

**How does employee engagement improve the bottom line?
Analysis of underlying organizational mechanisms**

By

Tibor Soltesz

B.Sc. Global Management
Central European University, 2012

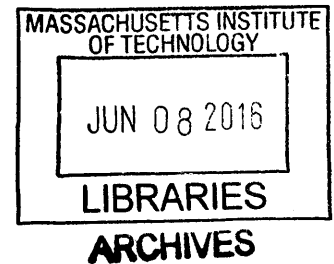
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Signature of Author: Signature redacted

MIT Sloan School of Management
May 6, 2016

Certified by: Signature redacted

Hazhir Rahmandad
Albert and Jeanne Clear Career Development Professor
Assistant Professor of System Dynamics
MIT Sloan School of Management
Thesis Supervisor

Accepted by: Signature redacted

Rodrigo S. Verdi
Associate Professor of Accounting
Program Director, M.S. in Management Studies Program
MIT Sloan School of Management

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ABSTRACT

Decades of research effort have been dedicated to study the relationship between the management of human resources (HR) and firm performance. Research has demonstrated that HR practices, when implemented together as a system (i.e. high-performance work system) have significant and positive impact on organizational outcomes. Yet, the understanding of how such a system achieves the outcomes remains fragmented. The goal of this paper is to review existing empirical and conceptual literature and highlight the various perspectives regarding the mediating relationships between these systems and outcomes. These perspectives are then integrated into a two-layer qualitative model that illustrates the functioning of a high-performance work system at the individual and the collective level.

Thesis Supervisor: Hazhir Rahmandad

Title: Albert and Jeanne Clear Career Development Professor, Assistant Professor of System Dynamics, MIT Sloan School of Management

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INTRODUCTION

Satisfaction at work has been a prevalent focus of research. Because most people spend a significant portion of their time at the workplace, the study of employee engagement has been of high interest for researchers within the fields of psychology, sociology and economics. However, it is of equally high importance for leaders who are facing the challenge of managing and improving the workplace. Human resource management is a significant factor for an organization's performance and growth (Huselid, 1995), and ultimately, its sustainability (Appelbaum, Gittel, & Leana, 2011). This leaves managers with a choice between viewing employees as a long-term investment or as a cost to be minimized; the popularized distinction between "high-road" and "low-road" strategy (Kochan, 2015). When managers pursue the high-road strategy, they invest into employees through high wages, extensive training and long-term career prospects in the hope of creating a highly productive and innovative organization. The low-road strategy, on the other hand, relies on reducing wages and controlling labor costs through outsourcing, in order to maximize profits and shareholder returns.

This paper argues, in accord with years of empirical research, that HR practices which focus on enhancing employees' skills, motivation, and the organizational social structure have the potential to translate into higher returns. Therefore, understanding levers that positively contribute to work environments and that enable employees to make the most of their unique talents is key to gaining sustainable competitive advantage in an industry.

This creates a need to model how HR practices and workplace policies influence the web of underlying mechanisms that lead to higher employee engagement and ultimately higher organizational performance. The management of an organization from a human resources perspective involves a complex set of decisions. It is often the case that solutions to today's

important problems can result in unanticipated side effects in the future (Sterman, 2000). For example, this can happen when managers implement teamwork, but keep employee compensation based on individual performance. In this case rewarding individual performance may undermine the aim of teamwork (Delery, 1998). Therefore, to facilitate effective decision making it is vital to apply systems thinking and look beyond the boundaries of individual decisions. With the help of system dynamics modeling, it becomes possible to observe how the structure of complex systems impacts behavior (Sterman, 2000). Therefore, the value of such model in the context of employee engagement is that it not only provides a descriptive analysis of work practices, but also provides insight into the complexity of its seemingly separate components. In addition, the model can suggest points of action, or levers, for managers to improve the workplace. Because every lever exists within a context, it cannot be considered as an independent action. For that reason, a dynamic model helps to take into consideration the wide-ranging consequences of managerial actions.

The aim of this paper is to develop a qualitative model that demonstrates the basic underlying mechanisms that link HR practices to organizational and financial outcomes. The structure of the paper (1) introduces the reader to the relevance of strategic human resource management, (2) reviews conceptual and empirical literature on the fundamental managerial levers (i.e. HR practices) of a high-performance work system, (3) reviews the theoretical foundations of mediating relationships between the high-performance work system and organizational outcomes, (4) develops an integrative model of the mediating relationships, and (5) highlights the managerial implications and suggestions for future research.

METHODS

To explore the mechanisms between HR practices and organizational outcomes, existing literature was reviewed with the purpose of collecting and summarizing findings to define the phenomenon and to create a structure for analysis. To identify relevant studies, the topics of Strategic Human Resource Management, High Performance Work Systems, and Organizational Design were researched in papers published from the early 1990s to present day. Reviewed articles included case studies, theoretical papers, empirical studies and meta-analyses within these fields. The case studies and theoretical frameworks were used to develop a qualitative understanding of the subject and to create a logical structure for the integration into the causal loop model. Large-scale meta-analytic studies were used to identify and verify relationships in the model.

To develop a model describing the performance enhancing mechanisms, findings from the literature were integrated into a qualitative causal loop diagram. The level of granularity in the model was defined to provide a comprehensive overview of the main mechanisms that cover nuances of context and practices, yet maintaining a “big picture” perspective. Based on the literature review and initial understanding of human resource management systems, the model was separated into three parts: HR practices, mediators, and outcomes. Examples were directly brought in from case studies and theoretical papers, keeping a close link between literature and the model. Employee engagement mechanisms were extracted on different topics, such as managerial practices and internal contextual factors, and integrated into the relevant parts on the causal loop diagram. Finally, the model was reviewed for discrepancies and “missing links” in the description of mechanisms. Additional investigation of relevant literature was conducted to find evidence of these relationships, and to adjust the model accordingly.

FOUNDATIONS OF STRATEGIC HUMAN RESOURCE MANAGEMENT

Human resource management might be regarded as a cost center in organizations, but research has shown that it can play a central role to improving organizational performance. Therefore the quality of human resource management (HRM) within an organization can be considered as an important component of competitive advantage. Based on the cost center view of HRM, the main responsibilities of the function are merely transactional and procedural. In this context, HRM works to provide services to other value generating departments in terms of hiring, training and monitoring compliance.

The need to justify the strategic importance of the HRM function comes from the idea that unlike traditional assets, human resource assets are “invisible” by nature. They encompass intellectual, human and organizational capital that does not appear on a firm’s balance sheet yet are present throughout the entire organization. Becker et al. (1997) highlight that even though the intellectual, human and organizational capital are not visible to managers, the sources of them are. “They are found in a skilled, motivated, and adaptable work force, and in the HRM system that develops and sustains it” (Becker et al., 1997).

In a continuously changing competitive environment, human resources have gained importance in regard to the traditional sources of competitive advantage. Traditional sources, such as economies of scale, patents, or access to capital are no longer enough to differentiate firms when the dimensions of competition have started to include product and service innovation, speed and adaptability. Therefore, according to Becker et al. (1997) firms with employees who are able to take part in innovating new products, who can rapidly implement strategic objectives and who are motivated and empowered to improve organizational performance have the relative advantage over competitors.

THEORETICAL BACKGROUND OF HIGH-PERFORMANCE WORK PRACTICES

A number of studies have documented the value for organizations to align the HRM function as a strategic asset instead of as a cost center. This area of research has been identified as strategic human resource management (SHRM) because it refers to the “strategic role of human resources management in meeting business objectives” (Delery, 1998, p. 289). In the traditional view, HRM can be described as a practice and compliance oriented function that is suitably considered as a cost center. An alternative, strategic, view of HRM is that it is responsible for developing and maintaining an organization’s sources of intellectual, human and organizational capital. It can be therefore more appropriately considered as an investment rather than an expense, because it not only plays a key role in supporting the value creation process but also can be used as a strategic lever by managers.

Human resource practices that researchers consider value enhancing for organizational performance are known as high-performance work practices. These practices include, for example, comprehensive recruitment and selection, training and employee involvement in decision-making, performance management and incentive compensation. Empirical evidence suggests that the use of high-performance work practices, if properly configured, provides a direct and significant benefit to an organization’s performance (Huselid, 1995). Huselid demonstrated “considerable support for the hypothesis that investments in such practices are associated with lower employee turnover and greater productivity and corporate financial performance” (1995, p. 667). More recently, Combs et al. (2006) provided a meta-analysis and estimated the overall effect of using high-performance work practices and organizational performance – defined as a combined measure of productivity, retention, accounting returns, growth and market returns. In their study they concluded a point estimate of 0.20 for the effect of

the relationship. Thus, by increasing the use of high-performance work practices by one standard deviation the organizational performance increases by 0.20 standard deviations. In other words, when comparing organizations, 20% of the value of performance differences among organizations can be attributed to high-performance work practices (Combs et al., 2006).

HR practices as management levers

Pfeffer (1998) laid out a set of practices that many researchers have been using as the basic elements of high-performance work systems. He argues that seven dimensions contribute to a work environment that maximizes performance. These seven factors are employment security, selective hiring, self-managed teams, comparatively high compensation contingent on organizational performance, training, reduction of status differences, and sharing information. These factors offer a comprehensive set of practices that can be implemented by managers. Therefore they will be adopted, with some slight modifications, in this paper as the building blocks of the conceptual model.

Employment security is essentially a strategic discipline on the part of organizations to avoid layoffs. Therefore, this practice focuses on upholding total employment and implies that employees will not lose their jobs as part of a cost saving initiative, even if the company is going through hard times. However, it does not mean that the company holds on to people who do not perform up to work requirements or do not work well with others. In the case of the employment security practice, the importance of individual performance and cultural fit can be observed by a relatively high turnover in the first few months, when employees who feel that do not fit in their jobs or work environment leave. Based on Pfeffer's argument, employment security is essential for generating innovation and sustaining productivity improvement. Otherwise employees might fear that they will work themselves out of their jobs if they contribute to making the organization

more efficient. Employees are more likely to be considered as strategic assets, and the likelihood that the employees will be laid off at the first sign of recession is decreased. This strategic asset mentality is also directly related to not losing (or sending through layoffs) the workforce to competition. The benefit of the employment security policy is not only the employees' motivation to improve productivity but also to develop a long-term perspective in their task choices.

Selective hiring is essential for recruiting the right people for the right job. Pfeffer (1998) contends, however, that selective hiring is not about selecting the "best and the brightest" but about finding the best fit for the specific role and for the company culture. In order to achieve that, the company must be clear about the most critical skills and attributes so the recruitment can be effectively aligned with the business objectives. Screened skills should not only be aligned with the objectives but also should be based on attributes that are difficult to change through training (such as cultural fit) as opposed to skills that can be acquired. The major implication of the rigorous selection policy is that the company employs the best fitting people for the job. Not only the knowledge and skills of the employees increase through this practice, but also employees will feel more culturally aligned and the employee engagement within the organization is likely to improve.

Self-managed teams and decentralization are elements of the organization where layers of hierarchical supervision are reduced and decision-making is moved toward the front line. While Pfeffer (1998) discusses them under one practice, it is worth to address them separately. In self-managed teams employees enjoy greater autonomy as a group of employees and make concerted effort to achieve goals. At the same time, Pferrer (1998) argues, hierarchical control is substituted for peer-based control, which can be more effective because members of a team are

less prone to letting down their teammates. Therefore, the organization not only increases employee engagement through self-managed teams but also saves operating costs by reducing layers of hierarchical control. In addition to motivational benefits, team members can contribute their individual knowledge and skills to pool together ideas and create more creative solutions. Employee participation in decision-making also increases the sense of accountability towards the goals of the entire organization. This implies that employees feel more responsible for the operation and success of the company and put forth more effort and initiative to improve performance.

High compensation contingent on organizational performance is a practice that has two components. Therefore it makes sense to discuss their implications separately in a model. First, if salaries are set at above market levels they are likely to attract a higher quality workforce, to shift the employees' focus to improving their work performance instead of thinking or complaining about their salaries, and to prevent the risk of talent leaving to competitors. Second, contingent compensation helps to align the economic interests of individuals with the economic interests of the organization. It can take different forms such as stock ownership, profit sharing or gain sharing. The widespread implementation of contingent compensation directly motivates employees to focus on controlling costs and boosting revenues because they receive a share of company profits. As a secondary effect, if profit sharing covers all employees, it is argued to create social pressure to produce good results.

Training is an investment into building employee skills and flexibility to identify and resolve problems, to improve performance and to make creative improvements to work processes. Training not only improves individual skills and abilities, but also fosters social interaction. Cross-departmental training can bring together employees from different

departments and different hierarchical levels, which in turn increases their understanding of other functions and established social connections with people they otherwise would not be able to (Garaus et al., 2015).

Reduction of status differences is a policy through which the company makes an effort to decrease the distinctions that separate individuals or groups and affect employees to feel less valued. Pfeffer (1998) argues that this is achieved in two ways: reducing symbolic and substantive differences. Symbolic status differences refer to the use of “language and labels, physical space and dress code”, while substantive differences refer to wage inequalities across levels. Despite that they might seem insignificant, symbolic differences affect how employees relate to the organization and to each other, and the reduction of those differences can encourage open communication, information sharing and learning. Furthermore, the reduction of wage inequalities can decrease the gap between individual and group incentives and create a “sense of common fate” within the organization.

Information sharing is a practice through which companies communicate data on financial performance, salaries, and strategic and operational measures to employees. According to Pfeffer, to successfully implement this practice, first, data must be effectively collected and aggregated and then shared with everyone across the levels of the organization. Top managers might raise the objection that having information means having power and by sharing information management loses part of this power. However, this is countered by two arguments, as the benefits of sharing information are twofold. First, sharing corporate information with all employees signals that they are all trusted, thus positively affecting their motivation. Second, even the most motivated employees would not be able to contribute to organizational

performance improvement if they don't have the necessary information to act upon. Therefore, sharing information can lead to making better business decisions.

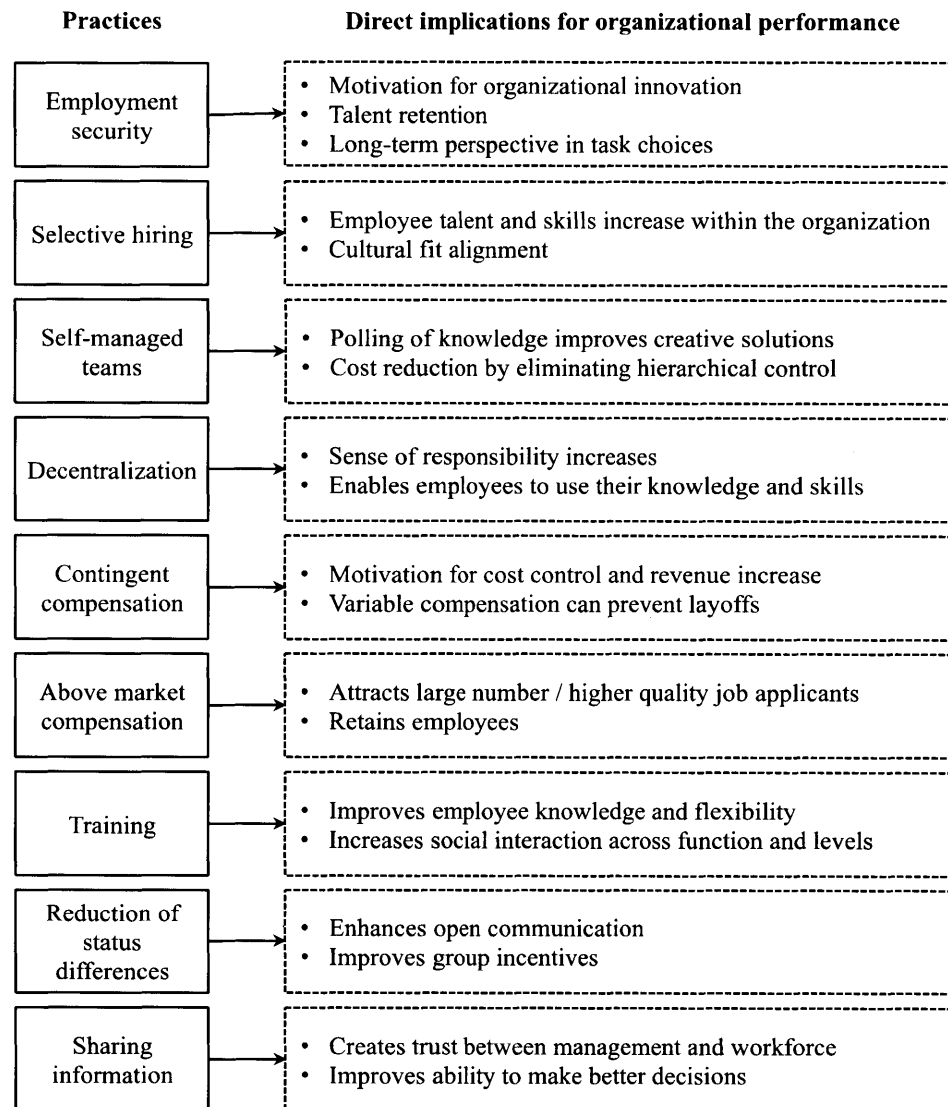


Figure 1: HR practices, adopted from Pfeffer (1998)

Dynamic relationships between HR practices

Scholars have noted that these practices, described by Pfeffer, contribute to gains in organizational performance to different extents. Research has suggested that their effects are maximized when implemented together as a bundle (Combs et al., 2006; MacDuffie, 1995).

Delery (1998) notes that there are different types of relationships among high-performance work practices that affect outcome on organizational performance. Different practices, if implemented together can reinforce or balance the overall effect they have on performance. This concept further complicates the identification of the true effect of individual practices for researchers, because typically they are implemented in some combination within organizations. Delery (1998) describes these relationships as additive or interactive. Within interactive relationships he distinguishes between substitutive and synergistic relationships.

Additive relationships are the simplest forms of links in a high-performance work system. They mean that the implementation of separate work practices have “independent, non-overlapping effects on the outcome” (Delery, 1998, p. 293). In this instance, if the organization were using two practices, the effect on the outcome would be greater than using only either one, however, not more than the sum of both practices. For example, consider a company that tests two different skills during recruitment: cognitive ability and technical skills. These tests measure two different attributes that when used together can improve the overall employee skill level in the organization. However, the combined effect of these two practices is not greater than what they independently provide.

Interactive relationships between work practices exist when the effectiveness of one practice “depends on the level of the other practices in the system” (Delery, 1998, p. 293). The nature of interactive relationships is described as substitutive or synergistic. Two practices are substitutes of each other if their effects are due to similar underlying mechanisms. Therefore, if both of them are implemented in a high-performance work system, the second practice will not have much marginal effect on organizational performance, yet it increases costs associated with its implementation. Using the example above, if the two tests used in recruitment measure

identical skills or abilities, then it is rather unlikely that the use of both tests will have a significant additional effect on the employee skill level. On the other hand, if none of these practices are used, it might make sense for the organization to add the most cost effective one to increase performance.

Synergistic relationship is present between work practices “when together they result in a substantially different effect than the sum of their individual effects would lead one to believe” (Delery, 1998, p. 294). Furthermore, Delery, in reference to Becker et al. (1997) notes that there are two separate forms of synergies that can happen. First, “powerful connections” occur when practices enhance the effectiveness of one another. In this case, the outcome of the practices together is greater than the sum of the individual outcomes. An example given by Delery is when training programs are combined with hiring selectivity, and as a result the employee skill level can significantly increase. If highly capable employees are recruited then they might have greater ability to learn or improve their skills. Therefore the effectiveness of the combination of these practices is greater than the individual effectiveness of each.

Second, “deadly combinations” can happen when practices work against each other when implemented together. In this case, if two practices are used together, the combination of the two will lead to lower performance than if only one or the other was used. Delery (1998) gives the example of a workplace where employees are organized to work in teams, however they are rewarded based on individual performance. The individual incentives can undermine teamwork; therefore, the two practices have a negative effect on the overall outcome.

Alignment of HR practices

The relationships among separate work practices and their relationship to business objectives have been a frequently researched area. Many researchers argue that the value of

strategic human resource management comes from this alignment. The alignment of human resource practices is often defined along two dimensions. Delery (1998) highlighted the idea of two forms of fit: horizontal and vertical, where “horizontal fit refers to the alignment of HR practices into a coherent system of practices that support one another. Vertical fit refers to the alignment of HR practices with the specific organizational context” (Delery, 1998, p. 291). Similarly, Becker and Huselid (1998) emphasized the importance of HRM as a system that is internally consistent and externally aligned. In their description, internal consistency “improves as the various elements of the HRM system reinforce one another and send consistent signals regarding valued behaviors in the organization.” External alignment “improves as those behaviors produced by the HRM system are increasingly appropriate for the implementation of the firm’s strategy” (Becker & Huselid, 1998, p. 58).

One of the implications of these conceptual definitions is that if human resource practices are implemented properly as a system, they are more likely to have a greater effect on organizational outcomes than by only using few of the practices. While several scholars have expressed in theoretical terms that a coherent system of high-performance work practices enhance the effectiveness of one another, Combs et al. (2006) have provided empirical evidence that “high-performance work practice systems have stronger organizational performance effects than individual high-performance work practices” (p. 519). The other implication of this theory is that the role of strategic human resource management (SHRM) is to align the high-performance work system with the organization’s business objectives. Hence, not only the work practices have to be formed into a self-reinforcing system but also the system needs to be aligned with the strategic goals of the organization. Therefore, the high-performance work system can be defined as “an integrated system of HR practices that are internally consistent (alignment among

HR practices) and externally consistent (alignment with organizational strategy) that include selective staffing, self-managed teams, decentralized decision making, extensive training, flexible job assignments, open communication, and performance-contingent compensation” (Evans & Davis, 2005, p. 759).

How HR practices combine to a high-performance work system

Scholars have demonstrated that HR practices have higher impact on organizational outcomes if used together as a system. MacDuffie (1995) developed the concept of “bundles” of HR practices and provided evidence that an internally consistent HR system has stronger relationship to performance than individual practices. Similarly, Combs et al. (2006) have found empirical proof that when HR practices are implemented as a system, they are more likely to improve performance. Therefore, the significance of using HR practices in a system and its managerial implications require a more detailed exploration of their interactions.

Figure 2 illustrates the web of relationships that can exist between HR practices; in which arrows with positive polarity indicate an enhancing effect, and arrows with negative polarity indicate a weakening effect. Jiang et al. (2012) have provided meta-analytic proof that there are positive effects between high-level groups of practices, while empirical evidence is limited for the detailed understanding of each mechanism. Using the practices described by Pfeffer (1998), interactive relationships between separate practices were drawn largely based on qualitative and theoretical arguments (Delery, 1998; Pfeffer, 1998).

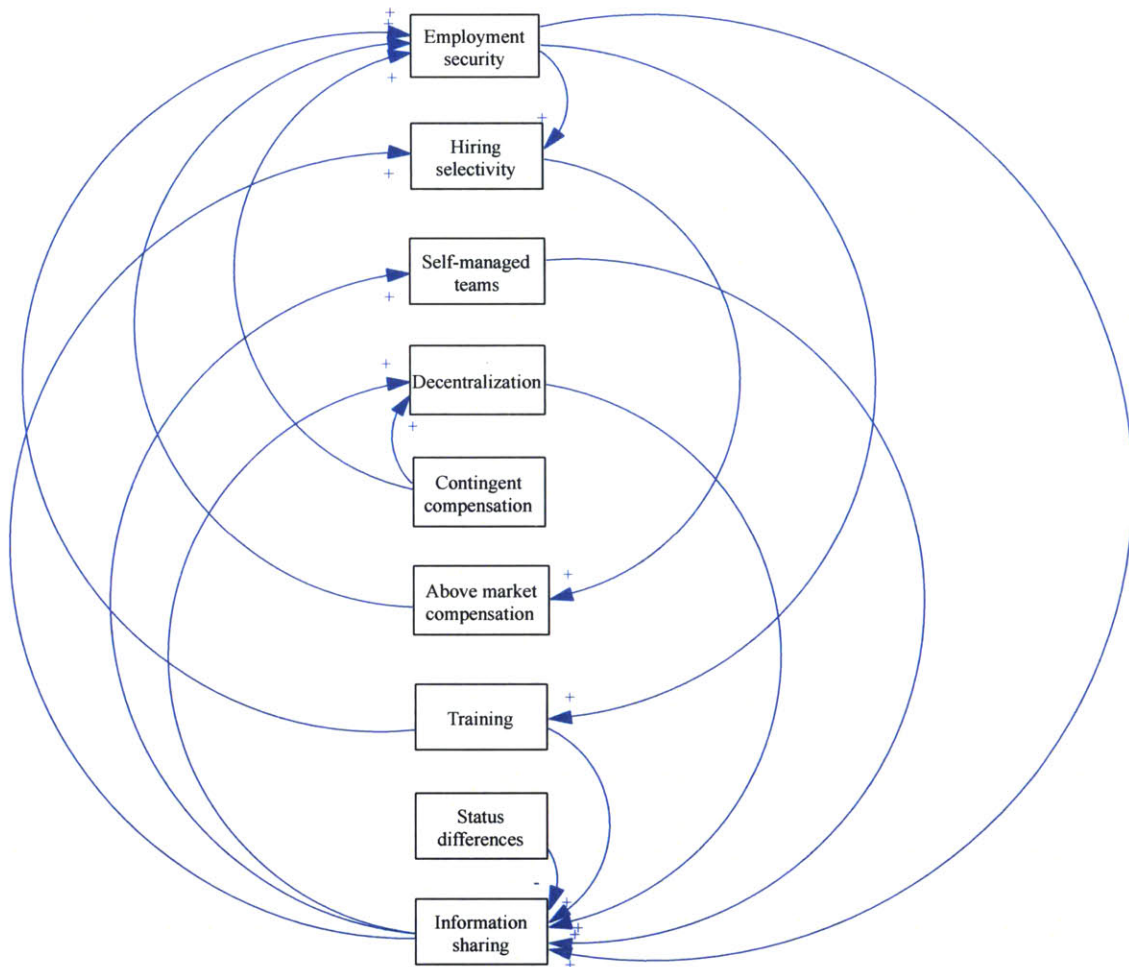


Figure 2: Links representing interactive effects among HR practices

The employment security policy implies a “commitment to retaining workforce” on the part of the company. As a consequence of employment security organizations are forced to be more careful as they pursue growth. They need to avoid overexpansion, because they are committed to retaining their employees. This requires the firm to apply higher selectivity at hiring to acquire the right amount of talent that fits best for the job and company culture. Furthermore, the company needs to invest into the appropriate training and compensation to maintain and develop its employees to achieve their maximum potential. Finally their

performance must be monitored, because employees who either don't fit into the culture or don't perform up to expectations cannot be retained.

For hiring selectivity to be successful, the organization needs to attract a large number of high quality applicants. This is aided by an above average compensation policy. If the organization is known to pay higher salaries, not only more people will be attracted to a position but also people with higher qualification will be interested. Besides the fact that a stringent hiring process is useful for selecting skillful and culturally fitting employees, it also signals to candidates that hiring is taken seriously and new hires are part of a special group, which increases their motivation as they join.

Decentralization and self-managed teams improve performance through peer-based control, however, in order to effectively complete tasks they require information shared by management. Setting clear performance targets and communicating it across the company is essential to establish peer control, otherwise employees don't develop responsibility for their work. Furthermore, even though employees are motivated and empowered to drive to the organization, they need to be provided with the necessary information to do so. On the flipside, because members of the team have different skills and knowledge they are able to pool their ideas together to solve challenges in a potentially more creative way. Therefore information sharing increases as they create new knowledge in the organization.

High compensation plays an important role in attracting new employees and retaining existing ones. It sends the signal whether the workforce is truly valued and plays a role in reducing employee turnover, which in turn facilitates organizational performance. In addition to above market salaries, compensation contingent on organizational performance is also an important element of a high-performance work system. Performance based compensation

increases the variable portion of the salary. Therefore it permits the adjustment of labor cost in hard times and helps to avoid layoffs supporting employment security. It also motivates employees to be cost conscious, drive sales or make performance improvements. This effect however, is only achieved if even the low level employees are empowered to take action and they are knowledgeable about strategic information to act upon.

Training is a long-term investment in employees therefore it only makes sense if the company is committed to retaining its employees for a longer period. If a firm invests in training employees but regards employees as expendable costs then it will probably see little return from the investment. At the same time, if a firm implements employment security it also makes sense to improve the knowledge and skills of its workforce to benefit organizational performance. In addition, training often connects people from different functions and seniority levels. These connections foster information sharing across the organization. Formal information sharing is also enhanced by training as employees on all levels learn how to understand and capitalize on financial and strategic information that is shared with them.

Reduction of status differences facilitates information sharing because it reduces obstacles in communication between hierarchy levels. Moreover, because it creates a sense of “common fate” it supports a more effective teamwork culture, both through the elimination of status symbols and the reduction of wage inequality.

Information sharing is a fundamental part of high-performance work systems. It is essential to ensure that decentralized decision-making and teamwork, performance based compensation and selective hiring are able to effectively work. First, employees are unable to make decisions and use their skills to improve performance if they are not provided with the necessary information to act upon. Second, it establishes trust between management and

employees and creates an “all-for-one and one-for all” attitude within the organization, which translates into greater motivation for teamwork. Third, it provides greater transparency for evaluating performance and also provides feedback on the success recruitment policies.

HOW HIGH-PERFORMANCE WORK SYSTEMS LEAD TO ORGANIZATIONAL OUTCOMES

There is strong evidence for the positive relationship between high-performance work practices and a variety of organizational outcomes (Combs et al., 2006). However, understanding the links between the use of these practices and the outcomes remains an important topic. Therefore, beyond the interactions among individual high-performance work practices, it is also important to describe the so-called mediating mechanisms. A large body of research has been directed toward understanding and explaining these mediating mechanisms; however, the theoretical approaches still remain fragmented.

Some researchers have adopted a behavioral perspective, which implies that HR practices lead to specific organizational outcomes through influencing employee behaviors. That is, if HR practices can influence employees to behave in ways that are consistent with the organizational strategy, it will lead to improved performance. Other researchers have turned to the resource-based perspective of competitive advantage. This view suggests that HR practices develop employees’ competencies (human capital), and contributions from human capital lead to improved performance. In most cases researchers have focused on either one of these perspectives. However, for the purpose of gaining a broader and more holistic picture of the mediating mechanisms it is useful to take into account multiple perspectives simultaneously (Jiang et al., 2012).

Resource-based perspective

As it was stated above, one of the most widespread explanatory frameworks among researchers to analyze the relationship between HR practices and organizational outcomes is the resource-based perspective. This represents a shift in focus in explaining the competitiveness of the firm on the strategic level. Instead of using the external environment and the firm's position in a competitive market to explain successful competitive strategy, the resource-based perspective concentrates on the internal resources of the firm and how the firm is able to use these resources to gain competitive advantage (Delery, 1998). The resource-based perspective proposes that "an organization gains a competitive advantage from the resources that it possesses. For a resource to be a source of competitive advantage, however, it must be rare, valuable, inimitable, and non-substitutable" (Delery & Shaw, 2001, p. 173).

On one hand, this framework explains that firms achieve competitive advantage through developing and maintaining a valuable and unique human capital pool with the help of a high-performance work system. On the other hand, researchers have suggested that a high-performance work system can lead to competitive advantage through establishing organizational capital that increases a firm's efficiency and flexibility (Becker et al., 1997).

In explaining the relevance of human capital for firm performance, Barney and Wright (1998) and Delery (1998) have argued that the sources of competitive advantage are not the HR practices, as such, that a firm uses but the human capital that the firm attracts, develops and maintains through these practices. Through the lens of the resource-based perspective, the value of human capital arises from their knowledge, skills and abilities. Human capital resources are also considered to be rare "to the extent that knowledge, skills, and abilities are normally distributed in the population" (Delery, 1998, p. 290), therefore highly skilled labor is not easy to

find. Finally, human capital is inimitable insofar as employees have developed a common history and are part of a unique organizational culture. Therefore, human capital can be illustrated as a “stock of employee skills that exist within a firm at any given point in time” (Wright, Dunford, & Snell, 2001, p. 704). This creates a need for human resource managers to develop human capital that has better knowledge, skills and abilities than the firm’s competitors, and to better align these skills with the strategic objectives of the firm. Furthermore, the stock of human capital is not constant, but depends on talent acquisition and retention. Therefore, not only the quality of employees needs to be managed, but also the in- and outflows need to be aligned with the firm’s strategic needs.

It has been argued that human capital can be a source of competitive advantage. At the same time, researchers have noted that high-performance work systems can also generate organizational competencies. These are described as “firm-specific resources and capabilities that enable the organization to develop, choose, and implement value-enhancing strategies. Organizational competencies include all firm-specific assets, knowledge, skills, and capabilities embedded in the organization's structure, technology, processes, and interpersonal (and intergroup) relationships.” (Lado & Wilson, 1994, p. 702) Based on this notion, Wright et al. (2001) suggests that firm level competitive advantage is a result of aligning skills and motivations with “organizational systems, structures, and processes” that produce organizational capabilities. Therefore, extending on previous ideas, they argue that organization performance does not come exclusively from human capital, namely from “the aggregated actions of individuals” (p. 710), because managing human resources is a more complex source of competitive advantage. For example, if a firm has the most skillful and creative employees who always produce novel ideas, it doesn’t directly result in leadership in product development and

innovation. Because product development capabilities are also embedded in the organizational processes, employees are not independent from these processes while they are executing them. Therefore, even though the core competencies are based on the knowledge and skills of employees, they are not equivalent to solely human capital. Core competencies can be understood as a combination of human capital (the knowledge, skills and abilities of the employees), social capital (the relationships among employees), and organizational capital (the processes within the firm) (Wright et al., 2001).

Behavioral perspective

Alternatively, researchers have argued that high-performance work practices contribute to competitive advantage to the extent of producing and reinforcing a set of behaviors that improve organizational performance. That is to say firms that build human capital for competitive advantage also require the relevant employee behaviors in order to implement their strategic objectives. It is believed that HR practices can be the primary source of these organizationally consistent behaviors. Hence, the understanding of behaviors as the mediating mechanisms between high-performance work practices is referred to as the behavioral perspective (Becker & Huselid, 1998).

There is an accord among researchers that employee behavior is a relevant component of the mechanisms of high-performance work systems. A subtle but significant distinction from the human capital theory is that the behavioral perspective recognizes “individuals as cognitive and emotional beings who possess free will” (Wright et al., 2001, p. 705). The concept of discretionary effort has been highlighted by MacDuffie (1995). Discretionary effort acknowledges that employees have power over deciding what organizational behaviors they will engage in. Consequently, even within well-defined organizational roles employees have the

discretion to act in ways that either positively or negatively affect organizational outcomes. He argued that even if the firm possesses a knowledgeable and skillful workforce, if the employees are not motivated they are unlikely to contribute to organizational performance. Therefore, firms that want to achieve competitive advantage through high-performance work practices must take into account that employees need to be motivated to engage in behavior that advances strategic goals (Wright et al., 2001).

One way to describe employee behavior as a mediating mechanism is through the notion of organizational climate (Lepak, Liao, Chung, & Harden, 2006). At the individual level, the concept of “psychological climate” refers to an employee’s sense making of the organizational context and helps to determine what behavior is appropriate in a given work environment. Hence, it can also function as a guideline directing employee behavior toward an alignment with the organizational goals. When there is a strong accord among employees on the appropriate behaviors, an organizational climate develops at the organization level. Therefore, the concept of organizational climate is argued to provide an additional layer of understanding to the link between HR practices and organizational outcomes. More explicitly, high-performance work practices are expected to influence the organizational climate, which in turn influences collective employee behavior, which leads to the employees’ discretionary effort toward specific organizational outcomes.

In addition, it is argued that if an organizational climate has a specific “interest” or focus, it can be more effective than a general organizational climate. That is to say that an organizational climate should not be used to cover a generic attitude level in the organization, but it should be linked to a specific strategic objective. For example, an organizational climate for customer service is likely to generate behaviors towards increased service quality or customer

satisfaction. Therefore organizational climates with a specific orientation may have stronger influence to achieve organizational outcomes than a broadly defined organizational climate (Lepak et al., 2006).

One way researchers have thought about organizational climate is through employee engagement (Harter, Schmidt, Killham, & Agrawal, 2009). As it was previously argued employees make discretionary decisions and actions in their roles every day, therefore they have an influence over the success of the organizational goals. These decisions and actions are influenced by their individual attitudes, while employee interactions have the power to influence these attitudes. In other words, the way employees are treated and the way they treat each other affects their daily actions and ultimately the organizational performance. Researchers have demonstrated that there is a positive relationship between organizational level employee attitudes and a number of organizational outcomes. A large-scale meta-analysis, carried out by Gallup, studied 32,394 business and work units and found evidence that there are positive concurrent and predictive relationships between employee attitudes (satisfaction and engagement) with outcomes such as safety, customer attitudes, financials, and employee retention (Harter et al., 2009). When comparing business units in the top- and bottom-quartile of employee engagement, Harter et al. observed median percentage differences of 12% higher customer loyalty, 16% higher profitability, 18% higher productivity, 25% lower voluntary turnover for high-turnover companies (those with 60% or higher annualized turnover), 49% lower voluntary turnover for low-turnover companies (those with 40% or lower annualized turnover), 49% lower safety incidents, 27% lower shrinkage, 37% lower absenteeism, 41% lower patient safety incidents, and 60% lower defects (2009, p. 26). Thus it can be reasonably inferred that there is, even if

conservatively expressed, relationship between employee engagement and organizational outcomes.

There is a consensus among researchers that high-performance work systems can influence employee behavior that in turn will affect organizational performance. However, researchers have referred to the question of inimitability as another layer of theoretical complexity in describing the mediating mechanisms. Becker and Huselid (1998) have argued that in order to provide sustainable competitive advantage, a high-performance work system needs to be difficult to imitate by competitors. They refer to two characteristics of the high-performance work system that can augment the inimitability: path dependency and causal ambiguity. Path dependency is a feature of “resources that are developed over time such that learning and experience provide a cumulative ‘first mover’ advantage” (p. 57). Thereby it is a result of a long-term development and is nearly impossible for competitors to acquire this resource from the market. Causal ambiguity refers to “resources whose content and essential ingredients are so subtle and difficult to fully comprehend that observers outside the firm are not able to reproduce the resource in their own organization” (p. 57). A good example of causal ambiguity in a high-performance work system is the tacit knowledge that is deeply embedded in the organization's systems, routines, and culture, which is highly firm specific and extremely difficult to imitate as such (Lado & Wilson, 1994).

MODELING THE MEDIATING MECHANISMS

There is a broad spectrum of research on the theoretical background of how high-performance work systems influence organizational performance. As described in the section above, the two most widely considered approaches are the resource-based perspective and the behavioral perspective. However, while both approaches can have an important role in

explaining the relationship between HR practices and organizational outcomes, they do not exclude each other. On the contrary, they describe the same phenomenon from different dimensions. For example, while it has been demonstrated that firms can guide employee behaviors and improve organizational performance through employee engagement, researchers have also argued that characteristics of human capital (e.g. skills, motivation) can have positive effects on organizational outcomes.

Knowledge, motivation and empowerment

Therefore, there are several mediating mechanisms that need to be taken into consideration to describe how high-performance work systems influence organizational outcomes. Based on the theoretical foundations discussed above, it can be established that HR practices can be used to increase employees' knowledge, skills and abilities, which then represent an important pathway to increase organizational performance. In addition, HR practices can directly and indirectly increase employees' motivation to act in ways consistent with organizational goals. Practices can provide employees with direct rewards to work towards specific roles and objectives, or can shape the organizational climate to enhance collective behavior and act as a motivating mechanism. In fact, a number of researchers have suggested that high-performance work systems are linked to organizational outcomes by having an effect on the competence (the knowledge, skills and abilities) of employees and on the collective motivation of employees to apply their skills in a discretionary manner for the benefit of the organization (Huselid, 1995; Lepak et al., 2006).

This two-factor concept of the simultaneous mediating effects of employee skills and motivation corresponds to the common-sense reasoning that individual performance can be measured as a combination of ability and effort (Lepak et al., 2006). It is therefore not surprising

that human resource researchers focus on ability and effort as important factors of performance at a collective, organizational level. In other words, the ability of employees (i.e. the knowledge, skill and ability level of human capital) represents all the potential contributions that employees can make towards organizational performance. However, the motivation of the employees (i.e. to put forth discretionary effort) is also essential because it is the factor that ultimately determines whether this employee potential is realized or not. MacDuffie (1995) argued that “skilled and knowledgeable workers who are not motivated are unlikely to contribute any discretionary effort. Motivated workers who lack skills or knowledge may contribute discretionary effort with little impact on performance” (p. 199).

While ability and effort provide a logical explanation from the personal perspective, researchers have claimed that a third factor is also essential to connect HR practices with organizational performance; namely the “opportunities for employees to perform” (Lepak et al., 2006, p. 233) This argument relies on the notion that even if a firm has the most skilled and motivated employees they won’t be able to translate their efforts into organizational outcomes if they are not in an environment that allows them to do so. Researchers have referred to this idea in different ways, such as opportunity to contribute (Lepak et al., 2006), employee involvement (Pfeffer, 1998), or empowerment (Delery & Shaw, 2001), and there seems to be no clear-cut definition in the literature. Derely and Shaw (2001) have adopted a broad view of empowerment “as providing the necessary resources for employees to do their jobs and allowing them the freedom to make decisions that affect the way they do their jobs” (p. 173).

Based on the arguments above, there seems to be a general agreement among researchers that the three mediating mechanisms of employee skills (i.e. knowledge, skills and abilities), motivation and empowerment are essential component of the relationship between high-

performance work systems and organizational performance. Lepak et al. (2006) extend this argument by adding that these three dimensions are necessary mediators to all high-performance work systems, “regardless of their strategic objectives” (p. 233). Furthermore, Delery and Shaw (2001) suggest that “it is these three issues that synergistically combine to enhance the productivity of the work force” (p. 173).

Internal social structure

In addition, Delery and Shaw (2001) noted that an interesting topic of further research would be to explore the role of interpersonal relationships on the success of human resource practices. Similarly, Wright et al. (2001) suggested that the framework describing mediating mechanisms should include the concept of social capital along with human and organizational capital. Therefore, social capital, in other words the “valuable relationships among people” (Delery & Shaw, 2001, p. 716) has also received attention as an organizational resource. Evans and Davis (2005) argue that “the structure and quality of employee relationships [serve] as a potential mediator between high-performance work systems and organizational outcomes” (p. 759). They propose a more nuanced view of high-performance work systems in that their effects not only take place at the organizational level but also at the individual level. Therefore, the internal social structure between employees must also have a mediating relationship between HR practices and organizational performance. Using this logic, an organization’s HR practices influence employee relationships and social structure, which then translate into an impact on organizational performance. Evans and Davis (2005) considered the nature of employee relationships for characterizing the internal social structure, and they described three dimensions through which high-performance work systems influence the social structure of an organization: by bridging weak ties, by creating generalized norms of reciprocity, and by establishing shared

mental models. These three dimensions aim to provide an understanding of social structure from the angles of the structure of relationships, information exchange and shared understanding among employees.

Bridging weak ties is defined as establishing connections between relatively independent social networks that are largely nonoverlapping. Whereas strong ties embody closer and more intimate relationships, they also result in more isolated social networks with redundant contacts. Therefore, the significance of weak ties comes from their role in facilitating information and resource exchange within the organization through connecting different employee groups. The enhanced flow of information resulting from bridging weak ties is not only likely to improve work efficiency but also likely to reduce the need for traditional hierarchical control.

To describe the social capital of an organization, not only the structure but the quality of relationships is also important. The nature of information exchange can be viewed through the concept of generalized norms of reciprocity. Evans and Davis (2005) describe high-quality relationships as those where individuals go beyond formally defined (information or resource) exchanges, are willing to wait for the return of an exchange, and share a mutual interest within teams and the organization. They note that high-performance work systems facilitate the establishment of generalized norms of reciprocity, which then lead to greater organizational performance. Relationships that involve generalized norms of reciprocity are argued to make employees more willing to share information and cooperate in the workplace, while supporting an organizational climate that helps to reduce interpersonal conflict. Therefore, it is summarized that “if bridging weak ties provide the conduit for information exchange [...] generalized norms of reciprocity help ease the flow of information and other resources” (Evans & Davis, 2005, p. 766).

Shared mental models are defined by overlapping and distributed knowledge regarding tasks, teammates, and attitudes that coordinates behavior (Evans & Davis, 2005). In other words, employees that have shared mental models perceive the organizational environment and work expectations similarly, therefore are likely to work more effectively together as a team. High-performance work systems that establish an organizational climate consistent with strategic objectives will lead to employees having a shared perception of the organization. Shared mental models emerge when there is a consensus at the organization level of the practices, policies and routines that define what behaviors are expected and rewarded.

In relation to shared mental models, the concept of team psychological safety has been argued to be an important factor in organizational learning and work effectiveness (Edmondson, 1999). Edmondson argues that in an organizational setting, where the shared social expectations of asking for help, admitting errors, or seeking feedback represent behaviors that threaten team acceptance or career advancement, employees become discouraged to disclose problems even if doing so would benefit the team or organization. Therefore, if the organization can provide “a shared belief that the team is safe for interpersonal risk taking” (Edmondson, 1999, p. 354), then this team psychological safety can enable more effective learning behavior, where employees are less concerned with the potential embarrassment or threat of revealing mistakes. This concept is most relevant on the collective level, as it characterizes an organization in which members must hold similar perceptions of it.

TWO-LAYER MODEL OF MEDIATING RELATIONSHIPS

In sum, researchers have approached the definition of mediators from multiple perspectives. The most widespread model points to a set of three mediating factors, in which high-performance work systems (1) increase employees’ knowledge, skills and abilities, (2)

motivate them to use their skills for organizational benefit, and (3) empower them to act. In addition to this framework, Evans and Davis (2005) argued that high-performance work systems also influence the internal social structure of the organization, which then leads to improved organizational performance. These two frameworks are not conflicting each other, instead they represent two “interactive and overlapping processes” (Combs et al., 2006, p. 504) that together increase job satisfaction and help employees to work better together. Consequently, they affect organizational performance through reduced employee turnover and improved productivity (Becker et al., 1997).

A possible way to conceptualize these two overlapping processes is to think about the organization at the individual and the collective levels. This interpretation comes from the argument that organizations, as such, do not “perform”; however, the individual employees collectively contribute to the overall performance of the organization (Lepak et al., 2006). This also implies that firms do not own the sources of their performance, they only have access to it through the proper management of their employees. Therefore, in this framework, the role of the high-performance work system is to enhance organizational performance through the performance of its employees and their alignment with the strategic goals of the firm.

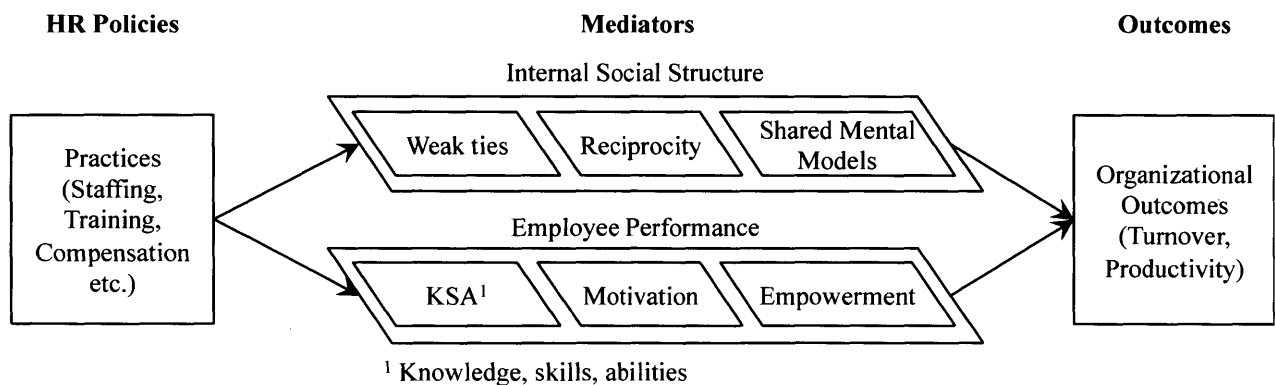


Figure 3: Conceptual two-layer model of overlapping mediating relationships

In Figure 3 the proposed overlapping mediating relationships framework distinguishes between individual level and collective level mediators. The logic behind this distinction is that there are different pathways on each level through which high-performance work practices lead to outcomes. At the individual level, practices such as selective hiring and training increase the skill level of employees; performance based compensation and employment security motivates employees to use their skills; and information sharing and decentralized job design empowers employees with the opportunity to improve processes and organizational performance. On the other hand, employees interact with each other at the collective level. These interactions and the resulting social structure are also influenced by the policies of the high-performance work system. Using the logic from Evans and Davis (2005) weak ties between employee groups create links for information flow, generalized norms of reciprocity increases the quality of the information flow, and shared mental models create a shared perception that align employee attitudes and behaviors with organizational goals. For example, cross-departmental training connects employees who were not in each other's social network otherwise and establishes channel for information flow. Selective hiring screens applicants based on their compatibility with organizational values, which in turn increases the likelihood that employees exchange information and resources with low concern for equivalence. Finally, share mental models can be developed through information sharing about business strategy and financial performance, which help to align employees toward a common objective. Thus, this framework represents how the efforts of individually empowered employee are enhanced through information and resource flow and aligned with company goals to achieve desired organizational outcomes.

In order to provide a deeper insight into the mediating mechanisms between high-performance work practices and organizational outcomes, it is useful to observe the model through the dimensions suggested by Lepak et al. (2006) They proposed that work practices can be categorized in three dimensions based on their primary effects. That is, they divided work practices into skill-enhancing HR practices, motivation-enhancing HR practices, and opportunity-enhancing HR practices. Skill-enhancing practices are intended to improve the knowledge, skills and abilities of employees, and include selective hiring and training. Motivation-enhancing practices are used to enhance discretionary effort from employees, and include employment security, above market compensation, performance based incentives and reduction of status differences. Opportunity-enhancing practices are meant to empower employees, and include teamwork, decentralization and information sharing. However, Lepak et al. (2006) do not suggest that a single practice only influences a single mediating factor, but that the included practices are most effective in realizing a particular outcome. For the purposes of this paper, this distinction is used merely as a tool to improve the clarity of sight within a complex system.

Skill-enhancing practices

While in the traditional sense both selective hiring and training are expected to increase the knowledge and skill level of human capital, their effects on the organization are much more diverse. Figure 4 illustrates the mediating relationships through which the effects of these two practices reach the final outcomes. The relationships in Figures 4, 5, and 6 are represented by arrows marked with a number in reference to Table 1, which identifies some of the literature supporting the relevant relationship.

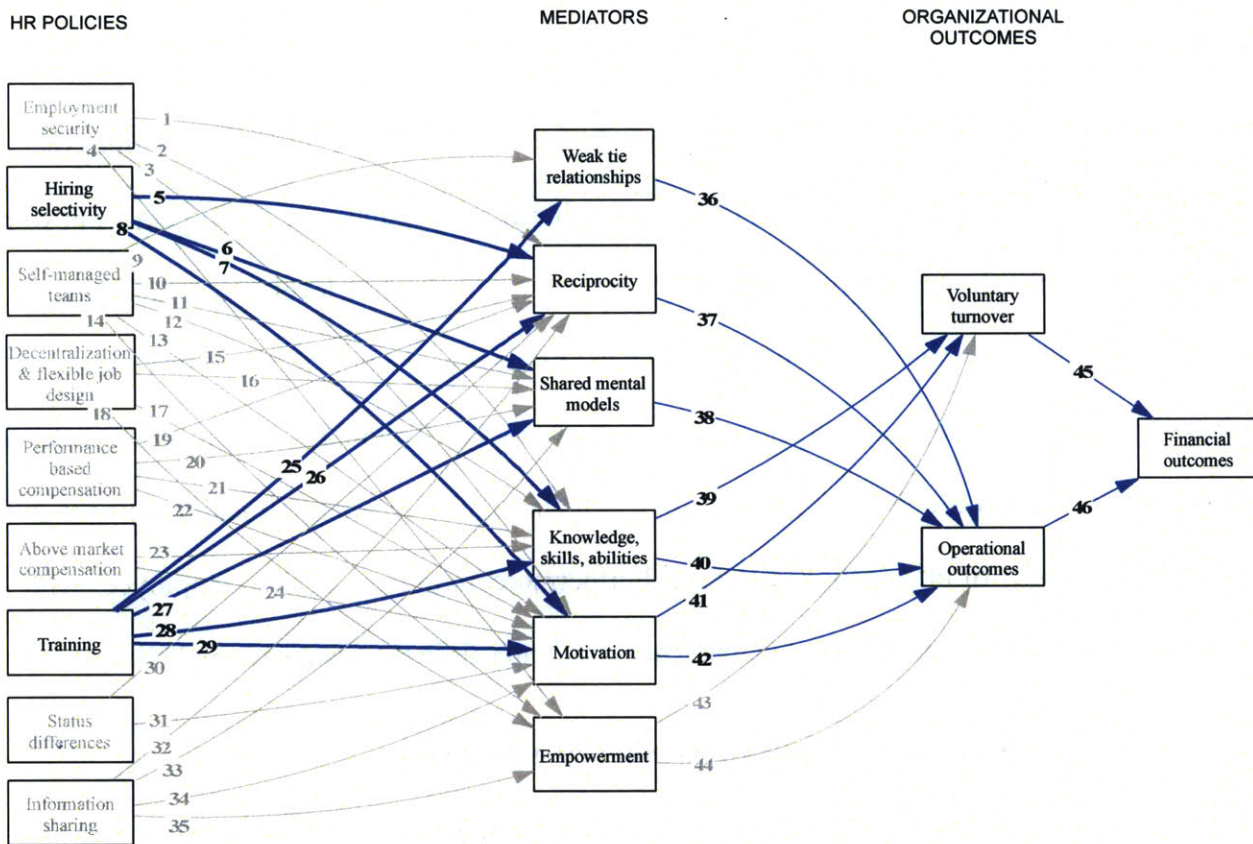


Figure 4: Two-layer model of mediating relationships – Skill-enhancing practices

First, through selective hiring companies are able to bring in highly qualified candidates to the organization, which, all things equal, increases the skill level across the organization. However, selectivity is not recommended to be purely based on skill level. Pfeffer (1998) argues that it is more important to hire employees with skills that best match the job description and who are the best fit for the culture of the organization. Therefore, hiring also plays a significant role in establishing generalized norms of reciprocity, as long as the culture of these norms exists within the organization. New hires selected on the basis of cultural fit will likely to quickly assimilate to the norms and be willing to exchange information and skills with colleagues. In addition, Pfeffer (1998) suggests that selective hiring increases employee motivation. When

candidates go through several rounds of interviews and extensive selection process they will feel that they are part of an elite group for whom the company is willing to go great lengths to hire.

Training is most evidently expected to increase the knowledge, skills, and abilities of employees at the individual level. At the same time it can provide intrinsic fulfillment from work and have a positive impact on employee motivation. On the collective level, cross-functional training can connect employees from different parts of the organization and establish a more diverse social network that is characterized by more weak ties. Training is also an opportunity to bring people together around a common culture, which can help create generalized norms that improve the quality of information exchange. Furthermore, trainings can align employees with company expectations and knowledge that leads to a better fit in the organizational climate.

Motivation-enhancing practices

Practices that are primarily expected to enhance employee motivation are employment security, performance-based compensation, above market compensation, and reduced status differences. Beyond increasing employee motivation, they have implications both at the individual and the organizational level, as illustrated in Figure 5.

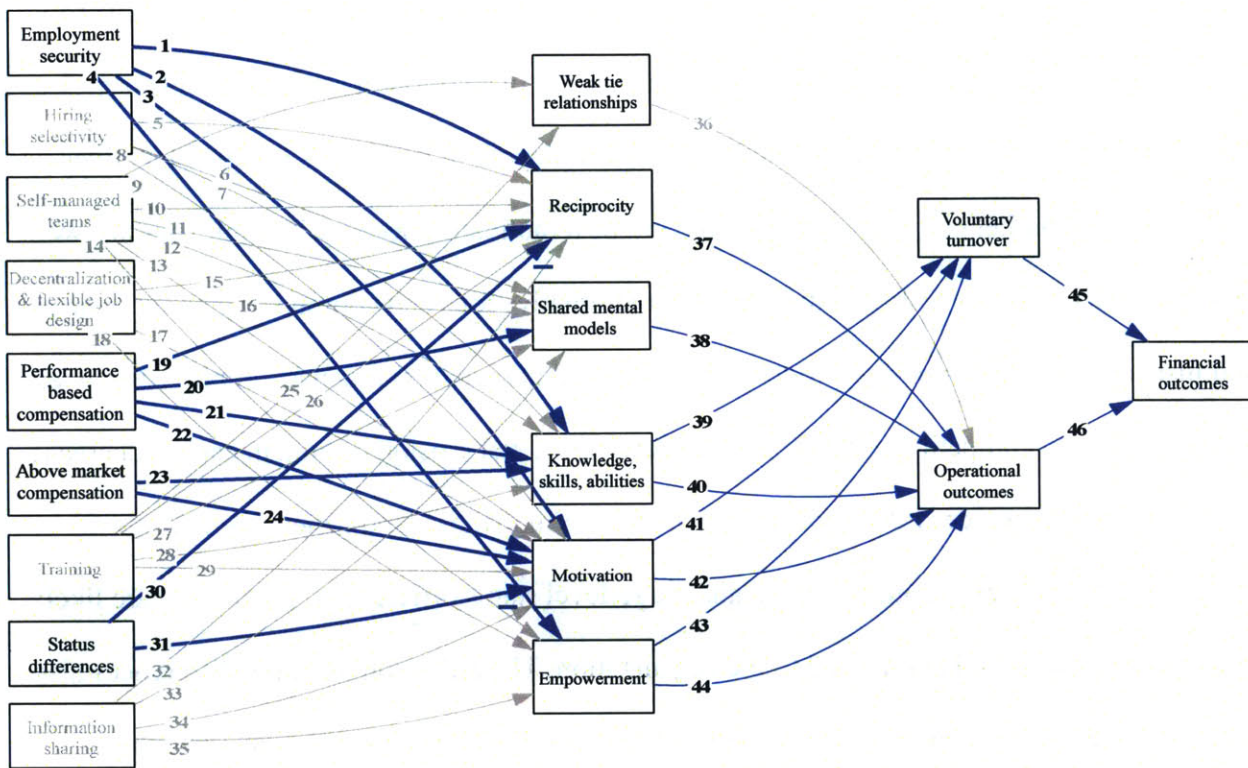


Figure 5: Two-layer model of mediating relationships – Motivation-enhancing practices

Employment security directly increases motivation, because it encourages employees to take a longer-term perspective in their jobs. Beyond motivation, a company's commitment to not lay off employees means that the knowledge and skill level of the human capital is less likely to erode over time. It also increases empowerment, because it allows employees to actively look for organizational improvements without the fear of working themselves out of their jobs. This also applies at a higher level, as employees become more willing to share information if they know their position is secure.

Performance-based compensation has been traditionally used to motivate employee performance. At the same time, compensation policies can be tied to skill acquisition in order to encourage employees to learn different skills and become more flexible. On the social level,

compensation based on group performance (e.g. profit sharing) can shift self-interest toward mutual interest and promote better information sharing. In addition, it represents a clear message about the expected and rewarded behaviors bring employees in line with strategic objectives.

Above market compensation is argued to be a motivator, because if employees are well paid they are less likely to focus on looking for alternative jobs and complaining about their pay, and instead focus on improving productivity. As an additional consequence, employees are less likely to leave to competitors, therefore the knowledge level erosion of human capital decreases.

Status differences have negative correlation to motivation and generalized norms of reciprocity. By reducing both symbolic and wage-level status differences, employees are likely to feel more valued and committed to the organization. The reduction of status differences also encourages open communication and leads to higher quality interpersonal relationships.

Opportunity-enhancing practices

Opportunity-enhancing practices are implemented to allow employees to use their skills and motivation to improve performance. Practices with the main benefit of empowering employees are self-managed teams, decentralized decision-making, and information sharing. Despite the argument that their main benefit is to empower employees, their effects are wide reaching. Figure 6 portrays that they influence all of the mediating relationships across the individual and collective levels.

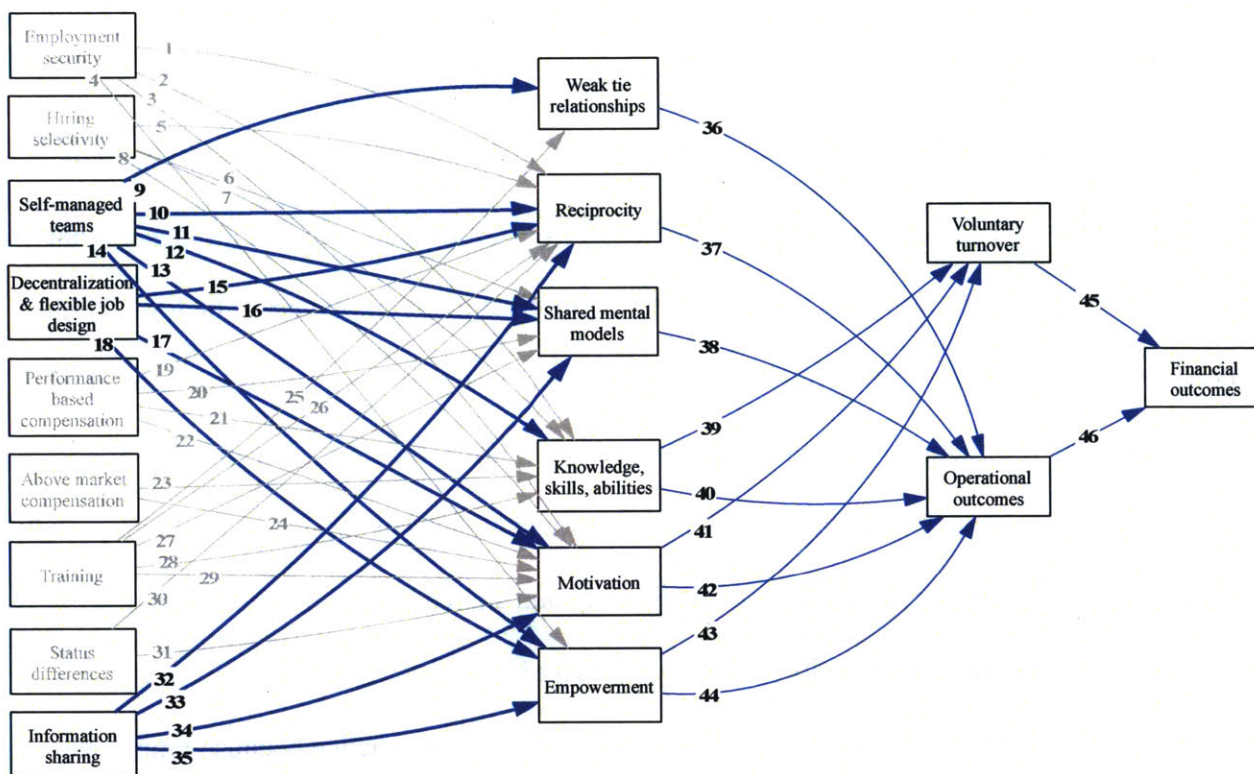


Figure 6: Two-layer model of mediating relationships – Opportunity-enhancing practices

Self-managed teams give greater autonomy and discretion to employees, likely to encourage greater responsibility and accountability for performance. Furthermore, teams can replace traditional hierarchical control with more effective peer-based control. Pfeffer (1998) argued that what makes peer control more powerful is that “someone may disappoint his or her supervisor, but the individual is much less likely to let down his or her work mates” (p. 105). Teams also facilitate knowledge generation, as employees can pool their ideas together and have an increased chance of solving challenges in the company or to come up with a more creative solution. On the social structure level, self-managed teams provide fewer constraints for employees to build relationships outside of one’s immediate work department. Team-based incentives positively affect mutual interest and provide more generalized norms for information

sharing. At the same time, teams are argued to facilitate greater participation, which can result in aligned productivity norms and perceptions of fairness, strengthening shared mental models.

Decentralized decision-making gives the direct opportunity to employees to use their knowledge and skills to achieve organizational objectives. At the same time, a job design that provides flexibility and autonomy contributes to the motivation of employees. The logic behind this is that employees not only need to feel competent but also they need a sense of autonomy to develop intrinsic motivation (Ryan & Deci, 2000). On the collective level, decentralization is argued to “facilitate the development of overlapping knowledge” (Evans & Davis, 2005, p. 767) which contributes to generalized norms of reciprocity and shared mental models, as active participation ensures that information is openly discussed.

Information sharing is an essential opportunity-enhancing practice because employees are unable to contribute their skills to organizational goals unless they have the information to act upon. In addition, when management shares information about financial performance and business strategy, it conveys the message that employees are trusted. This trust results in increased motivation on the individual level and in generalized norms of reciprocity on the collective level. Furthermore it also establishes shared mental models, because when employees are given access to financial information they “understand how their own goals align with the organizational goals” (Evans & Davis, 2005, p. 767).

Mediators and organizational outcomes

Empirical research has shown repeatedly that the use of high-performance work systems in organizations will be reflected in better performance (Combs et al., 2006; Huselid, 1995; Jiang et al., 2012; MacDuffie, 1995). The basic intuition of the proposed model is that high-performance work systems, at the individual level, motivate and empower employees to use their

knowledge and skills. Consequently, this will increase operating performance (i.e. employee turnover, productivity, job satisfaction, customer service quality, defects etc.), which in the end will increase financial performance (Becker et al., 1997; Becker & Huselid, 1998; Harter et al., 2009). In addition, at the collective level, high-performance work systems play a role in shaping the structure and quality of exchange relationships among employees and aligning them with the overall organizational goals. Evans and Davis (2005) argue that these translate into increased organizational performance through increased efficiency and flexibility.

A number of researchers have considered voluntary turnover as a separate organizational outcome, different from operational measures such as productivity and product quality. Research has pointed to a significant and negative relationship between HR practices designed to enhance skills and motivation, and voluntary turnover. It is argued that these HR practices support an emotional bond between employees and organizations (Batt, 2002; Huselid, 1995; Jiang et al., 2012).

Jiang et al. (2012) have demonstrated that voluntary turnover and operational outcomes have a significant effect on financial outcomes. They found that a lower turnover increased financial outcomes, which might be attributed to a lower erosion of human capital and less effort spent on recruitment. They also showed evidence that higher operational outcomes, as one would expect, lead to higher financial results. Combs et al. (2006) also pointed to a strong relationship between operational and financial outcomes under the use of high-performance work systems that they explained with the argument that “unlike other functions (e.g., customer service), human resources permeate organizations” (p. 519).

Limitations and future research

The two-layer model illustrates the effects of HR practices on two overlapping levels in the organization: individual level and collective level. However, the relationships between these two levels have not been discussed in detail. Therefore researchers are encouraged to explore in greater detail the effects of internal social structure and collective behavior on individual knowledge, motivation and empowerment, and the other way around. Furthermore, the relationships between the mediating elements of internal social structure and voluntary turnover and operational performance are suggested to receive more attention in the empirical literature. Finally, the model demonstrates relevant HR practices that improve employee well-being and organization performance; however examples of organizations that follow the “high-road” model still remain limited. Therefore, academics are encouraged to pursue a related research question regarding why high-performance work systems are not widely adopted, despite their promised benefits.

CONCLUSION

The aim of this paper is to shed light on the underlying mechanisms of HR practices that managers can implement for the benefit of the organization and employees alike. Researchers have provided strong support for the idea that human resources have a significant and positive influence on a company’s performance. This paper was able to integrate part of this research into a two-layer model that provides insight into how exactly HR practices work toward desired outcomes such as high productivity, job retention, or customer satisfaction.

It has been argued that the true value of these HR practices emerges when they are implemented together as a, so-called, high-performance work system. This implies that individual practices mutually reinforce each other, sometimes, in essential ways to achieve the

desired effect. Based on this understanding, there is no significant advantage in only implementing single HR practices, because the results are likely to be marginal. Therefore, managers must think in terms of a high-performance work system that combines a number of practices in alignment with strategic goals.

Regarding the question of implementation, one must think of the high-performance systems as a “vehicle to implement the firm’s strategy” (Becker & Huselid, 1998, p. 95). It has been argued that there is no “one size fits all” approach to using a high-performance work system. Aligning the system with company strategy is just as important as harmonizing the practices within the system. Therefore, Becker and Huselid (1998) suggested that it must begin with understanding the organization’s strategy, unit objectives, and challenges confronting line manager who are responsible for implementing the strategy. Then the relevant HR practices must be internally and externally aligned, and subsequently monitored to ensure they meet the objectives. It must be noted, however, that the implementation of a high-performance work system requires significant investment and its benefits materialize over a long time horizon. This might discourage managers or shareholders in the short run; nevertheless, business leaders must realize that they are also responsible for the long-term sustainability of an organization.

Table 1: References describing mediating relationships in two-layer model

1. (Jiang et al., 2012)
2. (Jiang et al., 2012; Pfeffer, 1998)
3. (Batt, 2002; Jiang et al., 2012; Lepak et al., 2006; Pfeffer, 1998)
4. (Delery & Shaw, 2001; Pfeffer, 1998)
5. (Evans & Davis, 2005; Pfeffer, 1998)
6. (Evans & Davis, 2005; Pfeffer, 1998)
7. (Delery & Shaw, 2001; Jiang et al., 2012; Lepak et al., 2006; Pfeffer, 1998)
8. (Delery & Shaw, 2001; Pfeffer, 1998)
9. (Evans & Davis, 2005; Garaus et al., 2015)
10. (Jiang et al., 2012)
11. (Evans & Davis, 2005; Pfeffer, 1998)
12. (Batt, 2002; Pfeffer, 1998)
13. (Pfeffer, 1998; Ryan & Deci, 2000)
14. (Delery & Shaw, 2001; Jiang et al., 2012; Pfeffer, 1998)
15. (Jiang et al., 2012)
16. (Evans & Davis, 2005)
17. (Delery, 1998; Ryan & Deci, 2000)
18. (Delery & Shaw, 2001; Lepak et al., 2006)
19. (Evans & Davis, 2005; Jiang et al., 2012)
20. (Evans & Davis, 2005; Garaus et al., 2015; Pfeffer, 1998)
21. (Pfeffer, 1998)
22. (Delery & Shaw, 2001; Huselid, 1995; Jiang et al., 2012; Lepak et al., 2006; Pfeffer, 1998)
23. (Jiang et al., 2012; Pfeffer, 1998)
24. (Batt, 2002; Becker & Huselid, 1998; Jiang et al., 2012; Lepak et al., 2006; Pfeffer, 1998)
25. (Garaus et al., 2015)
26. (Evans & Davis, 2005)
27. (Evans & Davis, 2005)
28. (Delery & Shaw, 2001; Jiang et al., 2012; Lepak et al., 2006; Pfeffer, 1998)
29. (Delery & Shaw, 2001; Lepak et al., 2006)
30. (Pfeffer, 1998)
31. (Pfeffer, 1998)
32. (Jiang et al., 2012)
33. (Evans & Davis, 2005; Pfeffer, 1998)
34. (Ryan & Deci, 2000)
35. (Delery & Shaw, 2001; Jiang et al., 2012; Pfeffer, 1998)
36. (Evans & Davis, 2005)
37. (Evans & Davis, 2005)
38. (Evans & Davis, 2005)
39. (Huselid, 1995; Jiang et al., 2012)
40. (Combs et al., 2006; Huselid, 1995)
41. (Harter et al., 2009; Huselid, 1995; Jiang et al., 2012)
42. (Combs et al., 2006; Huselid, 1995)
43. (Huselid, 1995; Jiang et al., 2012)
44. (Combs et al., 2006; Huselid, 1995)
45. (Combs et al., 2006; Huselid, 1995)
46. (Combs et al., 2006; Huselid, 1995)

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