

Final Thesis

MS Management

The Impact of Human Capital on Organizational Innovative
Capability in a Private Commercial Bank of Pakistan

Submitted by

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Abstract

Organizational collective knowledge plays an important role in innovation and also provides a competitive advantage. Human Capital (HC) is the sum total of intelligence found in individual human beings and consists of individual's learning and education, experience and expertise, and personal creativity and innovation. Many researchers believe that only knowledgeable and innovative organizations are going to survive in future in the knowledge based economy.

The present study is focused on a Pakistani private commercial bank and is aimed to study the impact of its HC on its Innovative Capability (IC). In this survey based research, four hypotheses were empirically tested. The survey instrument comprised of a 25-item Human Capital Construct, and 27-item Innovative Capability Construct. Using a systematic random sampling design of probability sampling technique, 170 participants from a Pakistani private commercial bank completed this survey. Multivariate data analysis techniques like exploratory factor analysis, multiple regression, and simple regression were used to analyze the data. All four hypotheses for the present study were supported.

Findings from the present study reveals that (a) Human Capital (HC) is influenced by bank officers skills/competence, bank officers transformational leadership role, bank officers knowledge, bank officers ability, and bank officers personal mastery; (b) Innovative Capability (IC) of the bank was found influenced by support for innovation available to bank officers, bank officers innovative behavior, and tolerance for difference available to bank officers; (c) bank officers leadership role, bank officers personal mastery, and bank officers ability were significant and positively related to bank's Innovative Capability, whereas, bank officers knowledge was significant and negatively related to bank's Innovative Capability for the present research; and finally (d) bank's collective Human Capital was found to have positive relationship with bank's Innovative Capability. The research limitations of the present study regarding generalization, along with recommendations for future academic research are included as well.

Table of Contents

Acknowledgements.....	1
Abstract.....	2
Table of Contents.....	3
1. Introduction.....	7
1.1. Significance of the Study and Research Gap.....	8
1.2. Research Objectives.....	9
1.3. Research Questions.....	10
2. Literature Review.....	12
2.1. Human Capital Theory.....	12
2.2. Organizational Innovation.....	15
2.3. Human Capital and Innovative Capability.....	17
2.4. Research Model for the Study.....	20
2.5. Research Hypothesis.....	21
3. Research Methodology.....	22
3.1. Philosophical Assumptions for Research.....	22
3.2. Research Strategy.....	23
3.3. Research Design.....	24
3.4. Target and Surveyed Population.....	25
3.5. Determining Appropriate Sample Size for the Study.....	26
3.6. Data Collection.....	28
3.7. Survey Design and Process.....	28
4. Research Results.....	29
4.1. Sample Generating the Data.....	30
4.2. Factor Analysis for the Human Capital (HC) Measurement Construct.....	31

4.3.	Tests of Assumptions	31
4.4.	Final Result after Empirically Testing of Research Hypothesis 1	37
4.5.	Factor Analysis for the Innovative Capability (IC) Measurement Construct	39
4.6.	Tests of Assumptions	39
4.7.	Final Result after Empirically Testing of Research Hypothesis 2	44
4.8.	Final Result after Empirically Testing of Research Hypothesis 3	47
4.9.	Assumptions for Regression Analysis.....	50
4.10.	Final Result after Empirically Testing of Research Hypothesis 4.....	51
5.	Discussion.....	54
5.1.	Research Interpretations	55
5.1.1.	Demographic Detail of Sample.....	55
5.1.2.	Testing of Hypotheses and Significance of Research Findings	55
5.2.	Research Implications	60
5.3.	Research Conclusions	61
5.4.	Research Limitations.....	63
4.5.	Recommendation for Future Research.....	64
	References.....	65
	Appendices.....	69
	Appendix A: Authorization Letter for Data Collection form GRC	69
	Appendix B: Survey Instrument	70

List of Tables

Table 4-1: Demographic profile of the Respondents.....	30
Table 4-2: KMO and Bartlett’s Test.....	31
Table 4-3: Human Capital (HC) Scales Factor Solution through Varimax Rotation.....	34
Table 4-4: Internal Consistency Reliability for Human Capital (HC) Construct.....	37
Table 4-5: Information regarding Percentage of Variance Explained by Each Factor for Human Capital (HC) Construct (or Scale).....	38
Table 4-6: KMO and Bartlett’s Test.....	40
Table 4-7: Innovative Capability (IC) Scales Factor Solution through Varimax Rotation.....	42
Table 4-8: Internal Consistency Reliability for Innovative Capability (IC) Construct.....	44
Table 4-9: Information regarding Percentage of Variance Explained by Each Factor for Innovative Capability (IC) Construct (or Scale).....	45
Table 4-10: Information of Variance Explained by Each factor for Human Capital (HC) Constructs after Factor Scores Computation.....	47
Table 4-11: Information regarding Model Summary.....	48
Table 4-12: Information regarding Model Significance.....	48
Table 4-13: Information regarding Model Coefficients and Collinearity.....	49
Table 4-14: Information of Variance Explained by Each factor for Human Capital (HC) and Innovative Capability (IC) Constructs after Factor Scores Computation.....	51
Table 4-15: Information regarding Model Summary.....	52
Table 4-16: Information regarding Model Significance.....	52
Table 4-17: Information regarding Model Coefficients and Collinearity.....	53
Table 5-1: Detail about Hypothesis for Present Research and their Results.....	59

List of Figures

Figure 1: Conceptual Model for Human Capital.....	15
Figure 2: Conceptual Model for Innovative Capability	17
Figure 3: Proposed Model for the Study	20
Figure 4: Revised Proposed Model for the Study	46

Chapter 1

1. Introduction

The workman's world is experiencing many changes on the way the work is being performed in the knowledge-based economy. There is a strong need for modern day organizations to become the storehouses of knowledge and innovation. This modern day economy which is based on knowledge and information has given us with new concepts of globalization and latest working designs for the firms (Seleim, Ashour, & Bontis, 2004). Due to these developments an enormous pressure on management research is being felt and demands investigation through latest means.

Penrose has looked at the firms as a depository of knowledge and skills and stressed their need in explaining the development and growth of firms (Penrose & Pitelis, 2009). As the competition among companies for their market shares increases, this makes them realize that innovation is the one on the basis of which they can compete and grow. Innovation means the use of current knowledge to generate new knowledge (P Drucker, 1998; Todd, Bessant, & Pavitt, 2009). The researchers have developed an overall consensus that the organizational knowledge has an important role to play especially in innovation (Davenport & Prusak, 2000; P Drucker, 2007; Nonaka & Takeuchi, 1995).

During last decade, Intellectual Capital (IC) has been considered an important indicator for the continuous growth and performance of a firm (Bierly & Chakrabarti, 1999; Bontis, 1993). In fact people have started saying that for the success of business these intellectual assets are carrying more importance than the conventional means of production (Choo & Bontis, 2002; P Drucker, 1998; Edvinsson & Malone, 1997; Stewart, 2003; Sveiby, Linard, & Dvorsky, 2002). Three main components of IC are: human capital, structural capital, and relational capital (Bontis, 2001; Petty & Guthrie, 2000; Sveiby, et al., 2002).

Human capital (HC) stands for the knowledge, abilities, and skills people hold so as to fetch financial worth to firms (Youndt, Subramaniam, & Snell, 2004). HC is basically meant for worker's understanding

of facts, skillfulness and capability (Grossman, 2000). Human Capital (HC) holds together the wide-ranging human resource deliberations of the industry work force along with the more explicit needs of personnel competence in the form of knowledge, skills, abilities, personal mastery, and transformational leadership potential of managers and the people they manage (McGregor, Tweed, & Pech, 2004). A strategy of deploying human capital of high innovative capability to drive higher value for the organizations has become an important focus of attention. Organizations seek to optimize their resources at their disposal not only to achieve business goals but most importantly for a long term survival and sustainability. To accomplish this task, organizations will need to ensure that their existing employees have the required set of innovative capabilities in the form of knowledge, skills, and abilities to work effectively in a rapidly changing and complex environment. Hence in order to compete and survive in the service industry, it is very necessary for an organization to attain human capital that is firm-specific, innovative and most dynamic.

This particular study focuses only on Human Capital, which is considered one of the most important components and constructs of Intellectual Capital, and will study its impact on firms' Innovative Capability. It focuses on an organization from one of three Pakistan's banking industry that has witnessed growth during the last 10 to 15 years.

1.1. Significance of the Study and Research Gap

In Pakistan' Service Sector, especially Financial Sector, there are a wide range of financial organizations – starting from conventional banks which are public as well as private, insurance companies, state-run savings schemes, stock exchanges, leasing companies, micro-finance institutions and also Islamic banks. A wide range of products and services have been proposed by these financial institutions both on the assets as well as on the liabilities side. For the period of last 10 to 15 years, banking sector in Pakistan has seen a growth. During this period the commercial banks have played their part of being main player and