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STRATEGIC HRM PRACTICES AND FIRM PERFORMANCE: THE MODERATING ROLE OF ENVIRONMENTAL DYNAMISM IN BANDUNG

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Abstract

This study examines the effect of Strategic Human Resource Management (SHRM) practices on firm performance and investigates the moderating role of environmental dynamism in firms operating in Bandung. A quantitative approach was employed using a cross-sectional survey of 214 firms. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). Measurement and structural models were assessed following established reliability and validity criteria, and moderation analysis was conducted using an interaction term. The results indicate that SHRM practices have a positive and significant effect on firm performance ($\beta = 0.421$, $p < 0.001$). Environmental dynamism also shows a significant positive effect on firm performance ($\beta = 0.276$, $p < 0.001$). Furthermore, environmental dynamism strengthens the relationship between SHRM practices and firm performance ($\beta = 0.198$, $p < 0.01$). The model explains 57.3% of the variance in firm performance ($R^2 = 0.573$), indicating moderate explanatory power. This study is limited by its cross-sectional design, reliance on self-reported data, and focus on a single regional context, which may affect generalizability. This study contributes to the literature by integrating the Resource-Based View with contingency and dynamic capability perspectives, highlighting environmental dynamism as a key boundary condition in the SHRM–performance relationship within an emerging market context.

Keywords: Environmental Dynamism; Firm Performance; Partial Least Squares; Strategic Human Resource Management; Structural Equation Modeling

1. Introduction

In an increasingly volatile and competitive business environment, firms are required to continuously adapt their internal capabilities to sustain performance and achieve long-term competitiveness. One of the most critical internal resources is human capital, which has been widely recognized as a strategic asset under the Resource-Based View. This perspective posits that organizations can achieve sustained competitive advantage when they effectively deploy valuable, rare, inimitable, and non-substitutable (VRIN) resources, including human resources (Barney, 1991; Barney et al., 2021). Consequently, Strategic Human Resource Management (SHRM) practices have become central to organizational strategy, as they align human capital with business objectives to enhance firm performance (Delery & Roumpi, 2017; Kaufman, 2020).

Strategic HRM practices such as selective staffing, performance-based compensation, continuous training and development, and employee involvement are argued to create high-performance work systems that improve employee productivity and organizational outcomes. Recent empirical studies have consistently demonstrated a positive relationship between SHRM practices and firm performance, including financial performance, operational efficiency, and innovation outcomes (Jiang et al., 2022; Khan et al., 2023; Singh et al., 2021). However, despite this consensus, the strength and consistency of this relationship remain subject to contextual contingencies, suggesting that SHRM effectiveness may depend on external environmental conditions (Chadwick & Flinchbaugh, 2021; Meuer et al., 2022).

One critical contextual factor is environmental dynamism, defined as the rate and unpredictability of changes in an organization's external environment (Dess & Beard, 1984; Schilke, 2014). In dynamic environments characterized by rapid technological change, market volatility, and shifting customer demands, firms must exhibit greater flexibility and responsiveness. Under such conditions, SHRM practices may play an even more significant role in enabling organizational adaptability. Drawing on contingency theory and dynamic capability perspectives, environmental dynamism is expected to moderate the relationship between SHRM practices and firm performance, either strengthening or weakening the effectiveness of HR strategies depending on how well they align with environmental demands (Teece, 2018; Wilden & Gudergan, 2020; Dubey et al., 2021).

The context of Bandung provides a particularly relevant setting for examining this relationship. As one of Indonesia's major economic and creative hubs, Bandung is characterized by a rapidly evolving business landscape, especially in sectors such as creative industries, manufacturing, and digital startups (Suryani et al., 2023; Pratono, 2022). Firms operating in this region face high levels of environmental uncertainty due to technological disruption, competitive intensity, and changing consumer preferences. Despite this, many organizations particularly small and medium-sized enterprises (SMEs) still rely on traditional HR practices that may not be sufficient to cope with dynamic environmental conditions (Hidayat et al., 2022; Nugroho & Lubis, 2023).

Previous studies on SHRM and firm performance in emerging economies have largely focused on direct relationships, with limited attention to moderating variables such as environmental dynamism. Furthermore, empirical evidence from Indonesian contexts, particularly at the regional level such as Bandung, remains scarce. This gap highlights the need for a more nuanced understanding of how external environmental factors influence the effectiveness of SHRM practices in driving firm performance (Putra et al., 2021; Santoso et al., 2022).

Therefore, this study aims to examine the relationship between Strategic HRM practices and firm performance, with a particular focus on the moderating role of environmental dynamism in Bandung. By integrating the Resource-Based View with contingency and dynamic capability perspectives, this research seeks to provide both theoretical and empirical contributions. Theoretically, it extends existing literature by incorporating environmental dynamism as a boundary condition in the SHRM performance linkage. Practically, it offers insights for managers and policymakers on how to design adaptive HR strategies that are aligned with environmental challenges in rapidly changing markets.

2. Literature Review and Hypothesis Development

2.1 Strategic Human Resource Management and Firm Performance

Strategic Human Resource Management (SHRM) refers to a coherent system of HR practices designed to align human capital with organizational strategy to achieve superior performance outcomes (Delery & Roumpi, 2017; Kaufman, 2020). Rooted in the Resource-Based View, SHRM emphasizes the strategic value of human resources as a source of sustained competitive advantage when effectively managed and developed (Barney et al., 2021).

A central argument in SHRM literature is that bundles of HR practices often conceptualized as High-Performance Work Systems (HPWS) enhance employee skills, motivation, and opportunities to contribute, which in turn improve firm-level performance (Jiang et al., 2022; Singh et al., 2021). These practices include selective hiring, extensive training, performance-based compensation, and participative decision-making, all of which contribute to increased productivity, innovation, and organizational effectiveness.

Empirical evidence consistently supports the positive relationship between SHRM practices and firm performance across different contexts. For instance, Khan et al. (2023) found that integrated HR systems significantly improve organizational performance through enhanced employee engagement. Similarly, Meuer et al. (2022) highlighted that firms adopting strategic HR configurations tend to achieve higher financial and operational outcomes compared to those relying on traditional HR practices. However, some studies suggest that this relationship is not universally consistent, indicating

that contextual factors may influence the effectiveness of SHRM (Chadwick & Flinchbaugh, 2021). In emerging markets such as Indonesia, the adoption of SHRM practices remains uneven, particularly among SMEs, where informal HR systems are still prevalent (Hidayat et al., 2022). This variability further underscores the importance of examining the SHRM–performance relationship within specific contextual settings such as Bandung.

H1: Strategic HRM practices have a positive and significant effect on firm performance.

2.2 Environmental Dynamism and Firm Performance

Environmental dynamism refers to the rate, unpredictability, and complexity of changes in an organization's external environment, including technological shifts, market volatility, and competitive intensity (Dess & Beard, 1984; Schilke, 2014). Highly dynamic environments require firms to continuously adapt their strategies and operations to remain competitive. From a dynamic capability perspective, firms operating in turbulent environments must develop the ability to sense, seize, and reconfigure resources to respond effectively to environmental changes (Teece, 2018). In such contexts, organizational performance is not only determined by internal capabilities but also by the firm's ability to align these capabilities with external demands.

Empirical findings on the direct effect of environmental dynamism on firm performance are mixed. Some studies suggest that environmental dynamism can positively influence performance by creating opportunities for innovation and market expansion (Wilden & Gudergan, 2020). Conversely, other studies indicate that high levels of uncertainty may negatively impact performance due to increased operational risks and decision-making complexity (Dubey et al., 2021). In the context of Bandung, firms face rapid changes driven by digital transformation, evolving consumer preferences, and increasing competition in creative and manufacturing sectors (Pratono, 2022). These dynamics make it essential to understand how environmental conditions interact with internal organizational practices.

H2: Environmental dynamism has a significant effect on firm performance.

2.3 The Moderating Role of Environmental Dynamism

While SHRM practices are generally associated with improved firm performance, their effectiveness may depend on the external environment in which firms operate. Drawing on contingency theory, organizational practices are most effective when they are aligned with environmental conditions (Chadwick & Flinchbaugh, 2021). This suggests that environmental dynamism may act as a moderating variable in the SHRM–performance relationship. In highly dynamic environments, SHRM practices may become more critical as firms require flexible, skilled, and adaptive employees to respond to rapid changes. For example, continuous training and development enable employees to update their skills in response to technological advancements, while participative decision-making fosters innovation and agility. Under such conditions, the positive impact of SHRM on firm performance is likely to be strengthened (Wilden & Gudergan, 2020).

However, alternative perspectives suggest that excessive environmental dynamism may weaken the effectiveness of SHRM practices. In highly uncertain environments, even well-designed HR systems may struggle to deliver consistent outcomes due to unpredictable external shocks and resource constraints (Dubey et al., 2021). This highlights the dual nature of environmental dynamism as both an opportunity and a challenge. Recent empirical studies provide evidence supporting the moderating role of environmental dynamism. For instance, Meuer et al. (2022) found that the positive effects of HR systems on performance are stronger in dynamic environments where adaptability is crucial. Similarly, Singh et al. (2021) demonstrated that environmental uncertainty enhances the strategic value of HR practices in driving innovation and performance. Given the dynamic business environment in Bandung, where firms must continuously adapt to rapid changes, it is expected that environmental dynamism will strengthen the relationship between SHRM practices and firm performance.

H3: Environmental dynamism positively moderates the relationship between Strategic HRM practices and firm performance, such that the relationship is stronger under higher levels of environmental dynamism.

3. Methodology

This study employs a quantitative research design using a cross-sectional survey to examine the relationship between Strategic Human Resource Management (SHRM) practices and firm performance, as well as the moderating role of environmental dynamism. A quantitative approach is considered appropriate as this study aims to test theoretically derived hypotheses and analyze relationships among latent constructs. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM), which is suitable for predictive research, complex models, and moderation analysis (Hair et al., 2022). The population of this study consists of firms operating in Bandung, particularly within the manufacturing, service, and creative industry sectors, which are characterized by relatively high environmental dynamism. The unit of analysis is the firm, and respondents were selected from managerial-level employees, such as HR managers, supervisors, or business owners, who possess adequate knowledge of organizational HR practices and performance. A purposive sampling technique was applied with the criteria that firms must have been operating for at least three years, employ a minimum of ten employees, and have respondents occupying managerial positions.

To ensure an adequate sample size, this study employed statistical power analysis using G*Power rather than relying on the outdated "10-times rule." With an assumed medium effect size ($f^2 = 0.15$), a significance level of 0.05, statistical power of 0.80, and two predictors, the minimum required sample size was 107. However, to enhance the robustness and generalizability of the findings, this study targeted more than 200 respondents. Data were collected through structured questionnaires distributed both online and offline. Prior to the main survey, a pilot test involving 30 respondents was conducted to ensure the clarity and reliability of the measurement instruments. Participation in the study was voluntary, and respondents were assured of anonymity and confidentiality to reduce response bias.

All variables were measured using previously validated scales adapted from prior studies and assessed using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Strategic HRM practices were measured using dimensions such as selective staffing, training and development, performance appraisal, compensation, and employee involvement. Firm performance was assessed through subjective indicators, including financial performance, operational efficiency, and market performance. Environmental dynamism was measured based on the extent of changes in markets, technology, and competition. Data analysis was conducted using SmartPLS 4 following a two-stage approach. First, the measurement model was evaluated to assess reliability and validity. Indicator loadings were required to exceed 0.70, while internal consistency reliability was assessed using Cronbach's alpha and composite reliability with thresholds above 0.70. Convergent validity was evaluated through Average Variance Extracted (AVE), which should exceed 0.50. Discriminant validity was assessed using the Fornell–Larcker criterion and the Heterotrait–Monotrait (HTMT) ratio, with values below 0.85.

Second, the structural model was assessed to test the proposed hypotheses. Path coefficients and their significance were evaluated using bootstrapping with 5,000 subsamples. The model's explanatory power was assessed using the coefficient of determination (R^2), while effect sizes (f^2) were examined to determine the magnitude of each relationship. Predictive relevance was evaluated using Q^2 values, and multicollinearity was assessed using Variance Inflation Factor (VIF), with acceptable values below 3.3. The moderating effect of environmental dynamism was tested by incorporating an interaction term between SHRM practices and environmental dynamism in the PLS-SEM model. To further interpret the moderation effect, a simple slope analysis was conducted to examine how the strength of the relationship varies across different levels of environmental dynamism.

To address potential common method bias, both procedural and statistical remedies were applied. Procedurally, respondent anonymity was ensured and questionnaire items were designed to minimize ambiguity. Statistically, common method bias was assessed using full collinearity VIF values below 3.3 and Harman's single-factor test, with results below 50%, indicating that common method bias is not a significant concern. Finally, this study adhered to ethical research standards. All respondents provided informed consent prior to participation, and the collected data were used solely for academic purposes. Participants were also informed of their right to withdraw from the study at any time without any consequences.

4. Results

4.1 Respondent Profile

A total of 214 valid responses were collected from firms operating in Bandung. The respondents consisted of managerial-level employees, including HR managers (38%), business owners (34%), and supervisors (28%). In terms of firm characteristics, 46% were from the service sector, 32% from manufacturing, and 22% from creative industries. Most firms (61%) had been operating for more than five years, indicating adequate organizational maturity.

4.2 Measurement Model Evaluation

The measurement model was assessed in terms of reliability and validity. All indicator loadings exceeded the recommended threshold of 0.70, indicating strong indicator reliability.

Table 1. Reliability and Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability	AVE
Strategic HRM Practices	0.912	0.931	0.694
Firm Performance	0.889	0.915	0.682
Environmental Dynamism	0.873	0.905	0.654

All constructs demonstrated high internal consistency, with Cronbach's alpha and composite reliability values above 0.70. Convergent validity was also established, as all AVE values exceeded 0.50. Discriminant validity was assessed using the HTMT criterion.

Table 2. Discriminant Validity (HTMT)

Construct	SHRM	Firm Performance	Environmental Dynamism
Strategic HRM Practices	—		
Firm Performance	0.71	—	
Environmental Dynamism	0.65	0.68	—

All HTMT values were below the threshold of 0.85, confirming that discriminant validity was achieved.

4.3 Structural Model Evaluation

The structural model was evaluated using path coefficients, R^2, effect size (f^2), predictive relevance (Q^2), and multicollinearity (VIF).

Table 3. Structural Model Results

Hypothesis	Relationship	β	t-value	p-value	Result
H1	SHRM → Firm Performance	0.421	6.872	0.000	Supported
H2	Environmental Dynamism → Firm Performance	0.276	4.215	0.000	Supported
H3	SHRM × Environmental Dynamism → Firm Performance	0.198	3.102	0.002	Supported

The results indicate that Strategic HRM practices have a positive and significant effect on firm performance ($\beta = 0.421$, $p < 0.001$), supporting H1. Environmental dynamism also shows a significant positive effect on firm performance ($\beta = 0.276$, $p < 0.001$), supporting H2. Furthermore, the interaction term between SHRM practices and environmental dynamism is significant ($\beta = 0.198$, $p < 0.01$), confirming the moderating effect and supporting H3.

4.4 Coefficient of Determination (R^2)

Endogenous Variable	R^2	Interpretation
Firm Performance	0.573	Moderate

The R^2 value of 0.573 indicates that approximately 57.3% of the variance in firm performance is explained by SHRM practices and environmental dynamism, suggesting a moderate explanatory power.

4.5 Effect Size (f^2)

Relationship	f^2	Effect Size
SHRM → Firm Performance	0.245	Medium
Environmental Dynamism → Performance	0.124	Small
Interaction Effect	0.082	Small

The effect size results indicate that SHRM practices have a moderate effect on firm performance, while environmental dynamism and the interaction term have smaller but meaningful effects.

4.6 Predictive Relevance (Q^2)

Endogenous Variable	Q^2
Firm Performance	0.361

The Q^2 value greater than zero confirms that the model has strong predictive relevance.

4.7 Multicollinearity Assessment (VIF)

Variable	VIF
SHRM Practices	2.114
Environmental Dynamism	1.876
Interaction Term	2.305

All VIF values are below the threshold of 3.3, indicating no multicollinearity issues.

4.8 Moderation Effect (Simple Slope Interpretation)

The moderation analysis reveals that environmental dynamism strengthens the relationship between SHRM practices and firm performance. Specifically, under conditions of high environmental dynamism, the positive effect of SHRM practices on firm performance becomes stronger compared to

low dynamism conditions. This suggests that firms operating in more dynamic environments benefit more from the implementation of strategic HRM practices.

5. Discussion

This study aims to examine the effect of Strategic Human Resource Management (SHRM) practices on firm performance, as well as the moderating role of environmental dynamism in firms operating in Bandung. The findings provide several important theoretical and practical insights.

First, the results confirm that SHRM practices have a positive and significant effect on firm performance. This finding supports prior studies (Jiang et al., 2022; Khan et al., 2023) and reinforces the central argument of the Resource-Based View, which posits that human resources can serve as a source of sustained competitive advantage when effectively managed. The moderate effect size (f^2 = 0.245) suggests that SHRM practices are not merely supportive functions but strategic drivers of organizational performance. In the context of Bandung, where firms operate in increasingly competitive and innovation-driven sectors, practices such as continuous training, performance-based rewards, and employee involvement appear to enhance both efficiency and adaptability.

However, this study goes beyond confirmatory findings by providing deeper interpretation of the magnitude and contextual relevance of the effect. Compared to some prior studies reporting stronger effects in developed economies, the effect size observed here is moderate, suggesting that the impact of SHRM in emerging markets may be constrained by structural limitations such as resource scarcity, informal HR systems, and limited managerial capabilities. This aligns with Chadwick and Flinchbaugh (2021), who argue that the effectiveness of HR systems depends on organizational maturity and institutional context.

Second, environmental dynamism was found to have a positive and significant direct effect on firm performance. This finding is particularly interesting, as prior literature reports mixed results. While some studies suggest that environmental uncertainty may hinder performance due to increased risk and instability (Dubey et al., 2021), this study indicates that, in the Bandung context, environmental dynamism may instead create opportunities for growth and innovation. This supports the dynamic capability perspective (Teece, 2018), which emphasizes that firms capable of adapting to changing environments can leverage uncertainty as a strategic advantage.

A possible explanation for this positive effect lies in the nature of Bandung's economic ecosystem, which is characterized by strong entrepreneurial orientation and a growing digital economy. Firms that are able to respond quickly to technological changes and shifting consumer preferences may outperform more rigid competitors. Nevertheless, it is important to recognize that this positive effect may not be universal and could vary depending on firm size, industry, and resource availability.

Third, and most importantly, the results demonstrate that environmental dynamism significantly moderates the relationship between SHRM practices and firm performance. The positive interaction effect (β = 0.198) indicates that SHRM practices become more effective in highly dynamic environments. This finding is consistent with contingency theory, which suggests that organizational practices yield optimal results when aligned with external environmental conditions (Chadwick & Flinchbaugh, 2021).

From a theoretical standpoint, this result strengthens the integration between the Resource-Based View and dynamic capability theory. While the RBV emphasizes the importance of internal resources, the moderation effect highlights that the value of these resources is contingent upon external environmental conditions. In highly dynamic environments, firms require agile and adaptable human resources, making SHRM practices more critical for performance outcomes.

Nevertheless, an alternative explanation should be considered. It is possible that firms operating in highly dynamic environments are inherently more proactive and innovation-oriented, which may simultaneously drive both the adoption of SHRM practices and higher performance. This raises the potential issue of endogeneity, suggesting that the observed relationship may be partially influenced by unobserved organizational characteristics.

Furthermore, although the moderation effect is significant, its effect size ($f^2 = 0.082$) is relatively small, indicating that environmental dynamism enhances—but does not dominate—the SHRM–performance relationship. This suggests that while external conditions matter, internal organizational capabilities remain the primary drivers of performance. From a practical perspective, these findings imply that managers should not adopt SHRM practices in isolation but must align them with environmental conditions. In dynamic environments such as Bandung, firms should prioritize flexible HR systems, continuous skill development, and adaptive performance management to enhance organizational responsiveness.

6. Conclusion

This study investigates the relationship between Strategic Human Resource Management (SHRM) practices and firm performance, as well as the moderating role of environmental dynamism in firms operating in Bandung. The findings confirm that SHRM practices significantly enhance firm performance, highlighting the strategic importance of human resource systems in driving organizational outcomes. In addition, environmental dynamism not only directly influences firm performance but also strengthens the effectiveness of SHRM practices, indicating that HR strategies become more valuable in dynamic and uncertain environments.

From a theoretical perspective, this study contributes to the literature by integrating the Resource-Based View with contingency and dynamic capability perspectives. Specifically, it demonstrates that the value of internal organizational resources, such as human capital, is contingent upon external environmental conditions. This study therefore extends prior research by positioning environmental dynamism as a critical boundary condition in the SHRM–performance relationship, particularly within the context of emerging economies.

Practically, the findings suggest that managers should design and implement SHRM practices that are adaptive and aligned with environmental changes. Firms operating in dynamic environments, such as Bandung, should prioritize continuous employee development, flexible HR policies, and participative management systems to enhance responsiveness and competitiveness. Policymakers may also support this by fostering institutional environments that encourage HR innovation and organizational learning.

Despite its contributions, this study has several limitations. First, the use of cross-sectional data limits the ability to draw strong causal inferences. Second, the reliance on self-reported data may introduce common method bias, although statistical tests indicate that this issue is not severe. Third, the study focuses on firms within a single regional context, which may limit the generalizability of the findings to other regions or countries.

Future research is encouraged to adopt longitudinal designs to better capture causal relationships and dynamic changes over time. Additionally, incorporating mediating variables such as organizational agility or innovation capability could provide deeper insights into the mechanisms through which SHRM influences firm performance. Comparative studies across regions or industries are also recommended to enhance the external validity of the findings. Finally, future studies may explore potential endogeneity issues and alternative explanations by using more advanced analytical techniques.

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