



High-Performance Work Systems and Firm Value: The Mediating Role of Innovation Capability

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Abstract

More and more companies are turning to integrated HR business practices in order to create enduring competitive advantages. The aim of this study is to explore the link between High-Performance Work Systems (HPWS) and the value of firm and test the mediation role of innovation capability between these variables. The methodology employed was quantitative in nature, with the type of design being explanatory, cross-sectional survey. The medium and large-sized organizations (30+ employees) involved in the study were identified by purposive sampling and 275 employees and managers were selected for their responsibility for, or close knowledge of, HR practices, innovation activities and organizational performance, and a structured questionnaire was used to collect data. The proposed model was validated in a two-stage process of measuring the model and structuring the model by bootstrapping (5000 resampling) using Partial Least Squares Structural Equation Modeling (PLS-SEM) in SmartPLS 4. The findings suggest that there is a positive (and significant) relationship between HPWS and firm value, HPWS and innovation capability, and between innovation capability and firm value, while innovation capability partially mediates the relationship between HPWS and firm value. The results provide some understanding of the mechanism, innovation capability, through which high-performance HR practices would create more value for organizations, and provide a set of tips for companies that want to use their HR systems as a strategic tool that enables them to be innovative. Restrictions and guidelines for future studies are discussed.

Keywords: High-Performance Work Systems, Innovation Capability, Firm Value, PLS-SEM, Strategic Human Resource Management

Introduction

The context of rapid technological change, increasing global competition and changing customer expectations places a constant burden on companies to find internal resources which could provide a sustain competitive advantage. Increasingly, HR systems are the focus of this conversation, given the growing awareness by scholars and practitioners that the way a firm manages its people, rather than just the number of people they have on the job, directly influences its ability to compete and to generate value (Chadwick, 2015; Jiang et al., 2012). High-Performance Work Systems (HPWS) are one of the most widely-researched strategic HR systems (Combs et al., 2006; Obeidat et al., 2016), which are a set of internally consistent HR practices that often include selective staffing, extensive training, rigorous performance appraisal, employee participation, information sharing, contingent rewards, and employment security. The systems perspective differs from a piecemeal view of each HR practice, because each practice is inextricably linked to the other and the combination of these

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Received: 12 October 2025; Received in revised form 23 November 2025; Accepted: 11 December 2025;

Available Online: 24 December, 2026

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practices has a greater impact on employee ability, motivation and opportunity to contribute than any single one of them alone (Messersmith et al., 2011; Zacharatos et al., 2005).

There is a large empirical literature on HPWS and its positive relationship with a variety of organizational outcomes. The high performance work practices is found to be positively associated with operational and financial performance when studied as a system, as confirmed by meta-analytic reviews, across a variety of organizational settings (Combs et al., 2006; Rauch & Hatak, 2016) and multilevel field studies that have found mediating mechanisms between HPWS and operational and financial performance outcomes at the employee level (e.g., human capital, motivation, empowerment climate) (Aryee et al., 2012; Takeuchi et al., 2009). In more recent research, causal inferences were extended in this line of thought with longitudinal studies, which showed that the link between HR system and subsequent organizational outcomes is not simply correlational but rather a meaningful causal pathway that flows from HR system strength to subsequent organizational outcomes (Shin & Konrad, 2017). This literature has clearly confirmed the importance of HPWS for organizational performance; however, exactly how it leads to value outcomes for the firm depends on how HPWS is implemented as an organizational process, and the mechanisms by which it actually affects the outcomes (Messersmith et al., 2011; Patel et al., 2013).

An organization's ability to produce new products or services and its capacity for continuous change in its product lines, process, and/or organizational practices according to the changes in the environment is one of the current prominent candidate mechanisms, namely innovation capability (Wang & Ahmed, 2007; Yam et al., 2011). Indeed, innovation capability has been shown to repeatedly be associated with competitive and financial performance of the firm, as demonstrated by empirical work conducted in manufacturing, insurance and professional service industries: firms with innovative capabilities have consistently outperformed their less innovative counterparts on market, financial and growth measures (Fu et al., 2015; Yam et al., 2011). HPWS is explicitly constructed to foster knowledge, autonomy, and discretionary motivation, which leads to innovative activity, which in turn, can be expected to increase the value of the firm, either directly or indirectly, through an increase in the firm's innovation capability (Fu et al., 2015; Patel et al., 2013). Interestingly, empirical research in the field of knowledge and professional service literature has recently directly examined this path, yielding evidence that employees' experience of HPWS affects innovative behaviour via a psychological and relational process of social capital and knowledge sharing (Al-Ajlouni, 2021; Arshad, 2024).

Although this increased interest has emerged, there are three gaps in the literature. First, existing studies on HPWS and innovation have focused on individual employee innovative behavior to the neglect of the concept of innovation capability as an organizational-level phenomenon with direct consequences for the value of the firm (Arshad, 2024; Fu et al., 2015). Second, few studies have used a formal statistical model to link HPWS to a wider and value-based output, such as innovation capability, rather than more limited performance measures like productivity or turnover (Obeidat et al., 2016; Patel et al., 2013). Third, the bulk of the empirical support for the role of HR systems in firm value comes from big samples of firms in one country or one industry, and it remains unclear whether the mechanisms can be successfully applied to medium-sized and small firms in different industries (Rauch & Hatak, 2016; Shin & Konrad, 2017). Based on the survey data of 275 employees and managers from various medium-sized and large organizations, this study aims to address these

gaps by testing a mediation model testing the impact of HPWS on firm value both directly and indirectly through innovation capability.

This study aims to investigate the effect of HPWS on firm value as well as the underlying mechanism of HPWS effect on firm value. Furthermore, placing innovation capability as a mediating factor moves beyond a direct-effects approach to the relationship between HPWS and performance, and toward a more explanatory, process-oriented approach in line with the recent focus of the strategic HRM literature to better understand the mechanisms that link HR systems to organizational outcomes (Jiang et al., 2012; Messersmith et al., 2011). Strategically, the study adds to the existing literature on strategic human resource management by connecting the dots between the systems perspective on HPWS and the innovation capability literature, creating a framework in which HR architecture and innovation capacity are mutually linked, both to explain firm value (Patel et al., 2013; Wang & Ahmed, 2007). In practice, the findings are expected to guide HR professionals and executives to recognize that an investment in high-performance HR practices could yield significant returns if HR practices are also used to develop the capacity of HR practices for organizational innovation – in addition to efficiency and retention – and not just for these purposes. In practice, the findings are expected to guide HR practitioners and HR executives to recognize that an investment in high-performance HR practices could yield significant returns if HR practices are built for organizational innovation beside other purposes such as efficiency and retention – and not for these purposes only – (Al-Ajlouni, 2021; Obeidat et al., 2016).

Literature Review and Hypothesis Development

High-Performance Work Systems

The concept of HPWS is a coherent set of HR practices that are jointly developed to increase employees' knowledge, skills and abilities, along with their motivation and opportunity to contribute, also known as the AMO concept (Jiang et al., 2012; Obeidat et al., 2016). The systems perspective focuses not on individual HR practices but on the complementarities between selected practices, such as extensive training, performance appraisal, employee participation, information sharing, compensation, and security of employment; and contends that the bundle can yield synergistic effects superior to each individual practice (Combs et al., 2006; Messersmith et al., 2011). Theoretically, HPWS creates strong specific human capital that is valuable and hard for rivals to imitate which can be used to gain sustainable competitive advantage (Chadwick, 2015; Takeuchi et al., 2009).

Innovation Capability

Innovation capability is the ability of an organization to continuously convert knowledge and ideas into new products, services, processes, or organizational practices which generate value for the firm and its stakeholders (Wang & Ahmed, 2007). It is also related to the dynamic capabilities perspective in which innovation capability is defined as an organization's capacity to integrate, develop, and reconfigure its competencies and resources at the internal and external levels to deal with a changing environment (Wang & Ahmed, 2007). Firms with high innovation capabilities will be better able to capitalize on market change, provide a greater differentiation, and maintain performance advantages over time (Yam et al., 2011; Fu et al., 2015).

Firm Value

In this study, firm value was measured by employees' and managers' perceptions of the firm's general financial, competitive, and market position, including profitability and perceived long-term viability. This type of perceptual measure has traditionally been employed in strategic HRM research that relies on survey data when the firm-level financial data are not directly available to individual respondents, and it has been demonstrated that the quality of HR systems is closely linked to the perception of the firm's competitive position (Chadwick, 2015; Shin & Konrad, 2017).

HPWS and Firm Value

Theory suggests that HPWS benefits the value of a firm because it creates valuable and firm-specific human and organizational resources that are hard to imitate by other firms (Chadwick, 2015; Jiang et al., 2012) and fits with the AMO framework. A meta-analytic review of the evidence generally confirms that HR systems are positively related to financial and operational performance outcomes (Combs et al., 2006; Rauch & Hatak, 2016), and longitudinal research suggests that a positive relationship between HR systems and performance is not just a reflection of reverse causation, but rather a true causal path from HR system strength to subsequent firm performance (Shin & Konrad, 2017). This evidence suggests that:

H1: There is positive and significant relationship between HPWS and firm value.

HPWS and Innovation Capability

The goal of HPWS practices of creating extensive training, employee involvement, and the sharing of information is to enhance employees' knowledge, autonomy, and their eagerness to provide discretionary effort, which are all factors that facilitate organizational innovation (Messersmith et al., 2011; Zacharatos et al., 2005). Similarly, HPWS is expected to enhance employees' innovative behaviors and organizational innovative capability, as it is linked to social capital building and knowledge sharing (Arshad, 2024; Al-Ajlouni, 2021; Fu et al., 2015). HPWS is an antecedent of innovative activity, so it is hypothesized that:

H2: HPWS positively and significantly influences the innovation capability organization

Innovation Capability and Firm Value

The innovation capability can help the firms develop new products, services and processes, which can make the firm different from others, meet changing customer needs and generate new revenue streams that are believed to increase the value of the firm (Wang & Ahmed, 2007; Yam et al., 2011). Companies with high innovation capability have been found to transform their internal resources into better market, finance and growth results, both in manufacturing and service industries (Fu et al., 2015; Yam et al., 2011). Accordingly:

H3: The innovation capability is positively and significantly related to the firm value.

In addition to its impact on firm value, HPWS can indirectly improve firm value by preemptively creating innovation capability first. It is also in line with recent studies in HPWS-innovation research,

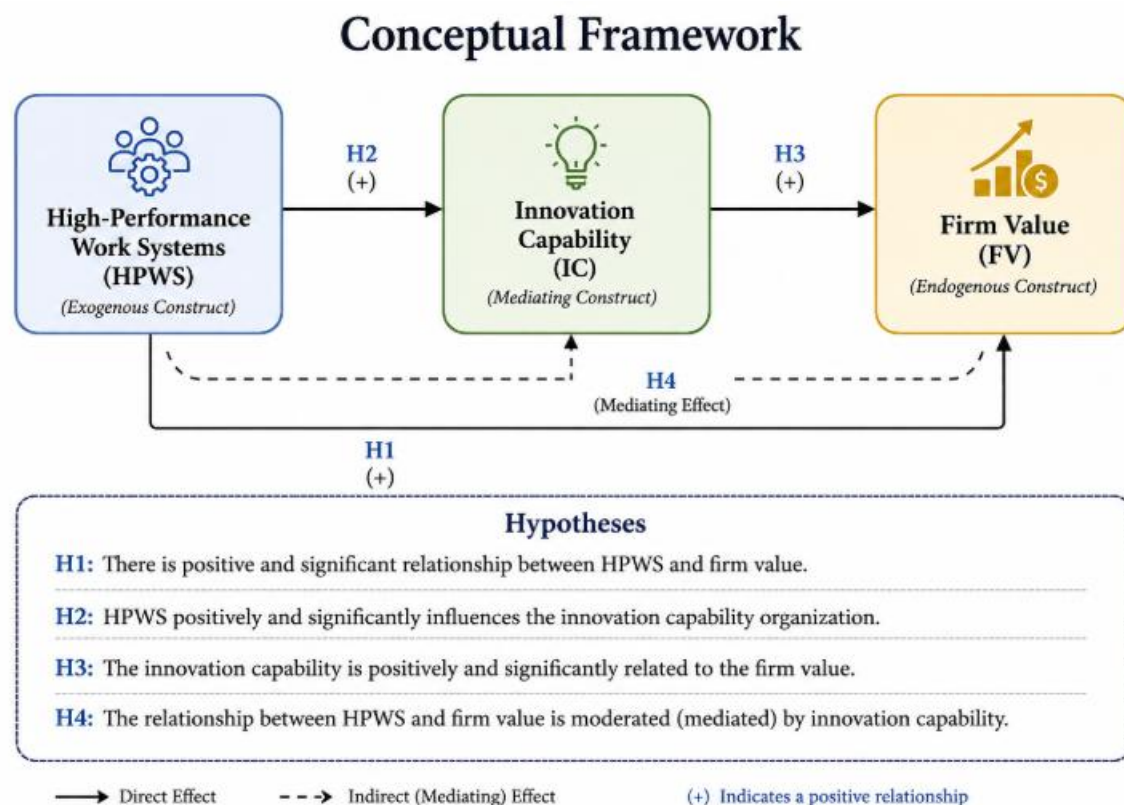
where each of social capital, knowledge sharing and ambidexterity was found to have a partial mediating effect between HPWS and downstream performance outcomes (Al-Ajlouni, 2021; Patel et al., 2013). This study suggests that innovation capability is less a by-product of HPWS and more a key structural mechanism that connects HPWS to firm value:

The relationship between HPWS and firm value is moderated by innovation capability (H4).

Conceptual Framework

The proposed model suggests that HPWS is the exogenous construct, innovation capability as a mediating construct, and the endogenous outcome construct is firm value. The hypothesized impact of HPWS on firm value takes place at two levels: directly on firm value (H1) and indirectly, through innovation capability (H2, H3, H4).

Figure 1: Conceptual Framework



Methodology

Research Design

The research type used in this study was quantitative research, of the explanatory and cross-sectional type. This research was of type quantitative research, explanatory and cross sectional type. The

objective of the study was to test directional and theory derived hypotheses and the cross-sectional approach was used to collect data at one point in time which was efficient.

Population and Sampling

The target population was medium and large sized organizations' employees and managers in the roles of human resource management, operations and strategic decision making. Data were gathered by filling in the structured questionnaire, and the sampling technique was purposive, which meant that the respondents possessed enough knowledge about their company's HR practices, innovation activities and performance. Sample size conventions in similar HPWS studies using PLS-SEM were considered for the selection of the sample size (Al-Ajlouni, 2021; Obeidat et al., 2016), and a sample of around 275 participants was deemed adequate for testing the proposed structural model.

Data Collection Procedure

The questionnaire consisted of four parts: HPWS, innovation capability, firm value and demographic information and relevant control variables. Before conducting the primary survey, the questionnaire was pretested with a small number of respondents to test clarity, reliability and appropriateness of the questionnaire to the specific context and some minor changes were made based on the results of the pre-test. The participation was voluntary and anonymous.

Measurement of Variables

Established multi-item scales from previous literature were used to measure all constructs with their responses on a 5-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). The facilitation of HPWS involved a number of practices, such as selective staffing, comprehensive training, performance measurement, employee involvement, information sharing, rewards and compensation, and employment security (Jiang et al., 2012; Messersmith et al., 2011). Innovation capability was assessed by the capability of developing, adopting and implementing new products, services, processes and organizational practices (Wang & Ahmed, 2007). Firm value was measured using employees' or managers' perception of the value of the firm as a whole in terms of financial, competitive and market-related value.

Data Analysis Technique

A Partial Least Squares Structural Equation Modeling (PLS-SEM) was used in SmartPLS 4 (Ringle et al., 2022) to analyze the data. This analysis was carried out in two stages. The measurement model was assessed to ensure reliability and validity of the constructs, first. Internal consistency reliability was evaluated using Cronbach's alpha coefficient and composite reliability, whereas convergent validity was evaluated using factor loadings and Average Variance Extracted (AVE). To assess the discriminant validity, Fornell–Larcker criterion and Heterotrait–Monotrait (HTMT) ratio (Henseler et al., 2015; Hair et al., 2022) were used. Second, the structural model was evaluated for its hypothesized relationships between HPWS, the innovation capability, and firm value, including path coefficients, coefficient of determination (R^2), effect size (f^2), and predictive relevance (Q^2). To test the significance of direct and indirect effects, bootstrapping with 5,000 resamples was used, and the indirect effect of HPWS and firm value via innovation capability was examined to determine the significance of indirect effects and the 95% confidence interval of innovation capability. As

theoretically warranted, organizational size, organizational age and industry type were used as control variables to minimize possible alternative explanations. Common method bias was controlled in the study by procedural techniques, such as anonymity of the respondents, clarity and specificity of questionnaire items, and separation of the items to measure the different constructs, and was assessed using Harman's single-factor test and full collinearity VIF, as recommended (Podsakoff et al., 2012).

Ethical Considerations

The purpose of the study was explained to the respondents before they participated and informed consent was sought from all respondents. Personally identifying information was not collected and all answers received were anonymous and confidential, and used only in the context of academic research.

Results

Respondent Profile

Table 1: Demographic Profile of Respondents (N = 275)

Characteristic	Category	Frequency	Percentage (%)
Gender	Male	156	56.7
	Female	119	43.3
Position	Non-managerial employee	134	48.7
	Middle/line manager	97	35.3
	Senior/strategic manager	44	16.0
Organizational Size	Medium (50–249 employees)	121	44.0
	Large (250+ employees)	154	56.0
Organizational Age	Less than 10 years	58	21.1
	10–20 years	121	44.0
	More than 20 years	96	34.9
Industry	Manufacturing	62	22.5
	Services/Finance	70	25.5
	Information Technology	65	23.6
	Other	78	28.4
Total		275	100.0

Note: Percentages may not add up to 100 due to rounding

Demographic characteristics of the final sample are summarized in Table 1. The gender split was fairly even with a slight majority male (56.7%) and the majority of respondents were non-managerial employees or middle and line managers (84.0%) compared with a smaller proportion of senior and strategic managers (16.0%). The sample was also skewed toward larger firms (56.0% with 250 or more employees) and more established organizations, with almost 79% of respondents from organizations more than 10 years old. There was a fairly even spread of industry representation between manufacturing, services and finance and information technology, with none of these sectors representing more than about a quarter of the respondents. The composition of the sample is fairly representative of the testing a firm-level model of HPWS, innovation capability, and firm value because the respondents were distributed among medium and large organizations and had well-

established HR functions that would be more likely to have a well-developed HR system and policy for implementing HPWS.

Measurement Model Assessment

Table 2: Reliability and Convergent Validity of Constructs

Construct	Items (range)	Loading range	Cronbach's α	CR	AVE
HPWS	14 items	0.708–0.867	0.928	0.937	0.578
Innovation Capability (IC)	9 items	0.726–0.881	0.896	0.917	0.583
Firm Value (FV)	7 items	0.744–0.862	0.868	0.899	0.598

Note: CR = Composite Reliability; AVE = Average Variance Extracted. All values exceed recommended thresholds (loading > .70, α and CR > .70, AVE > .50).

All the indicator loadings for the three constructs were in the range of 0.708 to 0.881, which is above the 0.7 threshold, and therefore the observed items had high reliability in reflecting the underlying latent constructs. Internal consistency reliability was also high, with Cronbach's alpha from 0.868 (Firm Value) to 0.928 (HPWS), and composite reliability from 0.899 to 0.937, which were not lower than 0.70, the standard for acceptable internal consistency reliability, and there was no indication of item redundancy or over-reliance in the range of reliabilities. Convergent validity was also supported with AVE values of HPWS (0.578), Innovation Capability (0.583) and Firm Value (0.598). Each construct accounted for more than half of the variance in the indicators when compared to measurement error. The results of the above showed that the measurement model satisfies all the recommended criteria for reliability and convergent validity, which can be used as a basis for achieving discriminant validity.

Discriminant Validity

Table 3: Discriminant Validity: Fornell–Larcker Criterion and HTMT Ratios

Construct	HPWS	IC	FV
HPWS	0.760	-	-
Innovation Capability (IC)	0.528 (HTMT = 0.601)	0.764	-
Firm Value (FV)	0.471 (HTMT = 0.542)	0.556 (HTMT = 0.629)	0.773

Note: Diagonal values: square root of AVE; construct correlations below the diagonal (HTMT ratios in parentheses). The HTMT values for all data points are lower than 0.85.

The results of discriminant validity are presented in Table 3, based on the Fornell-Larcker criterion and the HTMT ratio. The Fornell–Larcker criterion was met as the square root of each construct's AVE (on the diagonal: 0.760 for HPWS, 0.764 for Innovation Capability, and 0.773 for Firm Value) was greater than its correlation with the other two constructs in the model. The HTMT ratios (in parentheses) were within the range of 0.542 to 0.629, and were well below the conservative limit of 0.85, recommended for conceptually related constructs. These results suggest that HPWS, innovation capability, and firm value, as theoretically predicted, are positively correlated, but are also empirically different constructs, which means that the measurement model has certain degree of discriminant validity.

Collinearity Assessment

Table 4: Inner Variance Inflation Factor (VIF) Values

Path	VIF
HPWS → IC	1.000
HPWS → FV	1.588
IC → FV	1.588

The inner VIF values for each structural path are shown in Table 4. In this model, the range of all values (1.000 to 1.588) was well below the conservative cut-off of 3.3, suggesting that multicollinearity among the predictors in this model is not of concern. This is evidence that the path coefficients in the structural model presented below can be interpreted with confidence, since they will not be biased by too much overlap between HPWS and innovation capability as predictors of firm value.

Structural Model and Hypothesis Testing

Table 5: Path Coefficients and Direct Hypothesis Testing

Hypothesis	Path	β	t-value	p-value	95% CI	Decision
H1	HPWS → FV	0.298	4.552	< .001	[0.168, 0.421]	Supported
H2	HPWS → IC	0.531	8.617	< .001	[0.412, 0.634]	Supported
H3	IC → FV	0.356	5.487	< .001	[0.229, 0.478]	Supported

Each of the three direct paths was significantly positive and supported Hypotheses 1-3 as indicated in Table 5. H1 was supported by the positive and significant relationship between the direct effect of HPWS on firm value ($\beta = 0.298$, $t = 4.552$, $p < .001$, 95% CI [0.168, 0.421]). This means that, at a constant level of innovation capability, there is a meaningful increase in perceived firm value for each unit increase in HPWS. The findings confirmed H2, which posits that the effect of HPWS on innovation capability is significant and has relatively larger effect than the direct effects of HPWS on firm value ($\beta = 0.531$, $t = 8.617$, $p < .001$, 95% CI [0.412, 0.634]). Finally, innovation capability exerted a positive and significant effect on firm value ($\beta = 0.356$, $t = 5.487$, $p < .001$, 95% CI [0.229, 0.478]), supporting H3. All three direct hypotheses are statistically strong at the 5,000-resample bootstrap level, since none of the three ones in the three corresponding confidence intervals include 0.

Mediation Analysis

Table 6: Mediation (Indirect Effect) Analysis

Path	Indirect Effect (β)	SE	t-value	p-value	95% CI	VAF (%)	Conclusion
HPWS $\rightarrow$ IC $\rightarrow$ FV	0.189	0.037	5.108	< .001	[0.118, 0.264]	38.9	Partial mediation

Note: SE = Standard Error; VAF = Variance Accounted For (indirect / total effect). A VAF of 20% to 80% is considered to be partial mediation (Hair et al., 2022).

The result of the mediation test for H4 can be found in Table 6. The indirect effect of HPWS on firm value through innovation capability was positive and statistically significant ($\beta = 0.189$, SE = 0.037, $t = 5.108$, $p < 0.001$) and its 95% bootstrap confidence interval did not include zero. The variance accounted for (VAF) results were around 38.9% indicating that two-fifths of the overall effect of HPWS on firm value was mediated by innovation capability, and the remaining effect was mediated directly. The VAF is within the range of 20%-80% suggesting that this pattern represents partial mediation, meaning that innovation capacity is an important but not exclusive mechanism by which HPWS contributes to the higher value of the firm. H4 is thus upheld.

Model Fit and Explanatory Power

Table 7: Coefficient of Determination, Effect Size, Predictive Relevance, and Model Fit

Construct / Metric	R ²	R ² adjusted	f ² (Contributing Path)	Q ²	SRMR
Innovation Capability (IC)	0.282	0.279	0.393 (HPWS)	0.201	—
Firm Value (FV)	0.412	0.407	0.104 (HPWS); 0.147 (IC)	0.276	—
Overall Model Fit	—	—	—	—	0.058

Note: f^2 values of .02, .15, and .35 represent small, medium, and large effect sizes, respectively (Hair et al., 2022).

The explanations and predictions of the model are summarized in Table 7. The results show that HPWS accounted for 28.2% of the variance in innovation capability ($R^2 = 0.282$), and HPWS had an effect size ($f^2 = 0.393$) just above the convention for a large effect size, indicating that HPWS is a substantively important antecedent of innovation capability. The overall model of HPWS and innovation capability accounted for 41.2% of the variance in firm value ($R^2 = 0.412$), with innovation capability contributing a small-to-medium effect ($f^2 = 0.147$); and HPWS a small direct effect ($f^2 = 0.104$) after the inclusion of innovation capability. The result of the exogenous constructs was also confirmed with Q^2 of 0.201 and 0.276 for innovation capability and firm value respectively, which were both well above zero. Lastly, the overall fit of the model was good, as the SRMR was 0.058, which is lower than the traditionally accepted cutoff value of 0.08 for an acceptable PLS path model. The results as a whole suggest that the proposed model (HPWS–innovation capability–firm value) is highly explanatory and predictive.

Discussion

The results for all four hypotheses are in favor of the hypotheses. Meta-analytic and longitudinal studies have found a positive association between HPEWB and financial and operational measures of

firm performance (Combs et al., 2006; Shin & Konrad, 2017), which was also supported by HPWS in this study. Also, HR systems were positively related to innovation capability (H2) and in fact had its strongest impact on this construct, supporting the claim that HR systems create ability, motivation and opportunity conditions that underlie organizational innovation (Messersmith et al., 2011; Zacharatos et al., 2005). Firm value, in turn, was positively related to innovation capability, which is consistent with previous studies that found that firms that are more capable of innovation achieve better competitive and financial performance through their use of internal resources (Yam et al., 2011; Wang & Ahmed, 2007).

The mediation effect of innovation capability (H4) explains 19.9% of the total effect on HPWS on firm value. This is similar to the overall HPWS-innovation research, where other variables like social capital, knowledge sharing, organizational ambidexterity are found to have partial mediating effects between HPWS and downstream outcomes (Al-Ajlouni, 2021; Patel et al., 2013). As mediation was partial, HPWS seems to have influence on firm value directly and not through the mediation of innovation, which may highlight efficiency and human-capital benefits of high-performance HR practices that do not rely on innovation (Aryee et al., 2012; Takeuchi et al., 2009).

Theoretical Implications

This study adds to the strategic HRM literature by better elucidating the notion of innovation capability as a structural mechanism linking HPWS practices to firm value, in addition to the individual-level accounts of the relationship between HPWS practices and innovation in the literature (Arshad, 2024; Fu et al., 2015), this is tested in a multi-industry sample of medium and large organizations. It also adds to the meta-analytical evidence on the general HPWS-performance relationship (Combs et al., 2006; Rauch and Hatak, 2016), which suggests that the capability of innovation is a measurable intervening construct that has implications for outcomes of value for the firm.

Practical Implications

The findings indicate that the value creation potential of HPWS is enhanced where these practices are purposefully implemented to enhance organizational innovation capability by training employees to have problem-solving and creative skills, employee participation mechanisms to surface new ideas, or reward systems that recognize innovative work (Al-Ajlouni, 2021; Obeidat et al., 2016). While HR system design purely as an efficiency or retention instrument may only capture some of the value, it is probably better to explicitly connect HR system design to innovation objectives to capture more firm value.

Conclusion

This study investigates the relationship between HPWS and firm value and tests the mediation of innovation capability in the case of medium-size and large size organizations using survey data of 275 employees and managers who were analyzed by applying PLS-SEM in SmartPLS 4. The findings indicate that HPWS has positive effects on the innovation capability and firm value, and the innovation capability partially mediates between HPWS–firm value. The implications are clear: HR systems generate the most value for the organization when they are purposefully designed and used to develop innovation capability, providing theory-based evidence and practical information for

organizations interested in turning high performance HR into sustained competitive and financial advantage.

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