

# HRM PRACTICES AND FIRM INNOVATIVENESS: MEDIATING ROLE OF IMPERSONAL TRUST

**Muhammad Hassan**

Institute of Management Sciences,  
Bahauddin Zakariya University, Multan, Pakistan  
Email: [hassanbucha@hotmail.com](mailto:hassanbucha@hotmail.com)

**Muhammad Rizwan**

Institute of Management Sciences,  
Bahauddin Zakariya University, Multan, Pakistan

**Khalid Mehmood**

Institute of Management Sciences,  
Bahauddin Zakariya University, Multan, Pakistan

**Muhammad Mazhar**

Institute of Management Sciences,  
Bahauddin Zakariya University, Multan, Pakistan

## **Abstract**

*In this stifling business environment, innovativeness has been observed as a vital element for organizational success and competitive advantage. Research highlights that in order to intensify the firm innovativeness; researchers need to implement the effective HRM practices and impersonal trust in this process. The aim of this study is to discuss these problems to investigate the relationship between HRM practices and firm innovativeness through mediating role of impersonal trust. Data was collected by using questionnaire survey from 274 employees of telecommunication sector. Cronbach's Alpha was used to check the reliability of the scale and hypotheses were tested by using structural equation modeling (with AMOS). Effective HRM practices evidently help honing the organizational innovativeness. Besides, impersonal trust was found to be partially mediating between HRM practices and organizational innovativeness. Findings would be helpful for organizations to understand how they will survive in competitive and changing business environment. Similarly, managers can identify the most demanding HRM practices to build the trust relationship within the organization in order to increase firm innovativeness. This research paper was conducted in the context of Pakistan in*

*telecommunication sector. This limits the generalizability of this research. This study contributes to literature by identifying the link between HRM practices and firm innovativeness through mediating role of impersonal trust. According to the best knowledge of researcher, this study is the first of its kind in the context of Pakistan.*

**Keywords:** Firm Innovativeness, HRM Practices, Impersonal Trust,

### **1. Introduction**

In this continuously changing business environment, organizations need to be innovated for their survival. Due to the stifling business environment, organizational practices which create and increase innovativeness within organizations become more important. According to Dess and Picken (2000) innovativeness is the most important element for organizational survival and also firm innovativeness is the tendency for organizations to improve their competitiveness and effectiveness (Walker, 2008; Damanpour, 1991). Furthermore, several researches are focused to identify which factors are important to facilitate firm innovativeness and these factors are processes of decision making (King, 1992), employee readiness for innovation and skills (Snyder-Halpern, 2001), organizational environment (Walker, 2008) and HRM practices (Ahteela, Blomqvist, Puumalainen & Jantunen, 2010; Vanhala & Ahteela, 2011).

Vanhala and Ritala (2016) suggested that HRM practices could be the only way which create and increase organizational innovativeness but some other factors may also be encompassed. Moreover, human resource management practices like, communication, training and development, Performance appraisal and rewards, job design, employee participation and career opportunities have important impact on organizational innovativeness. Specifically, many studies have shown that HRM practices have positive impact on organizational trust (Gould-Williams, 2003; Ahteela et al., 2010; Vanhala & Ahteela, 2011). Many other studies concluded that positive relationship exists between organizational trust and organizational innovativeness (McEvily, Perrone & Zaheer, 2003; Berraies, Chaher & Yahia, 2014; Vanhala and Ahteela, 2011; Vanhala and Ritala 2016). Consequently, it can be easily predicted that organizational trust plays a mediating role between HRM practices and Organizational innovativeness. Besides, existing literature described that organizational trust consists of two types, first one is impersonal trust and second type of trust is interpersonal trust. Impersonal trust can be defined as trust of employees in their own organizations and interpersonal trust is trust of employees in their colleagues and managers as well (Guinot, Chiva & Roca-Puig, 2014) and this study focused on just Impersonal trust as mediating variable suggested by Vanhala & Ritala (2016). Similarly, few researchers have assessed the role of HR practices but no one has assessed the role of organizational trust (Whitener, 2001). However, the role of trust in promoting organizational innovativeness has so far attracted very little interest in academic research (Ellonen, Blomqvist & Puumalainen, 2008).

According to the report of Global Innovation Index (GII) 2016 Pakistan is ranked 119th out of 128 innovative countries in the world and Pakistan scored 22.63 out of 100 which is alarming. Eventually, an empirical research in the context of Pakistan is needed on the role of impersonal trust between HRM practices and organizational innovativeness to fill up the gap. Data was collected from telecom industry of Pakistan. Five-point Likert scale questionnaire survey was used to collect the data from managers, supervisors and entry level employees. To analyze the data SEM (Amos and SPSS) was used. Results of the research indicate that impersonal trust mediates between HRM practices and firm innovativeness.

Complete understanding in terms of mediating role of impersonal trust between HR practices and firm innovativeness would be valuable for HR managers. This study highlights different ways to increase firm innovativeness.

### **1.1. Problem Statement:**

In this competitive business environment, Innovation plays a key role in organizational success and organizational survival. According to Forbes business review almost 90% of all startups shutdown and behind this, one of the most important element is lack of innovation. Managers need to know how they can achieve innovation through HRM practices and which of the impersonal.

### **1.2. Research Objectives:**

Objectives of the research are

- 1) To explore the impact of HRM practices on firm innovativeness
- 2) To assess the impact of HRM practices on impersonal trust
- 3) To investigate the impact of impersonal trust on firm innovativeness
- 4) To analyze the mediating role of impersonal trust between HRM practices and firm innovativeness

### **1.3. Research Questions:**

**RQ1:** Is there a link between HRM practices and firm innovativeness?

**RQ2:** Is there any association between HRM practices and impersonal trust?

**RQ3:** Is there any relationship between impersonal trust and firm innovativeness?

**RQ4:** Does impersonal trust mediate between HRM practices and firm innovativeness?

## **2. Literature Review and Theoretical Background**

### **2.1. Organizational Innovativeness**

Damanpour and Evan (1984) observed that innovativeness is basically implementation of new knowledge/idea or adoption of new behavior.

### **2.2. Relationship between HRM practices and organizational innovativeness**

According to Schermerhorn (2001) HRM is a process of selecting (attracting) employees, development of employees and retaining brilliant workers to achieve and

support the organizational vision, mission, objectives, goals and business level strategies.

According to Barney (1991) Resource based view (RBV) holds that one of the firm resources is human resource management (HRM). It motivates the organizations to emphasize on employees' characteristics, skills and their contribution in the process of value creation. Hence, RBV puts the organizational emphasis on internal resources (Hoskisson, Hitt & Wan, 1999) and organizational resources can be of two types; tangible resources and intangible resources. Together they bring return on investment (Wernerfelt, 1984).

Vanhala and Ritala (2016) conducted a research on HRM practices, impersonal trust and firm innovativeness in Finland. According to the findings of their study, positive relationship exists between HRM practices and firm innovativeness. In the same way, Ahteela et al. (2010) studied the relationship between HRM practices and firm innovativeness in three different companies. Although, data was collected from three companies only but results indicate that HRM practices have positive impact on firm innovativeness. Moreover, several other studies described that organizations can use HR practices in different ways to increase the skills of their employees and innovative output as well (Snape & Redman, 2010; Boselie, Dietz & Boon, 2005)

Furthermore, positive link exists between HR practices and organizational innovativeness, suggested by Laursen and Foss (2003). Similarly, according to Ling and Aizzat (2010) HR practices have positive and significant impact on innovativeness. Schuler and Jackson (1987) argued that training and development provides opportunities to employees to increase their skills, abilities and knowledge. These skills and abilities contribute to firm innovativeness in the form of process innovation, product innovation and innovation in practices of daily operations. Adding to it, Tsai (2006) conducted an empirical study in the sector of semiconductor design and results of that study indicate that HRM practices and firm innovativeness are positively related but according to Tan and Nasurdin (2011) only two HR practices (Training and Development, Performance Appraisal) are positively linked with firm innovativeness. In line with results of (Zhou, Hong & Liu, 2013) a recent study which investigated the impact of HRM practices on firm innovativeness confirmed that a positive relationship exists between these two variables. Above literature helps to hypothesize that

**H1:** *HRM practices have a positive relationship with the organizational innovativeness.*

### **2.3. Relationship between HRM practices and impersonal trust**

According to Whitener (1997) Social exchange (Blau, 1964) is activity of exchange between two parties and exchange can be in tangible, intangible manners, more rewarding, less rewarding or in costly manners. Basic norm of social exchange theory (SET) is reciprocity. On the basis of reciprocity some expectations are established and it is then that employee empowerment, human resource investment

and recognition of employees will be reciprocated (Tzafrir, Harel, Baruch & Dolan, 2004). In the same manner, organizations demonstrate support, care and value to their employees and in response expect greater loyalty and effort from employees. Vanhala and Ritala (2016) pointed that through organizational HRM practices, these actions of caring, supporting and valuing can be demonstrated to employees. Communication and procedural justice are practices which decrease the fear and increase the trust of employees in their organizations (Tzafrir et al., 2004).

According to Culnan and Armstrong (1999) procedural justice acts like a norm of fiduciary to establish impersonal organizational trust and can be operationalized as unbiased information practice. While, Pavlou (2003) described that standard of organization, norms and processes are the source of impersonal trust. Moreover, organizational support theory (OST) describes that organizational policies, practices and treatment (such as HRM) are taken as indicators of organizational commitment and support by employees (Eisenberger, Fasolo & LaMastro, 1990). Specifically, organizational trust is directly affected by the perception of employees about organizational support, equity of outcomes, fairness and procedures. (Alfes, Shantz & Truss, 2012; Eberl, Clement & Moller, 2012; Saunders, 2011).

According to Gould-Williams (2003) HR practices have positive impact on organizational trust. Likewise, according to Mccauley and Kuhnert (1992) HR practices and employee trust in organization are linked. According to Vanhala and Ritala (2016) HRM practices have positive impact on impersonal trust. In the same way, Ahteela et al. (2010) demonstrated that positive relationship exists between HR practices and impersonal trust. Furthermore, Vanhala and Ahteela (2011) found that HR practices have positive impact on impersonal trust. Procedural fairness is considered as a very critical factor to create impersonal trust, as it can be used as fair information practice like privacy and consent (Culnan & Armstrong, 1999). Thus it can be hypothesized that

**H2: HRM practices affect impersonal trust positively**

#### **2.4. Relationship between impersonal trust and organizational innovativeness**

According to Barney and Hansen (1994) organizational trust (impersonal or interpersonal trust) is vital element for organizational performance. Likewise, Ellonen et al. (2008) mentioned that organizational trust is essential element for organizational innovativeness. In the same way, Vanhala and Ritala (2016) concluded that for the purpose of organizational innovativeness, management should have to pay more attention towards impersonal trust or their employees trust on organization. Similarly, McEvily et al. (2003) described that organizational trust has impact on different organizational process, like identity, innovativeness, information sharing and commitment. Trust is a cultural norm which increases the organizational innovativeness (Ahmed, 1998).

On the other hand, some researchers found that there is no relationship between impersonal trust and organizational innovativeness like, a research study

was conducted by Ahteela et al. (2010) and findings of their study revealed that positive relationship exists between organizational trust and firm performance but no relationship exists between organizational (impersonal) trust and organizational innovativeness.

Clegg, Unsworth, Epitropaki, & Parker (2002) refer that when people get a reasonable experience of positive responses, it increases the possibility of them for making more efforts to generate new ideas and implementation of it. It is linked with trust between employees. Ahmed (1998) enlightened the importance of cultural norms in order to increase innovativeness. Consequently, Tan and Tan (2000) concluded that trust in a supervisor and subordinate's innovative behavior; both are positively correlated with each other. Moreover Chandler, Keller and Lyon (2000) claims that integration of ambiguity and complications in innovation proposes that trust of employees in administration plays important role in order to create innovative culture since trust makes employees take risks without any fear of facing penalty in case of failure.

Ellonen et al. (2008) discussed that in this highly competitive and global business environment interpersonal (vertical or lateral trust) and social trust may be failed and results in firm's inefficiency. In the future firms cannot depend only on interpersonal trust and require a process which supports knowledge transfer and knowledge creation as well, for that reason impersonal trust (institutional trust) is complementary to that of interpersonal trust for organizational innovation and survival. On the basis of above literature, it could be hypothesized that

***H3: Impersonal trust has a positive relationship with the organizational innovativeness.***

### **2.5. Mediating role of impersonal trust between HRM practices and organizational innovativeness**

Researchers from Finland Vanhala and Ritala (2016) assessed the mediating relationship of impersonal trust between HRM practices and organizational innovativeness and results demonstrated that impersonal trust positively mediated between HRM practices and organizational innovativeness. Similarly, According to Whitener (1997) trust might be the result of HRM practices and can also play a mediating role between HR practices and organizational outcomes. Moreover, Ahteela et al. (2010) suggested that impersonal trust due to specific type plays a mediating role between HR practices and organizational innovativeness.

According to Alfes, Shantz and Truss (2012) when employees perceive the implemented HR practices and feel more valued then they take these HR practices as investment from organization on them and will work with more exertion. Similarly, Snape and Redman (2010) cited the social exchange theory and described that in organizational exchange process, HR practices could be seen as input and create a norm of reciprocity. Furthermore, Ahteela et al. (2010) discuss that if positive exchange and organizational support signaled by HR practices between organization and employees, at the end consequences in the form of impersonal trust and impersonal trust could have a positive effect on innovativeness. According to

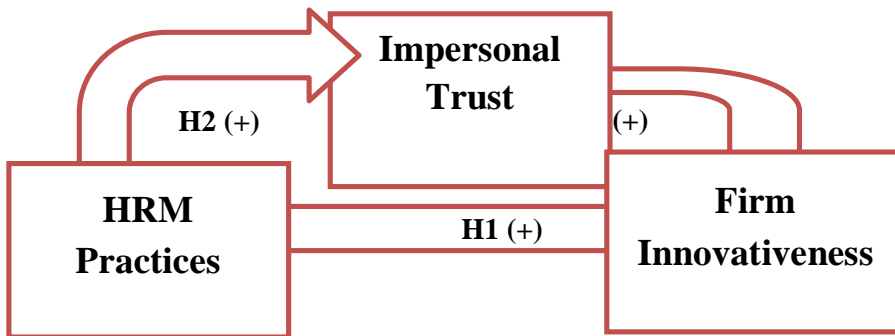
Ellonen et al. (2008) impersonal trust has significant positive impact on organizational innovativeness.

Impersonal trust plays a mediation role between HRM practices and firm innovativeness. Employees feel more satisfied when organizations provide an environment where they have opportunities to practice their skills and abilities without any fear, which in turn increases the employees trust towards their organization. Trust of employees towards their organizations is directly affected by the employee's perception about organizational support and procedures. For example, due to impersonal trust employees become able to yield innovative outcomes which, in turn, would result in firm innovativeness. Likewise, Ahmed (1998) described that trust is a cultural norm which increases the firm innovativeness.

Furthermore, Opportunities of training and development, employee empowerment (HRM practices) are processes which provide an environment where skills and abilities of employees are increased and appreciated. Communication and procedural justice are practices which decrease the fear and increase the trust of employees in their organizations (Tzafrir et al., 2004). According to Barney (1991) culture of trust within the organizations could be the source of competitive advantage (firm Innovation). With the help of aforementioned literature, the hypothesis is

**H4:** Impersonal trust mediates between HRM practices and organizational innovativeness.

## 2.6. Theoretical Framework:



## 3. Research Methodology

### 3.1. Context

The research was conducted on “HRM practices and Firm Innovativeness: Mediating Role of Impersonal Trust” in telecommunication industry of Pakistan. The aim of this paper was to improve the business processes and provide the ways of innovation. However, on the basis of shared knowledge of HR managers, supervisors and entry level employees made a valuable consortium.

### **3.2. Population/sample/Unit of analysis**

Employees of telecommunication industry were taken as population of study and data was collected from three major cities of Pakistan (Multan, Faisalabad, and Islamabad). 05 telecom industries were taken as participants of this paper. Survey was conducted by researcher personally and 300 questionnaires were distributed. 274 responses were useful. Managers, Supervisors and entry level employees are chosen as unit of analysis.

### **3.3. Research Method**

First of all, letter of permission was sent to different telecom organizations for collection of primary data. After two weeks the researcher visited the organizations in person in order to collect data. Thereafter, a brief introduction of topic was given and ambiguities facing the respondents were addressed by the researcher in person. Finally, they were made certain that the information given by the respondents would be used confidentially and for the purposes related to research only. Presence of researcher in all the target companies performs a helping hand in order to answer respondent's queries.

### **3.4. Instruments**

All items were measured on five-point Likert scale with anchors at 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree.

#### **3.4.1. Dependent Variable (*Firm Innovativeness Scale*)**

Firm innovativeness has been chosen as dependent variable and contained 10 items which were adopted from the prior work of Wang and Ahmed (2010). Cronbach's Alpha (reliability) of this scale is 0.721.

#### **3.4.2. Independent Variable (*HRM practices Scale*)**

The scale of HRM practices contained 10 items and adopted from the work of Delery and Doty (1996). Respondents interpreted human resource management practices on these adopted items. Value of Cronbach's Alpha for this scale is .716.

#### **3.4.3. Impersonal Trust Scale**

Impersonal trust scale was consisted on 07 items and adopted from the work of Vanhala, Puumalainen and Blomqvist (2011). Respondents assessed their organizations on these adopted items. Reliability (Cronbach's Alpha) value of this scale is 0.725.

### **3.5. Data-analysis techniques**

First, Cronbach's Alpha was used to examine reliability of the scales (Firm innovativeness, HRM practices, impersonal trust). Second order confirmatory factor analysis was used to examine the validity of scales. Second order confirmatory factor analysis (validity) and Cronbach's Alpha (reliability) were conducted by SPSS 23 and AMOS 20. Moreover, descriptive statistics were used to explore the data and



variable relations as well as correlations were also examined. Structural equation modeling (SEM) with maximum likelihood estimation method was used to test the each hypothesis.

#### 4. Results

##### 2.1. 4.1. Reliability Test

Reliability test are very important for the procedure of data analysis. Cronbach's Alpha was used to check the reliability of the data. Reliability test was applied on all four variables and results show that values of all variables are greater than 0.7, it means data was reliable.

**Table 1: Reliability Test (Cronbach's Alpha)**

Cronbach's Alpha	No. of items	Variables
.716	10	HRM Practices
.725	07	Impersonal Trust
.721	10	Firm Innovation

##### 4.2. Validity Test

Second order confirmatory factor analysis was used to test the validity of construct. A total of 27 items were used in questionnaire. After second order confirmatory factor analysis, 10 items have factor loading below 0.5. 6 items were dropped from the scale of firm innovativeness.

1 item was dropped from the scale of impersonal trust and 3 items were dropped from the scale of HRM practices. 17 items with factor loading of 0.5 or above were used in full measurement model for further analysis.

##### 2.2. 4.3. Structural Equation Modeling

The technique of structural equation modeling was adopted to analyze the data and test the hypothesis, for example, hypothesis will possibly be rejected or accepted. To do that, AMOS 20.0 is chosen because of its suitability and estimation of simultaneous casual placement of variables. Multiple fit indices were used to assess the overall model fit for example; Root Mean Square Error of Approximation, Adjusted goodness of fit index, Relative chi-square and comparative fit index.

Variable	CMIN/DF	CFI	RMSEA	GFI	IFI
Full Measurement model	1.510	.90	.043	.907	.896

**Table 3:** *Values of Model fit Indices*

Model fit indices of this research have been found to be lying in between the standardized limits. Value of RMSEA should be less than or equal to 0.06. Similarly, values of GFI, CFI and IFI should greater than or equal to 0.90 (Hair, Black, Rabin, Anderson & Tatham, 2006).

### 2.3. 4.5. Mediation Analysis

Mediation analysis was conducted to check the mediation in research model.

Baron and Kenny (1986) recommended four assumptions for mediation analysis.

- Significant relationship exist dependent and independent variables without Mediating Variable.
- There must be a significant relation between mediator and independent variable.
- Significant association exists between mediator and dependent variable.
- In the presence of mediator, significant relationship exist between independent and dependent variable.

**Table 4:** *Indirect effect:*

Path	Total effect (TE)	P value (TE)	Direct effect (DE)	P value (DE)	Indirect effect (IE)	P value (IE)
HRMP → ImT → FI	.520	.001	.628	.001	.092	.003

0

According to Preacher and Hayes (2009) a significant value of indirect effect shows an occurrence of mediation and according to table the sig. value (.003) of indirect effect is displaying a significant mediation between HRM Practices and Firm Innovativeness.

### Figure 1: HRM, Impersonal Trust and firm innovation

#### 4.7. Regression Analysis

After running the regression analysis later in order for in depth study of my hypotheses, I went on to interprets the following results.

**Table 8:** *Regression Estimate of Impersonal Trust*

HYPOTHESES	PATHS	ESTIMATES	PVALUE	HACCEPTED/REJECTED
H1	HRM Practices Innovation → Firm	.628	≤0.001	ACCEPTED
H2	HRM Practices Trust → Impersonal	.536	≤0.001	ACCEPTED
H3	Impersonal Trust Innovation → Firm	.172	≤0.001	ACCEPTED

Table 8 indicates that HRM practices are influencing the Firm Innovativeness positively which is noticeable by the values of  $b=.628$  as well as  $p$  value  $\leq 0.001$ . The impact which HRM practices are having on Impersonal Trust is significant with the values of  $b=.536$  as well as  $p \leq 0.001$ . Similarly, Impersonal Trust has a positive influence on Firm Innovation with the values of  $b= .172$  as well as  $p$  value  $\leq 0.001$ .

## 5. Discussion, Conclusion, Implication and Limitations

### 5.1. Discussion

Researcher has followed the assumptions of mediation analysis which were given by Baron and Kenny (1986) in order to study the mediating roles of impersonal trust between HRM practices and Firm innovativeness.

On the basis of above mentioned findings, first three hypotheses (H1 to H3) have been accepted with positive relationship between HRM practices, impersonal trust and firm innovativeness. In particular, HRM practices have positive relationship with firm innovativeness and impersonal trust in above mentioned telecommunication industries, which use training and development, unbiased and objective based performance appraisal, providing job opportunities, good communication system, job security and clearly defined job description. Concluded results were found consistent with prior researches, such as Vanhala and Ritala (2016).

Last hypothesis (H4) was also accepted and shows that HRM practices and firm innovativeness are mediated by impersonal trust. This shows that Pakistani telecommunication industries which are under discussion in this study are able to increase impersonal trust through HRM practices, which, in turn, increase firm innovativeness. Vanhala and Ritala (2016) also concluded with similar results.

### 5.2. Conclusion

In this research, first of all, researcher argued theoretically and then empirically examined the relationship between HRM practices and firm innovativeness through mediating role of impersonal trust. HRM practices have been found to be having significant impact on innovation. HRM practices and firm innovativeness are partially mediated by impersonal trust.

### **5.3. Theoretical Implications**

On the basis of research findings, it can be concluded that creative human resource management practices would lead to better firm innovativeness. Moreover, human resource practices could improve firm innovativeness through impersonal trust. Although innovativeness and human resource management practices have gained reasonable devotion in the previous literature but specifically Western countries have gained more devotion as compare to other countries and few researches have been made their contribution in the context of Asia. Furthermore, limited researches have examined the mediating role of impersonal trust between human resource practices and firm innovativeness. Consequently, empirical results of this research fill the gap in existing literature.

The results also revealed that human resource management practices like training and development, job opportunities, communication, job design and performance appraisal have positive effect on firm innovativeness. Furthermore, both impersonal trust plays a mediator role in the process of innovation by applying human resource practices. It means that when organizations are emphasizing on firm innovativeness, they will more likely implement human resource management practices which will increase impersonal trust, which in turn will results in increased firm innovativeness.

### **5.4. Managerial and Practical Implications**

Keeping the practical perspective in view, this research can be useful in businesses where innovation proves troublesome for the organizations to proceed in competitive environment. Results proposed that organizations have the opportunity to step up their firm innovativeness by managing impersonal trust through proper implementation of HRM practices.

This study has demonstrated the significance of HRM practices and how they are positively related to firm innovativeness. For HR managers to enhance organizational innovation, they should adopt human resource management practices. In particular, the choice of an innovation strategy implies the use of training and development, performance based appraisal, communication system, job opportunities and empowerment.

Moreover, HR managers need to use human resource management practices aimed at building a stable group of employees in the company who can adopt experiments and embrace the new ideas that feed innovation. Top managers also need to review their HRM programs and redesign them in order to increase the integration between human resource management and organizational trust, which would lead them to increase in firm innovativeness.

### **5.5. Limitations and Future Research**

Like other studies, this paper has also some limitations due to the selected context and research design. Limitations of research also provide some future research suggestions.

First, data was collected from telecom industry only and this limits the generalizability of study to other industries like textile, cement and steel industries. Future researches could implement this model in other industries or sectors, in order to assess the reliability of the model and provide evidence on subject to confirm the generalizability of the results.

Secondly, data of this study was collected from three cities of Pakistan only and this limits its implications in terms of other cities. Results or responses may differ city to city or culture to culture.

Finally, only six types of HRM practices were taken in this study. Future researchers could include dimensions of HRM practices other than those taken in this research.

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