

# CLOSING STRATEGIC HUMAN RESOURCE MANAGEMENT RESEARCH LACUNAS WITH MEDIATING ROLE OF EMPLOYEE CREATIVITY

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## ABSTRACT

*The facts and figures, as presented in the introductory section of the current study, have shown that Small and Medium Enterprise (SME) performance in Nigeria is in downturn, and the extant literature has recognized the existence of vague processes (black box) between organizational inputs (High Performance Work System [HPWS]) and organizational output (performance). Therefore, this study investigates the mediating effect of employee creativity on the link between HPWS and SME performance in Nigeria. Using cross-sectional research approach, data were collected from a sample of 518 managers in Nigerian SME firms. Sample selection was based on stratified sampling technique, given that the population is large and resources (time and money) are not adequate for the researchers. The overall finding signifies partial mediating effect of employee performance on HPWS-performance link. This indicates that HPWS in Nigerian SMEs enhances performance. Yet, HPWS is not enough to stimulate high performance until it induces employee creativity which will in turn precipitate higher firm performance. Also, the finding shows that SMEs' success relies on the inputs of highly committed, well-motivated and qualified employees. This research has contributed towards the enrichment of the Strategic Human Resource Management (SHRM) literature, and it is hoped that it will serve as a useful guide for stakeholders on how they can boost the performances of Small and Medium Enterprises (SMEs) to actualize the initiatives under the Nigeria's Vision 2020, which is to ensure that Nigeria becomes one of the top 20 economies in the world by 2020. However, since the data used for this study were collected from Nigerian SMEs' managers, future research should investigate employees' perspective regarding HPWS and firm performance, because examining employees' perspectives on HPWS-performance nexus would expand the understanding and enrich the body of knowledge in the research field.*

**Keywords:** High Performance Work System, Creativity, Performance, Black Box, SMEs.

## INTRODUCTION

Of note is that Small and Medium Enterprises (SMEs) constitutes virtually 90 per cent of global businesses and provide more than 50 per cent of world employment (International Finance Corporation (IFC), 2013). It is held that SMEs plays a key role in bulwarking the devastating upshot of recent global financial crisis (European Commission, 2014). SMEs play a crucial role in the economic development, industrial development, job creation cum poverty reduction (International Finance Corporation (IFC), 2013; Mahmood & Hanafi, 2013; Eze, Eberechi, Chibueze, Osondu & Ayegba, 2016; Tom, Glory & Alfred, 2016). Thus, it becomes a backbone

of world economic growth. Likewise, in Nigeria, SMEs is a catalyst for the economic growth (Eniola & Ektebang, 2014; Okoya, 2013), a major provider of employment and a significant contributor to the GDP (Etuk, Etuk & Baghebo, 2014; Shehu, 2014). Nigerian SMEs constituted 97% of the entire enterprises in Nigeria; it contributed about 47% to the Gross Domestic Product (GDP) while more than 50% of Nigerian's workers were employed by SMEs (Anudu, 2016; MSME survey report, 2010; Taiwo, Ayodeji & Yusuf, 2012).

Nevertheless, Nigerian SMEs is still facing a myriad of challenges ranging from high rate of collapse of SMEs, insufficient manpower (Mwobobia, 2012a & 2012b), shortage of technical savoir-faire, shortage of planning (Onugu, 2005), low human capital formation, low level of technology adoption to insufficient innovation (Nigeria Vision 2020 Program, 2009). The incessant collapse of SMEs is associated with absence of business strategy, poor recruitment exercise, lack of succession plan, lack of focus, poor market research, cut-throat competition, among others (Onugu, 2005) and lack of competitiveness, particularly during the economic crunch (Zakaria, 2013). Thus, Nigerian SMEs' performance should be improved to enable it to catch up with the SMEs' performance level of the advanced countries and to be able to actualize the initiatives under the Nigeria's Vision 2020 which will in turn facilitate Nigeria to become one of the top 20 economies in the world by 2020.

Moreover, in the past, economies of scale, access to capital and regulated competition were recognized to be the predictors of competitive advantage. However, recent streams of research have identified strategic human resource management as a basis of competitive advantage (Bamberger & Meshoulam, 2000; Seidu, 2011) and high performance (Seidu, 2011). Considerable stream of research has established that human resources and its management form a central part of the whole of firm's competitive advantage (Allen & Wright, 2007; Boxall & Purcell, 2003), and strategic HR that enhances task, targets and performance are formed through the effective adoption of High Performance Work System (HPWS).

The high performance work systems literature have reported a number of Human Resource (HR) practices that consistently lead to higher individual and firm performance (Werner, 2011). Also, it has been found that enhanced firm performance and organizational accomplishments are contingent upon systematically-bundled HPWS (Choi, 2014; Choi & Lee, 2013; Demirbag, Collings, Tatoglu, Mellahi & Wood, 2014). However, many studies have recognized vague process, otherwise known as 'black box' within the HPWS-performance link. These studies recommend usage of a mechanism through which the so called 'black box' could be unpacked (Chadwick & Dabu, 2009; Messersmith, Patel, Lepak & Gould-William, 2011). On this, Boxall (2012) reiterates the absence of issue in the direct HRM-Performance nexus, but he claimed that a lot remain unknown about the chain of nexuses that are persistent inside the 'black box' of HRM.

Besides, the recent trends in the world of business today have underscored creativity and innovation as a strategic objective of majority of organizations. Research has noted creativity-performance nexus (Gilson, 2008; Martinaityte, 2014), HRM-creativity interconnection (Binyamin & Carmeli, 2010; Byron & Khananchi, 2012; Chang, Jia, Takeuchi & Cai, 2014; Martinaityte, 2014) and HRM-performance link (Demirbag et al., 2014; Fan et al., 2014; Shin & Konrad, 2014). Based on this and in consideration of Baron & Kenny's (1986) supposition, creativity is logically and empirically fit to be the mechanism (mediator) through which the identified lacunas (i.e. black box) could be resolved.

Thus, this study aims to investigate the vague process in-between the HPWS-Performance link in the context of Nigerian SMEs.

## Hypotheses Development

Based on the issues identified and explicated in the introduction of this research, there is need to examine the effect of HPWS on SME performance in the context of Nigeria (theoretical and contextual lacunas) and the mediating role of creativity in HPWS-performance nexus (theoretical lacunas). Finally, the need to upsurge Nigerian SMEs' performance constitutes the practical gap.

### Linking HPWS to SME Performance

HR system that boosts employee competencies, commitment and productivity is frequently referred to as HPWS (Appelbaum, Bailey, Berg & Kalleberg, 2000; Datta, Guthrie & Wright, 2005). Bundles of HR practices are more influential than individual practices in isolation (Choi, 2014; Chuang & Liao, 2010; Demirbag et al., 2014). Quite good number of studies has shown that HPWS influences organizational performance positively (Arthur, 1994; Huselid, 1995; MacDuffie, 1995; Sun, Aryee & Law, 2007).

Regarding configuration of HPWS practices, previous studies are devoid of consistency. Scholars (Kwang, Songan & Kian, 2008; Vlachos, 2008) adopted different practices. However, based on the fact that SMEs' success heavily relies on the inputs of highly committed, well-motivated and qualified employees and in consideration of AMO model, HPWS, in this work, connotes selective hiring, training and development, performance appraisal, succession planning and pay for performance. Notably, this composition is a blend of 'best practices', core HR practices, broads and peripherals HR practices. Hence, this configuration is logically sound, systematic and empirical-based.

Moreover, research (Porter, 1992) has shown that a blend of financial and non-financial measures to constitute performance measurement has become a widespread framework in many fields of study such as economics, strategy, finance and accounting. In addition, research (Chadwick et al., 2013; Faems et al., 2005; Georgiadis & Patelis, 2012; Messersmith & Guthrie, 2010; Ogunyomi & Bruning, 2016) has indicated that both the financial benchmarks and non-financial benchmarks are adopted and favored in small businesses.

Additionally, HPWS research is largely conducted in the western contexts (Boxall & Macky, 2009; Godard, 2004). Studies on HPWS in emerging economies (like Nigeria) are scanty (Gautam & Davis, 2007), as the available studies conducted in the context of SMEs do not focus on the effect of HPWS practices on performance (Chelliah, Sulaiman & Yusoff, 2010; Hilmi & Ramayah, 2008; Jajri & Ismail, 2009). Also, most of these studies have focused on large organizations and overlooked small organizations (Gringore, 2008; Bau & Dowling, 2007; Ukenna, Ijeoma, Anionwu & Olise, 2010).

Going by the above discussion, this research hypothesizes that:

1. HPWS positively influences SME financial performance in Nigeria.
2. HPWS positively influences SME non-financial performance in Nigeria.

### Explication on Vague Process In-Between HPWS-Performance Link

Employee creativity is becoming more and more indispensable in the organization, given the increasingly volatile environments, high levels of competition and erratic technological change. Employee creativity denotes the extent to which employee develops ideas and demonstrates innovative behaviors in the accomplishment of his/her assigned tasks (Wang &

Netemeyer, 2004). It also refers to the creation of a novel and fitting response, product or solution to a flexible duty (Amabile, 2013). Also, creativity denotes getting out of the comfort's zone of individual employee and then experimentation of new way or method of doing things with no fear of failure. Creativity can be induced via employee-oriented HPWS (Martinaityte, 2014).

As discussed earlier, research has noted creativity-performance nexus and HPWS-creativity interconnection. Martinaityte's (2014) posits that a well-equipped HPWS can induce creativity, because it dictates the behavioral nuts and bolts to the employees for them to effectively accomplish organizational strategy. HPWS also offers the know-how, motivation and opportunities to involve in these behaviors. Although some researchers (Mainemelis, 2001; Shalley, Zhou & Oldham, 2004) perceive creativity to be a process claiming that it would be a considerably favorable direction for creativity research field to treat creativity as a process (i.e. a predictor of organizational outcome), extant research in the creativity literature claims that creativity is an outcome to which certain factors contribute. Nevertheless, this work regards creativity as a process and as an outcome. It has also become a fact that much is not known in respect of the effect of HPWS on creativity in both service and non-service contexts (Martinaityte, 2014).

Besides, there have been some researchers (Binyamin & Carmeli, 2010; Shalley & Gilson, 2004) who have called for investigation in respect of HPWS-performance nexus, because of the scantiness of research in the area. Some, among the available studies, have established the positive nexus between the two constructs. For example, Raub & Liao (2012); Sung & Choi (2012) found positive relationship between creativity and unit profit in the context of service delivery and team financial performance in the Korean context respectively. Martinaityte (2014) vetted the nexus between creativity and financial performance and she came out with a result indicating the positive relationship between the two constructs. Conversely, Gong, Zhou & Chang (2013) pinned down a non-significant nexus between core knowledge employee creativity and a combined measure of firm performance in relation to competitors. Likewise, in the research carried out by Merlo, Bell, Menguc & Whitwell (2006), it is discerned that creativity in respect of store does not correlate significantly with retail store performance. Thus, it is discerned from the survey of literature that research on creativity-performance nexus are not only scanty but also inconsistent.

Regarding SME performance, as mentioned earlier, research has shown that a blend of financial and non-financial measures to constitute performance measurement has become a widespread framework in many fields of study such as economics, strategy, finance and accounting. Also, research (Chadwick et al., 2013) has indicated that both the financial benchmarks and non-financial benchmarks are adopted and favored in small businesses.

Moreover, research has suggested using some mechanisms through which the 'black box' in the HPWS-Performance link will be unpacked. For example, Becker & Huselid (2006) also reiterate the need for in-depth investigation of the HPWS-Performance nexus and the mechanism that shapes the nexus. Besides, it has been mentioned before that research has noted creativity-performance nexus, HRM-creativity interconnection and HRM-performance connection. In addition, Baron & Kenny (1986) portended that there is possibility of having a particular construct to be a mediator if there is nexus between the construct, independent variable and dependent variable and nexus exists between the independent variable and dependent variable. Going by this, creativity is logically and empirically fit to be the mechanism (mediator) through which the identified lacunas will be resolved. Moreover, it is noteworthy that the literature

review has demonstrated that the research on mediating effect of creativity on HPWS-performance nexus is very few and no research of this kind has been done in the context of Nigerian SMEs.

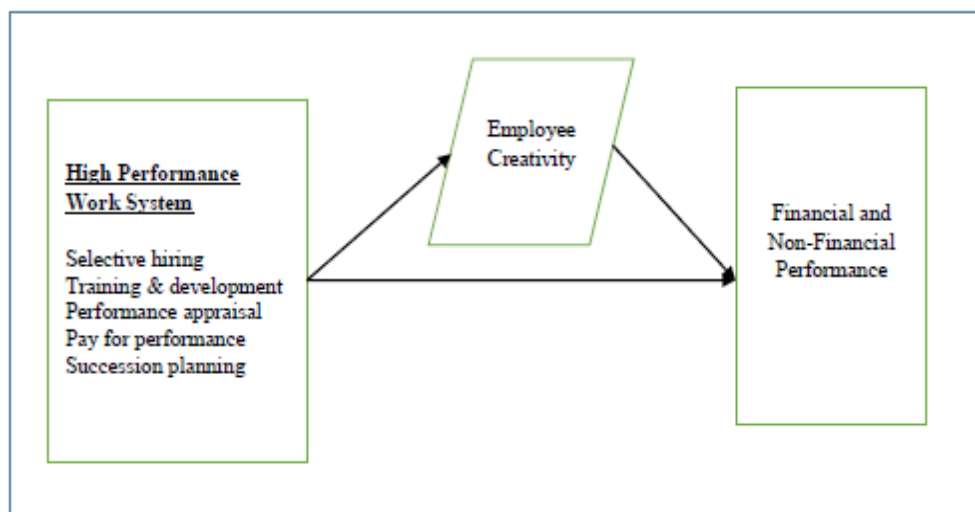
Owing to the above discussion, the following is hypothesized:

1. There is significant nexus between HPWS and employee creativity.
2. There is significant nexus between employee creativity and Nigerian SME financial performance.
3. There is significant nexus between employee creativity and Nigerian SME non-financial performance.
4. Employee creativity mediates the nexus between HPWS and Nigerian SME performance.

### Underpinning Theory of the Research Model

This proposed conceptual model (Figure 1), which theorizes that high performance work system and Nigerian SME performance are interrelated via the mediating role of employee creativity, is underpinned by the Resource-Based View (RBV) that suggests that organizational performance is influenced by its organizational resources and capabilities. Firms are able to achieve better performance through the effective use of their organizational resources and capabilities compared to their competitors. RBV's central principle is that firm resources should be valuable, uncommon and inimitable which consequently enhance organizational competitive advantage. Human resource has been identified to be the more valuable and inimitable organizational resource and hence key element of competitive advantage (Allen & Wright, 2007; Boxall & Purcell, 2003).

RBV posits that some firm's resources help enhance firm's goal but the problem lies in the adoption in the appropriate resource that can help firm achieve its desired goals (Wade & Hulland, 2004). Research has affirmed the role of HRM in the achievement of firm's goals and objectives. The steps in attaining organizational success start from changing or renewing the human capital pool and changing employee behavior through HR architectures (Wright, Dunford & Snell, 2001). This implies that human resource constitutes an important firm's input injected into firm's production process and service-oriented work process to enhance performance.



**FIGURE 1  
RESEARCH MODEL**

## METHODOLOGY

The population of the study comprises the management of the selected Lagos-based SMEs drawn from the recent and latest Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and National Bureau of Statistics Collaborative Survey: Selected Findings (2013). The survey reveals that the total Nigerian SMEs in Lagos state is 11,044. Thus, the total population is 11,044. Data were analyzed via smart PLS 2.0 m3 software packages, as this would guarantee that measurement errors are minimalized and duly taken care of. Using priori power analysis via G\*Power 3.1.2.9 software (Faul, Erdfelder, Buchner & Lang, 2009), but underpinned by recommendations of Krejcie & Morgan (1970); and Salkind (1997), the sample size of the study is 518 and respondents were selected through stratified sampling technique, given that the population is large (11, 044 firms) (Wilson, 2010) and resources (time and money) are not adequate for the researchers (Hair, Money, Samouel & Page, 2007). Screening and selection of the respondents started with the determination of the number of subjects/elements in the sample from the total number of Nigerian SMEs/elements in the identified thirteen strata. Then, random selection of 518 firms from the total 11,044 firms was done. The process of selection started with estimation of sampling fraction for each stratum, which was estimated by dividing the population size of each stratum (i.e. 1500 in the case of manufacturing stratum) by the sample in each stratum (i.e. 71 in the case of manufacturing stratum). The estimated sample fraction for the manufacturing stratum is 21. Thus, one firm was selected in every 21 firms of the 1500 manufacturing firms that make up the stratum. To select the first firm, a random number table was used and the first firm was 7<sup>th</sup>. So, every 7<sup>th</sup> in the list of 1500 of manufacturing stratum was selected as the respondents. In this way, the sample was composed of 7<sup>th</sup>, 28<sup>th</sup>, 49<sup>th</sup> and 35<sup>th</sup>....1500<sup>th</sup>. The selected numbered elements were then approached and given the questionnaire to fill. The process was repeated for other strata.

Thus, 518 questionnaires were distributed to the respondents, but 372 completed questionnaires, representing 72% response rate, were returned and usable for further analysis. This response rate is considered adequate and sufficient, given the position of Sekaran (2003) that a response rate of 30% is sufficient for survey. Moreover, the analysis technique in the current study involved descriptive analysis and inferential analysis. Inferential analysis connotes 2-step approach: Measurement and structural model (Chin, 1998; Hair, Ringle & Sarstedt, 2011), as this will guarantees valid and reliable results.

### Measurement of the Variables

HPWS in the current study involves selective hiring, training & development, performance appraisal, pay for performance and succession planning. HPWS also involves 'best practices' core HR practices and HR peripherals. This selection is consistent with some surveyed studies such as Martinaityte's (2014). HPWS is unique because it has been recognized to enhance the capabilities and motivation of the employees, since highly committed, well-motivated and qualified employees are crucial to the survival and sustainability of firm (Behrends, 2007; Ojokuku, 2012). Also, the practices are held to be a force that drives Employee Knowledge, Skills and Abilities (KSAs), employee motivation and creativity and creative performance. Moreover, firm performance in the current research is measured using financial and non-financial performance, because considerable research (Chadwick, Way, Kerr & Thacker, 2013; Ogunyomi & Bruning, 2016) underscored the aptness of measuring performance via non-financial benchmark.

Furthermore, measurement of HPWS was adapted from Martinaityte (2014) and Heffernan (2012), employee creativity was adapted from Wang & Netemeyer (2004); Martinaityte & Sacramento (2013) and firm performance measures were adapted from Ogunyomi & Bruning (2016). The survey instruments included demographic information of the respondents (6 items), instruments of selective hiring (4 items); training & development (5 items); performance appraisal (3 items); pay-for-performance (2 items); and succession planning (5 items). With regards to the instruments of employee creativity and firm performance, 7 items belong to the former while 12 items belong the latter. All the measures of HPWS, employee creativity and firm performance are in reflective form.

The scale for all the constructs, except firm performance, ranged from 1(strongly disagree) to 5(strongly agree). Firm performance was scaled using a 5-point interval scale bordering on 1=Very Weak; 2=Weak; 3=Not Sure; 4=Strong; 5=Very Strong. However, demographical variable was measured as categorical variable. This kind of interval scale is deemed fit for this study, going by the suggestion of Zikmund & Babin (2010).

## RESULTS

### Descriptive Analysis

Demographic information of the respondents of the current study indicates that 137 (37%) respondents out of 372 respondents are executive directors in their respected firms while 94 (25%) and 44 (12%) are marketing managers and HR manager respectively. The remaining 97 (26%) respondents are either supervisors or line managers. Forty percent of the sampled firms are in Agriculture-related business, as 22% of them are firms dealing on construction, logistics and oil Energy, 46 (12%) and 39 (11%) are workers in the firms transacting in computer, financial, manufacturing and info-tech, mechanical and medical equipment. The remaining firms, which are 57 (15%) in numbers, belong to Arts, Entertainment and Recreation or Water Supply, Sewage, Waste Management industries. In addition, majority of the firms sampled (40%) have been operating for a decade or less while 83 (22%) firms' years of operation ranged between 11-20 years and 50 (13%) firms' years of operation ranged between 21-30 years. While 39 (11%) firms' years of operation ranged between 31-40 years, 53 (14%) firms have been in operation for more than four decades. In addition, the selected firms have different forms of ownership structure, 169 (45%) firms are owned by individual owners (sole proprietors), 70 (19%) firms are owned by two or more people called partners (partnership). A total of 82 (22%) firms among the selected firms are Private Limited Liability Companies, but 19 (5%) firms are cooperative companies. As 20 (5%) firms are faith-based organizations, the remaining 12 (3%) firms are franchise-based business.

Concerning the number of employees in the respondents' firms, 348 (94%) firms have 100 employees or less. While 16 (4%) firms have between 101-150 employees, the remaining 8 (2%) firms have between 151-200 employees. Moreover, the total annual operating expenses accounted for by labor costs in 183 (49%) respondents' firms are 25% or less, while that of 129 (35%) firms ranged between 26-50%. While 52 (14%) firms' total annual operating expenses accounted for by labor costs ranged between 51-75%, only 8 (2%) firms have the total annual operating expenses accounted for by labor costs of more than 75%.

In sum, it can be fathomed from the above exposition that the sampled firms varied substantially in terms of their backgrounds and this implies that the data used in the current study

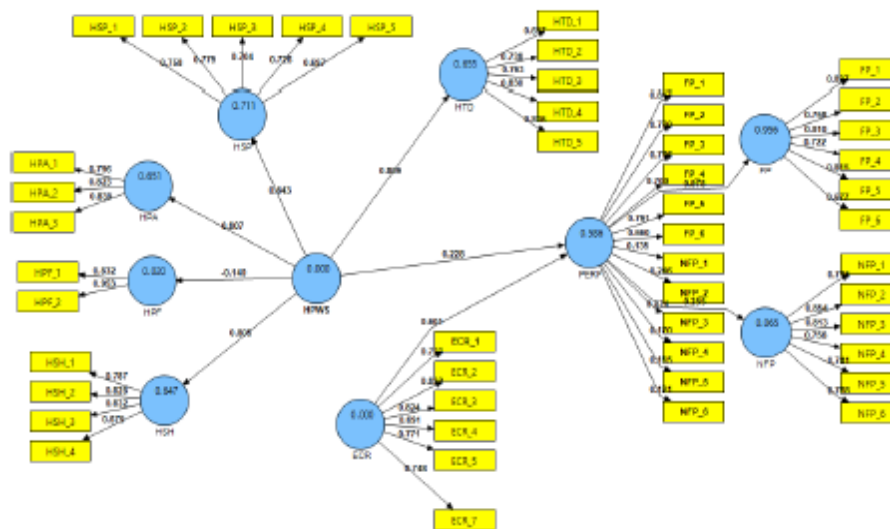
was from the respondents of diverse demographic backgrounds and thus enriching generalizability of the result of the research.

Considering descriptive analysis of the latent constructs, all variables and their dimensions possessed mean scores ranging from 3.71 to 6.76, and the standard deviation of all dimensions ranged from 0.71 to 1.06. These values of overall mean and standard deviation for all the variables and their dimensions are quite acceptable. Hence, it can be proven that the responses of the respondents clearly indicate an acceptable and satisfactory level of implementation with regard to all dimensions involving selective hiring, training & development, performance appraisal, pay-for-performance, succession planning, employee creativity, financial performance and non-financial performance. The scale used in measuring the questionnaire items was 1 to 5 Likert scales; strongly disagree, disagree, neutral, agree and strongly agree.

**Inferential Analysis**

Inferential analysis in the current study involves measurement model evaluation, structural model evaluation, and testing of mediating effect of employee creativity.

**Measurement Model**



Note: ECR: Employee Creativity; FP: Financial Performance; HPF: Pay-for-Performance; HPA: Performance Appraisal; HTD: Training & Development; HSH: Selective Hiring; HSP: Succession Planning; NFP: Non-Financial Performance.

**FIGURE 2  
MEASUREMENT MODEL**

As required in Variance-based SEM analysis, measurement model evaluation must be done to confirm the internal consistency reliability, convergent validity and reliability and discriminant validity. Without this, other strands of analysis like structural model cannot be done (Hair, Ringle & Sarstedt, 2011; Hair, Hult, Ringle & Sarstedt, 2014). Based on Figure 2; Tables 1 and 2, each item of the constructs shows higher value on their respective constructs, entails significantly and acceptably high loadings and thus affirming the content validity of the



constructs. However, lone item from employee creativity fell below the threshold of 0.5 (Hair et al., 2011), and it was deleted from the subsequent analysis. Other items showed satisfactory loadings ranging from 0.617 to 0.953, and composite reliability scores ranged between 0.765 and 0.898 (Hair, Black, Babin & Anderson, 2010). The Average Variance Extracted (AVE) values of the reflective scales ranged between 0.538 and 0.800, thereby exceeding minimum requirements of 0.5 (Hair et al., 2011). Discriminant validity was deemed satisfactory, as each latent construct's AVE emerged greater than its highest squared correlation with any other latent construct in the model, as shown in Table 2 (Hair et al., 2010).

<b>Constructs</b>	<b>Items</b>	<b>Loadings</b>	<b>AVE</b>	<b>CR</b>	<b>CA</b>
Employee Creativity	ECR_1	0.723	0.587	0.895	0.859
	ECR_2	0.832			
	ECR_3	0.824			
	ECR_4	0.691			
	ECR_5	0.771			
	ECR_7	0.748			
Financial Performance	FP_1	0.837	0.596	0.898	0.863
	FP_2	0.758			
	FP_3	0.810			
	FP_4	0.722			
	FP_5	0.815			
	FP_6	0.677			
Performance Appraisal	HPA_1	0.796	0.671	0.860	0.755
	HPA_2	0.823			
	HPA_3	0.839			
Pay-For-Performance	HPF_1	0.832	0.800	0.888	0.768
	HPF_2	0.953			
Selective Hiring	HSH_1	0.787	0.613	0.863	0.787
	HSH_2	0.828			
	HSH_3	0.832			
	HSH_4	0.675			
Succession Planning	HSP_1	0.758	0.538	0.853	0.785
	HSP_2	0.779			
	HSP_3	0.704			
	HSP_4	0.726			
	HSP_5	0.697			
Training & Development	HTD_1	0.617	0.569	0.867	0.814
	HTD_2	0.738			
	HTD_3	0.763			
	HTD_4	0.830			
	HTD_5	0.806			
Non-Financial Performance	NFP_1	0.715	0.607	0.902	0.874
	NFP_2	0.854			
	NFP_3	0.813			
	NFP_4	0.756			
	NFP_5	0.741			
	NFP_6	0.788			

Note: AVE: Average Variance Extracted; CR: Composite Reliability; CA: Cronbach's Alpha

	<b>ECR</b>	<b>FP</b>	<b>HPA</b>	<b>HPF</b>	<b>HSH</b>	<b>HSP</b>	<b>HTD</b>	<b>NFP</b>
ECR	<b>0.766</b>							
FP	0.746	<b>0.772</b>						
HPA	0.587	0.560	<b>0.819</b>					
HPF	-0.133	-0.055	-0.173	<b>0.894</b>				
HSH	0.494	0.507	0.581	-0.095	<b>0.783</b>			
HSP	0.508	0.557	0.539	-0.054	0.596	<b>0.734</b>		
HTD	0.470	0.385	0.582	-0.041	0.466	0.578	<b>0.754</b>	
NFP	0.084	0.047	0.118	-0.010	0.111	-0.041	0.007	<b>0.779</b>

Note: ECR: Employee Creativity; FP: Financial Performance; HPF: Pay-for-Performance; HPA: Performance Appraisal; HTD: Training & Development; HSH: Selective Hiring; HSP: Succession Planning; NFP: Non-Financial Performance

### Structural Model

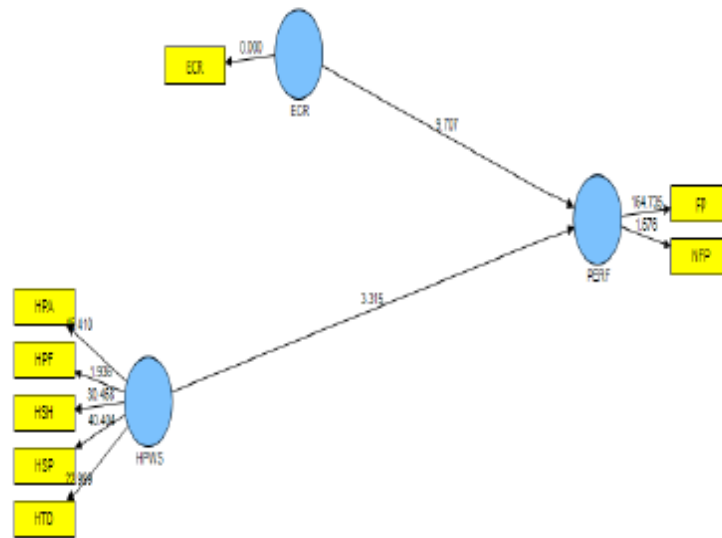
Based on Figure 2, R square value was 0.586, and it indicated that, in the model, exogenous latent variables, involving selective hiring, training & development, performance appraisal, pay-for-performance and succession planning and employee creativity explain 59% of the variance in the endogenous latent variable which is moderate and acceptable (Cohen, 1988).

Figures 3 and 4; Table 3 show the result of structural model and mediating effect testing. For testing the hypotheses, Preacher & Hayes (2004 & 2008) mediation analysis procedure, called bootstrapping method, was adopted. This procedure involves three stages: assessment of significance of the direct effect without inclusion of the mediator variable in the PLS path model, if significant then the next stage follows. The next stage involved inclusion of the mediator variable in the PLS path model and assessment of significance of the indirect effect, if significant then third stage will be proceeded to. The third stage is the assessment of the variance accounted for (VAF), if the value of VAF is less than 20% then no mediation, if it is between 20% and 80%, there is partial mediation and if it is more that 80%, hence the full mediation.

The direct link between employee creativity and performance (ECR → PERF) is significant and positive ( $\beta=0.587$ ,  $t=9.707$ ,  $p<0.001$ ). Likewise, the direct link between HPWS and performance (HPWS → PERF) and the direct link between HPWS and creativity (HPWS → ECR) are significant and positive ( $\beta=0.250$ ,  $t=3.315$ ,  $p<0.001$ ;  $\beta=0.637$ ,  $t=14.213$ ,  $p<0.001$ ) respectively. Moreover, the indirect effects regarding the link between HPWS, employee creativity and performance (HPWS→ECR\*ECR→PERF) is significant with the  $\beta$  value of 0.643 and t value of 4.639. The value of VAF, which was calculated by dividing the indirect effect by the total effect, is recognized to indicate mediating role of employee creativity in the link between HPWS and SME performance. Thus, VAF value of 0.720 indicates that employee creativity partially mediates the nexus between HPWS and SME performance. Hence, all the six hypotheses in the current study are supported.

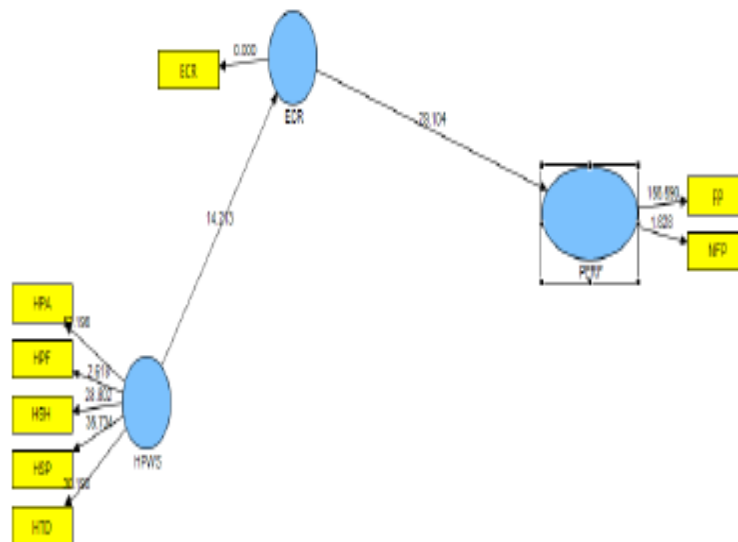
Furthermore, Table 4 demonstrates the effect size of the exogenous constructs on the endogenous construct. The table signifies that SME performance is explained by HPWS and employee creativity with effect size ( $f^2$ ) of 0.091 and 0.505 respectively (Cohen, 1988; Hair, Hult, Ringle & Sarstedt, 2013), indicating that HPWS has small effect size on SME performance while employee creativity has large effect size on SME performance. Besides, with the Cross-

Validation Redundancy (CVR) value of 0.295, this research model has adequate predictive relevance (Fornell & Cha, 1994).



Note: ECR: Employee Creativity; FP: Financial Performance; HPF: Pay-for-Performance; HPA: Performance Appraisal; HTD: Training & Development; HSH: Selective Hiring; HSP: Succession Planning; NFP: Non-Financial Performance

**FIGURE 3**  
**STRUCTURAL MODEL (DIRECT PATH)**



Note: ECR: Employee Creativity; FP: Financial Performance; HPF: Pay-for-Performance; HPA: Performance Appraisal; HTD: Training & Development; HSH: Selective Hiring; HSP: Succession Planning; NFP: Non-Financial Performance

**FIGURE 4**  
**STRUCTURAL MODEL (INDIRECT PATH)**

<b>Hypotheses</b>	<b>Beta</b>	<b>Standard Error</b>	<b>T Statistics</b>	<b>P-value</b>	<b>Decision</b>
ECR -> PERF	0.587	0.060	9.707	0.000	Supported
HPWS -> PERF	0.250	0.076	3.315	0.001	Supported
HPWS -> ECR	0.637	0.045	14.213	0.000	Supported
HPWS -> ECR*ECR -> PERF	0.643	0.139	4.639	0.000	Supported
Total Effect	0.250+0.643		0.893		
VAF	0.720			Partial Mediation	

<b>Exogeneous Constructs</b>	<b>F<sup>2</sup></b>	<b>Decision</b>
ECR	0.505	Large
HPWS	0.091	Small

## DISCUSSION

This research generally found HPWS to be a strong and positive predictor of SME performance. This result is consistent with the extant HPWS studies which include among others Mudulia, Vermab & Datta (2016); Ogunyomi & Bruning (2016); Shin & Konrad (2014). For example, Ogunyomi & Bruning (2016), who conducted their research on the relationship between HPWS and organizational performance of Small and Medium Enterprises (SMEs) in Nigeria via survey of 236 respondents, and Seidu (2011), who conducted his research in the context of Ghana, confirm that management-rated HPWS influenced firm performance. This corroborates the earlier claim that HPWS form an indispensable part of the whole of competitive advantage and strategic HR architectures that enhance task, targets and performance of SMEs are formed through the effective adoption of High Performance Work System (HPWS).

Moreover, in the strategic HRM literature, it is held that the HPWS is crucial to organizational effectiveness and performance. Drawing upon RBV, the result of this research indicates that the way in which human resources are managed forms a potential source of sustainable competitive advantage for SMEs (Guest, 2011). In addition, physical and intellectual resources remain the basis of organizational competitive advantage. HR architectures are used as tools in managing human capital while firm's human resource constitutes the human capital pool of the firm. RBV's concept of value, rareness, inimitability and substitutability cannot be achieved through HR architectures but through human resource (i.e. human capital) of the firm since any HR architecture can be mimicked by competitors. Therefore, it was assumed that human capital pool high levels of skill and motivation can be a basis for organizational competitive advantage because the employees' skills and motivation will exhibit productive behavior (Wright, McMahan & McWilliams, 1994).

Besides, the result regarding the mediating role of employee creativity in HPWS-performance link is consistent with many research bordering on Chang, Jia, Takeuchi & Cai (2014); Martinaityte (2014); Kehoe & Wright (2013); Messersmith, Patel, Lepak & Gould-Williams (2011). This result indicates that employee-oriented bundles of HR architectures, which enhance employees' KSAs (Knowledge, Skills and Abilities), employees' empowerment

via discretionary use of time and talent and employees' motivation, could drive employee creativity by getting employees out of their comfort's zone and make them explore new way or method of doing things with no fear of failure. HPWS can stimulate employees to wield the desired behavior that is compatible with the organizational strategy.

According to Martinaityte (2014), HPWS that is fraught with excellent elements can induce creativity and dictate the behavioral nuts and bolts to the employees for them to effectively accomplish organizational strategy. HPWS also offers the know-how, motivation and opportunities to involve in these behaviors. High performance work practices (i.e. HPWS components) such as selective hiring and extensive training that focus on development of creative problem-solving skill can enhance workers' ability to generate alternative solutions (i.e. creativity-relevant skills) and product knowledge and customer service skills (i.e. domain-relevant skills), which are crucial to creativity in the organization. Creativity on the part of workers can be stimulated via performance appraisal and compensation that are creativity-oriented (Martinaityte, 2014).

Also, this result complements the componential theory of creativity which postulates that HPWS, which is a macro-level system, can induce a creative situation that will lead to meso-level individual creativity bordering on task motivation, domain-relevant skills and creativity-relevant skills (Amabile, 1983). For example, training can broaden employees' repertoire of domain-relevant knowledge and skills required for being creative (Amabile, 1983). Recurrent performance appraisal for various HR management purposes (Murphy & Cleveland, 1995; Rynes, Gerhart & Parks, 2005) and associated feedback which has a developmental purpose and are delivered in an informational manner, would improve employee creativity, given the fact that such kind of appraisal avails the employees of areas of improvements in terms of their domain-relevant skills (Shalley & Perry-Smith, 2001; Zhou & Oldham, 2001).

Besides, training, which is not often related to employees' immediate job requirements (Arthur, 1994; Guthrie, 2001), can affect employees' acquisition of creativity-relevant skills and thus creativity. Training fetches opportunities for employees to use wide categories. Given the individual learning theory, workers learn by creating connections between what already known by them and the new area of learning and learning is the greatest when an overlap exists between the existing knowledge base and the new knowledge. The breadth of knowledge resulting from extensive training is thus useful for employees to establish connections between the existing knowledge base and new knowledge more easily (i.e., improved creativity-relevant skills), which in turn leads to creative solutions.

## CONCLUSION

The results of the tested hypotheses indicate mediating effect of employee creativity on the link between HPWS and firm performance. Thus, this research has widened the scope of the prevalent business theories and facilitates response to the investigations in respect of "how" a particular nexus exists between exogenous and endogenous variables and thus enhances business research designs, more accurate and precise findings. Also, this work makes contributions in many ways including theoretical, contextual and managerial contributions. It theorizes the mediating role of employee creativity in the HPWS-performance link.

Thus, the current study contributes to the present body of knowledge on HPWS-performance link. The findings of the study can be a useful guide for stakeholders and policy makers in Nigeria on how they can boost the performances of SMEs to enable them catch up with the SMEs' performance level of the advanced countries and to be able to actualize the

initiatives under the Nigeria's Vision 2020, which will in turn facilitate Nigeria to become one of the top 20 economies in the world by 2020. Nevertheless, given that the data used for this study were collected from Nigerian SMEs' managers, future research should replicate the research in another context to improve generalizability of the study's findings. Also, data were collected from the SMEs' managers and thus indicating organizational unit of analysis, but investigating employees' perspective regarding HPWS and firm performance would constitute a viable research direction for the future studies. The reason is that examining employee' perspectives on HPWS-performance nexus would expand the understanding and enrich the body of knowledge in the research field.

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