# IMPACT OF HIGH INVOLVEMENT WORK PRACTICES ON COMPANY PERFORMANCE AND EMPLOYEE WELL-BEING

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## ABSTRACT

This paper is dealing with the relationships between high involvement work/HR practices, company performance and employee well-being. The relationship between HR practices and company performance has received much attention in prior literature, while the employee perspective has been widely neglected in this research tradition. The purpose of this paper is to study the impact of high involvement work practices on company performance and employee well-being, and to evaluate how employee well-being and company performance are related. Data were gathered at the business-unit level from managers and employees in metal industry and retail trade in Finland. The results indicate that the HIWPs are strongly related to company performance in managerial data, i.e., when the managers evaluate both HIWPs and company performance, while HIWPs evaluated by employees are less related to company performance but more strongly related to employee well-being. The link between employee well-being and company performance remains modest. The results revealed the important role of the level that data were collected. Employees' perceptions of HIWPs differed from the managers' conceptions of the same practices raising thus the question of the difference between planned, implemented and experienced or observed HR or work practices.

## INTRODUCTION

The impact of HRM or HR practices on organizational performance has received much attention in prior research (e.g., Huselid, 2005; Guest 1997; Stavrou & Brester, 2005; Harney & Jordan, 2008). Generally speaking, the results support the view that improving the way employees are managed (e.g., increasing participatory and motivational aspects at work) leads to enhanced company performance. The dominant HRM-Performance (HRM-P) literature focuses on an ideal set of HR/work practices labeling them loosely as 'best', 'high performance', 'high involvement' or 'high commitment' practices, all involving the common element of contrasting with a Tayloristt, control type of management (Wood, 1999). In the majority of HRM-P literature both HR practicesand company performance are measured by the evaluation of HR manager or company CEO (Brewster et al. 1996; Tregaskis et al. 2004). Instead, there are much fewer studies, which apply employee-level data and employees' percepyions of these practices or focus on employee attitudes, well-being and behavior as mediators between HR practices and company performance (Guest 2002). Actually, employees as targets of HR practices are typically excluded from HRM-P research. Some HRM scholars, e.g., David Guest (2002) have pointed out the importance of building the worker into HRM.

This paper tries to fill the gap existing in prior literature by exploring the impact of high involvement work practices (HIWP) on company performance and employee well-being and applying both company (managerial) and employee-level data. The purpose of the paper is to study the impact of high involvement work practices on company performance and employee well-being, and to evaluate how company performance and employee well-being are related – if they are.

## PRIOR LITERATURE

### HR practices and company performance

The literature on the ways in which human resource management might lead to better company performance covers a range of debates and concepts including high performance work practices/systems (HIWP/S) (e.g., Appelbaum et al. 2000; Way 2002; Macky & Boxall 2007), high performance HR practices (Sun et al. 2007), high commitment management / work practices (HCWP) (e.g., Wood 1996; Gallie et al.2001), high involvement work practices (HIWP) (e.g., Pil & MacDuffie 1996; Wood 1999; Guthrie 2001), best practices (Pfeffer 1884; 1998), bundles of HR practices (MacDuffie 1995; Monks & Loughnane 2006; Gooderham, et al. 2008), innovative or sophisticated work practices (Koch & McGrath 1996) among others. In these studies, the HR practices vary from a limited number of generic HR activities, such as recruitment and selection, to HR bundles or configuration of bundles, and further to practices that are expected to increase commitment or involvement, affecting thus in a positive way to performance.

According to Wood (1999), high commitment management, following Walton's (1985) ideas, is based on an underlying conception of employees as assets to be developed rather than as factors of production. In addition, the concept covers the combined use of certain HR practices, such as flexibility, team-working and job redesign. The term high involvement management comes originally from Edward Lawler (1986; 1988). He identified four interlocking principles for building a high-involvement work system to provide employees with (1) information about the performance of the organization, (2) rewards based on performance, (3) knowledge that enables employees to understand and contribute to organizational performance, and (4) power to make decisions that influence organizational direction and performance (Lawler 1988, 197). After these Lawler's basic elements for a high-involvement work system, several kinds of listings are applied. For example, Pil and MacDuffie (1996) emphasize structural aspects of the organization of work (e.g., the use of teams and other small group activities) and related practices (e.g., job rotation) and exclude from their definition certain HR practices, such as hiring and training, which other researchers, e.g. Huselid (1995), have included in their studies.

In HRM-performance (HRM-P) research, 'performance' has been approached, e.g., from economic, psychological or productivity point of view (Guest, 1997). The economic performance measures range from objective figures to a variety of subjective evaluations of performance. The objective measures are picked from company accounting figures (e.g., business turnover, ROA and ROE; Delery & Doty 1996) or stock market information, while the subjective measures are evaluations by company managers of the performance of their companies related, e.g., to productivity, profitability, and service quality (Vanhala & Tuomi 2006). The subjective performance measures are widely used (e.g., Brewster et al. 2004), and there are indications that the subjective performance measures are relatively good substitutes for objective performance measures (Reichel & Mayrhofer 2006). In addition, also short-term and long-term outcomes at the individual and organizational level are applied, e.g., increased commitment and competence, cost-effectiveness, or decreased absenteeism and labor turnover (Truss & Gratton 1994; Truss 2001; Pathak et al. 2005). Most of these outcomes are related to the success or result of HR function instead of being used as a measure of company performance.

Generally speaking, the positive relationship between HRM or HR practices and organizational performance is widely documented (Huselid 1995; Huselid et al. 1997; Guthrie et al. 2004; Wright et al. 2005, Stavrou et al 2007; Martín-Tapia et al. 2009). Instead, the role of employee well-being in the HRM-P equation has remained quite vague (Vanhala & Tuomi 2006).

## Employee well-being in HRM-P equation

Kathryn M. Page and Dianne A. Vella-Brodrick (2009) have proposed that employee well-being consists of three closely related core components: (1) subjective well-being, (2) workplace well-being and (3) psychological well-being. Psychological well-being is widely used as an 'approximation' of employee well-being consisting of several components including affective well-being, job satisfaction, anxiety and burnout (Warr 1990; Ryff & Keyes 1995; Daniels 2000; Holman 2002). Different structures of affective well-being are identified (e.g., Daniels 2000), which is why several measures of well-being are applied in this study, aswell.

High involvement work practices and advanced HR practices are considered as a 'win-win' approach for organizations and their employees (Blau 1999; Macky & Boxall 2007 & 2008). According to prior research, practices associated with greater employee involvement have positive outcomes in terms of, e.g., job satisfaction, subjective well-being, organizational commitment, and work-life balance – and further, effectiveness and performance (Guest 1999; Vandenberg et al. 1999; Macky & Boxall 2008).

There is some evidence of the relationship between employees' perceived organizational practices related to their own work-organization and employee well-being (Schulz et al. 1995; Kalliath et al. 2000). For example, low levels of personal control are found to be psychologically harmful, while greater levels of control/perceived control over work seem to be associated with higher level of well-being (Spector 1986).

The relationship between employee well-being and company performance is complicated (Vanhala 1991; Guest 2002; Harter et al. 2002; Macky & Boxall 2008). There are several alternatives for the relationship: First, the positive alternative is that investing in employees and employee well-being would result in better individual or team level performance and further in company performance. Secondly, successful companies have slack resources and they can afford to invest in employee well-being. Thirdly, company financial result may be higher due to laying off people and intensifying work, which may result in ill-being, dissatisfaction and/or burnout of employees. And fourthly, employee well-being and company performance are not at all - or only faintly - related to each other.

### METHODS

#### Data collection

Data for this paper was collected in metal industry and retail trade by company-level and employee surveys in Finland in 2007. Altogether 129 metal and retail trade companies out of 506 responded the company-level questionnaire representing the response rate of 25.5%. The response rate is rather low; however, it compares favorably to prior HPWS studies, e.g., reviewed by Becker & Huselid (1998) with response rates ranging from 6 to 28 percent. 72 out of 129 companies, which participated in the company-level survey decided to take part in the employee survey as well. In all, we obtained 1281 employee responses. The final data involve thus the responses of 72 companies and 1281 employeesof these companies.

#### Measures

We explore the impact of High Involvement Work Practices (HIWP) on company performance and employee well-being. The *HIWP measure* consisted of 10 items (Harmon et al., 2003): performance-based rewards, alignment, information, involvement, empowerment, teamwork, development, trust, creativity, and performance enablers, applying a Likert-type scale ranging from 1 (very little) to 5 (very much). The managers and

employees filled the same HIWP scale. The Cronbach alpha for the combined scales is high. Managers were biased towards more positive view of the existence of the listed HIWPs than employees. This was the case in all items.

| | No. items | Cronbach alpha | Scale | Mean | SD | Correlation r |
|---|---|---|---|---|---|---|
| 1. HIWP: managers | 10 | .908 | 1-5 | 3,96 | ,720 | |
| 2. HIWP: empls. | 10 | .891 | 1-5 | 3,29 | ,909 | ,283** |

p<0.05*, p<0.01**, p<0,001***

Table 1. Company and employee-level HIWP measures

*Company performance* was measured by several objective and subjective scales. Due to low response rate of objective performance measures, a subjective performance measure was applied. The scale consisted of 12 items ("Compared with your competitors, how do you evaluate the current performance of your company?" related e.g. to the quality of products / services, market share, growth of sales, profitability, liquidity; 5= much better, 1=much worse). The factor analysis revealed two factors: productivity and competitiveness. The Cronbach alphas and the correlation between the performance measures are high.

| | No. items | Cronbach alpha | Scale | Mean | SD | Correlation r |
|---|---|---|---|---|---|---|
| 1. Productivity | 6 | .820 | 1-5 | 3,79 | ,546 | |
| 2. Competitiveness | 4 | .815 | 1-5 | 3,62 | ,649 | ,674*** |

p<0.05*, p<0.01**, p<0,001***

Table 2. Combined performance measures

Employee *well-being* was measured by three combined scales: 1) A version of GHQ (General Health Questionnaire) (Cooper & Cartwright, 1994) covering 12 items with values ranging from low (1) to high (4); 2) Bradburn's (1969) general satisfaction and well-being scale (6 items), ranging from 1 (low) to 5 (high), and 3) Maslash Burnout Inventory (MBI) measuring emotional exhaustion (Maslach & Jackson, 1981) covering 7 items with a scale ranging from 0 (never) to 6 (every day). The internal consistency (Cronbach alpha) is high.

| | No. items | Cronbach alpha | Scale | Mean | SD | Correlations 1 | 2 |
|---|---|---|---|---|---|---|---|
| 1. GHQ | 12 | ,898 | 1-4 | 3,11 | ,439 | | |
| 2. Bradburn's satisf. | 6 | ,898 | 1-5 | 3,38 | ,713 | ,512*** | |
| 3. MBI | 7 | ,906 | 0-6 | 1,95 | 1,354 | -,592*** | -,488*** |

p<0.05*, p<0.01**, p<0,001***

Table 3. Well-being measures

**RESULTS**

The relationship between high involvement work practices, employee well-being and company performance are studied by linear regression analysis. The next table summarizes the regression models for the performance measures. In this model, the well-being measures are located on the independent variables list.

Both productivity and competitiveness correlate highly with the combined HIWP measures evaluated by managers and at much lower level with HIWP by employees, and also with Bradburn's general satisfaction scale.

| | Correlations | | Regression models | |
|---|---|---|---|---|
| | Productivity | Competitiveness | Productivity | Competitiveness |
| | r | r | β | β |
| HIWP: managers | ,568*** | ,587*** | ,573*** | ,580*** |
| HIWP: employees | ,140*** | ,175*** | - | - |
| GHQ | ,029 | ,056 | - | - |
| Bradburn's satisfaction | ,102*** | ,135*** | - | ,050* |
| MBI | -,030 | -,059* | - | - |
| $R^2$ | | | ,328 | ,347 |
| Adjusted $R^2$ | | | ,327 | ,346 |
| F | | | 547,284*** | 298,503*** |

p<0.05*, p<0.01**, p<0,001***
- = Beta coefficient not significant

Table 4. HIWP, employee well-being and company performance: Correlations and linear regression models for performance scales

Interestingly, Maslach Burnout Index had a low negative correlation with competitiveness. In regression analyses, as logical, the HIWP evaluated by managers had a statistically significant beta value in both performance measures. Bradburn's satisfaction scale had also an impact on competitiveness. The total variances explained are near 35%.

| | Correlations | | | | | |
|---|---|---|---|---|---|---|
| | GHQ | Bradburn's satisfaction | MBI | GHQ | Bradburn's satisfaction | MBI |
| | r | r | r | β | β | β |
| HIWP: managers | ,066* | ,142*** | -,041 | - | - | - |
| HIWP: employees | ,297*** | ,554*** | -,335*** | ,288*** | ,515*** | -,317*** |
| Productivity | ,029 | ,102*** | -,030 | - | - | - |
| Competitiveness | ,056 | ,135*** | -,059* | - | ,056* | - |
| $R^2$ | | | | ,083 | ,278 | ,100 |
| Adjusted $R^2$ | | | | ,082 | ,277 | ,099 |
| F | | | | 100,811*** | 221,342*** | 125,656*** |

p<0.05*, p<0.01**, p<0,001***
- = Beta coefficient not significant

Table 5. HIWP, company performance and employee well-being: Correlations and linear regression models for employee well-being scales

High involvement work practices evaluated by employees correlate statistically significantly with all well-being indicators. In addition, Bradburn's satisfaction scale correlates with HIWP and performance scales. In linear regression analyses, HIWPs evaluated by employees had a statistically significant beta value in all three well-being models. In Bradburn's satisfaction model, the total variance explained is 28%, while in two other regression models the variance explained remains in 10% or less.

## DISCUSSION AND CONCLUSIONS

As typical to HRM-performance research tradition, also this study is based on the idea of a kind of closed system. The study focuses on the interrelations between HIWPs, employee well-being and company performance without paying attention to other factors (company-level, individual, competitive, economic, etc.) explaining and affecting the observed relationships. The results of this study can be condensed into four points: Firstly, the managers and the employees of the same companies have significantly different conceptions of high involvement work practices. Secondly, the managers' conceptions of HIWPs are strongly related to company performance. Thirdly, employees' perceptions are related to their

well-being, not to the company performance. Fourthly, the relationship between employee well-being and company performance remains unresolved.

The different conceptions of managers and employees of HIWPs and HR practices have been referred in prior literature as 'a debate of the most valid source of HR practice information' (Wright et al. 2003). A single respondent or rater (i.e., CEO or HR managers) is, on the one hand, seen problematic, on the other hand, some researchers consider such a single respondent the most valid source of information (Huselid & Becker 2000). The results of this study indicate that it is not a question of low validity of single rater responses but two realms: the planned human resource practices and their implementation (identified by managers) and the way employees perceive and experience them.

The observation that the managers' conceptions of HIWPs are strongly related to company performance in this study follows prior results (Huselid 1995; Guthrie et al. 2004; Stavrou et al 2007; Martín-Tapia et al. 2009). It may mean that the companies with advanced HR and work practices would perform better – or the managers of better performing companies would evaluate their HR system better than do the managers of poorer performing companies. The causal order remains problematic.

In this study all high involvement work practices as perceived by employees themselves were positively related to their well-being. This is a logical result. Employees' perceptions and experiences of work arrangements, supervisory support, participation opportunities, and the atmosphere at the workplace make the difference between well-being and ill-being (Vanhala & Tuomi 2006).

The link between employee well-being and company performance remains unresolved. As stated earlier in this paper, there are several alternatives for a positive or negative relationship. In spite of all speculation, through the history of human relations and organizational behavior, since the early days of Human Relations School, empirical evidence has shown that when attention is paid to employees and they are treated as valuable assets the company is committed to, employee well-being and productivity correlate.

The empirical data for this study were collected by two cross-sectional surveys. The strength of this study is related to the design that both managers answered the questionnaire at the company level and employees of the same companies filled their questionnaires. In this way we managed to reveal the two realms related to HIWPs. However, this kind of empirical design does not help us with determining the causal order of things. Especially, the link between employee well-being and company performance would benefit from a rigorous longitudinal case study design.

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