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The strategic human resource management approaches and organisational performance: The mediating role of creative climate

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# The strategic human resource management approaches and organisational performance

## The mediating role of creative climate

Mediating role  
of creative  
climate

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### Abstract

**Purpose** – Despite the strategic importance of the approaches, most of the approaches consider “internal fit” or “external fit”, and do not consider the role of creative climate. The purpose of this paper is to explore the relationship between approaches to strategic human resource management (SHRM) and organisational performance through a creative climate.

**Design/methodology/approach** – This paper has divided into three parts. First, the paper explores the literatures on the constructs. Second, it examines the relationships between constructs dealt with in the literature. Third, the review identifies the gaps in the literature and describes future recommendations of research for this field.

**Findings** – This study can serve as a starting point for future research on the relationship between SHRM practices, creative climate and organisational performance in terms of financial, human resource and customer retention. Researchers and practitioners need to understand the relationship between the three constructs.

**Originality/value** – The paper helps managers need to design strategic HRM policies and practices that are aligned with creative climate and organisational performance. Furthermore, it helps scholars/researchers focus their research on the relationship between HRM approaches (universal and contingency approaches), organisational performance and examining the role of creative climate as a mediator to overcome its causal limitations.

**Keywords** Strategic human resource management, Best fit, Contingency approach, Creative climates, SHRM perspectives, Universalistic approach

**Paper type** Conceptual paper

### Introduction

Twenty-first century organisations are competing over the efficiency and utilisation of their workforce. Moreover, in a competitive environment, a company must understand all its negative and positive forces, including relevant skill sets among its workforce to stay in the market. Hence, having the right composition in the team, with the right skill sets is good enough to get a sustainable competitive advantage (Jery, 2013). Gilmore and Williams (2009) identified that: “employees provide the primary source of competitive advantage, with the quality of HRM being a critical influence on the performance of firms and managing people”. Along those lines, Delery and Roumpi (2017) argued that: “HRM practices can contribute to a firm’s sustainable competitive advantage not only by enhancing employee’s ability, and offering motivation and opportunities, but also by shaping supply-side and demand-side mobility constraints”.

Wright and McMahan (1992) defined the term “strategic human resource management (SHRM)” as: “the pattern of planned human resource deployments and activities intended to enable an organisation to achieve its goal”. Delery and Doty (1996) address SHRM as a vast organisational culture and is structured to promote performance effectiveness, the fundamental development of resources, knowledge and capability within an organisation. It is a link to develop an organisational cluster of cultures, innovation and manpower towards the business goal and organisation mission in the long term. SHRM, hence, being applied vastly within organisations to examine the relationship between the strategic approaches applied and their impact on an organisation’s performance barrier.



The way employees are treated in a company is directly related to their performance (Wan-Jing and Huang, 2005) and consequently the success of the organisation. SHRM was developed to create a more productive and efficient work environment based on the relationship between a company and its employees (Darwish, 2009). Organisational strategies are difficult to be imitated by competitors if they are based on human resources. The implementation of well-formulated human resource management (HRM) policies and practices is viewed as one of the critical success factors for a competitive advantage in twenty-first century organisations (Kandula, 2008).

The relationship between a firm's business strategy and HRM has been well established (Dhar, 2008). Whilst, several models have been developed which prescribed how business strategy and HRM should be linked and their impact on organisational performance, the three best-known SHRM models are the "best fit", "best practice" and resource-based view models (Gilmore and Williams, 2009). However, the selection of the approaches of SHRM can vary according to organisational outcomes (Armstrong and Taylor, 2014). Most of the literature on SHRM practices either focus on organisational "internal fit" or "external fit"; however, there has been very little research reported on the role of creative climate. Hence, the aim of this conceptual paper is twofold. First, to present a literature on the two widely discussed SHRM approaches, their impact on organisational performance (such as financial, human resource and customer satisfaction) and examine the relationship between SHRM approaches and organisational performance outcomes. Second, to explore the relationship between SHRM approaches and organisational performance through a creative climate. Despite the strategic importance of the SHRM approaches, both approaches consider "best practices" or "best fit", and do not consider the role of creative climate as a moderator between strategic HRM approaches and organisational performance.

### Literature review

Strategic HRM is about "how employment relationships for all employees can be managed in such a way as to contribute optimally to the organisation's goal achievement" (Legge, 2005). Batt (2007) notes: "the central premise of strategic human resource management theory is that successful organisational performance depends on a close fit or alignment between business and human resource strategy". Similarly, Mello (2011) defined the construct of SHRM as: "development of a consistent, aligned collection of practices, programs, and policies to facilitate the achievement of the organisations' strategic objectives" (p. 152). It means that the concept of SHRM is to systematically link people with the organisational objectives; more specifically, it is about the alignment of HRM strategies with business-level strategies. Nevertheless, there is no one best way to manage people in any given organisation. Even within a given industry, HR practices can vary extensively from one organisation to another (Mello, 2011). Though there are a number of approaches in the literature that attempts to link strategy, business performance and HR policies and practices, the two best-known approaches are discussed below along with their key concepts:

- (1) The universalistic approach – "Some HR practices are better than others and all organisations should adopt these best practices. There is a universal relationship between individual 'Best' practices and firm's performance" (Delery and Doty, 1996).
- (2) The contingency approach – "In order to be effective, an organisation's HR policies must be consistent with other aspects of the organisation, especially its strategy 'vertical fit'" (Delery and Doty, 1996).

The next section discusses the two popular approaches to SHRM followed by their impact on organisational performance.

*Universalistic approach – best practice approach*

According to Nataraja and Alamri (2016) the universalistic approach based-SHRM actions on “the relationship between individual best practices and the organisation performance, it should be applied regardless of context, organisation, or culture”. Companies that practice this approach are willing to give their best regarding their employees, and thus becoming more productive (Syed and Jamal, 2012). Different authors created different practices for this approach. According to Osterman (1994, as cited in Sudin, 2004), these practices create more productive employees. Indeed, the universalistic approach could be concluded that there are certain best practices that any organisation could benefit from adopting. A number of lists of “best practices” have been developed over the years and a summary of “Best Practices” is presented in Table I.

The positive side of the universalistic approach is the fact that it is simple in the application (Delery and Doty, 1996) and can be applied in any organisation, industry and all geographical locations. Gilmore and Williams (2009) have how to develop best practices for competitive advantage. They assert that: “the organisations should do two things: 1) identify important HR practices that are related to overall organisational performance; and 2) identify a link that maintains how these individual practices relate to and enhance organisational practice”.

*Relationship between universalistic approach and organisational performance.* According to Venkatraman and Ramanujam (1986), organisational performance is an indicator of the ability of enterprises to achieve their goals and strategies, which can be evaluated by financial and non-financial measures. Financial measures basically use profit and non-financial measures include market share, quality, satisfaction and capability. In literature,

Arthur (1992)	McDuffie (1995)	Pfeffer (1995)	Huselid (1995)	Pfeffer and Veiga (1999)
Broadly defined jobs	Work teams	Employment security	Personnel selection	Employment security
Employee participation	Problem-solving teams	Selectivity in recruiting	Performance appraisal	Selective hiring
Formal dispute resolution	Employees suggestions	High wages	Incentive compensation	Self-managed teams
Information sharing	Job rotation	Incentive pay	Job design	Comparatively high compensation
Highly skilled workers	Decentralisation	Employee ownership	Grievance procedures	Extensive training
Self-managed teams	Recruitment and hiring	Information sharing	Information sharing	Reduction of status differences
Extensive skills training	Contingent compensations	Participation and empowerment	Attitude assessment	Sharing information
High wages	Status differentials	Self-managed teams	Labour/management participation	
Salaried workers	Training of new employees	Training and skill development	Recruitment intensity	
Stock ownership	Training of experienced employees	Cross-utilisation	Training hours	
		Symbolic egalitarianism	Promotion criteria	
		Wage compression		
		Promotion from within		

Source: Elliott (2003, pp. 46-47)

**Table I.**  
Best practice  
approaches to SHRM

several studies have analysed the relationship between HRM practices and organisational performance (Huselid, 1995; Patterson *et al.*, 1997; Gilmore and Williams, 2009).

Universalistic researchers assume that there is a bundle of best practices that can directly influence a firm's performance (Lau and Ngo, 2004). In support of this notion, many studies (Boxall and Purcell, 2008; Truss *et al.*, 2012) state that HRM practices have an impact on organisational performance in two ways: human resources basic and developmental needs which an HR has to possess, such as employment security, recruitment, job design, incentive pay and high wage, can directly influence the employees' motivation and enthusiasm, thereby indirectly promoting the financial performance, and from the aspects of ownership and equality which will affect employees' attitudes and behaviours towards their organisations, thereby promoting employee satisfaction and commitment in a longer run. Besides, good practices generally refer to the development of resources as the focus, to maintain the competitive advantage of basic resources (Wright *et al.*, 1994). In order to keep competitive advantages, the theory should be irreplaceable and valuable.

Given the nature of the universalistic approach, its impact on employees' satisfaction would be apparent. Universal practices directly catered to the well-being of employees, job security, high wages, incentive pay, information sharing, participation and egalitarianism are good examples of how a company could achieve high employee engagement. Research conducted by Greek firms show that the universalistic approach significantly influences growth and innovation (Syed and Jamal, 2012).

Rose *et al.* (2008) conducted their study to examine the link between the HR practices and organisational performance in the engineering field. Research shows that the universalistic approach can influence employees' performance and "[...] the need for firms to procure or develop the resources needed to implement the strategic HR practices".

In support of the previous studies, Ubeda-García *et al.* (2013) studied the relationship between global HRM systems and organisational performance with a sample of Spanish hotels. The results revealed that the fit between the HR systems and the firm's strategic perspective in the Spanish hotels has a significant impact on organisational performance in terms of employee satisfaction and retention as compared to the contingency approach.

Jery (2013) conducted research to test the effect of universalistic practices on the three aspects of the organisational performance, i.e., financial, organisational and human resources. The findings of the study confirmed a statistically significant link between the universalistic approach and a firm's performance especially on human resource. This model is best suited to building a new team or motivating existing employees. Organisations that have long-term incentives and managerial compensation benefits usually have a higher chance of performing better in the long run (Becker and Gerhart, 1996).

The link between the Universalistic approach and performance is further emphasised by Sofijanová and Zabijakin-Chatleska (2013) who state that there is a statistically significant positive relationship between financial performance and universalistic practices in the sample of the Macedonian hospitality industry. They collected the data from 19 of the largest companies in the industry. Similarly, Zehir *et al.* (2016) investigated the role of entrepreneurial orientation on the relationship between SHRM and firm performance. The results indicated that entrepreneurial orientation mediated the relationship between strategic HRM and firm performance on financial and human resource performances.

A different perspective is that universalistic practices, focusing on training employees' capability, welfare, promotion and working together, may not directly lead to the firm's performance; however, they could enhance employees' productivity, positivity and innovation, which could lead to organisational performance (Dimba, 2010). For instance, skilled employees will not be motivated to work efficiently without job security, high wages and incentive pay. This situation will directly result in low productivity in the company and

lead to low performance. This is consistent with the study of Paauwe and Boselie (2005) who suggested that the attitudes and behaviour of employees could have a real effect on the organisation with regards to its financial performance.

*Contingency approach – best fit approach*

The contingency approach – “best fit” is more complex than the universalistic because the company must analyse its sector and environment before implementing any strategy (Wan-Jing and Huang, 2005). In fact, the relationship between relevant independent variables such as human resources practices and the dependent variable performance will be varied according to factors such as sector, strategy, location, nature of work and size of the organisation. “The HR policies of the organisation must be consistent with its other aspects to be effective and productive in the competitive environment” (Nataraja and Alamri, 2016). To get results, the SHRM practices have to align with all the other aspects of the company, internal and external (Elliott, 2003).

Boxall and Purcell (2008) view the contingency approach different to the universalistic approach and argue that: “the assumptions underlying the HRM strategy-performance link are applicable only under high external fit conditions, termed the ‘best fit’ school”. Hence, it could be argued that HR aims, policies and strategies, practices and the role of the HR department are only justified if they are related to the situation of the organisation.

Contingency approach can be divided into three different models: “life cycle, competitive strategy and strategic configuration” (Armstrong and Taylor, 2014). In the first model, the strategies used by HR will be affected by each stage of the company’s life cycle (Beardwell *et al.*, 2004). The competitive strategy model regards the competitive advantage the company has in the market as innovative, quality or cost leadership (Beardwell *et al.*, 2004). The last model, the strategic configuration is also about competitive advantage but uses a different approach. In this model, the company will focus its human resource practices according to one of four different business strategies: prospectors, defenders, analysers and reactors (Armstrong and Taylor, 2014).

Armstrong and Taylor (2014) summarised the construct of contingency approach by stating that: “to achieve the maximum effect it is necessary to match the role characteristics of people in an organisation with the preferred strategy”. Table II shows a summary of the different models for the contingency approach.

The strength of the contingency approach is its integrative nature. It allows an organisation to adopt different practices in different circumstances, ensuring whichever

*Life cycle*

Start-up phase	The organisation is growing, and its HR practices are informal or flexible to create a functional work environment
Growth phase	Business has expanded, and HR practices are formal and documented
Maturity phase	The organisation is at its peak, starts to control costs and resources through HR practices
Decline	Cutting costs and consolidation, HR practices to help the survivors

*Competitive strategies*

Innovation	Being the unique producer
Quality	Delivering high-quality goods and services to customers

*Strategic configuration*

Prospectors	Work in an innovative market, can develop new products and services or technology
Defenders	Which operate in a more stable and predictable environment
Analysers	Which are a combination of the prospector and defender types
Reactors	Work in an unexpected environment and react according to the circumstances in the market

**Sources:** Beardwell *et al.* (2004), Armstrong and Taylor (2014), Armstrong (2008)

**Table II.**  
Different models  
for the contingency  
approach of  
the SHRM

practice used is the best fitted to that situation and thus could yield the best outcome. Moreover, this enables organisations to make optimal choices according to the given circumstance and minimise the risk for loss of opportunity cost.

*Relationship between contingency approach and organisational performance.* The contingency approach of SHRM has been tested through various empirical studies to examine the impact on organisational performance. Researchers found that the contingency approach works effectively for companies in diverse cultures and contexts. For instance, Chang and Huang (2005) conducted their study on 235 Taiwanese firms and they found a significant support for the contingency approach. Moreover, they suggested that: “the resources and technology are traditional sources that are easy to imitate, only adding value through appropriate human practices that make it difficult for other companies to imitate”. Another study conducted in the Taiwanese context by Wang and Shyu (2008) also confirmed that strategic fit increased human resource efficiency and organisational performance in terms of financial and human resource performances. These studies have also confirmed the support of the contingency approach and its impact on organisational performance in the Asian context.

There are also studies that attempt to link the contingency approach and its impact on organisational performance in diverse contexts. For instance, Katou and Budhwar (2010) conducted a study to measure the impact of human resource practices on organisational performance in the context of Greece. They collected the data from the Greek manufacturing sector. The results indicated that the study provided support for the contingency approach with respect to business strategies. They identified that the HRM practices designed under the umbrella of business strategy had a significant effect on organisational performance. In view of that, Savaneviciene and Stankeviciute (2012) noted that the contingency approach was best suited for companies which operated in specific circumstances or diverse cultures.

To examine the role of contextual conditions, Datta *et al.* (2005) conducted a study to examine the important contextual conditions that moderate the efficacy of the high-performance work practices (HPWPs). They found that the impact of a system of HPWPs on a firm’s productivity is highly influenced by the industry conditions of capital intensity growth and differentiation strategy. This alignment between HR practices and organisational strategy has also been examined by Ugheoke *et al.* (2015) in the developing economy of Nigeria, which presents unique characteristics in terms of strategy. They found a strong support for the validity of the contingency model. Furthermore, they suggest that organisations should identify relevant strategic human resource practices according to the situational factors.

#### *Creative climate at work*

Early researchers of organisational climate assumed climate based on the perception of the employee work environment or social environment. For instance, Altman (2000) explains the term of “climate” as an employee’s perception of their work context which encompasses their social, psychological and physical interaction. This explanation of organisational climate represents the complete view of organisational setup and best described in all contexts. However, the study of Lin and Liu (2012) suggests that the creative climate is related to creative achievements regardless of the country’s culture or culture of the organisation. This implies that creative climate is more amenable to creative work and can lead to gain competitive advantage.

In the creativity literature, Ekvall (1996) notes that there is a split run between theorists who conceive “climate” as a common perception arising from interaction among members of the organisation, and those who perceive “climate” as an objective property of the organisation. However, the creative climate consists of different dimensions of the

organisation, such as management structure, leadership style, workplace conditions, socio-psychological atmosphere, available resources, motivation and reward system. However, Ekvall (1996) defines the term “creative climate” as “an attribute of the organization, a conglomerate of attitudes, feelings, and behaviours which characterize the organizational life”. Thus, creative climate seems to be critical for organisations operating in a highly competitive environment.

The importance of the creative climate has also explained by Mathewman *et al.* (2009) who said that: “Creative and innovation have become not only buzzwords of the twenty-first century’s global work market, but also an integral part of every employee’s job description”. This notion is in line with Isaksen and Ekvall (2010), who highlighted that a highly organisational creative climate is significantly related to high organisational performance in terms of market share, sales volume, improved ability to implement complex work designs.

*Creative climate as a mediator.* Now the question is why examine the role of creative climate in the SHRM approaches and organisational performance link? Heffernan *et al.* (2016) conducted a study to examine the relationship between HRM practices, organisational performance and creative climate as a linking mechanism. They found a significant positive relationship between HRM system, creative climate and organisational performance outcomes. They noted that: “perceptions of a climate for creative are an important precursor for people to show initiative”.

This finding is consistent with previous observations by Iqbal (2011) who noted that: “Many business experts are predicting that workforce creative and innovation will be the most important factors in establishing and maintain a competitive advantage”. Creative climate as an important construct, Nelson and Quick (2006) highlighted that: “The social and technological changes that organisations face requires creative decisions. Managers of the future need to develop special competencies to deal with the turbulence of change, and one of these important competencies is the ability to promote creativity in organisations”. Promoting creativity means giving employees enough time and adequate resources to test their new but novel ideas and solutions.

Similarly, the study by Gong *et al.* (2009) conducted in an insurance company in Taiwan. For the study, they interviewed 277 insurance agents through random sampling. The study found that employee creativity was positively related to employee sales and to supervisor-rated employee job performance. This finding further suggests that managers can get benefits of employee creativity through selecting creative individuals and by providing conducive environment. This implies that employees tend to be more productive when they work in a creative environment as well as under the supportive SHRM approach.

## Discussion

It is evident from the above discussion that all the approaches of SHRM under discussion shared the same objective to maximise the profit through human resources. However, it can also be observed that there is no clear picture of which of these approaches are the best one and appropriate for the organisations (Savaneviciene and Stankeviciute, 2012). For instance, Datta *et al.* (2005) studied the relationships between two primary approaches (universalistic and contingency approaches) and organisational performance. They found that both the approaches were beneficial to organisations in terms of financial performance and human retention. However, Budhwar and Aryee (2008) noted that: “If one’s arm was twisted to make an ‘overall’ conclusion on the balance of the evidence so far, one in favour of contingency hypothesis would be just as justified as the universal hypothesis. This is because any such conclusion would be premature because of conflicting research results but, more importantly, because the debate is still in its infancy”.



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The positive attributes linked to the universalistic approach is that it is easy to apply to any organisation under any circumstances. It means the universalistic approach is flexible and can be applied in any kind of business or context. As Christmann (as cited in Geary *et al.*, 2017) states, the universal model could help to reduce the complexity of the company. Furthermore, it motivates and boosts the morale of employees and augments their productivity. It helps to reward employees for their high productivity and thus provides motivation. Moreover, it ensures that highly qualified and best-suited employees are hired for the job. This approach helps organisations to retain employees as it provides job security which is a crucial factor for any employee to remain loyal to the organisation.

In contrast, many researchers expressed their concerns that the term “best practice” could be interpreted in various ways, and what is best for one organisation might not be best for the other. This approach also did not specifically address the degree and types of practice which presented confusion in organisations (Gilmore and Williams, 2009). Moreover, Alcázar *et al.* (2013, p. 41) argue that their research revealed positive results of “best practice” approach in mixed teams. It “has failed to explain how the connections among these practices build an HR strategy orientated to diversity”. Similarly, the practical down side of this approach has been discussed by Richardson and Thompson (2003). They found that the universalistic approach was only to analyse the internal relationship between an organisation and employees without considering the business environment that the company was involved in.

However, Budhwar and Aryee (2008) explained the other side of the universalistic model that: “does not explicitly consider the internal integration of HR practices, and considers them merely from an additive point of view”.

When comparing two models, “best practice” vs “best fit”, Purcell (1999) stated: “that the search for a contingency or matching model of HRM is also limited by the impossibility of modelling all the contingent variables, the difficulty of showing their interconnection, and the way in which changes in one variable have an impact on others”. It means that this model falls into a possible scenario where there is a need for managers to make strategic decisions and delegate responsibilities. Thus, human errors or misjudgements could occur, but it does not seem to be acknowledged in the contingency approach.

Paauwe (as cited in Armstrong and Taylor, 2014) emphasises that: “It is necessary to avoid falling into the trap of ‘contingent determinism’ (i.e. claiming that the context absolutely determines the strategy). There is, or should be, room for making strategic choices”. Another criticism of the contingency approach as noted by Gilmore and Williams (2009) is that: “It tends to ignore employee interests in the pursuit of enhancing economic performance, and sometimes fails to recognize the need to align employee interest with the firm”. As a counterpoint to the contingency approach Gerhart argues that: “the idea of best practice might be more appropriate for identifying the principles underlying the choice of practices, as opposed to the other models”.

As noted in the review, the existing literature has not fully explored the relationship between HR practices, creative climate and organisational performance outcomes (Heffernan *et al.*, 2016; Amabile *et al.*, 2005). In their study, Amabile *et al.* (2005) confirm that creativity and innovation are important components of organisational performance but an understanding of the creative process is quite limited. Nonetheless, limited literature on creative climate has examined the processes leading to creativity in jobs (Andrews and Smith, 1996).

A study conducted by Tan and Nasurdin (2011) to examine the relationship between HRM practices and organisational innovation and creative, found that HRM practices had a positive effect on organisational innovation and creativity. Hence, it can be assumed that an effective strategic human resource approach in the organisation would play a significant

role because it promotes a creative climate that encourages participation, cooperation, sharing information and innovation (Collins and Smith, 2006) that ultimately lead to higher performance (Bowen and Ostroff, 2004).

## Mediating role of creative climate

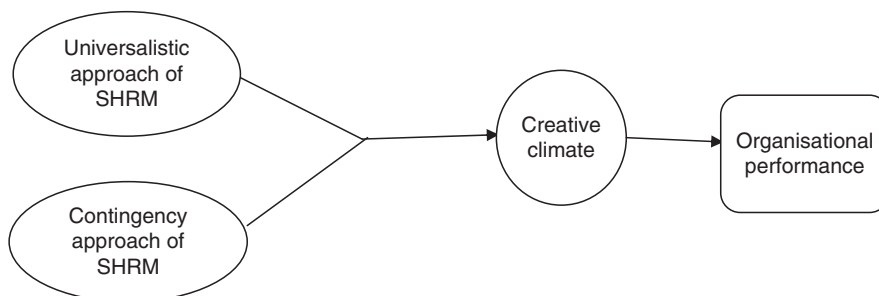
### Conclusion and future research

Selecting the most appropriate strategic HR approach should be done carefully by organisations in order to gain competitive advantage and to achieve their organisational goals (Walsh *et al.*, 2010). Based on the literature, it is assumed that both SHRM approaches (the universalistic approach and contingency approach) may deliver benefits to all industries and sectors. However, due to the nature of the work, uniformed monitoring is required, and all different departments should be treated as one single unit (Powell *et al.*, 2014). The difficulty with one unit is that it affects all members, hence the universalistic approach is best suited that treats them as a single economic entity. This model, however, is not suited to a situation of crisis but is helpful in getting a competitive advantage by involving other factors such as work environment, recruitment and employee participation.

Since the nature of this paper is a conceptual one, the discussion in this paper has raised some pertinent issues for future research. Therefore, it is recommended that:

- Further empirical research should be conducted on the relationship between HRM approaches (universal and contingency approaches), organisational performance and examining the role of creative climate as a mediator to overcome its causal limitations.
- The relationship between SHRM approaches, creative climate and organisational performance has not been explored fully yet. Therefore, it is important to examine the role of creative climate as a mediator or moderator in the strategic HRM practices and organisational performance links. The relationship is presented in Figure 1.
- Finally, to find out which strategic HRM approach is the best and appropriate for the organisations in crisis situations. However, many researchers tend to argue that the universalistic approach is the most widely tested and strongly supported approach than the contingency approach (Rose *et al.*, 2008; Chenevert and Tremblay, 2011; Darwish, 2013; Guest, 2011; Legge, 2005).

This study can serve as a starting point for future research on the relationship between SHRM practices, creative climate and organisational performance in terms of financial, human resource and customer retention. Furthermore, this study has important implications for both researchers and practitioners in the field of SHRM. Organisations should understand the relationship between the three constructs, such as SHRM approaches, creative climate and organisational performance. Managers need to design strategic HRM policies and practices that are aligned with creative climate and organisational performance.



**Figure 1.**  
Author's construct

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