclusion. The introduction itself indicates the starting point of the research concept, which is elaborated in more detail in the next chapter through a systematic and consistent presentation of previous scientific knowledge and evidence. Based on the previous knowledge and the research objectives, three hypotheses have been proposed. The research methodology included the process of planning and conducting the research, as well as the methods used to obtain the results discussed in the next chapter. Summarizing the findings of this research and comparing them with previous research is included in the conclusion of the paper.

## 2. Literature Review and Hypothesis Development

Beer (1985, cited in Imna & Hassan, 2015, p. 57) defines HRM "as one of the main management activities involved in making decisions and all actions that affect the nature of the rapport between the employees and organization". Training is "a set of planned activities on the part of an organization to increase the job knowledge and skills or to modify the attitudes and social behavior of its members in ways consistent with the goals of the organization and the requirements of the job" (Landy, 1985, p. 306). They represent one of the key opportunities for improving employee performance, but also one of the most important HRM activities focused on performance (Siddiqui & Sahar, 2019; Adesola et al., 2013). "Teamwork typically involves groups of interdependent employees who work cooperatively to achieve group outcomes" (Parker & Wall, 1998, cited in Griffin et al., 2001, p. 537). A team of employees was formed in order to over time realize pre-defined goals that apply to the entire team, through exchange of knowledge, skills and abilities (Harris & Harris, 1996; Tarricone & Luca, 2002). Compensations are basically divided into financial and non-financial, and according to Gomez-Meji et al. (2004, cited in Lee et al., 2010, p. 1353) include basic earnings, bonuses earned by employees based on performance and benefits. The salary system usually consists of a fixed salary defined by the employment contract, but also a salary bonus that is related to the results achieved by the employee in the accounting period (Dogandžić & Dogandžić, 2021). Planning within the HRM is a critical and starting point

for other activities that this sector or function of the organization will deal with, but also an integrated part of the organizational strategy (Lam & Schaubroeck, 1998). Due to insufficient development of organizational awareness, it can happen that strategic HR planning is performed by management, outside of the HR sector, where the HR sector only performs administrative tasks (Khatri, 2000). Performance appraisal is one of the key activities within HR activities (Redman et al., 2000, cited in Rubel & Kee, 2015), and it refers to the comparison of employee performance with the company goals, by management. They are assessing the efficiency and effectiveness of their work during a certain period of time. Employment security is defined as the perception of employment continuity in an organization by an employee (Pearce, 1998). An increase in the perceived level of employment security leads to an increased level of employee commitment to the organization, which is a result of the belief in job continuity (Joarder et al., 2015). According to Psychogios et al. (2016), who conducted research in Southeast Europe, the sector in which SMEs operate and the size of the organization affect the degree of formalization of HR practice policies and compensation system, while the size of the organization affects HR practices such as training and required competencies.

A strategy is defined as "the means by which long-term objectives will be achieved" (Fred, 2011, p. 13), "an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage, ... indicates what the firm intends to do as well as what it does not intend to do" (Hitt et al., 2007, p. 4). Cherunilam (2015, p. 4) distinguishes corporate strategy which refers to the strategy of the entire organization, that defines the tasks and scope of work that the organization wants to perform; and business strategy as a plan for how to implement selected tasks.

Almatrooshi et al. (2016, p. 846), referring to Cho and Dansereau (2010), state that organizational performance represents "the performance of a company as compared to its goals and objectives", as well as to Tomal and Jones (2015), in which case they represent "as the actual results or output of an organization as measured against that organization's intended outputs". Firm performance in the broadest sense represents the results of the organization's work that are obtained on the basis of a continuous process of measuring performance, which is an integral part of the performance management process of the organization.

### 2.1 HR practices and business strategy

Business strategy, as a mechanism for achieving competitive advantage and long-term business sustainability, is necessarily related to human factors in the organization. In the first place, it is related to employees and HRP aimed at improving the skills, knowledge and position of employees, and it should be a strategic issue in an organization (Kuipers & Giurge, 2017; Gunnigle & Moore, 1994). Business strategy and HRP are linked in several ways, and some of them assume that „HR practices are themselves a strategic decision“

(Milise & Snow, 1984, cited in Rousseau & Wade-Benzoni, 1994, p. 464), but according to the same authors, HRP covered by the business strategy encourage the improvement of the process of attracting and retaining employees, especially highly competent and talented workers. Business practices in underdeveloped and less developed countries, where the management of organizations is still not at an enviable level, leads to often exclusion of HRP from business strategies, but also the existence of HR strategy is questionable. On the other hand, HRP and politics in developed countries are becoming an integral part of business strategies, but also according to Huang (2000) companies that record better business results are more likely to integrate the HR function into business strategy.

*H1: HR practices positively affects business strategy.*

## 2.2 HR practices and firm performance

While conducting research in the banking sector of Serbia, Vernić Đurković et al. (2013) found that there is a strong correlation between the quality of HR practices and organizational performance. Based on research conducted on companies in various industries in Malaysia (Osman et al., 2011), Turkey (Hanci-Donmez & Karacay, 2019) and Spain (Beltrán-Martín et al., 2008), a positive effect of HRP on performance was established. According to Morley et al. (2016) who conducted research on organizations with up to 1000 employees in selected European countries, it has been established that there is a significant link between the funds invested annually in employee training and firm performance such as productivity and innovation. Based on the research of Abdul Ghani Azmi (2015), it was determined that Islamic HRP are an important predictor of firm performance, with special emphasis on training and development of employees. The impact of formalized HRP on firm performance was investigated by Sánchez-Marín et al. (2019), where a significant positive relationship was confirmed in non-family businesses, while in family businesses this relationship was not confirmed. Ubeda-Garcia et al. (2018), while researching HPWS in stand-alone hotels and hotel chains in Spain, found that a fair system of rewards, performance appraisals, training and employment have significant predictor effects on: brand recognition, market share, sales growth, guest satisfaction and room occupancy. Also, while researching the impact of HRP on firm performance in Indian hotels, Chand (2010) found that there is a significant interdependence between HRP (recruitment and selection, salary system) with ROI, sales volume and growth, market share and profitability. Chand and Katou (2007) also researched Indian hotels and found a significant relationship between firm performance (sales growth, profitability) with HRP. HRP aimed at increasing skills, motivation and opportunities are a positive predictor of firm performance of companies in India, with the predictor impact being greater when these HRP are combined with affective commitment (Kundu & Gahlawat, 2018). Modern business practices require an increasing degree of innovation, and the importance of HR practice for this purpose was confirmed by Berber and Leković (2018)

where they proved in a sample of selected European countries (including Serbia) that HR practices such as on-the-job training, mentoring, evaluation of effectiveness training and similar, affect the rate of organizational innovation. Career development and the opportunity to advance in the organization has been recognized as one of the most important HR practices that affect individual and organizational performance, as confirmed by Szabó et al. (2019) as part of the CRANET research (Serbia, Croatia, Romania, etc.). Based on research on organizations operating in the field of insurance in Malaysia, a positive interdependent relationship was established between HRP and perceived firm performance (Beh & Loo, 2013).

*H2: HR practices positively affect firm performance.*

## 2.3 HR practices, business strategy and firm performance

Human resource management practices aim to ultimately control the behavior of individuals, for organizational and personal gain, and based on this, it can be considered that HRP reflect a certain type of control. Accordingly, Liao (2005) considers the division of HR controls into three elements (according to Snell & Youndt, 1995, p. 713): behavioral control ("responsibilities are standardized and imposed top-down with an overriding concern for procedures and methods"), input control ("rigorous selection and training that help to socialize employees to ensure they have requisite abilities as well as understand and internalize the values and goals to the organization") and output control (mutually set performance goals based on employee performance). Liao (2011), while was researching on a sample of computer industry organizations located in Taiwan, found that a cost reduction strategy paired with behavioral control is a positive predictor of perceived firm performance, with the same strategy paired with input control a negative predictor. Further, input control combined with an innovative strategy has positive effects on firm performance, but the aforementioned strategy combined with behavioral control has negative effects. The same author (2011), doing research on manufacturing industry in Taiwan, found that the strategy of codification of knowledge paired with behavior control is a negative predictor of firm performance. Also, the strategy of personalization of consumer needs paired with behavioral control has positive effects on performance, but when this strategy is paired with output control, it has negative effects.

*H3: Business strategy mediates the impact of HR practices on firm performance.*

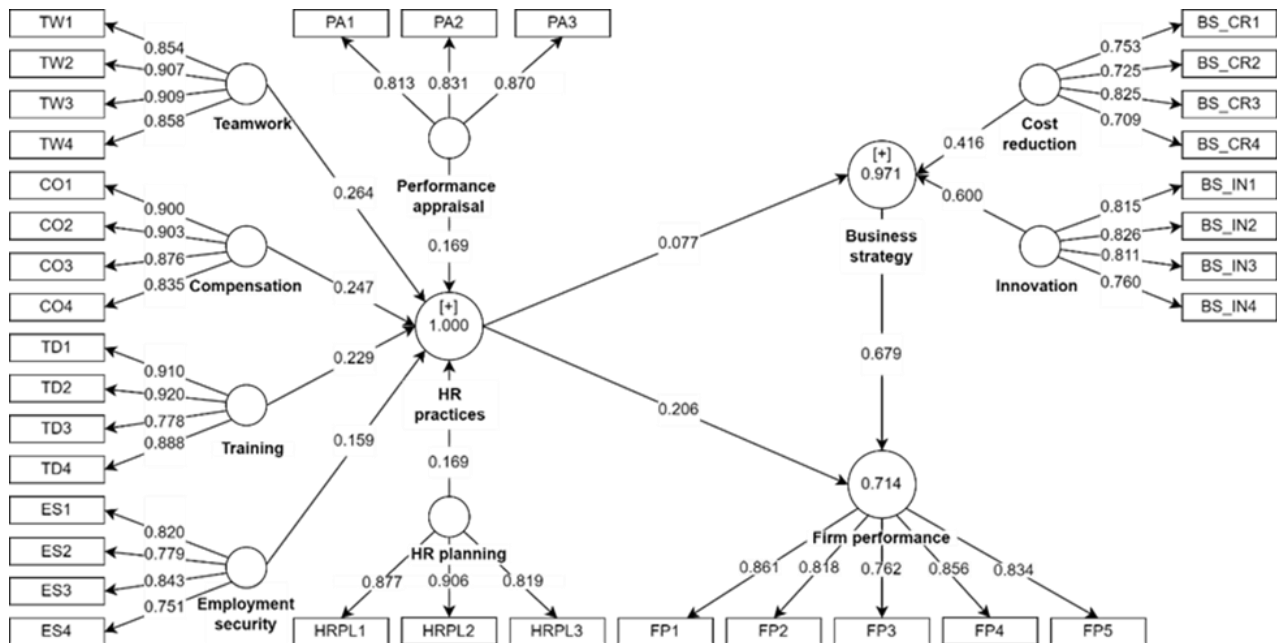
## 3. Research Methodology

The research involves the use of questionnaires suggested by Lee et al. (2010) based on the findings of different authors, which was the starting point in creating the model presented in Figure 1. The model consists of three variables (factors), of which two variables are second order (subdimensions of main variables) and one variable is first order. Namely: HR practice /HRP (independent

variable – second order (variable with six subdimensions)): training /TD, HR planning /HRPL, teamwork /TW, compensation /CO, performance appraisal /PA and employment security /ES); business strategy /BS (mediator – second order (variable with two subdimensions)): cost reduction strategy /BS\_CR and innovation strategy /BS\_IN and firm performance /FP (dependent variable – first order (only one dimension)).

The HR practices variable contains 22 items, a business strategy 8 items and a firm performance 5 items. In Figure 1, the rectangle represents items (e.g., TW1, PA1, HRPL1, etc.), small circles of subdimension (e.g., Performance appraisal, Cost reduction, HR planning, etc.), and large circles of variables (factors /HR practices, Business strategy and Firm performance).

Figure 1. Path coefficient estimates



Source: Author

Some of the items that respondents had the opportunity to evaluate are: HRP /teamwork e.g. *Problem solving teams have helped improve manufacturing processes at your firm*, HRP /performance appraisal e.g. *Your firm frequently does informal appraisals*, HRP /HR planning e.g. *Your firm forecasts personnel requirements*, HRP /employment security e.g. *Employees in their jobs can expect to stay at your firm for as long as they wish*, HRP /training and development e.g. *Extensive training programs are provided for individuals in their jobs at your firm*, HRP /compensation e.g. *Incentive system at your firm encourages people to reach company goals*, BS /cost reduction e.g. *Your firm aims at lowering cost and promoting efficiency*, BS /innovation strategy e.g. *Your firm aims at innovation and responsiveness*, FP e.g. *Your firm's ability to keep consistency of its product quality*. Respondents completed the questionnaire by assessing claims on a five-point Likert scale (1 – strongly disagree, 5 – strongly agree). To test the validity and reliability of the model, and hypotheses, used SmartPLS 3.3.7 software. Hypothesis testing is based on the bootstrapping sample of 5000.

During the research, in the first instance, the online version of the survey was used, however, due to insufficient response, it was necessary to do field research. The research was conducted in the AP Vojvodina (Republic of Serbia). The research questionnaires were distributed and collected in the first half of March, 2022.

During the distribution of the questionnaire, the normality of distribution was taken into account as much as possible according to the activities within which the organizations operate, however, due to the attitudes of the companies, it was not possible to meet this normality. When planning and conducting research, certain companies (mostly companies with up to 50 employees) refused to participate in the research due to the lack of HR sector and policies in their company at a level that can contribute to the research. On the other hand, companies with over 250 employees refused to allow employees to fill out a questionnaire to protect the secrecy of business practices. During the research, about 420 questionnaires were distributed, with the final number of valid being 270 questionnaires (64%).

Table 1 shows the socio-demographic analysis of the respondents and information about the organizations covered by the research. Based on the presentation in Table 1, it can be concluded that women are the more dominant gender who participated in the research. This fact can be related to the dominant share of sales organizations, which mainly employ women (not exclusively). The distribution of respondents in relation to the level of education is in line with the assumptions, so we can see that there are the most graduates and those who have finished high school, and the least PhD. Also, the smaller number of respondents working in the financial organizations (as well as banking and insurance) and telecommunications sectors can be explained through the

fact that top management does not allow employees to fill out questionnaires (due to the protection of business practices). The smallest number of respondents belongs to the hospitality sector, due to insufficiently developed human resource management practices, and that is why they refused to fill out questionnaires. The largest number of respondents belongs to the category “up to 30 years” “31-40 years”, which can be explained by the fact that younger employees work in operational positions (which are dominantly covered by the research), while older and

more experienced employees work in managerial and executive positions. The largest number of respondents work in large organizations (according to the Law on Accounting in the Republic of Serbia, these are companies with an average number of 250 employees and /or operating income of 40M euros and /or asset value of 20M euros). The age of company is relatively evenly distributed, except for companies that have been operating for more than 21 years.

**Table 1.** Sample characteristics

	Frequency (N=270)			Frequency (N=270)	
	N	%		N	%
Gender			Age		
Male	96	35.6	< 30 years	128	47.4
Female	174	64.4	31-40	77	28.5
Education			41-50	42	15.6
High school	76	28.1	51-60	18	6.7
Vocational study	34	12.6	> 61	5	1.8
Bachelor	88	32.6	Employee number		
MSc	68	24.4	< 10	27	10
Ph.D.	6	2.2	11 – 50	35	13
Sector			51 – 250	81	30
Finance	58	21.5	> 251	127	47
Retail	115	42.6	Firm age		
Telecommunication	10	3.7	< 5 years	38	14.1
Hospitality	8	3	6 – 10	39	14.4
Production	28	10.4	11-15	50	18.5
IT	30	11.1	16-20	40	14.8
Other	21	7.8	> 21	10	38.1

Source: Authors’ calculation

**4. Results and Discussion**

The analysis of the research was conducted in two steps- the first step was to test the research model, while the second step was to test the hypotheses. Descriptive statistics, indicator reliability, reliability and validity of the scale are presented in Table 2.

**Table 2.** Indicator reliability and construct’s reliability and validity

	$\alpha$	rho_A	CR	AVE
HRP	.945	.847	.902	/
TD	.898	.910	.929	.767
TW	.905	.905	.934	.778
CO	.902	.905	.931	.772
PA	.788	.789	.876	.703
ES	.812	.821	.876	.639
HRPL	.836	.847	.902	.754
BS	.898	.904	.915	/
BS_CS	.747	.752	.841	.569
BS_IN	.817	.818	.879	.646
FP	.884	.890	.915	.684

Source: Authors’ calculation based on SmartPLS 3.3.7

Descriptive statistics consist of min, max, mean and standard deviation. The reliability test was performed based on the calculation of the coefficients Crnobach’ Alpha, Composite Reliability and AVE. The reliability of the scale was confirmed by Alpha values greater than 0.7 (Nunnally, 1978). The value of CR ranges from 0.841 to

0.934, which is in line with the recommendations of Hair et al. (2014) that the minimum acceptable value is 0.7. Convergent validity was confirmed by the calculation of AVE, where according to the recommendations from Fornell and Larcker, the minimum value is 0.5.

Discriminant validity was calculated using three criteria: Fornell-Larcker Criterion, Cross Loadings and Heterotrait-Monotrait Ration (Ab Hamid et al., 2017). According to Fornell and Larcker (1981, p. 39) discriminant validity is met when the root of the AVE variable has a higher value than all correlations with the mentioned variable, as can be seen in Table 3, the values in the diagonal (AVE root) are highest in the column, in relation to the variables below it.

According to Chin (1998), a model has corresponding discriminant validity when the load of the indicator is higher for its construction than any other construction (gray blocks - a variable with corresponding items). By inspecting Table 4, it can be determined that the load of blocks is the highest, compared to other blocks in that row or column, which confirms the discriminant validity of the model according to this criterion.

HTMT ratio values below 0.9 indicate that the selected constructs differ from each other, and it can be concluded that they describe different phenomena (Hair et al., 2019, p. 15). After the HTMT analysis, shown in Table 5, we can conclude that the discriminant validity is met.

**Table 3.** Fornell-Larcker Criterion

	HRP	CO	FP	PA	BS_IN	BS_CS	ES	TW	TD
HRP	.868								
CO	.555	.879							
FP	.59	.589	.827						
PA	.593	.679	.595	.838					
BS_IN	.508	.609	.764	.592	.804				
BS_CS	.481	.496	.657	.532	.655	.755			
ES	.438	.345	.521	.45	.445	.427	.799		
TW	.676	.717	.616	.705	.621	.536	.477	.882	
TD	.498	.593	.538	.604	.572	.404	.426	.692	.876

Source: Author's calculation based on SmartPLS 3.3.7

**Table 4.** Cross Loadings

	HRPL	PA	FP	CO	BS_IN	BS_CS	ES	TD	TW
HRPL1	.877	.520	.531	.521	.478	.426	.348	.491	.647
HRPL2	.906	.541	.530	.524	.453	.428	.421	.439	.631
HRPL3	.819	.481	.472	.386	.386	.397	.373	.356	.464
PA1	.543	.813	.519	.544	.439	.436	.380	.524	.560
PA2	.503	.831	.483	.563	.504	.479	.325	.479	.586
PA3	.447	.870	.494	.599	.544	.424	.424	.515	.626
FP1	.490	.471	.863	.541	.675	.539	.427	.474	.535
FP2	.475	.461	.819	.471	.573	.492	.395	.430	.513
FP3	.442	.449	.762	.345	.519	.536	.355	.275	.386
FP4	.549	.542	.854	.574	.725	.569	.459	.521	.615
FP5	.478	.531	.833	.479	.646	.583	.509	.496	.476
CO1	.432	.603	.520	.900	.569	.407	.260	.548	.611
CO2	.536	.607	.567	.903	.583	.467	.309	.528	.656
CO3	.395	.510	.430	.876	.474	.400	.218	.440	.526
CO4	.566	.650	.539	.835	.507	.458	.405	.555	.706
BS_IN 1	.484	.536	.619	.542	.808	.611	.375	.583	.603
BS_IN 2	.376	.457	.623	.511	.826	.520	.307	.404	.486
BS_IN 3	.393	.522	.629	.473	.812	.565	.368	.456	.482
BS_IN 4	.381	.381	.584	.430	.767	.404	.381	.393	.424
BS_CS 1	.377	.363	.516	.315	.475	.763	.268	.243	.329
BS_CS 2	.190	.238	.405	.201	.336	.730	.215	.109	.169
BS_CS 3	.432	.546	.572	.525	.597	.813	.422	.426	.539
BS_CS 4	.418	.422	.472	.416	.538	.709	.359	.400	.532
ES1	.408	.448	.496	.384	.393	.385	.820	.401	.458
ES2	.318	.286	.373	.176	.306	.311	.779	.305	.375
ES3	.356	.348	.367	.265	.293	.291	.843	.283	.340
ES4	.304	.332	.410	.245	.420	.366	.751	.359	.335
TD1	.494	.611	.521	.570	.528	.390	.383	.910	.637
TD2	.421	.538	.457	.511	.455	.303	.363	.920	.631
TD3	.328	.415	.375	.412	.461	.353	.311	.778	.462
TD4	.481	.532	.515	.567	.556	.372	.426	.888	.670
TW1	.609	.584	.547	.623	.542	.433	.420	.626	.854
TW2	.607	.641	.527	.615	.523	.445	.437	.599	.907
TW3	.587	.627	.513	.600	.537	.491	.436	.618	.909
TW4	.581	.634	.586	.692	.589	.521	.390	.599	.858

Source: Authors' calculation based on SmartPLS 3.3.7

**Table 5.** HTMT Ratio

	HRP	CO	FP	PA	BS_IN	BS_CS	TW	TD
HRP								
CO	.626							
FP	.683	.648						
PA	.731	.799	.712					
BS_IN	.612	.706	.893	.735				
BS_CS	.594	.585	.802	.679	.823			
ES	.527	.384	.605	.552	.543	.534		
TW	.769	.787	.683	.835	.722	.632	.550	
TD	.564	.650	.592	.713	.667	.479	.491	.761

Source: Authors' calculation based on SmartPLS 3.3.7

According to Menard (2002) the value for VIF above 5 can be worrying, while according to Johnston et al. (2018) VIF below 2.5 indicates significant collinearity. Based on the values shown in Table 6, it can be concluded that the VIFs are generally below 2.5, except in one case.

$p = 0.000$ ), which in this model is explained by the variables HR practices and business strategy.

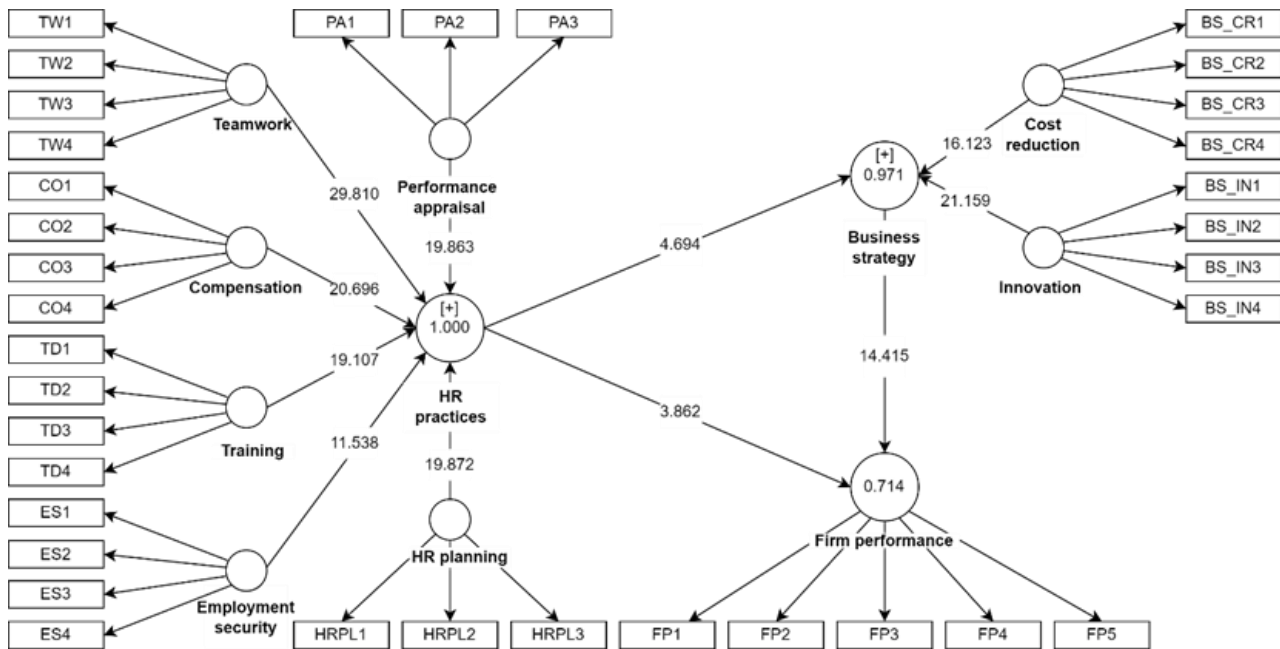
**Table 6. VIF**

	VIF		VIF
HRP	1.990	BS_CS	1.892
CO	2.413	ES	1.398
FP	2.277	TW	3.466
PA	2.471	TD	2.087
BS_IN	2.405		

Source: Authors' calculation based on SmartPLS 3.3.7

Figure 2, within the variable business strategy, provides the insight into the regression coefficient of 97.1% (SD = 0.003,  $T = 313.832$ ,  $p = 0.000$ ) which in the given model explains the variable HR practices. It also provides the insight into the variable firm performance where the regression coefficient is 71.4% (SD = 0.031,  $T = 22.872$ ,

**Figure 2. The path model with bootstrapping results**



Source: Authors' calculation based on SmartPLS 3.3.7

Based on the analysis of the data presented in Table 7, the hypotheses were confirmed at the statistical significance level of  $p = 0.000$ . The results of the direct effect confirm the positive impact of HRP on business strategy ( $H1 \beta = .077$ ;  $T = 4.606$ ;  $p = .000$ ) and on firm performance ( $H2$

$\beta = .206$ ;  $T = 3.827$ ;  $p = .000$ ). Through the indirect effect, the positive mediating influence of business strategy in the relationship between HRP and firm performance was also confirmed ( $H3 \beta = .052$ ;  $T = 5.214$ ;  $p = .000$ ).

**Table 7. Mean, SD, T-statistic, P-values**

	Original Sample	Sample Mean	SD	T	p		
H1	HRP → BS	.077	.077	.017	4.606	.000	Accepted
H2	HRP → FP	.206	.208	.054	3.827	.000	Accepted
H3	HRP → BS → FP	.052	.052	.010	5.214	.000	Accepted

Source: Author's calculation based on SmartPLS 3.3.7

### 5. Conclusion

The paper points to new knowledge in the field of HR practice and performance of the organization, but also the impact of business strategy on the stated relationship. Confirmation of hypotheses is in line with previous research by many authors, who have limited their research to certain activities, geographical areas and the like. On a group of service and manufacturing companies in India, Singh (2004) confirmed that there is a significant link between HRP (selection, performance appraisal, careers,

etc.) and perceived firm performance. However, the same author found that only compensations and training have a predictor role at a significant level. According to research by Katou and Budhwar (2010), conducted in manufacturing industries (predominantly food and textile), it was found that HRP such as recruitment and selection, training and development, performance appraisal, flexible working arrangements have a positive correlation with effectiveness, efficiency, development, satisfaction, innovation and quality, which was confirmed by the research of Absar et al. (2010) in Bangladesh where



operational performances are included. However, Vlachos (2009), while researching manufacturing industries in Greece, found a significant relationship between HRP and perceived firm performance, but also current firm performance. Also, in the research that included banking organizations in Pakistan, positive predictors of financial performance were selection, training, job description and performance appraisal, while these practices and a few others were positively correlated with financial performance (Quresh et al., 2010).

Companies in the automotive, manufacturing and electronics industries, in the USA, Italy, Germany and Japan, Ahmad and Schroeder (2003) found a significant relationship between HRP (employment security, teamwork, etc.) and operational performance (quality, delivery, flexibility). Also, Karami et al. (2015) confirmed that HRP and business strategy together have significant positive effects on an organization's performance in the banking sector, which is consistent with Lee et al. (2010) who found an identical relationship in the steel industry. The same authors identified a significant interdependent relationship between HRP and business strategy, which is significant in terms of complementarity, but also in terms of the impact on each other. Strategic HRM on its base level, among other things, aims to incorporate HRP into business strategy, which is also related to HRP, because it is, among other things, directly related to personnel policy. Based on the research by Heffernan et al. (2016) HPWS and differentiation strategy together positively form predictors of employee performance, which can be one of the factors of overall firm performance. The findings of this research are confirmed by both Mousa and Othman (2020), by proving the relationship between green HRP and firm performance such as environmental performance and other performance.

Also, research by Elayan et al. (2022) confirms the mediating influence of  $\pi$ -shaped skills (expertise in two disciplines (vertical lines of the letter  $\pi$ ) and basic knowledge of other disciplines that connect the previous two (horizontal line of the letter  $\pi$ )), which are particularly important today, in relation to knowledge-based HRP and innovative performance. Another aspect of HRP is reflected in the research of Xiu et al. (2017), which confirms the mediating impact of motivational HRP in the relationship between strategic flexibility and firm performance. Also, the research findings on the impact of business strategy on the relationship between HRP and firm performance are in line with the findings of Li et al. (2015) who found that HRP have an impact on firm performance when an innovation-oriented strategy is adopted. HR managers involved in the process of creating a business strategy have a positive predictor effect on organizational productivity (Darvish et al., 2012). Research by Farouk et al. (2016) points to the positive effect of HRP on firm performance using organizational innovation (which is positively influenced by the innovation strategy) in the banking sector of UAE.

Since HRP have an impact on firm performance, the basic managerial implication of this paper is based on reminding decision makers in organizations that

organizations need to be revised and improved. Depending on the business system and environment, management should consider improving HRP, which can be reflected in the following: 1) Create a system of salaries that supports the individual work of the person, which will make them feel the need to improve their work, as well as to enable trainings that are put in place to serve employees and not just to exist in the formal sense; 2) Employee performance appraisal can be improved with a 360° performance appraisal system, 3) While HR planning should be based on joint collaboration of employees with management. Improving HRP directly affects the work of employees and the environment in which they work, which creates the preconditions for improving firm performance. The strategy of the organization has a particularly important role in this relationship, which should primarily identify key HRP and assign strategic importance to them. When HRP are as important at the strategic level as firm performance, the growth and development of the organization can certainly be expected.

*Limits of the research and future work:* the number of respondents is satisfactory, but there is certainly space to increase the number of respondents. Also, there is a possibility to expand the research to the entire territory of the Republic of Serbia, and at the same time, to limit the sample to large organizations (more than 250 employees). One of the possibilities for further work, based on this model, is to extend the study to the countries of the region which are either a part of the EU or not, where the difference in the discussed relationship in the member states and those that are not can be noted (assuming easier spread of knowledge on the EU territory).

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