

# Understanding High Performance Work Systems-Firm Performance Linkages:

## A Literature Review

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## Abstract

People are our most important asset and the Human Resource Management (HRM) is an essential function in organizations that affects the quality of Organizational Performance (OP). Most of the high performance companies such as Apple, Toyota, General Electric, Singapore Airlines and Google have proved that management systems that encourage commitment and competence of people achieve greater productivity. Over the past few years, much of the debate about the contribution of HRM to OP has been wrapped up around the concept of High Performance Work Systems (HPWS). In recent years, a number of studies have attempted to examine the processes that explain the impact of HPWS on OP. Based on research evidence to date, it is clear that HPWS are one of the important components that can help an organization to achieve greater OP. This conceptual paper explores the research findings on the black-box relationship between HPWS and OP. The paper may be valuable to those who are interested in understanding the phenomenon of HPWS-firm performance linkages for research purposes.

**Key Words:** High Performance Work Systems, High Performance Work Systems-Firm Performance Linkages, Human Resource Management, Organizational Performance

## Introduction

High Performance Work Systems, a type of HRM system, are an important concept in contemporary research on business organizations. The concept of HPWS mainly focuses on employee involvement and organizational commitment and the concept first originated in the United States (Boxall and Macky, 2007; Dayarathna, 2018 and 2012; Opatha, 2019). Over the past 20 years, there has been a considerable expansion in theory and research about HPWS and OP. Research has confirmed that HPWS are a key factor in enhancing organizational performance (Arthur, 1994; Beltran-Martin, RocaPuig, Escrig-Tena, and Bou-Llusal, 2008; Combs, Yongmei, Hall, and Ketchen, 2006; Lepak, Takeuchi, Erhardt, and Colakoglu, 2006; Takeuchi, Chen, and Lepak, 2009; Zacharatos, Barling, and Iverson, 2005). There is a growing body of research which claims that enormous economic returns can be obtained through the HPWS (Pfeffer, 1998). At the very beginning researchers focus on “What impact do HPWS have on OP?” Later, researchers have extended it into two directions. The first is the contingency question: “Under what circumstances do HPWS have an impact on performance?” The second concerns process and asks “What is the process whereby HPWS can have an impact on OP?” (Guest, 2011).

Most researchers now agree on the rejection of the main assumption that HPWS directly lead to OP. Rather HPWS influence firm resources, such as the human capital of the firm, or employee attitudes and behaviours. It is these employee attributes that ultimately lead to

OP (Guest, 2011). There are many indicators that indicate an increase in OP (Huselid, 1995). One such indicator is the actual behaviour of employees, through the way they affect turnover and labour productivity (Huselid, 1995). According to Way (2002), HPWS help to develop individuals to their 'full' potential and motivate these individuals to apply their skills and abilities to their work-related activities, which in turn increase OP. As identified by Edwards and Wright (2001), HPWS influence employee attitudes with increased satisfaction or commitment and consequently changed attitudes affect on behavior and this in turn feeds through to the performance of the work unit and eventually the company.

This conceptual paper is intended to identify and understand the black-box relationship between HPWS and OP. Therefore, the inquiry question for this paper is: What is the black-box relationship between high performance work systems and organizational performance in an organization? The answer to the inquiry question was based on an extended review and analysis of literature.

### **Methods for Collecting Literature**

This conceptual paper is based solely on a review and analysis of research from the literature. Since the topic deals with HPWS, the method for collecting literature was using HRM databases. The most helpful databases were ABI/INFORM Complete (ProQuest), Business Source Complete (EBSCO), Emerald Insight, ProQuest Business, Sage Journals Online, Science Direct (Elsevier), and Wiley Online Library, where a number of articles were deemed useful for the topic of understanding High Performance Work Systems-Firm Performance Linkages.

### **Theoretical Perspectives in the High Performance Work Systems- Organizational Performance Relationship**

The HPWS is an important component in improving OP. But as stated by Burke (2006a), how do HPWS contribute to OP? What mechanisms link HPWS practices to OP? Twenty three years ago, Delery and Doty (1996) examined the relationship between HRM practices and OP and introduced several theoretical perspectives: (a) the universal approach/the universalistic perspective/best practice approach- The key point of this approach is that certain HRM practices are expected to positively impact individual and/or organizational outcomes universally regardless of the context in which they are utilized (Lepak, Takeuchi, Erhardt, and Colakoglu, 2006), (b) the configurational perspective- This approach extends the universalistic perspective and suggests that the combination of HRM practices, rather than any single practice impact OP, and (c) the contingency perspective- This perspective is based on the logic that the impact of any HRM practice, or configuration of HRM practices

on OP is contingent upon the alignment of HRM practices with contextual factors such as strategy, technology, firm size etc. (Lepak et al., 2006).

Bowen and Ostroff (2004) considered two common approaches to the HPWS-OP relationship: (a) the systems approach- A bundle of HRM practices affect OP directly and (b) the strategic approach- As per Burke (2006b), strategic approach focuses on how HRM practices are associated with OP and competitive advantage. The guiding logic is that an organization's HRM practices generate knowledge, skills, and behaviours so that employees behave in ways that support the firm's business strategy (Burke, 2006b). Both the systems view and the strategic fit view take a macro approach and both views link HRM practices to employee characteristics which in turn result in enhanced performance (Burke, 2006b).

As per Stavrou, Brewster, and Charalambous (2010) the link between HRM and OP is often associated with two approaches: (a) best practices, related to performance regardless of contextual factors or (b) best fit, where the most appropriate practices are dependent on context and adaptation. According to Ramsay, Scholarios, and Harley (2000), the scholarly debate about HPWS has been structured around a theoretical framework, which counterpoises two broad accounts of the phenomenon. The first, which will be referred to as the 'mainstream' approach, posits that HPWS practices are associated overwhelmingly with positive outcomes for employees. Specifically, HPWS practices contribute to employee autonomy, commitment and satisfaction, which in turn contribute to superior OP. The second account, which can be conceptualized as a "labour process theory" view, suggests that any performance gains from HPWS practices take place through work intensification and shifting of responsibility to employees, which in turn contribute to heightened workload and stress. If an unambiguous causal connection can be established between HRM practices and OP then it will have significant and positive implications for the subject. The general conclusion is that there is a clear observable relationship between the adoption of human resource (HR) practices and performance outcomes with generally the greater the number of practices in place, the stronger the positive relationship. But theoretically, no consensus exists regarding the mechanism by which HRM practices might impact on firm performance (Wright, Gardner, and Moynihan, 2003).

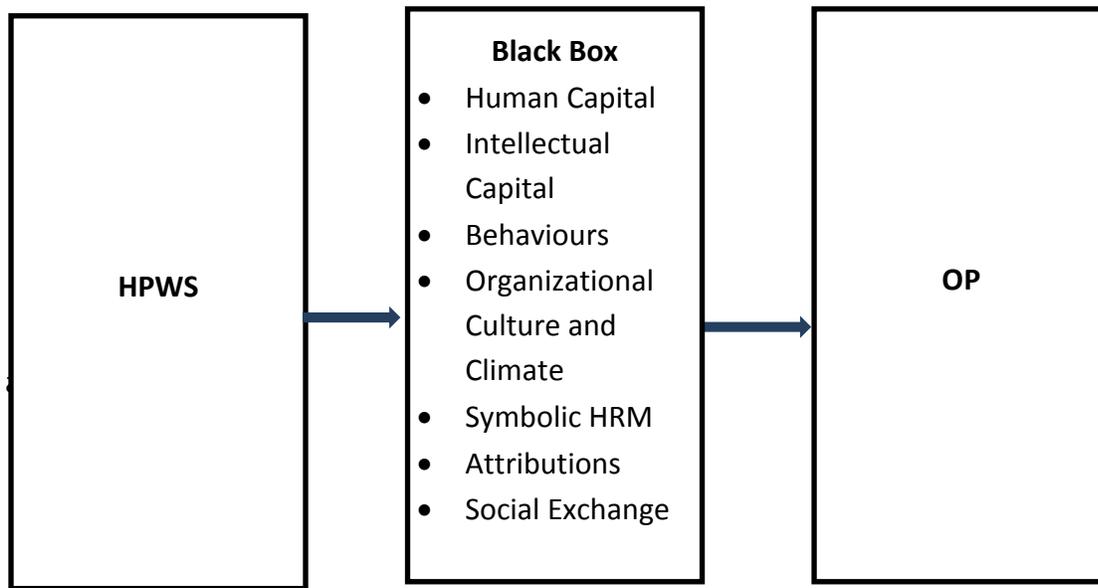
### **The Black Box between High Performance Work Systems and Organizational Performance**

The extant literature on HPWS highlights the importance of the mediating links between HRM systems and OP. However, some of the literature suggests that a better understanding of how HPWS enhance OP is very important to organizations, which are going to introduce HPWS reforms to their HRM systems. HPWS influence intermediate organizational outcomes

mostly related to employee responses and performance at work (Boxall, Ang, and Bartram, 2011; Kehoe and Wright, 2013). Recently a number of studies have made initial attempts to examine the processes that explain the influence of HPWS on firm performance (Boxall, 2012; Delmotte, De Winne, and Sels, 2012; Ramsy, Scholario, and Harley, 2000; Stanton, Young, Bartram, and Leggat, 2010). Some existing studies are focusing on specific high performance work practices include that the indirect effect of HPWS on performance through employee outcomes depends on the high performance work practice that are taken into account (e.g., Paul and Anantharaman, 2003). Other scholars analyze HPWS as a whole and find that although some of these employee outcomes mediate the influence of HPWS on performance, the mediation effect is partial (e.g., Park, Mitsuhashi, Fey, and Bjorkman, 2003), which indicates that researchers should consider other potential mediator variables when explaining the intermediate processes.

Recent theoretical advances in the HPWS field suggest that the debate should be taken further by including additional intermediate variables (see Figure 1) that can improve our understanding of the processes through which HPWS influence firm performance (Boxall, 2012; Boxall and Percell, 2000). These intermediate variables include human capital, intellectual capital, behaviours, organizational culture and climate, symbolic HRM, attributions, and social exchange, and definitions of which are given in Exhibit 1. HPWS help to change employee beliefs, attributes and behaviours. High performance work system researches tell us how any HR system needs to work. HPWS increase the degree of employees' involvement in decision making, change the HRM practices that enhance employees' knowledge, skills (e.g., selective recruitment and better training) and their commitment (e.g., team and company-based compensation) and collectively, these changes improve employee job performance and OP.

**Figure 1: The “black box” in the HPWS-OP relationship** (Source: Adapted from Lepak et al., 2006)



**Exhibit 1: The meanings of the concepts in the HPWS-OP relationship**

Concept	Meaning
High Performance Work Systems (HPWS)	HPWS have recently been defined as “a group of separate but interconnected HR practices designed to enhance employees’ skills and effort” (Messersmith, Patel, and Lepak, 2011, p. 1105).
Human Capital	The competencies of individuals that can be used to create economic value for the individuals, their employers, or their community.
Intellectual Capital	Intellectual capital is covering its people (human capital), the value relating to its relationships (relational capital), and everything that is left when the employees go home (structural capital).
Behaviours	The way in which one acts oneself, especially towards others.
Organizational Culture	Organizational culture can be defined as the underlying beliefs, assumptions, values and ways of interacting that contribute to the unique social and psychological environment of an organization.

Organizational Climate	Organizational climate is defined as the recurring patterns of behavior, attitudes and feelings that characterize life in the organization.
Symbolic HRM	Symbolic HRM is anything that can be seen as symbols, metaphors, images, etc., which in a condensed form represent complex organizational/HRM phenomena, and which can be developed and utilized to guide strategic corporate action. There are four types of “symbolic resources” that seem to be particularly powerful: historical resources (i.e., elements of the corporate saga or epic), basic values and ideologies (as expressed in the corporate policies), particular activities and events (as anniversaries and celebrations), and finally, the company lifestyle (or ethos) (Berg, 1986).
Attributions	The action of regarding a quality/feature as characteristic of or possessed by a person or thing.
Social Exchange	Social exchange proposes that social behavior is the result of an exchange process. The purpose of this exchange is to maximize benefits and minimize costs. According to this, people weigh the potential benefits and risks of social relationships (Homans, 1958).
Organizational Performance (OP)	OP means the relationship between intended outputs and achieved outputs (Jarad, Yusof, and Shafiei, 2010).

### Conclusion

The greatest opportunity for understanding the relationship between HPWS and OP lies in the identification of the intermediate linkages through which HPWS impact on OP. As per the extant literature, the intermediate linkages and processes, through which HPWS affect OP, have challenged researchers to define and examine their rationale that opens “the black box” between HPWS and OP. According to the black box perspective, intervening mechanisms serve a fundamental role in translating HPWS practices into OP. As mentioned by Lepak et al (2006), the importance of mediating factors should not be understated. Therefore, understanding and clarification of the factors that exist between HPWS and OP is a big challenge for the future researchers.

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