

The Impact of High-performing Work Systems on Organizational Performance of Service Companies in Hong Kong: The Perspective of Human Resource Professionals

Dr Aaron Chiang
Head of Human Resources and Administration
Hong Yip Service Company Limited

Background

Literature on human resource management (HRM) that has received the most attention in the last two decades is on how HRM may lead to superior organizational performance, with particular research interest on strategic human resource (HR) practices known as high-performance work practices, high-commitment management practices, high-involvement work practices, human capital enhancing practices, or innovative employment practices. Despite differences in the terms used to denote strategic HR practices, a consistent positive relationship between these practices and performance measures at various levels of analysis such as factory level, business unit level and corporate level has been found. Though the constructs of the relationship between these practices and performance measures vary in terms of theoretical, empirical and practical dimensions, researchers generally agree the notion that strategic HR practices should combine to become a coherent, integrated bundle so that this system of complementarities can produce effect that is greater than the sum of its parts. This system is commonly referred to by researchers as the “high-performance work systems” (HPWS).

HPWS refers to a system or systems of high-performance work practices which comprise mainly HR practices such as incentive compensation, training, employee participation, selective hiring and flexible work arrangements. It has often been used as a synonym for high-performance, high-involvement or high-commitment management system and has been regarded as an alternative to hierarchical, mass-production forms of work system in organizations. Strategic human resource management (SHRM) theory asserts

that HPWS enhances employees' knowledge, skills and abilities (KSAs), empowers employees to leverage their KSAs for organizational benefit, and increase their motivation to do so. The result generates greater job satisfaction, lower employee turnover, and higher productivity, all of which help improve organizational performance.

Research has provided empirical support for the superiority of HPWS for employee and organization-level performance. However, this kind of research has been carried out predominantly within the context of industrialized Western economies like the United States, Canada, Britain, New Zealand while limited research has been conducted in other countries, especially in Asia with the exception of Singapore, Korea and China.

Researchers investigating the relationship between HRM and organizational performance have focused either on manufacturing sector, or they have not treated service sector as a variable. This neglect has only been partly balanced by a limited number of service-sector studies and by cross-sector studies. It is therefore necessary to carry out a research on the potential for human resource advantage in the service sector as HPWS is not exclusive to certain sectors such as manufacturing, particularly in the context of an Asian city like Hong Kong.

Objectives of the Study

This study investigated the research topic *"The impact of HPWS on organizational performance of service companies in Hong Kong, from the perspective of HR professionals"*.

This study aims to find out the degree of influence Western-style HR practices, on which most of the modern theories on HRM based, can have on companies having operations in Hong Kong. This study chooses to focus on service companies in Hong Kong as Hong Kong is a service-oriented economy with its service sector accounting for 91.2% of its Gross Domestic Product (GDP) in 2006.

The study also investigates what are the micro HR practices that integrate to form HPWS and then find out the interaction among these practices. To accomplish this purpose, the study is set up to identify key dimensions of HR practices from the literature and propose a conceptual model for analyzing the

use of HR practices within organizations. The study intends to find out whether these HR practices, when bundled together as a system, are able to affect organizational performance of service companies in Hong Kong. This will provide management of organizations and HR professionals with some insight into the high-performing HR practices that they will have to take into account when shaping the HRM function of their organizations.

Justifications and Importance of the Study

This study is important to the service-oriented economy of Hong Kong and is justified for the following reasons. First, there are discussions on whether differences in SHRM among different regions would converge due to globalization and the extent of their relative impacts on organizational performance. Given that most current studies about this subject are conducted on firms from advanced market economies, the current study helps to enrich the literature by examining the relationship between HPWS and organizational performance. Hong Kong is considered a suitable place as it was a colony of Britain before its sovereignty was returned to China in 1997. As a result, although being an Asian city with strong cultural influence from China, Hong Kong is more receptive to Western-type management concepts that have widely been adopted by companies in Hong Kong.

Second, there has been limited research in Hong Kong on the relationship between HR practices or HR systems and organizational performance. However, only one study focused on the specific impact of HPWS on organizational performance and it covered all types of industries in Hong Kong without narrowing it down to any particular industry. Consequently, there exists a significant gap for research on the relationship between HPWS and organizational performance of service companies in Hong Kong.

Third, a large body of prior research on HRM and organizational performance has focused on the manufacturing sector, leaving limited research conducted on other sectors, particularly the service sector. The need for frequent and direct contact between the customer and the employee in the service sector suggests that SHRM is likely to be even more important in the service sector than in the manufacturing sector. Besides, services are typically much more labour intensive than manufacturing, with ratios of labour to total costs typically exceed 50% and are often around 60 to 70%, including in the public sector. This study therefore contributes to the research in this area by focusing on the

service sector in Hong Kong.

Fourth, the choice of senior HR professionals as respondents in this kind of study is a common approach but the inclusion of junior HR professionals as respondents is an uncommon one that is worthwhile to explore. This is because the intended, actual and perceived HR practices for different levels of employees in organizations may be different. HR professionals are chosen as respondents because they possess the most accurate and updated information on HRM related activities. Furthermore, since senior HR professionals have in-depth and extensive knowledge about the overall strategic activities of the organization as well as various measures of organizational performance, they have the position power to a considerable extent to influence the business outcomes. Their perceptions of what constitutes HPWS and its impact on organizational performance are useful reference materials for the HR profession and management of organizations when they are formulating HR strategies and policies.

Fifth, it is reckoned that every firm has distinctive HR systems that represent the core competency for its particular organization. As Hong Kong continues to be an active player in the world market, research results on the impact of HPWS on its service companies can offer a different perspective on HRM studies in Chinese companies. According to the Invest Hong Kong, a government department responsible for promoting Hong Kong as an ideal place for business investment, the total inflows of Foreign Direct Investment funds to Hong Kong rose from US\$9.7 billion in 2002 to US\$55.9 billion in 2007, and the number of companies choosing Hong Kong as their regional headquarters increased from 948 in 2002 to 1246 in 2007. The findings of this study may thus give valuable information for executives in multinational organizations in formulating effective HR strategies and management approaches when dealing with Chinese companies and Chinese employees.

The above justifications clearly demonstrate the need and importance to undertake this study.

Research Design and Methodology

In order to test the relationship between HPWS and organizational performance, the configurational perspective of theorizing SHRM was adopted by bundling the ten selected best practice or high-performance management

practices into HPWS. These practices were the use of selective hiring and transformational leadership, the provision of quality work, employment security, training and development, reduced status distinctions, self-managed teams and decentralized decision-making, information sharing, contingent compensation, and measurement of management practices. A conceptual model was developed based on the theoretical frameworks advocated by Paauwe and Richardson (1997), and Boxall and Purcell (2003).

In the conceptual model, HPWS was hypothesized to influence organizational performance while several commonly used organizational contextual factors i.e. company size, company age, level of unionization, degree of internationalization, company ownership and size of HR department were adopted as control variables. The indicators of organizational performance in this study were perceptual financial performance, perceptual non-financial performance and employee turnover. The measurement items for perceived financial performance were the perceptions of the organization's average market share growth, average profit growth and average sales growth in the past three years compared to competing organizations in the same industry. The measurement items for non-financial performance were perceptions of the organization's quality of products and services, development of new products and services, and satisfaction of customers or clients in the past three years compared to other organizations that did the same kind of work. The measurement items of employee turnover were the organization's voluntary employee turnover rates of managerial staff and non-managerial staff. Based on this conceptual model, three hypotheses were developed for testing.

With the identification of the research topic, the quantitative research methodology based on a positivist paradigm was adopted to carry out the study. Convenience sampling method was used to identify samples from members of the HKIHRM. 650 respondents comprising both senior and junior HR professionals were sampled to receive the survey questionnaire. Survey instrument was developed and a pilot test was carried out before the finalized survey questionnaire was sent to chosen respondents for data collection. The collected data were analyzed using a number of statistical tools such as factor analysis, correlation analysis and multiple regression analysis.

Research Results

The research topic *“The impact of HPWS on organizational performance of service companies in Hong Kong, from the perspective of HR professionals”* is introduced through a discussion of HPWS and its impact on organizational performance.

The hypotheses developed for this study were then tested. *These hypotheses were: (a) there was a positive relationship between HPWS and financial outcomes of surveyed organizations; (b) there was also a positive relationship between HPWS and non-financial outcomes of surveyed organizations; and (c) there was a negative relationship between HPWS and employee turnover of surveyed organizations.* Results of the data analysis showed that *all the three hypotheses were accepted.*

In a nutshell, it was found in a sample of 117 service companies in Hong Kong that the extent to which the responding organizations had adopted HPWS described in this study was positively related with organizational performance in terms of better perceived financial outcomes and perceived non-financial outcomes, and higher employee retention. This provides support for the proposition that the adoption of HPWS at the organization level is associated with higher organizational performance. The finding of the study is consistent with most conclusions drawn on sampled firms from earlier studies conducted in the Western countries, which reveals that HPWS is associated with greater firm performance.

Managerial Implications

Several implications of this study are summarized as follows. An important implication is that in a global economy, the traditional sources of competitive advantage from product and process technologies, financial resources and economies of scale are constantly challenged by lower cost and more innovative competitors. Firms that are able to develop effective measures for acquiring talented human assets and retaining such talents in ways that cannot be easily imitated by competitors are likely capable of dealing with these challenges. Specifically, interdependencies among elements in the firm's HR configuration make it particularly difficult for competitors to imitate. Thus, rival firms cannot simply mimic specific HR practices or hire away high performing staff with the idea of successfully replicating a firm's formula because each HR practice is optimized in combination with others and in the context of

organizational technology, business processes and culture.

Another important implication is that management of organizations seeking to maximize organizational performance may derive the greatest benefits from adopting HPWS to managing the workforce, and more importantly, how to bundle or integrate HR practices into HR systems that fit the firm's specific context and its unfolding strategies. While some practices may have almost universal relevance in the Anglo-American world (for example, certain kinds of selection practice), others may be heavily shaped by organizational, industry and societal contexts. It may be necessary for management to devise ways to keep much of the knowledge tacit, or associated with executive teamwork, so that it will be difficult for rivals to discern what it is or who has it i.e. causal ambiguity and social complexity.

Furthermore, although not all employees may be of equal strategic importance, all employees have the potential to impact an organization's bottom line – either positively or negatively. Multiple HR systems with different HR practices have to be developed and applied to suit for the needs of various employee groups. That is, there shall be different types of relationships between HRM and organizational performance depending on which employee group is examined. Managers shall not forget that each employee has his or her own different abilities, motivation and opportunities to work. The types of HPWS, which should contain the minimum HR policies and practices required by each firm to play the competitive game, need invariably vary by industry or, more accurately, strategic groups or customer segments within industries. It is therefore important for managers to implement the types of HPWS that are most conducive to employees' needs so that they can contribute, in their varying degrees, to better organizational performance.

The last implication is that the study has assumed the transferability of the Western-style management practices to companies in Hong Kong, which will, in turn, lead to better organizational performance. It has to be cautioned that foreign managers should not take it for granted that Western-style or home-country HR practices can be applied to Chinese organizations. The degree to which Western-style or home-country HR practices can be employed in Chinese organizations, and the perceived effectiveness of these practices have to be evaluated carefully to determine the extent of the transfer of such practices. It is therefore imperative for both Chinese and foreign managers to

keep an open mind on the amalgamation of Western-style and Chinese-style HR practices to produce an “HRM with a Chinese flavor” that best suits Chinese organizations and Chinese employees.

Conclusion

In conclusion, this study contributes to broadening the current scope of knowledge on the impact of HPWS on organizational performance of service companies in Hong Kong. Being the first research of its kind in Hong Kong, it shows that the greater intensity of usage of HPWS would be associated with higher financial and non-financial performance, and lower quits in the service organizations in Hong Kong. As the service sector has accounted for the majority of economic activities in Hong Kong for now and in the future, this study helps to stimulate more in-depth examination of the strategic contribution of HPWS in this highly important sector. How to manage employees successfully in service-oriented organizations has become a crucial lever in creating and sustaining competitive advantage for these organizations. The focus of the study on service companies helps to support the growing recognition that employees are unlikely to treat customers any better than they themselves are treated. Employees are one of the key stakeholders of organizations and they will treat their customers in ways they perceive they are treated.

The importance of HRM has been widely recognized by management of organizations and HR managers are regarded as “strategic partner” of organizations. They are required to demonstrate their capabilities as part of the top management team and are able to make significant contributions to business growth. To do so, they have to integrate various high-performance HR practices, which as indicated in this study should better be combined into a HPWS, into various business systems to enable employees to give productive contribution in meeting the organization’s strategic objectives. It is up to HR managers to prove their worth by demonstrating the connection between the adoption of HPWS and organizational performance.

It has to be noted that the study concentrates only on the high-performance HR practices and, when bundled to form HPWS, their influence on organizational performance. Yet, it is necessary to search for the best mix of both internal and external fit of SHRM that in aggregate influence the performance of organizations. This is because HPWS is highly idiosyncratic

and must be carefully tailored to each organization's individual situation to achieve optimum impact. A real contribution to organizational performance will only occur when SHRM is approached from a more holistic and balanced perspective that can bring about the alignment between individual values, corporate values and societal values. This will be a unique blending for each organization, which is hard to imitate by outsiders (including competitors) and thus contributes to sustained competitive advantage of organizations.

To sum up, a more in-depth study of the impact of HPWS on organizational performance can enable organizations to achieve higher level of SHRM effectiveness and better organizational performance so that organizations can become *high-performance work organizations*¹. This study strives to make a small step in enhancing the understanding of a much-debated topic of HPWS in the HRM field, particularly in the under-researched Chinese context. It is hoped that more research on various aspects of HRM in Hong Kong and China are forthcoming.

¹ High performance work organizations are generally taken to mean organizations that have adopted a set of human resource management practices and forms of work systems claimed to encourage employee commitment and thereby increase levels of performance. Key features are usually taken to include team working, job flexibility, the extensive use of communication and various employee involvement initiatives.

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