Chapter 8

STRATEGIC HRM MOVING FORWARD: WHAT CAN WE LEARN FROM MICRO PERSPECTIVES?

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INTRODUCTION

In the past few decades, research in strategic human resource management (HRM) has been widely conducted at the organizational level to explore why, when, and how bundles of HR practices influence organizational performance. In order to explain this “black box” between HRM and organizational performance, scholars have drawn upon theories from different perspectives such as the resource-based view (RBV) of the firm, transaction cost economics, the behavioral perspective from strategic HRM literature, and institutional theory (Wright & McMahan, 1992). A considerable number of empirical studies have demonstrated that bundles of HR practices or HR systems are positively associated with different types of organizational performance (e.g., collective employee performance, operational performance, and financial performance) across different industries (e.g., manufacturing industry and service industry) in different countries (Combs, Liu, Hall, & Ketchen, 2006).

Despite the theoretical approaches and substantial evidence of the impact of HR systems on organizational performance, scholars have recently argued that strategic HRM researchers have placed priority on the managerial perspective of the influence of HR systems on relevant outcomes and, implicitly, often
assumed that individual employees are aware of these systems and perceive the
systems as expected by management (Nishii & Wright, 2008). To the extent
that this assumption is prevalent, prior research neglects the possibility that
employees may play an active role in perceiving and interpreting HR practices
designed by organizations, and that their perceptions and interpretations, in
turn, affect their work-related attitudinal and behavioral reactions and respond
in very predictable ways (Nishii, Lepak, & Schneider, 2008). Given this possi-
bility, scholars have recently called for more attention to the role of individual
employees in understanding the influence mechanisms of HR systems (Butts,
DeJoy, Schaffer, Wilson, & Vandenberg, 2009; Kehoe & Wright, in press; Liao,
Toya, Lepak, & Hong, 2009).

The focus on individual reactions to HR systems has also been bolstered
by the burgeoning multilevel research (Aumann & Ostroff, 2006; Klein &
Kozlowski, 2000; Ostroff & Bowen, 2000) in which the possibility of top-down
process and bottom-up process are explicitly considered. With a top-down pro-
cess, the relationship between HR practices and relevant outcomes is based on
the notion that organizations adopt HR practices to influence individual em-
ployees’ human capital and attitudes. In contrast, with a bottom-up approach
the impact of HR practices on outcomes is based on individual responses to
HR practices that may be aggregated to collective outcomes through emergent
processes, which in turn can have an impact on organizational performance
e.g., Ployhart & Moliterno, 2011). Compared to previous research that fo-
cused primarily on the organizational level analysis, this multilevel perspective
in strategic HRM simultaneously considers the organizational influence on in-
dividual reactions and the emergence of individual outcomes to the group and
organizational level. As a result, this perspective provides a richer approach to
explore the relationship between HR systems and organizational performance
(Mossholder, Richardson, & Settoon, 2011; Nishii, Lepak, & Schneider, 2008;
Ployhart & Moliterno, 2011).

Building on this emerging stream of research, the purpose of this chapter is to
incorporate several traditional micro theories from the organizational behavior
literature and the Industrial/Organizational psychology literature into strategic
HRM research. In so doing, we do not intend to provide a comprehensive
review of all work that has been undertaken over the past three decades (see a
review of Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009). Instead,
we have opted to highlight particular examples of themes or trends in the
strategic HRM research arena, with a view to providing directions for future
research. Rather than focusing attention on what has been accomplished, our
orientation is more in terms of looking ahead to several areas of research that
are warranted to advance our knowledge of how HR systems impact relevant
individual, collective, and organizational outcomes.

In focusing on how micro theories can help understand the mediating mecha-
nisms of HR systems on organizational outcomes, we propose a general mul-
tilevel framework of the influence of HR systems on collective performance.
Based on this model, the chapter will be organized as follows. First, we introduce the multilevel model in which HR systems affect employees’ perception and interpretation, which in turn impact their reactions to HR systems, which in turn create collective outcomes through emergence process. Second, we briefly introduce several micro theories and explain how these theories can help understand the different phases of the link between HR systems and organizational performance. Finally, we consider the implications for future research in strategic HRM.

**LINKING HR SYSTEMS AND ORGANIZATIONAL PERFORMANCE: A MULTILEVEL FRAMEWORK**

Many theoretical perspectives have been advanced to explain the impact of HRM on organizational outcomes (e.g., see reviews in Boxall & Macky, 2009; Jackson & Schuler, 1995; Wright & McMahan, 1992). Among these perspectives, the RBV and the behavioral perspective have garnered considerable attention within the strategic HRM research (Jackson & Schuler, 1995; Jackson, Schuler, & Rivero, 1989; Wright, Dunford, & Snell, 2001). Focusing on the attributes of various resources within organizations, the RBV helps explain why employees may serve as potential sustainable competitive advantage for an organization (Lado & Wilson, 1994; Wright, McMahan, & McWilliams, 1994). By articulating that HR systems may impact competitiveness through the development and retention of valuable and unique human and social capital, the RBV provides a strong conceptual backdrop why a focus on strategically managing employees is an important and potentially essential endeavor. Interestingly, although the RBV is invoked to provide a lens for understanding why HR is critical for competitiveness, it has seldom been adopted to illuminate the mechanisms by which the relationships between HR systems and organizational performance occur. From a different approach, the behavioral perspective within the strategic HRM domain focuses on *how* HRM contributes to organizational effectiveness. The essence of the behavioral perspective is that HR systems affect organizational performance by eliciting and controlling employee role behaviors that are particularly instrumental for different circumstances (Jackson, Schuler, & Carlos Rivero, 1989).

Building on these perspectives, researchers have proposed several theoretical models of the mediating process of HR systems-organizational outcomes. For example, Dyer and Reeves (1995) provided a typology of performance for strategic HRM, suggesting that HR practices impact on HR outcomes (e.g., collective human capital, employee motivation and performance), which then impact on operational outcomes (e.g., productivity, quality, service, safety, innovation) and financial outcomes (e.g., profitability, return on asset, return on equity). Guest (1997) posited that HRM practices affect employee skills and abilities, effort and motivation, and role structure and perception,
which in turn lead to behavioral outcomes, which then impact on operational outcomes and financial outcomes. Similarly, Becker and Huselid (1998) and Delery and Shaw (2001) proposed that HR systems influence employee skills, motivation, and job design and work structures, which in turn impact on operating performance, financial performance, and market value. While these frameworks provide insights into the potential path between HR systems and organizational outcomes, because these models were delineated primarily at the organizational level, several limitations have been pointed out by the subsequent scholars.

First, studying HR systems at the organizational level may overlook employees' active role in perceiving and interpreting HR practices. Focusing on HR systems at the organizational level implicitly assumes that all employees have similar perceptions of the HR systems implemented in the organization. However, HR practices vary across job groups within the organization (Lepak & Snell, 1999, 2002) and employees have different interpretations of the HRM practices implemented in their organization (Liao et al., 2009; Nishii, Lepak, & Schneider, 2008). Indeed, Nishii and Wright (2008) suggested that employees' perceptions of HR systems can be influenced by their values, personality, and other individual difference variables. They also proposed a process model of strategic HRM in which the influence of intended HR practices on organizational performance is dependent on the degree to which those intended HR practices are implemented perfectly in organizations and the extent to which the actual HR practices are perceived by employees as employers expect. It is employees' reaction of their perceptions of HR practices, not just their exposure to them, that further leads to organizational performance.

Second, several researchers have directed attention to how organizational-level HR systems influence individual human capital (e.g., knowledge, skills, and abilities), and motivation and how these individual variables mediate the impact of HR systems on individual attitudes, behavior, and performance (e.g., Liao et al., 2009). From this perspective, it is these individual attitudes, behaviors, and performance that, when aggregated, drive organizational performance (Lepak, Liao, Chung, & Harden, 2006; Messersmith, Patel, & Lepak, in press; Ostroff & Bowen, 2000; Takeuchi, Chen, & Lepak, 2009). Taken together, these studies suggest that the effect of HR systems on organizational performance is mediated by employees' perceptions of and their reactions to those systems.

As shown in Figure 8.1, we organize the chapter by proposing a three-level conceptual framework linking HR systems and organizational performance. As observed earlier, this model combines the process models from the behavioral perspective of strategic HRM (e.g., Becker & Huselid, 1998; Delery & Shaw, 2001; Guest, 1997) as well as multilevel considerations (e.g., Lepak et al., 2006; Nishii & Wright, 2008; Ostroff & Bowen, 2000). On the left side of the model, there are three levels of HR systems: organizational level, job group level, and individual level. At the organizational level, HR systems
refer to a broad pattern of HR policies and practices that may be applied to
different groups or types of employees. As organizations may use different
practices to manage different types of employees, job group-level HR systems
are included to reflect those practices that are specific for certain job group
of employees (e.g., contact service workers, research and development work-
ers, manufacturing workers, or managers). Individually perceived HR systems
indicate employees’ perception and interpretations of HR systems in the work-
place, including both organizational-level HR systems and job group-level HR
systems. On the right-hand side of this model are three categories of organi-
zational performance: HR outcomes (e.g., employee performance, turnover,
and absenteeism), operational outcomes (e.g., productivity, quality, innova-
tion, and service), and financial outcomes (e.g., profitability). In the middle
of the model are individual reactions resulting from employees’ perceptions
of HR systems that are aggregated to create job group-level outcomes which
further form the basis of organizational-level HR performance. This concep-
tual framework will drive our discussions concerning the application of micro
theories in strategic HRM research in the following sections.

APPLYING MICRO THEORIES TO STRATEGIC
HRM RESEARCH

Although there is a long list of more micro-oriented theoretical perspectives
that would probably provide valuable insights into understanding how HR sys-
tems impact organizational outcomes, we focus on two areas of research. First,
we explicitly focus on theoretical perspectives that might prove particularly insightful for explaining variability in how HR systems operate. Macro HR systems scholars have often focused on direct effects between organizational-level measures of HR systems and organizational outcomes. However, a key to understanding how, why, and when HR systems are optimally effective requires consideration of individual level factors. Why do some people respond as expected to the introduction of HR interventions while others do not? Why do employees vary in how strongly they respond? Theoretical perspectives that are able to shed light on these questions are critical to help us understand more clearly how HR systems operate within particular organizations.

Second, we explicitly focus on the notion of group level HR initiatives. Recognizing that HR systems are modified within organizations based on different types of contributions or different employee groups (Lepak & Snell, 1999; Delery & Shaw, 2001), we explore the potential insights that the groups literature might provide for understanding how HR systems operate in group settings.

**Interpretive Perspectives**

In this section we review theory and research that has examined the ways in which individual perceptions and interpretations might influence how employees react to particular HR systems. In particular, we focus on: social exchange theory, psychological contract theory, equity theory/justice theory, and attribution theory, with a view to elucidating future research directions.

Social exchange theory (SET) is one of the most influential theoretical perspectives for understanding employee behaviors in the workplace (Coyle-Shapiro & Shore, 2007; Cropanzano & Mitchell, 2005; Lepak & Boswell, in press). It emphasizes that the interactions between two interdependent parties generates obligations of each party toward the other and impacts the quality of the relationship between the two parties. Although SET has derived from multiple disciplines (Cropanzano & Mitchell, 2005), most studies adopting SET within the field of HRM are based on the rule or norm of reciprocity (Gouldner, 1960) and Blau’s (1964) work of social exchange relationship. The rule of reciprocity indicates that if one party supplies a benefit, the receiving party should respond in kind. Further, the abidance of the reciprocity rule will improve the quality of the relationship between the two parties, which in turn leads to beneficial consequences.

Within the strategic HRM research, scholars typically view the social exchange relationship between employees and their organizations as a mediator between organizations’ investment in HRM and employee outcomes, which in turn drive the key operational and financial outcomes of organizations. The rationale for the mediating role of social exchange relationships is that when organizations value the contribution of employees and care about the well-being of employees by designing HR practices or systems, employees reciprocate by exerting positive work attitudes and effective work behavior.
Two variables that have received extensive focus related to the social exchange relationships in HRM research are perceived organizational support (POS) and its direct consequence – organizational commitment. Prior research has examined the mediating roles of these variables at both individual level and organizational level. For example, at the individual level, Wayne, Shore, Bommer, and Tetrick (2002) found that HR practices such as employee involvement, fair pay, and recognition are positively related to POS which was also related to organizational commitment and organizational citizenship behavior (OCB). Similarly, Allen, Shore, and Griffeth (2003) reported that employee perceived participation, rewards, and growth opportunity positively influenced POS and organizational commitment, which in turn impacted on individual voluntary turnover. By examining the cross-level effect of organizational-level HR systems, Liao and colleagues (2009) demonstrated that individual perceived HR systems mediated the higher-level influence of organizational-level HR systems on individual POS, which in turn affected individual-level service performance.

At the organizational level, researchers have maintained that employees within an organization or work unit share their perceptions of the exchange relationship with organizations, resulting in a collective exchange relationship. In keeping with the logic of this approach, scholars have examined the mediating effect of collective exchange relationships. For example, Takeuchi, Lepak, Wang, and Takeuchi (2007) directly examined the mediating role of social exchange relationships between high performance work systems (HPWS) and establishment performance in a study that sampled 76 business establishments from 56 Japanese companies. Using the same dataset, Takeuchi and colleagues (2009) found that aggregated POS at the establishment level, which was called concern for employee climate, mediated the cross-level influence of HPWS on individual-level affective commitment and job satisfaction. By focusing only on the organizational level of analysis, Gong, Law, Chang, and Xin (2009) demonstrated that HR systems designed to improve employee performance were positively related to middle managers’ collective affective commitment, which in turn was associated with improved organizational performance. In a study of 133 Chinese service stores Chuang and Liao (2010) found that concern for employee climate, operationalized as collective POS, mediated the positive impact of HPWS on service performance and market performance.

As the above discussion suggests, previous research incorporating SET logic into HRM research has made significant contributions to understanding the mediating mechanisms between HR systems and both individual and organizational outcomes. Despite this progress, we believe that there remain several clear potential contributions to our knowledge of the relationship between HR and organizational outcomes by further incorporating SET into future studies.

First, previous HRM researchers have not explicitly investigated what exactly is exchanged in the relationship between organizations and employees that is facilitated through HR systems. Researchers have suggested that there are a variety of types of resources in the exchange relationship and that
different types of resources are likely to be exchanged in different ways (Foa & Foa, 1974). For example, tangible and monetary resources (e.g., compensation and rewards) may be more likely to be exchanged in a short-term pattern whereas intangible and non-monetary resources (e.g., promotion opportunities and caring) may be more likely to be exchanged in the long term. Interestingly, organizations can provide both categories of resources to employees by using HR practices, such as offering competitive salary through compensation practices and providing internal promotion opportunities via job design. By focusing on POS and commitment, researchers can capture employees’ general evaluation of their relationships with organizations but these investigations do not identify how specific HR practices or systems influence different resources the organizations provide for employees, which may generate different types of exchange relationships between employees and organizations. As a preliminary exploration, Gong, Law, Chang, and Xin (2009) found that performance-oriented HR systems composed of selective hiring, extensive training, career planning, performance appraisal for pay and promotion purpose, and participation in decision making were positively related to collective affective commitment but not to continuance commitment. In contrast, their results indicated that maintenance-oriented HR systems including job security and reduction of status distinction were positively associated with collective continuance commitment but not with affective commitment. Inspired by this study, we call for further research to explore what resources organizations provide for employees by focusing on different HR practices and how these different resources may foster different sorts of exchange relationships between employees and organizations, in order to elucidate how variations in the exchange affect subsequent employee and organizational outcomes. In short, different combinations of HR practices convey different terms of social exchange and research is needed to delve into the intricacies of these exchanges.

Second, future strategic HRM research may explore causality in the exchange relationships between employees and organizations. Previous research implicitly assumes that exchange relationships between employees and organizations begin when organizations invest in (and thus induce) their employees and that when employees perceive such support they will reciprocate with increased levels of commitment, positive behavior, and performance (e.g., Takeuchi et al., 2007; Takeuchi, Chen, & Lepak, 2009). However, it is possible that employees may take the first step to building close relationship with their organization by exhibiting increased commitment and exerting additional effort in advance of enhanced support on the part of the organization. In response, organizations may implement specific HR practices to maintain the positive exchange relationship induced by their employees. In short, while organizations often implement HR practices in an attempt to establish the exchange relationship, it is important to remember that this is an exchange between two parties that may be shaped proactively by either (Lepak & Boswell, in press). Therefore, in addition to previous findings of HR’s influence on
employees in exchange relationships, it is meaningful to examine how employee intended relationships with their organizations impact on the design and implementation of HR systems in organizations and explore how the exchange relationships and the design of HR systems develop over time.

Third, we encourage future research to consider other types or targets of exchange relationships in strategic HRM research. Previous research suggests that employees not only have exchange relationship with organizations as a whole (e.g., POS), but also have exchange relationships with leaders (e.g., leader-member exchange (LMX), Graen & Uhl-Bien, 1995; Wayne, Shore, & Liden, 1997) and coworkers within work teams (e.g., team-member exchange (TMX), or perceived team support (PTS), Bishop, Scott, & Burroughs, 2000; Seers, Petty, & Cashman, 1995). Researchers have suggested that different types of exchange relationships have different antecedents and consequences. For example, at the individual level of analysis, researchers found that promotions and organizational tenure significantly predicted POS, which in turn impacted on commitment, intention to leave, and OCB toward organizations; while supervisor-contingent rewards and dyad tenure were significantly related to LMX, which in turn affected OCB toward leaders and performance rating by leaders (e.g., Masterson, Lewis, Goldman, & Taylor, 2000; Wayne, Shore, & Liden, 1997; Wayne et al., 2002). However, macro HRM researchers do not typically consider the LTX, TMX, and PTS relationships that are usually examined as individual-level variables. This omission provides two promising approaches for strategic HRM research. Initially, researchers might examine if, and in what ways, HR practices impact on LTX, TMX, and PTS. In addition, it is worth exploring whether employees’ exchange relationships with their leaders and teams moderate the relationships between HR systems and employee outcomes. It is possible that employees with high-quality relationship with their leaders may be more likely to hold more positive perceptions of HR practices and thus have more favorable reactions of HR practices compared with their counterparts that have low-quality relationships with leaders.

Fourth, prior research examining POS and organizational commitment at the collective level has assumed that employees within a given organization evaluate their relationships with their organization in similar ways. However, individuals may differ in the degree they endorse reciprocity (e.g., Eisenberger, Huntington, Hutchison, & Sowa, 1986). Those high in an exchange orientation may be more sensitive to organizations’ support through HR practices and more likely to feel obligated to pay back the organization. However, those low in an exchange orientation may be less likely to be influenced by the HR practices designed to provide support and resources for employees. Hence, it would be fruitful to examine the moderating role of exchange orientation in the relationship between HRM and POS and commitment at both the individual level and organizational level.

Psychological contract theory is closely related to the broader notion of social exchange, that is, research focusing on psychological contracts. The
psychological contract in employment refers to the system of beliefs that an individual and his or her employer hold regarding the terms of their exchange agreement (Rousseau, 1995). The psychological contract has been defined as “an individual’s beliefs, shaped by the organization, regarding terms of an exchange agreement between individuals and their organizations” (Rousseau, 1995: 9). The beliefs refer to employee perceptions of the explicit and implicit promises (Robinson, Kraatz, & Rousseau, 1994; Conway & Briner, 2005, 2009) regarding the exchange of employee contributions (e.g., effort, ability, loyalty) for organizational inducements (e.g., pay, promotion, and security).

Rousseau (1995) defined two types of exchange agreements between employers and employees: transactional and relational contracts. Transactional contracts are short term, have a purely economic or materialistic focus, and entail limited involvement by both parties. Relational contracts are long term and broad, as they are not restricted to purely economic exchange but also include terms for loyalty in exchange for security or growth in an organization (Morrison & Robinson, 1997; Rousseau & McLean Parks, 1993).

Although workers and employers often differ in their perceptions and interpretations regarding the terms of employments (Coyle-Shapiro & Kessler, 2000, 2002; Porter, Pearce, Tripoli, & Lewis, 1998), some degree of mutuality or shared understanding is essential for the parties to achieve their interdependent goals (Rousseau, 1995). Mutuality exists, for example, where both employee and employer agree that the employer has committed to providing fair compensation. Failure to reach an objective agreement can give rise to a psychological contract breach (Morrison & Robinson, 1997; Rousseau, 1995) – “the cognition that one’s organization has failed to meet one or more obligations within one’s psychological contract in a manner commensurate with one’s contributions” (Morrison & Robinson, 1997, p. 230).

Morrison and Robinson (1997) discussed two root causes of perceived psychological contract breach: reneging and incongruence. Reneging is when agent(s) of the organization recognize that an obligation exists but knowingly fail to meet that obligation. An example would be when a recruiter or manager made an explicit promise and then failed to uphold that promise. Incongruence is when the employee and the organizational agent(s) have different understandings about whether a given obligation exists or about the nature of a given obligation. An example is if an employee misinterprets a statement made during the recruitment process. Either reneging or incongruence may lead to the perception of a contract breach by creating a discrepancy of what he or she has actually experienced. Attributions or judgments about why the contract breach occurred will also play a role in the interpretation process. Regardless of the actual conditions leading to a perceived breach (i.e., incongruence or reneging), employees will experience more intense negative emotions if they attribute it to purposeful reneging. When faced with unfavorable or unexpected outcomes, people tend to search for explanations that will enable them to assign responsibility (Wong & Weiner, 1981).
Another important component of the psychological contract interpretation process is the worker’s assessment of how fairly he or she was treated while forming perceptions of the contract breach. In particular, Morrison and Robinson (1997) argued that the interpretation of a psychological contract breach will be heavily influenced by perceived interactional fairness (Bies & Moag, 1986), or employees’ beliefs about interpersonal treatment that they experienced (e.g. respect, consideration, and adequate explanation). Unfair interpersonal treatment signals to an employee that he or she is not valued or respected in the relationship (Brockner & Wiesenfeld, 1996), which intensifies feelings of anger and betrayal.

The importance of perceptions of breach is that it provides a clear meditational explanation for why employees may or may not respond to HR practices as desired by organizations. Indeed, research has shown a negative relationship between perceived psychological contract breach and desirable outcomes such as job satisfaction, organizational commitment, and performance (Bunderson, 2001; Robinson & Morrison, 2000). Perceptions of breach have also been found to reduce employees’ trust, intentions to remain with the organization, and in-role and extra-role performance (Robinson, 1996; Robinson, Kraatz, & Rousseau, 1994; Robinson & Morrison, 1995).

Future research in strategic HRM would benefit from great incorporation of psychological contract considerations. For example, the strategic HRM literature highlights a number of HR systems consisting of different HR practices that are argued to achieve a range of business objectives. The goal of control HR systems, for example, is to reduce costs or improve operational efficiency and consist of narrowly defined jobs, lower skill demands, and minimal training that may result in a transactional employment relationship (Arthur, 1992, 1994; Tsui, Pearce, Porter, & Tripoli, 1997). The goal of high-commitment HR systems, in contrast, is to motivate employees to identify with organizational goals (Whitener, 2001). They consist of HR practices such as highly selective staffing, intensive training, and a high level of compensation, which result in a relational employment relationship (Tsui et al., 1997).

Although they were developed in separate research streams, these two HR systems have direct parallels in the psychological contract literature. On the one hand, control oriented HR systems share many properties with transactional relationships. Commitment oriented HR systems, on the other hand, share properties with relational contract perceptions (Lepak & Snell, 1999; Tsui et al. 1997).

From a strategic HRM point of view, organizations signal the desire to establish either transactional oriented and relational oriented HR systems for strategic reasons – to align employee contributions with the strategic goals they are trying to achieve. Given the variance in the level of investments in various employment relationships, future research could shed light on how employee performance might be influenced under these different employment arrangements, given the strategic objectives of the organizations.
In addition to understanding how organizations use different HR systems to achieve different strategic outcomes, it is critical to understand the importance of effectively communicating to employees the rationale for these decisions. Rousseau (1989) argued that the intensity of how an individual responds to psychological contract breach “is directly attributable not only to unmet expectations of specific rewards or benefits, but also to more general beliefs about respect of persons, codes of conduct and other patterns of behavior associated with relationships involving trust” (p. 129). It is possible that while organizations may explain differing employment arrangements and psychological contract intentions through realistic job previews and hold up their end of the employment contract to avoid a contract breach, employees may still perceive a contract violation or breach.

As the perceptions of met and unmet expectations reside in the minds of employees, it is important to understand how their considerations might influence the alignment between strategic objectives and the effectiveness of HR systems in reaching those objectives. There may be other factors contributing to employee’s perceptions of psychological contract breach beyond how they are managed. A substantial body of research finds that the value or importance of work outcomes varies across individuals, which can impact on their psychological contracts (Bartol & Locke, 2000). Just as organizations’ strategic objectives impact on employment contracts, employee’s work preferences may also impact their perceptions of psychological contract breach. Individuals differ on the type of work they prefer and these preferences may differentially influence the type of employment relationship they seek with organizations. At a basic level, some individuals may simply perform better in transactional employment contracts if there are work outcomes that they value. For example, some individuals may accept a transactional employment contract if it provides them the means to achieve flexibility in balancing work and personal objectives (Van Dyne & Ang, 1998), or an opportunity to earn more money (Ellingson, Gruys, & Sackett, 1998), or develop new skills that will help them to be more marketable (Albrecht, 1998). Though there may be agreement as to the promises made in the employment contract congruence in between HR systems and employee preferences may also be necessary to ensure performance outcomes. The use of fair practices demonstrates a supervisor’s respect for the rights and dignity of workers. This demonstrated respect indicates that an authority is devoted to the principles of procedurally fair treatment, thus resulting in enhanced trust in the employment relationship (Lind & Tyler, 1988), which is an important part of psychological contract fulfillment (Rousseau, 1995).

Other employees, however, may prefer the long-term developmental orientation of a relational exchange and, even if an organization is entirely consistent in aligning its HR practices with the employment relationship, there may be dissatisfaction and frustration with the lack of long-term orientations. Consistently conveying a particular psychological contract does not require
that the employees exposed to that contract are happy with their employment relationship.

An additional issue that might be informed by the psychological contract research is the potential disparity that exists between intended and experienced HR practices. For example, Liao and colleagues (2009) explored the impact of a set of HRM practices and desired individual outcomes such as human capital, psychological empowerment and perceived organizational support. Interestingly, they found different effects with the outcomes comparing employees’ experienced work practices from management intended work practices. Not surprisingly, employee perceptions of HR practices was a stronger factor for psychological empowerment than was ratings of HR practices in use as reported by managers. This study highlights the fact that employees’ perceptions of HR practices, perceptions that are closely linked with psychological contract perceptions, impact on their motivation. The findings provide additional evidence of the potential value of the micro perspective as a basis for illuminating the processes by which HR systems impact on employees’ motivations and wider behaviors in the workplace.

A further issue to consider in future strategic HRM research concerns the alignment of individual interests in type of psychological contract that employees desire and the one conveyed and reinforced by the organization. Strategic HRM researchers have explored alignment between strategic objectives and HR systems as well as HR systems and employment relationships. Given that the effectiveness of HR systems is dependent on the employees exposed to those systems, it would be fruitful to consider the alignment between the psychological contract terms conveyed by HR systems and employee preferences for psychological contracts. Examining potential inconsistencies in what is conveyed by the HR systems in use and what is desired by employees may provide insights into understanding conditions of met and unmet expectations and help understand variance in the impact and effectiveness of HR systems in organizations.

Equity theory research is closely related to perceptions of met expectations and possible perceptions of breach. Much equity theory research has derived from initial work conducted by Adams (1965), who used a social exchange theory framework to evaluate fairness, which was used to help define distributive justice. According to Adams, what people were concerned about was not the absolute level of outcomes per se but whether those outcomes were perceived as fair. Adams suggested that one way to determine whether an outcome was fair was to calculate the ratio of one’s outcomes (e.g., compensation, promotions, development) to one’s inputs (e.g., effort, time, education, intelligence, and experience) and then compare that ratio with the ratio of inputs to outcomes of a comparison other. The outcomes of comparison others (relative to inputs) is thus an important source of evidence used by individuals when forming justice judgments (Kulik & Ambrose, 1992). Dissimilar ratios lead to perceptions of inequity.
Although equity theory and psychological contract theory both help to explain the mediating factors between HR systems and performance, it is insightful to understand the different processes postulated by each theory as the underlying basis for the effects observed. Whereas equity is evaluated by considering ratios of inputs and outcomes, breach of psychological contract is determined by comparing inputs and outcomes relative to what was promised. An employee’s perception of past promises plays a prominent role in the determination of contract breach. In contrast, evaluations of equity include all job-relevant inputs and outputs, regardless of perceived promises (Morrison & Robinson, 1997).

There is also a difference with respect to the nature and role of referent others. In equity theory, the referent other is not necessarily in a direct exchange relationship with the focal employee. Rather, the referent is someone in a similar exchange relationship with the organization, whereas in the determination of whether a psychological contact breach occurred, the only relevant parties are the employee and the organization (Morrison & Robinson, 1997). Consequently, it does not matter what others have received from the organization; an employee may perceive a contract breach even if co-workers have been treated similarly. It is also possible that an employee can have an input-outcome ratio that is much worse than co-workers‘, yet conclude that the psychological contract has been upheld.

A key motivational component of equity theory is related to organizational justice. Justice in organizational settings can be described as focusing on the antecedents and consequences of three types of subjective perceptions: (a) the fairness of outcome distributions, (b) the fairness of the procedure used to determine outcome distributions, and (c) the fairness and quality of the interpersonal treatment employees experience in the workplace. These forms of equity are typically referred to as distributive justice (Adams, 1965, Leventhal, 1980), procedural justice (Leventhal, 1980), and interactional justice (Bies & Moag, 1986).

Thibaut and Walker (1975) expanded the focus of justice beyond inputs and outcomes to include process, which became known as procedural justice. Leventhal (1980) can be credited for extending the notion of procedural justice into non-legal contexts such as organizational settings. Leventhal’s theory of procedural justice judgments focused on six criteria that a procedure should meet if it is to be perceived as fair. Procedures should (a) be applied consistently across people and across time, (b) be free from bias, for example, ensuring that a third party has no vested interest in a particular settlement, (c) ensure that accurate information is collected and used in making decisions, (d) have some mechanism to correct flawed or inaccurate decisions, (e) conform to personal or prevailing standards of ethics or morality, and (f) ensure that the opinions of various groups affected by the decision have been taken into account.

Bies and Moag (1986) focused attention on the importance of the quality of the interpersonal treatment people receive when procedures are implemented.
Interactional justice (Bies & Moag, 1986) is fostered when decision makers treat people with respect and sensitivity and explain the rationale for decisions. More recently, interactional justice has come to be seen as consisting of two specific types of interpersonal treatment (Greenberg, 1990). The first, labeled interpersonal justice reflects the degree to which people are treated with politeness, dignity, and respect by authorities or third parties involved in executing procedures or determining outcomes. The second, labeled informational justice, focuses on the explanations provided to people that convey information about why procedures were used in a certain way or why outcomes were distributed in a certain fashion.

While typically used to understand how individuals assess their own situation at work, equity theory can also be a useful lens to understand variability in HR system reactions. For example, individuals who experience an inequity while comparing their input-out ratios with their comparison others are less likely to be satisfied with their job and engage in organizational citizenship behaviors (Colquitt, Conlon, Wesson, Porter, & Ng 2001; Tyler & Smith, 1998), and are more likely to be aggressive and seek revenge (Aquino, Tripp, & Bies, 2001). Such responses to inequity seem to be a sort of reciprocation, such as that described by social exchange theory (Blau, 1964; Organ, 1988). The reactions to these inequities may cause tension and may motivate the person to try to reduce the inequity. Once a person perceives inequity, they have six options: (1) Change their inputs, for example, decrease or increase effort; (2) Change their outcomes, for example, request more money; (3) Distort how one perceives their inputs or themselves; (4) Distort how one perceives others; (5) Select a different referent; or (6) Leave or engage in withdrawal behaviors (Austin, 1977).

Workers experiencing inequity may consciously change their behavior or change their perceptions of inputs or outcomes to restore balance with their comparison people. Research also suggest that individuals are more likely to change behaviors when under rewarded (i.e., a smaller outcome to input ratio than others) rather than over rewarded (i.e., a larger outcome to input ratio than others) (Hegtvedt, 1990). In the short term, this may mean that employees alter their inputs through lower job performance to make the ratio of outcomes to inputs more equal to comparison others. This response is preferable, because workers have the most control over this part of the ratio and because this response is less psychologically damaging than other options (Adams, 1965; Schwarzwald, Koslowsky, & Shalit, 1992).

In the worst case scenario, individuals may leave the work setting to restore feelings of equity. Although leaving is one way of demonstrating low organizational attachment (Withey & Cooper, 1989), it may not be an option for everyone. When leaving is not an option, individuals may reduce organizational attachment by psychologically withdrawing from the organization resulting in behaviors such as absence (Rhodes & Steers, 1990) and attitudes such as reduced psychological commitment (Mowday, Steers, & Porter, 1979).
Consideration of equity issues could prove valuable to advance strategic HRM research. Interestingly, much of the strategic HRM literature incorporates issues regarding differentiation (Huselid & Becker, 2011; Lepak & Snell, 1999) with practices such as differential incentives and bonuses for differences in contributions and other forms of equity-based HR practices. What is interesting is that perceptions of equity exist in the mind of the individual, and while these inequalities, even if viewed as legitimate from the organizational point of view, may be viewed as detrimental from the individual point of view. When this happens, organizations may experience adverse reactions from individuals who perceive that their inputs and outputs differ significantly from expected when compared to organizational decision makers. If organizations cannot justify those differences to the employee’s satisfaction or cannot explain why the differences are reasonable, individual contributions may differ significantly from what the organization intended. It is plausible that organizations do exactly what the strategic HRM literature would suggest only to realize adverse outcomes from individuals with different perceptions. Research that examines the relative tradeoffs achieved through efficiencies and other relevant performance metrics potentially associated with differentiation relative to any potential adverse perceptions or reactions to perceptions of inequities would prove insightful given the recent shift in the macro HRM literature embracing an architectural perspective with a push toward differentiation.

Attribution theory While social exchange, psychological contract, and equity theory each provide insights into how individuals view their obligations toward their organization as well as how fairly they feel they are being treated, attribution theory provides a different lens to view how employees act in response to HR practices. Attribution theory, which was suggested by Heider (1958) and developed by Kelley (1972) and Weiner (1986), illustrates that people desire to understand the causes of others’ behaviors through a series of cognitive processes. According to Heider’s (1958) arguments, people explain one another’s behaviors via a series of attributions pertaining to the locus of causality and the extent to which the phenomena in question are believed to be controllable or uncontrollable. These attributions, in turn, influence employees’ cognitive and behavioral response to others’ behaviors (Kelley, 1973).

Although attribution theory was introduced to the Organizational Science in the late 1970s and early 1980s, little attention had been given to this theory by organizational scholars (Martinko, Douglas, & Harvey, 2006a, 2006b; Martinko, Harvey, & Dasborough, 2011). Recently, however, there are an increasing number of scholars that have shed light on the importance of attribution in predicting employees’ emotions, expectancies, and behaviors at work and higher level outcomes in HRM and OB fields (e.g., Bachrach, Bendoly, & Podsakoff, 2001; Nishii, Lepak, & Schneider, 2008). Specifically, studies have noted that attribution theory provides some explanations about employees organizational citizenship behavior (OCB) in the workplace, leader-member relationship (LMX), and effectiveness of individual HRM practices.
such as performance appraisal or feedback (e.g., Bachrach, Bendoly, & Podsakoff, 2001; Feldman, 1981; Jackson & LePine, 2003; Martinko, Harvey, & Dasborough, 2011).

Nishii and colleagues (2008) showed that attribution theory provides a strong conceptual basis for understanding how HR systems operate by focusing on employees’ attributions regarding their companies’ motives for using HR systems. They emphasized the importance of “employees’ attributions of why HRM practices exist” (p. 505) and categorized these attributions of managerial motivations for HR decisions into two broad categories: (1) quality enhancing – employee well-being orientation, and (2) cost reduction – exploiting employee orientation. Regardless of the manager’s actual motivation, employees held their own perceived attributions of their manager’s motivations for using HRM practices. The results of their study indicated that when the attribution was one of managerial focus on quality enhancement and employee well-being, the employees tended to have higher affective commitment and satisfaction. In contrast, when employees attributed their manager’s motivation for use of HRM practices to achieve cost reduction or exploit employees, the employees did not have positive attitudinal outcomes. In sum, this empirical study demonstrates that understanding the frame of mind of the employee is critical for fully understanding how they respond to organizational initiatives.

While attributions have not been a primary focus in the strategic HRM literature, it is one that is ripe for additional considerations. For example, what other types of perceived motivations might be held by employees and how do those perceptions impact on their reactions to HR systems? What is the relationship between attributions and perceptions of psychological contract violations and equity concerns? To what extent and in what ways do employees with more negative attributions jump to concerns about violation or breach quicker than employees with more positively held attributions? How might equity considerations be tempered by perceptions of managerial motivations?

It is also useful to think about how other factors might influence these attributions. For example, a subordinate who is high in LMX quality may attribute for HRM practices accurately through high quality communication (Barry & Crant, 2000). The level of trust in management would be an interesting antecedent that influences individual interpretation of HR attribution, as an individual who has trust in management tends to interpret management’s motives and behaviors positively (Korsgaard, Brodt, & Whitener, 2002).

**Strategic HRM at the Team-Level of Analysis**

Inspired by the multilevel research, strategic HRM scholars have recently proposed multilevel frameworks in which organizational-level HR systems can influence both psychological climate and organizational climate which in turn lead to individual outcomes and organizational performance (James, 1982; James, Demaree, & Wolf, 1984). Following the theoretical works that have
elaborated these ideas (e.g., Lepak et al., 2006; Mossholder, Richardson, & Settoon, 2011; Ostroff & Bowen, 2000), subsequent empirical research has examined how the organizational-level HR systems affect individual attitudes, behavior, and performance (e.g., Kehoe & Wright, in press; Liao et al., 2009; Snape & Redman, 2010; Takeuchi, Chen, & Lepak, 2009; Takeuchi & Way, 2010; Uen, Chien, & Yen, 2009; Wu & Chaturvedi, 2009). Very little effort, however, has been directed to incorporating the team level of analysis in strategic HRM research, which is a broad and flourishing area in organizational research (Mathieu, Maynard, Rapp, & Gilson, 2008).

We argue that a greater focus on the team level of analysis in strategic HRM research provides an opportunity to generate greater insights into how HR systems operate within organizations. First, in team-based organizations, teams serve as important work contexts for individual employees (Kozlowski & Bell, 2003). Organizations may not directly influence individual employees without affecting the team contexts. Compared with organizations, teams are more proximal to individual employees and thus have greater influence on individual-level outcomes (Mathieu & Chen, 2011). In this case, work teams may play an important role in mediating the influence of HR systems on individual outcomes. As a result, looking at HR systems for teams might provide an avenue that better reflects the realities of organizational life.

Second, although examining the influence of HR systems on individual outcomes is important, relatively little is known about how the individual outcomes link with organizational outcomes (Ployhart & Moliterno, 2011). Due to the bridging position of work teams between organizations and individuals, it is conceivable that individual outcomes may first influence team performance, which in turn translates to organizational performance through emergence processes. Therefore, considering teams in strategic HRM research can help understand how individual outcomes resulting from investments or inducements of HR systems can contribute to organizational effectiveness. Related, as a desirable management goal, team effectiveness has been widely examined in the team literature. Team scholars have endeavored to explore the impact of team leadership and team characteristics (e.g., task interdependence, team structure) on team effectiveness. However, more attention has been called for by the recent review of team literature to investigate the impact of contextual factors such as organizational-level HR systems on team processes and team performance (Mathieu et al., 2008).

Third, both strategic HRM research and team research have not yet made enough effort to explore the nature and function of HR systems at the team level. By focusing on HR systems only at the organizational level, prior strategic HRM research implicitly assumes that organizational-level HR systems have been implemented equally in all teams and there are no specific HR practices that are especially important for teamwork. It also assumes that throughout organizations (and across teams) employees receive the same practices. Yet, it is possible that there may be inconsistencies between organizational-level HR
initiatives and team-based HR systems perceived by employees. In essence, we have failed to explicitly recognize the role of team-based HR systems in affecting team process and outcomes and individual attitudes, behavior, and performance.

Finally, in the team literature, HR practices are generally described within the Input-Process-Output (IPO) framework of teamwork (Hackman, 1987) as a critical input to team effectiveness (Cohen & Bailey, 1997; Mathieu et al., 2008). Limited efforts have been made toward understanding how and why HR serves as an input of team processes and subsequent individual members’ attitudes and behaviors (for notable exceptions see Kirkman & Rosen, 1999; Mathieu, Gilson, & Ruddy, 2006; Tsui et al., 1997).

Team process is a multidimensional construct that captures team motivational process, cognitive process, and coordination (Kozlowski & Bell, 2003; Marks, Mathieu, & Zaccaro, 2001; Zaccaro, Rittman, & Marks, 2001). Given the issues outlined above, closer theoretical scrutiny is needed to detect how and why HR can impact on employee attitudes and behaviors through team processes. To this end, we explore the conceptual connection between HR practices and multiple team processes and encourage more research in the field in future. In particular, we focus on the link between HR systems and team motivational processes, team cognitive processes, and team coordination.

**HR and team motivational processes** How to motivate team members to work toward common goals and to improve team effectiveness is a central concern for both organizational practitioners and team researchers. Motivational theory predominantly targets the individual level, displaying a dearth of research aimed at exploring the mechanisms of team-level motivation (Kozlowski & Bell, 2003). As Zaccaro and colleagues (2008) indicated, role clarity and commitment to the team goals are two critical enabling conditions for enhancing team motivation. This is one particular area in which HR practices may prove essential for enhancing team motivation by providing such conditions.

First, HR practices related to job design and job evaluation may help team members to understand their role expectations and the process for how to do their work within teams. Individual team members with clear roles about their teamwork are more likely to generate a strong sense of team potency beliefs (Hu & Liden, 2011), a critical team motivational state (Campion, Medsker, & Higgs, 1993; Guzzo, Yost, Campbell, & Shea, 1993). Second, team training practices are seen as effective tools in increasing team members’ skills and knowledge in performing team tasks (Salas & Cannon-Bowers, 2001). Such HR practices not only influence individual members’ teamwork capabilities but also facilitate team coherence and integration, which improves team processes and also helps increase commitment to the team. Providing support to the positive value of HR practices on team motivation, Kirkman and Rosen (1999) found that team-based HR practices enhanced team members’ empowerment experiences – a key component of team
motivation. Likewise, Mathieu, Gilson, and Ruddy (2006) demonstrated that HR practices in the form of team training and feedback were significantly related to team empowerment.

**HR and team cognition processes** HR practices are expected to help the sense-making processes among team members, and facilitate the development of team mental models and collective performance processing (Zaccaro et al., 2008), both of which are crucial indicators of team cognition. Specifically, HR departments can facilitate teamwork by utilizing practices such as selection, training, performance evaluation, and compensation. For example, in work teams, members need to work interdependently on related tasks. In order to enhance the efficiency of teamwork, organizations can use staffing practices to ensure members have similar cognitive ability to perform tasks. As described in Schneider’s (1987) attraction-selection-attrition model, similar people are apt to be attracted to and selected into a given team. This similarity helps team members to interpret common events similarly and come to a common work decision easily, developing shared mental models. Furthermore, performance feedback practices aid team members to understand incorrect behaviors and insufficient performance, which enhance their capabilities to detect problems and solutions in the future. In line with role theory (Katz & Kahn, 1978), clear interpretation of their work roles allows individual members to know how decisions are made and what ways to solve problems in the future. This shared interpretation increases the development of more effective team mental models and collective performance processing. Likewise, team training programs inculcate in team members a clear interpretation of common goals, a correct way to understand environmental events, and an attitude to face team problems together (Moreland & Myaskovsky, 2000). As a consequence, team members are likely to generate shared understanding toward team goals, practices, and events, and cultivate an effective shared mental model (Huber & Lewis, 2010; Mathieu et al., 2008). However, in order to realize these goals, team-training programs need to be targeted at rather specific processes and outcomes. For example, in order to develop similar team-interaction mental models within teams, organizations need to train team members how to coordinate their actions. In addition, organizations can use cross-training to develop inter-positional knowledge with which team members can understand the roles of responsibilities of other members of the team (see a review of Mohammed, Ferzandi, & Hamilton, 2010).

**HR and team coordination** A key characteristic of teamwork lies in its nature of interdependence. Team coordination involves activities required to utilize the interdependence in tasks (Kozlowski & Bell, 2003). Based on the social psychology literature, an important obstacle for effective team coordination is social loafing (Latane, Williams, & Harkins, 1979), which results from a lack of individual contribution to the collective endeavor. Effective HR practices are able to reduce, if not eliminate, the generation of social loafers and free riders. For instance, clear job design denotes every member’s work responsibilities and
duties in the team and how their own work relates to the collective effectiveness 
(Sawyer, 1992; Hu & Liden, 2011). Performance evaluations let individual 
team members know how they perform in the team and how they can improve 
their work to contribute to the team goal accomplishment. In addition, team 
training cultivates good team players who know how to cooperate with others 
toward the common goals. Furthermore, how HR department reward team 
members’ work is critical for team coordination process. As Hackman (1987) 
indicated, reward systems that reinforce team members’ achievements are able 
to facilitate team synergy and reduce coordination loss. Hence, compensation 
based on team performance can enhance coordination within the team toward 
common goals (Tsui et al., 1997). Taken together, HR practices can aid team 
coordination through emphasizing the importance of the team’s mission and 
highlighting individual contribution to the teamwork.

In sum, researchers have explored distinct avenues by which HR systems 
may influence critical team processes. Yet, in the strategic HRM literature, 
team-level issues and considerations are not often explicitly considered. Most 
empirical studies in strategic HRM research have examined the effect of HRM 
either solely at the organizational level or the individual level, or across the 
organizational level and the individual level. Moving forward, we encourage 
future research to explore the mediating role of team-level factors in the rela-
tionships between HRM and outcomes. As more organizations use work teams 
or groups to structure work, teams have become a vital work context for indi-
vidual workers (Kozlowski & Bell, 2003). Multilevel research and managerial 
reality have shown that individuals are embedded in work teams, which are in 
turn nested in organizations.

Focusing on teams also introduces a host of important multilevel issues 
that have not garnered much attention in the extant literature. For example, 
given our earlier focus on attribution processes, it would be worth investigat-
ing how groups develop employees’ attributions of HR practices in teams and 
organizations. Scholars focusing on adopting a multilevel perspective advocate 
that individual characteristics and individual level cognitive and behavioral 
outcomes, which used to be considered as idiosyncratic across people, can 
be subjugated to the group or the organization (Nishii, Lepak, & Schneider, 
2008). For example, Takeuchi, Chen, and Lepak (2009) demonstrated that 
employees within a unit can share their perceptions of organizational sup-
port. In keeping with this argument, attribution theory can be expanded 
to the group level context. Touching on this issue, Martinko, Harvey, and 
Dasborough (2011) suggest that if group members share their attributions of 
HR practices, the shared attributions can be aggregated to the group level 
representing the whole group’s attribution of HR practices. Further, the col-
lective attribution would become group identification that may influence the 
responses of individual group members and the group. Extending this idea, it 
would be necessary for future research to investigate the collective attribution 
to HRM practices and its consequences.
Teams play an important role in mediating the top-down influence of organizational-level HR systems and intermediates on individual-level variables and the bottom-up impact of individual-level outcomes on organizational outcomes. Indeed, multilevel scholars have suggested that linkages across levels are more likely to be exhibited among directly coupled levels and entities (Kozlowski & Klein, 2000). As an example, Han, Liao, Taylor, and Kim (2010) examined the influence of firm-level HR systems on team performance via team transformational leadership. Building on this research, we encourage the field of strategic HRM to explore the role of team-level analysis in understanding the mediating mechanisms of HRM-performance relationships. In sum, we propose team motivation, cognition, and coordination processes will mediate organizational-level HR systems’ impact on team effectiveness. Both team-level factors and organizational-level HR factors will together affect individual perceptions, cognitions, attitudes, and behaviors.

CONCLUSION

The primary objective of this chapter was to explore the potential insights and research ideas that might emerge by incorporating more traditional micro theories from organizational behavior and I/O psychology into strategic HRM research. As we have demonstrated throughout, by focusing on two broad perspectives related to interpretive perspectives and group processes, future research could provide much greater clarity as to why employees respond so variably to common HR systems. Our hope is that future research in these areas will provide: greater insights into why this happens; how organizations can more effectively manage their workforces; and how companies can leverage the talent of their employees more effectively to realize a variety of strategic objectives.

REFERENCES


