

# Human Resource Management Practices and Performance Outcomes: The Case of Service Sector Institutions

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## Abstract

*This paper aims to investigate the state of HRM practices service sector institutions and to analyze the impact of such practices on performance outcomes including productivity, innovation, labor turnover, and employee conflict. Twenty-three service sector institutions including financial institutions, airlines, telecommunication, and hotels were taken into account for research work. The institutions selected for study include both public and private sectors. A total of 494 questionnaires were distributed, only the responses of 426 questionnaires (86.23%) are used in this study as they are in usable form. The results of the correlation study showed that, although HRM practices and policies have a negative link with labor turnover and employee conflict, they have a good relationship with productivity and innovation. Regression study suggests that HRM practices and policies have an effect on labor turnover and employee conflict, but they also seem to have a favorable effect on productivity and innovation. It is anticipated that this study will be beneficial in examining HRM practices and their consequences on the organization and employee performance in the service sector institutions of Nepal.*

**Keywords:** HRM practices, Productivity, Innovation, Employee turnover, Performance outcomes

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## Introduction

Nowadays, the corporate world has shrunk to the size of a hamlet, and businesses must deal with strong worldwide competition. In today's market economy, challenges have arisen for all types of firms as a result of increased global competition, customer focus, speed, and adaptability. The competitive challenges that managers face now will continue in the future as aspirations for organizational excellence rise. In such a context, effective execution of human resource management (HRM) practices plays a key role in enhancing such organizational excellence (Pradhan & Shrestha, 2022). HRM practices are a set of procedures and rules defined internally and executed by an organization with the express purpose of ensuring that the firm's employees make a substantial contribution to the achievement of the organization's objectives (Shrestha, 2022; Shrestha & Prajapati, 2023; Adhikari & Shrestha, 2022; Shah & Shrestha, 2022). The core components of HRM practices include training and development,

performance review, compensation system, job description, and employee Involvement (Shrestha, 2021). Such practices emphasize learning, quality, teamwork, and reengineering and are influenced by how organizations operate and treat their employees, are what enable such greatness.

There has been little research into the relationship between business strategy, human resource management, and human resource outcomes in Nepalese organizations. Adhikari and Mueller (2001) contend that, despite transformations in political and economic interests over the last two decades, there has been no discernible change in company-level HR policies and practices. Nepal is only now beginning to develop its human resource management system. Managers in Nepal do not prioritize human resource planning and practices, instead focusing on how to recruit competent personnel in order to improve institutional performance outcomes.

The academics who study human resource management and its connection to performance employ a variety of approaches. Guest (2002) outlined three popular methods for identifying the primary ways that HRM may improve the corporate and strategic fit models. In undeveloped countries such as Nepal, the human resource function is evident only in those firms that are knowledge-based or heavily reliant on technology. They do focus on consideration some of strategies and policies of HRM that can provide impact over the short-term functioning of the institutions.

The early research on HRM practices and organizational performance was enthusiastically embraced by academics and practitioners alike, and the results appear impressive and authoritative (Richardson and Thompson, 1999). Yet, researchers in this area (Huselid, 1995; Guest, 1997) have pointed out some of the drawbacks of the study design employed thus far, and an increasing amount of criticism has been aimed at the early work, which was nearly exclusively made up of quantitative data that was statistically analyzed. The dependability of the data, the data's lack of breadth and depth, and the conceptual framework that the research was conducted within are the three areas of criticism about the assessment of HR policies and practices. Prior studies that examined the relationship directly between HRM policy and practices with that of employee performance have frequently indicated a statistically significant correlation (McDuffie, 1995; Arthur, 1992; Koch & McGraht, 1996). Only two studies have examined productivity and quality in connection to commitment and HRM practices so for Patterson et al. (1997) and Guest et al. (2000). Significant correlations between employee performance and HR procedures and commitment were discovered by Patterson et al. (1997). However, Guest et al. (2000) discovered a link between HRM practices and employee performance results, but no direct correlation between HR procedures and employee commitment and performance outcomes.

Few studies have been conducted in the Nepalese environment thus far by some scholars attempting to link company success with human resource practices. Gautam (2008) discovered that because of its national culture, Nepal has a higher level of affective commitment than other types of commitment. According to Adhikari and Mueller (2001), there are advantages and disadvantages to transferring western-style HRM recommendations to developing nations. The majority of managers and policymakers in Nepal are not persuaded by the advantages of investing in human resources to improve their skills, efficiency, and knowledge. Specifically, the idea that individuals ought to be viewed like precious things is still not widely accepted. This discipline has not been recognized a research area by many Nepalese academicians and scholars. However, some of the moderate corporate managers and academic researchers of Nepal are started to given importance of HR policies and practices for improving performance outcomes of the employees. Therefore, to fill the gap in previous research work some fundamental research questions are taken into considerations which are as follows: What is the current state of HR procedures and performance standards in Nepali institutions serving the service sector? What connection exists between HR procedures and the performance results of Nepalese institutions in the service sector? Furthermore, from the standpoint of Nepalese service sector institutions, how do HRM practices affect performance outcomes?

## **Literature Review**

### **Theory about Human Resource Management**

A thorough grasp of the independent, moderating, and dependent variables is essential for any research undertaking. Right now, we seem to be in a state of disorder. In addition to three broad categories of general-level ideas

concerning HRM, there are also more concentrated and comprehensive theories involving specific aspects of policy and practice, such as quality, commitment, and performance-related compensation. The three categories of theory are normative, strategic, and descriptive, according to Guest (1997).

HRM policy and practice are largely influenced by a variety of potential external variables, according to strategic theories of HRM. Hendry and Pettigrew (1990) reported on some of the most well-known UK studies in this area, with the primary goal being to categorize and identify important environmental factors on HRM. Hendry and Pettigrew concentrated their research on mapping the context, identifying an inner context (within the organization) and an outside context (in the wider environment), and examining how HRM adjusts to changes in context, rather than evaluating any relationship to performance. It is a given that companies will function better if their organizational structure, HRM policy, and business strategy are all in line. Similar reasoning supports the work of Schuler and Jackson (1987), which outlines three HRM strategies related to Porter's (1990) three broad competitive strategies.

**HRM descriptive theories:** They aim to provide a thorough description of the discipline. The two most well-known are those offered by MIT's Kochan et al. (1986) and Harvard's Beer and colleagues (Beer et al., 1985). An attempt is made to explore some of the interrelationships and to encompass the broad field in both cases. These models provide conceptual maps of the field, which do provide a thorough explanation of the content of HRM and of a range of outcomes. Both are beneficial for putting a stakeholder approach into practice and for defining a variety of objectives that are pertinent to various stakeholders. Nonetheless, these models primarily pertain to employee interactions and focus on the managers' responsibilities in maintaining a balance between conflicting interests, emphasizing options, and pinpointing factors that may impact those choices.

**HRM normative theories:** These models are more prescriptive in nature, representing the ideas that either a set of values represents best practice or that there is a body of evidence adequate to support recommended best practices. These two viewpoints frequently get mixed together. Walton's work on commitment and control is among the most well-known applications of this strategy (Walton, 1985). Though he refers to engagement rather than HRM, Lawler (1992) provides a similar basic approach in his work. Pfeffer's (1994) work has garnered significant notice in more recent times. By trying to put it into a logical framework and pointing out some of the connections, the final model can be at least scrutinized and potentially disproved, (Guest, 1987) has made an attempt to capture some of the spirit of this method. The main hypothesis is that worker performance will increase if an integrated set of HRM practices is implemented with the intention of reaching the normative goals of high quality, flexibility, and dedication to the organization.

### **Theory about Performance Outcomes**

There isn't a single theory that explains performance results, but there are a variety of methods and models that are helpful in understanding and categorizing different aspects of performance. These methods and models are frequently based on disciplinary viewpoints from fields like production management, psychology, or economics. By pointing out several differences, we may start to make sense of performance. We can start by concentrating on matters related to the performance's content. We may now think about the different kinds of data. Third, we can investigate causal relationships between HRM and performance by taking into account ties within a broad definition of performance (Guest, 1997). Productivity, quality, innovation, labor turnover, employee conflict, employee absence, customer complaints, and labor turnover are typically used to measure performance outcomes (Guest, 1997). However, this study on HR practices considered six variables: job description, employee involvement, employee participation, performance appraisal, remuneration system, and training and development. Similar to that, this study on performance outcomes took into account four variables: employee conflicts, labor turnover, innovation, and productivity.

### **Theories Explaining Relation of HR Practices and Performance Outcomes**

The reasonable presumption that improved human management will eventually lead to improved company performance served as the basis for early attempts to develop a theoretical framework for the link between HRM

and performance outcomes (Ulrich, 1997). After the numerous research projects, a review claimed that the topic was no longer theoretical and that a variety of theories, such as general system theory, role behavior theory, institutional theory, resource dependence theory, human capital theory, transactions cost economics, agency theory, and the resource-based theory of the firm, had explained the HRM performance linkage (Jackson and Schuler, 1995).

## Research Methods

### Research Framework and Hypotheses

Training and development, performance reviews, compensation system, job description, and employee involvement were among the variables of HRM practices, whereas productivity, innovation, labour turnover, and employee conflict are performance outcomes. The framework of the research work is presented as follows:

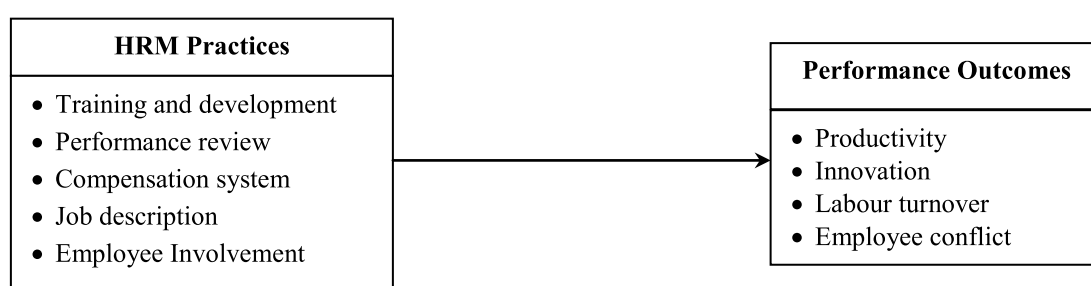


Figure: 1 Research Framework

Based on this framework, the following hypotheses are tested in light of the aforementioned goals and relationship:

- H 1: There is a significant and positive relationship of HR practices and productivity of service institutions in Nepal.*
- H 2: There is a significant and positive relationship of HR practices and innovation of service institutions in Nepal.*
- H 3: There is a significant and negative relationship of HR practices and labour turnover of service institutions in Nepal.*
- H 4: There is a significant and negative relationship of HR practices and employee conflict of service sector institutions in Nepal.*

### Research Design

This study employed a descriptive, co-relational, and causal comparative research methodology to investigate the many challenges presented. For the purpose of fact-finding, conceptualization, description, and operation searching for appropriate information, the descriptive research design is applied in the context of HRM practices and performance outcomes of service sector institutions in Nepal. This study also employed a correlation research approach to ascertain the relationship between HRM practices and performance outcomes. This study also employed a causal comparative research methodology to determine the relationship between HRM practices and performance outcomes in Nepalese institutions that serve the service industry. This study used the same research design as Guest (2002) and other similar investigations. HR practices establish work settings where workers can delegate decision-making authority, get as much information as possible, and be motivated to fulfill company goals (McDuffie, 1995; Wright et al., 2005).

### Nature and Sources of Data

The relevant data and information were gathered from primary sources, particularly via distributing and gathering questionnaires, in order to meet the goals of the study. Twenty-three institutions in the service sector including

financial institutions, airlines, telecommunication, and hotels were taken into account for research work. These institutions include both public and private sectors. The sample institutions were selected on judgmental sampling approach, in which rather than the statistical logic, convenience and relevancy were focused. The earlier literature used by Guest (2002) served as the basis for developing the questionnaire.

A total of 494 questionnaires were distributed, only the responses of 426 questionnaires (86.23%) are used in this study as they are in usable form. Table 1 shows the detail information of population samples:

Table 1

Detail information of population samples

Particulars	Public Sectors	Private Sectors	Total
No of sample Institutions	9	14	23
No. of questionnaire distributed	221	273	494
No. of response received	164	252	426
Percentage of respondents	75.21%	92.31%	86.23%

### Data analysis procedures

For the goal of data analysis, a few important statistical and general quantitative tools were used. The mean, standard deviation, and analysis of variance were the statistical tools utilized to analyze the data. To further illustrate the relationship between the variables under investigation, more correlation analysis was done. The dependability of the data was assessed by measuring the Cronbach's Alpha. The F-test was used to determine whether there was a significant difference between the means of the variable under examination and whether the fit was good. Since the relationship between HRM practices and performance outcomes was the main focus of this study, descriptive statistics and Pearson correlation were used to evaluate numerical data. For data analysis, programs like EViews 6 and SPSS 13 were used.

## Results and Findings

### Status of HRM Practices in Service Sector Institutions

An attempt was made to provide an overview of the state of HRM practices in companies operating in the service industries. The study looked at characteristics related to HRM practice based on previously published studies in the field. The HRM practices that were looked at included training and development, performance review, compensation system, job description, and employee involvement. We examined these elements from both the configurationally and universalistic points of view. The "universalistic" perspective holds that some HRM procedures are always better than others, and that all companies should use these procedures whenever they can in order to have better outcomes. According to Wright and McMahan (1992), the "configurationally" perspective emphasizes the need for different interdependent HR strategies to coexist in order to maximize business performance.

### Pearson and Spearman Rho Correlation

In this study, the independent factors are Employee Involvement (EI), Job Description (JD), Performance Appraisal (PA), Compensation System (CS), Training and Development (TD), and Employee Conflict (EC). The dependent variables are Productivity (P), Innovation (I), Labor Turnover (LT), and Employee Conflict (EC). These variables are showed a parametric Pearson correlation in the lower bound, whereas a non-parametric spearman correlation coefficient is shown in the upper bound.

Table 2

Pearson and Spearman Rho Correlation Results

Variables	TD	PA	CS	JD	EI	P	I	LT	EC
Training and Development (TD)	1								
Performance Appraisal (TD)	0.33**	1							



Compensation System (CS)	0.32**	0.43**	1						
Job Description (JD)	0.35**	0.37**	0.46**	1					
Employee Involvement (EI)	0.32**	0.49**	0.55**	0.44**	1				
Productivity (P)	0.42**	0.53**	0.63**	0.60**	0.47**	1			
Innovation (I)	0.35**	0.41**	0.51**	0.43**	0.54**	0.45**	1		
Labour Turnover (LT)	-0.24**	-0.32**	-0.43**	-0.42**	-	-0.26**	-0.37**	1	
Employee Conflict (EC)	-0.26**	-0.29**	-0.44**	-0.46**	0.40**	-0.32**	-0.32**	0.20**	1

\*\**. Correlation is significant at the 0.01 level (2-tailed).*

The HRM practices variables, together with their Pearson and Spearman Rho correlations, were displayed in Table 2 for Training and Development (TD), Performance Appraisal (PA), Compensation System (CS), Job Description (JD), and Employee Involvement (EI). The results show a negative relationship between labor turnover (LT), employee conflict (EC), and the HRM practices variables training and development (TD), performance appraisal (PA), compensation system (CS), job description (JD), and employee involvement (EI). This relationship is statistically significant at the five percent level. Yet, the Pearson correlation shows that the HRM practices variables Training and Development (TD), Performance Appraisal (PA), Compensation System (CS), Job Description (JD), and Employee Involvement (EI) and Productivity (P) and Innovation (I) have positive relationships that are statistically significant at the five percent level. The results show that in the case of private service institutions the focus has given by the employees on compensation system for improvement of productivity, innovation, and minimization of conflict and labour turnover. However, in the case of public service institutions the focus has given by the employees to job description to improve productivity, innovation and reduce conflict and labour turnover.

The correlation data indicated a negative relationship between labour turnover and employee conflict with that of HRM practices of service sector institutions of Nepal. The outcome also showed a positive correlation between organizational productivity and innovation with that of HRM practices. Guest's (2002) prior hypothesis provides support for the outcome. Additionally, the outcome showed that better HRM practices corresponded with improved organizational performance outcomes.

### Impact of HRM Practices on Productivity and Innovation

The variables that make up the regression result of the effect of HRM practices on productivity and innovation are Training and Development (TD), Performance Appraisal (PA), Compensation System (CS), Job Description (JD), and Employee Involvement (EI). The following is the regression equation of productivity and innovation respectively:

$$P = \beta_0 + \beta_1 TD + \beta_2 PA + \beta_3 CS + \beta_4 JD + \beta_5 EI + \epsilon$$

With a R<sup>2</sup> of 42.12%, it can be seen that only 42.12% of the variation in productivity is explained by HRM practices of service sector institutions. Most of the coefficients are positive, despite the fact that the coefficient is significant. The findings indicated that productivity and HRM practices are positively correlated. It means when HRM management practices are improved that can support to maximize productivity of the organization.

$$I = \beta_0 + \beta_1 TD + \beta_2 PA + \beta_3 CS + \beta_4 JD + \beta_5 EI + \epsilon$$

With a R<sup>2</sup> of 34.14%, it can be seen that only 34.14% of the variation in innovation is explained by HRM practices of service sector institutions. Most of the coefficients are positive, despite the fact that the coefficient is significant. The findings indicated that innovation and HRM practices are positively correlated. It means when HRM management practices are improved that can support for improvement of innovation levels of HR of the organization.

### Impact of HRM Practices on Labour Turnover and Employee Conflict

The variables that comprise the regression result of the effect of HRM practices on labor turnover and employee

conflict include employees' involvement (EI), job description (JD), training and development (TD), performance appraisal (PA), and compensation system (CS). The following is the regressions equation outcome of labour turnover and employee conflict respectively:

$$LT = \beta_0 + \beta_1 TD + \beta_2 PA + \beta_3 CS + \beta_4 JD + \beta_5 EI + \epsilon$$

With a R<sup>2</sup> of 23.24%, it may be inferred that HRM practices accounted for just 23.24% of the variation in conflict and labour turnover. Most of the coefficients are negative, despite the fact that the coefficient is significant. The findings indicated that employee turnover and HRM practices are negatively correlated. It means when HRM management practices are improved that can support for minimization of labour turnover.

$$EC = \beta_0 + \beta_1 TD + \beta_2 PA + \beta_3 CS + \beta_4 JD + \beta_5 EI + \epsilon$$

With a R<sup>2</sup> of 26.53%, it may be inferred that HRM practices accounted for just of 26.53% of the variation in employee conflict. Most of the coefficients are negative, despite the fact that the coefficient is significant. The findings indicated that employee conflict and HRM practices are negatively correlated. It means when HRM management practices are improved that can support for minimization of employee conflict in the organization.

### **Test of Hypotheses**

The analysis of regression results show that there is significant and positive impact of HRM practices on productivity and innovation of service sector institutions and similarly there is significant but negative impact of HRM practices on labour turnover and employee conflict in these institutions. It indicates that the hypothesis that is determined based on the analysis of various literature review also supported by the regression results obtained in the study.

Table 3

Summary of Hypotheses Test

Hypothesis	Decision
H1: There is significant and positive relationship of HR practices and productivity of service institutions in Nepal.	Accepted
H2: There is significant and positive relationship of HR practices and innovation of service institutions in Nepal.	Accepted
H 3: There is significant and negative relationship of HR practices and labour turnover of service institutions in Nepal.	Accepted
H 4: There is significant and negative relationship of HR practices and employee conflict of service sector institutions in Nepal.	Accepted

### **Discussion and Conclusion**

The aim of this study was to ascertain the relationship between specific HRM practice characteristics and the performance outcomes of Nepalese institutions in the service sector. The HRM procedures in Nepalese service institutions seem advanced because every organization in the survey has made improvements. It also recommends that a lot of training and development, performance appraisal, compensation system, job description, and employee involvement have been implemented in Nepalese businesses.

The findings, which support the study's premise, are shown by the data's correlation and regression analysis results. The link result indicates a negative correlation between labor turnover, employee conflict, and HRM procedures. The results support the previous notion put out by Guest (2002). The results also demonstrated a positive correlation between HRM practices and organizational productivity and innovation. The regression result shows an R<sup>2</sup> of 42.12%, which indicates that HRM practices may account for 42.12% of the variance in employee productivity and a R<sup>2</sup> of 34.14%, which indicates that HRM practices may account for 34.14% of the variance in employee innovation. The results show a positive impact of HRM practices on productivity and innovation. Furthermore, a R<sup>2</sup> of 23.24% indicates that HRM practices only accounted for 23.24% of the variance in labor turnover and a R<sup>2</sup> of 26.53% indicates HRM practices accounted 26.53% for employee conflict, according to the

regression analysis. The results show a negative relationship between labor turnover, employee conflict, and HRM practices.

In recent years, performance-based rewards have gained popularity in Nepalese organizations, replacing more conventional methods of compensation. The same conclusion is reached by this study as well, although there is an odd difference in the types of organizations. Employees may also start to comprehend and strive toward the company's long-term objectives. It's been demonstrated that offering incentives improves employee-employer communication, raises product quality, and makes workers more receptive to technological advancements. Additionally, they frequently praise and acknowledge staff members according to how well they operate. This further supports the idea that certain business organizations began to implement uniform performance evaluation management systems, placing less weight on seniority and age. Team-based job design is used by certain Nepalese service sector institutions to promote specialization and teamwork in team assignments. Working in groups increases alternatives, provides complete information, and establishes legitimacy. Collaborating in teams or groups reduces employee attrition and enhances productivity and innovation which would be supportive for improving organizational effectiveness.

## **Implications**

The creation of new science and technology and the use of that knowledge in business have resulted in major changes to the institutions that make up the service sector. There has been a rise in business volumes for companies in the services sector. These transform the idea of HRM quickly and emphasize how important it is. The expansion of the World Trade Organization has brought opportunities as well as challenges for Nepalese organizations. Few studies have included rising nations like China and India; most of the studies on the relationship between HRM practices and performance have focused on the western service sector companies. One of the world's least developed nations, Nepal, has service sector institutions. This study may provide insight into the relationship between HRM practices and performance outcomes in these institutions. Outdated personnel ideas are gradually being replaced by modern HRM policies and strategies in Nepalese firms' HR operations. Numerous political, technological, and sociological developments that have occurred in Nepal over the last 20 years have contributed to this tendency. The HR manager has to deal with these changes' effects while also enabling the company to maintain and even increase the value of its human resources. Nepalese business enterprises cannot continue to be an exception in such a situation. The efficacy and caliber of the services a business organization offers its clients determines a great deal of its success. Taking these perspectives into account, it is anticipated that this study will be beneficial in examining HRM practices and their consequences on the organization and employee performance in the service sector institutions of Nepal.

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