

Synergistic High-performance Work System and Perceived Organizational performance of Small and Medium-Sized Enterprises: A Review of Literature and Proposed Research Model

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Abstract

High performance work systems (HPWS) are found as an effective driver of organizational performance in several studies. Nevertheless, most of previous studies of HPWS were conducted with a simple set of HR practices and there is a lack of strategic approach for HPWS as a truly synergistic system (Banks & Kepes, 2015; Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009). Especially, the previous studies were mainly addressed in the context of large business and it is far from clearance in SME context. Thus, this paper attempts to bridge the gaps by exploring the nature of HPWS from strategic and systematic approach as well as identifying the the potential effect of synergistic HPWS on perceived organizational performance. Under the light of strategic management, HPWS is explored with necessary dimensions to sustain the nature as well as effectiveness of a system. Hence, this study enriches the cross-field literature of strategic management and HRM. The proposed research model and proposition of the relationship between synergistic HPWS and organizational performance contribute to development of strategic HRM literature and the theoretical groundwork for further empirical studies of HPWS..

Keywords: Synergistic HPWS, organizational performance, strategic human resource management.

1. Introduction

Small and medium enterprises (SMEs) account for about 90 percent of enterprises worldwide (IFC, 2012) while empirical studies across countries indicated the positive relationship between SME sector and GDP per capital growth (Beck, Demirguc-Kunt, & Levine, 2005). Thus, this number reflects the crucial role of SMEs in economic growth over the world. In addition, World Bank (2015) asserted that to absorb around 600 million jobs of growing global workforce especially in Asia and Sub-Saharan Africa in the next 15 years, SMEs are considered as the backbone of economic development and employment. And Edinbukrg (2015) indicated that SMEs contribute around 60% to 70% of economy including informal sector such as family businesses.

Furthermore, employment is also another great contribution of SMEs in the world. Ayyagari, Demirgüç-Kunt, & Maksimovic (2011) indicated that SMEs are reported as a key driver of employment creation in all countries, whereas SMEs account for 66% of employment in high income countries and up to 78% in low income countries (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2011). It means that SMEs can create around 2 out of each 3 jobs in the world.

However, the gaps of productivity between SMEs and large firms in developing countries are larger than in developed countries. Yoshino & Wignaraja (2015) presented a detail data for selected countries around the world providing in comparison of employment and GDP generated by SMEs. In comparison between developed countries such as Japan, German, US and the left with the developing countries, this figure reflects that most SMEs sectors in developing countries use the larger portion of workforce but contribute with less share of GDP.

For example, SMEs in Japan and Pakistan have similar proportion of total employment (around 70%), but SMEs's contribution to GDP in Japan is 50% while it is 30% in Pakistan. This reveals the fact that poor productivity and low performance remain an obstinate problem across the developing countries.

In Vietnam, the poor performance mostly associated with non-state enterprises which are dominant by SMEs. According to VMPI (2014a), in 2010-2012, the non-state enterprises which mostly are SMEs have poorest performance compared to other groups of FDI and state sectors (VMPI, 2014a). The report of VMPI (2014a) also indicated that, even the total revenue of non-state enterprises slightly increased in 2011 and 2012 but the total profit of this group fall down rapidly. It means that SMEs in Vietnam trended to be less effective in performance for recent years.

Hence, similar to other developing country, searching for enhancement of organizational performance for SMEs especially for the non-state SMEs is one of the central issues in Vietnam. In addition, in the national strategy of industrialization and modernization in Vietnam, manufacturing is considered as one of the central industry of national economy. This industry encompasses up to 55,692 firms and becomes one of four largest industries in the economy (VGSO, 2014). Thus, enhancement of performance for Vietnam non-state SMEs in general and for non-state SMEs in manufacturing industry in particular is the contemporary issue in Vietnam.

In the other hand, from literature perspective, RBV theory strongly supports for HPWS to become one of the most potential Valuable-Rare-Imperfectly imitable- Non substituted resource (VRIN resource) that can be exploited for competitive advantage and higher organizational outcomes (Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009; Wright, 2001). HPWS are discussed with several arguments of universal, contingency, configuration perspectives which contain ambiguous features of VRIN resource. However, the first feature of HPWS about universal characteristics is already filled with a certain universal sets of popular HRM practices in current literature. Meanwhile, contingency characteristic is developed under the concept of vertical fit and horizontal fit, of which, vertical fit to firm strategy which is already discussed with emerging concept of HRM-strategy fit or similar construct of strategic alignment.

However, the horizontal dimension of contingency perspective which is horizontal fit and configuration perspectives are still far from clearance in previous studies. Most of previous studies was conducted with HRM practices individually or even under the construct of HPWS but they were addressed with low focus on horizontal fit or configuration perspective. There is a lack of system approach for HRM practices or HPWS as a truly system (Banks & Kepes, 2015; Lengnick-Hall et al., 2009). While, the synergistic function of HPWS is suggested to have more effect on organizational performance than *simply summing up of individual effects* (Drummond & Stone, 2013). It means that HPWS can generate higher performance but the organization will gained higher outcomes when it deals the human resource practices in synergistic way. There is still a shortage of research to examine the relationship between synergistic HPWS and organizational performance (Banks & Kepes, 2015). As a result, recent researchers have strongly recommended for exploiting the strategic features of HRM as well as HPWS in sustaining organizational outcomes (Banks & Kepes, 2015; Lengnick-Hall et al., 2009). Hence, exploring the impact from aspect of synergistic HPWS on organizational performance especially in SMEs will make sound not only in literature but also in current practices.

Synergistic HPWS

HPWS are defined as a bundle of different HR practices but they are complement to each other toward the organizational objectives through enhancing positive attitude and motivation of the workforce (Armstrong, 2014; Posthuma, Campion, Masimova, & Campion, 2013). Way & Johnson (2005) also indicated that horizontal structural alignment is enhanced when a firm employs its HR practices in a system. However, there is few agreement on certain definition, bundle of practices and even the labelling of High performance work systems (Boxall & Macky, 2009; Michaelis, Wagner, & Schweizer, 2015). Huselid (1995) defined that "HR practices boosting up firm's performance are called high performance work systems 'HPWS'" while other researchers may viewed as high-involvement work systems, high-commitment work systems, and high-performance HR practices (Gittell, Seidner, & Wimbush, 2010). Consequently, HPWS are also developed in a large range of HR practices with different combination among the common HR practices such as job security, recruitment and selection, training and development, compensation, reward, promotion, and performance-management, participation, job description, communication etc. (Mehdi et al., 2012; Posthuma et al., 2013). The most common HR practices can be justified as follows:

The first, employment security can be described as the commitment of firm for job stability. Employment security is found as the most common practice in meta-analysis of R. A. Posthuma et al., (2013) that conducted on 193 peer-review articles about HPWP published from 1992 to 2011. In addition, in an empirical study conducted in SMEs context, Barrick et al. (2015) have found that employment security is one component of HRM practices contributing to collective organizational engagement which is related to organizational performance. Especially, job security is also found as a positive component of HPWS in the empirical studies of P. C. Patel et al., (2012) and Messersmith & Guthrie (2010) which are also conducted in SME context and new ventures in USA. In Vietnam, the mass-survey of Alphabe on 22,668 employees belong to 24 industries in 2015 also indicated that one of the main reasons of high turnover rate in Vietnam enterprises is related to job security (Linh, 2016). Thus, job security can be expected as one of core component in HPWS that works not only in large firm but also in small firms in both developed and developing countries.

The second, recruiting and selection (Selective staffing) include the jobs of “locating and recruiting applicants and then choosing whom to hire” (Posthuma et al., 2013). This stage plays important role because it can generate larger profitability and higher labor productivity (Michie & Sheehan, 2005) and enhance employee commitment (Fiorito, Bozeman, Young, & Meurs, 2007; Taylor, Levy, Boyacigiller, & Beechler, 2008). Especially this practice contributes to create better quality workforce that is the source of higher overall performance (Takeuchi, Lepak, & Wang, 2007). Thus, recruitment and selection practices encompass specific selection criteria with creative process to select the right persons in accordance with firm strategy. Especially, this practice also belongs to the list of most common practices used in 193 peer-reviewed articles over past 20 years (R. A. Posthuma et al., 2013) and approved being make sound in SMEs context (Doherty, Liz, Ann, 2013; Messersmith & Guthrie, 2010; Michaelis et al., 2015; Nguyen, 2004; P. C. Patel et al., 2012).

The third, training is one of the most common practices associated to planning and implementing program for equipping knowledge and skills for employees to meet the requirement of their jobs. This practice is important because it is directly related to the firm capacity in implementing their function (Truss, 2001). According to R. A. Posthuma et al., (2013) normally HR training and development consist not only cross-functional training but also the multi-skill training as well as spiritual training. He also indicated that several dimensions of training such as training extensiveness used of training to improve performance and training for career development are found as one the most frequent used HRM practices over past 20 years by researchers. These practices are also found as the good components of a bundle of effective HPWS in SMEs context and new ventures (Messersmith & Guthrie, 2010; Michaelis et al., 2015; P. C. Patel et al., 2012) and they are also examined as a positive HR practices in Vietnam SMEs as well (King-Kauanui, Ngoc & Ashley-Cotleur, 2006b; Nguyen, 2004).

Forth, performance appraisal embraces the practices of measuring and giving feedback to enhance individual and group or firm performance. The performance appraisal practices include frequent feedback based on team and organization goals, managing objectives tied to organizational strategies, then it play important role in enhancing employee responsibility. Hence, similar to HR practices of training, these practices is one of the most common practices in full range of enterprise and also found as predictors for organizational performance in SMEs context in both developed and developing countries (Barrick et al., 2015; Michaelis et al., 2015; Sheehan, 2013; Doherty, Liz, Ann, 2013; King-Kauanui et al., 2006b; Messersmith & Guthrie, 2010; Michaelis et al., 2015; Nguyen, 2004; P. C. Patel et al., 2013).

The fifth, participation is defined as “the focus of organization on delegations of authority, encouraging workers to participate in decision making, enabling them to control work processes as required and provision of grievances system” (Pfeffer, Hatano, & Santalainen, 1995). This is weighed by employees as being respectful and good feedback (Renn & Vandenberg, 1995) thus even in context of SMEs, it is also highly weighed for its presence in a good HRM practices and HPWS (Barrick et al., 2015; Michaelis et al., 2015; Sheehan, 2013; Messersmith & Guthrie, 2010; P. C. Patel et al., 2013).

The six is reward practice that contain monetary and non-monetary bonus for deserved employees based on their positive contribution. Nasurdin, Ahmad, & Ling (2015) suggested that rewards can be utilized to motivate employees for achieving organizational value and goals. Through rewards, the firm expresses the highly appreciation and recognition to its employees (Barrick et al., 2015; Nasurdin et al., 2015; Posthuma et al., 2013). Therefore, as implicated in the philosophy of Social Exchange Theory, this practice receives favourable feedback from employees through their dedicated contribution to organization.

In addition, proves found from a meta-analysis with 193 peer-reviewed of ” R. A. Posthuma et al., (2013) showed that promotion that is associated with non-financial rewards is one of the most popular practices. The rewards practice is also asserted as good component of HPWS in SMEs (Doherty, Liz, Ann, 2013; Messersmith & Guthrie, 2010; P. C. Patel et al., 2013, Pascual Ivars & Comeche Martínez, 2015). Especially in context of SMEs in Vietnam, intensive compensation was found having strongest effect on organizational performance (King-kauanui et al., 2006b). All above proves underpin more strongly for the positive effect of rewards practice in full range of enterprises.

And finally, job description is to justify the job requirement in clarity. Employees are more productive if jobs are defined with clarity and properly communicated to employees without any ambiguity (Delery & Doty, 1996). And understanding clearly about the job is found as one of core condition for job performance. Thus it is common to see this practice in the list of the most common practices used by researchers over 20 years (R. A. Posthuma et al., (2013)and found as sound dimension for HPWS in SMEs (Michaelis et al., 2015; Messersmith & Guthrie, 2010; P. C. Patel, Messersmith, & Lepak, 2013).

In sum, the bundle of above practices which are common in full range of enterprises have been proved as positive component of HPWS which contribute to better organizational performance or other value. These practices are grouped in diversified bundles and examined in some context of SMEs (Michaelis et al., 2015; Messersmith & Guthrie, 2010; P. C. Patel, Messersmith, & Lepak, 2013) bust mostly in developed countries then it will be potential for examined with the full range of these potential bundle in a developing country.

However, the key point here is distinguishing feature of HPWS that enable HPWS being a truly “system” rather than a set of individual practices (Banks & Kepes, 2015; Lengnick-Hall et al., 2009). The sets of practices implemented synergistically are believed to provide for additional positive outcomes beyond those might be expected from the individual elements Michaelis et al., 2015). The HPWS are also found non-effective when its elements plays independently (Drummond & Stone, 2013). Thus, the synergistic feature is essential to ensure HPWS to be a truly system. This feature is also considered as horizon fit which synergistic value in a system is explored under the light of strategic standpoint. And, previous studies also indicated that horizontal fit involves a congruence among HRM practices or HRM system (Baird & Meshoulam, 1988; Huselid, 1995; Lengnick-hall & Lengnick-hall, 1988; P. M. Wright & Snell, 1998). A bundle of congruence HRM practices can be named as synergistic HPWS to highlight the supplement among HRM practices.

Nevertheless, there is only a few studies mentioned to this feature. A paucity of quantitative studies examine the effect of “bundle” rather than individual practices but that is actually the study on a set but truly system (Michaelis et al., 2015; Messersmith & Guthrie, 2010; P. C. Patel, Messersmith, & Lepak, 2013). All measures of this set are mentioned to HRM practices which include no dimensions for presenting theirs synergistic alignment. It is even more limited studies conducted in the context of SMEs. Drummond & Stone (2013) is the only author up far now have gone deeper to exploit the synergistic feature of HPWS in a empirical study and this study has found that, synergistically coherent bundles of HRM practices as a whole has more effect on organizational performance. However, the study of Drummond& Stone (2013) is the qualitative study and the measures of synergistic feature within HPWS have not been quantities in any solid quantitative study. In a theoretical study, Banks & Kepes (2015) suggested to explore the perspectives of inter-HRM era fit and intra-HRM era fit for HPWS but there is no clear measured items is established. Hence, measurement for synergistic HPWS in this studies is suggested to adopt from HPWS utilization for SMEs of Michaelis et al., (2015) and P. C. Patel (2013)and two added measured dimensions of synergistic HPWS which includes two items of “to what extent does your firm consider and reach the synergistic alignment among HRM practices?” and “to what extent does your firm consider and reach the synergistic alignment within each HM practice”.

Perceived Organizational performance

Organizational performance is a basic concept in management and so far, there is a large number of studies that mention about it. It encompasses the actual output or results of an organization. However, the measurement for organizational performance is still a complexity because of different perspectives. However, along with the more complicated environment and multifaceted nature of performance, the wide range of performance indicators which is closed to triple bottom lines of performance are more weighed and recommended by several researchers (Drummond & Stone, 2013; Georgiadis & Pitelis, 2012; Hubbard, 2009; Kennerley & Neely, 2003; Leggat & Balding, 2013).

From the strategic standpoint in the impact of strategic HRM on organizational performance, Delaney & Huselid (1996) has developed the perceived performance indicators including perceived organizational performance (product or service/programs quality, ability to attract employees, ability to retain essential employees, customer satisfaction, and relations between management and other employees, relation among employees general) and perceived market performance (marketing, growth in sales, profitability and market share). These indicators are quite broad and encompass many dimensions in triple bottom line theory such as financial, customer/market, internal process performance, and learning and development performance, social performance.

In other hand, Dollinger & Golden (1992) and Powell (1992) indicated that the subjective performance indicators is suitable to use for measuring firm performance in the context of small-sized enterprises which are almost private firms. Because in private small sized enterprises and even medium-sized enterprises, objective performance indicators are normally not public and trend to be confidential. Hence, it is difficult to collect the objective performance indicators such as profit, ROI from private SMEs. In addition a positive correlation between objective and subjective performance indicators are found in previous studies (Dess & Robinson, 1984; Venkatraman & Ramanujam, 1987). Thus, it is appropriate to use subjective performance indicators which was created by Delaney & Huselid (1996) to measure organizational performance in the context of SMEs.

Synergistic high performance work systems (HPWS) and organizational performance

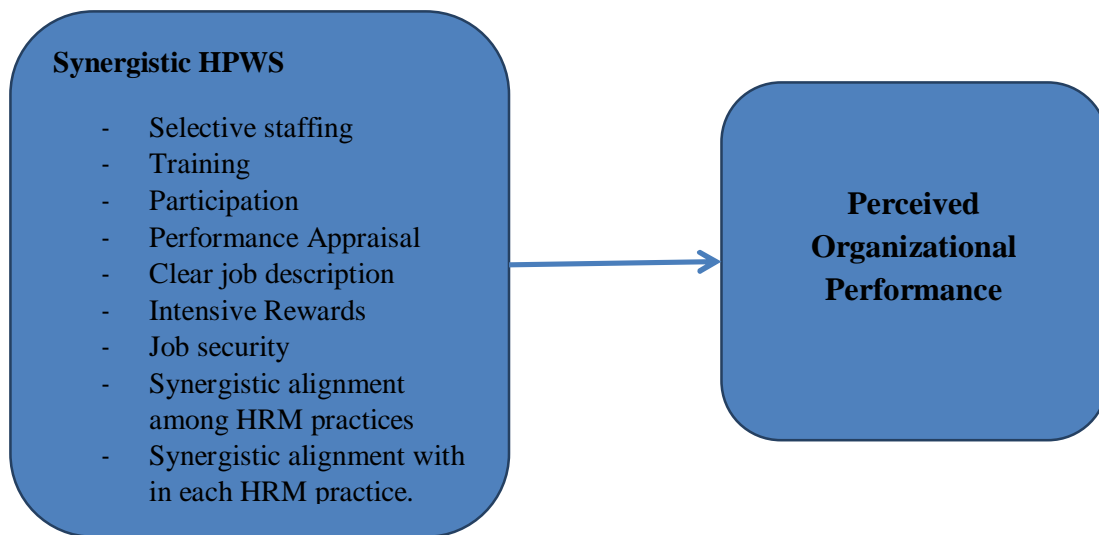
In term of the relationship between HPWS and organizational performance, there are several studies which have asserted the effects of HPWS or HRM practices on organizational performance (Sun, Aryee, & Law, 2007; Bowen & Ostroff, 2004; Collins & Smith, 2006; Combs, Liu, Hall, & Ketchen, 2006; Datta, Guthrie, & Wright, 2005), including empirical evidences in SMEs context (Barrick et al., 2015; Drummond et al., 2007; Messersmith & Guthrie, 2010; Michaelis et al., 2015; P. C. Patel et al., 2012, 2013; Sheehan, 2013.). The most popular HR practices in these studies are job security, training, selective staffing, appraisal, reward, participation and job description. High performance work systems are also found to be positive related to organizational performance in different industries such as semiconductor design firms (Tsai, 2007), hospital industry (Bonias, Bartram, Leggat, & Stanton, 2010) and high-tech industry (Patel et al., 2013), Healthcare sector (Fan et al., 2014), financial service (Barrick et al., 2015).

There is abundance of related research on HRM practices and HPWS and organizational performance, however, most of previous studies have conducted with distinct HR practices (Lengnick-Hall et al., 2009). The systematic approach for HRM practices or HPWS and organizational performance as a truly system is still limited. HPWS can generate higher performance but the organization will gained higher outcome when it deal the human resource practices in synergistic way with the system of the whole organizational HR (Banks & Kepes, 2015; Lengnick-Hall et al., 2009). The aligned HPWS in each firm will be synergistic and can be exploited as unique resource to generate comparative advantage and high organizational performance as well (Banks & Kepes, 2015). In the context of SMEs, the research of HPWS is even slower than other enterprises (Pascual Ivars & Comeche Martínez, 2015) and mostly conducted in developed economies. Thus, being consistent to above arguments and strategic and systematic approach, HPWS in this study are assessed in a systematically bundle of HRM practices and the following proposition is proposed:

Proposition: Synergistic High performance work systems (Synergistic HPWS) are positive related to organizational performance of SMEs.

Proposed Research Model

Based on underpinning theories of RBV and contingency theory especially the above hypothesis development, this study suggests the following research model (Figure 1):

Figure 1: Proposed Research Model**Conclusion and Implication**

Advancing current literature of HRM from strategic perspective, this study generates a solid conceptual framework for a further empirical study of synergistic HPWS in the context of SMEs. The present study is further step to enrich the literature of cross-field of strategic HRM in general and HPWS in particular, especially the development for the concept of synergistic HPWS and their relationship to perceived organizational performances in SME context. It follows the recent call of researchers for exploring the horizontal fit in HPWS and merging strategic standpoint in HRM issues in different context in order to gain highly effective management (Banks & Kepes, 2015; Lengnick-Hall et al., 2009). Therefore, it will be definitely remarkable in development of strategic HRM as well as its potential effect on organizational performance especially in the context of SMEs. The proposed research model suggested forms this study for further empirical studies are also valuable for both scholars and SMEs business practitioners.

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