

Empirical paper

## The mediating role of the employee relations climate in the relationship between strategic HRM and organizational performance in Chinese banks



Muhammad Ali\*, Shen Lei, Xiao-Yong Wei

Glorious Sun School of Business and Management, Donghua University, West Yan'an Road 1882, Shanghai 200051, China

### ARTICLE INFO

#### Article history:

Received 17 August 2016  
Accepted 9 December 2016  
Available online 24 February 2017

#### JEL classification:

D 83

#### Keywords:

Employee relations climate  
Organizational performance  
Strategic HRM  
China  
Banks

### ABSTRACT

In today's business environment, establishing a positive climate is becoming increasingly important for organizational growth and performance. A positive employee relations climate creates a social atmosphere, which encourages high employee involvement and an employee-centered culture. In response, employees feel comfortable and contribute positively to organizational performance. Given the intensity of competition in the service industry, banks must understand how the employee relations climate and HRM practices affect organizational performance. Banks also need to know which employee relations climate best meets the needs of the organization. Accordingly, this study examined the way the employee relations climate mediates the relationship between strategic HRM practices and organizational performance in Chinese banks. Senior employees of Chinese banks based in Shanghai provided data by responding to a survey questionnaire. CFA and SEM in AMOS 18 were used to test the hypotheses and evaluate measurement validity. The results indicate that strategic HRM has a significant positive relationship with operational performance. In addition, the employee relations climate was found to mediate the relationship between strategic HRM and organizational performance. Cross-sectional data, a restricted target sample (i.e., bank employees), and a restricted target area (i.e., Shanghai) are limitations of this study. In addition, the dimensions of organizational performance were not identified in detail. Finally, the hypothesized relationship was explored only for a specific sector (i.e., the banking sector).

© 2016 Journal of Innovation & Knowledge. Published by Elsevier España, S.L.U. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

### Introduction

The concept of strategic human resource management (SHRM) is developed in the late 1970s and the 1980s as a way of managing employees in an increasingly turbulent and fast-changing, uncertain environment. The word SHRM has defined in several ways by different researchers and practitioners under the management context, whereas, the most simple definition and understanding is; “*pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals*” (Wright & McMahan, 1992). It includes all of the activities to implement the strategic needs of business to affect the behavior of employees, implemented by a business unit or an organization (Nishii & Wright, 2007). Whereas, Delery and Shaw (2001) stated that there are at least two main features comparatively differentiate

the SHRM research from more traditional HRM research. First, it focuses on the enlightening strategic role to enhance organizational effectiveness through the human resource; and second feature is about the level of analysis. Usually, researchers belongs to HRM have individual level analysis and examining the impact of HRM-practices on employee-level performance, for example, task performance, absenteeism, and turnover (Griffeth, Hom, & Gaertner, 2000; Harrison & Martocchio, 1998); whereas, SHRM researchers have business-unit or organizational level analysis with primary focus on higher level performance outcomes, for example, return on assets, return on equity, firm market value (Delery & Doty, 1996; Huselid, 1995; Rogers & Wright, 1998; Wright, 1998). It is more appropriate to understand that how HR enhance organizational outcomes (Lepak, Liao, Chung, & Harden, 2006), as it assumes a system view to inspect the effects of bundles of HR practices (Wright & McMahan, 1992).

The core intention of SHRM is to achieve organizational goals through employees or see them as a strategic element of the organization for the acquisition of competitive benefits (Huselid, 2003).

\* Corresponding author.

E-mail address: [alihafeez787@yahoo.com](mailto:alihafeez787@yahoo.com) (M. Ali).

In the SHRM literature, “best practice-bundle of HR and SHRM black box” are two dominated theoretical concerns. First, a bundle of practices is considered best practices to enhance organizational performance (Delery & Doty, 1996). The other concern states, an unknown causal mechanism through which bundle of SHRM practices leads to organizational performance, known as the “SHRM black box” (Bowen & Ostroff, 2004). Likewise, scholars and practitioners generally agreed that these practices do not lead directly to organizational performance and responding a call to uncover the “black box” of the SHRM. Historically has not received as much attention in an understanding of the mediating mechanism or link/process that seems an important concern and through these practices influences the organizational outcomes are remains confusing (Batt, 2002; Becker & Gerhart, 1996; Bowen & Ostroff, 2004; Chadwick & Dabu, 2009; Huselid & Becker, 2011; Lepak, 2007). In support, numerous research scholars have pushed for examining underlying mechanism between HR systems with organizational performance outcomes (Messersmith, Patel, & Lepak, 2011).

From an organizational perspective, employee perceived climate as shared perception and feelings among each other that is well-known as the organization’s climate. However, different climates can be shaped in the organization as a core function of its various strategic foci (Reichers & Schneider, 1990; Riordan, Vandenberg, & Richardson, 2005). In particular, researchers conceptualized the work climate from multiple stakeholder’s perspectives, where an employee may cognitively assess work environment in terms of what is significant to their value (Burke, Borucki, & Hurley, 1992). Previous studies have confirmed that HR practices play a vital role in shaping such climates (Gelade & Ivery, 2003; Zacharatos, Barling, & Iverson, 2005), and serve a symbolic function sending messages for employees to make sense of the psychological meaning of their work climate. Also, these practices are a source of communication between management and employees, helps to understand the strategic concern of the organization. Therefore, it is important to perceive work climate from an employee perspective. At a general and broad level, these questions are very important to address and authors believe this study has an academic contribution to the SHRM literature by successfully addressing critical “black box” elements, for example, employee relations climate (ERC). However, previously HR practitioners and researchers have confirmed that ERC is an important aspect of organizational effectiveness (Schuster, 1998), as it motivates the employees to serve the client well and support each other in the organization (Chuang & Liao, 2010). Such kind of climate may reveal how an organization effectively and strategically manages its human resources. Although, previous studies have been demonstrated the relationship between HR practices and ERC (Collins & Smith, 2006; Schuster, 1998), for example, Bowen and Ostroff (2004), revealed that through proper implementation of SHRM practices and HR management, a social environment should be created, in which employee have good feelings of participation, trusting relationship, sharing and communicating information in the organization. Given the tough competition in the service industry, it is increasingly significant for the banking sector to understand ERC; moreover, how these practices affect its performance and ERC that best fulfill the needs of the organization. In the modern era, following the development of the field of strategic HRM to reveal a black box, a growing attention, both by practitioners and theorists, to the impact of SHRM bundles. Literature shows that the “black box” problem is still accurate and, therefore, needs to be addressed (Mansour, Gara, & Gaha, 2013). Also in the service sector, the strategic contribution of human resource management is still undermining (Mansour et al., 2013) especially in Chinese society. Given the lack of studies around these subjects in the Chinese context, and especially within the banking sector, we hope to contribute to the literature by highlighting the relationship between

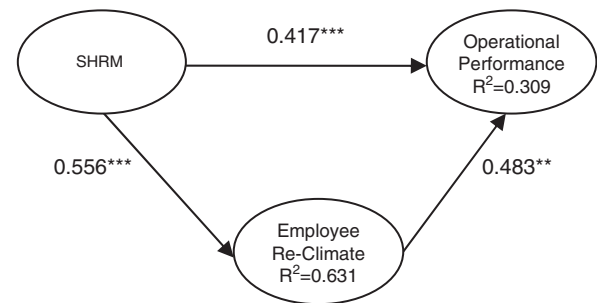


Fig. 1. Conceptual Model.

SHRM-practices with organizational performance and ERC in the largely understudied field of services oriented (financial) industry.

Drawing upon these theoretical arguments, in Fig. 1, we hypothesize that ERC mediates the relationship between SHRM practices and organization performance. Consistent with our research objectives, in the following section, the relevant detailed theoretical framework is reviewed and proposed hypotheses are presented, followed by the appropriate methodology section with analysis. Subsequently, the results with main findings are presented and discussed. At the end, the study concludes with a discussion section on the implications of the findings and research zones for future inquiry and understanding.

## Theoretical framework and hypothesis

### Back ground of HRM in China

The awareness of “human resource management” in practice was not away from the Chinese environment. Numerous researchers have dedicated attention to both theoretical and practical aspects of human resource management in view of various perspectives, western as well as Chinese. Wang (1985) and Zhao (1998) were the first scholars to provide the foundation of HR management in Chinese society. They put forward theories of psychology into HR management and introduced the concept of “western HR management” into Chinese enterprises. The core concept of human resource management has introduced at end of the 1980s into China and restrained to a small scale. In the 1990s, the whole society realized the importance of human resource management and induced constant reforms, development and innovation in particular areas (Zhao & Du, 2012). In the late 1990s, multinational enterprises started investment in the shape of FDI in Chinese industry as joint ventures due to investment FDI shoot about US\$3 billion to US\$40 billion. These investments not only brought investment in the Chinese economy but also brought western management practices with different background culture, which ultimately caused a profound impact on Chinese managerial practices, moreover, it opened the gate for researchers to understand HR management in Chinese context (Zheng & Lamond, 2009). For instance, Zhu and Dowling (1994) shed lights on the amendment of HR management and employee behavior and new market-oriented system in Chinese enterprises. Similarly, Zhu and Warner (2004) discussed government reform policy, highlighted the increasingly complex challenges facing HR management and the implications for further HR management practices at the enterprise level in China. According to Zhu, Thomson, and De Cieri (2008), the most common studies in Chinese enterprises included core theme of human resource management activities like performance management, recruitment, and selection, compensation and rewards, training and development, etc. Moreover, the transformation of human resource management has systematically and significantly intensified, which induced vitality of the development of HRM in Chinese

society (Xiong & Zeng, 2008). Globally in the business world, organizations tend to consider HRM as management activities or for managing their employer–employee relationship. Because, Chinese culture has a multifaceted both formal and informal relationship, therefore it is important to understand employee–employer relationship from employee's work environment perspective. The new approach to manage employee relationship has widespread inferences for HRM (Law & Jones, 2009). Above all, HR practitioners and managers need to focus that how relations operate in the service industry to create an environment that encourages its employee to enhance the organization performance.

#### *Strategic human resource management and organization performance*

From last 25 years, strategic-HRM researchers have highlighted a positive relationship between a variety of HR measures with firm performance (Datta, Guthrie, & Wright, 2005; Guthrie, 2001; Romina, Edelmira, & Concepción, 2016; Subramony, 2009). Moreover, many studies were conducted on the design of effective HRM practices and their influence on organization performance (Way & Johnson, 2005) and employed 'best HR practices (for example, high performance work system) that can be applied universally to enhance overall organization performance (Huselid, 1995; Pfeffer, 1994). Although, in these studies, theoretical link exists between performance and employee perception regarding HR practices (Kuvaas, 2008), but in practice organizations are seems either in the lack of information about employees' perception. For example, how they communicate with each other, respond to organizational HR practices and their consequence on performance (Nishii, Lepak, & Schneider, 2008). There has been a substantial effort in SHRM field (SHRM) with core premises to enhance the organization performance in a different scenario. The basic assumption of SHRM field is that the HR practices and policies support overall business strategy through which organization may construct competitive capabilities to respond both internal and external environmental issues and opportunities (Hayton, 2003). A strategically evolved primary focus of the human resource practitioners is to augment organizational resources that consistent with each other, making them more efficient and competitive that is difficult to imitate by others. It involves a managerial orientation, which ensured human resources are deployed properly to attain organizational goals. Empirical research has tended to explore SHRM from different approaches, however in this study universalistic approach (consider best practice bundle) is adopted, because it is considered theoretically and empirically associated with performance (Delery & Doty, 1996). Scholars with universalistic approach argued that set of combined HRM practices effectively enhance organizational performance instead of individually, and recommended to follow these practices (Geringer, Frayne, & Milliman, 2002). Use of strategic HR practices may lead to financial as well operational performance (Delaney & Huselid, 1996) of the organization. As performance is seen in a multi-dimensional construct, because of various performance dimensions are involved in overall its success and achievements (Naser, Karbhari, & Mokhtar, 2004; Yeung, Lee, & Chan, 2003). Although both performance indicators are necessary for organizational survival, however, financial performance indicators are seen as short-time benefits and leave gaps to meet its strategic objectives, whereas non-financial performance belongs to the future perspective, which helps to achieve strategic objectives (Kleiner, Block, Roomkin, & Salsburg, 1987). Previous studies demonstrated the relationship between SHRM practices and organizational high level outcomes (either individual or system base), for example flexibility, productivity, financial and non-financial performance (Abdulkadir, 2009; Collins & Clark, 2003; Dimba &

K'Obonyo, 2009; Ichniowski, Shaw, & Prensushi, 1997; Mendelson & Pillai, 1999; Pfeffer, 1998; Youndt, Snell, Dean, & Lepak, 1996).

Bowen and Ostroff (2004) argued that employee involvement play an important role in translating HR practices into favorable performance outcomes, because it is employee who could share climate perception based on experiencing HR practices, for instance, climate for safety (Zohar, 1980); but the opposite reasons why HR practice is put into creating such a climate, this may be some employees perception that create an atmosphere of security is for the well-being of employees by administrative attention, while others perceive as *cut costs* associated with accidents on the job, or by an external requirement is imposed by the regulator. It is therefore, *ERC* reflects the high participation, employee-centered-culture, that helps to create such atmosphere to improve organization performance (Riordan et al., 2005; Schuster, 1998). In support, previous studies demonstrated the relationship of HR practices with *ERC* and its consequence on organizational performance (Collins & Smith, 2006; Schuster, 1998). Based on above mentioned literature, in this study we followed Riordan et al. (2005) definition for *ERC* and investigated as a mediating mechanism between bundles of SHRM and operational performance (non-financially).

#### *Employee relations climate*

In the organization, the word "Climate" is seen as a perceived set of attributes (Campbell, Dunnette, Lawler, & Weick, 1970), whereas organization climate is a shared perception of the employee regarding environment quality, expected behavior and rewards within the organization (Zohar & Luria, 2005). Basically, it is about the perception of management, employees, and their representatives, regarding the way in which employees' relations is conducted and their interaction with each other. From decades, researchers made efforts toward employee-relations with HRM and organizational performance, revealing that strategic HRM has a great emphasis on the individual level (Dulebohn, Ferris, & Stodd, 1995; Gerhart, 2005). Although the relationship between HR practices and organization performance has been confirmed by various studies in diverse scenarios, however, it is claimed that this relationship is not direct but also several practices are involved such as social climate. It shapes employee perception regarding knowledge sharing, motivational aspects and enhances their abilities that ultimately lead to higher performance (Bowen & Ostroff, 2004). Previous studies for example (Ngo, Lau, & Foley, 2008) revealed that SHRM has positive relationship with *ERC*. In support, Bowen and Ostroff (2004) argued that proper implementation of SHRM practices leads a social atmosphere that makes employees feel good about the organization. Moreover, Collins and Smith (2006) demonstrated that effective HR management in the organization play a significant role because it creates feelings of participation, open communication, sharing information and feeling of trust among employees. Researchers studied employee's psychological and motivational aspects, which bring into one's attention about how employee's perception regarding attitude and behavior may affect organizational outcomes. Also their attitude, responses and perception regarding organization performance are the key mediators (Wood, Van Veldhoven, Croon, & de Menezes, 2012).

In connection with this issue, several studies have examined the mediating role in different perspective, such as corporate culture (Bowen & Ostroff, 2004), HR-flexibility (Beltran-Martin, Roca-Puig, Escrig-Tena, & Bou-Lluisar, 2008), psychological empowerment (Boxall, Ang, & Bartram, 2011), internal and external social network (Collins & Clark, 2003), knowledge integration (Collins & Smith, 2006), concern for customers and employees, (Chuang & Liao, 2010), absorptive-capacity (Chang, Gong, Way, & Jia, 2013) employee turnover and productivity (Huselid, 1995), employee's

ability and motivation (Jiang, Lepak, et al., 2012; Jiang, Lepak, Hu, & Baer, 2012), organizational ambidexterity (Patel, Messersmith, & Lepak, 2013), collective human capital (Takeuchi, Lepak, Wang, & Takeuchi, 2007), adaptive capability (Wei & Lau, 2010), and human capital (Youndt & Snell, 2004); but the “ERC” in service context is still undermine in Chinese service industry. As, it creates a social atmosphere that reflects high involvement and employee-centered culture in which employee feels good and makes a valuable addition toward organizational performance (Riordan et al., 2005). Apart from organizational outcomes, ERC is also an important aspect needing close scrutiny by HR practitioners and researchers. From above mentioned literature, we proposed the following hypothesis:

**Hypothesis 1.** SHRM has positive relationship with organizational performance.

**Hypothesis 2.** SHRM has positive relationship with employee relations climate.

**Hypothesis 3.** Relationship of strategic HRM and organizational performance is mediated by employee relations climate.

## Methodology

### Sampling and data collection

Data for this study were collected survey-based questionnaire. The respondents were senior employees of different Chinese banks situated in Shanghai zone, which is considered China’s economic and financial center with the highest GDP among all Chinese cities. We first, obtained the cooperation of the bank’s top management to identify the senior employees, which have been working for more than five years in this sector. Respondents were asked to rate comparatively with competitors using five-point Likert scale. The target sample was intended for 400 respondents, out of which 217 were reliable enough to be included with a response rate of 54 percent.

### Variables and measures

#### Strategic human resource management (independent variable)

In this study, we adapt multi-item scale modified from the “SHRM Index” on seven aspects of SHRM practices (For example, Bae, Chen, Wan, Lawler, & Walumbwa, 2003; Collins & Clark, 2003; MacDuffie, 1995; Tannenbaum & Dupuree-Bruno, 1994; Wright, Dunford, & Snell, 2001; Youndt et al., 1996), also well-known as bundle of HR practices (Bowen & Ostroff, 2004; Delery & Doty, 1996). Sample item includes “Our organization has formal training activities”. Total 26 items were used in the instrument with five points Likert-scale.

#### Employee relations climate (mediating variable)

ERC was measured with six items scale originally developed by Schuster (1982), and also used in other studies (For example, Ngo et al., 2008). Sample item includes “Employees can freely discuss job-related issues with their supervisor”. The measurement scale covers several aspects of the organization like interpersonal relationships, work atmosphere, employee participation, and task performance.

#### Operational performance (dependent variable)

Operational performance was measured with four items scale adapt from Ngo et al. (2008). Sample item includes “In our organization process become more efficient and effective”. Respondents were asked to rate their organizational performance comparatively last three years on the basis of two aspects i.e. expenses (research

**Table 1**  
Outer loadings.

| Items        | Loading | t-value | AVE   | CR    |
|--------------|---------|---------|-------|-------|
| Training     | 0.702   | 10.772  | 0.552 | 0.787 |
| Training     | 0.775   | 12.215  |       |       |
| Training     | 0.751   | 11.737  |       |       |
| P-Appraisal  | 0.665   | 10.161  | 0.512 | 0.758 |
| P-Appraisal  | 0.703   | 10.902  |       |       |
| P-Appraisal  | 0.775   | 12.358  |       |       |
| Staffing     | 0.737   | 11.511  | 0.516 | 0.758 |
| Staffing     | 0.828   | 13.298  |       |       |
| Staffing     | 0.566   | 08.315  |       |       |
| Empowerment  | 0.713   | 11.188  | 0.566 | 0.796 |
| Empowerment  | 0.779   | 12.570  |       |       |
| Empowerment  | 0.763   | 12.218  |       |       |
| Promotion    | 0.714   | 10.905  | 0.500 | 0.750 |
| Promotion    | 0.668   | 10.044  |       |       |
| Promotion    | 0.738   | 11.366  |       |       |
| E-Security   | 0.769   | 11.826  | 0.501 | 0.749 |
| E-Security   | 0.741   | 11.314  |       |       |
| E-Security   | 0.603   | 08.805  |       |       |
| Compensation | 0.765   | 7.6810  | 0.501 | 0.666 |
| Compensation | 0.646   | 7.0470  |       |       |
| ERC          | 0.725   | 11.312  | 0.532 | 0.773 |
| ERC          | 0.749   | 11.805  |       |       |
| ERC          | 0.714   | 11.088  |       |       |
| OP (Exp.)    | 0.783   | 11.660  | 0.583 | 0.737 |
| OP           | 0.744   | 11.066  |       |       |
| OP (Pro.)    | 0.862   | 13.204  | 0.644 | 0.782 |
| OP           | 0.738   | 11.178  |       |       |

& development expenses, marketing expenses), and productivity (production efficiency, new product development).

## Results

SEM technique via AMOS 18.0 is employed to test the proposed model. As the model is based on several constructs, SEM is superior to other methods in terms of examining the hypotheses. A series of nested model was tested to ensure the validity of our theoretical model of interest (Anderson & Gerbing, 1998).

### Measurement validity

A confirmatory factor analysis (CFA) was performed to assess the measurement validity. According to the result of CFA, some items had poor loadings on the constructs they were to reflect and should be deleted from the measurement scale. After these items were removed, we confirmed that our scale still had the ability to precisely capture the underlying variable, and the CFA result showed that all the constructs in measurement model were of good reliability, convergence, and discriminant validity. As shown in Table 1, the loadings of the constructs in measurement model were all significant, and the average variance extracted (AVE) and composite reliability (CR) all exceeded the threshold of 0.5 and 0.6 respectively (Bagozzi & Yi, 1998). Thus, the convergent validity and measurement reliability were well acceptable.

Table 2 shows the correlations of constructs in measurement model with the square root of AVE in the diagonal. Each square root of AVE is larger than the correlation between the construct in question and the others, which indicated good discriminant validity. In addition, we tested a series of nested model in which each correlation between a pair of constructs was constrained to 1. The asymptotical chi-square test of the chi-square statistic values difference between the constrained and non-constrained model were all significant. We concluded that the constructs in our research were of adequate discriminant validity.

**Table 2**  
Correlations.

| EFT | PBC          | EMP          | PRO          | SS           | DPA          | ES           | OP           | ERC          |              |
|-----|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| EFT | <b>0.743</b> |              |              |              |              |              |              |              |              |
| PBC | 0.695        | <b>0.716</b> |              |              |              |              |              |              |              |
| EMP | 0.510        | 0.595        | <b>0.719</b> |              |              |              |              |              |              |
| PRO | 0.378        | 0.606        | 0.672        | <b>0.752</b> |              |              |              |              |              |
| SS  | 0.407        | 0.655        | 0.372        | 0.561        | <b>0.764</b> |              |              |              |              |
| DPA | 0.197        | 0.443        | 0.463        | 0.574        | 0.349        | <b>0.802</b> |              |              |              |
| ES  | 0.355        | 0.335        | 0.320        | 0.576        | 0.483        | 0.655        | <b>0.707</b> |              |              |
| OP  | 0.399        | 0.532        | 0.409        | 0.508        | 0.688        | 0.334        | 0.578        | <b>0.729</b> |              |
| ERC | 0.489        | 0.430        | 0.370        | 0.441        | 0.426        | 0.352        | 0.546        | 0.687        | <b>0.708</b> |

### Common method bias

In this research, we controlled common method bias (CMB) with some ex-ante methods such as choosing a respondent group and bank in the different area, visiting the group at a different time, and each respondent pair being separated from others to finish the questionnaire.

The post hoc quantitative methods were used to examine the CMB. The Harman's single-factor test showed that the first factor in the exploratory factor analysis (EFA) with all items included only explained 29% of the total variance, there is no single factor that can explain a considerable part of the total variance. After that, an unmeasured common method variance (CMV) test (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003) was performed in a construct and method factor model where all items were allowed to load on their construct and the method factor. The method factor represented the unmeasured CMV which came from our investigation method. The result showed that the loadings on the research constructs all remained significant, and most items had much lower loadings on CMV factors than on the constructs they reflected, and the average substantively explained the variance of constructs was much larger than that explained by the method factors. These two tests suggested that CMB was not a pervasive concern in our research.

### Collinearity assessment

To check Collinearity issue, variance inflation factor value (VIF<sup>1\*</sup>) is obtained. As VIF value of 5 or above typically indicates such problems (Hair, Ringle, & Sarstedt, 2011). In our model ERC and OP act as dependent variables because they have arrows (path) pointing toward them. Therefore, we need to run two different sets of linear regression. The Collinearity assessment results are summarized in Table 3. All values of VIF are lower than 5, suggesting no indicative of Collinearity between each set of predictor variables.

### Measurement and structure model

To test the research hypotheses, the structural model was performed with all hypothesized paths. We assessed both the measurement model and the structural model with global fit indices (see Table 4). Two types of fit indices (i.e. absolute and incremental) were taken into consideration. Since the GFI and AGFI increase with the sample size, other indices, such as the NNFI, CFI, are more recommendable, and it is worth noting that the CFI is one of the measures least affected by sample size (Fan, Thompson, & Wang, 1995). For the indication of good fit, AGFI should exceed 0.8, NNFI and CFI should both exceed 0.9, RMSEA and SRMR should not exceed 0.08, and the normed chi-square ( $\chi^2/df$ ) should not exceed 3. For our structural model, these fit measures are all acceptable, and the information criteria of AIC, BIC and CAIC were lower than both the saturated model and the independence model simultaneously, indicating the model does fit the data well. For details, see Table 4.

The higher-order structure of SHRM bundle is parsimonious for a theoretical explanation. As shown in Fig. 1, we found that SHRM bundle exerts a strong and positive effect on ERC, which leads to the improvement of operational performance. A bootstrap process with 500 subsamples was performed to check the mediating effect of ERC, and the result showed that 0 is not included in the 95% confidence interval of ERC's mediating effect on operational performance, with a lower bound of 0.104 and an upper bound of 0.556, supporting the mediation. Our model explained 63.1% variance of operational performance while SHRM practices explained 30.9% variance of ERC.

### Discussion and conclusion

The past few years have witnessed dramatic developments in strategic HRM practices in Chinese enterprises. Not only have foreign international enterprises (FIEs) adopted these practices, but large and reformed state owned enterprises (SOEs) are also in the forefront of making these changes. Beside these practices concerning performance, the work environment is also important to consider for organizational effectiveness. For example, research shows that an employee spent about a quarter to a third of their waking life at work (Harter, Schmidt, & Keyes, 2003). So its responsibility of the organization to provide such working environment in which employee feels good, motivates and involved themselves; because a climate in which employee involved or perceived will be positively associated with organizational effectiveness in a hyper-competitive world (Huselid, 1995; Lawler, 1996; Riordan et al., 2005).

We tested a conceptual model of ERC in China, based on the notion of SHRM as a source of facilitators to create such environment in which employee feels good and make a valuable addition toward organizational performance. This study examines the role of ERC in the relationship between the bundle of SHRM-practices and operational performance of the banks located in Shanghai. We tested three hypothesis and results indicate that bundle of SHRM practices positively relate to organizational performance and ERC, which leads us to accept our hypothesis 1 and 2. The finding shows support for the mediating effect of ERC between the bundle of SHRM practices and operational performance, leads us to accept hypothesis 3. These findings highlight the critical roles of universalistic approach SHRM bundles and ERC in the process of operational performance. In general, this study is consistent with previous studies and shown the positive relationship between SHRM practices and organization performance (Becker & Gerhart, 1996; Delery & Doty, 1996; Huselid, 1995). Although the theoretical framework is created in Western culture, which is totally different from Chinese society and its culture. Our research seeks to contribute to the previous literature-base by investigating the linkages among SHRM, ERC, and organizational performance in Chinese service sector (Banks) situated in Shanghai. Irrespective of cultural differences, finding of the study confirmed that the theories on SHRM are partially valid even in Asian pacific region

**Table 3**  
Collinearity assessment (VIF >5?).

| Constructs   | (1st set) VIF | Dependent variable: OP |              | Dependent variable: ERC |                       |
|--------------|---------------|------------------------|--------------|-------------------------|-----------------------|
|              |               | Collinearity problem?  | (Constructs) | (2nd set) VIF           | Collinearity problem? |
| <b>SHRM</b>  |               |                        | <b>SHRM</b>  |                         |                       |
| Training     | 1.553         | NO                     |              | 1.000                   | NO                    |
| P-Appraisal  | 1.813         | NO                     |              |                         |                       |
| Staffing     | 1.605         | NO                     |              |                         |                       |
| Empowerment  | 1.955         | NO                     |              |                         |                       |
| Promotion    | 1.659         | NO                     |              |                         |                       |
| E-Security   | 1.903         | NO                     |              |                         |                       |
| Compensation | 1.940         | NO                     |              |                         |                       |
| <b>ERC</b>   |               |                        |              |                         |                       |
| ERC          | 1.000         | NO                     |              |                         |                       |

1\*: IBM-SPSS is used to obtain VIF values.

**Table 4**  
Measurement and structure model.

|                     |             | Measurement model | Structure model |
|---------------------|-------------|-------------------|-----------------|
| Absolute indices    | $\chi^2/df$ | 1.619             | 1.671           |
|                     | AGFI        | 0.825             | 0.817           |
|                     | RMSEA       | 0.054             | 0.056           |
|                     | SRMR        | 0.054             | 0.064           |
| Incremental indices | CFI         | 0.923             | 0.910           |
|                     | NNFI        | 0.903             | 0.900           |

like China, which has different tradition and culture from a western perspective, and it open gate for researchers to conduct cross culture comparison of a bundle of SHRM practices to ensure and build more elegant theories that may accept universally.

#### Implications for practice

From a practical perspective, this study provides an insight for practitioners to understand the use of strategically evolved human resource practices and also assists in understanding the organizational climate from an employee perspective. As [Bowen and Ostroff \(2004\)](#), argued that organizational intangible resources are important to manage properly, because it creates sustainable competitive advantages for example organizational climate; so HR managers and practitioners should emphasize more on employee relations climate in their firms. The findings of this study contribute to the theoretical development of a conceptual model for explaining the relationships among SHRM practices, ERC, and operational performance. Also, it could be helpful for human resource practitioners and managers to navigate the best utilization of a human resource, especially in service related organizations. To facilitate the link between SHRM practices and favorable outcomes, HR practitioners and managers first need to recognize the importance of ERC, because it would enrich their understanding that how employee's perspective climate may enhance the organizational performance. Practitioners and assigned authorities should implement those practices which should create such climate that motivates and enhances employee abilities to improve overall organizational effectiveness.

#### Limitations and future implication

The data regarding this study were collected from shanghai zone only, that may limit the generalization of the results of this study. The research model includes operational performance mediated by ERC. Some other factor can also affect the relationship between SHRM practices with other dimensions of organizational performance by analyzing varied mediation mechanism. Future research may include more performance factors with different

mediation variables from different regions of China, and introduce more deep analysis with multiple factors and mediation mechanism in other sectors as well.

#### Appendix A. \*Items are deleted due to poor loadings

##### Training

- Our organization has formal training activities.
- Our organization has comprehensive training policies and programs.
- Our organization has training programs for new hires employees.
- Our organization has especial training for problem-solving ability\*.

##### Performance appraisal

- Developmental focus.
- Results-based appraisal.
- Behavior-based appraisal.

##### Staffing

- Selectivity in hiring.
- Selection for expertise and skills.
- Selection for future potential.

##### Empowerment

- In organization, employee has easy access to engaging in problem-solving teams.
- Employee has right to take necessary actions on their particular jobs related problems.
- Organization considers their employees important in decision-making process.
- Employee has a formal complaint process in the organization\*.

##### Promotion

- Promotion is available in the organization.
- Organization follows merit base promotion\*.
- Employees have a well-defined career ladder.
- Employee receives also financial reward on promotion.
- Equal opportunity is available for each employee for promotion\*.

##### Employment security

- Employee feels secure in the organization.
- Organization has long term contract with employee\*.
- At retirement age, the employee receives retirement incentives i.e. pension, etc.
- Employment security plan is discussed with employee before hiring.

##### Compensation

- Profit sharing\*.
- Incentive pay.
- The link between performance and reward.

##### Employee relations climate

- Employees can fully utilize their knowledge and skills in the organization.

- Employees have a sense of belonging and commitment to the organization.
- Employees are able to discuss operational issues in an open, frank, and constructive manner\*.
- Employees maintain rapport relationship with each other and are willing to share all information\*.
- Employees at all levels establish a high standard for themselves and expect a high effectiveness at work\*.
- Employees can freely discuss job-related issues with their supervisor.

#### Operational performance

- In our organization process/product quality has improved last three years.
- In our organization marketing expenses has decreased comparatively.
- In our organization process become more efficient and effective.
- In our organization research and development, expenses have decreased.

## References

- Abdulkadir, D. S. (2009). Effects of strategic human resource management practices on perceived financial performance: Some evidence from the Nigerian financial sector. *International Journal of Management Science*, 2, 29–35.
- Anderson, J. C., & Gerbing, D. W. (1998). Structural equation modeling in practice: A review and recommended two-step approach. *Psychological Bulletin*, 103, 411–423.
- Bae, J., Chen, S., Wan, T. W. D., Lawler, J. J., & Walumbwa, F. O. (2003). Human resource strategy and firm performance in Pacific Rim countries. *International Journal of Human Resource Management*, 14, 1308–1332.
- Bagozzi, R. P., & Yi, Y. (1998). On the evaluation of structural equation model. *Journal of the Academy of Marketing Science*, 16, 74–94.
- Batt, R. (2002). Managing customer services: Human resource practices, quit rates, and sales growth. *Academy of Management Journal*, 45, 587–597.
- Becker, B. E., & Gerhart, B. (1996). The impact of human resource management on organizational performance: Progress and prospects. *Academy of Management Journal*, 39, 779–801.
- Beltran-Martin, I., Roca-Puig, V., Escrig-Tena, A., & Bou-llusar, J. C. (2008). Human resource flexibility as a mediating variable between high-performance work systems and performance. *Journal of Management*, 34, 10–44.
- Boxall, P., Ang, S. H., & Bartram, T. (2011). Analyzing the ‘black box’ of HRM: Uncovering HR goals, mediators, and outcomes in a standardized service environment. *Journal of Management Studies*, 48, 1504–1532.
- Bowen, D. E., & Ostroff, C. (2004). Understanding HRM-firm performance linkages: The role of the strength of the HRM system. *Academy of Management Review*, 2, 203–221.
- Burke, M. J., Borucki, C. C., & Hurley, A. E. (1992). Re-conceptualizing psychological climate in a retail service environment: A multiple-stakeholder perspective. *Journal of Applied Psychology*, 77(5), 717–729.
- Campbell, J., Dunnette, M., Lawler, E., & Weick, K. (1970). *Managerial behavior, performance, and effectiveness*. New York: McGraw-Hill.
- Chadwick, C., & Dabu, A. (2009). Human resources, human resource management, and the competitive advantage of firms: Toward a more comprehensive model of causal linkages. *Organization Science*, 20, 253–272.
- Chang, S., Gong, Y., Way, S. A., & Jia, L. (2013). Flexibility-oriented HRM systems, absorptive capacity, and market responsiveness and firm innovativeness. *Journal of Management*, 10, 45.
- Chuang, C., & Liao, H. (2010). Strategic human resource management in service context: Taking care of business by taking care of employees and customers. *Personnel Psychology*, 63, 153–196.
- Collins, C. J., & Clark, K. D. (2003). Strategic human resource practices, top management team social networks, and firm performance: The role of human resource practices in creating an organizational competitive advantage. *Academy of Management Journal*, 46, 740–751.
- Collins, C. J., & Smith, K. G. (2006). Knowledge exchange and combination: The role of human resource practices in the performance of high-technology firms. *Academy of Management Journal*, 49, 44–60.
- Datta, D. K., Guthrie, J. P., & Wright, P. M. (2005). Human resource management and labor productivity: Does industry matter? *Academy of Management Journal*, 48, 135–145.
- Delery, J. E., & Doty, D. H. (1996). Models of theorizing in strategic human resource management: Tests of universalistic, contingency and configurationally performance predictions. *Academy of Management Journal*, 39, 802–835.
- Delery, J. E., & Shaw, J. D. (2001). The strategic management of people in work organizations: Review, synthesis and extension. In G. R. Ferris (Ed.), *Research in personnel and human resources management* (vol. 20) (pp. 165–197).
- Delaney, J. T., & Huselid, M. A. (1996). The impact of human resource management practices on perceptions of organizational performance. *Academy of Management Journal*, 39, 949–969.
- Dimba, B., & K’Obonyo, P. (2009). The effect of strategic human resource management practices on performance of manufacturing multinational companies in Kenya: The moderating role of employee cultural orientations and the mediating role of employee motivation. In *Proceedings of the international conference on human capital management in University of Nairobi*.
- Dulebohn, J., Ferris, G., & Stodd, J. (1995). The history and evolution of human resource management. In *Handbook of human resource management* Cambridge. pp. 19–41. MA: Blackwell.
- Fan, X., Thompson, B., & Wang, L. (1995). Effects of sample size, estimation methods, and model specification on structural equation modeling fit indexes. *Structural equation modeling. Multidisciplinary Journal*, 6, 56–83.
- Gelade, G. A., & Ivery, M. (2003). The impact of human resource management and work climate on organizational performance. *Personnel Psychology*, 56(2), 383–404.
- Gerhart, B. (2005). Human resources and business performance: Findings, unanswered questions, and an alternative approach. *Management Review*, 16, 174–185.
- Geringer, J. M., Frayne, C. A., & Milliman, J. F. (2002). In search of ‘best practices’ in international human resource management: Research design and methodology. *Human Resource Management*, 41, 5–26.
- Guthrie, J. P. (2001). High-involvement work practices, turnover, and productivity: Evidence from New Zealand. *Academy of Management Journal*, 44, 180–190.
- Griffeth, R. W., Hom, P. W., & Gaertner, S. (2000). A meta-analysis of antecedents and correlates of employee turnover: Update, moderator tests, and research implications for the next millennium. *Journal of Management*, 26, 463–488.
- Harrison, D. A., & Martocchio, J. J. (1998). Time for absenteeism: A 20-year review of origins, offshoots, and outcomes. *Journal of Management*, 24, 305–350.
- Harter, J. K., Schmidt, F. L., & Keyes, C. L. M. (2003). Well-being in the workplace and its relationship to business outcomes: A review of the Gallup studies. In C. L. M. Keyes, & J. Haidt (Eds.), *Flourishing: Positive psychology and the life well-lived* (pp. 205–224).
- Hayton, J. C. (2003). Strategic human resource management in SMEs: An empirical study of entrepreneurial performance. *Human Resource Management*, 42, 375–391.
- Hair, J. F., Ringle, C. M., & Sarstedt, M. (2011). PLS-SEM: Indeed a silver bullet. *Journal of Marketing Theory and Practice*, 19(2), 139–151.
- Huselid, M. A., & Becker, B. E. (2011). Bridging micro and macro domains: Workforce differentiation and strategic human resource management. *Journal of Management*, 37, 421.
- Huselid, M. (2003). Special issue on small and medium sized enterprises: A call for more research. *Human Resource Management*, 42, 297–309.
- Huselid, M. A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of Management Journal*, 38, 635–672.
- Ichniowski, C., Shaw, K., & Prennushi, G. (1997). The effects of human resource practices on manufacturing performance: A study of steel finishing lines. *American Economic Review*, 87, 291–313.
- Jiang, K., Lepak, D. P., Han, K., Hong, Y., Kim, A., & Winkler, A. L. (2012). Clarifying the construct of human resource systems: Relating human resource management to employee performance. *Human Resource Management Review*, 22, 73–85.
- Jiang, K., Lepak, D. P., Hu, J., & Baer, J. (2012). How does human resource management influence organizational outcomes? A meta-analytic investigation of mediating mechanisms. *Academy of Management Journal*, 55, 64–94.
- Kleiner, M. M., Block, R. N., Roomkin, M., & Salsburg, S. W. (1987). *Human resources and the performance of the firm*. Madison, WI: University of Wisconsin.
- Kuvaas, B. (2008). An exploration of how the employee-organization relationship affects the linkage between the perception of developmental human resource practices and employee outcomes. *Journal of Management Studies*, 45, 1–25.
- Law, S. F., & Jones, S. (2009). A guanxi model of human resource management. *Chinese Management Studies*, 3, 313–327.
- Lawler, E. E., III. (1996). *From the ground up: Six principles for building the new logic corporation*. San Francisco: Jossey-Bass.
- Lepak, D. P. (2007). Strategic human resource management: A look to the future. In R. S. Schuler, & S. E. Jackson (Eds.), *Strategic human resource management* (pp. 457–465). Malden MA: Blackwell Publishers.
- Lepak, D. P., Liao, H., Chung, Y., & Harden, E. (2006). A conceptual review of human resource management systems in strategic human resource management research. *Personnel and Human Resource Management*, 25, 217–271.
- MacDuffie, J. P. (1995). Human resource bundles and manufacturing performance: Organizational logic and flexible production systems in the world auto industry. *Industrial Labor Relative Review*, 48(2), 197–221.
- Mansour, N., Gara, E., & Gaha, C. (2013). Getting inside the black box HR practices and firm performance within the Tunisian financial services industry. *Personnel Review*, 43, 4–17.
- Mendelson, H., & Pillai, R. R. (1999). Information age organizations, dynamics, and performance. *Journal of Economic Behavior Organization*, 38, 253–281.
- Messersmith, J. G., Patel, P. C., & Lepak, D. P. (2011). Unlocking the black box: Exploring the link between high-performance work systems and performance. *Journal of Applied Psychology*, 96(6), 1105–1118.
- Naser, K., Karbhari, Y., & Mokhtar, M. Z. (2004). Impact of ISO 9000 registration on company performance: Evidence from Malaysia. *Managerial Auditing Journal*, 19, 509–516.

- Ngo, H.-y., Lau, C.-m., & Foley, S. (2008). Strategic human resource management, firm performance, and employee relations climate in china. *Human Resource Management, 47*(1), 73–90.
- Nishii, L. H., Lepak, D. P., & Schneider, B. (2008). Employee attributions of the “why” of HR practices: Their effects on employee attitudes and behaviors, and customer satisfaction. *Personnel Psychology, 61*, 03–45.
- Nishii, L. H., & Wright, P. M. (2007). *Variability within organizations: Implications for strategic human resource management*. CAHRS Working Paper Series. Cornell University.
- Patel, P., Messersmith, J., & Lepak, D. (2013). Walking the tightrope: An assessment of the relationship between high-performance work systems and organizational ambidexterity. *Academy of Management Journal, 10*, 41–59.
- Pfeffer, J. (1994). *Competitive advantage through people: Unleashing the power of the workforce*. Boston: Harvard Business School Press.
- Pfeffer, J. (1998). Seven practices of successful organizations. *California Management Review, 40*, 96–124.
- Podsakoff, P. M., MacKenzie, S. B., Lee, J. Y., & Podsakoff, N. P. (2003). Common method biases in behavioral research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology, 88*, 879–903.
- Reichers, A. E., & Schneider, B. (1990). Climate and culture: An evolution of constructs. In B. Schneider (Ed.), *Organizational climate and culture* (pp. 5–39). San Francisco: Jossey-Bass.
- Riordan, C. M., Vandenberg, R. J., & Richardson, H. A. (2005). Employee involvement climate and organizational effectiveness. *Human Resource Management, 44*, 471–488.
- Rogers, E. W., & Wright, P. M. (1998). Measuring organizational performance in human resource management: Problems, prospects, and performance information markets. *Human Resource Management Reviews, 8*, 311–331.
- García-Chas, R., Neira-Fontela, E., & Varela-Neira, C. (2016). High-performance work systems and job satisfaction: A multilevel model. *Journal of Managerial Psychology, 31*(2), 451–466.
- Schuster, F. E. (1982). A tool for evaluating and controlling the management of human resources. *Personnel Administrator, 27*, 63–69.
- Schuster, F. E. (1998). *Employee-centered management: A strategy for high commitment and involvement*. Westport, CT: Quorum Books.
- Subramony, M. (2009). A meta-analytic investigation of the relationship between HRM bundles and firm performance. *Human Resource Management, 48*(5), 745–768.
- Takeuchi, R., Lepak, D. P., Wang, H., & Takeuchi, K. (2007). An empirical examination of the mechanisms mediating between high-performance work systems and the performance of Japanese organizations. *Journal of Applied Psychology, 2007*, 69–83.
- Tannenbaum, S. I., & Dupree-Bruno, L. M. (1994). The relationships between organizational and environmental factors and the use of innovative human resource practices. *Group & Organization Management, 19*(2), 171–202.
- Wang, T. (1985). *A general treatise of human capital*. Tianjin: Tianjin Renmin Press.
- Wei, L. Q., & Lau, C. M. (2010). High-performance work systems and performance: The role of adaptive capability. *Human Relations, 63*, 487–511.
- Way, S., & Johnson, D. (2005). Theorizing about the impact of strategic human resource management. *Human Resource Management Review, 15*, 1–19.
- Wood, S., Van Veldhoven, M., Croon, M., & de Menezes, L. M. (2012). Enriched job design, high involvement management and organizational performance: The mediating roles of job satisfaction and well-being. *Human Relations, 65*, 19–45.
- Wright, P. M., Dunford, B. B., & Snell, S. A. (2001). Human resources and the resource-based view of the firm. *Journal of Management, 27*(6), 701–721.
- Wright, P. M. (1998). Introduction: Strategic human resource management research in the 21st century. *Human Resource Management Review, 8*, 187–191.
- Wright, P. M., & McMahan, G. C. (1992). Theoretical perspectives for strategic human resource management. *Journal of Management, 18*, 295–320.
- Xiong, T., & Zeng, X. (2008). The trend of national and enterprises human resource management from the point of 17th CPC National Congress. *China Labor, 35*–38.
- Yeung, A. L., Lee, T. S., & Chan, L. Y. (2003). Senior management perspectives and ISO 9000 effectiveness: An empirical research. *International Journal of Production Research, 41*, 545–569.
- Youndt, M. A., Snell, S. A., Dean, J. W., & Lepak, D. P. (1996). Human resource management, manufacturing strategy, and firm performance. *Academy of Management Journal, 39*, 836–866.
- Youndt, M. A., & Snell, S. A. (2004). Human resource configurations, intellectual capital, and organizational performance. *Journal of Managerial Issues, 16*, 337–360.
- Zacharatos, A., Barling, J., & Iverson, R. D. (2005). High-performance work systems and occupational safety. *Journal of Applied Psychology, 90*, 77–93.
- Zhao, S., & Du, J. (2012). Thirty-two years of development of human resource management in China: Review and prospects. *Human Resource Management Review, 22*, 179–188.
- Zhao, L. (1998). *Labor employment and the building of labor market*. Nanjing: Jiangsu Renmin Press.
- Zheng, C., & Lamond, D. (2009). A critical review of human resource management studies (1978–2007) in the People's Republic of China. *The International Journal of Human Resource Management, 20*, 2194–2227.
- Zhu, C. J., & Dowling, P. J. (1994). The impact of the economic system upon human resource management practices in China. *Human Resource Planning, 17*, 1–22.
- Zhu, Y., & Warner, M. (2004). Changing patterns of human resource management in contemporary China: WTO accession and enterprise responses. *Industrial Relations Journal, 35*, 311–328.
- Zhu, C. J., Thomson, S. B., & De Cieri, H. (2008). A retrospective and prospective analysis of HRM research in Chinese firms: Implications and directions for future study. *Human Resource Management, 47*, 133–156.
- Zohar, D., & Luria, G. (2005). A multilevel model of safety climate: Cross-level relationships between organization and group-level climates. *Journal of Applied Psychology, 90*, 616–628.
- Zohar, D. (1980). Safety climate in industrial organizations: Theoretical and applied implications. *Journal of Applied Psychology, 65*, 96–102.