Mediating Effect of Employee Creativity on the Relationship Between HPWS and Firm Performance

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Abstract

This study investigates the mediating role of employee creativity in the relationship between High Work Performance System (HPWS) and firm performance. The sample size of the study is 518, and respondents were selected through stratified sampling technique. Data were collected from the sampled 518 managers in Nigerian firms. Partial Least Squares (PLS) algorithm and bootstrapping technique were used for data analysis. The overall findings signify that firm performance can be enhanced through HPWS that induces employee creativity by getting employees out of their comfort's zone and make them explore new way or method of doing things with no fear of failure. These results indicate that HPWS can stimulate employees to wield the desired behaviour that is compatible with the organizational strategy and induce a creative situation that will lead to meso-level individual creativity bordering on task motivation, domain-relevant skills, and creativity-relevant skills. Lastly, the implications, limitations and suggestions for future research are discussed.

Keywords: High Work Performance System (HPWS); HRM; creativity; strategic HRM; PLS-SEM

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1. Introduction

The speed with which the world is getting globalized in the present time has given rise to massive transformative global forces with far-reaching effect on individuals, society, culture, business and economies. In this scenario, business firms, most especially small businesses, have no other option other than to provide goods and services of high quality and innovation. To achieve this, firms would need to entrench strategic development of the firm's human resource, which is the most important asset for (small) businesses (Nor, Zainuddin, & Kamaluddin, 2008). In addition, strategic human resource management (SHRM) has been identified by researchers (e.g. Bamberger, & Meshoulam, 2000; Seidu, 2011) as a basis of competitive advantage and high performance. SHRM that enhance task, targets and performance are formed through the effective adoption of high performance work system (HPWS).

Firms' success hinges on development of human capital capabilities, which could be accomplished through adoption of appropriate HPWS. Organization that wants to improve its performance can adopt HPWS to get these improvements. HPWS that boost employee competencies, commitment, and productivity is frequently referred to as HPWS (Appelbaum, Bailey, Berg, & Kalleberg, 2000; Datta, Guthrie, & Wright, 2005). Bundles of

HPWPs are more effective in enhancing performance (Arthur, 1994; Huselid, 1995; Choi, 2014; Demirbag, Collings, Tatoglu, Mellahi, & Wood, 2014; Fan, Cui, Zhang, Zhu, Charmine-Härtel, & Nyland, 2014; Shin & Konrad, 2014).

Moreover, the existing literature (e.g. Fan, et al., 2014; Shin & Konrad, 2014) has established positive relationship between organizational input, which reflects HPWS, and organizational output, which denotes firm performance. Nevertheless, a lot of things remained unknown about the chain of relationships that are persistent inside the 'black box' of HRM (Boxall, 2012). Research evidences have identified lacunas (i.e. gaps, unresolved issues, and black box) in the HPWPs-Performance relationship and suggested usage of a mechanism (mediator) through which the identified black box in the HPWPs-performance relationship will be filled (Boselie, Dietz, & Boon, 2005; Chadwick & Dabu, 2009). According to Boxall, Guthrie, and Paauwe (2016), mediators are the theoretical bridges that explicate why some outcomes can be expected.

Given the present economic situation, high quality and innovative products and services are regarded crucial (Martinaityte, 2014). Also, the recent trends in the world of business today have underscored creativity and innovation as a strategic objective of majority of organizations. The existing literature has indicated creativity-performance relationship (e.g. Coelho, Augusto, & Lages, 2011; Martinaityte, 2014), HRM-creativity interconnection (e.g. Binyamin & Carmeli, 2010; Byron & Khananchi, 2012; Chang, Jia, Takeuchi, Cai, 2014; Martinaityte, 2014), and HRM-performance link (e.g. Demirbag, et al., 2014; Fan, et al., 2014; Shin & Konrad, 2014). Consequently, employee creativity could be hypothesized to be a mechanism (mediator) through which the identified black box can be unpacked. Thus, this study aims to investigate the mediating effect of employee creativity on HPWS-performance relationship. Next is the hypotheses development.

2. Hypotheses development

A myriad of research (e.g. Demirbag, et al., 2014; Fan, et al., 2014; Ismail, Abdul Majid, & Joarder, 2017; Ismail, Abdelrahman, & Abdul Majid, 2018) has established the impact of HPWS on performance. Performance is greatly enhanced by a system of HR, which influences human capital through acquisition, development, and motivation of the best talents (Posthuma, Campion, Masimova, & Campion, 2013). Also, enhanced organizational performance and organizational accomplishments are contingent upon adoption of a systematic combination of HR systems called HPWS (Choi, 2014; Choi & Lee, 2013; Demirbag, et al., 2014; Fan, et al., 2014; Fu, 2013; Shin & Konrad, 2014; Seidu, 2011).

Furthermore, employee creativity is becoming more and more indispensable in the organization, given the increasingly volatile environments, high levels of competition, and erratic technological change. Employee creativity denotes the extent to which employee develops ideas and demonstrates innovative behaviors in the accomplishment of his/her assigned tasks (Wang & Netemeyer, 2004). It also refers to the creation of a novel and fitting response, product, or solution to a flexible duty (Amabile, 2012). Also, creativity denotes getting out of the comfort's zone of individual employee and then experimentation of new way or method of doing things with no fear of failure. Creativity can be induced via employee-oriented HPWS (Martinaityte, 2014).

As pointed out earlier, researchers have identified the 'black box' in the HPWS-Performance relationship and suggested using some mechanisms through which the 'black box' in the HPWS-Performance will be unpacked. Becker and Huselid (2006) also reiterate

the need for in-depth investigation of the HPWS-Performance relationship and the mechanism that shapes the relationship. Besides, it has been mentioned before that research has noted creativity-performance relationship, HRM-creativity interconnection, and HRM- performance connection. In addition, Baron and Kenny's (1986) portend that there is possibility of having a particular construct to be a mediator if there is relationship between the construct, having a particular construct to be a mediator if there is relationship between the construct, independent variable, and dependent variable, and relationship exists between the independent variable and dependent variable.

Going by this, creativity is logically and empirically fit to be the mechanism (mediator) through which the identified lacunas will be resolved. Moreover, it is noteworthy that the literature review has demonstrated that the research on mediating effect of creativity on HPWS-performance relationship is very few. Based on the above discussion, this study postulates that:

- 1. HPWS would positively influence firm performance
- 2. Employee creativity would mediate the relationship between HPWS and performance.

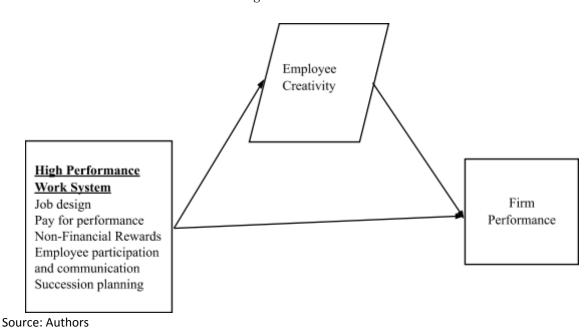


Figure 1: Research Framework

3. Methodology

This study employed cross sectional survey method to collect data. The population of the study comprises the management of the selected small firms drawn from the recent and latest SMEDAN and National Bureau of Statistics Collaborative Survey: Selected Findings (2013). Based on the survey, the total population of the study is 11,044. Using priori power analysis via G*Power 3.1.2.9 software (Faul, Erdfelder, Buchner, & Lang, 2009), but underpinned by recommendations of Krejcie and Morgan (1970) and Salkind (1997), the sample size of the study is 518, and respondents were selected through stratified sampling technique, given the large population (Wilson, 2010) and unavailability of enough resources (time and money) for the researchers (Hair, Money, Samouel, & Page, 2007). Thus, a total number of 518 questionnaires were distributed to the management of the selected small firms, but 372 completed questionnaires, representing 72% response rate, were returned and usable for further analysis. This response rate is considered adequate and sufficient, given the position of Sekaran (2003) that a response rate of 30% is sufficient for survey.

Moreover, measurement of HPWS was adapted from Martinaityte (2014); employee creativity was adapted from Wang and Netemeyer (2004); Martinaityte and Sacramento (2013); and firm performance, which was measured using financial measures, was adapted from Ogunyomi and Bruning (2015). The survey instruments included demographic information of the respondents, HPWS' instruments, the instruments of employee creativity and firm performance. HPWS was measured with 17 items; employee creativity and firm performance have 7 and 6 items respectively. The three constructs were scaled with 5-point Likert scale that range from 1 (strongly disagree) to 5 (strongly agree). All the constructs' instruments were measured reflectively.

The data collected were analysed using SPSS version 21 and smart PLS 2.0 m3 software packages, and 2-step approach as suggested by (Chin, 1998) was adopted to obtain valid and reliable results. Based on Hair, Ringle, and Sarstedt's (2011)'s proposition, the 2-stage approach which includes measurement model and structural model was undertaken before testing for mediation. The stage one entails validity and reliability of the measurement model. The second stage involves structural model which entails R2 values for the latent variables in the model (Chin, 1998); sign, magnitude, and significance of path coefficients (Henseler, Ringle, & Sinkovics, 2009); effect size (f2) of predictor variables (Cohen, 1988); and predictive relevance of the model (Q2) using blindfolding (a sample reuse estimation technique that excludes every dth data point to predict the excluded portions of the data) to obtain cross-validated redundancy measures.

4. Results and discussion

4.1 Demographic and descriptive analysis

Bio-data of the respondents of the current study indicates that 137 (37%) respondents out of 372 respondents are executive directors in their respected firms while 94 (25%) and 44 (12%) are marketing managers and HR manager respectively. The remaining 97 (26%) respondents are either supervisors or line managers. Forty percent of the sampled firms are in Agriculture-related business, as 22% of them are firms dealing on construction, logistics, and

oil Energy, 46 (12%) and 39 (11%) are workers in the firms transacting in computer, financial, manufacturing and info-tech, mechanical, and medical equipment. The remaining firms, which are 57 (15%) in numbers, belong to Arts, Entertainment and Recreation or Water Supply, Sewage, Waste Management industries. In addition, majority of the firms sampled (40%) have been operating for a decade or less while 83 (22%) firms' years of operation ranged between 11-20 years, and 50 (13%) firms' years of operation ranged between 31-40 years,

53 (14%) firms have been in operation for more than four decades. In addition, the selected firms have different forms of ownership structure, 169 (45%) firms are owned by individual owners (sole proprietors), 70 (19%) firms are owned by two or more people called partners (partnership). A total of 82 (22%) firms among the selected firms are Private Limited Liability Companies, but 19 (5%) firms are cooperative companies. As 20 (5%) firms are faith-based organizations, the remaining 12 (3%) firms are franchise-based business.

In sum, it can be fathomed from the above exposition that the sampled firms varied substantially in terms of their backgrounds, and this implies that the data used in the current study was from the respondents of diverse demographic backgrounds, and thus enriching generalizability of the result of the research.

4.2 Measurement model assessment

As required in Variance-based SEM analysis, measurement model evaluation must be done to confirm the internal consistency reliability, convergent validity and reliability, and discriminant validity. Without this, other strands of analysis like structural model cannot be done (Hair, Ringle, & Sarstedt, 2011; Hair, Hult, Ringle, Sarstedt, 2014). Figure 2, Table 1, and Table 2 below depicts the outputs from measurement model evaluation:

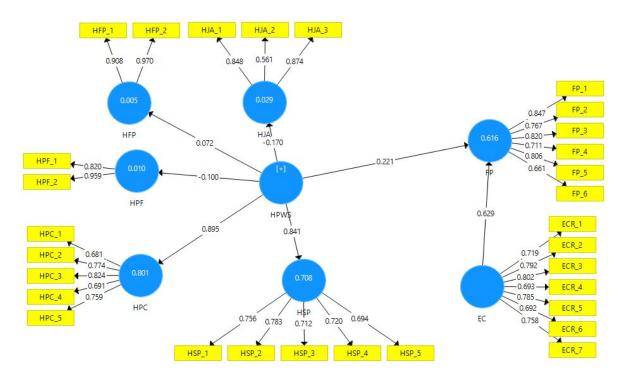


Figure 2: Measurement Model

Table 1: Internal Consistency and Convergent Validity

Constructs	Items	Loadings	AVE	CR	CA
Employee Creativity	ECR_1	0.719	0.870	0.900	0.563
	ECR_2	0.792			
	ECR_3	0.802			
	ECR_4	0.693			
	ECR_5	0.785			
	ECR_6	0.692			
	ECR_7	0.758			
Financial Performance	FP_1	0.847	0.863	0.897	0.595
	FP_2	0.767			

	FP_3	0.820			
	FP_4	0.711			
	FP_5	0.806			
	FP_6	0.661			
Non-Financial Rewards	HFP_1	0.908	0.875	0.937	0.882
	HFP_2	0.970			
	HJA_1	0.848	0.753	0.812	0.599
Job Autonomy	HJA_2	0.561			
	HJA_3	0.874			
	HPC_1	0.681	0.801	0.863	0.559
	HPC_2	0.774			
	HPC_3	0.824			
	HPC_4	0.691			
	HPC_5	0.759			
Pay-For-Performance	HPF_1	0.820	0.768	0.886	0.796
	HPF_2	0.959			
Participation & Communication	HSP_1	0.756	0.785	0.853	0.538
	HSP_2	0.783			
	HSP_3	0.712			
	HSP_4	0.720			
	HSP_5	0.694			

Note: AVE: Average Variance Extracted; CR: Composite Reliability; CA: Cronbach Alpha.

Table 2: Discriminant Validity (HTMT criterion)

	EC	FP	HFP	HJA	HPC	HPF	HPWS	HSP
EC								
FP	0.859							
HFP	0.093	0.115						
HJA	0.121	0.137	0.083					
HPC	0.580	0.595	0.092	0.125				
HPF	0.167	0.097	0.062	0.201	0.173			
HPWS	0.673	0.656	0.323	0.394	0.996	0.345		
HSP	0.621	0.665	0.087	0.217	0.810	0.131	0.940	

Note: HJA: Job Design/Autonomy; HFP: Non-Financial Reward; HPF: Pay-for-Performance; HPC: Employee Participation and Communication; HSP: Succession Planning; ECR: Employee Creativity; FP: Financial Performance.

Table 3: Confidence Intervals

	Original	STDEV	T Statistics	P Values	Confidence Intervals	
	Sample				5.0%	95.0%
FP -> EC	0.765	0.025	30.698	0.000	0.723	0.806
HPWS -> EC	0.651	0.054	12.076	0.000	0.568	0.747
HPWS -> FP	0.708	0.071	10.001	0.000	0.581	0.818

Based on Figure 2, Table 1, and Table 2, each item of the constructs shows higher value on their respective constructs, entails significantly and acceptably high loadings, and

thus affirming the content validity of the constructs. Also, the constructs of the study have high levels of internal consistency reliability, as the composite reliability and Cronbach's alpha values of all the constructs are well above the threshold values of 0.7 and 0.6 respectively. The Average Variance Extracted (AVE) values of the reflective scales exceed the minimum requirements of 0.5 (Hair et al., 2011). As for discriminant validity assessment, he te rotrait-monotrait ratio (HTMT) of the correlations is adopted. HTMT is the ratio of the between-trait correlations to the within-trait correlations (Hair et al., 2017). The result in Table 2 confirms the discriminant validity of this study's constructs, as the HTMT values for all pairs of constructs in a matrix fell below the threshold value of 0.90. In addition to evaluation of the HTMT ratios, the HTMT values were tested via bootstrapping method (see Table 3) and found that they are significantly different from 1, and thus signify that the constructs of the study have discriminant validity (Henseler, Ringle, & Sarstedt, 2015).

In sum, having confirmed the content validity, convergent validity, and discriminant validity of the constructs of this research, it can then be claimed that the constructs' validity has been established in this study.

4.3 Structural model assessment

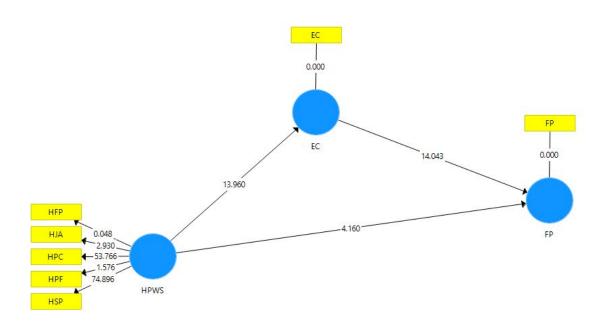


Figure 3: Structural Model

Table 4: Hypotheses Testing

Hypotheses	Beta	STD	T Stat	P	5.0%	95.0%	Decision
				Values			
Direct Path							
EC -> FP	0.634	0.045	14.043	0.000	0.552	0.704	Supported
HPWS -> EC	0.556	0.040	13.960	0.000	0.490	0.621	Supported
HPWS -> FP	0.236	0.057	4.160	0.000	0.145	0.336	Supported
Mediation Effect							
HPWS -> EC -> FP	0.352	0.031	11.488	0.000	0.303	0.404	Complementary mediation

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***: P<0.01; **: P<0.05; *: P<0.1
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Figure 3 and Table 4 show the result of structural model and mediating effect testing. R square value was 0.616 (See figure 2), and it indicated that, in the model, exogenous latent variables, involving HPWS and employee creativity explain 62% of the variance in the endogenous latent variable which is moderate and acceptable (Cohen, 1988). With regards to testing the hypotheses, the direct path regarding relationship between HPWS and firm performance (HPWS -> PERF) is significant and positive ($\beta=0.236$, t = 4.160, p< 0.001). with this result, hypothesis 1 is supported. Moreover, the direct path regarding HPWS-employee creativity nexus and employee creativity-performance nexus are significant and positive ($\beta=0.556$, t = 13.960, p< 0.001; $\beta=0.634$, t = 14.043, p< 0.001) respectively. The indirect effect (HPWS -> EC -> PERF [$\beta=0.352$, t = 11.488, p< 0.001]) is significant, and the 95%

confidence intervals do not include zero. Thus, it can be asserted that employee creativity complementarily/partially mediates the relationship between HPWS and firm performance. Hence, hypotheses 2 is supported.

In furtherance of the inferential analysis, the effect size of the exogenous constructs on the endogenous construct, firm performance was examined. The result indicates that firm performance is explained by HPWS and employee creativity with effect size (f2) of 0.070 and 0.740 respectively (Cohen, 1988; Hair, Hult, Ringle, Sarstedt, 2013), indicating that HPWS has small effect on firm performance while employee creativity has large effect on firm performance.

5. Discussion

The result of this study indicates that firm performance can be enhanced through HPWS that induces employee creativity. This result echoes the findings of Ismail, Abdul Majid, and Joarder (2017), Ismail, Abdelrahman, and Abdul Majid, (2018), and Mudulia, Vermab, and Datta (2016). Moreover, in the strategic HRM literature, it is held that the HPWS is crucial to organizational effectiveness and performance. Drawing upon RBV, the result of this research indicates that the way in which human resources are managed, forms a potential source of sustainable competitive advantage for small firms (Guest, 2011).

Physical and intellectual resources remain the basis of organizational competitive advantage. HPWS are used as tools in managing human capital while firm's human resource constitutes the human capital pool of the firm. RBV's concept of value, rareness, inimitability, and substitutability cannot be achieved through HR practices but through human resource (i.e. human capital) of the firm, since any HR practice can be mimicked by competitors. Therefore, it was assumed that human capital pool high levels of skill and motivation can be a basis for organizational competitive advantage because the employees' skills and motivation will exhibit productive behavior (Wright, McMahan, & McWilliams, 1994).

The result of this study indicates that HPWS that enshrines employee empowerment via discretionary use of time and talent and employee motivation could drive employee creativity by getting employees out of their comfort's zone and make them explore new way or method of doing things with no fear of failure. HPWS can stimulate employees to wield the desired behavior that is compatible with the organizational strategy. Likewise, this result

complements the componential theory of creativity which postulates that HPWS, which is a macro-level system, can induce a creative situation that will lead to individual creativity bordering on task motivation, domain-relevant skills, and creativity-relevant skills (Amabile, 1983).

Conclusion

The overall results of the study indicate that firm performance can be enhanced through HPWS that induces employee creativity. HPWS that focuses on development of creative problem-solving skill can enhance workers' ability to generate alternative solutions, product knowledge, and customer service skills which are crucial to creativity in the organization. Thus, this research has widened the scope of the prevalent business theories and facilitates response to the investigations in respect of "how" a particular nexus exists between exogenous and endogenous variables and thus enhances business research designs, more accurate and precise findings. Besides, since the data used for this study were collected from Nigerian small firms, it could thus be suggested for the future research to replicate the research in another context to improve generalizability of the study's findings. Likewise, data were collected from the small firms' managers, and thus indicating organizational unit of analysis, but investigating employees' perspective regarding HPWS and firm performance would constitute a viable research direction for the future studies.

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