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Human Resource Management in India: Performance and Complementarity

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Abstract

This is a study of the relationship between HR practices and organisational performance of large-scale enterprises in India. The main survey yielded 252 usable replies from the HR directors. Results show that mutually supportive sets of HR practices do not yield disproportionately superior outcomes than limited and focused individual practices. This highlights the limitations of strategic HRM in an Indian context. It seems there is little immediate benefit in developing sophisticated mutually supporting HR systems if particular firm or regionally relevant interventions yield clear benefits on their own right. These results highlight the limitations in national level institutions made for a general lack of complementarities, and/or that firms do not want to take the risk of over-relying on a specific institutional feature that may be subject to change. We also find that innovative firms are not in any way more likely to adopt best HR practices to a greater degree than their less innovative counterparts. India's weak and uneven institutional coverage may open up more opportunities for HR innovation, but the lack of systemic support means that there are fewer opportunities for the latter to realise its fullest potential.

Keywords: organisational performance; strategic HRM; comparative capitalism; institutions; complementarity; India.

Introduction

This is a study of the relationship between individual and configurations of HR practices and performance within emerging markets, looking at the case of India. There is a considerable body of literature on the relationship between HRM and organisational performance (OP). However, as the literature on macro-institutional analysis alerts us, how well a specific set of practices work is bound up with national institutional setting (c.f. Peng and Delios, 2006; Carney, Gedajlovic, and Yang, 2009). There is only a limited literature on best practices in India (Cooke and Saini, 2015; Bjorkman and Budhwar, 2007), but existing findings suggest that the introduction of best HR practices from abroad yield inferior outcomes to when they

are adapted to suit local realities (Bjorkman and Budhwar, 2007). Again, whilst practices may be often poorly aligned, training and pay are the factors that have the biggest impact (Singh, 2004; Som, 2008). This study seeks to add to the existing HRM literature through providing a more up to date analysis of the relationship between HR systems and performance, and explores why HR in so many emerging markets tends to be poorly integrated.

Although this is not a comparative study of institutional effects, we deploy comparative institutional theory to explore as to why complementary sets of practices might be hard to sustain within an Indian setting, and, by extrapolation, other emerging markets. The Varieties of Capitalism (VoC) macro-institutionalist literature suggests that in emerging market settings, where institutional supports are less developed and more fluid, and institutional coverage less comprehensive, the kinds of complementarities encountered in the advanced societies are less likely to emerge (Hall and Soskice, 2001; 2003). In practical terms, this means that institutions are less likely to be conducive to the emergence and sustenance of sets of higher value added HR practices. When they are present, they are less likely to yield the superior outcomes typically encountered in the advanced societies. Key strands of contemporary institutionalist thinking highlight the extent to which organisations may themselves constitute institutions (DiMaggio and Powell, 1983; Oliver, 1991; Smets et al., 2015); this would suggest that specific firms devise their own solutions, and these may build on or supplement contextual features. Workable solutions may diffuse across a national economy, but the extent to which they do is bound up with macro-institutional circumstances, and the extent to which they support or sustain such solutions (Smets et al., 2015; Oliver, 1991). If they do not, they may engage in institutional entrepreneurship, pioneering and promoting change (Smets et al., 2015).

A growing body of literature on HRM on emerging markets suggests that whilst HRM does not necessarily revert to a default “bleak house” model, characterised by low pay, insecure

tenure, and poor working conditions, there are strong pressures towards this, mitigated by informal networks and conventions (Dibben et al. 2013; Webster and Wood, 2005). This would suggest that advanced HR approaches, whether of the strategic hard or softer cooperative variety, are likely to be less common, and when they are, to have only limited effect on overall organisational performance.

Novel features of this study include the explicit linkage between the relative functionality and integration of HR systems and setting. As such, it seeks to extend the usage of the literature on institutional analysis in emerging markets, through providing more finely grained insights on contextual specificities, and thus provides the building blocks for new comparative work between the latter, giving further insights on complementarity and compatibility in HR practice. Key findings of the study centre on the very limited and spatially constrained incidence of complementary sets or bundles of HR practice, and the key role of sub-national and sectoral specific institutional arrangements in supporting the latter.

Innovations and Complementarity

A central concept within the literature on comparative capitalism is that of complementarity; that is specific sets of institutions and practices yield superior outcomes than simply the sum of their component parts (Hall and Soskice, 2001; 2003). In other words, within some settings, certain practices will work together better than others. As noted above, in contexts where institutional supports are less developed or fluid, it has been argued that particular sets of practice are less likely to dominate, reflecting less developed complementarities (Hall and Soskice, 2001; Amable, 2003). This means that whilst specific individual HR interventions may work quite well in a range of settings, it is unlikely that one will encounter dominant bundles of HR practices across such economies, and they are unlikely to work any better than the sum of their component parts. Recent work on institutional complementarity in emerging

markets suggests that it may afford firms competitive advantages, but, given higher levels of uncertainty and risk, firms may seek to wean themselves off over-relying on a specific combination of rules, strategies and practices (Luiz et al. 2017).

Alternatively, it has been argued that, within more fluid or changing settings, there is greater room for innovation that will challenge and ultimately marginalise traditional ways of doing business (Dore, 2008). Indeed, it has been argued that large individual emerging markets may each represent unique types of capitalism, and, that India and China in particular, have emerging complementarities (e.g., Carney & Gedajlovic, 2002; Meyer, 2006; Estrin & Prevezer, 2011). What characterises the Indian institutional setting? There is a wide body of literature that argues the nature of institutional formation moulds present practice (Iyer, 2010; Dirks, 2011; Acemoglu et al. 2014). Acemoglu et al. (2012) argue that a key difference is whether or not colonies had significant European settlement. In the case of the former, greater attention was accorded to erecting 'mini-Europes', with a greater focus on the rule of the law. In the case of the latter, institution building centred on facilitating exploitation and wealth extraction. In the post-colonial period, this legacy has persisted. India represents a quintessential example of a major colony where the main concern of the colonial power was expropriation of wealth, rather than the promotion of indigenous industry, and the deepening of private property rights. This made for a persistently weak rule of the law, great variations in the quality of educational and physical infrastructure. This coupled with a lack of coherent support for productive areas of economic activity posed challenges for firms seeking to raise their game and move over to higher value added production paradigms (Iyer 2010; Dirks, 2011).

This is somewhat at odds with influential theories of legal origin, which suggest that common law systems (such as India) are associated with stronger private property and weak worker

rights, and hence, an optimal environment for firms free reign to adopt optimal strategies leading to strong performance and overall growth (La Porta et al. 1999). However, Koehling (2002) argues that the Indian judiciary is weak, with a long backlog in cases, and unpredictable court decisions governing both owner and worker rights. In short, it is not just the tenets of the corporate law that matter, but also the mechanisms as to how it is enforced, and the relative resources successive leaders have been willing to accord to this. Estrin and Prevezer (2011) argue that, in some states of India, weak or ineffective formal institutions have, in some states of India, led to the development of ‘substitutive’ informal institutions, which provide an alternative basis for corporate governance and the regulation of labour (c.f. Banerjee and Lyer, 2005). Although such informal arrangements can be quite effective, they make for lower levels of predictability, and may prove daunting for outsiders to penetrate or make sense of (Wood and Frynas, 2006; c.f. Horwitz, 2015). Cooke and Saini (2015) concluded that shortfalls on institutional arrangements and the law meant that choice of work and employment practices is largely a matter of choice left to the firm. This means that whilst many firms will default to low value added production, there is genuine space for innovation. This does not mean that Indian institutions remain locked in a sub-optimal trajectory; indeed, aspects of firm level local, regional and national institutions may be quite effective in supporting specific types of firm practices within particular regions and sectors, even if mature complementarities remain elusive (c.f. Zattoni et al., 2009; Chittoor et al. 2008; Elimbilassery et al., 2018). In this study, we further explore the types of solution that may be developed by firms in response to contextual constraints and enablers.

Institutional arrangements are not always perfectly aligned or mutually supportive. This aspect of not being in perfect or near perfect alignment and mutual support is likely to be most pronounced in emerging markets (Wood and Frynas, 2006; Wood et al. 2019). This makes the question of internal diversity within national institutional frameworks particularly salient. One

major delineator of internal diversity is on regional lines. Within some national contexts, two or more systems of corporate law may be operative, an example being England and Scotland (Deakin et al. 2007). National governments may be more inclined to provide financial support to, and support active industrial policies, in some regions rather than others for historical or political reasons (Hudson, 2006). And, as the literature on industrial districts alerts us, firms may develop particular close overlapping sets of relationships, supporting a specific production regime (Crouch and Voelzkow, 2004; Crouch et al. 2009). Examples would range from manufacturing in Italy's Emilia Romagna, to the IT ecosystem around Bangalore in India (Chaminade and Vang, 2008; Crouch et al. 2009). Hence, national or regional institutional arrangements may be particularly conducive to one or more industrial sector. Again, diversity in the outcomes of a specific set of national institutional arrangements may reflect the extent to which they are again conducive to particular industries countrywide (Hall and Soskice, 2001; Crouch et al. 2009). A widely cited example would be incrementally innovative manufacturing in coordinated market economies (Hancke et al. 2007). Although emerging markets are less likely to have such durable bases of competitiveness, individual emerging markets may nonetheless develop a globally competitive niche in a particular area, particularly in such a large and internally diverse country such as India (Chaminade and Vang, 2008).

Existing Evidence on HR in India

Although there has been growing interest on HRM in India, the body of empirical research is still a developing one, with a disproportionate focus on the challenges faced by MNEs (Azmi and Mushtaq, 2015; Sparrow and Budhwar, 1997b; Bjorkman et al., 2008; Budhwar and Varma, 2010). Saini and Budhwar (2004) note that the evolution of the Indian HR paradigm was characterised by a number of distinct phases. In the colonial era, a range of legislation provided a basic degree of protection for employees – and their unions; these regulations helped

underpin the evolution of the personnel function within larger Indian organisations, with a focus on due procedures and bureaucratic predictability (c.f. Pereira et al. 2018). With this went the evolution of the personnel function; the rise of HRM in the West was partially emulated in India, although in practice, the primary emphasis has been on Human Resource Development (HRD) (Saini and Budhwar, 2004). The latter has often taken the form of a uncritical relabelling of the personnel functions as HRD, although over time, pockets of firms have modernised their systems, with an according rise in the status of the HR function (ibid.; James and Jones, 2014). Recent existing work points to pockets of modernisation, and growing evidence as to the functionality of specific sets of practices, but at the same time, constraints on their widespread diffusion (Pereira et al., 2018; Arunprasad, 2017; James and Jones, 2014). For example, Pereira et al (2018) encountered the development of high performance work systems in the Indian railways in line with the development of the HR function, in a sector not historically renowned for its dynamism. HPWS are also making strong inroads into the globally competitive areas of the Indian healthcare industry, associated with more sophisticated HR systems, deploying elements of ambidexterity (Malik et al., 2017).

In comparing HRM in India with a panel of other countries, Budhwar and Sparrow (1997a) found that, whilst each country pursued a distinctive national HRM recipe, India emerged as an island, with distinct features in organisational culture and practice (also see Hofstede, 2007). It has been argued that India not only faces wide-ranging political and developmental challenges, but also a wide range of practical HR problems, spanning relatively low productivity to high absenteeism (Budhwar and Varma, 2011). Again, despite a large pool of graduates, Indian firms have to contend with chronic skills gaps (in part, a reflection of limitations in vocational training (ibid.)). However, the liberalisation of product and labour markets, and divestments in the public sector together have forced organisations to seek efficiency gains and, in the case of better capitalised players, to move over to more capital

intensive production paradigms (ibid.). In turn, such tendencies may lead to fewer and better rewarded jobs in medium and larger firms following higher value added production paradigms, as well as increasing numbers being relegated to work that is insecure in terms of both job and occupation. This might suggest the emergence and persistence of pockets of higher value added sets of HR practices within the former (Budhwar and Varma, 2010).

Sparrow and Budhwar (1997b) found a low degree of integration and devolvement of the HR function in Indian organisations, although they did encounter within some firms, similarities with the practice of strategic HRM in the advanced societies. Stumpf et al. (2010) argue that there has been increasing emphasis placed on the latter and, more particularly, on performance management and professional career development. It was found that, when such practices were perceived as effective, employees had more positive attitudes in regard to their career prospects within the organisation. Nonetheless, they found much variation according to both region and sector (ibid.). Again, Bjorkman et al. (2008) found that, within MNEs operating in India, the usage of expatriates, and individual HR manager's backgrounds played an important role in determining the HR policies and practices of the subsidiary; again, this would suggest that firms have considerable room for manoeuvre within the Indian context. In other words, there was considerable room for innovation, even if the institutional supports for any particular approach were weak. Hence, Holtbrugge et al. (2010) found that the specific resources of the organisation had a considerable impact on recruitment and retention. Budhwar and Sparrow (2002) further found that, within India, similar HR strategies often led to very different outcomes. Unlike the advanced societies, there was no evidence that particular HR practices yielded better outcomes across large swaths of the national economy (c.f. Hall and Soskice, 2001). Similarly, Som (2008) encountered a lack of synergy between key practices (Som, 2008).

Hypothesis Development

Macro-institutional approaches hold that the relative viability and utility of sets of HR practices is closely bound up with context, and more specifically, combinations of institutional supports (Brewster et al. 2008). In many emerging market settings, the latter are not as closely coupled as they are in the advanced societies, with sub-national institutional dimensions or ‘fixes’ assuming greater importance. Across the HRM literature, there is an assumption that ‘high-involvement practices’, ‘high-commitment practices’ or ‘high-performance work systems’ will yield superior performance outcomes (Kochan and Dyer, 1993; Osterman, 1994; Delery and Doty, 1996; Pfeffer, 1998; Brewster *et al.*, 2008). Within liberal markets, it is held that there is a greater focus on flexibility in terms of remuneration and tenure (Hall and Soskice 2001; Brookes et al. 2005; Brewster et al. 2008; Gooderham et al. 2008). There is close monitoring of performance, with over-performers being financially rewarded and underperformers ejected; in other words, a strong focus on the usage of *extrinsic* rewards. In contrast, in more coordinated markets, there is a greater focus on delegating responsibility to employees, making work more *intrinsically* rewarding, a greater focus on training and development, and higher security of tenure being facilitated through greater care being taken in the selection process. This raises the question as to which of these two models might work better in the Indian context. Some universalistic approaches have suggested that firms would ideally combine elements of both models (Kochan and Dyer, 1993; Delery and Doty, 1996). This might be facilitated when institutional restraints are weak or uneven (Wood and Lane, 2012). Composite approaches to best practices suggest that these encompass recruitment and selection, training, internal career opportunities, extrinsic incentives and reward, and intrinsic incentives and rewards (Darwish, Singh, and Wood, 2015). Prior to testing the hypothesis, we explore whether these items are correlated. The macro institutional literature suggests that formal and informal regulations will support and underpin specific sets of HR practice (Hancke et al. 2007; Wood and Lane, 2012).

Some contexts will be more conducive to high value added or more sophisticated HR systems than others (ibid.). In other words, the extent to which best practices ‘work’ in enhancing the bottom line will depend greatly on context. Jackson and Deeg (2008) argue that those economies that are more effectively coordinated will have denser ties between firms within and across sectors, imparting a greater uniformity on practice. The literature on institutions in emerging markets suggests that complementarities, that is associated and mutually supporting sets of practices, are less common and developed than in the advanced societies (Hancke et al. 2007; Wood and Frynas, 2006). This will be most pronounced in contexts where national level institutional arrangements are weak or poorly coupled (ibid; c.f. Iyer 2010; Banerjee and Lyer, 2005). In practical terms, sets or ‘bundles’ of HR practices will only yield better results than individual interventions, in settings where there are supportive institutional arrangements. Weaknesses in national level institutions means that informal conventions (Horwitz, 2015) and regional institutions assume greater importance; sectoral and local players, and, indeed, firms themselves, seek to devise their own institutional ‘fixes’ to solve the specific problems facing them (Boyer, 2012; Jessop, 2012; Oliver, 1991).

Hence, we hypothesise the following:

Hypothesis 1: The use of specific sets of HR practices encompassing the areas of recruitment and selection, training, internal career opportunities, extrinsic incentives and reward, and intrinsic incentives and rewards will be positively related to financial performance.

The existing literature on HRM suggests that specific industries – those that are knowledge and skill intensive - will be more conducive to the usage of higher value added HR practices (Almond, 2011; Laursen, 2002). Institutional approaches to HRM, based on evidence from the developed world, assume that sets of practices will work better together than when encountered on their own, as optimal practices for a particular context will diffuse, this will make for

commonalities across a particular setting (Webster and Wood, 2005; c.f. Hancke et al. 2007). It can be argued that, individual HR practices, in isolation, may only make a limited contribution to competitive advantage (Barney, 1995). As the literature on capitalist diversity highlights, complementarities may be bounded within specific national contexts; they may be most pronounced in specific regions and sectors (Crouch et al. 2009). The existing literature on institutional legacies and internal diversity in India (Iyer, 2010; Estrin and Prevezer, 2011) suggests that Indian institutions are poorly coupled and bounded in their coverage. Again, there is much variation in state capabilities, and more specifically, great imbalances in educational provision (Iyer, 2010; Chaminade and Vang, 2008; Jain et al. 2018); this would vest in-firm training, and the solutions organisations devise themselves, with particular importance (c.f. Oliver, 1991). Existing research on India has highlighted linkages between training, wages and reward systems, and productivity; more skilled workers are capable of generating higher value (Gupta and Sangeetha, 2017). Whilst better and more effectively rewarded workers may also be more productive, it can be argued that when combined with skills developed, a virtuous circle of higher productive may be secured (Ahlawat and Renu, 2018; Barua and Ghosh, 2017).

Hence, we hypothesise the following:

Hypothesis 2: Investment in people combined with more responsive reward systems will yield disproportionately superior outcomes to the individual practices encountered on their own.

It is widely argued that specific institutional regimes are more conducive to supporting particular types of innovation than others (Crouch et al. 2009); again, where national institutional arrangements are weak or ineffective, then formal and informal institutional fixes at regional or sectoral level will assume greater importance in fostering and sustaining innovation (Boyer, 2012; Wood and Frynas, 2006). In other words, it is not simply a matter of a firm being committed to innovation, or having an innovative strategy, but the extent to which

institutions support it. Again, in a context of weak or ineffective national institutional arrangements, regional or sectoral arrangements assume greater importance (c.f. Iyer, 2010; Banerjee and Lyer, 2005). Despite the shortfalls in national institutions, there are regions in India that have indeed achieved global competitiveness in high tech industries (Chaminade and Vang, 2008). Clusters may be sustained through institutional entrepreneurship, and the support or repurposing of local level institutional arrangements (Smets et al. 2015). Although in many emerging markets, there are strong pressures to default to low value added labour repression, more technology intensive industries may depart significantly from this norm (Chaminade and Vang, 2008). A focus on innovation would require more intensive investments in people management practices than within industries centred on ultra-low cost production (see Huselid, 1995).

Hence:

Hypothesis 3: The relationship between HR practices and financial performance will be contingent on whether the organisation follows an innovative strategy.

This study focuses on the HR practices of large-scale enterprises in the private sector.

Methodology

Data, sample and methods

This study focuses on the HR practices of large-scale enterprises in the Indian private sector. Following the majority of previous HRM–performance work, the unit of analysis in the present work is the organisation, with respondents being HR Directors in the targeted companies. We have followed the traditional practice in HRM-OP research as the majority of studies have targeted HR Directors as the main respondents to collect data on HRM and organisational performance. Further, it is held that people working in such managerial levels can play a crucial

role in communicating a clear and consistent message through the type of HR policies at practices at work: this is likely to shape the responses of employees and ultimately organisational performance (see Bowen and Ostroff, 2004; Wright and Nishi, 2013). Hence, the way in which HR directors report and describe HR practices is of key importance in understanding the relationship between formal practices and performance outcomes. A detailed questionnaire was drafted with the objective to gather the primary data. The survey questionnaire, which had five sections—basic information, personnel information, recruitment and selection, training, retention, incentives and rewards, and corporate culture—asked detailed questions on various attributes of HR. Indian manufacturing sector is populated by micro enterprises (defined as investment in plant and machinery-IPP \leq Rs 25 lacs¹), small enterprises (IPP $>$ Rs.25 lacs and up to Rs 5 crores), medium enterprises (IPP $>$ 5 crores and up to Rs 10 crores). Similarly for services sector the limits are respectively \leq 10 lacs; $>$ Rs. 10 lacs and up to Rs. 2 crores; $>$ 2 crores and upto Rs. 5 crores. In order to have some semblance and avoid too much deviation, it was decided to have uniformity in our data collection. It was decided that for data to be collected from firms reliance would be placed on large firms with annual turnover ranging from Rs one to two thousand crores per annum (app. US \$200-400m). Secondly, it was decided to collect data across a number of sectors with companies located in six centres across India (Delhi, Calcutta, Bombay, Chennai, Bangalore, Indore, and Ahmedabad). Having decided to proceed in this manner it became a challenge to create a population of companies meeting our criteria from which we could select the sample and approach companies for data. We could not, with our limited resources collate such a data set from a number of diversely scattered sources in various ministries and private data companies. After conferring with several private firms, one professional company (Synovate²) was

¹ 1 million = 10 lacs. 10 million = 1 crore.

² Synovate Comcon is a part of the international research network Ipsos, which is in Top 3 of the leading marketing research company worldwide. Globally Ipsos has offices in 84 countries. Now in its 25th year the company has a portfolio of data bases and regular conducts surveys on a large number of diverse topics.

entrusted the task of compiling such a data base from which we could choose our sample. Synovate succeeded in compiling a data set of 300 such enterprises which became the starting point. It was decided to approach all 300 companies which the Synovate first did by writing to them and then following it up with telephones and in some instances seeing them in person. A pilot study was first undertaken following which and after fine-tuning the survey instrument the main survey yielded 252 usable replies. *Post-hoc* checks and balances (see below) tell us that the data collected is highly reliable.

In order to test the stated prepositions, various methods were adopted. In order to test the reliability and validity of the variables under consideration, confirmatory factor analysis was carried out. The descriptive analysis of data includes mean, standard deviation, and zero-order pairwise correlations. Sequential regression analysis is adopted for modelling the data.

Construction of variables

HR practices: Scales were built in order to measure HR practices, innovation orientation and perceived financial performance. Any mixture of HR practices essentially encompasses an element of selectivity (Guest, 1997; Brewster *et al.*, 2008; Darwish *et al.* 2013). Given the intensity of work on HR practices in the literature, the measures of HR practices were developed based on existing measures. Based on Delery and Doty (1996), Pfeffer (1998) and Darwish *et al.*, (2015), our HR measurement scales cover five core practices of HRM: recruitment and selection; training; internal career opportunities; extrinsic incentives and rewards, and intrinsic incentives and rewards. Recruitment and selection posed questions on formal and informal qualifications, and the personal characteristics companies considered when appointing an employee to a middle-grade general management role. The training question related to the most applicable methods adopted when training staff. Internal career opportunities were referred to as the main criteria of individual or group performance used in

assessing cases for promotion. All questions were measured on a 5-point Likert scale, ranging 1 'not applicable' to 5 'always applicable'. Finally, in the incentives and rewards section, questions were asked to cover both extrinsic and intrinsic incentives and rewards. The questions and their items were measured on a Likert scale, ranging from 1 'not important' to 5 'very important'. All items measuring HR practices have proven to be reliable and valid measures, as shown in the analysis of data. We will further discuss the reliability and validity of our measures in coming sections.

Innovation: Following prior contingency interpretations of Miles and Snow's (1978) theory, our innovation variable centres on product/market innovation (see Hambrick, 1983; Shortell & Zajac, 1990; Delery and Doty, 1996). It has been argued that a focus on innovation would require more intensive investments in high-performance work practices than the cost-leadership strategy (see Huselid, 1995). Innovation was measured through the use of 4 Likert-type items adapted from Segev (1989) and Delery and Doty (1996). Like other measures, the strategy measures/items met all the criteria when tested in terms of convergent, discriminant and predictive validities.

Perceived financial performance: In the context of the HRM-performance link, a significant number of studies employed subjective measures to assess performance (see, for example, Delaney and Huselid, 1996; Macky and Boxall, 2007; Razouk, 2011; Singh, Darwish, Potocnik, 2016; Singh et al. 2017). Hence, the present work aims to measure the perceived financial performance of the companies targeted in the Indian context. There is an extensive body of existing work supporting the use of subjective measures to assess financial performance (see, for example, Dess and Robinson, 1984; Geringer and Hebert, 1991; Powell, 1992; Darwish et al. 2017). For instance, Dess and Robinson (1984) and Tzafirir (2005) claim that self-reported measures of performance are acceptable and as equally reliable as objective

measures. Further, on a subset of 52 companies from the US, Powell (1992) highlighted various positive connections between the subjective and objective measures of organisational performance, namely sales growth and profitability. Wall et al. (2004) further argue that subjective measures of performance enable managers to factor in the company's objectives when evaluating their performance, and only limited biases are associated with self-reported performance data. More recently, Singh et al., (2016), based on empirical work conducted on the subjective measures of organisational performance as reported by managers of four sets of companies in four separate countries, have argued that, with careful planning, subjective measures can be successfully employed as a reliable guide to measure organisational performance when comparable performance measures across countries and sectors are difficult to come by. Perceived financial performance was measured by four items on a Likert scale, which directly asked the respondents to rate their main financial criteria compared with their rivals. As shown in the analysis of data, results emphasise reliable and valid items for measuring this construct, namely profitability (post-tax rate of return on assets), growth of total sales, growth of market share, and maximise the share price.

Control variables: We have taken into consideration several control variables owing to their possible association with firms' performance. The size of the firm is widely employed as a control variable in HRM–performance studies, as this may cause significant variations in the potential impacts of HRM practices on performance (see Collins and Clark, 2003). Hence, firm size is employed as a control variable, measured in natural logs (see also Kimberly, 1976; Huselid, 1995) by the number of employees in each company. Further, results may vary by sector as this study covers companies across all industries in India; therefore, we controlled for this factor as well. In order to do so, we created dummy codes representing six sectors. The percentage of sample firms in each sector are as follows: services sector (20%), manufacturing sector (18%), financial sector (15%), oil, gas and petrochemical sector (13%), media and

communication sector (12%), construction sector (12%) and retail and wholesale sector (10%). The services sector was selected as the benchmark sector variable in the analysis, reflecting the highest percentage from the sampled firms, and would be considered more interesting when compared with other groups/ sectors against the majority one (Field, 2009).

Convergent validity

Scales were created for measuring HR practices, innovative strategy and perceived financial performance. Confirmatory factor analysis was conducted based upon the covariance matrix. Hair et al. (2010) suggest three main indicators to establishing convergent validity, which are: factor loadings, average variance extracted (AVE) and the reliability of the construct. Table 1 presents the values of these three indicators. The factor loadings of each construct indicator are significant, ranging from 0.565 to 0.823, thus demonstrating a strong association between constructs and their respective factors. AVE values were higher than the threshold value of 0.50, thus demonstrating adequate convergence of the constructs. AVE values indicate that the variances are greatly explained by the constructs in relation to the variance due to measurement error. Finally, the results of Cronbach's alpha indicate that the scales satisfy the reliability criterion, with values ranging from .70 to .86. Overall, the results provide sufficient confirmation of the convergent validity.

Table 1: Convergent validity (factor loadings, average variance extracted, reliabilities)

Items	Recruitment & Selection	Training	Internal career opportunity	Extrinsic incentives & rewards	Intrinsic incentives & rewards	Innovation	Perceived financial performance
Qualifications (previous experience of a similar job)	.743						
Qualifications (school and university qualifications)	.725						
Qualification (command of languages)	.699						
Qualifications (wide range of work experience)	.684						
Personal characteristics (self-motivation)	.675						
Personal characteristics (single-minded dedication to each task)	.632						
Personal characteristics (independent judgment)	.609						
Personal characteristics (potential to grow with the job)	.605						
Personal characteristics (willingness to travel)	.601						
Personal characteristics (commitment to the company)	.565						
Training provided by a third party-organisation but tailored to company needs		.800					
Formal instructions in-house		.778					
Induction into a group by socialization and imitation		.770					
Informal apprenticeship to an experienced member of the organization		.671					
Contribution to profit			.801				
Overall professionalism			.780				
Effort—-independent of final results			.736				
Value of output-independent of profit margin			.703				
Quality of output			.698				
Keeping within budget			.674				
Annual salary increments above the rate of inflation				.806			
Basic pay above the industry norm				.802			
Basic pay above the local norm in the area				.796			
The opportunity to earn large bonuses through greater efforts				.752			
Valuable fringe benefits				.729			
Better career prospectus than other firms in the same industry				.662			
The prestige of working for one of the top firms in the industry					.823		
Interesting and challenging work					.798		
Job security					.753		
Friendly and supportive colleagues					.718		
Continuous innovation of new and improved-products						.802	
Sophisticated advertising & promotion						.744	
Good long term relations with major customers and suppliers						.675	
Commitment to basic research						.637	
Profitability (post-tax rate of return on assets)							.797
Growth of total sales							.747
Growth of market share							.723
Maximize the share price							.751
Average Variance Execrated (AVE)	.81	.62	.74	.81	.67	.66	.67
Reliability	.86	.74	.83	.85	.77	.71	.70

Discriminant validity

Discriminant validity can be established if the square root of the average variance extracted for a specific construct is greater than the absolute value of the standardised correlation of this specific construct with any other construct (Fornell and Larcker 1981). As a result, the square roots of average variance extracted values were compared with the constructs' correlations from where the results showed that the squared roots of the AVE values were higher than any correlation of the study constructs, thus indicating an acceptable level of discriminant validity as shown in Table 2.

Predictive validity

Ahire et al. (1996) and Garver and Mentzer (1999) suggest establishing predictive validity by determining whether the scales of interest correlate as expected with other measures. In the present work, values for each scale were computed by averaging across scale items. Table 2 presents zero-order correlations for the scale averages. As can be seen from the correlation results, all correlation coefficients are positive and significant, as expected. This would also establish a predictive validity for our scales.

Table 2: Means, standard deviations, discriminant validity and zero-order correlations

Variables	Mean	S.D.	1	2	3	4	5	6	7	8
1. Recruitment and Selection	4.48	.47	.90							
2. Training	4.32	.59	.75**	.78						
3. Internal Career Opportunities	4.47	.54	.74**	.76**	.86					
4. Extrinsic Incentives and Rewards	4.27	.66	.63**	.72**	.69**	.90				
5. Intrinsic Incentives and Rewards	4.47	.57	.66**	.62**	.70**	.57**	.82			
6. Innovation	4.48	.54	.62**	.63**	.69**	.56**	.66**	.81		
7. Perceived Financial Performance	4.50	.53	.61**	.64**	.67**	.58**	.60**	.65**	.82	
8. Log. Firm Size	2.82	.51	.42**	.49**	.46**	.47**	.38**	.41**	.39**	-

Notes: $n = 252$.

** Correlation is significant at the 0.01 level (two-tailed).

* Correlation is significant at the 0.05 level (two-tailed).

^a diagonal elements in bold are square roots of average variance extracted.

Common method variance

As data for both, the predictor and outcome variables come from single respondents, common method bias may lead to inflated or deflated estimates of the relationship between HRM and performance, thus leading to both Type I and Type II errors. Podsakoff and Organ (1986) claim that ‘scale reordering’ could be a useful method for minimising common method variance. This method requires that items related to the independent variables precede items measuring the outcome variable. Our survey instrument was structured in a way that it first placed questions on HRM practices and innovation strategy, and positions performance questions last.

In addition, as recommended by Podsakoff and Organ (1986), Harman’s one-factor test was used *post-hoc* to assess whether or not common method variance is a serious concern. All variable were entered into principal components factor analysis. A considerable amount of common method variance is signalled if a single or one general factor emerges, and accounts

for the majority of the total variance (Steensma et al., 2005). Principal component analysis, with varimax rotation, revealed the presence of seven distinct factors with eigenvalue greater than 1.0, rather than a single factor. The seven factors accounted for 63% of the total variance. Notably, the first factor did not account for a majority of the variance (25%), which explains why no general factor is apparent. The results of Harman's one-factor test suggest that common method variance is not a concern; thus, it is unlikely to confound the interpretations of results (Podsakoff & Organ, 1986).

Results

Descriptive results

Table 2 presents the means, standard deviations and zero-order pairwise correlations of all variables. Correlation coefficients indicate that the relationship between HR practices is significant. A certain amount of correlation between the independent variables is expected; in fact, it is considered a good sign. This suggests that the HR practices are not completely independent. However, the coefficients indicate the variables as not being highly correlated; in other words, no multicollinearity is evident (Tabachnick and Fidell, 2007). This also suggests that, whilst different bundles of HR practices may be complementary (McDuffie, 1995; Hall and Soskice, 2001), it is probable that the optimal configuration may not only be reliant on national context, but also to the sector and the specific characteristics of the firm (Darwish et al. 2015). We can also note that HR practices are significantly related to innovation and perceived financial performance. These significant correlation coefficients may support some of the relationships specified in our hypotheses.

Hypotheses testing

A sequential regression analysis through multiple steps was conducted in order to test our hypotheses. With regards to our first hypothesis, as recorded in Table 3, R^2 for this model is significant ($R^2 = .57$, $F = 25.842$, $p < .001$). It can be noted that the predictors account for 57% of the variation in perceived financial performance. As the results show, with firm size and sectors controlled, there are significant changes in R^2 beyond what the controls significantly explained ($\Delta R^2 = .40$, F for $\Delta R^2 = 39.950$, $p < .001$); this also reflects that the model fits well to the data. However, of all the HR practices analysed, internal career opportunities ($b = .288$, $p < .01$) and intrinsic incentives and rewards ($b = .244$, $p < .01$) are the only practices significantly related to perceived financial performance. This may reflect firms' efforts to achieve their objectives or for considerable attention to be devoted to promotion from within, and social and psychological rewards. With regard to the rest of the HR practices, the results indicate no unique contribution in terms of their relationship with firms' financial performance; in other words, it seems that the firms have effective broad policies to promote from within, insuring the optimal intrinsic incentives and rewards for those who stay committed to their employers. However, other areas—including monetary rewards and willingness to invest in people—appear to have little impact. The first hypothesis is confirmed only partially.

With regards to our second hypothesis, as noted above, existing research suggests that HR practices will have the optimal impacts on performance when combined in complementary sets; an example would be the combination of greater investment in training with more effective reward systems (Ahlawat and Renu, 2018; Barua and Ghosh, 2017). Hence, we decided to test the impacts of HR complementarities on financial performance in the same model in an effort to examine whether or not a single “magic bullet”, on its own, would have the most pronounced effect on performance (Ichniowski and Shaw, 1999). If HR practices are complementary, they

will have a synergistic or mutually reinforcing impact on performance (Huselid, 1995; MacDuffie, 1995; Macky and Boxall, 2007). Hence, researchers who have tested this argument consider the interaction effects (Venkatraman, 1989) amongst HR practices as an indicator of effective HR complementarities (Huselid, 1995). Therefore, we tested for interaction effects. Table 3 presents the standardised regression coefficients for the interaction effects amongst HR practices. Notably, the variance inflation factor (VIF) for the interaction terms was computed to make sure that HR complementarities are not highly correlated. Lower levels of VIF are more desirable as higher levels are known to affect adversely the results associated with a multiple regression analysis. As a rule of thumb, a value greater than 10 is a value at which there should be concern and which would merit further investigation (see Kennedy, 1992; Hair *et al.*, 2010). However, other scholars (e.g., Rogerson, 2001) recommend a maximum VIF value of 5. In our case, as recorded in Table 3, VIF values were all acceptable, ranging from around 1 to 4.

As recorded in Table 3, we entered HR complementarities in the third step. Results show that, although significant, a slight change in R^2 occurred beyond what the controls and the individual HR practices significantly explained ($\Delta R^2 = .04$, F for $\Delta R^2 = 2.037$, $p < .05$). A statistically significant interaction effect was indeed found to impact perceived financial performance: the interaction between training and extrinsic incentives and rewards ($b = 3.185$, $p < .05$). However, no other sets of complementary practices (i.e. those that, when combined, yielded superior outcomes) were encountered.

Table 3: Sequential regressions for the individual HR practices and complementarities prediction^a

Variables	Model 1	Model 2	Model 3	
	<i>Perceived Financial Performance</i>			
	Coefficient	Coefficient	Coefficient VIF	
<u>Step 1: Control Variables^b</u>				
Log. Firm Size	.380***	.012	-.015	
Financial Sector	-.003	-.007	.022	
Media & Communication Sector	.111	.083	.094†	
Manufacturing Sector	-.004	-.002	.014	
Construction Sector	-.012	-.005	-.017	
Retail & Wholesale Sector	.079	-.033	-.029	
Oil, Gas & Petrochemical Sector	-.110	.066	-.005	
<u>Step 2: HR Practices</u>				
1. Recruitment and Selection		.074	-.628	
2. Training		.141	-.961	
3. Internal Career Opportunities		.288**	-.048	
4. Extrinsic Incentives and Rewards		.113	.526	
5. Intrinsic Incentives and Rewards		.224**	.602	
<u>Step 3: HR Complementarities^c</u>				
Recruitment and Selection x 2			2.484	2.35
Recruitment and Selection x 3			-.760	2.34
Recruitment and Selection x 4			2.475	1.37
Recruitment and Selection x 5			2.103	1.31
Training x 3			1.845	3.36
Training x 4			3.185*	2.38
Training x 5			2.295	3.35
Internal Career Opportunities x 4			2.437	1.35
Internal Career Opportunities x 5			2.044	1.32
Extrinsic Incentives and Rewards x 5			-.042	1.34
R ²	.17 (.15)	.57 (.55)	.61 (.57)	
ΔR ²	---	.40	.04	
F for ΔR ²	7.487*	39.950***	2.037*	

Notes: ^a $n = 252$. Standardised regression coefficients are shown. Adjusted R² in parentheses.

^b Services sector is the omitted benchmark sector variable.

^c Numbers refer to HR practices listed above.

† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$.

With regards to the third hypothesis, Table 4 presents the results of the sequential regression analysis. In the primary step, firm size, industries, the strategy measure and HR practices³ were included. In the second step, the interaction terms between each of the HR practice measures and the innovation measure was added to the regression equation. VIF values indicate that no multicollinearity is evident. The increase in the level of explained variation was significant for

³ We entered all HR practices simultaneously as the combination of HR practices a firm uses is more important than individual practices. A more accurate and valid assessment of the HRM–performance relationship can be made when all HR practices are simultaneously entered into the regression equation (for more details on this particular issue, see Huselid, 1993, 1995; Delery and Doty, 1996).

perceived financial performance ($\Delta R^2 = .02$, F for $\Delta R^2 = 2.365$, $p < .05$). However, only one statistically significant interaction effect is found to impact perceived financial performance—the interaction between extrinsic incentives and rewards and innovation strategy ($b = 2.230$, $p < .05$). In addition, two interaction terms were only partially significant: the interaction between recruitment and selection and innovation focus ($b = 1.800$, $p < .10$), and between training and strategy measure ($b = 1.797$, $p < .10$). No significant interaction effects were identified with regards to the rest of the practices. An analysis of the interaction terms demonstrated that firms in India had higher financial returns when using the effective system of extrinsic incentives and rewards combined with careful selection procedures and effective training methods that are consistent with the organisation's strategy. In short, the third hypothesis is partially proved. We will further discuss these findings in the next section in light of theory and practice.

Table 4: Sequential regressions for the contingency prediction^a

<i>Variables</i>	Model 1	Model 2	
	<i>Perceived Financial Performance</i>		
	Coefficient	Coefficient	VIF
<u>Step 1: Control Variables^b</u>			
Log. Firm Size	.000	-.013	
Financial Sector	-.018	-.020	
Media & Communication Sector	.076	.068	
Manufacturing Sector	-.001	-.023	
Construction Sector	.000	-.019	
Retail & Wholesale Sector	-.008	-.007	
Oil, Gas & Petrochemical Sector	-.004	-.001	
Innovation	.249***	-.415	
<u>HR Practices</u>			
1. Recruitment and Selection	.046	-.879	
2. Training	.124	-.355	
3. Internal Career Opportunities	.212*	.270	
4. Extrinsic Incentives and Rewards	.100	.250	
5. Intrinsic Incentives and Rewards	.152*	-.146	
<u>Step 2: Interactions^c</u>			
Innovation x 1		1.800†	3.85
Innovation x 2		1.797†	3.02
Innovation x 3		-.061	2.07
Innovation x 4		2.230*	3.57
Innovation x 5		.527	2.10
R ²	.60 (.57)	.62 (.59)	
ΔR ²	---	.02	
F for ΔR ²	26.247***	2.365*	

Notes: ^a $n = 252$. Standardised regression coefficients are shown. Adjusted R² in parentheses.

^b Services sector is the omitted benchmark sector variable.

^c Numbers refer to HR practices listed above.

† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$.

Discussion

This study explores the interplay of HRM practices and performance, looking at the case of India; it focuses on which configurations of HR practice manifest themselves in India, and what this tells us about contextual dynamics. The results indicate partial support for the stated hypotheses. In the case of our first hypothesis, of all the HR practices, internal career opportunities, and intrinsic incentives and rewards, are found to be statistically significant in terms of their impact on perceived financial performance. This tells us that, in the cultural context of India — and, potentially, other emerging markets economies at similar stages of development — firm performance depends on intrinsic rewards, and through providing

employees with the chance to progress within the company through internal career opportunities. Intrinsic rewards comprise of both psychological rewards (e.g., giving an employee due recognition for a good job done) and the provision of opportunities to grow with the job. These findings are consistent with theoretical work to date (see, for instance, Arthur, 1994; Huselid, 1995; Delaney & Huselid, 1996; Guthrie, 2001; Guest *et al.*, 2003; Guthrie *et al.*, 2009; Darwish *et al.* 2015). This may reflect the nature of the labour market and the limited (and possibly proportionately shrinking) pool of good jobs, making exit a difficult option for all but the best qualified. Whilst this puts employees in a poor bargaining position in bidding-up pay (making pay rises seem unfeasible), the intrinsic attributes of the job become more important. Again, the study focused on larger organisations; within India, ultra-low wage work is disproportionately concentrated in the SME and informal sectors.

It has been argued that HR practices, as comprehensive, mutually supporting complementarities, would better enhance organisational-level performance than a single HR practice. In order to test this proposition, we considered the internal fit or horizontal interaction between the HR practices on the presumption that the systematic adoption of related sets of HR practices—rather than a single “magic bullet” on its own will have the pronounced effect on performance (Ichniowski and Shaw, 1999). However, the results indicate no support for this argument. Hence, there did not seem to be strong complementarities in the practice of people management in Indian large firms. It may be the case that operating a mix of different practices may be one way of offsetting risks through over-relying on any advantages afforded in a particular area (c.f. Luiz *et al.* 2015). However, given that size in its own right appears to affect performance, this would suggest that, in developing HR policies and practices, firms may concentrate their attention on compensating for systemic weaknesses, rather than making usage of mutually supportive bundles of practices that are supported by systemic strengths.

The results of the second hypothesis suggest that a complementary relationship did indeed exist between training, rewards and productivity. However, the other types of complementarity typically encountered in the advanced societies, for example, between job security and career progression (Brookes et al. 2005) were more elusive. This may simply be because we were looking in the wrong place; there may be specialised context specific practices that do co-exist together to constitute further complementarities. However, such practices may not be transferable between firms, industries and/or regions, and may be most suited to more established insider players.

Finally, the results of the third hypothesis indicate that the interaction between three practices (extrinsic incentives and rewards, recruitment and selection, and training) and organisational strategy is significant. It seems that firms could indeed achieve better financial returns for their business by adopting a contextually appropriate mix of practices, taking due care in selecting appropriate employees for the jobs, training them well and rewarding them for the job done. India's weak and uneven institutional coverage may open up more opportunities for HR innovation (Cooke and Saini 2015), but the lack of systemic support means that fewer opportunities for the latter to realise its fullest potential. Work on other emerging markets points to similar challenges (Horwitz, 2015; Dibben et al., 2015); what sets India apart is the complexity of the national environment, with distinct sub-national traditions, which, it can be argued, magnifies any pressures towards divergences in practice, as highlighted by this study. The challenges of cultural and linguistic diversity may encourage interdependent firms and sectors to cluster around specific regions (c.f. Luiz, 2015), reinforcing the spatial concentration of sectors and associated HR practice; yet, in the absence of effective institutional supports, this may represent more a coping mechanism than the basis for genuine complementarity in the latter.

At a theoretical level, the study revealed that limitations in national level institutions made for a general lack of complementarities. In other words, there was no dominant ‘recipe’ of best HR practices that would, when working together, yield superior outcomes. Whilst the Varieties of Capitalism literature suggests that such complementarities may be relatively unusual in emerging markets (Hall and Soskice, 2001), later literature suggests that where institutional arrangements are less closely coupled or weaker, local or sectoral institutional ‘fixes’ may be more likely, supporting pockets of highly competitive firms in related areas of activity (see Jessop, 2012; Luiz et al., 2017). Such pockets may be sustained through institutional entrepreneurship by firms themselves, strengthening or repurposing potentially supportive local level institutions (see Smets et al., 2015).

Again, innovative firms did not appear to be more successful in identifying and rolling out new and optimal sets of HR practices. Again, this would suggest that in challenging institutional contexts, it is particularly difficult to devise effective firm level solutions even in the case of the most innovative firms. What all this points to is that HR policies practices (and, potentially, managerial strategies) may, in many settings, primarily fill a compensatory role, offsetting shortfalls elsewhere in the system, rather than harnessing its strengths. This does not mean that systemic features may not support or enhance the outcomes of a single HR intervention. Indeed, as Gomes et al. (2015: 2676) argue, “as economies evolve so too do their expectations of HR policy and practices”. A fertile path for future research might be to explore the impact of specific formal and informal regulatory features on the relative incidence and efficacy of single HR practices; an absence of an overall ‘recipe’ for enhanced firm performance does not mean that individual interventions may not work quite well.

Conclusion: Elusive Complementarity

Whilst the finding that specific HR practices lead to better organisational outcomes will come hardly as a surprise to readers, more importantly, we also encountered only limited evidence of complementarity. In other words, rarely when sets of HR practices were encountered together did they yield better results than the sum of their component parts; that is, if some firms adopted one set of practices, others often gained broadly similar benefits doing quite different ones. Combining different sets of practices often did not seem to generate vastly superior results to limited and focused individual interventions. This highlights the limitations of strategic HRM in an Indian context; there is little immediate benefit in developing sophisticated mutually supporting HR system if particular firm or regionally relevant interventions yield clear benefits in their own right. This would, for example, help explain the strong emphasis on HRD in India, rather than an integrated HR function (Ghosh, 2014; Budhwar and Saini, 2004). There may be *ad hoc* locally devised solutions that may work quite well, but owing to the uneven nature of institutional coverage, they are unlikely to be transferable. Normally, the elusive nature of complementarities would suggest limitations in institutional supports: on the one hand, institutional shortfalls are not unique to India and may be encountered in many emerging market settings; on the other hand, however, the great internal diversity of the Indian setting, with strong variations in institutions and enforcement capabilities, might suggest that these tendencies are especially pronounced. It may also be the case that firms seek to avoid over-relying on a particular institutional feature, evidenced by adopting an associated set of mutually supportive practices, in order to offset the risk of unforeseen environmental developments (c.f. Luiz et al., 2017). Finally, we found that the range of strategic HR practices examined—recruitment and selection, training, internal career opportunities, extrinsic incentives and reward, and intrinsic incentives and rewards—were generally correlated. This would suggest that, contrary to assumptions that firms will ultimately

veer towards more instrumental or cooperative forms of HR, within the Indian setting, it appears that firms commonly mix aspects of both models. Whilst they do not appear to yield better results when encountered together, it may be that their coexistence has a compensatory effect, alleviating some of the consequences of institutional weaknesses. This may make complementarities even more elusive, but at the same time, suggests an inherent pragmatism in seeking solutions, which might seem to be a departure from the Indian tradition of bureaucratic paternalism. However, we did find that HR policies could mitigate some of the consequences of resource constraints. Again, this would point to the extent to which HR systems in India primarily play a compensatory role, offsetting weaknesses internal or external to the organisation, rather than building on their strengths. This is to not to suggest that the Indian institutional environment is universally dysfunctional; specific aspects of local or national institutions can and do support firm level solutions, and indeed, there is evidence that, as Indian institutions evolve, these may become more important (Zattoni et al., 2009; Chittoor et al. 2008; Elimbilassery et al., 2018). At the same time, loose institutional coupling would mean that firm, local and regional solutions remain important (c.f. Elimbilassery et al., 2018).

The present study employs a cross-sectional design, which is a limitation to be acknowledged. Although we have argued that some of the specified people management practices would lead to enhanced organisational performance, our cross-sectional design does not allow us to rule out the possibility of reverse causation (Wright et al., 2001). The issue of causality can be better addressed in research, adopting longitudinal designs (Delery and Doty, 1996). Secondly, although our tests indicate that the common method variance is not a concern, we encourage future researchers to use multiple respondents rather than single respondents for the gathering of HRM and performance data. Finally, future researchers can gather HRM data at a level of detail allowing them to determine whether or not specific sets of HR practice are consistent with each other (see Delaney and Huselid, 1996).

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