

# *The Mediating Mechanisms of the Relationship between HR Systems and Organizational Performance*

Jingyi Wei<sup>1, a</sup>

<sup>1</sup>*Department of Management, London School of Economics and Political Science, London WC2A 2AE, UK.*

<sup>a</sup>*weijingyi0708@163.com*

**Keywords:** SHRM; black box; organizational performance; ability; motivation; opportunity

**Abstract:** Strategic Human Resource Management (SHRM) scholars have determined a consistent positive association between Human Resources (HR) systems and organizational performance. However, scholars have called for further understanding of the mediating mechanisms that explain the positive relationship between HR systems and organizational performance, suggesting that these unknown mechanisms are the ‘black box’ of SHRM research. This paper will mainly focus on the underlying mediating mechanisms in the ‘black box’, also discuss about some limitations in existing scholarly research.

## 1. Introduction

The unknown mediating mechanisms of the ‘black box’ of Strategic Human Resource Management research have emerged to be a crucial question in the area of SHRM nowadays, because solving this problem can benefit both the development of SHRM-related theories and the improvement of firm performance. At present, although many scholars have proven a consistent positive association between HR systems and organizational performance, there is still much research needed to be done to figure out what mediators should be included in the ‘black box’ and how these mediators link with performance indicators.

## 2. What does the ‘black box’ include?

### 2.1 The existing scholarly research about SHRM ‘black box’

The scholarly research has been based on three dimensions. Firstly, since 1990s, increasing scholars have paid extensive effort to prove the relationship between HR practices and firm performance. Huselid [1] was the pioneer who figured out the statistically significant relationship and came up with the concept of the high performance work system through publishing empirical studies. However, Wright [2] pointed out the shortcomings of defining ‘organizational performance’ and pointed out that the proved relationship was the co-variation rather than the causation.

Secondly, as Dyer and Reeves [3] classified ‘organizational performance’ into individual performance, unit performance, accounting profits and market values, soon Becker and Huselid [4] defined the process that the firm strategies determine the design of the HRM system which has

impact on skills, motivations and work design of the staff, and the behaviors of the staff further influence the creativity, productivity and discretionary behavior of the organization. As the result, the profitability, profit growth and market value will be ultimately affected. According to Gardner et al. [5], the proved relationship between HR system and organizational performance showed itself the causation, or called the causal chain, with mediators of employee attitudes and staff behaviors.

Thirdly, Rogers and Wright [6] classified ‘organizational performance’ into four levels and came up with the causal order within these levels. They also divided HRM practices into two categories of intended HRM practices and actual HRM practices. Gardner et al. [5] attempted to introduce some mediators such as job satisfaction, organizational affective commitment and turnover rate to prove the direct causation. Above all, Wright and Nishii [7] established a Multi-level Theory of SHRM, including intended HRM practices, actual HRM practices, perceived HRM practices, employee reactions and performance, which presented a transformation from organizational regular routines to individual schemes, and a ‘leap’ from individual coordinated behavior to organizational HR performance through approaches of implementation, communication, moderation and coordination.

## **2.2 The author’s opinions about SHRM ‘black box’**

According to the multi-level framework, the crucial mediators in the ‘black box’ are included in the level of employees’ reactions, so it is necessary to introduce the AMO (A, ability; M, motivation; O, opportunity) model, which has been used to predict and analyze the relationship between the staff and organizational performance in the area of HRM [8] to explain the potential mediators in the ‘black box’ from the individual level.

### **2.2.1 Mediator 1: Ability**

The ‘ability’ is one of the most important mediators in the ‘black box’. Employees’ abilities can be influenced by different HRM strategies easily and have impact on the organizational performance in turn. Broadly speaking, the ‘ability’ refers to knowledge, skills, abilities and other characteristics (KSAOs). If an enterprise adopts effective HRM practices to improve employees’ abilities, there might be an ideal organizational performance. For example, according to Becker and Huselid [9], selectivity in staffing is positively related to firm performance. So if a firm could select high-quality employees with good comprehension from a large applicant pool through structured and validated procedures for personnel selection [10], most employees would be knowledgeable or skillful so that the firm might be able to accept and complete more complicated tasks. Besides, if a firm allows the staff to join in job-based skill trainings, practice by themselves and communicate with specialists frequently, employees will improve their competence quickly, so that the firm can achieve the goal of being a high-productivity or high-efficiency firm.

### **2.2.2 Mediator2: Motivation**

Another important mediator is the ‘motivation’, which is a psychological process. Employees’ motivations are always formed and changed under different HRM strategies, and then have positive or negative impact on organizational performance. For instance, if a company encourages employees to devote themselves to meeting specific individual-level goals through the formal performance appraisal process or linking pay to performance, employees might be highly motivated to exert every effort to be more productive and make fewer mistakes, as the result, the firm-level goals can be achieved more quickly. However, if employees recognize that they are discriminated because of unfair policies in the organization, they might feel frustrated and do harm to the organization such as spending work time on personal affairs or embezzling funds, which hinders the

development of the firm.

### **2.2.3 Mediator3: Opportunity**

The ‘opportunity’ is the last one of the major mediators in the ‘black box’, and firms creating opportunities to employees is a process of empowerment-enhancing, which enhances employees’ sense of responsibility or involvement in influencing organizational outcomes. According to Subramony [10], there are a variety of HRM strategies to increase participation, such as establishing a formal grievance procedure and complaint resolution systems, setting up a self-managed or autonomous work groups, and collecting feedback from employees. These empowerment practices will have impact on employees’ beliefs in terms of whether the enterprise place emphasis on the welfare of the staff [11], which lead employees to develop positive emotional bonds with [12] and exert discretionary effort representing the enterprise [13]. These favorable attitudes and behaviors in the workplace might lead to a lower level of turnover [14], as well as have positive impact on organizational outcomes, including high-productivity, high-competitiveness, service satisfaction, good reputation, and ultimately the firm-level financial performance [15].

### **3. Whether scholarly research has effectively unlocked the ‘black box’**

As far as I am concerned, the multi-level theory of SHRM is the most comprehensive framework to explain the link between HR systems and organizational performance, and the AMO model can be used to generally analyze the mediating mechanisms in the ‘black box’ from the individual level. However, current research has not unlocked the ‘black box’ completely because of the complexity of unknown ‘black box’ mechanisms.

First of all, the final firm-level outcomes are needed to be achieved by employees’ coordination, so current research is based on the perfect hypothesis that the perceived HR practices can trigger employees’ cooperative behaviors and these behaviors can be added together (individual behaviors -> organizational behaviors -> organizational performance). However, the credibility of the ‘additivity’ has not been asserted so that it is not appropriate to admit a direct ‘leap’ from individual behaviors to organizational performance regardless of a lack of the link with ‘organizational behaviors’. The further research should figure out the relationship between individual behaviors and organizational behaviors exactly in the ‘black box’ rather than simply integrating these two levels.

Secondly, according to different measurement indicators and classification methods, the statistic results vary and the relationship between HR practices and firm performance is not always the same. Therefore, if scholars could unify indicators in further research, it might be more likely to find out the exact mechanisms in the ‘black box’.

Thirdly, some scholars collect the data from a specific industry or fixed groups, so the results might lack the ‘generality’, or some participates are not willing to provide their true information in the survey so that the data might not be credible.

### **4. Conclusion**

In a word, the three major mediators are ‘ability’, ‘motivation’ and ‘opportunity’, different human resources management strategies will have distinct impact on employees’ abilities, motivations or opportunities, and then lead to positive or negative individual behaviors. If individual behaviors add together, there might be organizational behaviors, which influence the organizational performance directly. In addition, it is worth noting that current research has not unlock the ‘black box’ and more effort needs to be exerted to analyze the mediating mechanisms in both theory-level and conduct-level.

## References

- [1] Huselid, M. A. (1995). *The impact of human resource management practices on turnover, productivity, and corporate financial performance*. *Academy of management journal*, 38(3), 635
- [2] Wright, P. M. (2003). *Next generation SHRM research: from covariation to causation*.
- [3] Dyer, L., & Reeves, T. (1995). *Human resource strategies and firm performance: what do we know and where do we need to go?*. *International Journal of human resource management*, 6(3), 656-670.
- [4] Becker, B. E., & Huselid, M. A. (1998). *High performance work systems and firm performance: A synthesis of research and managerial implications*. In *Research in personnel and human resource management*.
- [5] Gardner, T. M., Moynihan, L. M., Park, H. J., & Wright, P. M. (2001). *Beginning to unlock the black box in the HR firm performance relationship: the impact of HR practices on employee attitudes and employee outcomes*. *CAHRS Working Paper Series*, 75.
- [6] Rogers, E. W., & Wright, P. M. (1998). *Measuring organizational performance in strategic human resource management: Problems, prospects and performance information markets*. *Human resource management review*, 8(3), 311-331.
- [7] Wright, P. M., & Nishii, L. H. (2007). *Strategic HRM and organizational behavior: Integrating multiple levels of analysis*. *CAHRS Working Paper Series*, 468.
- [8] Blumberg, M., & Pringle, C. D. (1982). *The missing opportunity in organizational research: Some implications for a theory of work performance*. *Academy of management Review*, 7(4), 560-569.
- [9] Becker, B. E., & Huselid, M. A. (1992). *Direct estimates of SD y and the implications for utility analysis*. *Journal of Applied Psychology*, 77(3), 227.
- [10] Subramony, M. (2009). *A meta-analytic investigation of the relationship between HRM bundles and firm performance*. *Human resource management*, 48(5), 745-768.
- [11] Eisenberger, R., Huntington, R., Hutchison, S., & Sowa, D. (1986). *Perceived organizational support*. *Journal of Applied Psychology*, 71, 500-507.
- [12] Shore, L. M., & Tetrick, L. E. (1991). *A construct validity study of the survey of perceived organizational support*. *Journal of Applied Psychology*, 76(5), 637-643.
- [13] Eisenberger, R., Armeli, S., Rexwinkel, B., Lynch, P. D., & Rhoades, L. (2001). *Reciprocation of perceived organizational support*. *Journal of Applied Psychology*, 86(1), 42-51.
- [14] Harrison, D., Newman, D., & Roth, P. (2006). *How important are job attitudes? Meta-analytic comparisons of integrative behavioral outcomes and sequences*. *Academy of Management Journal*, 49, 305-325.