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TO WHAT EXTENT THE ADOPTION OF INNOVATIVE HUMAN RESOURCE PRACTICES IS EXPLAINED BY TOP MANAGEMENT SUPPORT IN CHINESE SMES

Abstract:

This study focuses on innovative human resource practices (HRPs) in SMEs. It investigates whether top management support influences the decision to adopt HRPs and the degree of their implementation under the umbrella of management innovation. A quantitative data analysis is utilised in order to explore this topic among 185 SMEs in China by testing research hypotheses stemming from existing literature conclusions. The results demonstrate that there is a positive relationship between top management support and key innovative HRPs. Additionally, top management support significantly contributes to the adoption of extensive training and development followed by pay based on performance appraisal, job security and sophisticated selection. Given that all research hypotheses are statistically confirmed, we conclude that top management support can be an influential factor with regard to the adoption of innovative HRPs in SMEs. Hence, we suggest that the management innovation perspective as a theoretical underpinning is beneficial in determining motivational factors which shape the types of innovative HRPs adopted, and thus have a potential impact on organizational performance.

Keywords:

HRM, innovative HRPs, management innovation, top management support, SMEs, Chinese SMEs

1. Introduction

It has been said that both small and medium-sized enterprises (SMEs) have been treated as second-class citizens in the human resource management (HRM) literature (Tansky and Heneman, 2003). Whether or not this is to be believed, relevant academic knowledge comes up short in providing evidence with regard to the practice of HRM in SMEs. This fact underlines the importance of bringing about more empirical studies which consist of both descriptive and analytical data (Tasi, 2010). Additionally, most of the literature on HRM in SMEs is concerned with the impacts of applying human resource practices (HRPs) in SMEs rather than investigating the underlying reasons that impel SMEs to adopt certain HRPs. However, it is important to understand the motivating factors for the adoption of HRPs, in order to fully understand the impact of the HRPs. These motivating factors can influence the degree and types of HRPs adopted. From a management innovation standpoint, this study examines the underlying reasons behind the adoption of HRPs in SMEs with particular focus on the individual level. The influence of top management support on the adoption of management innovation ideas has been recognized by many studies from both a theoretical perspective (Mamman, 2002; Taylor and McAdam, 2004 and Damanpour and Schneider, 2006) and from a practical perspective in SMEs (Yew Wong and Aspinwall, 2005; and Xia *et al.*, 2009).

It remains unclear whether or not top management support has a direct influence on the decision to adopt innovative HRPs and the degree to which they are implemented. Two research objectives are set. First, to identify and describe the relationship between top management support and the adoption of innovative HRPs; second, to determine how much variance in the application of these HRPs is explained by top management support.

2. Literature Review

2.1 The Management Innovation Perspective

According to the definition given by Birkinshaw *et al.* (2008), innovative HRPs can be an integral part of management innovation. This is due to the fact that inadequate studies focus on the investigation of the underlying motivators with regards to the adoption of innovative HRPs in SMEs (Ait Razouk, 2011; Kroon *et al.*, 2013; and Wu *et al.*, 2014). Therefore, the already undertaken studies explain part of the story. On top of that, they are unlikely to provide detailed information that cover different perspectives as they come short in considering all the factors that might interplay in the business environment.

Based on this viewpoint, management innovation is believed to be an effective theoretical underpinning that takes into consideration all factors recognized by previous studies. Hence, this study employs this theoretical underpinning in order to explain the underlying factors with regards to the adoption of innovative HRPs in SMEs. In particular, it illustrates the explanatory power of top management support. This is due to the fact that top management support not only has been recognized as

a key factor in the adoption of management innovation (Mamman, 2002; Taylor and McAdam, 2004; and Damanpour and Schneider, 2006), but also its dominating impact on SMEs cannot be ignored.

2.2 Top Management Support in SMEs

Top management holds a strong influential position over the whole process of adoption and implementation of activities within organizations (Fui-Hoon Nah *et al.*, 2001). On one hand, some research in the literature regarding how top management support influences the adoption of management activities in SMEs, argued that top management support has a direct influence on decision-making relating to innovations. For example, top management support in Western countries has an impact on the adoption of knowledge management, such as in British SMEs (Yew Wong and Aspinwall, 2005). Similarly, in an Asian context, it has been partially proved to exert influence on e-commerce decisions in Thai SMEs (Lertwongsation and Wongpinunwatana, 2003).

On the other hand, top management support has been found to be influential on the successful implementation of innovations. Spanish SMEs accept top management support as an essential factor for the success of product development (March-Chorda *et al.*, 2002). Similarly, in Asian countries the degree of top management support is significantly associated with the effectiveness of perceived information systems, such as in Malaysian SMEs (Foong, 1999). In Indian SMEs, top management support highly contributes to the success of the implementation of enterprise resource planning (Kale *et al.*, 2010). Moreover, top management support has an important influence on the implementation of enterprise resource planning in Chinese SMEs (Xia *et al.*, 2009). Nevertheless, it has not been proven that top management support as one of significant factor has direct influence on the decision to adopt HRPs, as well as the degree of implementing management innovations, such as innovative HRPs in SMEs.

2.3 HRPs in SMEs

There is no doubt that the utilization of HRPs in SMEs is quite controversial as well as it remains ambiguous whether or not well-developed human resource (HR) theories that are applied in large organizations could also be implemented in SMEs. In fact, many existing proponents support different opinions pertaining to the utilization of HRPs in SMEs.

One dominant theory posits that the nature of HRM in SMEs is like a 'Bleak House', meaning that the utilization of HRPs in SMEs is largely informal, as the underlying interpretation of the 'Bleak House' is typified by poor conditions, little training and high turnover rate (Bacon *et al.*, 1996). The poor state of HRPs within SMEs is supported by the 'Bleak House' opinion (Wilkision *et al.*, 2007). On the other hand, some researchers argue that the adoption of HRM in SMEs is can be viewed as scaled down versions or those within large organizations. This notion has been criticized by others who argue that the nature of SMEs is that of a special condition which should

be managed through comparatively different approaches from large organizations (Cassell *et al.*, 2002). Therefore, the management of SMEs cannot be regarded as a 'scaled-down' model of large firms due to the character of SMEs being significantly different from large organizations (Cunningham and Rowley, 2010).

Thus, it is possible that some HRPs may even be better adopted by SMEs than by large organizations. A more practical analysis perspective is therefore necessary which could analyze the variations in the adoption of HRPs in SMEs rather than simply arguing whether or not the nature of the adoption of HRPs in SMEs is a 'scaled-down' or a 'Bleak House' situation.

2.4 Top Management Support and Innovative HRPs

When it comes to the relationship between top management support and HRPs in enterprises, it has been recognized that when HRM has visible top management support, it is more likely to be perceived to be characterized by authority (Bowen and Ostroff, 2004). Looking inside the black box, top management support could guarantee the success of HRM by delivering top managers' beliefs, investing in HR, and getting HRM professionals involved in the strategic planning process (Bowen and Ostroff, 2004). By doing so, employee empowerment is promoted, organizational cultures are affected, incentive programmes are adjusted, and training and communication throughout the organization are enhanced (Daily and Huang, 2001).

This study focuses on four key HRPs after eliminating any overlaps among the best HRPs suggested by the literature. These are: *sophisticated selection*, *extensive training and development*, *pay based on performance appraisal*, and *job security*. Thus, four hypotheses stemming from the literature are constructed, which attempt to describe the relationship between top management support and each of the four innovative HRPs.

2.4.1 Sophisticated Selection

Recruitment and selection has been proven to be one of the key innovative HRPs by various scholars from both Western and Eastern countries, such as Wanget *al.*, 2007; Foleyet *al.*, 2012; and Posthuma *et al.*, 2013. This practice is usually related to how organizations make efforts to use effective selection and recruitment procedures in order to hire employees who have the desired capabilities or who have the potential to catch up with the development of their organizations (McCartney and Teague, 2004; and Macky and Boxall, 2007).

A review of the relevant literature shows no direct evidence to demonstrate a strong link between top management support and recruitment and selection. However, some marginal evidence has been found. For example, top management support for diversity was partly related to migrant recruitment. It has been proven that diversity recruitment practices in enterprises in Australia were inadequate because of lack of support from top management (D'Netto and Sohal, 1999). In addition, top management support has been found to be related to the depth of selection of expatriates in

multinational companies (MNCs) (Mendenhall and Oddou, 1985). Therefore, we hypothesize that:

Hypothesis1: SMEs with top management support are more likely to adopt sophisticated selection.

2.4.2 Extensive Training and development

Many previous studies have recognized the important role of *extensive training and development* in HRM, such as Combs *et al.*, 2006; Sun *et al.*, 2007; and Bayo-Morionenes and Golden-Sanchez, 2010). After reviewing the existing literature, the association between top management support and *extensive training and development* has been found in terms of the extent and effectiveness of adopting training and development in SMEs. For example, top management support has been verified as having an impact on the adoption of training for expatriates in MNCs (Mendenhall and Oddou, 1985).

In addition, Rouiban *et al.* (2009) reveal that top management support has strong influence on the availability of training in organizations. Similarly, due to the consideration of the influential role of top management in SMEs, it is reasonable to suppose that top management support may influence the application of training and development in SMEs. These implications lead to hypothesis 2:

Hypothesis2: SMEs with top management support are more likely to adopt extensive training and development.

2.4.3 Pay Based on Performance Appraisal

Pay based on performance appraisal has been identified as another innovative HRP by previous studies, such as Chung and Liao, 2010, and Gong *et al.*, 2010. Generally, formal performance appraisal has been defined by Chow (2004: 636): 'Performance appraisal is a managerial tool to control performance in organizations in order to achieve maximum performance'. Furthermore, Ait Razouk (2011) argues that the utilization of formal appraisal should be linked to each function of HRM, such as performance, training, and promotion.

In this study, performance and appraisal is defined as rewards concerned with the use of outcome-orientated appraisal and performance-based incentive activities (Daniel *et al.*, 2012). Regarding the relationship between top management support and performance and appraisal, it has been found that top management support plays a key role in the effective management of performance measurement systems in SMEs (Hudson *et al.*, 2001). Similarly, Boice and Kleiner (1997) come to the conclusion that top management support has a positive impact on the development of an effective performance appraisal system. Rigby (2001) also confirms that strong top management support can assist in successfully implementing management tools such as pay for performance. Therefore, we arrive at our third hypothesis:

Hypothesis 3: SMEs with top management support are more likely to adopt pay based on performance appraisal.

2.4.4 Job security

Job security has been identified as a key HRP by previous studies, such as by García–Chas *et al.*(2013),and Zhang and Morris(2013). Liu *et al.* (2009) define *job security* as there ward of employee commitment to managerial polices; or as the risk taken when organizations seek increased workplace efficiency and decreased labour demand. To date, no direct evidence has been demonstrated for a link between top management support and *job security*.

Yet, it has been found that top management support can create a supportive climate and provide sufficient resources, which can lead to employees engaging with their organizations and consequently reducing the voluntary job turnover rate (Lin, 2007). Moreover, when organizations face economic difficulties, top management often possesses significant power in whether or not to guarantee *job security* (Daily and Huang, 2001).Subsequently, our fourth hypothesis is:

Hypothesis 4:SMEs with top management support are more likely to adopt job security.

3. Methodology

Our sample was Chinese SMEs selected according to the definition of the number of employees they recruit as indicated by the latest published law by the Chinese government in 2011 (i.e. Chinese SMEs are firms with between 20 and500 employees). Moreover, Chinese SMEs were selected for two reasons. The indispensability of Chinese SMEs is difficult to overlook due to their major contribution to economic growth and employment. By 1999, there were more than ten million SMEs formally registered in China, accounting for almost 90% of all enterprises in China (Anderson *et al.*, 2003). In terms of the contribution of the Chinese SMEs to the economy, China has currently more than 42 million SMEs, which contribute more than 60% to the national GDP (Zhu *et al.*, 2012). Additionally, 75% of industrial employment is provided by Chinese SMEs (Bao and Sun, 2010). However, Chinese SMEs face challenges from external competitiveness, pressures from trade regulations and labor standards (Cunningham and Rowley, 2008). This can be explained by the fact that only 13% of them have a lifespan exceeding ten years (CTIBJ 2008 cited in Zhu, 2012). Hence, Chinese SMEs must be studied further.

We conducted a survey to collect the research data and test this study's hypotheses. The survey has already been proposed as a fruitful strategy for managerial topics because it both enhances comparisons among a large sample, while also supporting a better understanding of the examined concepts (Saunders *et al.*, 2009). Additionally, surveys enable the collection of quantitative data which can be analyzed using statistical tools, such as correlation and regression. Thus, surveys can lead to the profound explanation of possible associations among research variables (Saunders *et al.*, 2009). This study's variables are top management support as the independent variable, whereas the dependable variables are *sophisticated selection, extensive training and development, pay based on performance appraisal, and job security*.

A questionnaire was constructed based on literature conclusions in order to collect quantitative data regarding these research variables. The reliability of the instrument was tested through Cronbach's Alpha in SPSS, which exceeded 70%. According to Pallant (2013), this percentage is more than satisfactory and confirms the high reliability of the instrument. Moreover, the questionnaire was distributed to 300 Chinese SMEs, covering both northern and southern China. More specifically, the questionnaire was equally distributed to the region of Beijing, and to the region of Jiangzhehu (Zhejiang, Jiangsu and Shanghai), which represents the heart of Chinese economic activity. The response rate was approximately 62% (180 questionnaires) and the companies involved belonged to a vast range of industries: manufacturing (29.7%), wholesale and retail (21.1%), business service (7.6%), construction (7%), transports and postal (5.9%), hotels and restaurants (5.9%), and others (3.2%). The respondents held managerial or other professional positions, since those individuals have specialized knowledge that could lead to more accurate answers. More specifically, 54.6% were senior managers, 17.3% middle managers, 13.5% professionals, 9.2% CEOs, 2.7% HR managers and 2.7% line managers.

4. Results/Discussion

As previously mentioned, this study treated top management support as the dependable variable and the four innovative HRP's as the independent variables. Table 1 below illustrates Pearson's Correlation's (r) among the examined variables, while Table 2 presents the results of linear regression analyses. The following two tables of your analysis each address and fulfil the first and second research objective, respectively. Homoscedasticity and normality of the collected data were confirmed at a preliminary stage before moving on to their statistical analysis.

Based on the results presented in Tables 1, there is positive linear relationship among HRP's and top management support ranging from 0.188 to 0.460. These findings allow us to describe the relationship among our research variables as positive.

Table 1: Descriptive Statistics and Correlations^a

	Mean	s.d.	1.	2.	3.	4.	
1. Top Management Support	4.05	0.82					n= 185
2. Sophisticated Selection	3.53	0.72	.188*				*p< .05
3. Extensive Training & Development	3.89	0.70	.460**	.298**			**p< .01
4. Pay Based on Performance Appraisal	3.88	0.93	.378**	.290**	.578**		
5. Job Security	3.86	0.88	.319**	.195**	.481**	.466**	

Source: Authors' Construct based on SPSS Analysis of the Collected Data

The relationship of top management support with certain innovative HRPs is more significant than with others. For example, top management support is more significantly associated to *pay based on performance appraisal* $-r=0.378-$ than to recruitment and selection $-i.e. r=0.188-$.

Linear regression explains how much variance in the implementation of innovative HRPs can be explained by top management support. First, top management support contributes to some extent to the application of innovative HRPs as all Beta values in Table 2 are positive (i.e. $0.188 \leq \text{Beta} \leq 0.319$). Moreover, since there is no causality between top management support and the innovative HRPs we examined, the null hypothesis is rejected due to the F values that are all significant, as illustrated in Table 2 below.

Furthermore, top management support contributes the most significantly to the adoption of *extensive training and development* (Beta=0.46). It is important to note that R^2 and adjusted R^2 are the highest for *sophisticated selection*. Yet, their Beta values are not as significant as the Beta values of *extensive training and development*, and the F value is quite low for *sophisticated selection*. Consequently, all research hypotheses are confirmed despite the fact that top management support displays the strongest link to the adoption of *extensive training and development*.

Table 2: Results of Linear Regression Analysis for Top Management Support

Variables	Sophisticated Selection	Extensive Training & Development	Pay Based on Performance Appraisal	Job Security
Top Management Support	.188*	.460**	.378**	.319**
R ²	.35	.211	.143	.101
Adjusted R ²	.30	.208	.138	.097
F	6.713**	49.188**	30.562**	20.663**
N	185	185	185	185

*p < .05

**p < .01

Source: Authors' Construct based on SPSS Analysis of the Collected Data

5. Conclusion

This study set out to investigate four innovative HRPs in Chinese SMEs. The primary finding of this study successfully answered the research objectives, i.e. that there is a positive relationship between top management support and the adoption of the four innovative HRPs. In terms of the contribution of top management in explaining the variance in the application of these four HRPs, the adoption of *extensive training and development* has been largely explained by top management support, which supports Hypothesis 2. Top management support has lower explanatory power in *pay based on performance appraisal* and *job security*, which fulfils Hypothesis 3 and 4, respectively. Despite the fact that *sophisticated selection* and top management support are correlated to a lower extent, the latter contributes to the adoption of the first, as indicated by the regression analysis. Thus, Hypothesis 1 is also valid.

These research findings respond to the call for more descriptive and analytical data of HRM studies in SMEs (Tasi, 2010). Its contribution lies in its investigation of the underlying reasons behind the adoption of HRPs in SMEs where current literature is lacking. Furthermore, it confirms top management support as one significant individual factor that does not only influence the decision to adopt management innovation, but also the degree to which such management innovations will be implemented. While this study confirms that innovative HRPs are adopted to some extent in SMEs, they are highly dependent on other influential variables, such as top management support rather than being characterized as entirely 'Bleak House' or 'scaled-down.'

The limited contribution of variables in explaining the adoption of management innovation presents a clear opportunity for future research in SMEs. For example, there is further space to investigate efficiency and institutional variables in the adoption of innovative HRM practices (management innovation) in SMEs. We acknowledge that this study's findings are limited in terms of the research methods used, and thus suggest future research to bring in additional qualitative data. Those data could cross check the validity of our quantitative results, and may also assist in finding additional factors associated with the adoption of HRPs in SMEs.

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