

Unpacking the black box: understanding the relationship between strategy, HRM practices, innovation and organizational performance

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The links between HRM practices and organizational performance have received considerable research attention as significant contributors to sustained competitive advantage. However, the processes that link HRM practices and organizational performance are not fully understood. This study examines the relationships between skill-enhancing, motivation-enhancing and opportunity-enhancing bundles of practices, innovation and organizational performance, and looks at the mediating effect of innovation over time at the workplace level. The results indicate that the temporal pathway from skill-enhancing practices to innovation to organizational performance is positive and significant even after controlling for reverse causality. Strategic activity is also explored and is found to be a significant moderator. This is an indication of the importance of aligning strategy with HRM practices and innovation to achieve improved organizational performance outcomes.

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INTRODUCTION

One of the main problems facing organizations is not just how to remain locally or regionally competitive but how to remain or become globally competitive. Owners, managers, employees, policymakers and more broadly society, all have a stake in maintaining a competitive advantage in the global economy. One of the main options available is to continue to focus on improvements in human capital and innovation as sources of competitive advantage (Bae *et al.*, 2003; Jenkins *et al.*, 2011). A growing interest among managers and policymakers in the relationship between human capital and improved innovation, as the main sources of maintaining a competitive advantage, leads to the main research question of this study: do skill-enhancing, motivation-enhancing and opportunity-enhancing bundles of human resource practices lead to innovation and subsequent higher levels of organizational performance when strategic activities are in alignment or are these relationships universal across strategies?

Underlying most of the macro-level HRM research is the implicit assumption that the HRM practices themselves do not directly lead to or cause organizational performance. Instead, there is an assumption that this relationship is mediated by a pathway that includes effects on human capital and employee behaviour, for example (Delery, 1998: 290, 303). The nature of the transmission mechanism is receiving increasing interest in the literature. Initial research has referred to the transmission pathways as the 'black box' (Becker and Huselid, 1998a: 96–97, 2006: 899–902, 908; Messersmith and Guthrie, 2010). Studies are beginning to explore elements of the transmission pathways from HRM practices to organizational performance, including employee outcomes (*e.g.* attitude, behaviours, human capital and