Big Hat, No Cattle? The Relationship Between Use of High Performance Work Systems and Managerial Perceptions of HR Departments

James P. Guthrie, Patrick C. Flood, Wenchuan Liu, Sarah MacCurtain and Claire Armstrong

Synopsis

This study examines the relationship between the use of high performance work systems (HPWS) and managers’ perceptions of the strategic value of their HR departments. Based on survey responses from 132 firms, we match HR Managers’ descriptions of human resource practices with the evaluations of HR departments provided by firms’ general managers. Results indicate that managers’ assessments of the strategic value of their firms’ HR departments are significantly influenced by relative HPWS use. When HR managers report higher use of high performance HR practices, managers perceive their HR departments as having more strategic value. We also find that this relationship is mediated by workforce human capital and social capital.

Introduction and Background

In 1981, Skinner used the phrase “big hat, no cattle” to describe the failure of the personnel function to deliver on the promise of improving organisational functioning through the effective management of employees. More recently, Hammonds (2005), in his somewhat infamous (at least among HR professionals) article wrote an updated “Big Hat, No Cattle” themed article, entitled “Why We Hate HR”, in which he decries HR’s failure to deliver on the “strategic” promise as one of the key drivers of business performance. HR professionals argue that HR is the corporate function with the greatest potential – yet it is also recognised as the one that most consistently under delivers. However, a substantial body of SHRM research has examined the potential for bundles or systems of human resource policies and practices to influence firm performance. These high performance work systems (HPWS), which include rigorous staffing procedures, employee participation, job redesign, investments in training and alternative approaches to compensation (skill-based pay and group incentive compensation) are widely believed to improve organisational performance through their impact on employees’ competencies, discretionary authority and motivation. The adoption of HPWS may help understand the gap between the rhetoric and the reality of the strategic value of the HR department.
Issues and Questions Considered

Research in the area suggests that the level of strategic integration of the HR department within the firm is a key factor determining the perceived value of HR. While employees may agree with HR executives in their views that the core functional areas of HR (e.g., attraction, selection, compensation, etc.) are valuable for effective organisational functioning, they often disagree with the HR executives in their assessments of how HR departments delivered in terms of effectively managing these important activities—particularly with the performance of HR in its strategic role. It is important that all executives perceive HR as providing a value-added contribution to the firm in order to gain equal footing with other functional areas in the decision-making process.

We suggest that the relative use of HPWS within a firm may elevate the standing of a firm’s HR department. Thus, the motivation for our study was to empirically test the following research question: Does relative use of a set of high performance HR practices within a firm influence the degree to which managers believe that the firm’s HR department has strategic value?

A second question we explore is the mechanism which might underlay or mediate this relationship. Recent research suggest that high performance work systems help organisations succeed in part by affecting workforce capability in the form of human and social capital. Human capital refers to the knowledge, skills, and abilities embedded within a firm’s human resources that are the direct result of learning, education, and training. It is an asset that allows firms to create and reconfigure resources to attain a sustainable competitive advantage firm performance. In addition to human capital, social capital (the strength of relationships in the firm) has also demonstrated the ability to achieve high levels of teamwork, collaboration, knowledge sharing/creation and discretionary behaviors. We argue that the influence of HPWS use on managerial perceptions may be mediated by the link between HPWS and human and social capital. Thus, our second research question is as follows: Is the relationship between HPWS use and managerial perceptions of HR departments mediated by workforce human and social capital?

Methodology

The procedure was to solicit survey-based descriptions of HR management practices in the areas of communication and participation, training and development, staffing and recruitment, performance management and compensation and to match these descriptions with indices of HR capability. To achieve this objective, two separate survey instruments focusing on “General Management Practices” and “Human Resource Practices” were sent to the Managing Director (MD) (i.e. the CEO) and to the senior HR manager, respectively. The sample included both indigenous Irish firms and foreign-owned firms with operations in Ireland. In total, 241 companies participated; 132 of them completed both surveys.

Outcomes and Findings

Despite cumulating evidence that HR practices can affect organisational performance, HR departments are still often viewed as more bureaucratic than strategic. Our study tested this premise. Building upon recent research suggesting that high performance work systems help engender human and social capital, we hypothesised that greater HPWS use would be associated with managers holding more favourable views of HR departments’ strategic value. We further proposed that this relationship would be mediated by a firm’s relative levels of human and social capital. Results supported these hypotheses, with the strongest support for the mediational role of human capital.

Our findings suggest several things. First, in addition to evidence suggesting that HPWS can positively affect a variety of organisational outcomes, the present findings suggest that these same practices will often lead to line managers viewing HR departments as having more organisational value. Second, in addition to supporting previous work suggesting that HPWS positively influences human and social capital, these workforce characteristics are also important avenues through which HR practices can influence managers’ perceptions of HR departments. Third, these results suggest that HR departments are not all painted with the same broad brush; practices that create a more competitive workforce can serve to differentiate and elevate HR departments.

A number of authors have proposed that in order for HR departments to elevate in stature, they will have to deliver on the rhetoric of being “strategic”. In fact, previous research has shown that it is this role --- the strategic role --- where line executives believe that HR is particularly deficient. Our results suggest that the use of HPWS can help ameliorate this perceived deficiency through an influence on workforce human and social capital.


Forthcoming KBS Research Bulletin