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The influence of individual regulatory focus and accountability form in a high performance work system

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ABSTRACT

Our mixed-methods study considers how alignment of HR practices contributes to success in a high performing manufacturing firm with a contingent reward system. Results showed greater task and challenge performance for promotion focused individuals and lower challenge performance for prevention focused individuals. Accountability also predicted higher levels of task and challenge performance. Finally, accountability moderated the regulatory focus–performance relationship such that both forms of performance were higher for individuals higher in promotion focus who perceived themselves accountable for the corresponding outcome, task or innovation. Prevention focused individuals had higher challenge performance the greater their perception of accountability for innovation.

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1. Introduction

High performance work systems (HPWSs) are “coordinated bundles” of work practices that include human resource (HR) practices such as employee recruitment and selection, training, appraisal, and reward systems (Posthuma, Campion, Masimova, & Campion, 2013). When aligned with an organization’s strategy, these practices have a significant impact on performance (Beltrán-Martín, Roca-Puig, Escrig-Tena, & Bou-Llusar, 2008; Subramony, 2009).

Critical to alignment is parallelism, a state that can exist among elements of the HR architecture including its principles, policies, practices, and products (Posthuma et al., 2013). Optimally, parallelism occurs when an organization uses its HR practices to develop employee skills and motivations aligned with outcomes of strategic importance to the organization.

In a comprehensive review of HPWS research, Posthuma et al. (2013) developed a taxonomy of nine work practices. Among these, they found that studies often focused on practices related to compensation and benefits and on job and work design, while few considered communication or performance management and appraisal.

Based on their review, the authors called on research to consider the legion of practices used by HPWS beyond simply monetary rewards. What is needed is more research that considers the degree to which different practices are aligned and mutually supportive of organizational strategies. To this end, scholars were urged to examine the types of alignment that could create a synergistic effect that would enhance the potency of individual HR practices. This advice is consistent with both universalism, a perspective suggesting that HR practices such as employee participation are beneficial to all organizations, and the contingency perspective, which suggests that organizational performance is contingent on internal and external factors that influence performance (Zhang & Li, 2009).

The notion of parallelism that evolved from the contingent perspective is critical to the current study that considers the effectiveness of work practices employed by one high performance organization that, when used within a highly incentivized system, is presumed to contribute to the synergy that created that high performance. In particular, our primary interest was to better understand the effects of two specific and underexplored contingent factors—employee characteristics and performance management practices—on individual performance within a HPWS.

Our exploratory study takes a mixed method approach (Creswell, 2013); combining qualitative and quantitative research elements. In keeping with grounded theory, we used a systematic process of data collection that relied on both inductive and deductive reasoning to develop theory.

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We focused on a single high performance manufacturing firm with a pre-existing system of incentives contingent on performance. This organization competes in the primary metals manufacturing industry and has operations in a number of locations in the United States. We conducted our study in plants located closest to corporate headquarters.

Acclaimed for its innovation and its productivity, we interviewed company founders, top managers, and plant managers to identify those factors thought to be critical to firm success. We then analyzed interview transcripts to highlight employee characteristics and performance management practices important to this success. This was followed by a review of extant literature to identify theoretical frameworks that appeared consistent with why those factors were likely critical to performance. These frameworks provided the lens through which hypotheses were developed for our quantitative study.

2. Qualitative assessment

We conducted our interviews in two phases. The first focused on executive leadership. These individuals were interviewed via a conference call with the researchers six weeks prior to the on-site visit. From these interviews we learned about the strategic priorities of the organization, its incentive and monitoring systems, and characteristics of its HR system. During the same time period we also received documents on the organization's incentive systems. Together, this information guided us in crafting a semi-structured template of questions for the second phase—the on-site interviews. These interviews included follow-up discussions with executive leadership and interviews with senior and mid-level plant managers.

We conducted 10 interviews with 12 different individuals. The question template referenced earlier was used for all interviews while allowing for additional questions to explore emergent themes within a single interview. Interview transcripts were combined with the researchers' notes to form the qualitative data analyzed in our study. Together, these interactions provided greater understanding and helped us generalize our findings across prior research on HPWSs.

Three compelling themes connected to a HPWS emerged. First was the importance of the incentive-based compensation system. Over 50% of total pay was contingent on production, quality control, and cost management. Accentuating the risk–reward relationship was the sanctions tied to poor quality manufacturing. When products were returned due to manufacturing quality the organization recouped the incentive pay tied to its production a rate twice the amount of the original award. This practice reinforced the idea that the quantity produced was not the organization's only strategic goal.

The importance of financial incentives was underscored during one interview discussing negotiations on the incentive system with a unionized subsidiary (secured through an acquisition). While their non-union subsidiaries embraced the contingent pay system, the unionized subsidiary was risk averse to the variance that accompanies this form of compensation.

“The trade-off in this situation was that employees would earn \$600 in guaranteed hourly wage in lieu of the opportunity to earn pay contingent on performance worth from \$0 to as much as \$6000 to \$8,000.”

A second interview theme was the importance placed on the organization's monitoring system. Managements' style of supervision and communication were considered interdependent mechanisms for establishing accountability. When exploring the role of direct supervision across different operations, one plant manager described “the

culture of accountability” that results from having engaged individuals who are willing to ask questions and challenge work practices.

“It is common in our organization to ask or be asked ‘why are you doing that or why aren't you doing that’. This accountability to each other explains both our industry-leading safety and the innovation seen in our processes.”

This notion of accountability and its relationship to individual risk and benefits of a contingent incentive system was a common theme throughout the interviews.

“You're accountable to everybody in that mill—supervisor all the way down. You are answerable to all of these people and again, that's based on how the pay structure works. If you got one weak link in the chain then there's going to be a problem. You have to make some changes, some corrections to get on board and do things the way that they need to be done.”

A third interview theme had synergistic ties with the other two themes—characteristics of front-line employees and their immediate supervisors. Across interviews, leaders and managers commonly referred to the “Midwest values” of their employees. These values were also often discussed in terms of accountability and accompanying attributions of responsibility.

“so when you don't have a work force that wants responsibility, and the accountability that goes with it, your culture just flounders and we flounder, literally.”

Building on this synergistic theme, one manager discussed his belief that the system employed by the organization is not for everyone.

“A lot of our production employees have become very wealthy people because of our pay structure. It takes a certain kind of person willing to accept the risks associated with earning that higher pay. While the system reinforces the link between each employee and group actions and performance, there are also factors out of their control that can influence their bonuses...Our experience in acquiring production facilities in other regions that use different methods for selecting employees shows you have to have the right people.”

The qualitative portion of our study led to several conclusions. First, incentives alone were not viewed as sufficient to align employee behavior with organizational goals. This seems especially relevant for organizations whose success is based on cost savings from lean manufacturing and technological innovations derived from bottom-up processes initiated by managers and employees responsible for production. Consistent with parallelism, success was a function of incentive system alignment with at least two other factors; accountability-inducing monitoring mechanisms and individual characteristics including a willingness to assume risks inherent in a contingent pay system. Monitoring was essential to reinforcing organizational priorities and facilitating the communication needed to establish accountability for goals and for innovation-related activities. Effective employees were those who valued financial rewards, were willing to take risks to pursue challenging goals, challenged existing practices, and participated in the change required in a dynamic environment.

These conclusions form the basis of the research questions pursued in the quantitative study. Specifically, what features facilitate behavior and outcomes hallmark of a HPWS? Can we draw from existing theory and research to understand the mix of factors that drive individual performance in such a system?

3. Quantitative assessment

The study's quantitative phase used two theoretical lenses to better understand how, why, and to what extent characteristics of employees

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