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Expanding the concept of fit in strategic human resource management: An examination of the relationship between human resource practices and charismatic leadership on organizational outcomes

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We investigate the relationship between high-commitment human resources (HCHR) practices and chief executive officer (CEO) charismatic leadership on voluntary employee turnover and relative performance to peers in a sample of 281 small firms. In this study, we expand upon prior conceptualizations of fit within the literature on strategic human resources (HR) to include the fit of HCHR with other aspects of the people management system. Specifically, we hypothesize a variety of relationships that may occur (e.g., positive synergistic, deadly combination, or substitution) and find that when a firm uses a system of HCHR practices and has a charismatic leader, performance is highest and turnover lowest. Conversely, when a firm does not invest in either, performance is lowest and turnover highest. We also found some support for a substitution effect as our data showed that when there is a mismatch between a firm's HR system and the leadership characteristics of the CEO, turnover is higher and performance lower than the high-investment people management system (high HCHR and high-charismatic leadership), but turnover is lower and performance higher than the low-investment (low HCHR and low-charismatic leadership) people management system.

KEYWORDS
fit, leadership, strategic human resource management, turnover

1 | INTRODUCTION

Strategic human resource management (SHRM) scholars have argued human resource (HR) systems can be a source of sustainable competitive advantage and drive firm performance to the extent that the system creates and sustains valuable employee resources (Collins & Smith, 2006; Wright, Dunford, & Snell, 2001). Scholars have referred to these HR systems using a variety of terms including high-performance work systems (Boxall & Macky, 2009), high-involvement HR practices (MacDuffie, 1995), and high-commitment HR (HCHR) practices (Collins & Smith, 2006). Theoretically, these systems share a similar focus on employees as a source of competitive advantage, although they differ based on how the practices do so (Zacharatos, Barling, & Iverson, 2005). HCHR practices constitute one system that can lead to competitive advantage by shaping the abilities and motivation of employees to identify with the organization and to provide opportunities to exert effort to achieve its goals (Huselid, 1995; Jiang, Lepak, Hu, & Baer, 2012; Kehoe & Collins, 2017). In prior research, scholars have generally defined the HCHR system to include practices such as recruitment and selection based on person-organization fit, investment in employee training and development, high pay and pay tied to organizational performance, and greater autonomy and inclusion in decision-making (Arthur, 1994; Collins & Smith, 2006; Kehoe & Collins, 2017). Although a growing number of studies have shown a positive relationship between investing in employees through HCHR systems of practices and organizational performance outcomes (Datta, Guthrie, & Wright, 2005; Jiang et al., 2012; Kehoe & Collins, 2017), there are a number of critical issues that still need to be addressed to better understand the relationship between HR systems and firm performance.

First, much of the extant literature in the field of SHRM has focused on the direct or indirect relationship between HR systems and firm performance, even though scholars have long argued the effects of a HR system on firm performance may be contingent on other factors (Chadwick, 2010; Wright & McMahan, 1992). Importantly, little is known about how HR practices interact with other internal resources, like chief executive officer (CEO) characteristics, that may have a similar or overlapping impact on employee abilities, motivation, or opportunities to perform. Indeed, there is strong support from contingency theorists that structure (e.g., organizational design, systems, and practices) should fit within the broader context of the firm to be successful (Drazin & Van de Ven, 1985; Tushman, 1979); thus, to understand when HR systems lead to organizational outcomes, researchers must begin to explore how HR systems work in conjunction with other internal organizational resources. Integrating the behavioral perspective (Schuler & Jackson, 1987a, Schuler & Jackson, 1987b) and contingency theory (Drazin & Van de Ven, 1985), we argue HCHR practices impact firm performance by sending clear signals to employees that support and reinforce employees' ability and motivation to enact specific behaviors and this effect is contingent on CEO characteristics, like charisma.

Second, to understand how and when HR systems can lead to organizational performance, SHRM research could benefit from greater precision in identifying the contextual organizational factors that are critical for firm performance or that may alter the effectiveness of an HR system (Chadwick, Way, Kerr, & Thacker, 2013; Collins & Smith, 2006). Indeed, most recent work on HRM in organizations has been context-free, and yet context may affect the nature of how and when HR systems are effective in organizations (Cooke, 2018). To that end, we examine the relationship between HCHR practices and firm performance in small businesses, an important context to study as these firms employ approximately half of the total U.S private sector labor force (BLS, 2014) and are considered to be a key driver of growth in the national economy (Kobe, 2012). Despite the importance to the economy, the relationship between HR systems and firm performance in small businesses is not well established (Allen, Ericksen, & Collins, 2013; Chadwick et al., 2013). Although there is some early evidence that HR systems may be positively related to the performance of small organizations (Allen et al., 2013; Way, 2002), Chadwick et al. (2013) provided evidence that the effectiveness of HR systems may be contingent on the characteristics of small firms. However, these additional studies focused on external factors that may impact the relative effectiveness rather than internal factors that may enhance or limit the effectiveness of how HCHR may impact firm performance through their effect on key employee outcomes.

CEO leadership is one such factor that likely affects how HR practices impact employees and firm performance within small firms. Theoretical and empirical research on upper echelons theory suggests that CEOs matter for firm performance (Cannella & Monroe, 1997; Hambrick & Mason, 1984), particularly for small businesses where the CEO is more likely to interact with and be directly observed by front-line employees (Daily & Dalton, 1992; Waldman & Yammarino, 1999). CEO charismatic leadership may be particularly critical because it is posited to have an effect on firm performance by positively influencing the behaviors of other senior leaders and the attitudes and efforts of front-line employees (Waldman & Yammarino, 1999). Thus, because CEO charismatic leadership and HCHR practices both affect firm performance by affecting employee resources (i.e., ability and motivation), we argue understanding the nature of how these two organizational factors interact is particularly critical in the small business context.

Third, greater precision is needed regarding the specific nature of how HR practices and organizational factors interact to influence performance (Chadwick, 2010; Kepes & Delery, 2007). Researchers have noted that future research should look at an array of potential interactions between HR practices because they have the potential to reinforce or conflict with one another depending on the consistency to which they signal and support expected employee behaviors (Chadwick, 2010; Kepes & Delery, 2007). Similarly, we argue, just as with practices within an HR system, the consistency of signals to employees from an HR system and CEO charisma can have significant consequences for how employees understand what is expected of them and their resulting motivation to consistently perform the behaviors that are needed to positively impact firm performance. Although several prior studies have examined HR systems and leadership (Chuang, Jackson, & Jiang, 2016; Jiang, Chuang, & Chiao, 2015), authors in these prior works have theorized and tested only a single potential form of interaction—substitute effects—between HR and leadership. Importantly, because other aspects of the overall employee management system (i.e., CEO leadership behaviors) may create complementary or alternative paths to impacting employee abilities, motivation, or opportunities, it is important to examine alternative forms of interactions besides substitute effects. We build on this prior work to hypothesize and test three potential competing forms of fit between HCHR and CEO charismatic leadership: positive synergistic, deadly combination, or substitute relationships (Kepes & Delery, 2007).

Overall, our study makes several important contributions to the literature on SHRM and CEO charismatic leadership. First, we add to the literature on SHRM by examining the fit between HCHR and CEO charismatic leadership in the context of small businesses where both impact employee resources that drive firm performance outcomes. Second, we add to the literature on SHRM by examining the concept of fit with greater precision by theorizing and testing for three alternative forms of fit. Third, we examine how HCHR may affect firm performance and interact with leadership in the context of small businesses—a large population of firms that have largely been ignored in empirical research on SHRM. Finally, we look to add to the literature on CEO leadership by empirically examining the relationship between CEO charismatic leadership and firm performance, as prior research has rarely examined the impact of CEO charisma leadership behaviors on firm-level employee and performance outcomes and has not examined these effects in the context of other factors that likely impact employee resources. In the following sections, we more completely develop our theoretical rationale and test our hypotheses with data collected from multiple sources from a sample of 281 small businesses.

2 | THEORY AND HYPOTHESES

2.1 | High-commitment HR system

A system of HCHR practices is intended to increase employees' knowledge, skills, and abilities, motivation, and opportunity to contribute to the organization (Jiang et al., 2015). The ability-motivation-opportunity (AMO) model of strategic HR articulates the idea that practices fall within three categories, namely ability-enhancing practices, motivation-enhancing practices, and opportunity-enhancing practices and that the combination of these practices affects the human capital and motivation of employees (Appelbaum, Bailey, Berg, & Kallerberg, 2000; Collins & Smith, 2006; Delery & Shaw, 2001; Jiang et al., 2012). Theoretically, practices across the three AMO dimensions work together to convey and reinforce a consistent signal or message to foster a climate and convey expectations to employees (Bowen & Ostroff, 2004; Collins & Smith, 2006). Specifically, the HCHR system of practices demonstrates a long-term commitment to employees, which reinforces a positive work environment resulting in more optimistic work attitudes (Wright, Gardner, Moynihan, & Allen, 2005) and employee behaviors that are beneficial to the organization (Collins & Smith, 2006; Kehoe & Collins, 2017; Sun, Aryee, & Law, 2007). Importantly, a growing number of studies across a wide range of settings have demonstrated empirical support for a negative relationship between this system and collective employee turnover and a positive relationship between this system and firm performance (Combs, Liu, Hall, & Ketchen, 2006; Jiang et al., 2012; Kehoe & Collins, 2017).

Specific to our study, we look to establish how the three subsystems work to foster a climate that leads to lower employee turnover and higher firm performance. For example, skill-enhancing practices include hiring the best and the brightest and providing opportunities to grow and develop. These practices affect the firms' human capital and demonstrate a commitment to employees' skill development within the organization. Motivation-enhancing practices are designed to enhance employee motivation and include offering opportunities for development, competitive pay, and hiring based on fit. Opportunity-enhancing practices are meant to ensure employees use their skills and motivation to benefit the firm and include giving employees the autonomy to make their own decisions and providing discretion over how to get the job done. Combining these practices increases employees' ability and willingness to put forth effort that benefits the firm and motivates them to reciprocate their commitment by remaining part of the organization (Batt, 2002; Jiang et al., 2015). In effect, these practices are positively related to firm performance and negatively related to turnover.

2.2 | CEO charismatic leadership

As with HR systems, the behaviors and characteristics of leaders can potentially have a significant effect on organizational outcomes and performance through their effect on employee motivation and resulting efforts and behaviors (Bass, 1998). Charismatic leadership is one form of leadership that scholars have argued to have particularly strong potential for influencing employee behavior (Conger & Kanungo, 1998) and subsequent firm performance (Agle, Nagarajan, Sonnenfeld, & Srinivasan, 2006). Charismatic leaders are different from others based on their ability to articulate and provide a consistent and appealing strategic vision, be sensitive to his/her environment and members' needs, be willing to take personal risks for the good of the firm, and emphasize collective identity (Conger & Kanungo, 1998; Shamir, House, & Arthur, 1993). Like HCHR practices, charismatic leaders may help attract top talent and motivate employees to behave in a manner that is beneficial to the firm.

Charismatic CEOs may be particularly important within the context of small firms for two primary reasons. First, these leaders connect employees to the firm and motivate individuals to behave in a manner that is beneficial to it. Through symbolic behaviors and personal interactions, charismatic CEOs can both motivate employee commitment to remain with the leader and positively influence employee motivation to contribute to the greater good of the company (Shamir, 1995). Specifically, charismatic CEOs increase employees' motivation to invest discretionary effort toward firm goals by modeling role behaviors, showing their own personal commitment to organizational goals, and visibly taking personal risks to support collective outcomes (Waldman & Yammarino, 1999). By setting and clearly communicating a vision, charismatic CEOs provide employees direction and a strong signal of where to direct their effort (Waldman & Yammarino, 1999).

Second, charismatic CEOs may be particularly influential as their behaviors are visible to employees across the organization, set a strong tone of cultural norms and expectations throughout the company, and provide a signal to employees of goals, vison, and expectations of the organization (Waldman & Yammarino, 1999). The effects of charismatic CEOs on employee behavior and subsequent firm performance are likely to be especially strong in small businesses because the CEO is more likely to directly interact with employees (Lubatkin, Simsek, Ling, & Veiga, 2006) and they have more discretion to engage in entrepreneurial behaviors to motivate employees and direct their effort toward organizational goals (Ling, Simsek, Lubatkin, & Veiga, 2008). Thus, charismatic CEOs are especially critical in small firms because they enhance individuals' commitment to the firm, are more visible, and have greater latitude to impact employees compared to CEOs in larger firms.

2.3 | Fit of high-commitment HR practices and charismatic leadership

We argue natural synergies exist between charismatic CEO leadership and HCHR practices, and the combination is likely to affect small firm performance and employee turnover. To understand the interrelationship between HR practices and charismatic leadership, we use Kepes and Delery's (2007) variations of fit. They noted fit can take on a variety of synergistic effects including positive (powerful connections), negative (deadly combinations), or substitutable. Kepes and Delery (2007) argued these three variations of fit are alternatives, meaning that two practices or aspects of an organization are likely to interact in either a positive synergistic, deadly combination, or substitutable way. In what follows, we theorize and articulate a set of competing hypotheses using Kepes and Delery's three types of fit between

HCHR practices and CEO charismatic leadership and test each of these potential relationships. Figure 1 displays our theoretical model.

Fit among aspects of the people management system matters because employees look to the social context for salient information that provides cues about what is acceptable behavior and what is necessary for success within an organization (Salancik & Pfeffer, 1978). Particular aspects of the social context focus employees' attention and provide explicit and implicit information on what is valued by managers and the organization. Oftentimes, critical aspects of the social environment are the contract makers—those that make promises to and/or demands from employees—that provide the most salient information to employees as they develop an understanding of their employment relationship or psychological contract with an organization (Rousseau, 1995). Both the top leader and an organization's HR system are two critical contract makers between employees and the organization (Rousseau, 1995). Organizational leaders, like top management, are primary contract makers that employees scrutinize to determine what the organization values. HR practices are secondary contract makers or structural signs of firm values that affect employees' perception of the employment contract (Rousseau, 1995). Although each contract maker is individually important to employees' perceptions of their relationship with the organization, the relationship between the contract makers is more critical because employees look to multiple sources to validate what is expected from them and what they will receive in return (Bowen & Ostroff, 2004; Rousseau, 1995). Importantly, because employees interpret both the system of defined HR practices and the behaviors of the leader of the firm as evidence of the rules of their psychological contract with the firm, these two aspects of the overall employee management system are likely to interact with one another in a positive, negative, or substitutable way.

2.3.1 | Powerful connection

The first alternative fit between HCHR practices and CEO charismatic leadership is a powerful connection or a positive synergistic effect. Positive synergistic effects occur when two activities within a firm have a more positive effect than the sum of each individually (Becker & Huselid, 1998). For example, within the context of HR systems, two practices that reinforce the same message create a strong context in which employees are more clear on expectations and, thus, more likely to carry out an expected behavior in the presence of both compared to if the employees were exposed to each practice individually (Bowen & Ostroff, 2004; Kepes & Delery, 2007). Similarly, if messages are consistent from two different sources of the employee psychological contract, then employees are likely to perceive an unambiguous relationship between the firm's desired behaviors and employee consequences (Rousseau, 1995). We argue HCHR and CEO charismatic leadership may create a powerful connection because the messages to employees from these contract makers are consistent and reinforce employees' understanding of what they can expect from the organization and reinforce the desired behaviors expected from employees (Bowen & Ostroff, 2004; Kepes & Delery, 2007).

Specifically, the combination of a charismatic leader and skill-enhancing HR practices may be particularly beneficial to organizations. Organizations that use HR practices to attract the best and the brightest may be more equipped to attract top talent because of the CEO's charisma because the CEO is often the embodiment of the small firm. Thus, firms that use skill-enhancing selection practices are better able to obtain a highly skilled human capital pool when they have a charismatic CEO because top talent is attracted to the inspirational vision set forth by the CEO. Furthermore, charismatic leaders can enhance the utility of the human capital pool by inspiring and directing that knowledge and skill toward the organization's strategic goals. Similarly, charismatic leaders can help direct employees' skill development activities to be in line with new opportunities and established goals. Thus, charismatic leaders direct and motivate employees to use their knowledge and skills to the benefit of the firm.

A charismatic leader may also enhance the effectiveness of motivation-enhancing HR practices. Motivation-enhancing practices include those that provide employees with feedback and performance evaluations that positively reinforce desired behaviors, provide rewards based on organizational performance, and create opportunities for employees to socialize to create greater affiliation with the organization (Arthur, 1994; Delery & Doty, 1996). Charismatic leadership compliments these messages to employees. For example, small firm charismatic CEOs, through their personal interactions with employees, reinforce the importance of achieving organizational goals and doing what is best for the organization (Shamir et al., 1993). In conjunction, when employees are provided with opportunities to grow and develop and they view the CEO as valuing the development of their abilities and skills, employees will perceive the messages from the structural (i.e., HR practices) and observational (i.e., top leader)

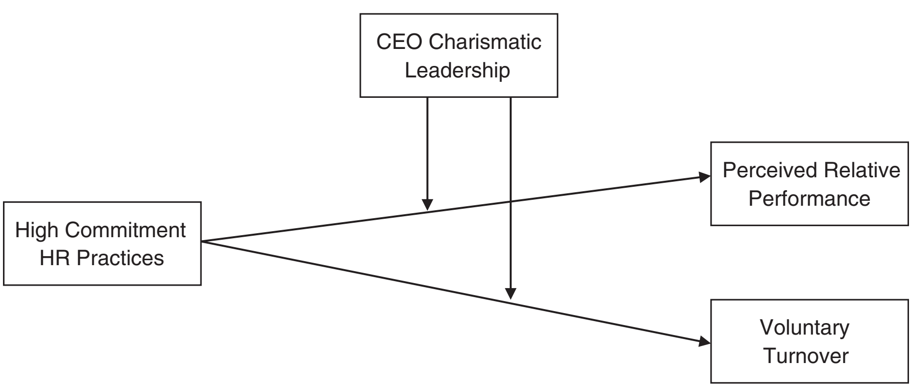

FIGURE 1 Theoretical model. CEO: chief executive officer; HR: human resource

contract makers as consistent. Furthermore, hiring employees that fit with the culture and values of the organization creates an environment in which employees are likely to interact with one another, build personal relationships with others at work, and develop trust in their coworkers (Collins & Smith, 2006). Charismatic leaders espouse values of mutual liking and respect and show concern for other members of the organization (Conger & Kanungo, 1998), reinforcing the environment of relationship building and trust created by the selection aspect of HCHR.

Finally, charismatic leaders may also positively enhance the effectiveness of opportunity-enhancing HR practices. These practices include giving employees discretion to monitor their own performance, to complete tasks as they see fit, and to trust employees to get the job done right without direct oversight (Jiang et al., 2015). Charismatic leaders create a culture oriented to support collective rather than individualistic outcomes, encouraging employees to use their autonomy and discretionary behaviors to help and support others in ways that should improve collective performance and retention. By clearly communicating higher-level organizational goals, charismatic leaders may also inspire employees to use the autonomy and discretion gained from HCHR practices to engage in activities that are beneficial to the organization's goals rather than counterproductive behaviors like time off task or loafing. Additionally, they may inspire employees to use their autonomy to engage in entrepreneurial behavior or to seize new opportunities to achieve organizational objectives.

Because the practices in an HCHR system and the behaviors of charismatic leaders are mutually reinforcing, they have a positive effect that is likely to be greater than the sum of each individually (Kepes & Delery, 2007). In this case, employees will be clear about appropriate ways to fulfill their end of the employment contract (Rousseau, 1995), which will affect their desire to stay with the organization. Furthermore, when they perceive congruence between espoused values, those displayed by the leader, and inferred values, those they derive from HR practices, they may view the situation as more fair because they are simultaneously rewarded and supported for the behaviors that they perceive to be important (Bowen & Ostroff, 2004). The combination of a charismatic CEO and HCHR practices may be particularly attractive to employees in the small firm context because these firms tend to be more resource constrained and at the earlier stages of development (Dodge et al., 1994). Because of this, the combination of a powerful connection is rare in small firms and employees may want to remain in these organizations because they risk losing a consistent employment contract by leaving. For these reasons, when employees in small firms are exposed to HCHR practices and a charismatic leader, they will be less likely to exit the organization.

Additionally, when employees clearly understand the behaviors valued by the organization and these are reinforced through the shared strategy and vision of the organizational leader, they will be more motivated to direct their effort and skill in a manner that will benefit the organization. Past research provides evidence that when employees engage in behaviors that are valued and critical to an organization, the organization will perform better (Collins & Smith, 2006; Sun et al., 2007). Furthermore, by reinforcing the importance of organizational performance and the value of collective outcomes over those of the individual, HCHR and charismatic leadership will create a strong situation in which employees will be more focused on organizational performance and more likely to contribute their effort and energy toward supporting these goals. As small firms are resource constrained and tend to operate in more volatile environmental conditions, directing employee behavior to benefit the firm is critical to firm survival (Dodge, Fullerton, & Robbins, 1994; Verdú-Jover, Lloréns-Montes, & García-Morales, 2006). In following the logic of the powerful combination argument, we predict that:

> **Hypothesis 1a:** *Voluntary turnover will be lowest when charismatic leadership and HCHR practices are both high.*

> **Hypothesis 1b:** *Perceived relative performance will be highest when charismatic leadership and HCHR practices are both high.*

2.3.2 | Deadly combination

The second alternative fit between HCHR practices and charismatic leadership is a deadly combination or a negative synergistic effect. Negative synergistic effects occur when two activities within a firm work against each other, undermining each other's effects (Kepes & Delery, 2007). In the context of an HR system, firms may see a net negative outcome when combining two HR practices that conflict with one another or confuse employees in terms of how to direct their actions (Becker & Huselid, 1998). For example, organizing work and work flow around teams yet rewarding employees based on individual performance may lead to negative outcomes because employees will be unsure of whether to focus on maximizing their own outcomes or supporting their teammates (Kepes & Delery, 2007). In the context of the larger set of employee management systems, negative synergistic effects are more likely when messages are inconsistent from contract makers. This type of effect may happen when HCHR practices and charismatic CEO leadership send mixed messages, resulting in a “weak situation” where employees do not clearly understand what the firm values (Bowen & Ostroff, 2004). This inconsistency or lack of integration between contract makers can be detrimental because employees will not be clear about appropriate ways to fulfill their end of the contract (Rousseau, 1995), which will create a misunderstanding of what is expected of them and what they will receive in return (Bowen & Ostroff, 2004).

Specifically, when an organization implements skill-enhancing HR practices but does not have a charismatic CEO, employees may be unclear as to how to direct their knowledge, skills, and abilities or be uncertain which developmental activities are important for growth within the organization. Conversely, if a firm has a charismatic CEO, but does not invest in skill-enhancing HR practices like hiring the best and the brightest or providing developmental opportunities for skill development, employees may lack the knowledge, skills, and abilities to manifest the CEO's inspirational vision. Similarly, firms may not get expected performance returns for investing in practices that enhance opportunities for employees to get to know one another and develop respectful relationships if the top leader does not show consideration for employees in personal interactions, encourage mutual liking and respect, or show that relationships are important because employees will perceive these messages to be inconsistent.

Employees may also become confused about expected behavior if they are rewarded based on success of the organization, yet the leader appears to be oriented around his or her own personal success and maximizing his or her own personal gain or wealth. Conversely, if a firm's CEO provides an inspirational message that orients employees toward organizational goals, but the firm's incentives reward individualistic behavior, then employees will be confused about which behaviors are valued and rewarded in the organization. Furthermore, in the absence of a charismatic leader, employees who are given discretion and autonomy over their work may be misguided and engage in behaviors that are not strategic or use their empowerment to engage in self-serving behavior instead of pro-organizational. On the other hand, employees who work for a charismatic CEO but are not given autonomy may feel restricted in how they choose to get work done and may be unable to achieve the CEO's vision or strategy.

In effect, when firms use HCHR practices in the absence of a charismatic leader (or vice versa), employees perceive an inconsistency in the messages that they receive from their contract makers. Employees may be more likely to directly experience the inconsistent messages in small firms because they have higher potential to personally interact with the CEOs given that they are more involved in the day-to-day operations of the firm compared to large organizations (Lubatkin et al., 2006). When contract makers are inconsistent, the message of what the firm values will be weaker than when both are consistent because the multiple sources do not reinforce each other (Bowen & Ostroff, 2004). Employees will be confused about their role in the organization (Rousseau, 1995), which results in cognitive dissonance (Siehl, 1985). To remedy the confusion and resulting cognitive dissonance, employees will likely look to find a work environment in which the psychological contract is more clear (Tsui, Pearce, Porter, & Tripoli, 1997). In contrast, when employees receive consistent messages—even if they are about low investment on the part of the firm in terms of low use of commitment HR and low-charismatic behaviors from the CEO, they have early and consistent clarity on the employment relationship and may be more likely to stay because the organization behaves consistently (Schneider, 1987; Tsui et al., 1997). Indeed, employees are more likely to discontinue their contract and leave the organization when they are unclear about what is expected of them (Simons, 2002).

Furthermore, in this situation, as a group, they will be less likely to consistently engage in behaviors that are beneficial to the organization because they will not know which are most important or will be rewarded. They may also be more likely to engage in counterproductive behaviors (Bordia, Restubog, & Tang, 2008). When employees do not consistently engage in the behaviors that drive competitive advantage or do engage in counterproductive behaviors, performance relative to peers may be negatively affected (Collins & Smith, 2006; Sun et al., 2007). In fact, the inconsistent messages may be more negative than if both HCHR and charismatic leadership are low because the contradicting messages are more confusing and detrimental than the lack of support from the organization (Bowen & Ostroff, 2004). In the low-low situation, employees may not be as committed to the organization (as compared to the powerful connection situation), but employees understand what is expected of them and what they will receive (or not receive) in return for their work.

Therefore, we predict that:

> **Hypothesis 2a:** *Voluntary turnover will be highest when charismatic leadership and HCHR practices are inconsistent such that one is high and the other is low.*

> **Hypothesis 2b:** *Perceived relative performance will be lowest when charismatic leadership and HCHR practices are inconsistent such that one is high and the other is low.*

2.3.3 | Substitutes

The third alternative fit between HCHR practices and charismatic leadership is a substitutable effect. Substitutable synergistic effects in the context of HR practices occur when the use of each practice results in an identical outcome; using two practices that are substitutes results in equal outcomes compared to using only one practice (Kepes & Delery, 2007). Within a larger HR system, the addition of a second similar practice does not make for a stronger situation or complement the first in adding clarity to the psychological contract (Delery & Doty, 1996; Kepes & Delery, 2007). In effect, the message from one practice is strong enough to affect employee behavior and there is no incremental gain or reinforcement from the second similar practice. In the context of HR practices and charismatic leadership, a substitute effect will occur if there is no incremental gain or reinforcement by investing in both compared to just one. In light of this, two possible situations can occur: either HCHR practices substitute for charismatic leadership or charismatic leadership substitutes for HCHR practices.

Remedies exist for ineffective or weak leadership, like a system of HR practices including formal feedback systems, reward programs, selection practices that emphasize experience and fit, and job design that allows for individual discretion (Howell, Bowen, Dorfman, Kerr, & Podsakoff, 1990; Podsakoff, MacKenzie, & Bommer, 1996). Ability-oriented HCHR practices can substitute for the lack of a charismatic CEO because such practices create a talented pool of employees who are motivated and provided with opportunities to use their skill and effort to achieve organizational goals. Specifically, HCHR practices include recruitment and selection practices that help attract top talent to the firm, regardless of whether the CEO is inspirational. Motivation-oriented HR practices further provide a more formal means for feedback and appraisal if a firm's leader does not seem in tune with employees' needs or informally interact with them. Overall, a firm can use HR practices as a substitute for a charismatic CEO by showing that it is committed to developing and rewarding employees by providing regular feedback, following a formal process for performance appraisals, creating opportunities for social interaction, and giving employees autonomy to show that the firm trusts them.

Conversely, a firm may not need to invest in a formal system of HR practices if it has a charismatic CEO, particularly in small firms because CEOs interact more directly with employees and have greater discretion in how they manage employees (Ling et al., 2008). Having a charismatic CEO may substitute for specific ability-oriented HCHR practices to attract top talent to work for the firm because these leaders are inspirational and can attract top talent directly as they are the embodiment of the firm itself. Furthermore, a charismatic leader can substitute for motivation-oriented HCHR practices by providing more informal feedback, showing sensitivity to members' needs and abilities, or using other more unconventional methods for rewarding employees. They may also naturally inspire autonomy and discretion by valuing entrepreneurial behavior in the absence of formal opportunity-oriented HCHR practices.

In either case, investing in both HCHR practices and charismatic leadership does not provide any additional benefit because employees can be attracted to and motivated to engage with the organization with either one and there is no incremental gain, and perhaps a cost, from having both in place. Indeed, small firms tend to be resource constrained and so it makes sense in this context that maintaining an investment in HCHR practices may be detrimental or less effective than simply relying on more informal ways to motivate and direct employees' effort and skill through the CEO (Verdú-Jover et al., 2006). Furthermore, because small firms tend to be in the earlier stages of development and less formalized, employees in these firms may have different expectations than those in larger firms such that they do not expect a formalized HR system and a charismatic leader. Thus, they may be less likely to perceive inconsistency between these contract makers because employees do not expect both. In this case, only one contract maker needs to signal a particular value in order for employees to understand what is expected of them. Therefore, if either HCHR practices or a charismatic CEO is present within a firm, then employees will be less likely to exit and performance will be higher compared to when neither exists, but turnover and performance will be equal to the situation when both are present.

Hypothesis 3a: *In organizations where either charismatic leadership or HCHR practices are present, perceived relative performance will be equal to the organizations where both are present.*

Hypothesis 3b: *In organizations where either charismatic leadership or HCHR practices are present, voluntary turnover will be equal to the organizations where both are present.*

3 | METHODS

3.1 | Sample, design, and procedure

We tested our hypotheses with data collected from multiple sources at different points in time from a sample of privately held small businesses. We followed this study design to address several methodological concerns that have been raised about prior empirical research in the field of SHRM. First, we collected measures of our independent and dependent variables from different data sources to eliminate concerns about perception to perception bias that has been raised about prior research in SHRM (Gerhart, Wright, McMahan, & Snell, 2000). Specifically, we surveyed CEOs to collect measures of firm-level-dependent variables (turnover and firm performance) and some control variables, and we surveyed line employees to collect measures for our independent variables of interest (HR practices and leadership behaviors) and additional control variables. We chose to use employees as the source for measuring HR practices because their perceptions are more likely to reflect managerial implementation, whereas managerial ratings are more likely to reflect intended philosophy (Nishii & Wright, 2008). Second, we collected measures on HR practices and CEO leadership behaviors from a relatively large number of employees within each establishment to mitigate concerns related to single-rater biases in the measurement of firm-level management practices (Gerhart et al., 2000). Finally, we collected measures of the dependent variables approximately 1 year after we collected data on the independent variables of interest and control variables to better understand causality and eliminate issues connected to collecting data on independent and dependent variables at the same point in time (Gerhart et al., 2000).

The initial population included companies that were potential clients of a publicly traded HR outsourcing firm that provides an array of HR services to small businesses (e.g., payroll management and insurance pooling). The HR outsourcing firm funded the majority of the project; however, the researchers involved had complete control over the design and execution of the study. The outsourcing team identified a random sample of 520 small firms across the Southeastern United States through state and local small business directories. Based on prior work on SHRM in small businesses and a definition from the Bureau of Labor Statistics, we limited the initial sample to firms with between 100–500 employees. We did not include firms with fewer than 100 employees as prior research has suggested that these firms may not have formal HR systems in place (Huselid, 1995). The outsourcing firm limited the sample to 520 firms to ensure that they could directly reach out to each firm to invite company CEOs to participate, briefly explain the study design, and communicate the benefit of participating in the study. In return for participation, the principal researchers provided CEOs with a benchmarking report summarizing findings across all participating companies and with the participant company's aggregated scores across study variables.

Company CEOs who agreed to participate were connected with the principal researcher to learn more about the study. The principal investigator explained the academic purpose of the study, outlined the level of participation required (survey of the CEO and surveys of employees of the firm), and confirmed that all data collected would be confidential and be retained solely by the principal investigator. CEOs still wishing to participate were directed to an online survey and were asked to provide email access to all of their employees so that the principal investigator could encourage them to complete employee surveys. In an email to employees at each firm, we explained the purpose of the study and guaranteed employees that their surveys would be anonymous and confidential—their individual answers to questions would not be shared with anyone and owners would only see aggregated results in a benchmarking report.

After discussions with the principal investigator, 321 CEOs agreed to participate in the study for an initial participation rate of 61.7%. We were forced to drop a number of firms from the study. Specifically, we dropped 22 firms from the study because of missing data—either the CEO never completed the online survey or would not agree to letting employees complete the survey items on their leadership behavior. We dropped another 18 firms because of insufficient data—the participation rate for employees fell below 10%. The final number of participating firms with complete data was 281 for a final participation rate of 54%. There were no significant differences between participating and nonparticipating organizations based on either firm size (number of employees) or industry.

The managerial sample consisted of 281 CEO respondents. On average, the CEO had 10 years of managerial work experience at the establishment (standard deviation [*SD*]: 6 years) and 19 years of managerial experience in a similar job (regardless of which company) (*SD*: 6.3 years). The total number of employee respondents across the final sample of firms was 12,914. As noted here, we asked CEOs to provide us access to all employees in their companies and we received an average of 45 completed employee surveys per firm with a range of 17 to 165 responses. The internal participation rate (the number of employee responses divided by the total number of employees in the company) ranged from 16 to 84%. The internal response rate was not significantly correlated with any of the key study variables, suggesting that the response rate did not bias our results.

On average, the employees had 7 years of work experience at the establishment (*SD*: 4 years) and 11 years of experience in a similar job (regardless of which company) (*SD*: 4 years). The companies were representative of the broader U.S. economy. For example, the average number of employees at each firm was 200 employees (*SD*: 62.38). According to the Bureau of Labor Statistics, approximately half of all U.S. companies employ less than 500 employees and approximately 11% employ between 100 and 250 (BLS, 2014). Additionally, our companies were drawn from five general industries that are representative of the broader U.S. economy, including low-skill service (25.2%) (i.e., retail, lawn maintenance), high-skill service (23%) (i.e., medical office, engineering), manufacturing (31.9%), restaurants (7.8%), and construction (12.1%).

3.2 | Measures

We based all items on measures that have been used in previous studies to ensure their validity. Multiple-item scales were employed, with 5-point Likert-type anchors ranging from 1 (strongly disagree) to 5 (strongly agree) with the exception of charismatic leadership that was based on a 6-point Likert-type scale with anchors ranging from 1 (very uncharacteristic) to 6 (very characteristic).

3.2.1 | High-commitment HR practices

Variation in the measurement of HCHR practices exists across studies (Delaney & Huselid, 1996) because the exact combination of HR practices that are considered high commitment differs across types of companies (Collins & Smith, 2006). However, as we noted in the theory development section, there is some agreement that HCHR practices include selection based on fit to the firm, individual discretion and on-going opportunities for learning and development, and compensation and other HR practices aligning employee behavior with organizational goals. We adapted items from prior research (Batt, 2002; Collins & Smith, 2006) to develop a formative 13-item measure for HCHR practices, which is applicable across industries (See Appendix A for exact items).

We created an additive index of HR practice items (see Appendix A for items), resulting in a continuous measure reflecting each employee's perception that particular practices from a high-performance HR system were used to manage employees in his or her organization. The use of an additive index is consistent with previous research (e.g., MacDuffie, 1995; Youndt, Snell, Dean Jr., & Lepak, 1996) and with our arguments regarding the additive nature of the effects of the high-performance HR system (Delery, 1998). Next, we aggregated individuals' HR practice perception indices to the organization level by averaging employees' ratings. Thus, a high score indicates employee perceptions of extensive use of high-performance HR practices.

3.2.2 | CEO charismatic leadership

We measured CEO charismatic leadership with Conger & Kanungo's scale (Conger, Kanungo, Menon, & Mathur, 1997) and asked employees to rate the extent to which the CEO of their firm exhibited charismatic leadership behaviors. This scale of charismatic leadership includes the following dimensions: strategic vision and articulation, sensitivity to the environment, sensitivity to members' needs, personal risk, and unconventional behavior. Because we were interested in understanding the overall effect of charismatic leadership we combined the separate factors into one. Based on initial factor analysis, 3 of the original items related to unconventional behavior did not load with the other items and were dropped. The remaining 17 items showed good internal consistency reliability (α = 0.92).

3.2.3 | Employee turnover

Twelve months after collecting the independent variables, we asked CEOs to indicate the number of employees who voluntarily quit in the past year. We used a 1-year lag based on prior research, which suggests that HR practices take some time to impact employee outcomes but change frequently enough so that lags should be relatively short in time (Collins & Smith, 2006; Huselid, 1995). To obtain a rate for each organization, we divided this number by the total number of employees who were employed at each organization at the end of the year. This measure is consistent with previous turnover calculations (Hausknecht & Trevor, 2011; Shaw, Delery, Jenkins, & Gupta, 1998). Furthermore, to account for non-normality in the data, we used a log transformation (Trevor & Nyberg, 2008).

3.2.4 | Perceived firm performance

Measuring firm performance in small privately held companies is a challenge because they are not required to publish financial statements and they may not be externally audited. Additionally, measuring performance across firms is a challenge because different industries use varying indicators. Due to these issues, we measured perceptual performance as provided by the CEO of each firm. Twelve months after collecting the independent variables, we asked the CEO of each firm to rate their market performance relative to that of other competitors for the past 12 months. We used a 12-month lag based on prior research (Batt & Colvin, 2011; Collins & Clark, 2003; Collins &

Smith, 2006) and because there is a norm for companies to review their performance year-over-year. The comparative method is more effective at eliciting responses than directly asking respondents to provide exact figures (Tomaskovic-Devey, Leiter, & Thompson, 1994). Although there has been concern with the validity of subjective performance measures, researchers suggest that perceptual measures of performance are significantly related to objective measures of performance (with a correlation of 0.52) and are appropriate when external measures are not available (Wall et al., 2004). Furthermore, self-reported performance measures have often been used in published studies on the HR-performance link (e.g., Delaney & Huselid, 1996; Sun et al., 2007; Takeuchi, Lepak, Wang, & Takeuchi, 2007; Youndt et al., 1996) and are acceptable when comparing the effectiveness of organizations across industries (Delaney & Huselid, 1996; Takeuchi et al., 2007).

We measured perceived firm performance with a formative seven-item measure used in prior SHRM research (e.g., Allen et al., 2013; Delaney & Huselid, 1996). Based on a Likert-type scale with a range from 1 (much worse) to 5 (much better), we asked CEOs to compare their organization's performance over the last 3 years to that of other organizations that do the same kind of work. Importantly, our measure of perceived performance was significantly correlated with self-reported sales growth (r = 0.52, p < 0.01) and return on investment (ROE) (r = 0.44, p < 0.01) for 83 of the participating companies in which the CEO was willing to disclose this information, providing some good evidence of the validity of this measure of perceived performance.

3.2.5 | Control variables

We used a variety of controls related to employee characteristics, satisfaction with the job and other facets, manager characteristics, organizational characteristics, and external environmental factors that have been known to affect turnover and organizational performance (Batt, 2002; Collins & Smith, 2006; Griffeth, Hom, & Gaertner, 2000; Huselid, 1995; Takeuchi et al., 2007), including employee tenure and job experience (average to the organizational level), manager tenure, and industry experience, number of CEOs the company has had since founding, whether the firm uses external consultants (0 = no, 1 = yes), age (years), size (number of employees), and industry (high-service, manufacturing, construction, and low-service industry compared to restaurants).

3.3 | Aggregation issues

To support the aggregation of the HCHR practices and charismatic leadership to the firm level, we examined three aggregation statistics: one inter-rater agreement index (Rwg[j]: James, 1982) and two inter-rater reliability indices (Intra-Class Correlation Coefficient (1) [ICC1] and ICC2: Bliese, 2000). Rwg(j) measures the inter-rater agreement for each scale, and values above .70 suggest a sufficient level of agreement to justify aggregation (LeBreton & Senter, 2008). The mean Rwg(j) was 0.83 for the 13-item HCHR scale and 0.75 for charismatic leadership, both above the recommended cutoff. ICC (1) assesses the extent to which ratings by individuals are distinct across firms and ICC (2) assesses the reliability of those ratings. The recommended cutoffs for ICC (1) and ICC (2) are above 0.05 and 0.60, respectively (James, 1982; LeBreton & Senter, 2008). The ICC (1) values for HCHR practices and charismatic leadership were 0.14 and 0.17, respectively. The ICC (2) values for the same set of variables were 0.68 and 0.75, respectively. The F-tests associated with all ICC values were statistically significant, p < 0.05. Because all measures were above the recommended cutoff, we aggregated our HCHR practices and charismatic leadership measures to the firm level.

3.4 | Analysis strategy

We conducted two separate hierarchical regression analyses (see Table 2) to assess the moderating effect of charismatic leadership on the relationship between HCHR practices and the two outcome variables of interest. In Models 1 and 4, we included our control variables. In Models 2 and 5, we included the main effects for HCHR practices and the moderator variable. Last, in Models 3 and 6, we added the interaction term between HCHR practices and charismatic leadership.

4 | RESULTS

Table 1 shows the descriptive statistics, including the means, *SD*s, and correlations for this study. Table 2 shows our regression analysis for both dependent variables. First, we examined the effect of all control variables on unit-level turnover and perceived performance. As Models 1 and 4 show, these variables explain 7% of turnover and 2% of perceived performance. Several control variables were significant predictors of turnover. For example, employee tenure was negatively related to turnover (β = –0.22, p < 0.05) and age was positively related to turnover (β = 0.39, p < 0.01).

In the next step, we entered the main effects of HCHR practices and charismatic leadership on employee turnover and perceived firm performance. HCHR practices were significantly and negatively related to turnover (β = –0.40, p < 0.01) and significantly and positively related to perceived performance (β = 0.37, p < 0.01). CEO charismatic leadership was significantly and negatively related to turnover (β = –0.23, p < 0.01) and significantly and positively related to perceived performance (β = 0.25, p < 0.01). Next, we examined the moderating effect of charismatic leadership on the relationship between HCHR practices and the two organizational outcomes. As shown in Model 3 of Table 2, the interaction term between HCHR practices and charismatic leadership was significantly related to employee turnover (β = –0.72, p < 0.05). As shown in Model 6 of Table 2, the interaction term between HCHR practices and charismatic leadership was significantly related to perceived performance (β = 0.92, p < 0.01).

To assess the form of our interactions, we plotted them according to Aiken and West (1991) (i.e., we plotted the high and low levels of charismatic leadership one *SD* above and below the mean). Figure 2 shows the relationship between HCHR practices and turnover when charismatic leadership is high and low. Figure 3 shows the relationship between HCHR practices and perceived performance when charismatic leadership is high and low. Next, to interpret these interactions, we conducted simple effect tests for each interaction. Specifically, we

TABLE 1 Means, standard deviations (*SD*), and correlations

	Variable	Mean	*SD*	1	2	3	4	5	6	7	8
1	Employee tenure	7.25	4.05	1.00							
2	Employee job experience	11.35	3.94	0.55**	1.00						
3	Manager tenure	9.67	6.06	0.36**	0.23**	1.00					
4	Manager industry experience	18.97	6.35	−0.01	0.03	0.14*	1.00				
5	Number CEOs	1.82	1.01	0.30**	0.09	−0.26**	−0.08	1.00			
6	External consultants	0.22	0.41	−0.10	0.01	−0.06	−0.03	0.02	1.00		
7	Size	200.07	62.38	0.00	−0.01	−0.04	−0.10	0.08	0.12*	1.00	
8	Age	13.01	7.44	0.63**	0.37**	0.65**	0.03	0.40**	−0.06	0.00	1.00
9	High service	0.24	0.43	−0.06	0.09	0.03	0.08	−0.06	0.02	−0.10	−0.01
10	Manufacturing	0.34	0.48	0.00	−0.02	0.01	−0.03	−0.02	0.00	0.01	0.01
11	Construction	0.13	0.34	0.09	−0.01	−0.01	−0.02	0.10	−0.05	−0.03	0.06
12	Low service	0.27	0.45	−0.01	−0.04	−0.02	−0.06	−0.01	0.03	0.12*	−0.04
13	Number respondents	45.96	25.89	0.00	−0.02	−0.07	−0.06	0.01	−0.08	0.45**	−0.05
14	High-commitment HR	3.43	0.39	0.01	0.01	−0.01	0.03	−0.03	−0.16**	−0.05	0.00
15	Charismatic leadership	4.07	0.81	−0.07	−0.06	−0.12*	−0.02	−0.02	0.01	−0.16**	−0.12*
16	Perceived performance	4.00	0.37	0.02	−0.03	−0.04	−0.02	−0.01	−0.07	0.01	−0.06
17	Voluntary turnover	0.14	0.07	−0.04	−0.01	0.04	−0.08	0.01	0.08	−0.02	0.04

	Variable	9	10	11	12	13	14	15	16
1	Employee tenure								
2	Employee job experience								
3	Manager tenure								
4	Manager industry experience								
5	Number CEOs								
6	External consultants								
7	Size								
8	Age								
9	High service	1.00							
10	Manufacturing	−0.41	1.00						
11	Construction	−0.22**	−0.28**	1.00					
12	Low service	−0.33**	−0.44**	−0.24**	1.00				
13	Number respondents	−0.13*	−0.03	0.09	0.11	1.00			
14	High-commitment HR	−0.02	−0.01	0.12	−0.07	0.07	1.00		
15	Charismatic leadership	−0.01	0.07	−0.02	−0.07	0.01	0.38**	1.00	
16	Perceived performance	−0.01	−0.01	0.06	−0.01	0.02	0.46**	0.37**	1.00
17	Voluntary turnover	0.03	0.01	−0.05	0.01	−0.06	−0.51**	−0.35**	−0.26**

CEO: chief executive officer; HR: human resource.
$^{*}p < 0.05$; $^{**}p < 0.01$.

found the effect of HCHR practices on turnover is significant and negative when charismatic leadership is high ($\beta = -0.42$, $p < 0.01$) and when charismatic leadership is low ($\beta = -0.41$, $p < 0.01$). We found the effect of HCHR practices on perceived performance is significant and positive when charismatic leadership is high ($\beta = 0.41$, $p < 0.01$) and when charismatic leadership is low ($\beta = 0.32$, $p < 0.01$).

We also conducted the Johnson-Neyman Technique (Lazar & Zerbe, 2011) to assess the statistical significance of the difference between the predicted points. For turnover, we found when HCHR practices are high (1 *SD* above the mean) and low (1 *SD* below the mean), the difference between leadership at a low and high level was significant ($\beta = -0.22$, $p < 0.01$ and $\beta = -0.21$, $p < 0.01$, respectively). For perceived performance, we found when HCHR practices are high (1 *SD* above the mean) and low (1 *SD* below the mean), the difference between leadership at a low and high level was significant ($\beta = 0.30$, $p < 0.01$ and $\beta = 0.21$, $p < 0.01$, respectively). Therefore, we can conclude that each combination of HCHR practices and leadership is statistically significantly different.

In our first set of hypotheses, we predicted that voluntary turnover would be lowest and performance would be highest when both charismatic leadership and HCHR practices are high. Based on the results of our simple slope tests and the Johnson Neyman Technique, we find this is the case. Therefore, we find support for Hypotheses 1a and 1b. In our second set of hypothesis, we predicted voluntary turnover would be highest and performance would be lowest when charismatic leadership and HCHR practices are inconsistent (i.e., one is low and the other high). We do not find this to be the case, and thus do not find support for Hypotheses 2a and 2b. In our third set of

TABLE 2 Hierarchical regression analysis results

Variables	Turnover (lagged 12 months)			Perceived performance (lagged 12 months)		
	Controls Model 1	Main effects Model 2	Moderation Model 3	Controls Model 4	Main effects Model 5	Moderation Model 6
Control variables						
Employee tenure	−0.22*	−0.22**	−0.22**	0.05	0.05	0.05
Employee job experience	0.06	0.07	0.06	−0.04	−0.05	−0.04
Manager tenure	−0.17	−0.21	−0.17	−0.10	−0.07	−0.11
Manager job experience	−0.05	−0.04	−0.06	−0.01	−0.01	0.00
Number of CEOs	−0.08	−0.10	−0.10	−0.06	−0.05	−0.05
Consultants	0.07	0.02	0.02	−0.07	−0.03	−0.02
Size (log)	0.02	−0.07	−0.07	0.00*	0.09	0.08
Age (log)	0.39**	0.38**	0.36**	0.06	0.06	0.10
High service	0.10	0.03	0.00	0.17	0.24	0.28
Manufacturing	0.13	0.07	0.04	0.18	0.24	0.28
Construction	0.00	−0.02	−0.03	0.19	0.22	0.23
Low service	0.11	0.02	−0.01	0.17	0.27	0.30
Number of respondents	−0.03	0.03	0.03	0.00	−0.06	−0.06
Main effects						
High-commitment HR (HCHR)		−0.40**	−0.09		0.37**	0.02
Charismatic leadership		−0.23**	0.31		0.25**	−0.44
Interaction						
HCHR × charismatic leadership			−0.72*			0.92*
R^2	0.07	0.33	0.34	0.02	0.27	0.29
ΔR^2	–	0.26	0.01	–	0.25	0.02
R^2-adjusted	0.02	0.29	0.30	0.00	0.23	0.24
F-statistic	1.48	8.60**	8.43**	0.34	6.52**	6.66**

CEO: chief executive officer; HCHR: high-commitment human resource.
*p < 0.05; **p < 0.01.

hypotheses, we predicted when either one—HCHR practices or charismatic leadership—is high (but not both), then turnover and performance would be equal to when both are high. Based on the results of these tests, we do not find this to be the case, and, therefore, do not find support for Hypotheses 3a and 3b. Although we did not find support for either a negative synergistic (Hypotheses 3 and 4) or a substitute (Hypothesis 2a and 2b) effect, our results suggest firms that were high on one but not the other (e.g., low on HCHR and high on CEO charisma or high on HCHR and low on CEO charisma) had lower turnover and higher perceived performance relative to firms that were low on both HR and leadership. More specifically, firms that invested in HCHR practices but not a charismatic CEO had higher performance and lower turnover compared to when firms did not invest in these practices, but had a charismatic CEO. Overall, our results suggest that investing in both a HCHR system and attracting or developing a charismatic CEO benefits the firm the most. Furthermore, firms that can create or invest in only one of these people management strategies see more positive benefits than

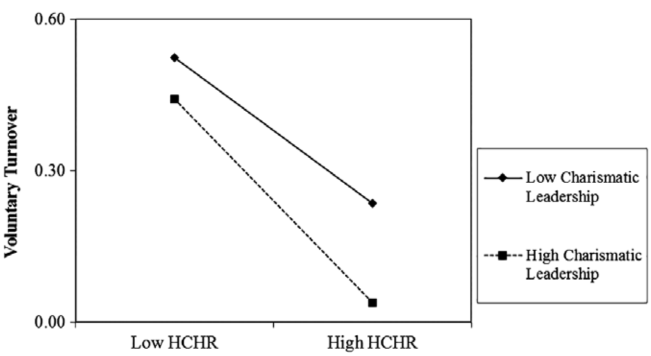

FIGURE 2 Interaction between high-commitment human resource system (HCHR) and charismatic chief executive officer leadership on voluntary turnover

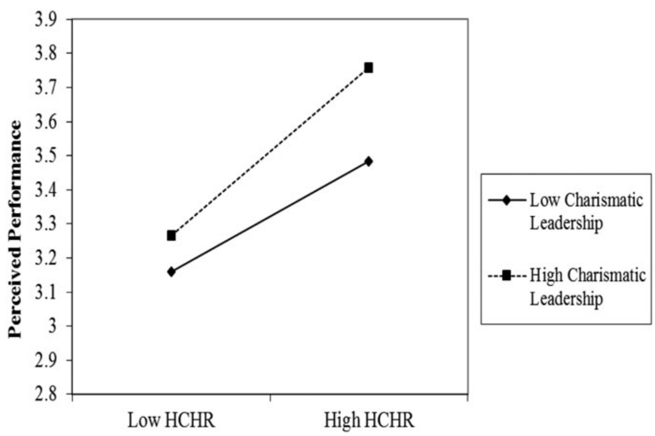

FIGURE 3 Interaction between high-commitment human resource system (HCHR) and charismatic chief executive officer leadership on perceived relative performance

firms that invest in neither, although given the choice, they should invest in HCHR practices over a charismatic leader. Later, we discuss the implications of these findings.

5 | DISCUSSION

Our primary goals in this study were to a) examine the question of fit in strategic HR management from a different angle, b) with greater precision, and c) in the context of small firms. First, we argued a better way to examine fit is to look at fit between HR systems and other organizational factors that are more proximal to HR practices rather than the business strategy. Scholars (e.g., Kehoe & Collins, 2008; Wright et al., 2001) have noted the importance of examining the effect of combinations of the employee management system, which includes multiple practices that impact employees like communication, work design, culture, and leadership, and not just the HR practices a firm uses. Importantly, following the logic of the resource-based view of the firm, organizations that align and create interdependencies between various aspects of the employee management system are more likely to obtain a sustainable competitive advantage because it is harder to imitate a system of HR practices embedded in other organizational systems or processes (Wright et al., 2001). But to date, scholars have paid little attention to the relationship between HR practices and other organizational variables beyond strategy that affect employees and have not explicitly tested the nature or effect of these relationships. Our findings that show significant interactions between HCHR and CEO charismatic leadership and suggest that this may be a more productive way to understand fit rather than solely focusing on fit between the HR strategy and the business strategy.

Second, we noted that there have been numerous calls to examine the questions of fit in SHRM research with greater precision. We looked to address this issue by theoretically proposing and testing three sets of competing hypotheses that specified the different forms of fit that may occur between HCHR and CEO charismatic leadership. Importantly, as we noted here in the results section, we found support for a positive synergistic effect. We also found, although not hypothesized, that firms that invested in either a charismatic CEO or HCHR practices outperformed those that invested in neither. Thus, we provide evidence suggesting future research examining fit in SHRM should be much more precise in articulating the specific types of synergy that should be theoretically expected given the combinations of employee management activities that are being examined.

Third, we answer recent calls to consider the context in which HCHR practices operate by focusing on small firms (Cooke, 2018). We build theory for alternative forms of fit between HCHR practices and a charismatic CEO within this context. Importantly, we articulate how HCHR practices and charismatic leadership likely operate within the small firm context given the unique aspects of these firms that make them different from larger, more established firms. For example, we argued the combination of a HCHR system and a charismatic CEO is particularly effective in this context because CEOs are more directly involved in the day-to-day operations of the firm. Thus, employees in small firms are more likely to directly experience the interaction of these two contract makers and be better able to assess the consistency (or lack thereof) between them. This contextualized approach is novel within the strategic HR field as most scholars have ignored the context in which they study HR systems (Cooke, 2018). We encourage future scholars to incorporate this approach in their own work.

Because of our context-driven approach, our results are particularly relevant to the design of small firm people management systems, and our results have several practical implications for these firms. Small firms are frequently resource constrained and tend to be in an earlier phase of their life cycle (Ling et al., 2008) and, thus, tend to have less-formalized HR practices relative to larger firms (Baron, Hannan, & Burton, 1999). However, prior research suggests obtaining a better workforce is key to small firm competitive advantage (Way, 2002). In the context of these conflicts, our results help small firms decide how best to invest in their people management system. Practically, when slack resources are available, small firms should invest in both the system of HCHR practices and the charismatic leader to achieve the highest performance and lowest turnover. High levels of HCHR and CEO charismatic leadership may work together to create clear signals for employees that they are highly valued, which will motivate them to behave in a manner that benefits the organization. Importantly, firms that showed positive synergistic fit outperformed those firms in which there were likely mixed signals sent to employees. Further research should continue to explore the powerful effects that multiple aspects of the overall employee management system may have and assess whether the "more is better" finding translates across different aspects of the people management system.

That said, in the absence of resources to invest in both, our findings suggest investing in one or the other is better than none at all. That is, the inconsistent people management systems resulted in a better performance and lower turnover than the low-investment strategy (low HCHR and low-charismatic leadership). Our results suggest different combinations exist and although investing in both HCHR and a charismatic leader appears to be most beneficial, given limited resources, a small firm may choose a "middle-of-the-road" strategy (i.e., investment in one but not the other) and still receive some benefit from doing so compared to the low-investment system. More specifically, if given the choice, small firms should formalize and invest in a HCHR system and not a charismatic CEO to achieve higher performance and lower turnover compared to investing in a charismatic CEO over HCHR practices. These results shed light on a critical question in SHRM: do firms need to achieve high investment across various aspects of a people management system (i.e., both leadership and HR practices) or can firms limit their investment to a single aspect of people management still be competitive and achieve high firm performance (Delery & Doty, 1996)? Future research, however, should continue to explore this question as it is possible that these results may not hold for other aspects of the employee management system that may be closer to employees or affect them on a day-to-day basis (e.g., front-line supervision, work group climate). Finally, small firms should avoid taking the low-road strategy at all costs because these firms had the lowest performance and the highest turnover of any in our sample. Because long-term survival is often difficult for small firms, our findings give them options for crafting a people management system that increases their chances of succeeding (Baron, Hannan, & Burton, 2001; Way, 2002).

These results also add to the budding literature on HR and leadership by exploring their interaction in small firms. Prior work has looked at more specialized systems and leadership behaviors in the context of other specific, narrow contexts. For example, Jiang et al. (2015) examined the interaction of service-oriented high-performance HR practices and service leadership on outcomes in the context of footwear retail stores; whereas, Chuang et al. (2016) examined the interaction of an HRM system for knowledge intensive work and empowering leadership behaviors on outcomes related to R&D teams. In both contexts, it was unclear how the more specific types of HR systems and leadership behaviors may generalize to other settings. Furthermore, both were studied within small units where there might be a greater confound between leadership and HR, increasing the likelihood of finding other forms of interaction besides substitute effects. Our study adds to this by exploring more generalizable HR practices and leadership characteristics to a context that is particularly relevant to the U.S. economy. Additionally, our work builds on others that suggest that HR and leaders directly affect each other. For example, Han, Liao, Taylor, and Kim (2018) found a firm's high-performance work system affects team managers' transformational leadership, and Zhu, Chew, and Spangler (2005) found CEO transformational leadership affected a firm's human-capital-enhancing HR management. Our study extends this body of literature by exploring alternative synergies between HR and CEO charisma in small firms. Future work should continue to expand this interesting line of work, potentially by exploring other context-specific leadership qualities like entrepreneurial characteristics (Renko et al., 2015).

Our study also contributes to the literature on CEO charismatic leadership given that there have been few studies that have directly examined the relationship between CEO charismatic leadership behaviors and firm-level outcomes. Although not directly hypothesized in our study, our findings provide support to the argument that CEO charismatic leadership behaviors would have direct effects on employee outcomes and firm performance in small businesses. Specifically, our results showed a negative and significant direct relationship between CEO charismatic leadership and collective employee turnover and a positive and significant relationship between CEO charismatic leadership and perceived firm performance. Interestingly, these direct relationships were no longer significant when the interaction term between HCHR and CEO charismatic leadership was added to the regression equations. These results suggest that while CEO leadership behaviors may be important in small firms, leadership scholars need to account for other organizational factors when trying to understand the full effects of CEO charismatic leadership on employee outcomes. Practically, leaders of small firms should carefully consider their choices of HR practices and policies in the context of their own leadership style when formalizing a plan of how to successfully retain talent and drive business performance.

5.1 | Strengths, limitations, and future research

Several features of this research study helped provide reasonable tests of our hypotheses. We collected data from multiple sources to measure each construct, including employee ratings of HCHR practices instead of manager ratings. Scholars have debated over the number of raters and the most appropriate respondent for measuring HR practices (Gerhart et al., 2000; Liao, Toya, Lepak, & Hong, 2009). In accordance with this debate, we used multiple respondents per firm (45 respondents on average) and used employees instead of managers as respondents. Our methodology strengthened the reliability of our measures and construct validity because employee responses are thought to measure implemented rather than intended practices (Liao et al., 2009). We were also able to rule out many theoretically meaningful alternative explanations for the relationships tested in this study by using an extensive set of control variables.

Despite these strengths, there are several limitations that we feel should be considered when interpreting our results. First, we tested our hypotheses in the particular context of small firms, and we recognize these findings may not generalize to other settings (e.g., medium and large enterprises) where the CEO has far less exposure to frontline employees. We feel this is a particular strength of our research given recent calls to recontextualize HR (Cooke, 2018) and because the small business sector is important as over 50% of all workers in the United States are employed by small businesses. That said, future research is needed to understand if our results will generalize to other business contexts. Furthermore, when looking at the generalizability of our findings, future researchers should probably examine leaders at a more proximal level (e.g., leaders at the business unit level) as this would more closely approximate the level and intimacy of interaction between employees and the leader. Second, we used perceptual performance in lieu of the objective performance data. Despite this shortcoming, previous studies have shown that there is a high correlation between subjective and objective measures of performance, which allows us to draw meaningful conclusions from these data (Wall et al., 2004). Furthermore, we found sizable and significant correlations between perceptual performance and self-reported measures of sales growth and return on equity in data drawn from a limited number of firms in our own sample. Third, we could not control for prior firm performance or turnover and as such, we cannot rule out the alternative explanation of reverse causality. It is true that better performing firms or those with lower turnover may be able to afford the investment in HCHR practices or attract a more charismatic CEO. That said, because our primary hypotheses tested for the relationships between HCHR practices and CEO charisma, we do not think that it makes conceptual sense that the combined effect of HCHR practices and CEO together would be affected by firm performance or turnover.

Fourth, we only examined the interaction of HCHR and charismatic leadership, and there are other organizational factors that are part of the larger management system that influence employee abilities, motivations, and opportunities. Future research should expand and explore our findings further to examine if the value of investing in HCHR practices may vary depending on the culture, communication strategy, work design, or other leader characteristics. We chose to examine the interaction of HCHR and CEO charismatic leadership because of the unique role of the CEO in small firms; thus, we would recommend that other scholars should carefully consider the components that they choose to examine based on what is most meaningful in their context of interest. Finally, the process through which HCHR practices and various people management components affect employees may vary depending on which components are studied. For example, the interaction between open-communication and HCHR practices may affect employee turnover through a process of trust, whereas the interaction between HCHR practices and work design may affect firm performance through efficiency. We were unable to test for particular mediators in this study, but we encourage future researchers to examine the processes through which various components affect firm outcomes.

6 | CONCLUSION

We contribute to the fields of strategic HR management and leadership in several ways. First, we expand upon our prior conceptualizations of strategic HR fit to include fit with other aspects of the people management system and test for the effect of the various forms that this relationship can take on organizational outcomes. We highlight the need to look beyond just fit with strategy or among HR practices to other variables such as leadership. Second, we contribute to our understanding of how HR affects firm competitive advantage by showing that firms can benefit by investing in multiple aspects as we found both high levels of HR and charismatic leadership were related to higher firm performance. Importantly, our results speak to the importance of not only having a visionary leader but also to the importance of formal HR practices in small firms. Specifically, we found individual aspects of the people management system may affect outcomes, but small firms seemed to achieve the highest level of performance when they had both high levels of HR and charismatic leadership.

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APPENDIX: MEASURES OF HIGH-COMMITMENT HUMAN RESOURCE PRACTICES

1. The company primarily selects based on their long-term potential to contribute to the company.
2. When interviewing for new employees, the company focuses on how well the individual fits the culture.
3. This company will leave a position open until it can find the best and brightest possible new employee.
4. When interviewing applicants, we primarily assess their ability to work with other employees in this company.
5. When evaluating job applicants, this company focuses on determining if they fit with the company's values.
6. Managers give employees a great deal of discretion to monitor their own performance.
7. Employees are given discretion to complete their tasks; however, they see fit.
8. Employees are trusted to get the job done right the first time without any direct oversight.
9. This company uses bonuses or incentive pay to motivate employees.
10. Employee bonuses are based mainly on how the company as a whole is performing.
11. This company provides opportunities for employees to continue to learn and grow.
12. Performance appraisals at this company are primarily used to help employees identify new skills to develop.
13. Employees here expand their skills by rotating through a range of different jobs.