

HRM and organizational innovation- A literature review

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Abstract

Innovation is a key element in an organization's success. Only those organizations which are ready to innovate can survive in today's competitive environment. Introducing innovation or change is one of the biggest challenges that organizational leaders face. People naturally are reluctant to change. There will be many people in an organization who does not want to change from the usual way of doing things. HR managers play a vital role in introducing innovation in an organization with the acceptance of people. This paper is a review of existing literature about the relationship between HRM and organizational innovation.

Keywords: - HRM, Innovation, HR practices, HR policies

Introduction

According to Adegbite Waliu Mulero, maintaining an environment which will encourage and promote innovation in terms of organisation policy and practice is HR related issue (Adegbite Waliu Mulero, 2013). All four dimensions of staffing, structure, strategy and system support were central to successful innovation, and that ensuring the organisation had the right kind of people who were effectively managed (Roberts, 1988). As strategic HR practices allow firms to discover and utilize knowledge as well as expertise in the organization it can contribute to innovative activities (Scarborough, 2003).

Review of literature

HRM and Innovation

Gupta and Singhal (1993) identified four dimensions around which HRM strategies can foster innovation and creativity: HR planning, performance appraisal, reward systems, and career management. Shipton et al. (2005) stated that HRM practices such as recruitment and selection, induction, appraisal and training affects organizational innovation. Beugelsdijk (2008) found the following HR practices on innovation: task autonomy, training and task rotation, performance-based pay and flexible working hours positively impact the organizational innovation. He also mentioned that employment insecurity (i.e. standby contracts) is negatively related to innovation.

According to Adegbite Waliu Mulero, (2013), most of the innovative organisations of the world today have realised the careful analysis of people needs and hire creative people to fulfil organisational goals, they ensure adequate performance systems. They implement reward systems to recognise and boost employee creativity. To foster innovation in the organisation, human resource planners should consciously recruit people with numerous professional skills in line with the vision of organisation. A good reward system, which is a function of human resource manager, must embrace innovation all over the world and this has been tested by organisations like Motorola, Hewlett-Packard, etc. Reward such as freedom for creativity, Bootlegging, fellowship, in-house

grants and autonomy should be encouraged by organisation to promote innovation. According to Marius-Dan Dalota and Alexandra Perju employee characteristics are influenced by HRM policies. They stated that there is agreement among specialists about the relationship between innovation and HRM and for improved innovation, the HRM bundles (the set of interrelated HRM practices) is superior to the individual HRM practices. They further mentioned about the inconsistencies in the literature about the contents of HRM bundles as few authors were of the opinion that employment security, extensive training or employee participation have a positive impact on innovation, while others think they have the reverse effect. Based on empirical evidences they further stated that if there is an innovation strategy it implies the use of an incentive based compensation, the encouragement of employee participation, the use of appraisal systems and the use of broad internal career opportunities. The participation and the use of promotion plans significantly explain the firm's innovation orientation. The firms which have an innovation strategy are more likely use internal labour markets than the external ones. HRM practices build a stable group of employees in the company, who can adopt risks and experiment and participate in the adoption of the decisions that affect their jobs. This will create the conditions for the emergence of the new ideas

There are many studies which discussed about the various HR policies and practices leading to innovation. According to Bos- Nehles and Janssen (2015) there are eight HR policies and practices which led to innovation. They are: 1) work autonomy, 2) task composition (variety etc), 3) job demands (in terms of effort and time), 4) feedback (on performance etc), 5) job security, 6) job rotation, 7) training and development, 8) reward. They found organisational climate also lead to innovation. These factors have varied effects on innovation. Some of them have more powerful effects as compared to other factors. They also found out that Autonomy, training and development, feedback, organisational climate, task variety and job rotation had a positive and direct impact on innovation. Under the conditions reward positively affects employee behaviour. Job security (insecurity) can have positive or negative effect on innovation. Workers may not be participating in innovation as they are afraid of losing the job or they can be more engaged in order to protect their jobs. Cook and Saini (2010) mentioned HR policies and practices in the order of frequency in which they were adopted in Indian companies. It is as follows;-1)training and development,2) suggestion schemes,3) employee recognition awards,4) quality initiatives,5)performance appraisal,6) performance-related pay,7) performance/merit-based promotion,8) learning organisation,9) employee engagement initiatives,10) knowledge management,11) employee welfare schemes,12) empowerment,13) management/leadership 14)development,15) profit-sharing,16) career development planning,17) recruiting creative employees,18) autonomy.

According to Tan et.al (2011) HRM practices (performance appraisal, career management, training, reward system, and recruitment) have a significant positive impact on organizational innovation (product innovation, process innovation, and administrative innovation). One of the practice, training have both direct and indirect effect on all three dimensions of organizational innovation. Performance appraisal has both direct and indirect effect on administrative innovation, but no effect on product innovation and process innovation. Some of the HRM practices (e.g. career management, reward system, and recruitment) are unrelated to organizational innovation.

The HRM practices are positively related to organizational innovation (Prof. Shital Deshmukh, 2014). She provided the following instances. Performance appraisal leads to increased employee

commitment and satisfaction as employees are getting an opportunity to discuss about their work performance, which will lead to greater innovative activities by employees. Career management helps employees to achieve their career goals and objectives, which will motivate them to perform innovative activities. Training enhance employees' knowledge, skill, and ability which would be contributing to innovation in terms of products, production processes, and management practices. Reward system (monetary and non-monetary) motivates employees to contribute more innovation ideas, which will result in increased organizational innovation. Recruitment ensures a perfect fit between person and company culture, which result in high organizational innovation. Kee- Luen Wong et. al, (2013) stated that many studies in the past have proven that effective HRM sustain competitive advantage, innovation and corporate performance. According to them one of such studies found that HRM affected technological innovation and it led to superior organizational performance. Training as well as non-material incentives were positively related to technological innovation. Training in HRM is the most directly related to product, process and administrative innovation and performance appraisal was affected the administrative innovation positively. They have come out with a proposal that higher level of HRM practices lead to higher level of innovation performance.

Conclusion

This paper was an attempt to find out the relationship between Human Resource management and innovation. It was found that HR practices of an organization affect its innovation. Most of the practices are positively related to organizational innovation, especially performance appraisal and reward system. These factors serve as motivating factor which leads to innovation, where as Job security (insecurity) will have positive or negative effect on innovation.

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