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Why firms adopt empowerment practices and how such practices affect firm performance? A transaction cost-exchange perspective

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A B S T R A C T

Complementing the current management literature's focus on the value-creation side of empowerment practices, this paper offers a transaction cost-exchange perspective to explain why firms adopt empowerment practices and how such practices affect firm performance. Specifically, we theorize how performance ambiguity and human asset specificity, two major characteristics of employee-employer exchange, shape firms' decisions to adopt empowerment practices, both independently and interactively. Our model also develops a contingency perspective of how empowerment practices affect firm performance by delineating the moderating role of empowerment practices in the relationship between employee-employer exchange characteristics and firm performance.

1. Introduction

Over the past three decades, employee empowerment practices have received considerable attention from human resource management (HRM) researchers and practitioners (Evans & Davis, 2005; Ford & Fottler, 1995; Kanter, 1977; Lawler, Mohrman, & Benson, 2001; Maynard, Gilson, & Mathieu, 2012; Robbins, Crino, & Fredendall, 2002; Seibert, Silver, & Randolph, 2004). Empowerment practices often take the form of advanced HRM practices, such as information sharing, autonomy through job boundaries, and team accountability (Seibert et al., 2004) by granting lower-level employees substantial decision-making authority and responsibility with respect to the execution of their job tasks (Wall, Cordery, & Clegg, 2002). These empowerment practices have been identified as a core component of the broader high involvement management practices (HIMP) and high performance work practices (HPWP) (Maynard et al., 2012; Riordan, Vandenberg, & Richardson, 2005).

The general proposition in the literature is that adopting empowerment practices helps firms to better leverage human resources for competitive advantage (Wood, Burridge, Rudloff, Green, & Nolte, 2015; Wright, Dunford, & Snell, 2001) and enhances organizational performance (Birdi et al., 2008; Chenevert & Tremblay, 2009). This is congruent with a burgeoning body of research that has attempted to demonstrate that HIMP and HPWP result in better organizational performance (Wright, Gardner, Moynihan, & Allen, 2005). However, empirical studies have provided mixed evidence for the positive impacts of HIWP and HPWP, such as the influences of empowerment practices on firm performance (Birdi et al., 2008; Cappelli & Neumark, 2001; Combs, Liu, Hall, & Ketchen, 2006; Gibson, Porath, Benson, & Lawler, 2007; Kim & Ployhart, 2014; Staw & Epstein, 2000). The reality is that not all companies adopt empowerment practices and the effect of these practices on organizational performance may not be as large as one would expect (Kaufman, 2015; Wood & Wall, 2007). After years of advocacy, the question of why empowerment practices have not been widely adopted by organizations continues to challenge HRM researchers (Arthur, Herdman, & Yang, 2014; Jackson, Schuler, & Jiang, 2014).

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The current literature displays limited understanding about which organizational factors facilitate or hinder the adoption of empowerment practices (Wood et al., 2015). This is partly because the subject has been mainly studied from theoretical perspectives, such as organizational psychology (Maynard et al., 2012; Patel & Cardon, 2010), resource-based view (Jiang, Lepak, Hu, & Baer, 2012; Ostroff & Bowen, 2000), and institutional sociology (Sanchez, Kraus, White, & Williams, 1999; Subramony, 2006), all of which focus on the value-creation side of the subject and neglect cost considerations. Our view is that while empowerment practices may enhance organizational performance due to the psychological, strategic and institutional values they bring to organizations (as discussed later in the literature review), without a sound analysis of the cost efficiencies of such practices, the question of why some firms adopt empowerment practices while others do not remains unsettled.

In this paper, we adopt an organizational economics perspective to examine this question. Specifically, we argue that firms adopt empowerment practices primarily as a mode of work organization to economize on the internal transaction costs of managing employee-employer exchange relationships, which are essentially a type of economic behavior that needs to be studied via a systematic economic analysis. Built upon the basic premise that economizing is more fundamental than strategizing in economic organizations, including work organizations (Williamson, 1999), this paper first develops a transaction cost-exchange approach to examine how major characteristics of the employee-employer exchange influence the adoption of empowerment practices. Second, complementing the existing literature's focus on the direct positive impact of empowerment practices on firm performance, we develop a more nuanced contingency perspective to delineate how empowerment practices affect firm performance indirectly through moderating the effect of employee-employer exchange characteristics on performance. Answering recent calls to move the field of strategic HRM research forward by borrowing insights and ideas from economics (Kaufman, 2012, 2015), this paper contributes to a richer and more balanced theoretical explanation of why firms adopt empowerment practices, and how such practices affect firm performance.

The rest of the paper is organized as follows. In Section 2, we first provide a definition of empowerment practices and then review the current literature on the determinants and the performance effects of empowerment practices. In Section 3, we draw on key ideas and concepts from transaction cost economics (TCE) and theorize empowerment practices as a mode of work organization for employee-employer exchange relationships. In Section 4, we first identify performance ambiguity and human asset specificity as two major theoretical constructs of employee-employer exchange relationships that affect the adoption of empowerment practices. We then develop propositions to explain how these constructs can help us understand why firms adopt empowerment practices and how such practices affect firm performance. In Section 5, we close with a discussion on the implications of our theoretical model for both research and practice.

2. Literature review

2.1. Employee empowerment practices defined

The concept of employee empowerment encompasses a set of progressive and advanced human resources (HR) management practices that transfer considerable decision-making rights and power from higher-level managers to lower-level employees (Kanter, 1977; Lawler et al., 2001). In addition to giving individual employees a high degree of autonomy or control with respect to the execution of their primary work (Ford & Fottler, 1995; Seibert et al., 2004), power is often transferred to teams as opposed to directly to individuals within the work environment (Robbins et al., 2002). Synthesizing earlier research on this topic (Blanchard, Carlos, & Randolph, 1999; Randolph, 1995; Robbins et al., 2002), Seibert et al. (2004) defined empowerment practices as three interrelated HR practices: information sharing, autonomy through (job) boundaries, and team accountability. In this paper, we conceive empowerment as a mode of work organization with a coherent bundle of these advanced HR practices that act together to enhance employee involvement in important decision-making.

Information sharing means providing employees with access to potentially sensitive information, such as costs, productivity, quality, and financial performance (Seibert et al., 2004). The sharing of organizational information and knowledge is necessary to enable employees to exercise decision-making power and authority (Robbins et al., 2002) and contribute to organizational performance (Ford & Fottler, 1995). Information sharing can also help establish shared mental models among employees (Combs et al., 2006), which is an important condition for promoting similar attitudes and beliefs regarding job tasks, co-workers, and the organization, and facilitates cooperation and decision making (Cannon-Bowers & Salas, 2001).

Autonomy through boundaries refers to organizational practices that encourage autonomous action, including how work is done, the day-to-day conduct of business, and the tasks and procedures necessary for carrying out jobs (Robbins et al., 2002). It means that employees can enjoy a high level of work autonomy and discretion throughout their entire job scope and are encouraged to develop a clear vision, goals and procedures by themselves to perform their jobs (Seibert et al., 2004). The concept is to be distinguished from the narrower idea of delegation, which refers to a more limited transfer of control over how specific work tasks are performed (Mills & Ungson, 2003). In contrast, autonomy through boundaries entails a broader transfer of power and authority, beyond specific activities, that gives employees a much greater degree of control across many areas of their jobs (Ford & Fottler, 1995).

Team accountability refers to the use of self-managing teams as the basic unit of work organization, and a shift of the locus of decision-making and performance accountability from high-level managers to teams managed by employees themselves (Robbins et al., 2002). Such a shift is accompanied by a substantial transfer of power and authority from higher-level managers to teams. In practice, team accountability means that employees are clustered into work units that are autonomous, entrepreneurial, and engaged in exchange and collaborative relationships designed to achieve organizational goals (Kilduff & Krackhardt, 1994).

It is worthwhile to point out that empowerment practices tend to be viewed as a key component of some broader HRM concepts such as High Involvement Management Practices (HIMP; Riordan et al., 2005), the High Performance Work Practices (HPWP; Huselid, 1995), and the Productivity Measurement and Enhancement System (ProMES; Pritchard, 1995; Pritchard, Holling, Lammers, & Clark, 2002). These HR systems include a wide range of practices that may or may not require a very high degree of transfer of decision-making authority and rights to lower-level employees. For example, ProMES includes initiatives such as goal setting and feedback systems (Pritchard, Harrell, DiazGranados, & Guzman, 2008). The HIMP and HPWS systems encompass a broad range of HR practices from staffing, training and skill development, and performance appraisals, to compensation (Jackson et al., 2014). Empowerment practices, such as information sharing, autonomy through boundaries, and team accountability, differ fundamentally from these (non-empowerment) HIMP and HPWP practices in that all three empowerment practices involve a high degree of transfer of power and decision-making authority to employees, which is at the core of the concept of empowerment (Robbins et al., 2002).

We can further distinguish empowerment practices from other related concepts such as employee participation, organic structure and psychological empowerment. First, the level and scope of authority granted to employees distinguishes *empowerment* from *participation*. Participation is viewed as a communication process or technique that solicits and uses employee feedback in decision-making processes (Roberts & O'Reilly, 1979; Vroom & Jago, 1988). In contrast with empowerment, employee participation means that employees may have the opportunity to participate but they do not have the authority to make decisions (Mills & Ungson, 2003).

Empowerment practices are also different from the construct of organic structure, which is a form of organizational structure encompassing dimensions of the entire firm, such as centralization and departmentalization. An organic structure is flexible and loose, and is the antithesis of a bureaucratic structure, which features hierarchy and rigid rules and regulations (Burns & Stalker, 1961). Empowerment practices are HRM practices that can be used by both organically structured and bureaucratically structured firms. In other words, empowerment practices represent a type of work system rather than a type of firm structure.

Last but not least, a clear distinction needs to be made between empowerment as actually experienced by employees and the practices that firms use to foster employees' feelings about empowerment. The former is associated with the concept of psychological empowerment, which refers to employees' inner perceptions of being empowered (Spreitzer, 1995; Thomas & Velthouse, 1990) and is often manifested as individuals' reactions to empowerment practices (Seibert et al., 2004). This paper, however, focuses on empowerment as a set of HR practices, which are regarded as organizational tools that lead to an employee's psychological feeling of empowerment (Seibert et al., 2004).

2.2. *Current literature on the determinants and performance consequences of employee empowerment practices*

The distinction between literature on determinants of, and literature on performance consequences of empowerment practices is blurred, and the theoretical links between the two are explained primarily through theoretical perspectives pertaining to benefits or value-creation side of empowerment practices, including organizational psychology, resource-based view (RBV) and institutional sociological perspectives (Jackson et al., 2014). This section reviews and identifies the gaps in the current literature, paving the foundation for us to draw from organizational economics to complement the existing literature and examine the linkages of determinants and consequences of employee empowerment practices from a cost-efficiency perspective.

From an organizational psychology perspective, empowerment practices have positive effects on organizational performance because they elicit positive attitudes and behaviors from employees (Riordan et al., 2005). Granting employees the power to perform their tasks enhances their motivation, job satisfaction, organizational commitment and social exchange relations (Maynard et al., 2012; Patel & Cardon, 2010). When these psychological benefits promote employees' work efforts collectively, firm performance improves (Birdi et al., 2008). This perspective explains why firms adopt empowerment practices by highlighting how such practices bring psychological and behavioral benefits to employees, which in turn creates value for firms.

Guided by the RBV (Barney, 1991), the strategic HRM perspective focuses on addressing the question of why firms adopt empowerment practices by examining the strategic value such practices bring to firms' most important assets—human resources (Jiang et al., 2012). According to this perspective, firms adopt empowerment practices because they promote employees' knowledge, risk-taking and commitment (Delery, 1998; Jackson & Schuler, 1989; Ostroff & Bowen, 2000). These factors are firm-specific and difficult to imitate and, hence, will bring long-lasting value to organizations (Kaufman, 2012). In particular, empowerment practices enhance firms' human capital by offering opportunities for employees to make full use of their knowledge and abilities (Riordan et al., 2005), as well as gain new knowledge and skills (Jiang et al., 2012). As human capital is one of the most important types of firm resources (Barney, 1991), empowerment practices have positive impacts on firm performance by providing firms with a major source of sustainable competitive advantage.

The strategic HRM perspective further holds that the value created by empowerment practices depends on the type of organizational strategy. For example, organizations following a differentiation strategy are likely to adopt empowerment practices to promote innovation and entrepreneurship (Lado & Wilson, 1994). However, at present, empirical evidence is not sufficient to support this view (Wright, Guest, & Paauwe, 2015).

Drawing upon institutional sociology (Scott, 2001), the institutional perspective emphasizes the purpose of adopting empowerment practices to comply with government regulations or conform to prevailing social norms. This perspective proposes that firms adopt empowerment practices to conform to regulatory, normative and cognitive institutional pressures to achieve legitimacy (Sanchez et al., 1999; Subramony, 2006). For example, firms may mimic what other organizations are doing or try to reach some kind of compromise with unions (Nordhaug, 2004; Sanchez et al., 1999).

In addition, the positive effect of empowerment practices on organizational performance may be limited by contextual factors, including industry (Combs et al., 2006; Datta, Guthrie, & Wright, 2005), firm size (Snell & Youndt, 1995), firm strategy (Wall et al., 2002), and environmental uncertainty (Pritchard et al., 2008). Examining these moderating factors can advance our knowledge of the indirect influence of empowerment practices on firm performance. In this paper, we focus on empowerment practices as a boundary condition of the relationship between employee-employer exchange characteristics and firm performance. In other words, empowerment practices influence organizational performance indirectly through moderating the relationship between the nature of employment relations and firm performance.

It should also be noted that the dominant trend in current research on HRM-firm performance linkages has been to take a systems view of HRM by considering the overall configuration of HRM practices rather than the effects of individual HR practices on firm performance (Bowen & Ostroff, 2004). Such a systems view has largely replaced research on individual practices (Wright & Boswell, 2002). Past studies have shown that the adoption of a single practice did not deliver positive results and sometimes even resulted in performance declines (Den Hartog & Verburg, 2004; Wood, 1999). Two recent meta-analyses have shown that the performance effects of bundled HR practices are greater than those of individual practices (Combs et al., 2006; Subramony, 2009).

In accordance with the current literature, therefore, we take the view that it is not the practices per se that make a difference; rather, what matters is the degree to which they align with each other to create a meaningful 'bundle' of practices (Huselid, Jackson, & Schuler, 1997). In this paper, the three dimensions of empowerment practice that constitute our concept of empowerment are interrelated. Information sharing is the necessary condition for the effective transfer of decision-making rights and power from employers to employees (Robbins et al., 2002). Autonomy through boundaries and team accountability, on the other hand, provide sufficient conditions for employees to feel empowered in their work (Seibert et al., 2004). These HR practices need to be bundled into a meaningful group of practices to affect firm performance.

A point should also be made to clarify what we mean by firm performance. In HRM literature, firm performance often refers to organizational-level absolute performance (Datta et al., 2005; Huselid, 1995; Jackson et al., 2014). This is in contrast with how performance is viewed by most strategy scholars, who tend to focus on a firm's relative performance to competitors (Ployhart & Hale, 2014). To be consistent with the HR literature, in this paper we view firm performance as organizational-level absolute performance, which itself is a multidimensional concept and different dimensions are relevant to different stakeholders (Crook, Ketchen, Combs, & Todd, 2008). Ployhart and Hale (2014) draw a distinction between performance dimensions internal and external to a firm. They use the term operational performance to describe performance dimensions that are internal to a firm and that are based on such outcomes as collective employee performance (Jackson & Schuler, 1989) and workforce productivity (Birdi et al., 2008). Firm performance can also be external to a firm and is based on accounting, financial, and product market outcomes (Richard, Devinney, Yip, & Johnson, 2009). Previous studies show performance dimensions internal to a firm, such as workplace productivity, may serve as a link between HRM practices and a firm's performance dimensions external to a firm, such as financial outcome (Birdi et al., 2008; Datta et al., 2005). Therefore, in our subsequent theory and proposition development, we will use an overarching construct of organizational performance, which encompasses absolute performance dimensions both internal and external to a firm.

In summary, empowerment practices have been studied from a number of theoretical perspectives that share a common interest in understanding the benefits or values brought by such practices. Consequently, there is an implicit but strong assumption that empowerment practices can enhance firm performance through psychological, strategic and institutional benefits, irrespective of the firm's characteristics (Wood et al., 2015). Following the value-creation logic, it should be expected that more firms will adopt empowerment practices. However, there is no evidence of an increasing number of firms doing so (Arthur et al., 2014; Kaufman, 2015). Perhaps what is missing is a more detailed knowledge of the implementation of empowerment practices from a cost-efficiency perspective (Kaufman, 2012, 2015). In an attempt to address this limitation, Kaufman and Miller (2011) recently invoked microeconomics to argue that firms keep investing in empowerment and other HRM practices until the marginal revenue gained equals the marginal costs incurred. Such a microeconomics approach, however, assumes that employers and employees are rational decision makers, and is not well suited for analyzing the structural factors associated with market failure in employment relations (Arthur et al., 2014).

In this paper, we argue that the determinants and consequences of empowerment practices can be usefully analyzed from the perspective of organizational economics, which provides an alternative theoretical framework for identifying the most prominent structural factors associated with market failures in employment relations. Such factors give rise to transaction costs in employee-employer exchanges and empowerment practices emerge as a model of work organization due, fundamentally, to the need to reduce transaction costs in employee-employer exchange relations. In the next section, we develop a transaction costs and exchange-based model to explain why firms adopt empowerment practices and how such practices impact on firm performance.

3. Empowerment practices as a mode of work organization

Recently, a number of authors (Kaufman, 2012, 2015; Kaufman & Miller, 2011) argued that theoretical advancement in the field of HRM can be substantially strengthened by introducing key concepts and ideas from economic theories. In particular, transaction cost economics has been identified as highly relevant to strategic HRM research (Vázquez, 2004), but its application to the study of empowerment practices remains rudimentary. Wall et al. (2002) briefly discussed the potential contribution that TCE can make to the study of empowerment, but fell short of providing a thorough TCE-based analysis of the subject. In this paper, we choose TCE as the theoretical lens to complement the management literature's focus on the value-creation side of empowerment practices.

Transaction cost economics, as pioneered by Coase (1937) and formally developed by Williamson (1975, 1985), provides a comparative contracting approach to assess the efficacy of alternative ways of organizing (or *contracting*, in Williamson's terms) different types of transactions or exchanges. The concept of transaction costs is defined broadly, and includes any costs incurred by information searching, negotiation and enforcement of contract during an economic exchange.

In the context of employee-employer relations, a transaction or an exchange occurs when "each individual gives something of value (for example, labor) and receives something of value (for example, money) in return" (Ouchi, 1980, p.130). In markets, exchange is coordinated by price mechanisms. But in firms, employee-employer exchanges are governed by employment relations. An employee is assigned a job by the employer and earns wages in exchange for accepting the employer's authority and right to direct and monitor the employee's work (Ouchi, 1980). Although manifested as a form of exchange distinct from discrete market transactions, employee-employer exchange, in essence, is one form of economic exchange and provides the basis for TCE analysis.

An economic analysis of the determinants of empowerment practices requires a comparison of such practices against alternative modes of work organization. In employment relations, the most salient alternative mode to empowerment practices is the conventional authority mode, which grants employers the authority and power to closely monitor, evaluate and direct employees' activities (Williamson, 1975). In comparison to empowerment practices, the authority mode is a "non-advanced" approach toward employment relations characterized by a transactional and low-commitment relationship between the employer and the employee. The main benefit of the authority mode of work organization is the level of efficiency derived from the high degree of organizational control afforded to managers. However, such a mode incurs transaction costs as it requires the employer to possess sufficient information about employees' performance to organize and control their work activities efficiently (Ouchi, 1980). Yet, in practice, knowledge or information about employees is typically dispersed among organizational members, whereby transaction costs are incurred when searching, identifying and evaluating the information necessary to make decisions (Milgrom & Roberts, 1992).

In addition, Jones (1983, 1987) posited that the costs of the authority mode of work organization could arise from activities related to coordinating organizational members' work of different natures. Thus, in this mode of organizing, transaction costs are caused by both information and coordination problems. When such costs become prohibitively high, the conventional authority mode becomes inefficient and the employer (or managers) will have to seek an alternative way of organizing employment relations to overcome information and coordination problems and direct employees' work. Under such circumstances, empowerment practices may emerge as a mode of work organization to economize on the transaction costs of employee-employer exchanges and become a viable alternative to the traditional authority mode that relies heavily on the power and authority of the employer (or managers).

It should be noted that empowerment practices could be studied at the job level (Delery, 1998; Tsui, Pearce, Porter, & Tripoli, 1997). However, the current HR literature is primarily concerned with the influence of empowerment practices on firm performance (Combs et al., 2006; Tzabbar, Tzafrir, & Baruch, 2017; Wall et al., 2002). By focusing on the job level, researchers fail to capture the full range of changes in the division of labor and how empowerment practices as a mode of work organization affect the economic efficiencies of the firm as a whole (Batt, 2001). In this paper, therefore, we will focus on the firm-level analysis. We do so by focusing on a company's core employees to examine the empowerment practices-performance relationship. Core employees refers to the largest group of non-managerial workers who are directly involved in making products or providing services for the firm, such as computer programmers in a software company or sales employees in an insurance company (Osterman, 1994).

In the next section, we take the firm-level employee-employer exchange as the unit of analysis to examine how the two major TCE constructs, which characterize the nature of employee-employer exchange relations, shape firms' decisions to adopt empowerment practices and how these employee-employer exchange characteristics interact with empowerment practices in affecting firm performance.

4. Theory and proposition development

4.1. Determinants of empowerment practices

Within TCE, performance ambiguity and human asset specificity have been identified as the two major characteristics of employee-employer exchange that will determine the level of transaction costs in work organization (Williamson, 1985), which will in turn shape firms' choice of different types of employment relations and subsequent firm performance. Below, we first hypothesize about the ways in which they determine the adoption of empowerment practices (Fig. 1) and then in Section 4.2 we theorize how such exchange characteristics interact with empowerment practices in affecting firm performance.

Performance ambiguity pertains to the extent to which the employer can easily evaluate and measure employees' performance on their job tasks. Two sources of performance ambiguity are identified in the literature—technological nonseparabilities, and requirements of initiative and judgment (Williamson, 1985). First, technological nonseparabilities refer to the interdependence of

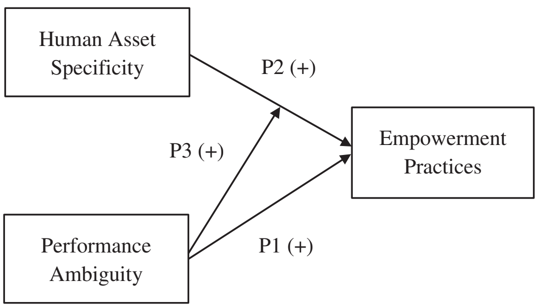

Fig. 1. Human asset specificity, performance ambiguity, and empowerment practices: A transaction costs-exchange perspective.

relations among employees, whereby the failure of one employee to complete his/her work will cause great loss to others (Alchian & Demsetz, 1972). When the jobs or tasks assigned to different employees are closely linked to each other, it would be difficult to measure and monitor employees' performance. Second, high performance ambiguity also arises when employees' jobs and tasks require individuals to exercise a high degree of initiative and judgment (Russell, 1985). When substantial judgment is needed to fulfill job duties, employee performance becomes ambiguous and difficult to measure. These two sources of performance ambiguity have important implications if empowerment practice is to emerge as a more efficient alternative to the authority mode for organizing employee-employer exchange relations.

First, when performance ambiguity is low, the employer will face low transaction costs problem in searching and identifying relevant information about employees' performance. In addition, as performance ambiguity often arises from task interdependence, low performance ambiguity denotes that employees work relatively independently. Under such circumstances, the authority mode of work organization is feasible as employers can direct and monitor individual employees' activities at a low cost. Employers can compare their employees' work conditions with other employers to ensure that their employees receive fair pay and conditions. As a result, there is no strong need for sharing information.

Similarly, under the condition of low performance ambiguity, employees will also face little transaction costs problem in establishing whether they have received fair treatment from employers, as the labor market provides sufficient information for comparison. Accordingly, it is not imperative for employees to have more autonomy or decision-making rights. Instead, employers may be better able to allocate jobs to employees, and direct and coordinate largely independent work activities in a way that is conducive to the improvement of firm performance. It follows that the nature of such employment relations may render the extensive use of empowerment practices counterproductive.

Indeed, the adoption of empowerment practices also entails transaction costs. For example, there are costs involved in providing extensive training to develop employees' decision-making abilities to better use their delegated authorities (Cappelli & Neumark, 2001). There are costs associated with the socialization process needed to establish a shared organizational culture for promoting employees' commitment to the empowerment practices as well as for providing employees with clear expectations regarding how empowered employees should behave (Mills & Ungson, 2003). Setting up a proper communication process to transfer information from the employer to the employees also incurs transaction costs (Kim, 2005).

When tasks are largely independent, outcomes are observable and measurable, and employees lack incentives to work collaboratively, introducing empowerment practices will attract more costs than benefits. Such low performance ambiguity means that the transaction costs involved in empowerment practices may outweigh the transaction costs in using the authority mode of work organization; it also implies that the costs of using such advanced HR practices may be greater than the potential gains.

Second, when performance ambiguity is high, an employment contract that stipulates the rights and responsibilities of employees will be difficult to draft and enforce. The void created by such an incomplete contract can be filled with the authority afforded to employers, and they can exercise their discretionary power to carry out such employment relations. But employees are likely to resent such managerial discretion and engage in opportunistic shirking in their jobs (Barringer & Milkovich, 1998; Jensen & Meckling, 1992) or quality shading by providing perfunctory performance instead of consummate performance (Fehr, Hart, & Zehnder, 2009). In addition, performance ambiguity means it is difficult for employers to search and collect information related to employees' work activities. Consequently, it will be hard for employers to detect and control employee opportunism based on authority.

In addition, high performance ambiguity often arises from the interdependent nature of work (e.g. new product development), which requires employees to coordinate with each other constantly while exercising initiative and judgment in their own work. The traditional authority mode of work organization cannot meet such requirements, as it will result in managers micro-managing a large number of interdependent work activities of which they may have very little knowledge. In such situations, relying on managerial authority or fiat will contribute to high internal transaction costs of searching, collecting and monitoring information related to employees' work.

As an alternative system of work, empowerment practices provide a solution to transaction cost problems by transferring a range of decision-making authorities to employees through mutual agreement between employers and employees. For employees, high performance ambiguity makes it difficult to compare their work with others in the external market. Hence, they may demand more decision-making rights to ensure that they have control over their work and to avoid employer opportunism (Vázquez, 2004). For employers, granting decision-making power to employees reduces the need for identifying, collecting and evaluating a large amount of information related to work performance. To facilitate the effective transfer of decision-making rights, it is necessary to share information about the firm's vision and performance with employees, so that employees can make decisions congruent with the firm's goals.

Finally, as high performance ambiguity also arises from the interdependent nature of work, empowerment practices, such as the establishment of self-managing teams, allow employees to gather relevant information from teammates and prompt employees to work as teams, which reduces communication and coordination costs. Reliance on team authority and accountability when carrying out interdependent tasks also enhances individual feelings of competence and influence on firm performance (Kirkman & Rosen, 1999). Compared to the authority mode, which relies heavily on a handful of executives/managers to direct work, self-managed work teams that have better information sharing and greater autonomy and authority should be able to make better decisions (Seibert et al., 2004). Under conditions of high performance ambiguity, therefore, the authority mode of work organization becomes ineffective and the alternative mode of empowerment practice tends to emerge.

Proposition 1. The higher the degree of performance ambiguity, the more likely that empowerment practices will be adopted by firms.

Asset specificity is another key TCE construct that shapes the organizational arrangements for economic exchanges. Among the different forms of asset specificity described by Williamson (1985), human asset specificity is the most relevant in the context of employee-employer exchanges. Human asset specificity refers to the specialized knowledge, skills, and working relationships an employee gains through work experience in a particular company (Williamson, 1979, 1985). Such skills and knowledge arise in a learning-by-doing fashion and create specific, rather than general, human capital (Anderson, 1985), and hence are more valuable inside a particular employment relationship than outside it (Vázquez, 2004). An example of human asset specificity is Walmart employees' accumulated knowledge about Walmart's idiosyncratic hub-and-spoke distribution system in its rural stores. While such employees' knowledge constitutes important firm-specific human capital for Walmart, Walmart employees who understand the unique distribution system cannot easily apply this knowledge if they move to rival firms (Campbell, Coff, & Kryscynski, 2012).

Human asset specificity in the form of firm-specific knowledge and skills is to be distinguished from employee-specific knowledge and skills (Russell, 1985), which are tied to individual employees and can be equally useful to other employers. For example, during their work, sales employees may develop valuable knowledge of and personal ties with clients; but these knowledge and skills are often tied to individual sales employees, especially when the customer loyalty to a salesperson arises and the identity of a salesperson matters to the customer (Anderson, 1985). A salesperson can develop such customer-specific knowledge and skills but they are not tailored to any particular employer, which makes such assets general rather than specific human capital.

It should also be noted that firm-specific knowledge and skills take a set of underlying abilities to develop, and these capabilities are likely tied to employees and may be valued by other firms. However, this is a theoretically different discussion from the classical TCE concept of human asset specificity. In this paper, we distinguish firm-specific knowledge and skills from the ability to acquire such knowledge and skills (Coff & Kryscynski, 2011) and follow Williamson's notion of human asset specificity, which refers only to those firm-specific knowledge and skills employees gain from their learning by doing within a company, such as Walmart employees' intimate knowledge of the company's unique distribution system in its rural stores.

When human asset specificity is low, employees' job tasks require a low level of firm-specific knowledge and skills. Since such knowledge and skills can be utilized to perform the same or similar tasks in other firms, the transaction costs of switching to alternative employers or employees are low. When employers are not satisfied with the performance of particular employees, they can replace them with others that have the same set of non-specialized knowledge and skills. Meanwhile, employees can also find other jobs with their generic knowledge and skills. Neither employers nor employees have the incentive to invest time and resources in sharing information and decision-making rights.

In addition, employers may not be interested in establishing self-managing teams, because efficient self-managing teams require employees to have in-depth understanding of fellow workers' aptitudes, abilities, strengths and idiosyncrasies (Ahmad & Schroeder, 2003), which is a type of tacit and firm-specific knowledge and which requires costly investment to develop. As discussed earlier, the use of empowerment practices also entails transaction costs in areas such as extensive training for employees with respect to how to use the allocated authority, the socialization process that promotes employees' commitment to empowerment practices, and communication costs associated with transferring information from the employer to the employees (Kim, 2005; Mills & Ungson, 2003). Investing in empowerment practices will only be justified if parties expect to be tied together due to the firm-specific knowledge and skills developed in the course of the employer-employee exchange. When human asset specificity is low, however, the employee-employer exchange resembles an arm's-length contractual relationship (Williamson, 1985) and the transaction costs involved in the use of empowerment practices will outweigh the costs of using the authority mode of work organization, which will be an efficient, low-cost means of governing the exchange relationship under such circumstances.

When human asset specificity is high, on one hand, employee mobility is limited because employees have invested in knowledge and skills that are tailored to a particular employer and that are of little value to other employers. From a psychological contract point of view, employees' investment in highly firm-specific knowledge and skills represents substantial commitments to a particular employer with the expectation that such commitments will be reciprocated with job security and/or high pay (Rousseau, 1995). But, psychological contracts are fundamentally an individual's belief regarding reciprocal obligations, and the violation of psychological contracts do occur, either because employers hold different views of the existence and terms of a psychological contract or because of employer opportunism (Rousseau, 1990).

On the other hand, human asset specificity also makes employers vulnerable to employees possessing firm-specific knowledge and skills, as employers will find it hard to replace such employees, thus creating a mutual holdup situation (Williamson, 1975). To protect their investment in firm-specific human assets, employees may use this bargaining power to negotiate with employers for greater access to firm information, more decision-making rights, and greater power (Brown, Gianiodis, & Santoro, 2015).

From the employer's perspective, human asset specificity increases potential shirking behavior from employees and, when coupled with bounded rationality, human asset specificity also means that it will be very difficult to specify all the contingencies of future exchange relationships in a standard employment contract where the employee accepts the employer's authority in return for payment. In such situations, firms will find it more costly to use the authority mode to collect information related to work, and to monitor employees' behavior and conduct in their work activities.

Firms will also find that the costs arising from training, socialization, or communication for the purpose of empowering employees are relatively lower than the costs of monitoring employees by using their authorities. In other words, within an employment relationship characterized by high human asset specificity, employers are also more willing to negotiate with employees a more sophisticated arrangement of work practices than relying on traditional employment contracts that are more costly in design and less effective in implementation. It is also a strategy for managing the threat of turnover, as it makes employees more satisfied and willing to stay (Coff, 1997). From a psychological contract point of view, empowerment practices are more likely than a traditional employment contract to give rise to the beliefs in mutual obligation, commitment, and reciprocity, especially when human asset specificity is high. Therefore, empowerment practices are more likely to be favored by firms when human asset specificity is high.

Proposition 2. The higher the degree of human asset specificity, the more likely empowerment practices will be adopted by firms.

Transaction cost economics predicts that the two characteristics of the employee-employer exchange exert not only independent influences on the adoption of empowerment practices, but may also interact in shaping such decisions. Specifically, we argue that performance ambiguity will increase the likelihood of empowerment practice adoption under conditions of human asset specificity. First, when performance ambiguity is high, the positive link between human asset specificity and empowerment practice adoption is stronger. This is because high performance ambiguity means that the employer will have no reliable information for detecting and mitigating employee opportunism through the design of employment contracts that stipulate employee performance. Under such circumstances, human asset specificity poses a greater threat to the viability of the authority mode of work organization due to the high costs of terminating employment relationships. In other words, high performance ambiguity makes it more difficult to monitor employees' work and increases the appropriation hazards of human asset specificity. To make the employee-employer exchange relationship work, it becomes imperative to transfer a substantial degree of decision-making power and authority to employees in order to incentivize their commitment/investment in firm-specific human capital. Embracing practices such as 'autonomy through boundaries' and 'team accountability' can release both employers and employees from engaging in costly haggling and monitoring of each other's activities. Thus, performance ambiguity will strengthen the positive effect of human asset specificity on the adoption of empowerment practices.

Second, when performance ambiguity is low, the positive link between human asset specificity and the adoption of empowerment practices is likely to be weaker. Low performance ambiguity means a clear measure of employee performance can be established, thus discounting the threat of opportunism associated with human asset specificity. To the extent that employees and employers can reach mutual agreements on what constitutes good or bad performance, and how good performance can be rewarded and bad performance punished, an authority mode of work organization is conceivable and empowerment practices may be unnecessary. In other words, when performance ambiguity is low, it is likely that an authority mode can efficiently manage employment relations, even if there is a high degree of human asset specificity.

Proposition 3. Performance ambiguity moderates the relationship between human asset specificity and the adoption of empowerment practices such that the positive effect of human asset specificity on the adoption of empowerment practices is likely to be stronger when performance ambiguity is high than when it is low.

4.2. Employee-employer exchange characteristics, organizational performance, and the role of empowerment practices

TCE suggests that employee-employer exchange characteristics not only affect the adoption of empowerment practices but also have implications on organizational performance through increased transaction costs. To mitigate the transaction cost problem, firms may use empowerment practices to address the performance losses caused by performance ambiguity and human asset specificity. Here, we develop a contingency perspective of the relationship between empowerment practices and firm performance by delineating how empowerment practices moderate the effect of employee-employer exchange characteristics on firm performance, as illustrated in Fig. 2 below.

4.2.1. The effect of human asset specificity on organizational performance and the moderating role of empowerment practice

TCE suggests human asset specificity may pose a negative effect on organizational performance due to the high probability of opportunism (Williamson, 1975). Because firm-specific assets are of less value when they are deployed in alternative transactions outside the focal firm, both parties to the transaction or exchange may have the incentive to act opportunistically to expropriate returns from the specialized assets (Carson, Madhok, & Wu, 2006). If one party holds up the other party by ex post bargaining or threats of termination, the other party will suffer and may cease exchange relationships (Klein, Crawford, & Alchian, 1978). Thus,

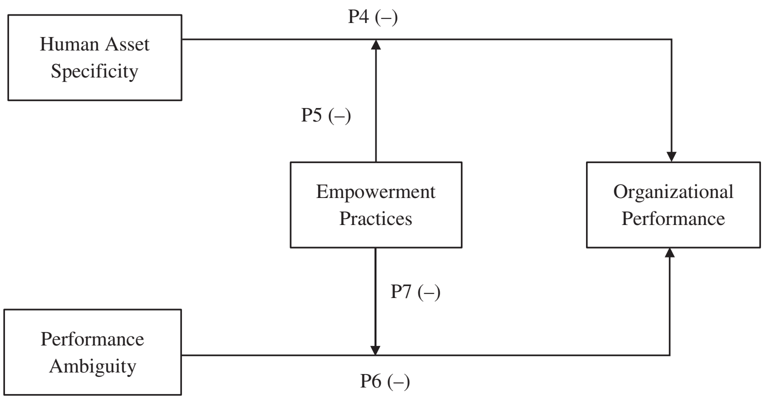

Fig. 2. Empowerment practices as a moderator of the link between human asset specificity, performance ambiguity, and organizational performance.

asset specificity is regarded as detrimental to organizational performance.

In the context of employment relations, human asset specificity poses a great threat to the employee-employer exchanges when one side or both parties try to hold up the other through ex post bargaining (Brown et al., 2015; Coff, 1997). Two possible consequences follow. First, firms may suffer from unwanted employee turnover when the contractual relationship between employer and employees is broken and terminated. Second, firms may incur higher monitoring costs. This is because the more specific the human assets, the less complete the employment contracts and the more costly the interventions required from the management hierarchy (Menard, 1997). In either case, firm performance will be compromised. Thus, we expect that human asset specificity will reduce organizational performance:

Proposition 4. Human asset specificity is negatively related to organizational performance.

The negative impact of human asset specificity on firm performance, however, can be mitigated by the use of empowerment practices. This is because empowerment practices give rise to a feeling of psychological ownership that promotes employees to think and act as the owner of the firm (Pierce & Furo, 1991). Psychological alignment of employees' and the employer's interest will relieve the threat of opportunistic turnover (Sieger, Zellweger, & Aquino, 2013). Therefore, the problems of potential turnover due to human asset specificity can be alleviated by the adoption of empowerment practices.

In addition, empowerment practices involve the transfer of decision-making authority to self-managed teams rather than individuals. Management research on teams has demonstrated that such advanced HR practices can mitigate the problem of opportunism through incentivizing employees within self-managed groups to establish norms among themselves about how to work together and how to set up boundaries between individual employees and groups around issues of intimacy and authority (Ancona, 1990; Dyer, 1977). By promoting such group cohesiveness, empowerment practices effectively serve as a cultural check on opportunism (Williamson, 1985) and foster a relational contract based on reciprocal obligations between employers and employees (Rousseau, 1990), without the need to resort to internal hierarchy for mitigating the transaction cost problem associated with human asset specificity. From an external perspective, such teams can respond to external market demands more quickly and effectively and contribute to better organizational performance (Ancona, 1990). Thus, research on teams corroborates the TCE argument on the ability of empowerment practices to weaken the negative impact of human asset specificity on firm performance.

However, for firms that do not adopt empowerment practices, the nature of their employment relations is more likely to be characterized by transactional contracts, which is based on arm's length monetizable exchanges between employers and employees (Rousseau, 1990). In the absence of long-term obligations and commitments, employers will find it difficult to effectively control the potential employee opportunism and potential turnover (Gunderson, 2002). As a result, such firms may suffer from a higher level of internal transaction costs in managing employee-employer exchange relationships (Nordhaug, 2004), and the negative effect of human asset specificity on organizational performance will be more pronounced in such firms. Based on the above discussion, we suggest:

Proposition 5. Empowerment practices weaken the negative relationship between human asset specificity and organizational performance such that this relationship is weaker in organizations adopting empowerment practices than in those not adopting such practices.

4.2.2. The effect of performance ambiguity on organizational performance and the moderating role of empowerment practice

TCE also suggests that performance ambiguity has a negative impact on performance. When individual employees' contributions are difficult to discern, there is a high degree of information asymmetry between employees and employers (Alchian & Demsetz, 1972). Moral hazard may arise as employees may act opportunistically to shirk on their jobs, and it is difficult for the employer to collect work-related information and monitor the employee's actions (Jensen & Meckling, 1976). Moral hazard may also arise when employees attribute success at work to themselves and blame failure on other employees (Eisenhardt, 1989). Consequently, performance ambiguity will lead to substantial information costs, which will in turn have a negative effect on performance.

Management literatures also reach the same conclusion on the negative relationship between performance ambiguity and firm performance. For example, research on teams suggests that performance ambiguity may result in a propensity to withhold effort on the part of employees because employees may have limited understanding of how their job performance contributes to the organizational performance (Gladstein, 1984; Kidwell & Bennett, 1993). Performance ambiguity can also contribute to the problems of free riding (Albanese & Van Fleet, 1985) and social loafing in groups, which refers to employees' tendency to reduce effort when working collectively compared with individually on the same task (Williams & Karau, 1991). In addition, as employers cannot establish clear performance-based rewards, performance ambiguity may lead to a low degree of expectancy and generate a low degree of employee motivation to contribute to the organization (Vroom, 1964). Thus, the current management literature supports the TCE prediction:

Proposition 6. Performance ambiguity is negatively related to organizational performance.

The adoption of empowerment practices can weaken the negative influence of performance ambiguity on organizational performance as practices like information sharing, autonomy through boundaries, and team accountability can reduce employees' incentive to engage in shirking behavior and promote employees' motivation to contribute to their organization. In the absence of empowerment practices, organizations relying exclusively on managerial power face limited resources to detect and deter employees' opportunistic behavior (Coff, 1997). As a result, greater internal monitoring costs will have to be incurred when managing employment relations.

When organizations adopt empowerment practices, employees will have greater access to company information that was previously available only to senior managers, and they will also enjoy greater autonomy and discretion over how they perform their jobs (Wall et al., 2002). The result is often that employees will have a strong sense of ownership of the firm and tend to think and act as the owner of the organization (Pierce, Kostova, & Dirks, 2001). In such employer-employee exchanges, a psychological contract involving reciprocal obligation and mutual commitment tends to emerge (Rousseau, 1990, 1995), and employees will be much less likely to shirk from responsibilities or to withhold work-related information that has implications for firm performance (Coff & Kryscynski, 2011). Thus, empowerment practices can weaken the negative effect of performance ambiguity on organizational performance by mitigating the substantial transaction costs associated with employee opportunism and by bonding employees and the employer together psychologically. Therefore, we propose:

Proposition 7. Empowerment practices weakens the negative relationship between performance ambiguity and organizational performance such that this relationship is weaker in organizations adopting empowerment practices than in those not adopting these practices.

5. Discussion

Complementing the current management literature's focus on the value-creation side of empowerment practices, this paper offers an alternative transaction cost-mitigation perspective to explain why firms adopt empowerment practices and how such practices affect firm performance. This paper represents the first attempt to systematically develop a transaction cost-exchange perspective of empowerment practices with both theoretical and practical implications.

5.1. Implications for research

First, answering the calls to use economic theories to advance the field of strategic HRM (Kaufman, 2012, 2015), we build a theoretical model that highlights economic efficiency as an important but under-studied driver for empowerment practices. This transaction cost-mitigation perspective does not mean that we see efficiency considerations as the only motivations for adopting empowerment practices. It simply means that we believe such considerations, based on a solid TCE analysis, offer a useful alternative to the current management literature, which draws on theoretical perspectives pertaining to various value-adding aspects of empowerment practices. The paper thus joins the previous research on empowerment practices to enrich the literature with a more balanced understanding of the topic.

Second, our model provides a strong theoretical foundation for the reasons why the adoption of empowerment practices generally improves firms' performance. The existing literature has examined this question by focusing almost exclusively on the value-adding aspects of empowerment practices. We add to the literature by offering a transaction cost-mitigation explanation. Specifically, we develop a contingency perspective to demonstrate that empowerment practices can be used to weaken the negative effect of human asset specificity and performance ambiguity on firm performance. Thus, our model reveals the previously under-theorized complex joint effects of empowerment practices, human asset specificity, and performance ambiguity on firm performance.

Third, the paper extends the TCE analysis to the internal organization of firms. While TCE has been widely employed to explain inter-organizational transactions, thus far, it has received relatively little attention in the context of intra-organizational transactions, such as employee-employer exchanges. Several scholars have claimed that the emphasis of TCE on opportunism and hierarchical control limits its application and generalizability to contemporary firms characterized by high levels of employee involvement (Aoki, 1989; Ghoshal & Moran, 1996; Spencer, 2013). This research challenges this view and demonstrates that TCE is a useful tool for analyzing internal empowerment practices in organizations. Primarily concerned with coordination problems between trading parties in external markets, conventional TCE wisdom is that the more specific the human assets, the more control needed to reduce the transaction costs associated with *ex ante* negotiation and *ex post* motoring in market exchange relationships. Instead, we argue that, within the internal organization of a firm, the more specific the human assets, the less effective the discrete interventions from managers/employers will be for a number of reasons. First, managers will find it difficult to police and direct work activities that are of a highly specialized nature. Second, employees with highly specialized knowledge and skills are hard to replace and hence possess stronger bargaining power. Third, such employees often desire a strong sense of ownership toward their work, making the authority mode of work organization counterproductive, as it undermines the incentive structure desired by highly trained and specialized employees. In other words, the consideration of the internal transaction costs of monitoring and negotiation leads to the choice of more substantial transfer of decision-making power and authority in the presence of highly specialized human assets. Consequently, under these conditions, empowerment practices will be the preferred mode of work organization to economize on such transaction costs in employment relations.

5.2. Implications for practice

Kaufman (2012) argues that using an economics-based theoretical framework to study HR topics can offer an actionable set of managerial principles based on solid economic logic and predictive power. In this paper, we believe that such an economic way of thinking complements (rather than substitutes for) the existing management literature and provides managers with a more balanced view toward their decision-making regarding the adoption of empowerment practices. First, both academics and practitioners have advocated empowerment practices as the “best practice” for enhancing employee productivity (Evans & Davis, 2005) and firm performance (Maynard et al., 2012). Yet, despite their many psychological, motivational and strategic benefits, empowerment practices as a mode of work organization are not without costs. The use of empowerment practices entails transaction costs, from extensive training for employees with respect to how to use the allocated authority, and setting up socialization processes that promote employees' commitment to empowerment practices, to communication costs associated with transferring information from the employer to the employees (Kim, 2005; Mills & Ungson, 2003). Managers should choose to use empowerment practices over the traditional authority mode of work organization only when the transaction costs of using such practices are lower than the transaction costs caused by performance ambiguity and human asset specificity, including the costs associated with searching and identifying employees' work performance information, costs of monitoring employees' work activities, and the bargaining costs to expropriate returns from the specialized human assets (Brown et al., 2015; Vázquez, 2004),

Second, our theory delineates how empowerment practices can contribute to organizational performance through moderating the effect of employee-employer exchange characteristics on firm performance. Specifically, the second part of our model (Fig. 2) suggests that empowerment practices can be instituted to effectively alleviate employees' opportunistic tendencies and reduce the high costs of monitoring and directing employees' work activities, which in turn helps firms to address the performance losses caused by the negative impact of high human asset specificity and performance ambiguity on firm performance.

Third, previous empirical studies offer conflicting advice in terms of which industries are more suitable for adopting empowerment practices. For example, while Datta et al. (2005) found that empowerment practices are more likely to be found in service sectors with high capital intensity and high growth rates, Combs et al. (2006) argued that such practices are more likely to be found in manufacturing industries. In this paper, we want to caution against oversimplified advice based on industry characteristics. According to TCE, the nature of firm-level employee-employer exchange relations, rather than industry-level characteristics, should guide firms' decisions on empowerment practices. For example, while service employees' tasks tend to be standardized and easy to monitor in low-end hotels, employees' tasks in similar jobs in high-end luxury hotels may require much greater tacit skills with high human asset specificity. Essentially, a transaction cost-exchange based perspective suggests that managers should carefully examine their employee-employer exchange characteristics, rather than following industry best practice, in determining the adoption of empowerment practices.

5.3. *Limitations and future research*

Our work has some limitations that provide avenues for future research. First, we built our theory on the classic TCE assumption that firms adopt empowerment practices primarily for economic efficiency. However, the downside of the parsimony of our assumption is the comprehensiveness of our model. While the basic premise of TCE is that economizing is most fundamental to any economic organization, including work organizations (Williamson, 1999), we acknowledge that the employee-employer exchange is not merely an economic exchange and humans often take into account more factors than are accounted for by economic theories (including TCE). As the existing literature shows, firms may adopt empowerment practices for psychological, strategic and institutional benefits. Thus, our paper is not intended to investigate an exhaustive list of antecedents to empowerment, and we acknowledge the need for theoretical integration to advance our understanding of the subject. However, before such attempts, care must be taken to clearly differentiate the various theoretical perspectives and compare their implications in different settings, rather than blur their distinctions (Maitland, Bryson, & Van de Ven, 1985). We suggest that such theoretical integration should proceed in two steps. In the short term, we call for studies that focus on developing and testing competing hypotheses on the relative importance of efficiency-seeking versus value-creation consideration for empowerment practices by, for example, comparing the predictive power of TCE and RBV. In the longer term, we call for studies that integrate TCE with organizational psychology, RBV and institutional theory to provide a more comprehensive multi-level theory of empowerment practices.

Second, the TCE logic of linking specific exchange attributes to contractual/organizational arrangements might be reversed in the context of employment relations. For example, it is possible that the adoption of empowerment practices, which involve the transfer of high levels of decision-making rights and power, would necessitate greater investment in specialized human assets (Chabaud, 2000). In other words, human asset specificity may be the outcome (rather than the determinant) of firms' choices of empowerment. While we did not adopt this non-TCE argument in our model and proposition development, we nonetheless recognize that the causal link between human asset specificity and empowerment practices may be framed in both directions. Future empirical research might develop and test competing propositions to establish whether the exogenous condition of human asset specificity leads to the adoption of empowerment practices, or the firm's *ex ante* strategic choice of empowerment practices determines the *ex post* organizational characteristic of human asset specificity.

6. Conclusion

The paper enhances our understanding of how empowerment practices are adopted to economize on transaction costs arising from performance ambiguity and human asset specificity of employee-employer exchange relations. Our model also clarifies how empowerment practices can mitigate the negative effects of performance ambiguity and human asset specificity on firm performance. In sum, the paper contributes to the research on employee empowerment practices by presenting an economics-based theoretical framework that can help both researchers and managers to better understand why firms adopt empowerment practices and how such practices affect firm performance.

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