



PAPER ID: 10A19H



**RELATIONSHIP BETWEEN MODERN HUMAN
RESOURCE MANAGEMENT PRACTICES AND
ORGANIZATIONAL INNOVATION: EMPIRICAL
INVESTIGATION FROM BANKING SECTOR OF CHINA**

**Samma Faiz Rasool^a, Madeeha Samma^{b*}, Amna Anjum^c,
Mubbasher Munir^d, and Talat Mehmood Khan^e**

^a *Postdoctoral Station of Statistical, School of Innovation and Entrepreneurship, Entrepreneurship Institute, Guangzhou University, Guangzhou, 510006 CHINA*

^b *School of Management, Shanghai University, Shanghai, 200444 CHINA*

^c *Glorious Sun School of Business and Management, Donghua University, Shanghai 200051, CHINA*

^d *School of Business and Economics, UMT, Lahore, 54000, PAKISTAN*

^e *School of Finance, Southwestern University of Finance and Economics, Chengdu, 61130 CHINA*

ARTICLE INFO

Article history:

Received 15 May 2019

Received in revised form 09
September 2019

Accepted 27 September 2019

Available online 30 October
2019

Keywords:

**Modern HRM
Practices;
Organizational
Innovation;
Performance
Management.**

ABSTRACT

The study examines the effect of modern human resource management (HRM) practices on organizational innovation (OI) in the banking sector of China. A questionnaire survey was used in this study. The correlation and regression analysis are used to test the hypotheses with a sample of 140. The results indicate that modern human resource management practices have a positive relationship with OI. The finding highlights among all modern HRM practices performance management has a strong, positive effect on OI. However, our study indicates that a higher level of performance management provides a higher level of OI in the banking sector of China.

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1. INTRODUCTION

The Human Resource (HR) practices play a very vibrant role in attaining the organization's goals and keep a competitive advantage (Imran et al., 2014; Koser et al., 2018). The success of an organization depends upon several factors, but the most important factor is employees, which affects the organizational performance (Anjum et al., 2018; Den Hartog et al., 2004). These employees play as human resources of the organization an integral role in achieving innovative and high-quality products and services. HRM is the procedure of preparing, obtaining, assessing, and reimbursing workers and of taking care of their work relations, security, and reasonable concerns. Successful organizations make competitive advantages through innovation and creativity (Rasool et al., 2019).

Thus, the creative contribution of employees brings innovation to the organization (Lin, 2011). Organizational innovation (OI) means the process of executing new ideas to create value for the organization. Also, OI is creating a new service, techniques, process, and system. “It is a process of realization of a new method, product or service” (Thompson, 1965). OI is the effective execution of unique ideas for new products, processes or services within the organization (Amabile, 1988). These delicate practices to develop knowledge of organization for industry goals such as novelty, innovation, and performance of companies (Chen & Huang, 2009). HRM practices and OI are directly influencing the company’s performance (Azar & Ciabuschi, 2017).

Several gaps still exist in this field. Firstly, most of the researchers focus on cases in the USA, Western countries and other countries, including Japan, Singapore, Korea, New Zealand, Russia and India (Ahmad & Schroeder, 2003; Bae & Lawler, 2000; Chand & Katou, 2007; Delaney & Huselid, 1996; Fey & Björkman, 2001; Guthrie, 2001; Vlachos, 2008; Wan et al., 2002). However, few researchers are a focus on China, but they have not focused on financial institutions, these financial institutions cannot be neglected because they anticipate a prominent role in the social and economic improvement in China. The objective of this research to fulfill this gap through the application of the RBV (resource-based view) theory. This theory examines how human resources are applied and combined the HRM practices and organizational competitive advantage (Ordonez de Pablos, 2004; S Rasool & Mouna Koser, 2016). This is the foremost research which inspects the relationship between HRM practices and OI in the banking sector of China.

2. CONCEPTUAL BACKGROUND

2.1 MODERN HRM PRACTICES IN CHINA

Chinese organizations were familiar with HRM practices. A vast amount of western and Chinese scholars brought attention to the practical implementation and theoretical implementation of HRM in Chinese organizations. A famous scholar Wang (1985), conveys the simple concept of HRM in Chinese culture, he brings HRM concept from psychology theories and introduces in Chinese firms (L. Zhao, 1998).

Moreover, national wide main changes in HRM were introduced in the middle of 1990. The main changes are the welfare of employees, labor law, regulation, and performance-based reward, fixed-term employment contracts, employee relations, and succession planning (Koser et al., 2018). At the end of 1990, the Chinese understand that HRM practices in china required several changes that are called innovation (Ngo et al., 2008). Hence, HRM-practices are extensively applied in Chinese firms. Due to changes in the enterprise management system and the economic system did not provide solid support to the labor market in China (Zaman et al., 2019). Additionally, multinational organizations started investment in Chinese organizations at the end of 1990, and these investments bring western capital, corporate culture, and management style. At the start of the 21st century, there are progressive reforms in HRM-practices have been launched in the international market that affects the Chinese labor market. Thus, China became a member of the WTO (world trade organization) in December 2001 (Chang et al., 2017). WTO brings a lot of reforms into the Chinese economy that creates a complex market and operational environment in China (Abbas et al., 2019). These reforms in the

Chinese economy transfer modern HRM-Practices into Chinese firms (S. Zhao & Du, 2012). Therefore, modern HRM practices are increasing with the passage of time and these practices play a vibrant role in attaining the organization's goals and keeping a competitive advantage in the banking sector of China (Gondal & Shahbaz, 2012).

2.2 ORGANIZATIONAL INNOVATION (OI)

A famous scholar Damanpour (1996) gives argues that innovation in an organization means the successful implementation of unique ideas for product development, processes development and administrative development of the organization (Galvez et al., 2018). A scholar claims that without creative ideas, from employees, there will be no innovation in the organizations. Moreover, he suggests that first organizations create ideas, secondly develop these ideas and finally implement them (Hsu, 2017).

Furthermore, improve the existing corporate practices that are based on organizational methods also re-engineering the management strategy and mergers and acquisitions. The organizational design and structure developments affect the OI that leads to improved intra-organizational coordination and cooperation instruments (Azar & Ciabuschi, 2016). In the last ten years, a considerable number of research studies have been conducted on OI from different perspectives (Krašnicka et al., 2017). The comprehensive detail of the last 10-year research on OI is shown in table 1.

Table 1: The dimensions and concept of Organizational innovation in the last 10 years

Authors	Dimensions and Indicators	Concept
Birkinshaw et al. (2008)	Process innovation, administrative innovation, and management techniques.	Management innovation
Mothe and Uyen Nguyen Thi (2010)	Administrative innovation approaches production organization.	Organizational Innovation
Terziovski (2010)	Innovation strategy, technological innovation and capabilities.	Organizational Innovation
(Damanpour & Aravind, 2012)	Strategy, structure, procedural innovation	Management innovation
Vaccaro et al. (2012)	Administrative and process innovation, organizational structures.	Open Innovation
Hecker and Ganter (2013)	Workplace organization, knowledge management.	Management innovation
Camisón and Villar-López (2014)	Administrative innovation, product innovation, process innovation.	Organizational Innovation
Tajeddini (2016)	Product innovation, Business performance.	Organizational Innovation
Prifti and Alimehmeti (2017)	Innovation, market orientation, organizational performance.	Organizational Innovation

Source: adopted and extended from Krašnicka et al. (2017)

3. THEORETICAL BACKGROUND AND HYPOTHESIS FRAMING

3.1 THEORETICAL BACKGROUND

The RBV comes from the blending concept of strategic management and organizational economics (Jackson & Schuler, 1995). Previous studies on human resource management have been proven that HRM practices have a positive relationship with OI (Diaz-Fernandez et al., 2017; Fay et al., 2015). As pointed by Hayton (2005) organizations should attract, develop, and retain talent to

develop the appropriate environment for being innovative. Human resource management practice affects the organizational justice that links the individuals towards effectiveness and creativity in the organization (SF Rasool & Mouna Koser, 2016). Therefore, the main aim of HRM is to achieve organizational targets through the employees and the firm's creative competitiveness (Ali et al., 2017). According to the contemporary view, innovation in HRM, increasing the organization's resources through managerial skills, attitudes, abilities, and capabilities (Wichitchanya & Durongwatana, 2012).

Within the HRM field, it is common to combine practices into one or more bundles that jointly exercise their influence on engagement (Van Dierendonck et al., 2016). Drawing upon theoretical framework, Fig.1 is presenting that five HRM practices are combined into one bundle and showing the relationship among HRM practices and OI. Figure.1 is indicating that the OI is the dependent variable and five HRM practices are independent variables.

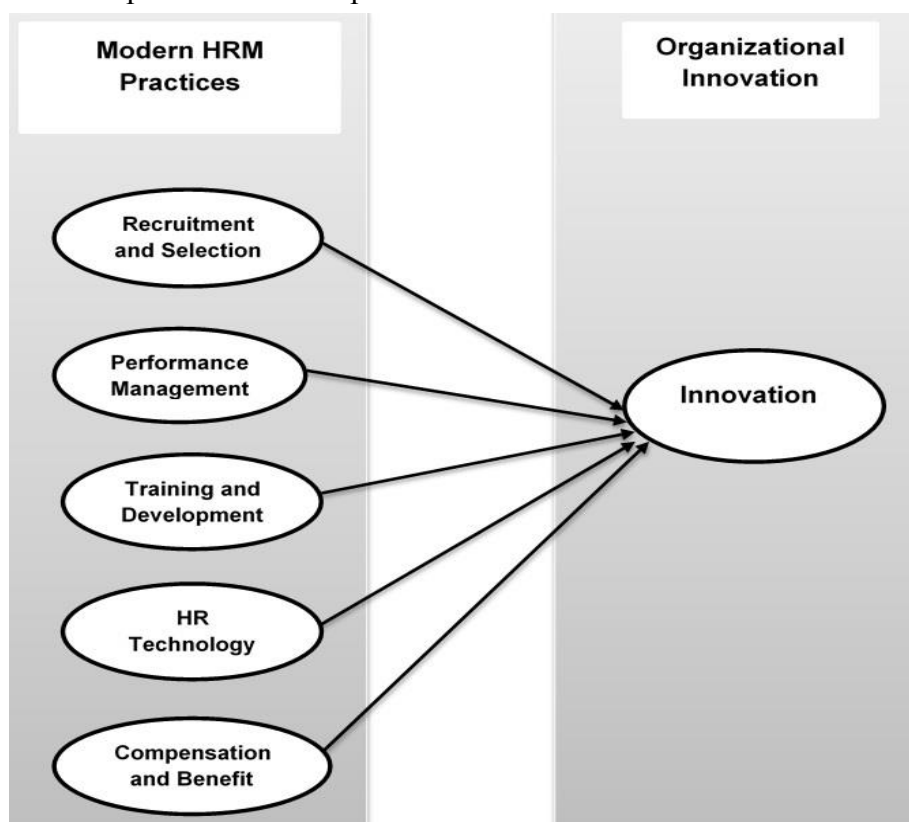


Figure 1: Theoretical Framework

3.2 HYPOTHESES FRAMING

Recruitment of talented personnel transport sustainability and creativity in the organization (Delery & Doty, 1996). Schuler (1989) has given evidence in his study that recruitment and selection affect the organizational values because they select a suitable and capable candidate according to the need of the organization. The organizations which recruit the right personnel for the right job play a significant role in development and creativity in the firms. In that sense, such kinds of firms introduce the talent acquisition strategies that carefully recruit the talent and make the competitive talent acquisition networks that bring innovation in the organization (Jiang et al., 2012). Thus, recruitment and selection is a very important segment of HRM that passes creativity in the organization. Organizational knowledge and OI have close relationships with each other. Moreover, a scholar gives

evidence that OI is dependent upon the knowledge of the organization, which starts by recruiting talented employees (Subramaniam & Youndt, 2005). Therefore, we propose in our first hypothesis:

H₁ Recruitment and Selection positively influence organizational innovation

The relationship of performance management on employee creativity is significant. Several researchers have pointed out that performance appraisal increases the motivation levels of employees and organizational creativity (Asif et al., 2019; Egan, 2005). During the performance appraisal process, the supervisor and HR custodian must give feedback to employees. In that case, the feedback of gaps between actual performance and goals will increase employee's motivation, work creatively and innovation in organization (Shipton et al., 2006). Additionally, given feedback from supervisors to employees regarding job improvement, then they may adopt creative and developing new approaches to their activities. Employees will start a new way of performing their tasks to fulfill the performance gap (Jiang et al., 2012). In this spirit, our second hypothesis is as follows:

H₂ Performance Management positively influences organizational innovation

Effective organizations spent on employee's training and development, so these investments produce talented workers and creative ideas. Organizations may provide employees various training and development programs to improve new skills, knowledge, and innovative capabilities that are necessary for OI (Chen & Huang, 2009). Boselie et al. (2005) describe that training and development have a positive relationship with OI, but this relationship will be moderated by worker status. Furthermore, he suggests that those workers who have permanent status will participate positively rather than a temporary status worker. However, we propose in our third hypothesis

H₃ Training and Development positively influence organizational innovation

In the current area, HR technology becomes more and more important for organizations because it speeds up the process, improving quality and reducing cost. These possible advantages bring innovation in organizations (Strohmeier, 2009). The use of HR-technology brings continuous improvement in the organizational structure. Moreover, current era organizations are facing keep competition, so far the sake of competing organizations improve and maintain the competitive advantages by developing electrical human resource practices and joint strategies, i.e. strategic alliance joint venture and vertical integration. Furthermore, the adoption of HR-technology will affect OI because technologies improve the latest information, quality of work and knowledge inside and outside the organizations (Lin, 2011). Previous studies also have been given evidence that HR-technology has a significant relationship with the OI (Jarle Gressgård, 2011). So we propose in our fourth hypothesis

H₄ HR Technology positively influences organizational innovation

Compensation and benefit are one of the significant practice of HRM, and it affects the motivation and behavior of employees. According to the AMO theorist compensation system, enhance motivation among employees, which brings a creative attitude at work. Effective organizations design attractive compensation and benefits packages to attract skilled employees. So, these skilled employees create competitiveness in organizations (Lepak et al., 2006). Compensation

and benefits offer employee recognition, career growth, and economic return. These opportunities introduce a new product, process, and services that bring the concepts of OI. Compensation and benefits are affecting the motivation of employees, so it increases the participation and contributions of employees that sketches road-map of creativity for the organization (Farooq et al., 2016). Therefore, we propose the following hypotheses:

H₅. Compensation and Benefit positively influence organizational innovation

4. RESEARCH METHOD

4.1 SAMPLING AND DATA COLLECTION

A questionnaire survey was used in this research to seek responses from five major Chinese banks. The data were collected from 25 Shanghai branches of five Chinese banks that exercise modern HRM practices and have incorporated modern innovation mechanisms into their businesses. The respondents were senior employees at the supervisor level, who have been at least six years of working experience in the Chinese banking sector. The authors distribute 300 questionnaires among the targeted employees and received 150 filled questionnaires among them ten are incomplete, so the completed sample size of our research is 140, i.e., $n = 140$. The overall response rate was 47 percent.

4.2 PILOT STUDY

In designing the questionnaire first, we draft a questionnaire in English language, then translate it into the Chinese language. Then we conducted a pilot study. The respondent of this pilot study was five Chinese Ph.D. students and five Chinese Professors. Moreover, the respondent of the pilot study was familiar with the research topic and both languages. These respondents suggest some modifications to the questionnaire. Therefore, we revised the questionnaire using the feedback from the pilot study respondents. After revision, we got approval from students mentioned above and Professors and disseminate the questionnaire among the HR professionals in the banking industry of China.

4.3 MEASUREMENTS

In this paper, we adapt items and modified in the context of HRM practices and OI (Ali et al., 2017; Hogan & Coote, 2014; Lu et al., 2015; Molleman & Timmerman, 2003; Ngo et al., 2008; Prifti & Alimehmeti, 2017). A total 36 items were used in the questionnaire with 5 points Likert-Scale (five stands for strongly agree, four stands for agreeing, three stands for neutral, two stands for disagreeing and one stand for strongly disagree). Furthermore, we used the SPSS software for analysis and the findings, reliability, averages of factors, standard deviation, correlations and test the required hypothesis by using regression analysis. In this paper, we follow and applied correlation and regression analysis to test the connection between modern HRM practices and OI (Tuan et al., 2016).

5. RESULT

5.1 DESCRIPTIVE STATISTICS

The findings highlighted the significant positive relationship between modern HRM practices with OI in the banking sector of China. The descriptive statistics and correlations for this study are shown in Table-2. The value of Pearson correlation ($r = 0.518$, $p < 0.01$) of recruitment & selection with OI which is positive and significant; it shows that when recruitment and selection increase then OI will also increase in banking sector of China. The value of Pearson correlation ($r = 0.469$, $p < 0.01$) of HR technology with OI, which is positive and significant; it shows that when HR-technology increases, then OI will also increase. The value of Pearson correlation ($r = 0.127$, $p < 0.01$) of training and development with OI, which is not significant but positive relationship with OI. The value of Pearson correlation ($r = 0.533$, $p < 0.01$) of performance management with OI, which is positive and significant; it shows that when performance management increases then OI will also increase. The value of Pearson correlation ($r = 0.217$, $p < 0.05$) of compensation & benefit with OI, which is positive and significant; it shows that when compensation and benefit increases then OI will also increase. In that case, if Chinese banks introduce and apply modern performance management and performance appraisal system, then they will get more innovation and advancement in the banking sector of China.

Table 2: Means, Standard deviation and correlations Results

Variables	Mean	S.D	1	2	3	4	5	6
1. Organizational Innovation	2.10	.450	1					
2. Recruitment and Selection	2.14	.635	.518**	1				
3. Performance Management	2.22	.621	.533**	.451**	1			
4. Training and Development	2.31	.511	.127	.059	.134	1		
5. HR Technology	2.27	.630	.469**	.564**	.438**	.176	1	
6. Compensation and Benefit	2.63	.837	.252**	.217**	.150	.059	.353**	1

5.2 REGRESSION ANALYSIS

Regression Analysis is a statistical technique that is used to check the effect of one or more than one variable (independent variables) on another variable (dependent variable). Here we have taken HRM practices as the independent variable and OI as the dependent variable. Table-3 had shown the comparison of four different types of models using stepwise regression to check the more significant model which described the different aspects of HRM practices on OI. Model-1 shown that there was no autocorrelation problem in the multiple regression model because the value of Durbin Watson lied within the acceptable range ($DW = 1.98$), which meant that there is no autocorrelation in the model 1. The overall model was significant because the p-value of the ANOVA was 0.000, which meant that overall regression model-1 was fitted. From model-1, the regression coefficients of HRM practices like recruitment and selection was significant ($\beta = 0.271$, $p\text{-value} = 0.002$) but performance management was highly significant ($\beta = 0.334$, $p\text{-value} = 0.000$) among all HRM practices on OI. It means that performance management and recruitment and selection were highly influenced by OI.

The aim of different models to pinpoint the most important coefficients by using stepwise regression criteria. We have seen that all the models (model-1 to 4) strongly recommended that performance management was the highly affected practice among all modern HRM practices on OI.

We have checked the performance management, which was the most important variable that develops a direct impact on HRM practices in model-4 with high impact on OI in the banking sector of China.

Table 3: The Results of Regression (HRM Practices on OI)

Predictors	Model 1 ^a Std. β	Model 2 ^b Std. β	Model 3 ^c Std. β	Model 4 ^d Std. β
HRM Practices				
Recruitment and Selection	0.271	0.271	0.349	-
Performance management	0.334	0.336	0.375	0.533
Training and Development	0.037	-	-	-
HR-Technology	0.148	0.169	-	-
Compensation and benefit	0.044	-	-	-
R^2	.402 ^a	0.399 ^b	0.381 ^c	0.284 ^d
Model P-Value	0.000**	0.000**	0.000**	0.000**
F-value	18.022 ^a	30.104 ^b	42.143 ^c	54.696 ^d

** . significant at the 0.05 level of significance

a. Predictors: (Constant), Performance Management, Recruitment & Selection, Human Resource Technology Training and Development and Compensation and benefit

b. Predictors: (Constant), Performance Management, Recruitment & Selection and Human Resource Technology

c. Predictors: (Constant), Performance Management, Recruitment & Selection

d. Predictors: (Constant), Performance Management

e. Dependent Variable: Organizational Innovation

5.3 HYPOTHESES RESULTS

Table-3 shown that the hypotheses that explored the hypothetical relation and effects of modern HRM practices on the OI. Table-4 also shown that hypotheses H_1 , H_2 , H_4 , and H_5 were playing significant relations with OI, whereas the H_3 was shown an insignificant and weak relationship. The analysis depicts that employees belong to the Chinese banking sector were in favor of practicing human resource management and its artifacts. However, modern HRM-practices bring innovation in the organization that affects the performance of the organization.

Table 4: Hypotheses Results

Hypotheses	p-value	Corr.	Results
H_1	<0.001**	0.518	Significant
H_2	<0.001**	0.533	Significant
H_3	0.136	0.127	Insignificant
H_4	<0.001**	0.469	Significant
H_5	0.010*	0.217	Significant

** Significant at the 0.01 level (2-tailed)

* Significant at the 0.05 level (2-tailed)

6. DISCUSSION

The findings highlight that all modern HRM practices have a positive relationship with OI except training and development. But among all HRM-practices, performance management has a highly positive and significant effect on OI. So, our findings indicate that Chinese financial institutions need to bring more attention to performance management. This research is one of the first major empirical investigations of the link between modern HRM practices and OI in the banking sector of China. Some previous conceptual and empirical studies also tested the link between HRM practices and OI, but these studies were conducted in different industries and regions (Lado & Wilson, 1994). These studies were supported the western organizational culture, but Chinese society and organizational culture are different from the west. In this study, we also have proven these studies are also supporting our study. A scholar Freeman (1988) conducted a study in Japan to identify how Japanese modern

national system transformed from traditional manufacturing system to OI. The outcome of this study explicitly notes modern human resource management practices construct a road map for product innovation, process innovation, and product innovation in Japanese organizations. Though this study was conducted in Japan, the results are supporting our study. Lau and Ngo (2004) examined the role of culture and HRM in innovation, this research was conducted in “Hong Kong” and provided evidence that HRM practices have a positive effect on OI. However, this study's main focuses were on organizational culture, but it supports the relationship between HRM and OI. The literature and his study support that new HRM practices and OI are significant associations with each other.

7. CONCLUSION

We examine the effect of modern HRM practices on OI. Our results indicate that modern HRM practices have a positive relationship with OI. For this particular study, performance management and OI have a strong and positive relationship from all modern HRM practices in the banking sector of China. Jung et al. (2003) also support our study that performance management has a significant relationship with OI. Similarly, some other researchers have given evidence that performance management increases the motivation levels of employees and organizational (Egan, 2005; Harackiewicz & Elliot, 1993). In that sense, effective performance management would construct a roadmap of the motivation of the employees. Consequently, at the time of the performance appraisal process, giving opportunities for feedback to employees will improve the gaps between actual performance and goals. Similarly, our results have also shown the recruitment and selection is the second-highest variable that has a significant relationship with OI. So, firms can focus on screening before selection and organized comprehensive and rigorous interviews. This process will help the firms to recruit and replaced the right people for right positions.

This study finding also supports the theoretical framework that explains the association between HRM practices and OI in the context of China. Similarly, the RBV theory also supports the relationship between HRM practices and OI (Li et al., 2006; Paauwe & Boselie, 2005). The results have proven that the uses of modern HRM practices are positive influences on the OI. For practitioners, the results point out the HR managers need to intensely manage their organization's employees through a variety of HRM practices to encourage its competencies in handling OI and its applications. Which in return will increase the innovation in the banking sector of China?

In this study, we have two main limitations that make a bridge for future research. Firstly, data are collected only from Shanghai, which means data is limited. In that sense, in the future, such kind of research could be conducted at the macro level, such as industries or regions with various types of corporations to generalize the results or modify the concept. Secondly, we have collected data at the supervisor level in future if we collect data on the operational level, then the result may more clarify the concept.

8. AVAILABILITY OF DATA AND MATERIAL

Information used and generated from this work is available by contacting the corresponding author.

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Dr. Samma Faiz Rasool is a Post-doctoral fellow at School of Innovation and Entrepreneurship, Entrepreneurship Institute, Guangzhou University, Guangzhou, P.R.China. He received his PhD degree from School of Management, Shanghai University, P.R.China. He is a well-versed academician and development professional having eight years of industry, academia, and development experience. Dr. Samma's research area of interests are Human Resource Management, Innovation Management, and Health Management.



Madeeha Samma is a PhD Research Scholar at School of Management, Shanghai University. She has published many research papers in impact factor and international journals. Her areas of interest are Health Management, Workplace Violence and Human Resource Management.



Amna Anjum is a Ph.D. scholar at Glorious Sun School of Business and Management, Donghua University. She has experience both in educational as well as corporate sectors such as working with Lahore Chamber of Commerce as an HR Advisor. She has well-served in devising HR policies for the improvement of work environment, employee welfare and employee productivity. Her areas of interest are SHRM Practices, Stress Management, Health Management, Workplace Environment and Performance Management.



Mubbasher Munir is currently working as a Lecturer at School of Business and Economics, University of Management and Technology, Lahore, Pakistan. He graduated from University of the Punjab, Lahore, Pakistan and also have completed a Master degree from Government College (GC) University Lahore Pakistan. He has established quantitative reasoning skills and research experience in Applied and Robust Regression Analysis.



Talat Mehmood Khan is currently doing PhD in Finance at Southwestern University of Finance and Economics, Chengdu, P.R. China. He received his Master's degree from Comsats University, Wah-Cantt, Pakistan. His area of research is corporate management and sustainable development.