Configurational Effects of Pre-Recession High Performance Work Practices on Post-Recession Performance in the UK Service Sector

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This developmental paper examines the role of skills-based contingencies in the UK service sector (i.e., the service sector segment within which the organisation operates and workforce differentiation within organisations) that may influence pre-recession adoption of High Performance Work Practices (HPWPs) and the extent to which different bundles of HPWPs improve post-recession organisational performance over time. The study is informed by the Workplace Employment Relations Surveys (WERS), which provides panel data from 812 UK service sector organisations. Preliminary findings show that ability- and motivation-enhancing practices are of particular importance for improving service quality for organisations that rely on low-skilled work. The study highlights the role of skills-based contingencies that are relevant for skills demand and utilisation in the service sector as significant precursors of HPWP adoption.

Developmental paper submitted to the Human Resource Management track at the British Academy of Management Conference 2016

Word count (excluding references): 1955

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Introduction

Adoption of High Performance Work Practices (HPWPs) is recommended to raise skills demand and utilisation in the workplace and, in turn, as a means of improving organisational performance (Bevan, 2012; Stone, Braidford, Houston, and Bolger, 2012). However, in some economies, such as the UK, where labour market polarisation has been observed, the uptake of HPWPs has been slow, particularly for the low skilled end of the labour market (Payne and Keep, 2011). Considering the implementation-to-benefit lag (Birdi, Clegg, Patterson, Robinson, Stride, Wall and Wood, 2008) associated with HPWP, this reluctance is partly attributed to the widespread focus on short-term profitability (Sisson and Storey, 2000).

The present study examines the role of skills-based contingencies that may be influencing the adoption of HPWP and the extent to which different bundles of HPWP (i.e., ability-, motivation- and opportunity-enhancing bundles) improve organisational performance over time. The study is based on the UK service sector, which embodies the 'loveliest' (e.g., knowledge work in finance) and the 'lousiest' (e.g., interactive service work in tourism and hospitality) segments of the labour market (Thompson, Warhurst and Callaghan, 2001). This allows us to incorporate external skill-based contingencies (i.e., the segment within the service sector in which the organisation operates) and internal skill-based contingencies (i.e., workforce differentiation within organisations) that may influence adoption of HPWP. Moreover, the study aims to explore which configurations of HPWP result in improved performance given these skill-based contingencies.

The study is expected to contribute to the strategic HRM and talent management literatures in a number of ways. First, the majority of HPWP research is applied in manufacturing, yet key growth areas in most de-industrialised nations revolve around knowledge and interactive services. It is important, therefore, to focus attention on the service sector (Boxall, 2003; Guest, Michie, Conway and Sheehan, 2003).

The present study uses nationally representative pre- and post-recession panel data to understand the impact of HPWP on organisational outcomes. A second expected contribution is therefore its longitudinal perspective, taking into account the impact of the 2008 recession, when understanding how HPWP influences performance.

Finally, this research takes a configurational approach and considers the skill-based contingencies, and how these impact on the adoption of HPWP and its influence on organisational performance. This informs the best-practice vs best-fit debate in the strategic HRM literature. In doing so, this study contributes to understanding the boundary conditions within which HPWP improves organisational outcomes (Messersmith, Patel, Lepak, and Gould-Williams, 2011; Snape and Redman, 2010). Such a configurational approach also has implications for talent management, particularly for the low-skilled segment of the labour market.

The study is currently in its early exploratory stages. Below, we provide a brief overview of our hypothesis development, methods and preliminary findings and their

interpretation. We expect to be able to discuss a better developed paper by the time of conference.

High Performance Work Practices – Performance Link: A lagged effect perspective

Although the consensus view is that HPWPs positively influence performance, few studies take a longitudinal perspective to delineate this relationship (Guest, 2011; Paauwe & Boselie, 2005). Nevertheless, an implementation-to-benefit lag has been reported in recent studies (e.g., Katou and Budhwar, 2015; Tregaskis, Daniels, Glover, Butler and Meyer, 2013). It is argued that HPWPs help align interests and goals of employees with that of the firm and "mature over time … to yield significant productivity gain" (Kato and Morishima, 2002, p., 517). Most HPWP–performance research is, therefore, argued to be post-predictive, i.e., using cross-sectional data, it measures HR practices after the performance period (Wright, Gardner, Moynihan, & Allen, 2005).

Provided there is no agreement on the appropriate lag period to study, this research focuses on pre-recession adoption of HPWP and post-recession performance outcomes. The 2008 recession had severe effects on a number of measures of performance in the UK. Increased job insecurity observed during the recession has been argued to have resulted in increased absenteeism at work (Malach-Pines and Zaidman, 2013). Labour productivity has been hit the hardest and it is predicted that sustained recovery will depend on maintaining competitiveness through high quality products and services (CIPD, 2014). We expect pre-recession adoption of HPWPs to be positively associated with these measures of performance that are most affected by the recession: absenteeism, productivity, product/service quality and overall firm performance.

> *Hypothesis 1:* Pre-recession adoption of HPWPs (ability-, motivation- and opportunity-enhancing bundles of HR practices) predicts post-recession performance outcomes (labour productivity, product/service quality, firm performance and absenteeism).

Skill-based contingencies in the UK service sector

The service sector covers a wide variety of human services, varying significantly in the nature of the work and the level of skill required (Frenkel, 2000). Employment in most de-industrialised countries has been polarised into 'lovely' (i.e., mostly in knowledge-intensive services, e.g., in computing and information technology) and 'lousy' jobs (i..e, mostly in interactive services, e.g., in personal services, and sales occupations) (Goos, Manning and Salomons, 2009). Within this context, our understanding of how HPWPs contribute to competitiveness depends largely on considering the range of service markets (Boxall, 2003). This requires a consideration of systematic variation of HRM between service sector segments and within strategic groups in organisations (Lepak and Snell, 2002, 2007). In this research, we take these to reflect external and internal skill-based contingencies that influence adoption of HPWPs and their impact on organisational outcomes, respectively.

External skill-based contingencies

External contingencies in the environment that a firm operates in are argued to determine the appropriate form of HRM as they influence organisational strategies (Boselie, Dietz, & Boon, 2005). One such external contingency for the UK service sector is the segmentation in the nature of service provided, reflected in knowledge-intensive vs interactive service segments. The former relies largely on symbolic and analytical work (i.e., high-skilled work, e.g., in software and IT consultancy), while the latter is renowned for its reliance on soft skills (i.e., low-skilled work e.g., in the retail sector) (Pina and Tether, 2016; Hurrell, 2016). It can be argued that, a distinction between these two segments of the service sector reflect the two ends of the labour market – by the proportion of 'lovely' and 'lousy' jobs in each.

There is great variability on the uptake of HPWP in the service sector (CIPD, 2014). Research on the interactive service segment suggests that even when organisations are competing on quality, rather than price, this does not necessarily translate into more meaningful experience of work for employees (Lloyd, Warhust, & Dutton, 2013), as organisations may not have the HR management practices in place to deliver such outcomes (CIPD, 2014). For organisations in the knowledge-intensive segment, knowledge management is the key challenge. Creating a learning environment that is open for co-operation is often the main concern for these organisations (Thite, 2004). Batt (2000) has shown variation in the adoption/implementation of HPWP across call-centres depending on the nature and the complexity of the interaction with the customer. This suggests that the product/service market segment within which an organisation is located constitutes a significant skill-based external contingency influencing the adoption of HPWPs. We expect market segmentation within the service sector to influence adoption of HPWPs. This is reflected in the following hypothesis:

> *Hypothesis 2:* Organisations in the interactive service segment are less likely to adopt HPWPs in comparison to those in the knowledge-intensive segment.

Internal skill-based contingencies

A human capital perspective suggests that organisations' investment in employee capabilities will vary for different types of human capital (Lepak and Snell, 1999). Such workplace differentiation implies that organisations will disproportionately invest in strategic groups of workers (Huselid and Becker, 2010). For example, De Vos and Dries (2013) report differences in HR practices of organisations that rely on high-value, high-uniqueness workforce and those that rely on low-value, low-uniqueness workforce. The latter were found to be more preoccupied with immediate organisational outcomes, suggesting an emphasis on short-term performance pressures. Such pressures reduce the likelihood that organisations will adopt HPWP (Krausert, 2014).

It can be argued that adoption of HPWPs will vary depending on the labour force composition of the organisation. We expect organisations that rely heavily on low-skilled workers to be less likely to adopt HPWPs, in comparison to those that rely on intermediate- or high-skilled workers.

> *Hypothesis 3:* Organisations that rely on low-skilled workers are less likely to adopt HPWPs in comparison to those that rely on intermediate-/high-skilled workers.

Configurational approach to High Performance Work Practices and Performance relationship

Studies using a configurational approach to the HPWP-Performance relationship are scarce. Those that do, however, point to differential impact of HPWP bundles on performance, based on internal and external contingencies. Within organisations, it was shown that adoption of HPWPs may not be equally effective across all groups of workers, based on the strategic value of employee groups (e.g., Krausert, 2014). Between organisations, technological intensity of the industry has been found to influence the extent to which HPWPs are effective (Larraza, Urtasun and Garcia, 2006).

Given the scarcity of research using this approach, we broadly expect different bundles of HPWP to have differential impact on different aspects of organisational outcomes based on the internal and external skill-based contingencies we study in this research.

> *Hypothesis 3:* Combinations of HPWP bundles that positively influence organisational outcomes will depend on (a) the service segment within which the organisation operates; and (b) the organisation's reliance on low- vs intermediate-high-skilled workforce.

Method

The study is informed by the Workplace Employment Relations Surveys (WERS), which provides panel data from 812 service sector organisations (26% in knowledge-intensive segment; for 64% the largest occupational group (LOG) was low-skilled workers and high-skilled workers for 24% of the organisations) that participated in the survey in 2004 and 2011.

HPWPs are measured with composite measures for the three bundles: ability- (e.g., sophisticated recruitment and selection and enriched job design); motivation- (e.g., job security guarantee and internal recruitment); and opportunity-enhancing practices (e.g., functional flexibility, teamwork and quality circles) using data from the management questionnaire. Organisational performance is measured by management ratings of absenteeism, financial performance, labour productivity and product quality. Control variables include: organizational size, organisational age, ownership, union presence, management opinion of impact of recession, pre-recession (2004) organisational performance and post-recession (2011) HPWPs.

Data were analysed using Complex Samples General Linear Model, which takes into account the establishment weight for panel data.

Findings

Preliminary findings show that pre-recession HPWPs did not significantly influence post-recession performance, except for the negative relationship between ability-enhancing practices and absenteeism. In comparison to organisations that predominantly rely on high-skilled workers those that rely on low-skilled workers report lower adoption of ability-enhancing HPWPs. Compared to organisations that operate in the knowledge-intensive segment of the service sector, those in the interactive-service segment reported lower

adoption of ability-enhancing HPWPs. Finally, ability- and motivation-enhancing practices have a higher impact on service quality for organisations that rely on low-skilled workers.

Discussion

Findings provide support for the view that adoption of HPWPs is influenced by external and internal contingencies. More specifically, the study highlights the role of skills-based contingencies that are relevant for skills demand and utilisation in the service sector as significant precursors of HPWP adoption.

Findings show limited support for the direct relationship between HPWPs and organisational performance for organisations in the UK service sector. However, ability- and motivation-enhancing practices are found to be of particular importance for improving service quality for organisations that rely on low-skilled work. These findings are consistent with arguments against a 'low-road' approach to skills utilisation.

These preliminary findings are also in line with arguments for considering contextual conditions which moderate the effects of HPWPs, and particularly that HPWPs are instrumental in improving organisational performance in labour intensive industries (Datta, Guthrie and Wright, 2005). These also point toward gains in service quality as a result of HPWPs despite the effects of the recession.

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