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MEDIATING EFFECT OF EMPLOYEE CREATIVITY ON HIGH COMMITMENT MANAGEMENT-PERFORMANCE NEXUS

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Abstract

The success of firms is crucial to the achievement of Malaysian Masterplan for small firms (2012 – 2020), but the existing transformative global forces, which have far-reaching effects on individuals, society, culture, business, and economies have made it difficult for firms to survive and succeed. Thus, Malaysian firms would need to align their policies and strategies with the transformative global force, which demands that firms should provide high quality and innovative products and services through the strategic development of the firm’s rare, inimitable and non-substitutable human resource. Therefore, this study investigates the mediating role of employee creativity in the relationship between High Commitment Management Practices (HCM) and firm performance. The research data were collected from a sample of 124 managers of Malaysian firms in Northern region of Malaysia through a cross-sectional approach. Partial Least Squares (PLS) algorithm and bootstrapping technique were used for data analysis. The overall findings signify the mediating effect of employee creativity on HCM-performance relationship to indicate that HCM focuses on creative problem-solving skill development. This can improve the workers’ ability to improvise alternative solutions, product knowledge, and customer service skill necessary for creativity in organizing the company. Finally, the limitations, suggestions, and implications of the study were highlighted for future researchers.

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Keywords: High commitment management practices, HCM, HRM, creativity, strategic HRM, PLS-SEM, Malaysia.

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1. Introduction

A burgeoning set of Strategic Human Resource Management (SHRM) studies has emerged (Darwish, 2013), and there has been a shift from a systems approach regarding HRM-performance nexus to a strategic perspective. System perspective is based on the effects of individual HRM practices on firm or employee performance, but strategic perspective posits that a synergistic bundle of HRM practices would greatly contribute to firms’ competitive advantage (Amarakoon, Weerawardena, & Verreyne, 2016; Delery & Roumpi, 2017) and higher performance (van Esch, Wei, & Chiang, 2016).

The strategic perspective of HRM has diverse connotations in the extant literature. An approach of the strategic perspective, called configurational approach, focused on the fit between various HRM practices and the competitive strategy of the firms. This approach portends that HRM practices should be aligned with firms’ strategic goals and that such practices should develop employee skills, knowledge and motivation such that employees behave in ways considered supportive of a particular strategy (Andersen, 2011). One other perspective is known as a contingent approach. It postulates that the effectiveness of an HR system depends on contextual factors such as industry, firm size, etc. (Paauwe & Boselie, 2005).

Resource-based view (RBV) is also an approach that underpins the strategic perspective of HRM. RBV assumes that HRM contributes to organizational performance by leveraging human capital, discretionary effort, and desired attitudes and behavior (Becker & Gerhart, 1996), and success of organizations depends on the acquisition and development of human resource (HR) competencies and practices (Ismail, 2014; Ismail, Abdul-Halim, & Joarder, 2015). Thus, employees are crucial resources of any organization, and organizational practices should be configured in such a way that would motivate the employees and consequently enhance their performances.

2. Problem Statement

Some sets of studies (e.g. Combs, Liu, Hall, & Ketchen, 2006; Subramony, 2009) recognize bundles of high-performance work practices (HPWPs), as against individual HR practices, as a stronger predictor of performance. While the study undertaken by Combs et al. (2006) provides support for the configurational perspective, which connote internal and external fit of high-performance work system, the study by Tharenou, Saks, and Moore (2007) give credit to universalistic perspective. The studies by Subramony (2009) and Jiang, Lepak, Hu, and Baer (2012), which provide support for contingency perspective, revealed that the connection between HRM practices and firm’s performance are stronger in manufacturing than in the service sector.

This indicates that discrepancies in research reports cast doubts on the possibility of drawing a strong conclusion with regards to the link between the two constructs, despite the seeming accord among the extant studies regarding a positive relationship between HRM and performance (Tzabbar, Tzafrir, & Baruch, 2017). Extant literature on the nexus between human resource management (HRM) practices, as an aggregate and individually, and organizational performance has yielded mixed results, further fueling the theoretical debate among HRM scholars, and the magnitude of the effect of HCM on firm performance hinges on the context within which the study is carried out (Tzabbar et al., 2017).

The absence of issue in the ‘direct’ HRM-Performance relationship can be reiterated and remain unknown about the chain of nexuses that are persistent inside the ‘black box’ of HRM (Boxall, 2012).
Moreover, the huge transformative global forces demand ‘added-value’ services, and products, or high quality and innovative products and services, and thus crucial (Martinaityte, 2014). Likewise, the current trends in the world of business today underscore how creative and innovative employees should be to help companies achieve higher performance. Thus, the creativity of employee is empirically and logically fit for the mechanism that is mediating through the ‘back box’ identified by the researchers (e.g. Chadwick & Dabu, 2009; Boxall 2012) will be resolved.

Based on the explication above, the current study aims to examine the relationship between HCM and performance with the mediating role of employee creativity in the relationship.

3. Research Questions

Based on the explication in the previous sections, the current study aims to examine the relationship between HCM and performance with the mediating role of employee creativity in the relationship. The main objective is further broken down into the following:

- HCM would positively influence firm performance
- HCM would positively induce employee creativity
- Employee creativity would enhance firm performance
- Employee creativity would play a mediating role in the relationship between HCM and firm performance.

4. Purpose of the Study

Considering the fact that organizational effectiveness and success would enhance the achievement of Malaysian Masterplan for small firms (2012 – 2020), but the existing transformative global forces, which have far-reaching effects on individuals, society, culture, business, and economies, have made it difficult for firms to survive and succeed. Thus, Malaysian firms would need to align their policies and strategies with the transformative global force, which demands that firms should provide high quality and innovative products and services through the strategic development of the firm’s rare, inimitable and non-substitutable human resource. Therefore, this study investigates the mediating role of employee creativity in the relationship between High Commitment Management Practices (HCM) and firm performance with an aim that the result of the findings can be a useful guide to policymakers and stakeholders in various firms and organizations on how they can boost the performances of their firms to achieve organizational success.

5. Research Methods

The cross-sectional survey was used in the study for data collection and analysis done to test the hypothesized suppositions. Measurement of HPWPs was adapted from Martinaityte (2014); employee creativity was adapted from Wang and Netemeyer (2004); Martinaityte and Sacramento (2013); and firm performance was adapted from Harif, Hoe and Ahmad (2013). The instruments used in the study included the demographic information of the respondents in the 6 items, selective hiring instruments for 4 items: reward/pay-for-performance (5 items); performance appraisal (3 items); employee participation and
communication (5 items); succession planning (5 items); employee creativity (7 items); and firm performance (9 items). Both HCMs and employee creativity were scaled with 6-point Likert scale that ranging from 1 (strongly disagree) to 6 (strongly agree), but firm performance was scaled with 6-point Likert scale ranging from 1 (Very weak) to 6 (Very strong). The entire constructs’ instruments were reflectively measured.

The research population was the managements of firms in Kedah, Penang and Perak of Malaysia. According to Faul, Erdfelder, Buchner and Lang (2009) the priori power of analysis can be applied via G*Power 3.1.2.9 software supported by the recommendations of (Krejcie, & Morgan, 1970). The sample size of the study is 287. Using systematic sampling technique 287 management of the selected firms were served the questionnaires while 124 questionnaires were completed representing 43% of the response for the analysis. The rate of the response was accepted to be sufficient and adequate following the submission of Sekaran (2003) that 30% response rate is adequate for empirical study. In addition, Chin (1998) presented that collected data can be analysed by using PLS 2.0 and SPSS 21 m3 software via the two methods to derive reliable and valid results.

6. Findings

6.1. Demographic Analysis

The respondents’ demographic information in this study shows that even though the sampled firms are the majority, the private limited liability companies and deal on manufacturing-based business are different in respect of their backgrounds, which implies that the information used was from various respondents with different backgrounds making the result of the study adequate for generalization.

6.2. Measurement Model (Outer Model) Evaluation

Measurement model assessment according to Hair, Hult, Ringle, and Sarstedt (2014) is purposefully meant to validate the validity, reliability, internal consistency, convergent validity, and the constructs discriminate validity of the study.

![Measurement Model](Figure 01. Measurement Model)
Figure 1 above represents the total indicator of the respondents’ reliability. According to Hair, Black, Babin, and Anderson (2010), reliability indicator shows the relevancy of capability and ability of items like indicators designed for a particular construct in assessing the main variables of a research study. Any item that rises above 0.5 is said to be significant and relate to the threshold as indicator reliability (Hair et al., 2014). The reliability indicator is vetted on the outer loadings estimate, which results in estimated relationships between the indicators and the reflective latent variables (Hair, Hult, Ringle, & Sarstedt, 2017).

With the result depicted in Figure 1, the outer loadings of individual items, which range from 0.646 to 0.93, show higher value on their respective constructs and thus signifying sufficient levels of indicator reliability. However, two items from employee participation and communication (HPC19 and HPC20) and 1 item each from reward/pay-for-performance employee creativity (EC2, HRP12) to Hair Ringle, & Sarstedt (2011) was below the value of 0.5. Therefore, the stated items didn’t meet the estimated levels of reliability indicator and were taken away from the following analysis due to the indicator that their outer loading drops less than the value of 0.5 should be taken away to prevent irregular result stages of the structural model estimation.

The form of reliability test applied for consistency of results according to Hair et al., (2017), is the test-retest internal consistency reliability that determines whether the items used to measure a variable are relevant to the scores that are correlations of the concepts are large. The Cronbach’s alpha is used to check the reliability of the internal consistency when the reliability value is higher than 0.70 but when its values are below 0.60, it means that there is no internal consistency reliability (Hair et al., 2017). Also, Sekaran (2003) has it that the minimum threshold for the value of Cronbach’s Alpha is 0.6. The outcome of the evaluation of measurement model reveals high levels of internal consistency reliability of constructs in the study as the composite reliability and Cronbach’s alpha values of the constructs threshold values at 0.7 and 0.6 respectively.

With regards to convergent validity assessment, Hair et al., (2017) refer to it as the extent of a measure is to positively correlate the alternative measures of the same construct. However, Hair et al., (2017) see the assessment of convergent validity base on Average Variance Extracted (AVE) values. AVE should be 0.5 or above, referring the grand mean value of the squared as relating the indicators to the construct such as dividing the sum squared by the number of indicators. Therefore, the AVE is equal to the commonality of a variable. According to Hair et al., (2011), the values of AVE constructs of this research are more than 0.5 as the minimum requirements and agreed that all the variables have the greatest levels of convergent validity.

The discriminant validity is the last of the measurement model that involves the extent to which a variable is differentiated one variable to another variable by empirical standards. Given the fact that the recent research which critically examined the performance of cross-loadings and the Fornell-Larcker criterion for discriminant validity assessment has found that the approach could not reliably detect discriminant validity issues (Henseler, Ringle, & Sarstedt, 2015). Thus, he te rotrait-monotrait ratio (HTMT) of the correlations is recommended for the detection of discriminant validity issues. HTMT is the ratio of the between-trait correlations to the within-trait correlations (Hair et al., 2017). The result of the measurement model evaluation 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 the bootstrapping method and found that they are significantly different from 1, and thus signify that the constructs of the study have discriminant validity (Henseler et al., 2015).

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

6.3. Structural Model

Figure 2 and Table 1 show the evaluation of the structural model. In order to generate the path coefficients, PLS algorithm was analysed and 5000 bootstrapping sample with 124 cases was also run to verify if the path coefficient is significant (Hair et al., 2014 & Hair et al., 2011). The analyses were carried out to run all the variables for the purpose of establishing the results of the direct effects of HCM on company’s performance and to reveal the mediating effects of workers on the production nexus of HCM-company.

![Figure 02. Structural Model](image)

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<th>Table 01. Hypotheses Testing</th>
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<td>Beta</td>
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<td>Direct Path</td>
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<td>EC -&gt; PERF (H2)</td>
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<td>HCM -&gt; EC (H3)</td>
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<td>HCM -&gt; PERF (H1)</td>
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<td>Mediation Effect</td>
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<tr>
<td>HCM -&gt; EC -&gt; PERF (H4)</td>
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<td>Total Effect</td>
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Reading Figure 1, Figure 2 and Table 1, it is discerned that R square value of 0.315 (See figure 2) signifies that, in the model, exogenous latent variables, involving HCM and employee creativity explain 32% of the variance in the endogenous latent variable (i.e. firm performance). With beta value of 0.471 at significant level 0.05, it was established that the outcome of this research supports the established empirical reports on employee creativity is capable of enhancing firm performance positively. The result ($\beta = 0.323; t = 2.269; p< 0.05$) indicate a positive effect of HCM on employee creativity, but the result ($\beta = 0.203, t=1.541, p> 0.05$) indicate non-significant relationship between HCM and firm performance.

With regards to testing of mediation effect, Preacher and Hayes (2004 & 2008) established analysis of mediation procedure referred to as bootstrapping was adopted. The relationship from HCM to performance is somewhat strong (0.203) and statistically non-significant ($t = 1.541; p > 0.05$). The indirect effect (HCM -> EC -> PERF) [$\beta = 0.152; t = 2.406; p< 0.05$] is significant, and the 95% confidence intervals does not include zero. Thus, it could be asserted that employee creativity fully mediates the HCM-performance relationship. To further substantiate the mediation testing, the product of the direct effect and the indirect effect was computed (i.e., $0.203 \times 0.152 = 0.031$). Hence, employee creativity represents indirect-only mediation of the relationship from HCM to performance. This indicates the best-case scenario as this finding suggests that employee creativity fully complies with the hypothesized theoretical framework (Hair et al., 2017).

Moreover, going by the suggestion of Cohen (1988) and Hair et al., (2013), the result gotten from the evaluation of effect size shows that firm performance is explained by employee creativity and HCM with effect size ($\Omega^2$) of 0.297 and 0.057 respectively, indicating that employee creativity has medium effect size on firm performance while HCM has small effect size on firm production. Besides, Fornell and Cha (1994) revealed the value of cross-validation redundancy (CVR) at 0.188 and this study used the model since it has adequate predictive relevance.

6.4. Discussion

All the hypotheses are supported except that the finding regarding the direct path between HCM and firm performance signifies that HCM could not significantly influence firm performance. This finding indicates that when the result does not match the expectation, there may be a need for an explanation based on theoretical/conceptual considerations (Hair et al., 2017). This also signifies that a systematic influence (i.e., a mediator) has not been accounted for in the model, because an estimated cause-effect relationship between HCM and performance may not be the “true” effect. When the possible mediation is theoretically taken into account and also empirically tested can the nature of the cause-effect relationship be fully and accurately understood. Thus, highlighting the importance of inclusion of mediator in a research model by Hair et al., (2017) is necessary.

Drawing upon Hair et al., (2014) and Hadi, Abdullah and Sentosa’s (2016) method of analysis of mediation, the result of the current study implies that HCM’s effect on firm performance is explained by raising the level of employee creativity. This result offers a more accurate and precise finding by indicating that through employee creativity, HR architectures/HCM could enhance Malaysian firms’ financial performance.

Moreover, it could be emphasized that HCM, an embodiment of ability/skills-enhancing, motivation-enhancing, and opportunity-enhancing HR architectures, would enhance the empowerment of
workers through the separate application of talent and time to motivate workers, enhance creativity, and impose the behavioural bolts and nuts on the workforce to effectively establish the organizational achievement. HR architectures/HCM presented motivation, opportunities, and the know-how to participate in creativity behaviours. HR architectures as selective hiring and training that concentrated on developing the creative problem-solving skill to enhance employees’ right to create alternative solutions such as the relevant creativity skills and establish the knowledge of product and skills for customer care service like domain skills that are essential for the organization creativity. Workers’ creativity according to Martinaityte (2014) can be stimulated through achievement appraisal and creativity-oriented compensation.

Given the present-day deepened stride of change in which organizations, contending for customers and clients, have reached a global imperative to entrench creativity and innovation, and given the fact that customers and clients are demanding more for less and the best way, a micro-level HCM/HR architectures can lead to meso-level individual creativity that induce creative situation bordering on domain-relevant skills, creativity-relevant skills and task motivation (Amabile, 1983). Produce innovative outcomes which would enhance the organizational chance to remain competitive and perform better (Shalley & Gilson, 2004), and in turn, metamorphosed to improved financial performance.

Thus, the findings of this study emphasize and confirm the findings of the extant HRM research literature, which signify that AMO-enhancing HCM can positively influence firm performance by enhancing and raising the level of employee creativity.

7. Conclusion

Borne out of the importance of accomplishing higher performance, delivering ‘added value’ services or producing ‘added value’ products, and enhancing economic development, this study was designed to examine the effect of HCM on firm performance, highlighting the mediating effect of employee creativity on HCM-Performance nexus. The tested hypotheses revealed the mediating effects of the workers’ creativity on HCM and company production to indicate that HCM focuses on the growth of creative problem-solving skills to improve employees’ ability to establish alternative solution, product knowledge, and customer service skill that are essential to the organizational creativity. Therefore, this study has broadened the scope of the established business theories and facilitates concerned with the assessment of how the existence of a particular nexus exogenous and endogenous variables can enhance business research designs to be accurate and precise findings.

However, the non-significant relationship between HCM and firm performance highlights the fact that HRM-performance relationship is contingent on organizational factors or environmental factors, because the environment within which a firm operates has influence on firm’s strategies and policies, and it consequently impacts the application of HR practices and its attendant effect on firm performance (Teo, Le Clerc, & Galang, 2011). Therefore, future research should endeavor to investigate the boundary condition in HPWPs-performance nexus, as this will yield thoughtful implications to research and offer a deeper perspective on what can represent generalizable findings and commonly-held views in SHRM research field, and thus enrich the theories (Goldsby, Knemeyer, Miller, & Wallenburg, 2013).
Overall, this study contributed in different ways to the theoretical and managerial aspects as it assesses the mediating effects of workers’ creativity in HCM-performance link. The outcome of this research is a useful guide to policymakers and stakeholders in various firms and organizations on how they can boost the performances of their firms to achieve organizational success.

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