**High-performance human resource practices and company performance: the mediating function of employee abilities and the moderating influence of the creative climate**

**Abstract**

This research investigates the association between high-performance human resource (HR) practices and company performance using the resource- and competency-based perspectives. A favorable association between high-performance HR practices and company performance was discovered using a sample of 189 firms in mainland China, which was partially mediated by employees' abilities. In order to strengthen such a relationship, we also discovered an organizational creative climate to innovation. These findings' consequences and future directions are highlighted.

**Keywords**

Human resource (HR) practices; company performance; employees' abilities; creative climate

**Chapter 1: Introduction**

**1.1: Overview/ Background of study**

The strategic significance of high-performance human resource (HR) practices has gained significant attention in the management literature, with a particular emphasis on their influence on individual and organizational results. Despite extensive research into their impact on company performance, the outcomes are mixed. While most research show that they improve performance, others show the opposite or fail to establish any significant links.

**1.2: Problem statement**

Inconclusive findings point to the need for a better knowledge of how high-performance HR strategies affect firm success. This study builds on previous research by (1) focusing on a mediating factor (i.e. employee abilities) that links high-performance HR practices to firm performance and (2) investigating a contextual factor (i.e. organizational creative climate) that may influence the effects of high-performance HR practices on company performance.

**1.3: Research objective**

More specifically, we contend that the employees' abilities gained, qualified, trained, and developed by employees as a result of high-performance HR practices are the proximal antecedent to company performance. Although researchers have recently begun to incorporate human capital constructs in order to open the black box of the relationship between high-performance HR practices and company performance, their primary focus is on the broader and more general dimensions of human capital. However, according to the company's resource-based view (RBV), not all human capital is a strategic resource. Rather, it is argued that the specific competencies developed by firms to assist employees in meeting job-specific demands are a more important source of competitive advantage. Furthermore, human capital can be general (e.g., education) or specific (e.g., skills), with the latter being more strongly related to performance.

The identification of contextual factors that may strengthen the relationship between high-performance HR practices and company performance will also benefit our understanding of the relationship. We also contend that a positive climate for creativity can improve the effectiveness of high-performance HR practices. From a contingency standpoint, we believe that fostering a positive creative climate may be a necessary condition for strengthening the effects of high-performance HR practices on the development of employees' abilities toward company performance.

**1.4: Research questions**

1. How much role does employees' abilities and company performance in High-performance human resource practices?

2. How much impact on employees' abilities by doing human resource practices and company performance?

3. How effective is the moderating role of creative climate?

**1.5: Significance of study**

The identification of contextual factors that may strengthen the relationship between high-performance HR practices and company performance will also benefit our understanding of this relationship. We also contend that a positive creative climate can enhance the effectiveness of high-performance HR practices. From a contingency standpoint, we believe that fostering a positive creative climate may be a necessary condition for enhancing the effects of high-performance HR practices on the development of employees' abilities toward company performance.

**1.6: Scope of study**

This study makes several significant contributions to the literature. Incorporating high-performance HR practices within an abilities-based theory framework is generative in terms of aiding us in understanding the underlying mechanism (employee abilities) by which high-performance HR practices influence company performance. We contribute to the strategic human resource management (SHRM) literature in two ways by investigating employee abilities as a mediator.

First, because much of the current evidence on employee abilities is based on consulting work, we fill this gap by empirically demonstrating that high-performance HR practices contribute to company performance by leveraging employees' various abilities.

Second, previous studies using the competency perspective have primarily focused on a single HR practice, such as training. The RBV, on the other hand, believes that the use of HR bundles rather than single HR practices contributes to organizational performance. This claim is supported further by empirical research, which shows that high-performance HR practices, defined as a combination of HR practices, have a greater impact on company performance than any single practice alone. Finally, in response to calls for more research on high-performance HR practices in non-Western contexts, this study investigates high-performance HR practices in China in order to extend the generalizability and applicability of Western theories to the Asian context.

**Chapter 2: Literature Review**

**2.1: Introduction**

High-performance HR practices are the key means through which businesses influence and mold their employees' abilities, knowledge, and behavior in order to achieve organizational goals. High-performance HR methods are often known as high commitment or high participation HR practices. In this study, we look at the intermediate impacts that high-performance HR practices have on company performance. We specifically propose that the abilities created by employees as a result of high-performance HR strategies enable organizations to achieve and improve their performance.

**2.2: LR on topic**

The RBV describes variances in company performance as a result of differences in HRs and skills. Human capital attributes have been argued to be a critical resource of company performance because company that can generate firm-specific, valuable, and unique expertise and competencies are thought to be in a better position to outperform their competitors and succeed in a volatile company environment. Internal ability development of employees is one method of generating company-specific human capital. Employees who have developed and possess a broad range of abilities, including technical, behavioral, and business skills and knowledge, are better able to meet internal and external job demands.

**2.3: LR on dependent variable**

High-performance HR strategies are expected to boost company performance through their combined effects on employee abilities acquisition and development. As a result, we anticipate that employees' abilities will operate as a bridge between high-performance HR practices and company performance. Because previous research has shown that other factors, such as employee attitudes and behavior, also mediate this association, we propose a partial mediation.

We employ a configurational method, which is comparable to horizontal fit. According to the configurational perspective, the overall configuration of a set of internally aligned HR practices influences organizational results, and so HR practices should not be evaluated in isolation. We specifically propose that the effects of high-performance HR policies develop employees' abilities. This is consistent with human capital theorists, who argue that organizations can increase their human capital by implementing high-performance HR practices such as recruiting new employees with high levels of knowledge and skill from the external labor market or developing the knowledge and skills of their current employees internally. In this study, we look at high-performance HR practices as a collection of internally consistent human resource management (HRM) strategies connected to ability acquisition and growth, such as selective staffing, training and development, rewards, performance appraisal, and self-managing teams. Selective staffing aids in the recruitment and selection of individuals with the necessary skills and abilities to support a company's goal. During the selection process, companies can determine the competency standards of their prospective workers. Acquiring employees with relevant competencies broadens and deepens the range and depth of the knowledge and abilities required for the company's success. Staffing from both within and outside an organization allows the company to change and recombine its current knowledge while also adding fresh knowledge to develop new organizational knowledge pool. A thorough selection and hiring strategy that includes lengthy and intensive searching, meticulous screening, and rigorous interviews should allow the company to find and pick the most qualified applicants with the necessary skills and abilities.

To properly comprehend the impact of high-performance HR policies on ability development, the role of moderators should be evaluated from a contingency standpoint. As the ability-based perspective suggests that creating a creative climate is important to support employee development, we contend that fostering a creative climate acts as a situational enhancer, further enhancing the positive influence of high-performance HR practices on ability development. Employee perceptions of their organization's practices, rules, and processes are referred to as climate. Job activities take occur within the frameworks of organizations.

In this context (climate), values can so impact employee perceptions and shared ideas about the values and norms that control their behavior. Climate serves both a strategic focus and a frame of reference for employees. It directs their normative and adaptive work behavior by giving important informational cues as well as a motivating basis for expected behavior. A creative climate is supposed to improve employees' motivation and ability, as well as the types of behavior that an organization desires. Climate perceptions influence how individuals behave collectively by influencing their perceptions and sentiments about specific aspects of their workplace.

We focus on creative climate in this study, which is defined as a work environment that encourages and facilitates inventive behaviors and continual learning. The creative climate, we argue, has a moderating effect on the relationship between high-performance HR practices and employees′ abilities. Employees perceive and seek guidelines from their surroundings to interpret events, establish acceptable attitudes, and comprehend the expectations of behavior and probable results of behavior from a sense-making perspective. Employees utilize this knowledge to build expectations and instruments, which they then respond to by managing their own effort and behavior. The environment for creativity comprises the promotion of idea generation, autonomy, independence, and the availability of resources. It gives significant environmental and social support to an organization in order to develop desirable employee behavior.

**2.4: LR on each independent variable**

Employees are more likely to embrace such principles if they respect and share strong perceptions of creative climate, as fostering the acquisition of new skills and continual improvement complements and supports the effective implementation of high-performance HR practices. Employees are more willing to try out unfamiliar situations that foster greater access to new experiences and perspectives, are more open to new knowledge and ideas, and are more motivated to absorb and combine new information as well as seek innovative, alternative ways to improve their performance when organizations foster a creative climate. According to internal fit studies, high-performance HR practices are more likely to be effective if they are aligned with and reinforced by a positive organizational climate. In favorable climates, organizations gain more from high-performance HR approaches that improve employees' abilities. As a result, we propose that fostering a creative environment enhances the effects of high-performance HR practices on the development of staff competences that affect company performance.

In addition to employment policies, organizations must improve and update employee abilities through training and development practices in order to maintain high performance. Employees who receive adequate and substantial training and development are better able to gain a wide range of abilities that widen their perspectives, integrate knowledge from various sources, and apply their acquired skills and knowledge to their professions. Furthermore, employee development aids in shaping and directing employees' behaviors and attitudes toward organizational goals. Employees with enhanced abilities can increase knowledge dissemination and information sharing, ultimately meeting organizational demands that support business strategy. Internal training and ability development, particularly in a knowledge economy, are critical to boosting the specificity of human capital.

Another key tool for attracting, motivating, retaining, and developing employees' abilities is an efficient reward system. The reward system serves four purposes. For starters, fair and competitive compensation that meets or exceeds market equity can attract and retain skilled employees. Second, awards motivate people to put in the extra effort required to acquire or refresh their skills. Employees are more likely to actively acquire relevant and particular knowledge and to exploit their knowledge and abilities to enhance company performance when they are rewarded, inwardly and extrinsically driven, and reinforced to learn and continually develop. Furthermore, successful incentive strategies (for example, team rewards) promote high levels of interaction and team cooperation, which are critical in supporting extensive knowledge sharing. Third, when valued rewards are associated with defined performance goals, employees will put in a continuous, concentrated cognitive and behavioral effort to achieve those goals. Messersmith and Guthrie (2010), for example, contend that a suitable incentive pay structure is favorably connected with intrapreneurial behavior and, as a result, affects a company's bottom line. Fourth, when employees are assessed and rewarded based on a set of performance criteria (for example, information sharing and communication), these criteria signify and express the company's performance priorities. Desirable behavior is encouraged, which boosts company performance.

Similarly, a good performance appraisal system promotes staff ability development. A developmental assessment method assists in identifying employees' strengths and shortcomings, as well as assessing and guiding training and development needs in order to raise the skills and abilities required for desirable behavior. Performance feedback communicates organizational expectations and directs employees on how to develop their abilities to suit the company's needs. Scholars also claim that developmental assessment procedures promote creativity and the development of new abilities since employees are motivated to seek new and creative approaches to their work activities in order to progress their performance.

Finally, self-managing teams are a crucial tool for developing employees' abilities. Self-managing teams are self-contained groups of employees who are responsible for their own job tasks with little or no supervision. When team members are empowered and given autonomy and flexibility, they are more likely to be motivated and accept full responsibility for finding new methods to respond to issues. Furthermore, when team members interact frequently, the cross-fertilisation of ideas not only promotes information sharing among team members but also improves interpersonal abilities such as communication, empathy, and coaching. As a result, self-managed teams are likely to improve intellectual, creative, and interpersonal social abilities.

**Chapter 3: Research Methodology**

**3.1: Introduction**

A questionnaire survey of enterprises in the manufacturing and service industries in mainland China was used to collect data for this study. Only organizations with 20 or more employees that have been in operation for more than two years were chosen to assure the qualification of potential respondents. Smaller and younger enterprises were avoided in order to generalize our findings. Ten trained research assistants were in charge of calling companies and explaining the study's goal. The responders were guaranteed that their responses would be kept private. Four thousand businesses were chosen at random from a database of businesses registered with the local government and contacted by our assistants. 750 companies from 20 provinces consented to take part in our research. We sent or personally delivered the questionnaires to these corporations after further communicating with their chief executive officers (CEOs) and receiving their approval. 576 enterprises from all 20 provinces responded, representing a participation rate of 76.8%.

**3.2: Theoretical Framework**

The surveys were mailed or personally given to each company's CEOs and chief financial officers (CFOs). We created various questionnaires for CEOs and CFOs to gather their thoughts on company information. The CEOs were requested to provide information on high-performance HR practices, the corporate climate for creativity, and the capabilities of their staff. The CFOs were quizzed on key performance measures. A cover letter urged each respondent to complete and submit the questionnaire in a pre-addressed envelope.

**3.3: Research Design**

1152 questionnaires were distributed in 576 packages. We got 663 completed questionnaires, 385 from CEOs and 278 from CFOs, for a 67% and 48% response rate, respectively. We were left with 189 sets of valid questionnaires after eliminating the incomplete questionnaires and matching the two sets of questionnaires, yielding a response rate of 32.8%. The 189-firm sample included 98 (51.9%) state-owned enterprises, 24 (12.7%) foreign-invested enterprises, and 67 (34.4%) private businesses. Light manufacturing accounted for 30.2%, heavy industry accounted for 45.5%, and service industries accounted for 24.3%. The companies had been in business for an average of 14.41 years, with a standard deviation of 8.4 years. The average staff count was 727.

**3.4: Data and Sources**

Because there is no one agreed-upon list of high-performance HR practices, 16 high-performance HR practices-related items were adapted from and validated by the literature. The Chinese context was taken into account when selecting items. The items addressed the major components of human resource management functions that have been frequently used in the literature, such as selective staffing, training, performance appraisal, rewards, and self-managed work teams. On a five-point Likert scale ranging from 1 (very low extent) to 5 (very high extent), CEOs were asked to describe the extent to which their companies implemented various HR practices. A Cronbach's coefficient reliability test was performed. The alpha value was.87, indicating that the construct was reliable.

The abilities of employees were assessed using ten items derived from Fink and Neumann (2007). There were three types of abilities identified: technical ability (particular expertise in technical fields), behavioral ability (e.g. communication or interpersonal ability), and business ability (understanding of corporate strategy and environment). These questions were graded on a five-point Likert scale. The CEOs were asked to rate the competencies of IT department staff on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) (strongly agree). Because our assumptions did not account for their distinct effects, and given the inter-subscale correlations (.48,.52, and.65), we integrated them into an overall measure (internal consistency reliability =.85).

Creative climate was adopted from Amabile et al. scales (1996). To adapt to the Chinese culture, eight of the original ten elements were applied to evaluate the working creative climate. As CEOs represent the dominating strategic core, we recorded CEOs' perceptions of the organizational climate, in line with past research. The CEOs were asked to rate the eight statements indicating the climate for innovation in their companies on a five-point Likert scale ranging from 1 (very low extent) to 5 (extremely high extent) (very high extent). Cronbach's alpha was.82, indicating that the construct was reliable.

The subjective evaluation of company performance was used in this study. Given the low trustworthiness of objective financial performance revealed by Chinese enterprises, subjective financial data are favoured in China. It has been demonstrated that subjective rating is highly connected with objective figures. As a result, the CFOs' perceptual ratings were utilized to gauge company performance in the following year using profit, return on assets (ROA), and research and development (R&D) spending. On a five-point Likert scale ranging from 1 (far lower than the industry norm) to 5, CFOs were asked to rate their companies' performance in contrast to the industry average (much higher than the industry average).

Control variables included company age, company size, area, ownership, and industry type because these variables have been linked to climate, ability, and company performance. The company's age was derived by subtracting the year the poll was conducted (2011) from the year the company was founded. The number of employees was mirrored in the company's size. Dummy variables were used to adjust for location (east, north, or south), ownership (state-owned, private, or foreign investment company), and industry type (light or heavy industrial).

There has been since CEOs were asked to provide information on high-performance HR practices, the business creative climate, and employees' abilities, and we have implemented some techniques to restrict potential common source variance. To begin, respondents were assured anonymity and confidentiality of their comments in order to alleviate any concerns about evaluation and to minimize socially desired responses. Second, to diminish impressions of any direct relationship between the constructs, a few of filter items were put between constructs in the questionnaires. Third, in this study, we employed Harman's (1960) one-factor test to measure common method variance. The analysis produced many factors with eigenvalues greater than one, with the first component accounting for 30.45% of the total variance explained. Harman's criterion indicated that common technique variance did not appear to be a significant issue in this investigation.

**3.4: statistic method**

A confirmatory factor analysis of a three-factor measurement model was performed to further test the validity of the latent components. The analysis results specifically indicated a satisfactory match between the model and data. Furthermore, we compared the three-factor measurement model to the two-factor and one-factor models. The one-factor model, in particular, blends high-performance HR strategies with employees' abilities and atmosphere. The first two-factor approach combines high-performance HR practices with the competencies of employees. The second two-factor model integrates high-performance human resource techniques with climate. The third two-factor model integrates employees' abilities with the climate. The results indicate that the three-factor model suited the data better than the others. This proved that these constructs have adequate convergent validity and reliability.

**3.4.1: Descriptive analysis**

The study's findings have a number of major consequences for both researchers and organizations. First, we present a more in-depth knowledge of how high-performance HR practices influence company performance. We enhance prior research on the high-performance HR practices-company performance association, which were defined by poor and inconsistent results, by identifying employee abilities as a mediator and organizational climate for innovation as a moderator. Our findings imply that it is the abilities developed by high-performance HR practices, rather than the sheer existence of high-performance HR practices, that enable organizations to improve their performance. These findings support the perspective of strategic HR academics that company-level HRM practices are not a source of competitive advantage in and of themselves. Rather, it is the abilities of company-specific personnel that are picked, rewarded, motivated, and developed through these methods that allow companies to gain a durable edge over their competitors. As a result, improving a company's performance requires creating individuals with high levels of company-specific technical, behavioral, and company abilities. In support of our findings, the dynamic RBV theory claims that high-performance HR practices, which emphasize the ability to package, integrate, configure, and reconfigure HRs, help companies flourish in the face of quickly changing customer and technological needs.

Second, our emphasis on employee abilities adds value to and expands on the existing literature, which generally concentrates on the wider and generic elements of human capital (e.g. education, experience). In contrast, we focus on employees' abilities as a type of human capital specific to a company, tying high-performance HR practices to company performance. Our addition and focus on employees' abilities, while minor, gives a new route for high-performance HR practices—organizational performance research.

Third, our findings show that a positive creative climate can increase the link between high-performance HR practices and employee abilities. A creative work environment is essential for enabling individuals to develop on a constant basis by acquiring new knowledge, skills, and abilities. As a result, this study lends support to the contingency perspective in SHRM research that, in the presence of a positive creative climate, the effects of high-performance HR practices on the development of employees' abilities can be enhanced. This study adds on a recent line of research studying the RBV from a contingency viewpoint by demonstrating that the creative climate moderates the association between high-performance HR practices and organizational skills.

Finally, this study applies high-performance HR approaches to company performance in a new environment (i.e. the transitional economy of China). The current study reveals that in emerging economies characterized by environmental volatility and uncertainty, implementing high-performance HR practices helps organizations perform better by boosting the levels of abilities of their employees.

Our findings are also applicable in the real world. This study assists organizations in determining how to maximize the benefits of their high-performance HR practices. Given the strategic importance of abilities, organizations should create and implement high-performance HR strategies to acquire, motivate, develop, and enhance their people' abilities, according to our findings. To put it another way, organizations should prioritize and invest in building the company-specific competences of their core departments or units. Furthermore, given the importance of organizational climate in fostering the effects of high-performance HR practices, organizations should focus their efforts on creating a positive climate that allows them to create, accumulate, and build high levels of employee abilities, because, as our findings show, high-performance HR practices combined with a relevant, strategically focused climate will be most effective in developing the abilities required for high-performance HR practices. Finally, the outcomes of this study provide vital insights into Chinese organizations whose high-performance HR strategies may still be in their infancy.

**Limitations and future research**

There are various constraints to consider when interpreting these data. The study's cross-sectional design may limit our ability to infer causality between high-performing HR practices, abilities, and company success. Future research should utilize a well-planned longitudinal technique to confirm and extend our findings about the causal linkages between these variables. A three-stage methodology that collects firm-level data before and after the adoption of high-performance HR practices and then collects performance data after a given amount of time may be useful. This strategy will allow for the dynamic development of high-performance HR practices, the growth of organizational abilities, and the subsequent consequences on company performance to be captured.

Although the company performance data came from a variety of sources, we got the independent (high-performance HR practices), mediator (employee abilities), and moderator (creative climate) variables from a single source: the CEOs. Common source bias may be reduced by gathering information from additional sources, such as employees and HR specialists, which will assist validate the measures and increase the constructs' validity and reliability. Furthermore, we wanted to look at the effects of a set of HR practices on the overall development of employees' skills, which affects company performance. Future research could look into how individual HR practices develop each type of ability in greater depth.

Other contextual elements, like as leadership, national culture, or organizational structure, may interact with high-performance HR practices to influence ability development in addition to climate. In our research, we used financial performance indicators. In the future, other outcome factors, such as invention (which may be relevant in the context of the creative climate), can be investigated. Incorporating the aforementioned considerations into future study could add to our understanding of the high-performance HR practices-performance link. In terms of ownership and performance, our data reveal that large enterprises differ greatly from small firms. Future studies can look at the significance of this distinction.

**Conclusion**

This study contributes to our understanding of the relationship between high-performance HR practices and company performance. We demonstrated that employees' abilities mediated the link between high-performance HR practices and company performance, and that a positive creative climate was critical in creating the necessary conditions for high-performance HR practices and the development of employees' abilities, both of which positively influenced company performance.

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