

Strategic Human Resource Management and Organizational Performance: A Mediating Role of Employee Engagement

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Abstract

This study aims to analyze the effect of Strategic Human Resource Management (SHRM) on Organizational Performance (OP) with the mediating role of Employee Engagement (EE). The results showed that SHRM has a positive and significant influence on OP. In addition, EE was also found to have a significant effect on OP. Furthermore, this study identified that EE acts as an important mediator that strengthens the relationship between SHRM and OP. These findings indicate that the effective implementation of SHRM, when combined with increased employee engagement, can result in significantly improved organizational performance. This study provides theoretical contributions by strengthening the literature on the relationship between SHRM, EE, and OP, as well as practical contributions for HR managers to design more strategic and employee engagement-oriented policies.

Keywords: Strategic Human Resource Management, Employee Engagement, Organizational Performance.

INTRODUCTION

Strategic Human Resource Management (SHRM) plays an important role in enhancing organizational performance, especially in the context of global competition and digitalization. By aligning HR strategies with organizational goals, SHRM not only optimizes human potential, but also fosters sustainable competitive advantage, which is crucial for long-term success in today's dynamic market environment. (Suwardhi Pantih,2024). This alignment ensures that human resources are managed effectively, allowing the organization to leverage its workforce as a key asset (Oges Susfita Putri, 2024). Additionally, the integration of SHRM practices significantly contributes to the overall performance of an organization by enhancing its efficiency and effectiveness in achieving strategic goals. (Nikotiyanto Dwi Cahyono,2024). When organizations navigate the complexities of the modern business landscape, strategic human resource management becomes increasingly important to maintain competitive advantage and ensure organizational survival. (Muhammad Junaidi ,2024). Thus, SHRM emerges as a fundamental component in pursuing excellence and sustainability in organizational performance.

The challenges in implementing Strategic Human Resource Management (SHRM) are evident in various sectors, with only 40% of global organizations effectively integrating HR strategies with organizational goals. (Suwardhi Pantih,2024). In Indonesia, 56% of companies struggle to align HR policies with evolving business strategies, especially amid technological disruptions and digital transformation (Atieh Mirfakhar,2018). This misalignment underscores the critical need for the formulation of effective HR strategies that not only align with organizational goals, but also adapt to rapid changes in the business environment. (Sri Suwarsi,2024). The integration of HR strategies with organizational goals is crucial for driving business success; however, ongoing challenges highlight the importance of addressing this gap to enhance overall organizational performance. (Suwardhi Pantih,2024). As organizations navigate this complexity, a focused approach to SHRM can facilitate better alignment and response to internal and external changes. The low level of employee engagement, as highlighted by the Gallup survey, shows only 17% engagement in Indonesia, which poses significant challenges for organizations aiming to improve their work culture. (Wawan Saputra,2024). High employee engagement is crucial because it serves as a bridge between the effective implementation of Strategic Human Resource Management (SHRM) and the improvement of organizational performance. (Smt.Gudivada Karuna Sri.2024). A supportive work culture that encourages engagement can motivate employees, leading to increased productivity and overall organizational success. (Mohd Anuar bin Arshad,2024). By aligning HR practices with the emotional needs and motivations of employees, organizations can create an environment that not only enhances engagement but also drives performance. (Smt.Gudivada Karuna Sri,2024). Therefore, addressing the factors that contribute to low engagement is crucial for organizations to thrive in today's competitive landscape.

Employee engagement serves as an important mediator that connects Strategic Human Resource Management (SHRM) and organizational performance improvement. Research by Albrecht et al. (2022) shows that organizations that effectively implement HR strategies to enhance employee engagement can achieve productivity increases of up to 30% compared to organizations that do not prioritize engagement. (Nikotiyanto Dwi Cahyono,2024). This underscores the importance of aligning HR practices with business objectives as SHRM provides a framework for developing strategies that foster employee commitment and engagement. (A. Ampauleng,2024). Engaged employees not only contribute to increased efficiency, but also enhance the overall performance of the organization, demonstrating that effective HR strategies are crucial for cultivating a motivated workforce. (Suwardhi Pantih,2024). Thus, the integration of employee engagement initiatives into SHRM is crucial in driving substantial business outcomes. The speed of digital transformation forces organizations to implement flexible and innovative HR policies that address the complexities of the modern work environment. Hybrid work arrangements, characterized by a blend of remote and office work, require HR strategies that promote employee engagement and work-life balance. (Mr. Reddy Sarveswara Reddy,2024). In addition, the gig economy introduces a diverse workforce that requires a tailored HR approach to meet the unique needs of gig workers. (Efrita Norman ,2024). Because employees are increasingly prioritizing work-life balance, organizations must adjust their policies to attract and retain top talent, ensuring that employees can effectively manage their professional and personal lives. (Khuzaini, 2024). Ultimately, these evolving expectations demand that HR strategies not only embrace digital technology, but also cultivate an environment that enhances employee experience and commitment. (Eloh Bahiroh,2024). By integrating these elements, organizations can navigate the challenges posed by digital transformation and create a more engaged workforce.

LITERATURE REVIEW

1. Strategic Human Resource Management (SHRM) : Strategic Human Resource Management (SHRM) is an approach to human resource management that focuses on aligning HR policies and practices with the strategic goals of the organization. Schuler and Jackson (1987) defined SHRM as a proactive process for managing human resources to support long-term business goals. SHRM includes aspects such as strategic workforce planning, competency development, and implementation of policies that align with changes in the external and internal environments of the organization. A study by Wright and Snell (1998) showed that effective SHRM enables organizations to enhance their flexibility and adaptability when facing external challenges. Recent research by Delery and Roupni (2017) confirms that SHRM directly contributes to competitive advantage through increased productivity, innovation, and employee satisfaction.

2. **Organizational Performance :** Organizational performance reflects the organization's ability to effectively and efficiently achieve its goals. The dimensions of organizational performance include financial performance, operational performance, and customer satisfaction. Kaplan and Norton (1996) introduced the Balanced Scorecard as a framework for comprehensively measuring organizational performance. Research by Huselid (1995) revealed that strategic HR practices such as employee training and development positively influence organizational performance. In the context of modern organizations, performance is also influenced by factors such as innovation, sustainability, and stakeholder relationship management.

3. **Employee Engagement :** Employee engagement is defined as the level of emotional connection and commitment employees have towards their work and organization. Kahn (1990) was one of the first researchers to introduce the concept of employee engagement as a psychological state that affects individual performance. According to Bakker and Demerouti (2008) job demands–resources (JD-R) theory, employee engagement is influenced by the balance between job demands and job resources. When job resources are sufficient, employees are more likely to feel motivated and engaged, which positively affects productivity and job satisfaction.

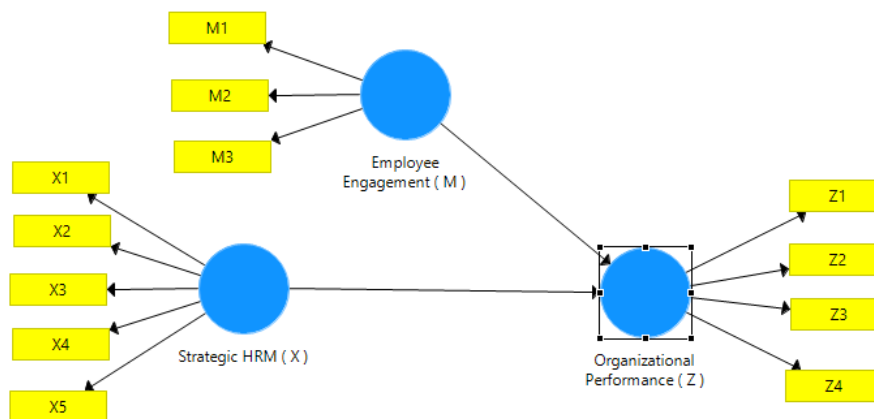
4. **The Mediating Role of Employee Engagement in the Relationship between SHRM and Organizational Performance**

Employee engagement has been identified as an important mediator in the relationship between SHRM and organizational performance. Research by Albrecht et al. (2022) shows that SHRM policies oriented towards employee development, such as training, empowerment, and recognition, can enhance employee engagement, which, in turn, drives organizational performance. Another study by Saks (2006) revealed that engaged employees have higher productivity levels, tend to be more innovative, and are more loyal to their organization. Thus, employee engagement not only serves as an outcome of SHRM implementation, but also as a mechanism that reinforces the impact of SHRM on organizational performance.

5. **Current Context in SHRM and Employee Engagement :** In the digital era, organizations face new challenges in implementing SHRM, including the adoption of technology, hybrid working, and the gig economy. Stone and Deadrick (2015) emphasize the importance of adapting SHRM policies to changes in technology and workforce demographics. In the context of employee engagement, a report by Gallup (2023) highlights that organizations using technology to support communication, training, and recognition have higher levels of employee engagement. Additionally, organizations that adopt an inclusive approach in HR policies tend to be more successful in enhancing employee engagement.

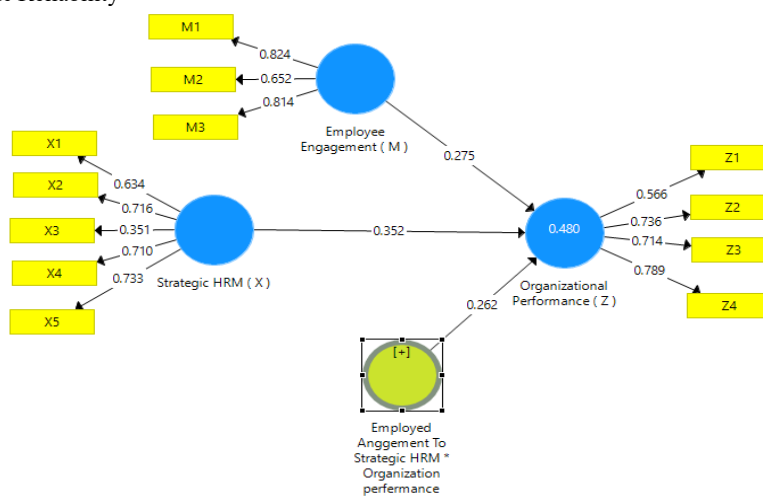
METHOD

This research uses a quantitative research method with a survey-based approach. This study aims to examine the relationship between the variable of Strategic Human Resource Management (SHRM), employee engagement as a mediator, and organizational performance. The research design used an explanatory method to identify the causal relationships between the variables being studied. This study also used the Structural Equation Modeling (SEM) approach to test the conceptual model involving mediating variables. Population: Employees and managers from private sector companies operating in the fields of technology, manufacturing, and services in Indonesia. Sample Size: A minimum of 100 respondents, in accordance with the SEM analysis requirements, which is 5–10 times the number of indicators in the questionnaire. The variables in this study use the Independent Variable (X) and Strategic Human Resource Management (SHRM), with imensions: Strategic recruitment and selection, Training and development, Performance management, Strategic compensation, and Employee empowerment. Mediating Variable (M) Employee Engagement Dimensions: Vigor: Dedication: Absorption, Dependent Variable (Z) Organizational Performance Dimensions: Financial performance, Customer satisfaction, Internal process performance: Learning and growth,



Framework Strategic Human Resource Management

1. **RESULTS & DISCUSSION**
 Construct Validity & Reliability



Tabel Construct Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Employed Engagement To Strategic HRM * Organization performance	0,760	1,000	0,733	0,177
Employee Engagement (M)	0,645	0,660	0,810	0,589
Organizational Performance (Z)	0,660	0,675	0,797	0,499
Strategic HRM (X)	0,637	0,678	0,772	0,416

Interpretation :

1. Cronbach's Alpha

The Cronbach's Alpha values for each variable in this study are as follows:

- Employed Engagement to Strategic HRM & Organizational Performance: 0.760, meets the reliability standard of >0.6.
- Employee Engagement (M): 0.645. Reliability is still acceptable for exploratory research, but needs improvement in future studies.
- Organizational Performance (Z): 0.660, sufficient reliability for exploratory research.
- Strategic HRM (X): 0.637, although below 0.7, is acceptable for exploratory research.

2. rho_A

- The recommended rho_A value is ≥ 0.7 . Meanwhile, the rho_A values for each variable in this study are as follows:
- Employed Engagement to Strategic HRM & Organizational Performance: 1.000
- This indicates very high reliability, possibly because of the strong consistency between items.
- Employee Engagement (M): 0.660, slightly below the standard, indicating the potential for improvement in measurement items.
- Organizational Performance (Z): 0.675, almost at the threshold, indicating moderate reliability. Strategic HRM (X): 0.678, slightly below the standard but still acceptable for exploration.

3. Composite Reliability (CR)

The recommended Composite Reliability value is ≥ 0.7 . Meanwhile, for this research, the Composite Reliability values are as follows:

- Employed Engagement to Strategic HRM & Organizational Performance: 0.733, meets the minimum standard, indicating good item consistency.
- Employee Engagement (M): 0.810, very good, indicating that the measurement items for this variable were quite strong.
- Organizational Performance (Z): 0.797, good composite reliability, and close to optimal.
- Strategic HRM (X): 0.772 meets the measurement standard.

4. Average Variance Extracted (AVE)

- The recommended AVE value is ≥ 0.5 . In this study, the AVE values for each variable were as follows:
- Employed Engagement to Strategic HRM & Organizational Performance: 0.177, very low, indicating that this variable does not have sufficient convergent validity. A re-evaluation of the measurement items is required.
- Employee Engagement (M): 0.589, good convergent validity, with AVE above 0.5.
- Organizational Performance (Z): 0.499, almost reaching the standard of 0.5, but slight improvements are needed on the measurement items.
- Strategic HRM (X): 0.416, low, indicating poor convergent validity. Need for revision of the measurement items.

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Table R Square

	Employed Engagement To Strategic HRM * Organization performance	Employee Engagement (M)	Organizational Performance (Z)	Strategic HRM (X)
Employed Engagement To Strategic HRM * Organization performance			0,119	
Employee Engagement (M)			0,088	
Organizational Performance (Z)				
Strategic HRM (X)			0,133	

Interpretation

1. Correlation Between Latent Variables

1. Employed Engagement to Strategic HRM * Organizational Performance To Organizational Performance (Z):

Correlation value: 0.119

This correlation was very low, indicating a weak relationship between the variables. This may indicate that the contribution of Employed Engagement to Strategic HRM * Organizational Performance to Organizational Performance is less significant.

2. Employee Engagement (M) to Organizational Performance (Z):

Correlation value: 0.088

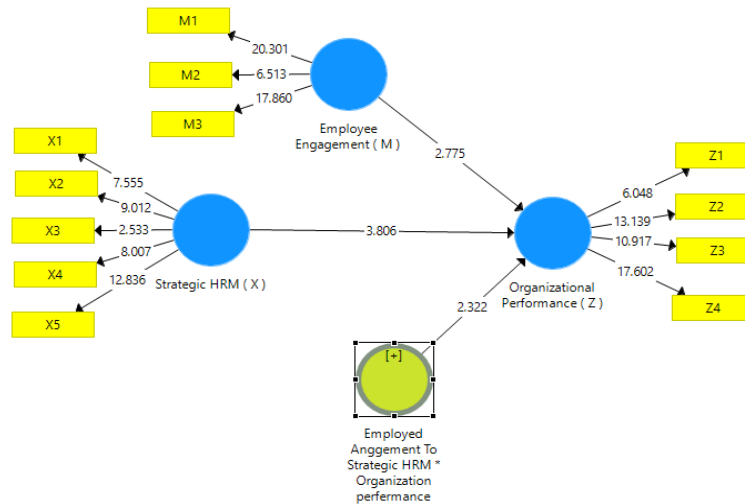
This correlation is also very low, indicating that the relationship between Employee Engagement and Organizational Performance is weak. This may indicate the need to improve the instruments or deepen theoretical analysis to support this relationship.

3. Strategic HRM (X) to Organizational Performance (Z):

Correlation value: 0.133

This correlation is slightly higher than that of the previous relationship but remains at a low level. This indicates that the relationship between Strategic HRM and Organizational Performance must be strengthened with theoretical justification and additional data.

Path Coefficients



Tabel Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Employed Engagement To Strategic HRM * Organization performance -> Organizational Performance (Z)	0,262	0,288	0,113	2,322	0,021
Employee Engagement (M) -> Organizational Performance (Z)	0,275	0,267	0,099	2,775	0,006
Strategic HRM (X) -> Organizational Performance (Z)	0,352	0,346	0,093	3,806	0,000

Interpretation

1. Employed Engagement to Strategic HRM * Organizational Performance to Organizational Performance (Z)
 - a. Original Sample (O): 0.262
This value indicates a positive path coefficient of 0.262, which indicates a positive relationship between Employed Engagement to Strategic HRM * Organizational Performance and Organizational Performance (Z). This means that an increase in Employed Engagement in Strategic HRM will increase Organizational Performance by 26.2%. (dalam unit standar).
 - b. T Statistics: 2.322
This value is greater than 1.96, indicating that this relationship is statistically significant at the 95% confidence level.
 - c. P Values: 0.021
This value is less than 0.05, confirming that this relationship is statistically significant.
2. Employee Engagement (M) towards Organizational Performance (Z)
 - a. Original Sample (O): 0.275
The path coefficient of 0.275 indicates a positive relationship between Employee Engagement (M) and Organizational Performance (Z). This means that an increase in Employee Engagement enhances Organizational performance by 27.5%.
 - b. T Statistics: 2.775
This value is greater than 1.96, which means that this relationship is statistically significant at the 95% confidence level.
 - c. P Values: 0.006
This value is less than 0.05, indicating that the relationship is statistically significant.
3. Strategic HRM (X) on Organizational Performance (Z)
 - a. Original Sample (O): 0.352
The path coefficient of 0.352 indicates a positive relationship between Strategic HRM (X) and Organizational Performance (Z). This means that an increase in Strategic HRM enhances Organizational Performance by 35.2%.
 - b. T Statistics: 3.806
This value is much greater than 1.96, indicating that the relationship is highly statistically significant at the 95% confidence level.
 - c. P Values: 0.000
This value is much smaller than 0.05, confirming that this relationship is highly statistically significant.

DISCUSSION

1. The Influence of Strategic HRM on Organizational Performance

- The analysis results show that the relationship between Strategic HRM (X) and Organizational Performance (Z) has a positive coefficient of 0.352, with a T-statistic value of 3.806 and a p-value of 0.000, indicating that this relationship is highly significant.
- This suggests that the implementation of effective human resource management strategies, such as workforce planning, training, development, and performance-based rewards, can significantly improve organizational performance.
- These findings are in line with the Resource-Based View (RBV) theory, which states that effective strategic HRM can become a sustainable competitive advantage for organizations.

2. The Influence of Employee Engagement on Organizational Performance

- The relationship between Employee Engagement (M) and Organizational Performance (Z) has a positive coefficient of 0.275, with a T-statistic value of 2.775 and a p-value of 0.006, indicating that this relationship is significant.
- These findings show that employees who are more emotionally, cognitively, and physically engaged in their work tend to contribute more to organizational performance.
- This is consistent with the Employee Engagement Theory, which states that high engagement will result in better productivity, creativity, and commitment from employees toward the organization's goals.

3. The Influence of Employee Engagement to Strategic HRM * Organizational Performance on Organizational Performance
 - This relationship shows a positive coefficient of 0.262, with a T-statistic value of 2.322 and a p-value of 0.021, indicating that it is significant.
 - These findings indicate that the collaboration between employee engagement within the strategic HRM framework can strengthen its impact on organizational performance. However, compared with the other paths, this influence was relatively lower.
 - This may be due to other external or internal factors that have not yet been included in the model, such as organizational culture or leadership support.
4. The Mediating Role of Employee Engagement
 - The findings indicate that Employee Engagement (M) plays an important role in strengthening the relationship between Strategic HRM (X) and Organizational Performance (Z).
 - This suggests that, although SHRM has a significant direct impact on organizational performance, the impact can be amplified if employee engagement is also considered.
 - In other words, employee engagement acts as an important mechanism that connects HR strategies with organizational performance outcomes.

CONCLUSION

Based on the analysis results, the following conclusions can be drawn are as follows:

1. Strategic HRM Directly Improves Organizational Performance
The research results indicate that Strategic HRM has a significant impact on organizational performance. A structured human resource management strategy aligned with the organization's strategic goals can enhance operational efficiency, productivity, and organizational competitiveness.
2. Employee Engagement Acts as a Key Factor in Improving Organizational Performance
Employee engagement has been found to have a significant positive impact on organizational performance. Employees who feel emotionally and cognitively engaged in their work are more likely to make optimal contributions to support the achievement of organizational goals.
3. The Collaboration of SHRM and Employee Engagement Strengthens Organizational Performance
The findings indicate that the influence of SHRM on organizational performance is strengthened by employee engagement. In other words, SHRM, supported by high levels of employee engagement, can have a more significant impact on organizational performance.
4. The Mediating Role of Employee Engagement
Employee Engagement acts as an important mediator in the relationship between SHRM and Organizational Performance. This indicates that, although SHRM directly contributes to organizational performance, its impact can be optimized through increased employee engagement.

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