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Putting Strategic Human Resource Management in Context: A Contextualized Model of High Commitment Work Systems and Its Implications in China

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ABSTRACT This study contributes to strategic human resource management (HRM) research by offering a contextualized model of HRM effectiveness. Building on HR attribution theory, we propose that the high commitment work system will be more effective in a context when: (i) employees are conditioned to trust employers and (ii) regulatory institutions are less restrictive, giving management more autonomy in human resource decisions. In such contexts, we argue that employees are more inclined to view the high commitment work system as an expression of the employer's genuine concern for employees. Hence, employees are more likely to reciprocate with high commitment. We find our contextualized HRM effectiveness model particularly useful in understanding HRM – firm performance relations in China where business environments are currently under transformation on both trust and regulations.

KEYWORDS context, high commitment work system, HR attribution theory, regulatory environment, strategic human resource management, trust

INTRODUCTION

Human resource management (HRM) practices and their consequences are essentially embedded in legal and cultural contexts (Boxall & Purcell, 2008; Jackson & Schuler, 1995; Rousseau & Fried, 2001). However, the existing literature on strategic human resource management (SHRM) has largely ignored the implications of external contexts on HRM – firm performance relationship (Datta, Guthrie, & Wright, 2005). As a result, the extant SHRM literature often fails to explain why HRM–firm performance relations are not consistent across different regulatory and cultural contexts. For instance, the high commitment work system (HCWS) – a combination of human resources practices intended to enhance employee commitment and performance – has been found effective in U.S.

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organizations. However, it does not always produce the same degree of positive outcomes in other national contexts. For example, evidence suggests that companies may not garner the full benefit of HCWS if they are located in a country that has strong labour regulations (Boselie, Paauwe, & Jansen, 2001) or in a region with fragmented social networks (Locke, 1995). The existing theories of SHRM do not adequately explain why the effectiveness of HCWS might be influenced by external contingencies.

Recognizing the impact of contextual factors on HRM effectiveness is particularly important for studying SHRM in transitional economies such as China. Over the last decade, scholarly interest on the organizational consequences of HRM has grown dramatically in China (Cooke, 2009; Kim, Wright, & Su, 2010; Zhu, Thomson, & De Cieri, 2008). A major observation by these scholars is that SHRM models of Western origin have limited usefulness in explaining China-specific phenomena, particularly the role of economic reformation and ownership types (Cooke, 2009; Kim et al., 2010). China-based SHRM research to date has been short on theoretically specifying why such contextual factors may make a difference to the effectiveness of HRM in China.

This paper intends to contribute to the SHRM literature in general and China-based SHRM literature in particular by offering a 'theory of context' (Whetten, 2009) with regard to the impact of HRM on organizational outcomes. The primary purpose of the paper is to identify institutional and cultural contingencies that may moderate the effectiveness of HCWS. We focus on HCWS because it is one of the most studied topics in strategic HRM scholarship (Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009). We develop our arguments by drawing on the social exchange theory (Blau, 1964) and HR attribution theory (Nishii, Lepak, & Schneider, 2008) and by positing that the relations between HR practices and employee outcomes are mediated by employees' attribution of why such practices exist in the company. Specifically, we suggest that HCWS will more likely be viewed as a voluntary expression of an employer's favour in contexts when (i) employees are conditioned to trust employers and (ii) regulatory institutions are less restrictive, giving management autonomy in human resource decisions. In these contexts, we assert that the linkage between HCWS and employees' organizational commitment and performance will be stronger such that the connection between HCWS and firm performance will be more apparent.

The remainder of the paper is structured as follows. First, we will briefly review key debates and discussions in the extant SHRM literature. The review will focus on the existing knowledge about HCWS and how it relates to (i) organizational outcomes and (ii) external environments. Then we will develop our theory and offer propositions about the contextual moderators of HCWS effectiveness. Finally, we will discuss how our model informs strategic HRM research, particularly in the Chinese context.

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THEORETICAL BACKGROUND

HCWS and Organizational Outcomes

High commitment work systems (HCWS) include practices such as extensive training, competitive pay, job security, group performance-based pay, participatory decision making, and internal promotion (Becker & Gerhart, 1996; Collins & Smith, 2006; Walton, 1985; Xiao & Björkman, 2006). HCWS is similar to several different concepts, such as the high performance work system (Huselid, 1995; Pfeffer, 1998) or the high involvement system (Batt, 2002). It gained popularity in the 1980s when American companies realized their traditional control-oriented people management was less effective than the commitment-oriented management of their Japanese counterparts (Appelbaum & Batt, 1994). HCWS has many features in common with traditional Japanese employment systems, but the underlying principles can be traced back to the human relations school in the U.S. (Lawler, 1986).

In the SHRM literature, two theoretical concerns have dominated the discussion around the organizational consequences of HCWS. The first concern, which is often titled the 'best practice–best fit' debate, involves whether or not the effectiveness of HCWS depends on contingency factors (Delery & Doty, 1996). The other concern, which is called the 'SHRM black box', refers to the unspecified causal mechanism through which HCWS leads to a firm's performance (Bowen & Ostroff, 2004).

With respect to the best practice–best fit debate, proponents of the universalist perspective argue that the benefits of HCWS are rooted in its inherent virtues and that companies can enhance organizational performance by using such HR practices, regardless of the situation (Boxall & Purcell, 2008; Delery & Doty, 1996). For example, Pfeffer (1998) argues that companies in any industry can expect performance enhancement by utilizing commitment-oriented work practices. Therefore, what companies need to do is to make their HR systems similar to HCWS. In contrast, proponents of the best fit approach argue that HCWS will be more effective when it is matched with appropriate contingent variables, such as firm strategy (Miles & Snow, 1984). This viewpoint has increasingly gained popularity as evidenced by many empirical studies (e.g., Delery & Doty, 1996; Youndt, Snell, Dean, & Lepak, 1996). However, thus far, the contingent view has primarily focused on organizational contingencies, neglecting the potential impact of a firm's external environment. Recently, researchers have begun to explore how institutional and cultural factors may moderate the organizational consequences of HCWS (Batt, 2002; Datta et al., 2005).

With respect to the quest to uncover the black box between HR practices and performance, efforts have been devoted to understanding the causal mechanisms through which HCWS influences a firm's performance (Collins & Smith, 2006). A popular perspective in this stream of research is the social exchange theory (Shore,

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Coyle-Shapiro, Chen, & Tetrick, 2009; Tsui, Pearce, Porter, & Tripoli, 1997). According to this theory, human beings are morally inclined to reciprocate the favours they receive from others (Blau, 1964). In a workplace setting, employees would develop a psychological obligation to work harder if they believed their employer had offered them a favour (Rousseau, 2001). Therefore, HCWS induces a sense of psychological obligation in employees, who reciprocate by displaying a high level of organizational commitment and performance, which ultimately leads to better performance for the firm as a whole (Sun, Aryee, & Law, 2007).

However, the social exchange perspective on HCWS effectiveness is not free from limitations. A potential weakness is that it rests on an assumption that might not be always true: employees will perceive HCWS as an employer's favour. According to Bowen and Ostroff (2004) and Nishii et al. (2008), employees may attach different meanings to the same HR practices. In other words, employees may not always perceive HCWS as an expression of an employer's genuine concerns for employees, and therefore, HCWS may or may not activate positive employee responses. Hence, it is necessary to identify the contexts under which employees are more likely to make clear connections between HCWS and an employer's goodwill.

HCWS and External Environments

Three major perspectives have been used to explain the interactions between HRM and external factors: neo-institutionalism, resource dependence theory, and cross-cultural research.

According to institutional theories, particularly neo-institutionalism, organizations are pressured to adopt socially defined appropriate actions, or rationalized myths (Meyer & Rowan, 1977). Environmental pressures come in the form of formal regulations (coercive pressure), social obligation (normative pressure), and/or shared understanding (mimetic pressure) (DiMaggio & Powell, 1983). If an organization finds that the socially required actions conflict with technical needs, it may adopt the actions only symbolically and attempt to secure social acceptance and technical efficiency simultaneously (Meyer & Rowan, 1977). Using this theoretical lens, various studies explained the processes through which employment practices are diffused across and within organizations (Kostova & Roth, 2002; Tolbert & Zucker, 1983; Wright & McMahan, 1992). As a special case of employment practices, the diffusion of HCWS was also partially explained by the neo-institutionalism framework (Gooderham, Nordhaug, & Ringdal, 1999).

Like the institutional theory, the resource dependence theory understands organizational behaviours as responses to external requirements. The theory suggests that the survival of an organization essentially depends on the critical resources that the organization must obtain from external entities, such as customers, the government, suppliers, and legal authorities (Pfeffer & Salancik, 1978). Therefore, a

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central concern for organizations is to minimize their dependency on and increase their control over the suppliers of critical resources to stabilize the resource inflows (Salancik, 1979). This theory has proven relevant to the study of HCWS. For instance, Pfeffer and Cohen (1984) suggested that the adoption of HCWS can be partly explained by companies' dependence on the labour market. Specifically, they found that the limited supply of critical human capital from the labour market drove companies to adopt HCWS with aims to develop human capital internally.

While neo-institutionalism and resource dependence theories offer useful insights on when and why companies adopt employment arrangements such as HCWS, it is still not clear how these theories can contribute to understanding the *effectiveness* of HCWS practices. This is not surprising, given that the primary focus of these theories has been the process through which organizational forms and practices are adopted, rather than the organizational consequences of such actions (Greenwood, Oliver, Sahlin, & Suddaby, 2008). Although some scholars argue that legitimacy-building activities could be critical to ensure the long-term viability of a firm (Paauwe & Boselie, 2007), others have indicated that adopting socially legitimate practices may lead to managerial inefficiency (Abrahamson, 1991; Denrell, 2003). Therefore, it is still largely unclear how these theories can contribute to the understanding of the link between HCWS and organizational outcomes.

Cross-cultural research has developed an extensive body of knowledge about how cultural values moderate employees' reactions to HR practices (Tsui, Nifadkar, & Ou, 2007). A general consensus in this literature is that an organizational practice, such as HRM, is likely to lead to positive outcomes when its underlying cultural implication is matched with the cultural values of the individuals (Chen, Chen, & Meindl, 1998; Earley, 1989; Lincoln, Hanada, & Olson, 1981; Wagner, 1995). For example, individual performance appraisal practices are more effective for people with individualistic values, while group-based compensation practices would be more effective for people with collectivistic cultural values.

Although cross-cultural research offers excellent insights on the moderating role of culture in *individual* employees' reactions to *individual* HR practices, the extant cross-cultural research is largely silent about the culture's consequences on the relationship between *bundles* of HR practices (such as HCWS) and *organizational* outcomes. In their review of a quarter century of research, Kirkman, Lowe, and Gibson (2006) did not find a single article in any major academic journal on the relations between HR practice bundles and Hofstede's dimensions of culture (Hofstede, 1980). In a more recent review, Tsui et al. (2007) did not find any publication that examined a culture's moderating role in the relationship between a set of HR practices and organizational outcomes. Although some researchers have begun to explore the cultural implications of HCWS (e.g., Bae & Lawler, 2000; Xiao & Tsui, 2007), previous research generally falls short of offering a coherent model that explains how national or regional cultures may affect the effectiveness of HCWS.

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HCWS, CONTEXT, AND EMPLOYEE RESPONSES

One of the widely accepted agreements in the SHRM literature is that HCWS contributes to employee commitment and the firm's performance by promoting positive social exchange relations between employer and employees (Tsui et al., 1997). A core assumption in this relational view is that employees will perceive HCWS as an expression of an employer's genuine commitment towards employees. The validity of this assumption, however, may not be universal. Depending on contexts, employees are more or less inclined to see HCWS as a genuine expression of an employer's favour towards them. A theory that offers useful insights on this matter is the HR attribution theory, proposed by Nishii et al. (2008). Nishii et al. (2008) note that HR practices are subject to employees' diverse interpretations of an employer's underlying motivation. Therefore, the same set of HR practices may lead to vastly different organizational outcomes, depending on the meaning that employees attach to it. Commitment-based HR practices, for example, can be interpreted as a measure of enhancing employee well-being or, alternatively, as a slick way of extracting additional labour. If employees believe that the underlying goal of HR practices reflects the genuine goodwill of their employer, they will be more likely to reciprocate with positive attitudes and behaviours. However, if employees do not associate the HR practices with an employer's goodwill, they may not feel obligated to demonstrate positive work behaviours.

Based on this reasoning, Nishii et al. (2008) suggest that commitment-based HR practices will effectively elicit employees' positive responses only when two conditions are met. First, employees should perceive commitment-based practices as a result of an employer's dedication to employee well-being. Second, employees should have reason to believe that employers have voluntarily chosen to introduce commitment-based HR practices and are not simply implementing the practices as a result of external enforcement. Nishii et al. (2008) tested and found support for their HR attribution theory using data from a large service firm with 362 subunits.

Our contextual moderation model of HCWS effectiveness builds on the core logic of the HR attribution theory. Unlike Nishii et al. (2008), however, we will apply the theoretical logic to explain the variations in the effectiveness of HCWS across different environmental contexts rather than the variations within a company. Our core assumption is that the meanings employees attach to HCWS may vary depending on the external contextual factors. People in different societal contexts live in different 'semantic spaces' (Redding, 2008: 263) where the same HCWS arrangement may be understood in substantially different ways. In one cultural or legal environment, HCWS may be viewed as an indication of employer's voluntary commitment to employees while, in other contexts, employees may perceive the same HR practices as an employer's wily strategy for work intensification or as a simple act of legal compliance. Because employees' interpretation of

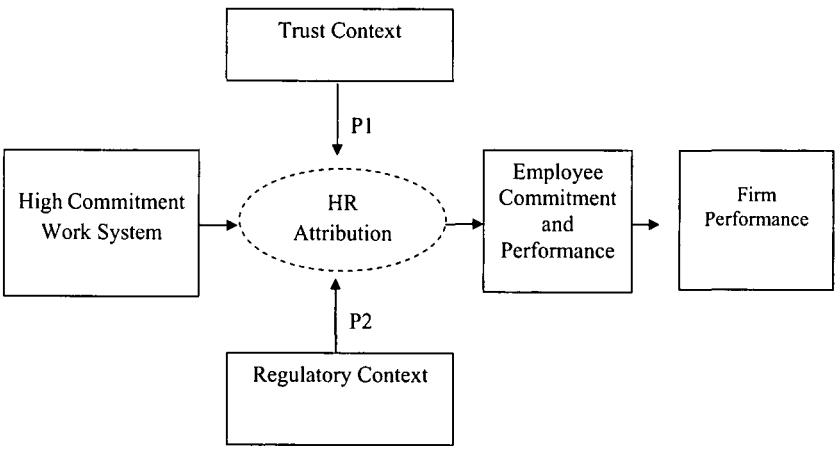
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an employer's underlying intentions regarding HCWS may diverge across contexts, employees' reactions to HCWS may also vary across contexts.

More specifically, we propose that HCWS is more likely to be viewed as a representation of the genuine goodwill of an employer when social trust is high and the labour market is loosely regulated. In a high-trust context, employees are likely to trust in management. As a result, employees are less worried about the potential hidden motives of HCWS and trust employers' commitments to keep their word. Therefore, employees should be more willing to take the risk of committing to the organization. In a context where legal institutions do not severely restrict managerial autonomy, employees are more likely to believe that an employer has voluntarily chosen to adopt HCWS. Therefore, workers should be more likely to reciprocate an employer's favour through enhanced organizational commitment, job performance, whether in-role or extra-role, which will eventually improve the firm's performance. In the following, we will discuss these ideas in more detail. We provide a schematic presentation of the model in Figure 1.

Figure 1. A contextual moderation model of high commitment system effectiveness



A High-Trust Context and the Trustworthiness of Management

In this section, we propose an argument that HCWS will elicit stronger organizational commitment and performance from employees in a high-trust context than in a low-trust context. We elaborate this argument by first discussing the variance of trust across contexts and then examining how this contextual variation may strengthen or undermine the link between HCWS and employee commitment.

Cross-national or cross-regional variance in people's tendency to trust each other has been recognized by many social scientists. At the country level, Fukuyama (1995) suggests that people living in countries with mature market economies, such as the U.S., Japan, and Germany, tend to trust their fellow citizens

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more easily than the people in emerging economies, such as Taiwan, Korea, and China. Therefore, he suggested the level of trust within firms is generally higher in mature economies than in emerging economies. This argument was confirmed by Huff and Kelley (2003), who presented evidence that organizational trust in the U.S. is significantly higher than in Asian countries. Dyer and Chu (2003) also demonstrate that overall trust between business partners is much lower in Korea than in Japan and the U.S. At the regional level, both Putnam (2000) and Allik and Realo (2009) report a significant variation across different states of the U.S. in people's tendency to formulate cooperative relations. In Italy, Locke (1995) and Putnam (1993) observed a substantial difference in the level of organizational trust across cities.

Upon recognizing the contextual variation of organizational trust, scholars have examined what brings forth such variations by employing diverse perspectives, including a cultural perspective, a social network view, and an institution-based perspective. First, the culture-based perspective suggests that people's propensity to trust others is shaped by the cultural values of a society (Doney, Cannon, & Mullen, 1998). Huff and Kelley (2003) argued that in collectivistic cultures, such as that of China, the scope of trusting relationships is confined to members of familiar kinship groups because, in this culture, people are conditioned to trust only in-group members while distrusting out-group members. As a consequence, the accumulation of generalized trust may be significantly inhibited in a collectivistic culture. Along the same line, Allik and Realo (2009) claimed that individualism is positively related to social capital because individualistic people can easily formulate multiple in-groups while collectivists tend to maintain only one in-group.

Second, the network-based view posits that trust is produced by and extended through social networks. Therefore, if a society is overridden by a fragmented network structure, the development of generalized trust would be hampered. Putnam (1993) and Locke (1995) illustrated this point in their case studies on Italy, showing that cities with disjointed social networks suffer a low level of social capital, which drags down the level of trust within local organizations.

Third, the institution-based view suggests that the formulation of trust is at least partly grounded on the credibility and stability of public institutions (Zucker, 1986). In managerial settings, this view was confirmed by Child and Möllering (2003), who demonstrated that a lack of confidence in social institutions undermines the trust within an organization.

When employees are less inclined to trust management, they are likely to view the companies' practices negatively. Researchers have recognized that attribution processes are inherently related to the development of trust because both rely on a belief in the characteristics of exchange partners (Ferrin & Dirks, 2003; Weber, Malhotra, & Murnighan, 2005). Ferrin and Dirks (2003) demonstrated through a lab experiment that when individuals possessed a schema of suspicion, the partner's behaviour would most likely be interpreted in a negative way. As a

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consequence, when there is low-trust, trust-building mechanisms, such as a cooperative reward structure, do not function effectively. Their finding suggests that when employees believe management is untrustworthy, managerial practices, such as HCWS, are less likely to be interpreted as an employer's genuine favour towards employees. Unless employees perceive HCWS as an employer's favour towards them, it may not effectively elicit a positive social exchange relationship between employees and employers, such that HCWS will not benefit the company.

We do not oppose the widely held view that HCWS, if properly implemented, can enhance organizational trust (Collins & Smith, 2006; Leana & Van Buren, 1999). However, we do not believe that the adoption of HCWS will automatically lead to positive organizational outcomes unless employees are conditioned to trust management. An illustrative case in point is the observed difference between General Motors (GM) and Ford. While conducting a field study, which later became seminal research on HCWS, Womack, Jones, and Roos (1990) spotted a clear inconsistency between the adoption of HCWS and its realized benefits. On the surface, GM factories were far more advanced than Ford factories in terms of the formal adoption of HCWS practices. Interestingly, however, it appeared obvious to researchers that relative to GM employees, Ford employees were more committed to their work and that the different level of employee commitment was responsible for the difference in the firm's performance. Womack et al. (1990) ascribed this inconsistency between the adoption and effectiveness of HCWS to the difference in the degree to which employees trusted their management. While GM workers discredited their management as incompetent and untrustworthy, Ford employees were confident of the capability and goodwill of the management. The researchers concluded that workers do not automatically respond to HCWS arrangements in a positive way. They found such HR practices effective only when there was 'a sense that management actually values skilled workers, will make sacrifices to retain them, and is willing to delegate responsibility to the team' (Womack et al., 1990: 99).

A close look at the components of HCWS may further enlighten us as to why the trustworthiness of management is so critical for the success of HCWS. If employees do not trust management, they are not sure of the integrity of disclosed managerial information (Thomas, Zolin, & Hartman, 2009). If the information disclosed about organizational performance is discredited, compensation practices based on such information may not adequately motivate employees. If employees perceive that the management's commitment to job security is not trustworthy, they may not provide innovative ideas because they fear the possibility of enhanced productivity leading to the reduction of the workforce. If employees do not fully trust the management's commitment to maintain internal promotion policies, they may not turn down external opportunities and lock themselves into firm-specific skills. If employees do not believe in the management's willingness to respect workers'

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opinions on major business decisions, HCWS can be viewed as a measure to undermine the employees' collective voices. In other words, if employees do not find their management trustworthy, it is possible for them to view HCWS as a potentially exploitative managerial strategy rather than as an employer's genuine favour towards them. Therefore, as Pfeffer (1998: 124) stated, even if a company introduces HCWS, organizational members' commitment 'will not be forthcoming in the absence of trust'.

Our argument that a high-trust context facilitates the successful implementation of HCWS is consistent with observations presented in case studies such as Pfeffer's (1998), who remarked that a positive industrial climate made it easy for firms to run HCWS effectively. While discussing the relations between public policy and high performance work systems, Pfeffer (1998) examined the case of an American city (Louisville) that once was known for intense labour disputes but later became an example of industrial cooperation. Reviewing how the regional industrial relations climate affected the implementation of high performance work practices in the city, he concluded that a regional 'culture and network of contacts . . . is credited with facilitating the change in the relationship between the company and its people' (Pfeffer, 1998: 289). In other words, trust in the regional community enabled companies to easily generate positive social exchange relationships with their employees through HCWS.

The positive role of trust for HRM effectiveness has also been echoed in Fukuyama's (1995) discussion on trust. He suggested that the trust in the society is reflected in the degree of trust within organizations, so it eventually affects the effectiveness of managerial innovations. He argued that, in high-trust societies such as Japan and Germany, employers and employees find it easy to trust each other, such that new methods of production can be readily tested and implemented. By contrast, in familial low-trust societies, such as Korea and Taiwan, mutual trust between workers and managers is weak. The lack of trust in employees hinders companies from fully implementing progressive work arrangements, such as HCWS. Fukuyama (1995) illustrated his point by comparing Japanese and Korean auto assemblers. He contended that Korean car makers were less successful in the use of high performance work arrangements than their Japanese counterparts, partially because of the low trust of the Korean society, which reflected in confrontational labour–management relations on the shop floor.

Locke (1995) similarly testified that the regional climate of trust influences the effectiveness of high commitment work arrangements. In his field research on the Italian automakers Fiat and Alfa Romeo in the 1980s, Locke found that trust at the social level influenced trust at the organizational level, which in turn determined the success of managerial efforts to introduce high performance work arrangements. The city of Turin, where the Fiat factory was located, was characterized by low-trust, confrontational industrial relations, and divided social networks. Unions were small and isolated but maintained strongly hostile positions

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towards management. The regional social climate discouraged efforts to organize voluntary associations. Therefore, no third-party civil organization could effectively mediate social conflicts between management and employee organizations. The lack of trust at the social level exacerbated the deficiency of trust within the company, and the confrontational relations between unions and Fiat management undermined all attempts to introduce progressive operational innovations, such as participatory management. Therefore, Fiat ended up relying on a control-based system rather than commitment-based practices. By contrast, in Milan, where Alfa Romeo was located, dense networks of civil society promoted flows of information inside and outside the factory. Local unions considered employers to be trustworthy business partners. Based on mutual trust, the unions and the management at Alfa Romeo were able to reach an agreement on major adjustments of the production system. As a result, various progressive HRM practices, including self-managing teams, were successfully introduced and implemented in Alfa Romeo. In summary, the effectiveness of commitment-based work arrangements was better realized in a high-trust context than in a low-trust context.

In this section, we developed an argument that HCWS would better function in a high-trust context. In a context where the social climate is characterized by distrust, division, and conflicts, employees find it difficult to believe in the goodwill of the employer. In this type of environment, trust-based practices, such as HCWS, are less likely to be successful. By contrast, in a context where the social climate is characterized by trust and cooperation and employees tend to trust in management, HCWS is likely to be viewed as a mutually beneficial measure so that such work arrangements can readily bring high levels of employee commitment. In other words, the assumption of the relational perspective of HCWS – that HCWS is viewed as an employer's favour towards employees – will be more valid in the context of a high-trust context than a low-trust context. This argument is summarized in the following proposition.

Proposition 1: The relationship between HCWSs and employee responses in terms of commitment and performance will be stronger in higher trust contexts than in lower trust contexts.

Highly Regulated Employment Relations and Managerial Autonomy

The core argument to be developed in this section is that the likelihood of positive social exchanges between employer and employees is high when employment regulations allow employers a large degree of discretion to select their HRM practices. In such situations, employees can easily believe the employer has adopted HCWS voluntarily rather than due to external pressures, so they are more likely to feel obligated to exhibit positive workplace behaviours (Nishii et al., 2008).

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It is a well-documented fact that employment regulatory systems vary across countries and regions. At the national level, the variation is clearly observed between countries of liberal market economies and those of coordinated market economies (Brewster, Mayrhofer, & Morley, 2004; Hall & Soskice, 2001). In liberal market economies, such as the U.S. and New Zealand, employers are given a large degree of autonomy to formulate their HR systems without considering many legal constraints. In the U.S., for example, employers are presumed to have rights to dismiss employees as they wish unless employees belong to legally protected groups, such as individuals over a certain age. Union density is significantly lower in liberal market economies than coordinated market economies, so managers do not have to take collective bargaining contracts into consideration when they introduce new HRM policies. In contrast, managerial autonomy is comparatively low in countries where labour markets are highly regulated. In the Netherlands, for example, employees can be dismissed only after a lengthy process of acquiring formal approval from local authorities. In this country, many elements of HCWS have been institutionalized because of government regulations (Boselie et al., 2001). In Germany, another example of a country with a highly regulated labour market, employers are legally required to engage in participatory management. In this environment, a primary concern of the corporate HR department is to ensure that the company runs its HR management in accordance with the relevant regulations. The variance of labour market regulations and the institutionalized forms of labour protection is also observed at the regional level. In the U.S., legal institutions make it more difficult for employees to organize unions in southern Right-To-Work states. In Italy, regional institutional variation is often considered a source of differences in the socio-economic performance of regions (Locke, 1995; Putnam, 1993, 2000). In emerging economies, such as India and China, the regional variation among legal institutions seems to affect organizational performance (Huang, 2008).

The degree of government involvement in employer–employee relations may have a significant impact on the dynamics of employer–employee relationships as it affects employees' HR attributions. In a highly protected labour market, employees could view the adoption of high commitment work practices as an involuntary response towards the regulatory restrictions on workforce dismissal. Perhaps the most extreme example of an engaged government model would be the employment relations systems in centrally planned economies. In this highly restrictive institutional environment, external enforcements, rather than the strategic decisions of management, set in place many employee-centred practices, such as extensive benefits and job security (Boselie et al., 2001). In such highly regulated contexts, these HR practices are less likely to incur employees' psychological obligations to return an employer's favour because employees may not have a reason to connect the adoption of such practices with an employer's goodwill. Therefore, the linkage between these practices and employee commitment would

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be weak. By contrast, in a loosely regulated legal environment where employers are given a high degree of discretion, the adoption of employee-centred practices, such as HCWS, is likely to be viewed as an employer's voluntary decision to do favours for employees. As employers were not forced by law to take the risk of investing in HR, employees are more likely to interpret HCWS as a real favour from their employers. Therefore, HCWS can readily promote the employees' senses of obligation to reciprocate the employer's favour through enhanced commitment.

This argument does not exclude the possibility of the positive role of labour market regulations in the diffusion of HCWS. Because of regulatory pressures, high performance work practices are apparently more prevalent in regulated market economies than in liberal ones (Boselie et al., 2001; Gooderham et al., 1999). One may argue that the institutionalization of HCWS can be positively correlated with the effectiveness of HCWS. For instance, the national business systems literature suggests that internal labour market models, such as HCWS, may function better in contexts where such practices are supported by regulatory and normative institutions (Hall & Soskice, 2001; Whitley, 1999). Evidence suggests that, at the national level, the extent to which HCWS is institutionalized may strengthen national competitiveness, at least in certain industries (Hall & Soskice, 2001).

However, as neo-institutionalism has suggested, the diffusion of a practice does not necessarily mean that the efficiency benefit of such a practice increases (Meyer & Rowan, 1977). Empirical results show that the effectiveness of HCWS is not necessarily positively correlated with the prevalence of such a practice. In fact, existing evidence suggests the opposite might be true, as is evident in an observation made by Boselie, Paauwe, and Richardson (2003). In their Dutch company sample, HCWS was shown to be comparatively less effective in sectors where it is highly institutionalized than in sectors where HCWS is less popular. Although the authors found their results counter-intuitive, our theory suggests this finding is not surprising given the negative relationship between institutional pressures and employees' positive HR attributions. Batt's (2002) finding also seems to be consistent with our reasoning. In her study of HCWS effectiveness in the American service industry, HCWS proved to be more effective in a low value added sector where it is less prevalent, than in a high value added sector where it is more popular. As Batt (2002) did in her study, this phenomenon can be explained by resource-based view logic, which suggests that HR systems are effective only when they are rare and inimitable. However, a plausible alternative explanation is that employees in the low value added sector would easily discover the causal link between HCWS and an employer's genuine commitment to such practices because managerial autonomy would be higher when the institutionalization pressure of HCWS is weak.

In summary, in highly regulated contexts, HCWS will be less likely to be perceived as an employer's voluntary action to show favours towards employees. According to the HR attribution theory, companies may find it difficult to create

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positive employer–employee relationships unless a well-intentioned HR practice is perceived as a voluntary choice by the employer. Therefore, the relationship between commitment-based work practices and employee responses would be weak in highly regulated regions.

Proposition 2: The relationship between HCWS and employee responses in terms of commitment and job performance will be stronger in less-regulated employment contexts than in more-regulated employment contexts.

IMPLICATIONS FOR SHRM RESEARCH

In previous sections, we proposed a contextualized model of HCWS effectiveness. We argued that the effectiveness of HCWS will be strong when employees are socially conditioned to trust management and when HCWS are not externally enforced. In such contexts, a HCWS will readily activate positive social exchange relationships between the employer and employees because the employees have reasons to believe that HCWS is the genuine expression of an employer's commitment to them. We will now discuss how the proposed framework may contribute to SHRM research in general and China-based SHRM research in particular.

Our contextualized SHRM framework may offer useful insights on two primary concerns in global SHRM research. First, our study offers an alternative way to frame the best practice–best fit debate by explicitly considering the role of external environmental variables. Prior research on the best practice–best fit debate has primarily focused on the existence of organizational level contingencies and was largely silent on the role of external contextual variables (Datta et al., 2005). However, there is a growing need to understand the impact of external contingencies on HR effectiveness as the globalized economy requires companies to implement effective HR systems across different institutional and cultural contexts (Dowling, Festing, & Engle, 2008; Edwards & Kuruvilla, 2005; Ferner & Quintanilla, 1998). In this study, we addressed this need by explaining how trust and the regulatory environment can moderate the impact of HCWS on employee commitment. Future research could further contribute to the literature by identifying various other dimensions of context as moderators of HRM effectiveness. For instance, researchers may explore how timing or sequential context (Johns, 2006; Rousseau & Fried, 2001) would relate to the effectiveness of HRM.

Second, our research provides new insights on the SHRM black box by highlighting the context-dependent nature of causal mechanisms through which HRM leads to better or worse outcomes for a firm. Prior research in this area tends to view the causal mechanisms between HRM and a firm's performance as something largely independent from external factors. Thus, researchers have marginalized the 'potential variability of in the underlying causal variables' (Rousseau & Fried, 2001: 8) for HRM effectiveness. However, as Johns (2006: 397) points out, the

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context can be so powerful that causal mechanisms between established variables may be dramatically changed or even reversed. Our study explicitly explores the unstable nature of causal mechanisms between HRM and a firm's performance across contexts. We encourage future researchers to take contextual factors into serious consideration when they participate in the academic endeavour to open the SHRM black box.

While offering alternative ways to address major concerns of global SHRM literature, our model may provide new insights with which China-based SHRM research can move forward. As a large country that is experiencing massive institutional change, China offers ample opportunities for researchers to examine the interactions between institutional environments and organizational variables (Peng, Wang, & Jiang, 2008). As for the effectiveness of HCWS, China might provide an ideal research context to examine how chronological and cross-sectional variations of institutional environments are related to the HRM–firm performance relations. In the following, we will discuss how our model can be used to explain the within-country variation of HCWS effectiveness in China in relation to two major characteristics of China's institutional environment: chronological transition from a planned economy and cross-sectional variations in the ownership of firms.

First, our model can offer insights on the chronological variations of HCWS effectiveness in China. Recent literature on Chinese HRM tends to describe HCWS as one of the new practices recently imported from the West through foreign-invested firms. For example, Sun et al. (2007: 572) stated that 'China's economic reforms and the participation of foreign companies in the Chinese economy have led to the popularization of Western-style human resource practices, such as . . . high-performance human resource practices'. However, HCWS in effect is not a completely new HRM system in China. As Buck, Filatotchev, Demina, and Wright (2003) noted, the traditional Soviet style of HRM has, at least on the surface, many commonalities with HCWS. For example, HCWS and the HRM of communist regimes both focus on mutual commitments between employees and the employer. Both HRM systems are intended to minimize turnover, reduce reliance on external labour markets, and emphasize the spirit of cooperation within organizations. Both HRM systems encourage individuals to internalize the core values and goals of the organization. What has been newly introduced to China by foreign firms is more of the control-based HR systems that emphasize individual performance, narrow job definitions, and external market-based staffing, rather than commitment-based work practices that focus on group performance, participation, and long-term commitment (Ding, Goodall, & Warner, 2002).

Given the commonalities between the iron rice-bowl model of HRM and HCWS, an interesting observation that requires further investigation is that the old communist HR systems were largely ineffective in the centralized planned

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economy whereas HCWS, arguably a cousin of the old communist system, is believed to significantly contribute to enhancing employee commitment in the more market-oriented economy of today's China (Sun et al., 2007; Wang, Tsui, Zhang, & Ma, 2003). If this observation appropriately reflects the reality, this might be an ideal case in which a similar set of practices show different kinds of organizational outcomes. According to the model presented in this paper, the same high commitment work practices may lead to different employer–employee relationships as the surrounding regulatory environment undergoes changes because employees may attach different meanings to legally required practices relative to practices that are voluntarily chosen by employers. What might have happened in China is that the changes in the legal environment – the breakdown of a centrally enforced life-long employment system – have shifted the employees' attribution of such work systems. When a life-long employment system is legally enforced by the government, employees may find no reason to perceive it as an employer's voluntary favour towards them. However, after the economic reform, given that employers are no longer compelled to choose such practices, employees can interpret the use of long-term commitment-oriented employment systems as the employers' voluntary gesture to value their employees. So, the employees may be motivated to reciprocate an employer's favour with a higher commitment to the organization. Future research may further examine the validity of this claim.

Our model also can shed new light on the cross-sectional variations of HCWS effectiveness in China. One interesting phenomenon reported by multiple China-based studies is that HCWS appears to be less effective in privately owned firms than in other ownership types of firms. For example, Wang et al. (2003) reported that the organization-focused employment relationship, a concept largely similar to HCWS, was significantly more effective for state-owned firms than for domestic private firms. In effect, they found no evidence that organization-focused HRM creates value for the indigenous private firm. Similarly, Wei and Lau (2008) observed that strategic HRM was less effective for Chinese private firms than foreign-owned firms.

A conventional explanation for this phenomenon contends that the seriously limited effectiveness of HCWS in the domestic private sector is primarily associated with resource constraints (Li, Yao, Sue-Chan, & Xi, 2010; Wei & Lau, 2008). As Huang (2003) documented, indigenous private firms in China are disadvantaged by the government in a way that undermines their access to major financial resources. In addition, as small entrepreneurial firms, many domestic private firms suffer from the liability of newness. Consequently, domestically owned private firms in China occupy a low social standing. The conventional explanation suggests that the resource constraints and subsequent low social standing make indigenous private firms unpopular employers (Gong, Law, & Xin, 2006), and these difficulties somehow undermine the firms' capability to successfully implement sophisticated HRM practices (Wei & Lau, 2008).

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The conventional resource constraint argument, however, is not entirely consistent with the established knowledge on the effectiveness of HCWS in Western literature. First, as Datta et al. (2005) showed, HCWS can be more effective in low capital-intensive firms. In other words, HCWS can be more effective when the company relies more on its labour than on capital. Therefore, limited access to capital markets may not fundamentally undermine the effectiveness of HCWS. In addition, Ahlstrom and Bruton (2001) observed that Chinese private firms have many methods of mobilizing their local connections to get around institutional barriers to capital markets. Second, as Pfeffer (1998) illustrated with the Southwest airlines case and Batt (2002) demonstrated in her HCWS study on the service industry, the effectiveness of HCWS is not necessarily hampered by the competitive dynamics in low-margin industries. Third, as Welbourne and Cyr (1999) found, start-up companies can still derive the benefits of sophisticated HRM practices. Finally, international business literature has shown (Mezias, 2002) that domestic firms are generally better positioned than foreign-origin firms in terms of managing local people because indigenous firms have more knowledge of the local cultures and enjoy higher legitimacy in the local community. Therefore, foreign firms may not necessarily be more capable of managing local Chinese employees. In summary, the conventional resource constraint argument may not fully explain why indigenous Chinese private firms seem unable to enjoy the full benefits of HCWS.

Can our contextualized HCWS effectiveness model offer a new insight on this issue? We believe so. It may be the case that the low effectiveness of HCWS in private indigenous firms in China is partially caused by the lack of mutual trust between the employer and employees. In the Chinese domestic private sector, employees and employers find it difficult to develop mutual trust because basic social sanctioning mechanisms that ensure the fulfilment of legal and psychological contracts are lacking. A significant number of employees in domestic private firms are 'unregistered' migrant workers (Cai, Park, & Zhao, 2008). Therefore, many workers in private sectors are completely unprotected by the labour laws. In addition, legal enforcement practices towards domestic private firms largely depend on the interpretation of the law by the relevant government officials, who are often believed to be biased towards employers (Ahlstrom & Bruton, 2001). Unlike the U.S. or Japan, where the scrutiny of independent local media makes arbitrary dismissals socially costly for employers (Ahmadjian & Robinson, 2001; Rousseau & Schalk, 2000), domestic private employers in China can manipulate their social reputations through personal connections (Ahlstrom & Bruton, 2001).

Incomplete sanctioning institutions in the Chinese domestic private sector may negatively affect the stability of the contractual relationship between an employer and employees. As Rousseau and Schalk (2000) noted, the lack of social sanctions for contract breaking, which is often found in transitional economies, seriously prevents employees from formulating a meaningful psychological contract with

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employers. In such a situation, even if management chooses to adopt a long-term-oriented work arrangement such as HCWS, employees might find it difficult to trust in management; therefore, they would not likely be willing to sacrifice today's external job opportunities in the hope of assuring tomorrow's internal career opportunities. In summary, the lack of generalized trust between employer and employees may be responsible for the weak linkages between HCWS and a firm's performance in China's domestic private sector. This reasoning requires empirical support from future research.

CONCLUSION

In this paper, we proposed that the effectiveness of HCWS would be higher when companies are located in an environment where employees can easily trust employers and where employers are allowed to voluntarily select employment systems. Drawing from the Human Resource attribution theory, we suggest that trust in the community and managerial autonomy enable employees to find a connection between HCWS and an employer's genuine goodwill towards employees, such that employees will reciprocate with a high level of commitment to the organization and with superior performance.

This paper contributes to SHRM literature by offering a model that explains how external contexts would moderate the HRM–firm performance relations. This model strengthens the contingency view perspective by identifying additional contingent factors. It also contributes to the discussion of the SHRM black box by explaining when the social exchange mechanisms would work better. In addition, our model offers alternative views on the within-country variations in HRM effectiveness in transitional economy of China. Our framework can be of value to researchers who are interested in the cross-contextual variation of HRM–firm performance relations.

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