Organisational Innovation through HR Practices: A Review Based Analysis

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ABSTRACT

The dynamic environment and globalization has resulted in a steady pressure on the organizations to constantly transform their structure, process and production, in order to survive and sustain. Moreover, the organizations have understood the requirement of introducing innovative practices, products and processes. The main objective of this review based study is to identify the HR practices and review their role in organizational innovation. This review explores the theoretical and empirical findings from more than 30 research papers and articles, which discusses the role of HRM practices in organizational innovation. This review uses publications from the relevant journal articles, edited works, and other research materials to achieve the objective of the study. Based on the findings, it is identified that instead of focusing on a single HRM practice, there is a need to analyze a variety of HRM practices and effects that has a significant influence on organizational innovation.

Keywords: Organizational Innovation, HR Practices, Organization process, structure, practices.

I. INTRODUCTION

With the rapid changing business environment and globalization, organizations are facing intensified competition both from the local as well as international firms. This dynamic environment has further resulted in a steady pressure on the organizations to constantly transform their structure, process and production, in order to survive and sustain. Swift technological advancements and the desire to achieve competitive position have forced the organizations to be more flexible and adaptive in their approach. Moreover, the organizations have understood the requirement of introducing innovative practices, products and processes.

It is therefore, important to note that innovation plays a vital role in long-term development and sustainability of organizations. Henderson and Clark, 1990[1]; Lieberman and Montgomery, 1998[2]; Schumpeter, 1934[3], Schumpeter,1942[4]; Tushman and Nadler, 1986[5]; Utter back, 1994[6], stress that companies’ success depends on their innovative capability. Jiang et al., 2012[7], observed that innovation includes the implementation of the ideas into process, products or procedures which can be beneficial for the organization, the work team or the individual.

Various researches and literature have emphasized the role of Human Resource (HR) and Human Resource practices in enhancing organizations competitive advantages in the environment of fierce competition. According to Baron and Kreps, 1999[8], Human capital is the key ingredient to organizational success and failure, including success and failure of organizational innovation performance.

II. ORGANIZATIONAL INNOVATION

Innovation is certainly one of the basic ingredients in company competitiveness and is critical to increase company value. Innovation is not just the introduction of new technology and inventions but much more than that as it goes
beyond technology and requires alliance of many areas to come together to attain success. Organizations work in a dynamic environment, where in order to survive and prosper it becomes important to adopt innovative approaches in the overall functioning. Damanpour, 1991[12], opined that, “Innovation can contribute to the performance or effectiveness of the adopting organization. Innovation is a means of changing an organization, whether as a response to change in its internal or external environment or as a preemptive action taken to influence an environment.” Through innovation, organizations can adapt to the dynamic environment for smooth growth. For example, if in the present time the organizational environment focuses on empowerment and workers’ participation, organizations will need innovative practices emphasizing democratic innovation, which in turn facilitates organizational growth.

The concept of innovation discussed in various researches as “Organizational innovation has been described as the foundation of novel idea and new behavioral approach in the organization,” Damanpour & Gopalakrishnan, 2001[13]. Utterback, 1994; Dougherty and Hardy, 1996[14] The concept “organizational innovation” signify a method used by the organizations to acclimatize to varying circumstances of competition, technological progression and market extension by creating new products, procedure and systems. Amabile, 1996[15] says, “Innovation can be described as successful implementation of creative ideas within an organization.” It includes such activities as generation of new ideas, evaluation of ideas, idea development and implementation, Mumford et al., 2002.[16] D. S. Rawat, Secretary General, ASSOCHAM in 2015 report said, “Innovation is a critical component in improving individual and institutional performance. Real innovation is not easy to come by. Innovation is more radical and transformational than an improvement. Innovation is content-oriented, whereas improvement is process-oriented. Every now and then, organizations confront situations that warrant radical changes, which call for out-of-the-box thinking. It is only through innovation that we can bring about such avant-garde transformation.”

As per Cox A., Rickard C. & Tamkin P. (2012)[17], the innovations relating to the management of people are covered predominantly by the category of new forms of organization or ‘organizational innovation’. Within this category, organizational innovation includes:

- Business practices – including knowledge-sharing and staff development;
- Workplace organization – including devolution of decision-making to employees;
- External relations – between employees in one part of an organization and those of other departments or externally;
- Other innovations – including use of variable pay as a change to reward systems or atypical employment contracts.

### III. HUMAN RESOURCE PRACTICES

HRM practices are the actual HR programs, processes and techniques that actually get implemented in the organization or business unit (Gerhart et al., 2000; Huselid and Becker, 2000)[18]. Khan (2010)[19] revealed that in energetic business atmosphere, there is a need of an approach to achieve better performance, to originate and implement HRM practices. HRM practices refer to organizational activities directed at managing the pool of human resource and ensuring that the resources are employed towards the fulfillment of organizational goals (Schuler & Jackson 1987)[20]. Human resource management practices is the management of people within the internal environment of organizations, comprises the activities, policies, and practices involved in planning, obtaining, developing, utilizing, evaluating, maintaining, and retaining the appropriate numbers and skill mix of employees to achieve the organization’s objectives (Appelbaum 2001)[21].

Minbaeva (2005) viewed HRM practices a set of practices used by organization to manage human resources through facilitating the development of competencies that are firm specific, produce complex social relation and generate organization knowledge to sustain competitive advantage.

Several attempts have been made from time to time by different researchers to identify the type of HRM practices indifferent sectors. Initially Pfeffer (1994) identified 16 practices which denote best practice. This was later refined to the following seven practices:

1. Employment security
2. Selective hiring
3. Self-managed teams/team working
4. High compensation contingent on organizational performance
5. Extensive training
6. Reduction in status difference
7. Sharing information
Human resource plays an integral role in growth and achieving competitive advantage for the organization but it is possible only when an organization focuses on its HR practices to not just motivate or satisfy employees but also is able to stimulate generation of new ideas and provides a process for successful implementation of the same.

IV. OBJECTIVE

The main objective of the study is to identify the HR practices and review their association with organizational innovation.

V. METHODOLOGY

This review explores the theoretical and empirical findings, which discusses the role of HRM practices with organizational innovation. Though the methodology proposed by the Tranfield et al. (2003) is considered as the most appropriate, since they suggest how to conduct a literature review systematically by using an archival method with three stages, which enables the reviewer to structure the review, and build a reliable knowledge base in the respective study area. The authors have made an attempt to study the role of HR practices in organization innovation. This review uses publications from the relevant journal articles, edited works, and other research materials to achieve the objective of the study.

VI. LITERATURE REVIEW

HR Practices and Organization Innovation

For innovation-oriented firms, HR must be practiced with innovation enhancing HR policies (Searle & Ball, 2003). These policies may differ from conventional HR practices in stable environment (Ulrich, 1997). Dave Ulrich, professor of business at the University of Michigan, has long argued that HR leaders should assume a more vital, strategic role inside their companies, rather than merely keeping busy with everyday stuff like: policies, payroll, and picnics. Ulrich also says that HR leaders should strive to build and strengthen the unique set of organizational capabilities that give an organization its competitive advantage.

Prior studies suggested that an internally consistent HR system which emphasizes investing in human capital, compensating people for performance, and committing to team development is critical for the success of innovation-oriented firms (Lado & Wilson, 1994; McMahan et al., 1999; Muffatto, 1998).

As Woodman (1993) revealed that organizational innovation are a combination of the creative process, person, situation, and how these components interacted together. Gilson (2005) proposed that innovation process involve such kind of people-related issues, as exchange of information (West & Anderson, 1996), social influence (Guzzo & Shea, 1992), the expression of approval or disapproval of group members (Guzzo & Shea, 1992), participation in decision-making (West, 1997). According to Wang (2005), innovative firms treat HRM practices as the organization’s strategy to encourage team responsibilities, enhance organizational culture, and build up customer relationships through participation and empowerment. In turn, it will help to create and market new products and services (Gupta & Singhal, 1993).

Three sets of HR practices have been highlighted in the literature that would support an innovation oriented HR system. They are: (1) training-focused -an emphasis on skills enhancement and human capital investment; (2) performance-based reward -an emphasis on rewarding employees 'contributions and outcomes; and (3) team development-leadership and team-based activities are extensively developed and carried out (Lau C. & Ngo M., 2004). IBM completed a survey of global HR leaders in 2011. The results showed an agreement among Human Resource leaders that driving creativity and innovation is their number one business challenge.

Cook and Saini (2010) in a study of innovation in Indian firms looked at some more specific HR policies and practices. They are listed in the order of frequency in which they were adopted:

- Training and development;
- Suggestion schemes;
- Employee recognition awards;
- Quality initiatives;
- Performance appraisal;
- Performance-related pay;
- Performance/merit-based promotion;
Learning organization;
Employee engagement initiatives;
Knowledge management;
Employee welfare schemes;
Empowerment;
Management/leadership development;
Profit-sharing;
Career development planning;
Recruiting creative employees; and
Autonomy.

Bos-Nehles and Janssen (2015)\textsuperscript{35} found organizational climate and eight HR policies and practices were conducive to innovation. They are:

- Work autonomy;
- Task composition (variety etc);
- Job demands (i.e. Effort required and time pressure);
- Feedback (on performance etc);
- Job security;
- Job rotation;
- Training and development; and
- Reward.

There is not any individual HR practice, but rather bundles of HR practices as determinants of firm performance. Regarding which HR practices are relevant and bring about the innovation at work place on the basis of comprehensive literature review is discussed as following:

**Organization Culture**

Culture of an organization is one of the most powerful forces that drive its most valuable resource i.e. human resources. Organization culture is a valuable resource for companies; it has a key role to play in the HR and firm performance link (Chan et al., 2004)\textsuperscript{36}. Bowen and Ostroff (2004)\textsuperscript{37} suggested that the strength of organizational climate is an important mediator between HRM system and creative performance. This strong climate is essentially similar to a shared organizational culture. Brockbank (1999)\textsuperscript{38} noted that a strategically proactive HR creates a corporate culture of innovation and creativity. HR seems to have been most effective, and that is in the broader organizational climate and culture area. The extent to which it succeeds largely depends on the power bestowed upon it by the business – how central its role is, Reilly-Sheehan 2017\textsuperscript{39}

It was found that only with a shared culture that is oriented towards innovation can a firm be competitive in new product development. Lau and Ngo (1996)\textsuperscript{40} found that different types of culture have different outcomes; for example, group culture and developmental culture are related to employees’ affective organizational commitment more strongly than are other types of culture. Organizations with a developmental culture also have higher valence attached to change and employees are more satisfied (Lau, Tse, & Zhou, 2002). Accordingly, an HR system which is designed to create a culture of growth and innovation is more likely to achieve positive outcomes in innovation.

The McKinsey Quarterly (2008) said, “Leading companies for innovation make innovation a formal agenda item at regular leadership meetings. That signals to employees the value management attaches to innovation.” Robert Bolton from HR Transformation says, “One overriding theme emerges from studies of successful innovation strategies: winning companies first and foremost have developed cultures where innovation is seen as everyone’s responsibility. As an objective that employee at all levels and in all roles strives to achieve on a day-to-day basis”. Apple has about 35,000 permanent employees, yet continues to retain a culture of innovation through their HR practices. They hire, reward and recognize employees for a common desire, energy and enthusiasm to create great products. They encourage employees not to be afraid to fail. There is no punishment for this. (Stanleigh, 2015)\textsuperscript{41}

**Recruitment**

Recruitment is an imperative function of human resource management for all type of organizations. Recruitment involves employing and obtaining appropriate and competent candidates through external sourcing (Sparrow, Schuler & Jacson, 1994)\textsuperscript{42}. It is the process of finding and attracting suitably qualified people to apply for job vacancies in the organization (Opatha, 2010)\textsuperscript{43}. Ofiri and Aryeeetey (2011)\textsuperscript{44}, has defined recruitment as, the process of creating a pool of competent individuals’ to apply for employment in an organization.
The quality of the organizational manpower depends a lot on the effectiveness of recruitment process. Recruiting wrong candidates who are not able to fit into the culture of an organization may not be cost effective strategy. Recruitment focuses on hiring for innovation by identifying people who can “think outside the box” or have skills and capabilities that can help organizations to move towards innovation. Seth Waugh, CEO of Deutsche Bank America, opined, “You must have people with that hunger to always learn, who are always open and who thinks about things in a different way.”

According to many researches there is an important and positive connection between an organizations performance, innovation and recruitment and selection. A positive relationship has also been established by Sang (2005) amid the organizational performance and recruitment. Recruitment gives greater importance to be attached to fit between people and company culture. Hence, the high level of implementation of recruitment that focuses individual – organizational fit is likely to result in high organizational innovation

Training & Development

Training helps employee master knowledge, skill, and ability which would contribute to innovation in terms of products, production processes, and management practices in daily operation (Schuler & Jackson, 1987). Many researchers have asserted that the key to organizational success and competitive advantage lies in developing their intellectual capital for acquiring a new set of thinking: creativity to yield an idea and innovation to translate the idea into a novel result. Research conducted by ASTD (American Society for Training & Development), 2017, on “Building an innovative Organization: The role of Training and Development” discovered the role of Training and Development and attitude towards innovation. The research was based on the responses from 396 learning professionals representing miscellaneous organizations in the US, with a varying degree of success in innovation. According to the survey conducted 98% of the respondents believed that innovation is “important” or “very important” for the future success of the organization. The report inspects how T&D functions in an organization supports innovative process along with how it teaches innovation management and innovative thinking.

The study conducted by Fernandez M. D., Barrachina M.B. & Diaz M. (2015) demonstrates the existence of two objectives that managers should seek to achieve. On one side, they should focus on innovation as a way of increasing firm performance. And, on the other side, managers should invest on specific training, in order to develop more innovative and profitable organizations. Hence, training develops the knowledge, skill, and ability of employees to perform effectively in their job that will lead to higher organizational innovation.

Performance appraisal

Performance appraisal is the process that allows an organization to measure and evaluate the behavior and the achievements of individual members for a particular period of time (DeVries, Morrison, Shullman & Gerlach, 1981). It increase employee commitment and satisfaction since employees are given chance to discuss about their work performance. This, in turn, will lead them to perform greater innovative activities. Performance appraisal is and has always been a strategic instrument for improving organizational effectiveness. According to Cole (2002), there are two main categories of appraisal namely: Informal Appraisal and Formal Appraisal. Apart from that there are two category of goal orientation in performance appraisal, viz., evaluation orientation and development orientation. While the former focuses on the evaluation of the past performance, promotion, staff rewards and punishments are based on the assessment result which is of little flexibility; the latter focus on improving the future performance, regarding the assessment results as the basis for future staff performance improvement which would surely lead to improve employee effectiveness leading to organizational performance.

Various researchers have found a positive relation between performance appraisal and the innovative behavior of staff. Boswell Boudreau (2001) opined that implementing development orientated performance appraisal stimulate employees’ efforts, enhance their experience and hone their technical ability, thus improving their satisfaction level and encouraging their innovation aspiration; the organizations adopting the development oriented approach are flexible in their approach and ready to adopt innovative ideas, leading to innovative behavior. Whereas, organizations adopting evaluation oriented approach are more hesitant in doing anything innovative, as they are afraid to make mistakes and incur losses, which is a drawback in building innovative climate and removing the shyness of staff in bringing out innovation.

Career management

According to CIPD Employee Outlook Survey 2011 Career management is defined as: ‘Planning and shaping the progression or movement of individuals within an organization by aligning employee preferences, talent and potential with organizational resourcing needs both now and in the future. Career Management assists employees to attain their
career goals and objectives. If employees are likely to feel satisfied with their career management, which in turn, lead to motivate them to perform in innovative activities (Deleray & Doty, 1996). A research conducted by Towers Watson globally (2014), in which nearly half of the employers participated in the Talent Management and Reward Study, employers agree with employees on the critical importance of providing career advancement opportunities to even attract and retain employees becoming more essential to promote organizational innovation.

Many companies consider career management as important to contemporary HRM practice and they assist employees to manage careers (Cappellen & Janssens, 2010; Kong, Cheung & Zhang, 2010; Sturges, Conway, Guest & Lifesooghe, 2005). It deals with bringing firm needs and the individual needs together. Employee will be encouraged to develop new product ideas through innovation. Career management develop the skills and competency of the employees to deliver task assign to them to achieve the goal of the organization which pave way for the employees to also develop new process of achieving the task assign to them. (Ebiasuode A., Onuoha B. & Nwedje I.G.N., 2017)

**Reward system**

Reward System provides financial reward, promotion and other recognition, in order to motivate employees to take risk, develop successful new products and generate newer ideas (Gupta & Singhal, 1993). Reward system encourages employee to become motivated, thereby increase their participation in contributing innovative ideas, which lead to high organizational innovation. Reward, however, has a more complex relationship. Reward only works when it positively affects employee behaviors and when the right conditions are present (Reilly-Sheehan 2017). Kandel and Lazear (1992; cited in Black and Lynch, 2004) showed that introducing a profit-sharing plan for all workers in a company may have little or no impact on productivity unless it is linked with other practices that address the inherent free rider problem associated with companywide profit-sharing plans. The reward is supposed to be motivating and to encourage employees to apply for patenting ideas.

Evidence on the performance effects of reward systems tends to be more positive about group-based systems rather than individual performance-based systems. Group-based or company performance based pay systems achieve their effects through stimulating employees to make suggestions for organizational improvements and innovations because they will stand to gain a share in rewards accruing as a result (Kessler, 2010; OECD, 2010). These pay practices are also more likely to be effective if employee interest is represented in the operation or design of the system (OECD, 2010). While there's much debate over whether financial rewards can produce innovation, i4cp found that tying individual bonuses and/or salary increases to innovation does help to drive more innovation in the workplace. There should be a practice that reinforces the importance of innovation activity and outcomes through the use of recognition schemes that encourage and inspire employees to share and develop ideas – even if the ideas might fail.

**Employee Engagement**

Engagement is a positive work-related state of mind that is characterized by vigor, dedication, and absorption (Bakker and Demerouti, 2009). Engaged employees exhibit emotional job attachment, unreserved commitment, increased productivity, high job passion, and in most cases they go extra miles (Perrin, 2003; Abraham, 2012; & Sundaray 2011) noted that engaged employees are enthusiastic about their work and will often be fully immersed in their job resulting in creativity and innovation. According to Abraham (2012); Echols (2005) and Right Management (2009), employee engagement results in innovation, along with better customer service, productivity, low staff turnover, dedicated workforce, great sense of work commitment, willingness to put extra time in the job, and pride in their work. A study by Rao V. (2016) on employee engagement and innovation revealed there is a close and positive relationship between employee engagement and innovation. The respondents strongly believed that engaged employees perform at a higher level and bring passion and interest to their job, which often leads to innovation in the workplace. These observations are consistent with findings of Gallup’s study (2015) that highly engaged employees feel they have a real stake in the organization and hence strive to efficiently create new products, services and processes. Whittington and Galpin (2010) also noted in their study that employee engagement results to extra-role behaviors and this precipitates creativity and innovation at the work place.

**CONCLUSION**

Innovation makes a big difference for organizations in today’s competitive and dynamic context of business. The study looks at the interplay between HR practices and organizational innovation. The study identifies that the best way for organisations to sustain is embed innovation into their organizational culture, by hiring people of passion, out of the box thinking; by retaining their best talents not just by rewards but also recognition for their creative or novel ideas; by developing the KSAs for their talents and potential to be fully utilized which leads the organization innovation; by managing the progression of employees’ careers; by implementing development oriented performance appraisal and engaging employees in a way to develop the emotional connect and committed behaviours for organization sustenance.
Organisations may need to go little further to align people to its strategic direction and vision in order to drive and sustain growth. In essence, this means developing a particular mix of resources, processes and values that makes it hard for rivals to match what your organization does and has as competitive advantage.

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