

HIGH COMMITMENT HR PRACTICES, EMPLOYEE EFFORT, AND FIRM PERFORMANCE

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INTRODUCTION

Research in the field of Strategic Human Resource Management (SHRM) provides evidence that a strong relationship may exist between the quality of a firm's HRM system and its performance (Wright, Gardner, Moynihan, & Allen, 2005). Drawing on the resource-based view of the firm, scholars within this stream of research have argued that systems of HR practices create a sustainable competitive advantage for firms by creating employee-based competencies that are difficult to imitate, rare, valuable, and non-substitutable (Collins & Smith, 2006; Wright, Dunford, & Snell, 2001). The specific employee-based competencies that drive performance will most likely vary by context, and in fact, researchers have demonstrated that there is a need to understand the key employee behaviors that link HR practices to performance in various settings (Wright & McMahan, 1992; Collins & Smith, 2006). Given this call for context specific research, I chose to study professional services firms to understand the relationship between specific employee-based competencies and HR practices.

For this study, I chose medical and legal practices because they are the fastest growing segment of the US economy (U.S. Bureau of Labor Statistics, 2008), moreover, researchers tend to focus only on manufacturing firms (e.g., Arthur, 1992, 1994; MacDuffie, 1995; Youndt, Snell, Dean, & Lepak, 1996) thus relatively few studies exist in the service industry (Delery & Doty, 1996; Batt, 2002; Sun, Aryee, & Law, 2007). Within services firms, employee behaviors serve as a key differentiator that drives competitive advantage because employees' interactions with customers affect customer satisfaction which ultimately impacts overall firm performance (Schneider, Erhart, Mayer, Saltz, & Niles-Joll, 2005). Employee behavior, framed in this paper as effort, is a mediator that I believe links HR practices to performance within professional services organizations.

Within the professional services context, I argue that high commitment HR practices will provide employees with the motivation and ability to provide superior customer service through their increased effort which will lead to better organizational performance. Researchers within the field of SHRM, however, question whether the use of high commitment HR practices across all employee groups serves as a competitive advantage (Lepak & Snell, 1999; Tsui, Pearce, Porter & Hite, 1995). I contribute to the SHRM field by testing a model of how high commitment HR practices impact firm performance within a segment of the service sector, professional services firms. I do this by linking high commitment HR practices to performance through employee effort. Lastly, I contribute to the ongoing debate of whether the universal use of high commitment HR practices across employee groups serves as a competitive advantage by testing whether the value of an employee group to firm competitive advantage moderates the impact of employee effort on firm performance.

THEORY AND HYPOTHESES

HRM and Employee Effort

To move the field forward, we need to develop and test the mediating mechanisms through which HR practices create value and lead to firm performance (Collins & Smith, 2006; Wright et al., 2001). Most of the empirical research in this field has focused on manufacturing firms (MacDuffie, 1995; Youndt, et al., 1996; Snell & Dean, 1992;) or technology firms (Collins & Clark, 2003; Collins & Smith, 2006), yet the causal mechanisms through which HR practices will impact firm performance in professional services firms will be different from those in other sectors because interaction between employees and customers is often as important as the items produced by an organization (Bowen & Waldman, 1999). Unlike in manufacturing firms, customers interact with the production process of service firms (Normann, 1984; Skaggs & Youndt, 2004) which means that the behavior of the employees plays a key role in shaping the customer's perception of quality or satisfaction (Liao & Chuang, 2004). When employees are able to deliver superior service, then customers are more likely to be satisfied and return for services or recommend the firm to others (Borucki & Burke, 1999; Bowen, Siehl, & Schneider, 1989).

Given the importance of employee behaviors in service firms, I decided to study the mediating mechanisms between the use of high commitment HR practices with front-line service employees, specifically the semi-professional and clerical employee groups, and firm performance in professional services firms. I chose to study frontline service employees because they are often the first and only representation of a service firm, and since they impact the satisfaction of customers, they are a key part of creating competitive advantage. In this context, employee effort, or the amount of time and energy expended, affects customers' perceptions of service and buying behavior (Borucki & Burke, 1999). Indeed, employee effort is critical to the overall performance of the service organization because customers take part in the production process and are therefore sensitive to cues indirectly related to service (Podsakoff & Mackenzie, 1997). For example, in a series of studies on critical incidents of service encounters (Bitner, Booms, & Mohr, 1994; Bitner, Booms, & Tetreault, 1990), instances in which customers experienced the greatest satisfaction were explained by employee effort such as unprompted and unsolicited employee action. Further, a service failure could become a satisfying service incident when an employee put time and effort into correcting an error, explaining the reason for the mistake, and compensating the customer (Bitner et al., 1994). Customers are aware of how committed employees are to providing service and since customers influence firm production and performance, these firms need to encourage employees to exert effort in order to affect customer satisfaction and buying behavior (Susskind, et al., 2003). Therefore, employee effort in service firms affects customer experiences and ultimately firm performance, however, various organizational factors can affect employee effort (Schneider et al., 2005).

I posit that high commitment HR practices impact the willingness of employees to put forth effort and satisfy customers, which in turn, affects the overall performance of the organization (Batt, 2002). The high commitment HR strategy is distinct from others (e.g., the "control" or transactional HR strategies) in that it fosters a high-involvement employee-employer relationship and motivates employees to contribute above and beyond the basic requirements of their jobs (Arthur, 1994). High commitment HR systems are focused on three broad dimensions including: recruitment and selection, job design, and incentives (Batt, 2002). The three HR practice components of the high commitment HR system impact both the motivation and skills of employees (Wright, et al., 2001). In this model, I focus on the effect of high commitment HR

practices on the motivation, in this case effort, of service employees. Given that employees have time and energy to devote to their work, employees decide what level of effort they will exert in pursuit of satisfying their customers. In the same vein as the research on psychological climate and employee effort, I argue that when organizations accommodate employee psychological needs, employees will be more likely to invest time and energy into their work (Brown & Leigh, 1996). In this case, high commitment HR practices create a “personally beneficial” environment which motivates employees to fully engage in their work and thereby exert extra effort to satisfy customers (James, James, & Ashe, 1990; 53).

Further, I believe that the motivational framework developed by Knoke (1990) and used by Kidwell & Bennett (1993) in their research on propensity to withhold effort is useful to explain why high commitment HR practices will affect employee effort. Using this model, people provide effort because they calculate the costs and benefits of material incentives, adhere to socially instilled values about behavior, and respond to emotional attachments to other people or groups (Kidwell & Bennett, 1993). High commitment HR practices provide employees with above market compensation and benefit packages which will maximize the benefits of contributing to the firm (Batt, 2002). These practices may create socially instilled norms of putting forth effort because they include hiring highly-skilled employees that can contribute significantly from the start and that “fit” with the organization (Collins & Smith, 2006). Further, high commitment HR practices include providing career opportunities through internal career paths which create a norm for career advancement based on the effort of the employee (Batt, 2002). Lastly, these practices create a mutually committed relationship between the employee and employer which creates an emotional attachment and identification with the company which results in increased effort by the employee.

Hypothesis #1: High commitment HR practices for both semi-professional and clerical employees will be significantly related to firm performance, but these relationships will be mediated by employee effort.

Universalist vs. Contingency Theories

In the wake of unprecedented rapid technological and competitive change, organizations have adapted to their external environments through internal changes to strategy, structure, and employment relationships (Dyer & Shafer, 1999). Organizations have attempted to become flexible or “agile” so that they can easily adapt to the external competitive environment and often aim to achieve flexibility by modifying the nature of the employment relationship through restructuring, reducing the workforce, or using contract employees (Dyer & Shafer, 1999). Owners and managers are realizing that equal investment in employees across the organization may serve as a competitive disadvantage because it often leads to high overhead or sunk costs that do not equate to increased firm rent (Purcell, 1999). A flexible and adaptive workforce helps companies respond to the dynamic competitive environment and this type of agility may require managing different groups with a system of HR that is especially designed for each employee group (Lepak & Snell, 1999; Tsui et al., 1995).

Various internal and external factors influence the organizations’ choice of employee-organization relationships across employee groups; thus, the employment system may vary across employee groups rather than be applied consistently across an organization (Lepak & Snell, 1999; Tsui et al., 1995). For example, Tsui et al. identified two prototypic employee-

organization relationships: the job- and organization-focused. Tsui et al. (1995) argued that firms choose which employee-organization relationship to use based on whether the employees hold jobs that are critical to the organization's strategy implementation. For example, organizations should use the organization-focused employment relationship with employees that hold core jobs and they should use the job-focused employment relationship with employees that hold peripheral jobs. Lepak and Snell (1999) made similar arguments and suggested that the value to competitive advantage and uniqueness of each employee group should determine which system of HR practices is used. Specifically, they noted that employee groups with skills that are not easily found on the open labor market are worth developing internally, whereas, employee groups with skills that are easily found on the open labor market and require less firm-specific knowledge may not justify the costs of such investment (Lepak & Snell). In contrast to the above viewpoint, the universalistic approach to HRM suggests that a high commitment or high performance system of practices should be used on all employee groups to create a sustainable competitive advantage (Wright & McMahan, 1992). Past research generally supports the universalistic approach, although recent research (Lepak Takeuchi, & Snell, 2003; Tsui et al., 1997) has started to support the frameworks developed by Tsui et al. (1995) and Lepak and Snell (1999).

Based on these conflicting perspectives and previous research, I question whether all employees should be managed with high commitment HR practices given the potential differential effect of each employee group's effort on firm performance. Using the Lepak and Snell (1999) and Tsui et al. (1995) frameworks, I argue that within service firms, when an employee group is valuable to the firm's competitive advantage, then the employee group's effort is more likely to be related to the customer experience. The effort of employees who are more valuable to competitive advantage will impact firm performance more, resulting in a greater need to drive the extra-role behaviors of these employees through high commitment HR practices. When the effect of high commitment HR practices on firm performance occurs through employee effort, the relationship between employee effort and firm performance will be stronger for those employees that are more valuable to competitive advantage. Specifically, I posit that when semi-professional and clerical employee efforts mediate the relationship between high commitment HR practices and firm performance, the relationship between each group's effort and firm performance will be contingent on the value of each employee group to competitive advantage.

Hypothesis #2a: The value of the clerical employee group to firm competitive advantage will moderate the impact of employee effort on firm performance such that the more valuable the clerical employees are to competitive advantage, the stronger the effect that effort will have on firm performance.

Hypothesis #2b: The value of the semi-professional employee group to firm competitive advantage will moderate the impact of employee effort on firm performance such that the more valuable the semi-professional employees are to competitive advantage, the stronger the effect that effort will have on firm performance.

METHODS AND RESULTS

During the year 2005, I gathered data on semi-professional and clerical employees from 180 small medical and legal practices across seven states in the US. I chose to study firms with less than 100 employees because to date, research in SHRM has excluded firms with less than 100 employees, and yet, they are a driving force in the US economy (Way, 2002: 766). To test my hypotheses, I collected data on high commitment HR practices, employee effort, and importance to competitive advantage for each employee group and firm level performance from the top manager or office manager of each participating firm. These respondents are the most appropriate within these firms because they are responsible for the HR activities within the organization, such as recruiting, hiring, training, managing compensation, and staffing. Due to the size of these firms, objective measures of performance were not available, but research suggests that perceptual measures of performance are significantly related to objective measures of performance and are appropriate when external measures are not available (Dollinger & Golden, 1992; Wall, et al., 2004). Additionally, I controlled for firm size and age.

I used hierarchical regression analyses and generally found support for my hypotheses. I first tested the relationship between high commitment HR practices and employee effort and found support that high commitment HR practices for both clerical and professional employees were significantly related to employee effort ($\beta_{\text{clerical}} = 0.51, p < 0.01, \beta_{\text{semi-professional}} = 0.46, p < 0.01$). Second, I regressed the independent variables on the dependent variable and found that the use of high commitment HR practices for both employee groups was significantly related to perceived firm performance ($\beta_{\text{clerical}} = 0.31, p < 0.01, \beta_{\text{semi-professional}} = 0.39, p < 0.01$). Finally, I found that when employee effort was included in the model, the size of the relationships between high commitment HR practices and performance dropped ($\beta_{\text{semi-professional}} = 0.24, p < 0.01, \beta_{\text{clerical}} = 0.19, p < 0.01$), yet the relationship between employee effort and performance remained significant ($\beta_{\text{semi-professional}} = 0.38, p < 0.01, \beta_{\text{clerical}} = 0.36, p < 0.01$). These findings provide support for Hypothesis 1, suggesting that employee effort partially mediates the relationship between high commitment HR and firm performance for both employee groups.

In regard to Hypotheses 2(a) and 2(b), I found that the interactions between clerical and semi-professional employee effort and the value of each to competitive advantage were significantly related to firm performance ($\beta_{\text{clerical}} = 0.34, p < 0.01, \beta_{\text{semi-professional}} = 0.17, p < 0.05$). Specifically, when examining this relationship with clerical employees we found the highest level of firm performance under the conditions of high effort and high value to competitive advantage and the lowest level of performance under the conditions of low effort and high value to competitive advantage. Comparatively, when the clerical employees were rated as being relatively low in value to competitive advantage, we found no significant differences between the high and low effort conditions. Finally, after further examination of the data, we found that the relationship between high-commitment practices for clerical employees and firm performance seems to be fully explained by the combination of effort and the interaction of effort and value to competitive advantage (i.e., the remaining direct effect of high commitment HR on firm performance is not significant when adding the other variables to the regression equation). Specifically, when semi-professional employee effort was low, we found no significant difference in firm performance between the high and low value to competitive advantage groups. Further, the only condition that showed a significantly different level of firm performance was the high value, high effort condition. Unlike with the clerical employees, high commitment HR practices for semi-professional employees remained significantly related to firm performance after adding both effort and the effort*value interaction to the regression equation.

DISCUSSION

The findings show that high commitment HR practices are related to firm performance within the professional services sector, demonstrating the generalizability of high commitment HR practices to an additional sector outside of manufacturing, high-technology, or lower skilled service sectors. More importantly, I found that employee effort partially mediated the relationship between the use of high commitment HR practices and firm performance. I found that these HR practices are significantly related to employee effort for both semi-professional and clerical employee groups, although it appears that the direct relationships between high commitment HR, employee effort, and firm performance is greater for semi-professional employees. Given these results, I find that there may be some truth to the universalistic argument that high commitment HR practices should be used across all employee groups.

However, my findings show that the value of each group to competitive advantage moderates the impact of these practices on firm performance. My findings suggest that for clerical employees, the value of this group to firm competitive advantage moderates the relationship between employee effort and firm performance. When clerical employees are highly valuable to firm competitive advantage, the impact of their effort is much stronger on firm performance, than when these employees are less valuable to firm competitive advantage. Similarly, I found a significant interaction between the value of the semi-professional employees and effort, although the impact appears to be smaller than for clerical employees. Overall, I believe that this finding supports the contingent view, such that, a firm will receive higher returns by investing in high commitment HR for those employee groups that are tightly connected to competitive advantage because the effort of these employees will have a stronger impact on firm performance. Thus, high commitment HR practices appear to have a positive and significant effect on firm performance through employee effort, but the impact of the employee effort will be stronger for those groups that are valuable to competitive advantage.

These findings contribute to the ongoing debate within the field of SHRM on whether all employee groups should be equally invested in or whether the use of these practices is contingent on other factors. Given these findings, I hope that this paper spurs additional research in the service industry on how and why the use of HR across employee groups impacts firm performance, hopefully through the use of more context specific mechanisms that have significant practical and theoretical implications.

REFERENCES AVAILABLE FROM THE AUTHOR

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