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High performance work systems and organizational effectiveness: The mediating role of social capital☆

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ABSTRACT

Most early work on high performance work systems (HPWSs) examines only the direct relationship between a set of management practices and performance outcomes and seldom investigates the "black box" between them. Although recent studies tried to examine the mechanism, the main perspective was to discuss individual outcomes, or simply aggregated individual outcomes. On top of the previous individual approach, this conceptual work takes a group level approach and investigates how the HPWS may change the organizational effectiveness through changing the organization's intra-organizational social capital. Implications and contributions are also discussed.

1. Introduction

During the last twenty years, the notion of best practices in human resource management (HRM) has received a lot of attention. Researchers proposed that some HR practices (e.g., high performance work system — HPWS) have a significant impact on organizational performance. For example, HPWS was found to favorably affect turnover (Guthrie, 2001; Huselid, 1995), labor productivity (Huselid, 1995), firm productivity (Guthrie, 2001) and firm financial performance (Guthrie, 2001; Huselid, 1995). These findings support that a certain bundle of HR practices could be a potential source of competitive advantage (Becker & Huselid, 1998). Among the arguments on this relationship, most scholars took a resource-based view from the strategic perspective and argued that the organization's employees (i.e., human capital) can be a source of competitive advantage when they add value to the organization (Delery & Shaw, 2001; Huselid, 1995). Given the difficulty to imitate them, these human resources uniquely contribute to the organization's success. From this view, continual investments in firm-specific human capital may differentiate a firm's employees from others by their improved knowledge, ability, skills, commitment and so on, thereby decreasing the likelihood of imitation (Huselid, 1995). In spite of such types of arguments, some researchers still noted a need to develop better theories explaining how HPWS functions (Bowen & Ostroff, 2004; Delery & Shaw, 2001).

While the individual human capital perspective sheds light on the understanding of HR practices' effects, some researchers also suggested exploring another line of HR research with a focus on interpersonal relationships within the firm (Delery & Shaw, 2001; Wright, Dunford, & Snell, 2001). The main reason is that recent studies found that social relationships are a latent but important organizational resource (e.g., Collins & Clark, 2003; Hansen, 1999; Nahapiet & Ghoshal, 1998; Uhl-Bien, Graen, & Scandura, 2000). Employee social relationships add value to the organization by facilitating timely access to greater sources of information (Collins & Clark, 2003), reducing the need for formal controls (Adler & Kwon, 2002), facilitating collective action (Ghoshal & Moran, 1996), allowing more flexible work organizations (Leana & Van Buren, 1999) and enhancing organizational intellectual capital (Nahapiet &

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Ghoshal, 1998). Overall, these benefits point to the aggregated intra-organizational social capital as a contributor to organizational effectiveness. However, without directly examining the mediating effect of internal social capital on the relationship between HPWS and organizational performance, the understanding of how HR practices function is still limited (Bowen & Ostroff, 2004). Therefore to fill this void, the main purpose of this conceptual paper is to investigate how HR practices contribute to firm performance by improving intra-organizational social capital.

This paper presents a social capital perspective and argues that a system of HR practices can support the sustainability of the competitive advantage created through intra-organizational networks. It develops a framework to explain the influences of HRM practices on several key indicators of organizational effectiveness, especially for those knowledge-intensive organizations. The assumption is that the effectiveness is not a simple summation of individual performances. Some important processes that lead to final performance, such as firm innovation, are incubated in a social context. In other words, employees' behaviors are shaped not only by their own characteristics and attitudes, but also by their social relationships with other organizational members. Based on this assumption, if HR practices could affect the internal relationship theoretically, one should be able to observe that different HR practices would lead to different interpersonal behaviors among employees, as well as to different collective outcomes.

To conceptualize what happens between HR practices and organizational performance, this paper follows Nahapiet and Ghoshal's (1998) framework for the social capital function in the creation of intellectual capital and analyzes HR practices' role in this process. Based on that framework, it is proposed that HR practices influence the intra-organizational social relationship through affecting the density of interaction among employees, cooperative or competitive nature of the relationships, and the shared cognitive code, all of which may contribute to organizational effectiveness.

In summary, the contribution of this conceptual framework is threefold. First, the social capital perspective may be an important lens to understand the influence of HR practice on organizational effectiveness, which seems to be overlooked in previous studies and practice. Second, the proposition that HR practice could shape the intra-organizational social structure is novel compared with the widely discussed social exchange perspective in social network literature. This is because the latter one asserts that social structures are an incidental byproduct of the everyday activities of individuals. Third, this paper introduces Nahapiet and Ghoshal's (1998) three-dimensional framework to operationalize social capital and proposes a specific proposition about the relationship between each practice of HPWS and the three dimensions of social capital, which provides a basis for future empirical study.

2. High performance work systems (HPWSs)

Human resource management (HRM) practice, which is a new research strand that emerged in the 1990s, was found to be related with firm performance. While early research on HRM practice and performance tended to focus on the impacts of separate HR practices on firm performance, the later work looked at the combined effect of integrated sets of practices, which are called certain types of "bundles", "systems" or "configurations" of HRM practices. Examples of such investigations can be found in the studies of Arthur (1992, 1994), Batt (2002), Becker and Gerhart (1996), Delery and Doty (1996), Den Hartog and Verburg (2004), Guthrie (2001), Huselid (1995), Ichniowski and Shaw (1999) and MacDuffie (1995).

One of the several streams among them is "best practice perspective", which holds that a bundle of human resource practices may universally exert positive impacts on the group or firm performance. For example, Arthur (1994) found that steel mills operating commitment-centered HRM systems have higher productivity, lower scrap rates and lower employee turnover than those with control-centered HRM systems. Huselid (1995) found that HRM practices such as employee recruitment and selection procedures, compensation and performance management systems, employee involvement and employee training have a significant impact on employee turnover, productivity and short and long term corporate financial performance. Similarly, Huselid, Jackson, and Schuler (1997) showed that HRM effectiveness is associated with increased financial performance as indexed by productivity, cash flow and market value.

Some of these studies integrated a bundle of HRM practices and labeled them "high involvement work systems" or "high performance work systems" (HPWSs). Therefore, HPWSs, sometimes known as high involvement or high commitment organization managerial systems, are *a bundle of HR practices that enables high performance*. Organizations that implement HPWSs make significant investments in their pools of human capital so that employees are well trained, skilled and empowered to conduct their jobs (Becker & Huselid, 1998). Although different HRM authors emphasize slightly different features and management practices in describing HPWSs, the essential practices in common include selective staffing, self-managed teams, decentralized decision making, extensive training, flexible job assignments, open communication and performance-contingent compensation (Becker & Huselid, 1998; Guthrie, 2001; Pfeffer, 1998). These practices are found to be interdependent, so the inclusion of one practice often necessitates the inclusion of others (Becker & Huselid, 1998; Pfeffer, 1998; Zacharatos, Barling, & Iverson, 2005).

Researchers tried different ways to classify these practices into several categories. For example, Posthuma, Campion, Masimova, and Campion (2013) analyzed 193 peer-reviewed articles published over the past 20 years (1992–2011) and classified 61 specific practices into nine categories. This paper employs the more concise framework of Evans and Davis's (2005) summary of seven main practices as the operationalization of HPWSs (Table 1).

Overall, the main understanding of HPWS is that it operates an organization by employee involvement, commitment and empowerment, rather than by employee control. In these high involvement organizations, employees "feel responsible for and involved in its success" (Lawler, 1992, p. 3); they "know more, do more, and contribute more" (p. 5). They have power, information, knowledge and rewards to perform at the highest level (Lawler, Mohrman, & Ledford, 1995). In actual practice in the field, among the successful companies making use of this approach are Norwest, Men's Wearhouse, ServiceMaster, Southwest Airlines, USAA, Procter and Gamble, Wal-Mart and Virgin Atlantic Airways (Pfeffer, 1998: 293–296).