Portraying the Road to Organisational Performance through Innovative HRM: The Indian Story

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Abstract

 Purpose: The paper analyses the relationship of Innovative HRM and Organisational Performance to bring into light the gains that remain untapped either partially or in totality.

 Methodology: The paper takes the form of an exploratory research. It contributes to the existing knowledge by analyzing and synthesizing the research undertaken. Also, it investigates the Innovative HRM practices being followed by Indian organisations. Data has been collected from relevant academic journals, company websites, business press, and other websites dedicated to human resources.

 Findings: The study observed that the organisations which are putting incessant efforts in innovating through their people practices are becoming most preferred employers and displaying better performance. A model linking Innovative HRM & Organisational Performance has been proposed which can be used for further empirical testing in various industries.

 Practical Implications: It is suggestive that the managers explore the need of innovating their HRM strategies and practices. There might be issues which may look trivial but might be a precursor to long-term competitive advantage and superior performance. Thus, it is highly relevant that the HR leaders embrace Innovative HRM as an important strategic partner instead of looking upon it as a supporting practice.

 Keywords: Innovation, Organisational Innovation, Organisational Innovation and Organisational Performance, HRM Practices and Organisational Performance, Innovative HRM Practices

“1. Introduction”

The search for competitive advantage has led to the acknowledgment of innovation as a vital ingredient for survival and profitability in the ‘ICT Age’. Businesses need to adapt, evolve and innovate, if they wish to operate successfully in this competitive scenario and stand the test of time. In a fast-paced competitive globalized souk, innovation seems to be an undoubted prerequisite for business success.

The corporate leaders who have time and again overwhelmed their customer base and managed to earn mammoth revenues, demonstrate the ability to continuously innovate in some or the other form. It has been seen in past few years that the competitive ability of the firms resides in their capacity to innovate. Adding to the milieu grew the sustainability issue, as a result of which the human resources landed up becoming all the more important which in turn resulted into the growing importance of the concept of ‘Peopleism’. Thus, the race for triumph and the ‘Sustainability through the Human Resources’ became the reasons that led the mammos working hard to innovate their way of managing people. The hard-hitting competition and a constant urge to perform better made the best of the employers in the world; give a serious thought on innovating the ways they deal with their personnel to sustain their success and excel further.

“2. Methodology”

The paper takes the form of an exploratory research. It contributes to the existing knowledge by analyzing and synthesizing the research undertaken by others, which can be processed qualitatively and quantitatively as a set of data. Finally, it investigates the Innovative HRM practices being followed up by Indian organisations. Data has been collected from relevant academic journals, company websites, business press, and other websites dedicated to human resources.

The result is a synthesis of the research and pooling of the Innovative HRM Practices analyzed; to arrive at a statement of the current status of Organisational Innovation research, its relationship with HRM Practices, their equations with Organisational Performance, implications for management, and suggestions for the direction of future research.

Hypothesis 1: Organisational Innovation is positively related to Organisational Performance.
Hypothesis 2: Innovative HRM practices are positively related to Organisational Performance.

“3. Theoretical Background”

The concept of ‘Organisational Innovation’ has been viewed from various perspectives by different scholars and experts. (Zhuang, 1995) defined the concept as a dynamic and iterative process of creating or modifying an idea and developing it to produce products, services, processes, structures, or policies that are novel in the organisation.

(Chuang, 2005) asserted two aspects for the concept; (A) the breadth of innovation, which includes policies, system, administrative, processes, products, services, and others and (B) the depth of innovation, which includes the importance, the degree of influence, effect on long term profitability, and others.

Organisational innovation can take the form of, introduction of practices like databases for knowledge management with ease of access, introducing training for employee development and retention or supplier development programs. Thus, organizational innovations are strappingly related with all the administrative endeavors of renewing the organizational routines, procedures, mechanisms, systems etc. (Neely & Hii, 1998)

“4. Review of Literature”

The review of past studies has been undertaken focusing two areas; the relation between Organisational Innovation & Organisational Performance and the relation between HRM practices & Organisational Performance.

4.1 Organisational Innovation and Organisational Performance

Many studies in the literature have studied the linkage between innovation and business performance, either directly or as part of a larger study. The results of these studies seem to suggest that there is a close linkage between innovation and business performance.

(Gunday, Ulusoy, Kilic, & Alpkan, 2011) posited positive effects of innovations on firm performance in manufacturing industries through their study. Studies have shown that there is clear evidence that innovation plays a crucial role in firm’s long term profitability and growth (Cosh & Hughes, 1996). (Neely, Filippini, Forza, Vinelli, & Hii, 2001) proposed a conceptual framework for analyzing business performance, firm’s innovation and related contextual factors; which bring into light that business performance is mediated by the outcomes of innovation such as lower cost and better service. Company’s innovation is influenced by firm’s capacity to innovate. Main outcomes of innovation impact business performance by enhancing competitive position. The authors showed a direct positive relationship between the innovation process and firm’s overall performance (Murat & Baki, 2011).

In a study undertaken by (Prajogo, 2006) the relationship between innovation and firm performance was empirically explored, comparing manufacturing and service organisations. The study showed a stronger correlation between innovation and business performance for manufacturing firms than for service firms, particularly in terms of process innovation. Also, process innovation was observed to show a relatively stronger relationship with business performance than product innovation in manufacturing sectors.

(Polder, Leeuwen, Mohnen, & Raymond, 2009) asserted through their study that the strongest productivity effects are derived from organisational innovation. (Rosli & Sidek, 2013) evaluated the impact of various innovation dimensions on the performance of SMEs, and concluded that product innovation and process innovation influenced firm performance significantly, and it was added that the impact of the former was stronger than the latter. (Han, Kim & Srivastava, 1998) asserted that, innovation provides organizations with a means of creating a competitive advantage in the marketplace which in turn provides organizations with superior financial performance.

As per the (OECD Oslo Manual, 2005) organizational innovation is the implementation of new organizational methods in the firm’s business practices, organization or external relations. Organizational innovation by reducing administrative and transaction costs, improving workplace satisfaction, aid in gaining access to non-tradable assets or reducing costs of supplies have a tendency to increase firm performance.

(Fagerberg, Mowery & Nelson, 2004) revealed in their study that innovative countries managed higher productivity and income than the less-innovative countries. (McAdam & Keogh, 2004) found out that the firms’ inclination to innovation was of vital importance in the competitive environment in order to obtain higher competitive advantage. (Walker, 2004) put forward that innovation has a considerable impact on corporate performance through improved market position that helps them gain competitive advantage and superior performance.
Due to the growing interest in this area a new concept emerged termed as innovative performance. It is a composite construct, combining all the overall organizational achievements as a result of renewal and improvement endeavors made for firm innovativeness in terms of processes, products, organizational structure, etc.

(Geroski & Machin, 1992) traced the experience large innovative and non-innovative large UK firms, looking for differences in performance as a result of major new innovations. They concluded that innovating firms are both more profitable and grow faster than non-innovative firms. According to the review undertaken of past studies (Neely & Hii, 1998) concluded in their paper that (1) numerous empirical studies suggest that innovation enhances firm performance, (2) Innovative economic regions show better performance in terms of employment and living standards, and (3) The literature reviewed suggest an implicit relationship between innovative capacity, innovativeness and competitiveness of a firm.

Innovation has been considered critical enabler for firms to create value and sustain competitive advantage in the present complex and dynamic environment (Madhavan & Grover, 1998). (Montes et al., 2004) asserts that firms with greater innovative orientation can better respond to changing environment and achieve better performance.

Besides the above, a large number of studies have given a positive viewpoint regarding higher innovativeness resulting in increased organisational performance (Damanpour & Evan, 1984; Damanpour, Szabat & Evan, 1989; Deshpande, Farley & Webster, 1993; McGrath et al, 1996; Gao and Fu, 1996; Olson & Schwab, 2000; Du & Farley, 2001; Calantone, Cavusgil & Zhao, 2002; Garg, Walters & Priem, 2003).

A significant contribution was made by (Vincent, Bharadwaj & Challagalla, 2004) who undertook a Meta-Analysis of Determinants and Consequences of Organizational Innovation. The study synthesized 23 years of research findings from economic, strategy, and marketing literature on innovation. The study covered 134 independent samples from 83 studies from the period of 1980-2003. The findings of the study indicate that innovation is significantly and positively related to superior performance. The study found support for innovation as a partial mediator between environmental and organizational variables and financial performance. There have been studies that used different performance dimensions to represent firm performance. (Narver & Slater, 1990; Antoncic & Hisrich, 2001; Hagedoorn & Cloodt, 2003; Yilmaz, Alpkan & Ergun, 2005). The dimensions that have been used are innovative performance, production performance, market performance and financial performance.

Contributing to the area, there are studies bringing into light the other aspects of the relation between organisational innovation and performance, with other kinds of findings and suggestions. (Miller, 2001) stated that most firms seek technological innovation to gain competitive advantage in their market. Thus, there seems to be a lack of backing by marketing and organizational measures. Researchers seem to have neglected organizational and/or marketing innovations, which have an equal effect on growth and firm’s effectiveness on operations (Damanpour & Evan, 1984).

Some researchers have posited that while innovation encourages opportunity for increased performance, it might be very costly and risky which might in turn decrease financial performance (Markham & Griffin 1998).

(Karlsson & Tavassoli, 2016) analyzed the effect of various innovation strategies of firms on their future performance, captured by labor productivity. The main findings indicate that those firms that choose and afford to have a multifaceted innovation strategy are better in terms of their future productivity when compared with both those firms that choose not to innovate and those firms that choose simple innovation strategies. Moreover, not all types of multifaceted innovation strategies have significant impact on the future productivity. This necessitates a purposeful choice of innovation strategy for firms.

Along with the above studies exploring relation between organisational innovations on organisational performance, various studies have found a relationship between HRM and Organisational Performance.

### 4.2 HRM Practices and Organisational Performance

A lot of studies have favored the relationship of HRM practices and Organisational Performance. Either supporting a direct or indirect relationship, it has been well established that HRM practices have an effect on Organisational Performance. (Katou, 2011; Subramony, 2009; Jiang, Lepak, Hu, & Baer, 2012; Ayanda, Lawal & Ben-Bernard, 2014)
Innovative HRM strategies and practices have been defined as “Any intentional introduction of HRM program, policy, practice or system designed to influence or adapt employee attitudes and behaviors that is perceived to be new and creates current capabilities and competencies”. (Som, 2006, p. 4)

(Dyer & Reeves, 1994) investigated that some HRM bundles are clearly superior to others when it comes to reducing employee turnover and to enhancing productivity), quality and stock market performance. The superior strategies might be tagged differently like "Innovative", "Commitment", and "Flexible (or Lean) Production".

(Ichniowski, Shaw & Prennushi, 1995) using longitudinal data from 30 steel plants found cooperative and innovative HRM practices to have a positive and significant effect on organisational productivity.

Empirical results have time and again supported that there should be a proper well managed system of new work practices like work teams, flexible job assignments, employment security, training in multiple jobs, and extensive reliance on incentive pay, for generating higher levels of productivity. Also, adopting individual work practice innovations in isolation is observed to have hardly any effect on productivity.

A study covering in-depth case study of 194 organisations (public and private sector) found that innovative HRM Pratices, to name a few, role of HR department, selectivity in staffing, incentive compensation are positively related to perceptual measures of organisational performance. (Som, 2008)

(Som, 2006) in his study, investigated eleven in-depth case studies of Indian firms in context of Innovative HRM, and proposed a model on the relationship of Innovative HRM and Corporate Performance.

Thus, it has been observed by the review of the past research work on equations between; Organisational Innovation, HRM Practices and Organisational Performance that all three are related. Besides, depends upon the organisation employing innovative HRM strategies whether it can extract much benefit out of it. Moreover, trying on Innovative practices in an incomplete manner also reduces the benefits obtained. Bundling of various practices in any functional area, a well acquainted & prepared management and embracing of different types of innovation; is much needed to reap maximum benefits.

“5. Results and Discussion”

Table. 1 presents the Innovative HRM Practices being adopted by top performing Indian organisations. The study on the base of the literature review undertaken and evidence from the Innovative practices studied that have been presented in Table. 1; finds a support for the hypotheses stated earlier. In other words, it can be said that both the hypotheses stand proved. Also, in form of a succinct portrayal of the above discussion in the study, a theoretical model is being proposed as shown by Figure. 1.

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Industry</th>
<th>Innovative HRM Practice</th>
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<tbody>
<tr>
<td>Lifestyle International Ltd.</td>
<td>Retail Fashion Clothing</td>
<td>Get Connected- for getting new recruits acquainted with the work environment</td>
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<td></td>
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<td>Effective Rewards &amp; Recognition Program</td>
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<td>Employee Engagement Initiatives- Connect over Coffee, Open Houses and HR Connects</td>
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<td>Celebrating Way of Working- I Love LS campaign, Play in a Day – Theatre Methodology</td>
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<td>Flexible Working Hours</td>
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<td>Group Term Life Insurance</td>
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<td></td>
<td>Diversifying Career Opportunity- Moving within the Landmark Group, in India &amp; the Middle East</td>
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<td></td>
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<td>(Rediff, 2015)</td>
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<td>Godrej Consumer Products</td>
<td>Consumer Goods</td>
<td>WLB Initiatives- Resource groups like ‘Godrej Alliance for Women’ and ‘Godrej Alliance for Parents’; Maternity facilities like 6 months paid leave, flexi-work and part-time options</td>
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<td></td>
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<td>A 100 Leaders Programme- to develop a robust talent pipeline</td>
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<td>Godrej LOUD (Live Out Ur Dream) is a new approach to spotting</td>
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<tr>
<td>Company</td>
<td>Sector</td>
<td>Programs/Initiatives</td>
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<td>Godrej</td>
<td>IT</td>
<td>Godrej Fellows Programme - for developing future leaders amongst the Godrejites (Rediff, 2015)</td>
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<tr>
<td>Infosys</td>
<td>IT</td>
<td>Infosys Toastmasters Club, a campus program to help enhance employee skills A SWAT team to improve processes and policy on staffers Against a Bell Curve model, introduction of a new flexible process of employee evaluation A Leadership Institute to foster leadership qualities within the employees INSTEP program where 3-6 months internships are given to students from round the globe (Som, 2006) (Business Standard, 2015)</td>
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<tr>
<td>TATA</td>
<td>Steel</td>
<td>Manager Assimilation Program Gyan Jyoti - E-learning initiatives available for employees Employee Induction Programs like HELLO (Helping employees launch and learn in the organization) NEST (Nurturing engagement with satisfaction and trust) (Durani, Trivedi &amp; Durani, 2015)</td>
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<tr>
<td>State Bank of India</td>
<td>Banking</td>
<td>Saksham- a Career Development System for improved performance management IT enabled ‘One Umbrella’ Performance Linked Incentive Scheme SBI Pinkathon (all-women run event in six cities across India) Gyanodaya- an e-learning portal Aarohan- A communication enhancement initiative SMS Alerts for keeping employees updated (Purohit, 2015)</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>Banking</td>
<td>KHOJ- to unearth high potential people HR shared services CPC- to handle routine hr functions and let staff focus on developmental &amp; engagement activities HRNes- key enabler of HR initiatives Baroda Manipal School- a Train, Hire &amp; Deploy initiative E-learning courses Mobile Snippets- for keeping employees updated on daily basis Sang Sikhe, Sang Badhe- a training intervention for sub-staff of all the regions in local languages Baroda Sarthy- for acquainting new entrants with the new corporate life Leadership Development- Project Leap, Project Udaan SEED- the self efficiency &amp; effectiveness development program for frontline staff Baroda Sujhav &amp; <a href="mailto:ideaonline@bankofbaroda.com">ideaonline@bankofbaroda.com</a> for eliciting and rewarding best ideas from employees (Purohit, 2015)</td>
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<tr>
<td>ICICI Bank</td>
<td>Banking</td>
<td>Saath Aapka- a philosophy cum promise for employees Skill through Drill- video based program to equip the branch staff to deliver better services STAR- career progression initiative Young Leaders Program- for career planning of high-performers Business Companion- smart-phone based performance support tools Quick Response Team- for women safety during travel ICICI DNA- for identifying talent (Purohit, 2015)</td>
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</table>
In the model, External Variables & Internal Variables are the antecedents acting upon Innovative HRM and Organisational Performance is the outcomes of the same.

The External Variables are the external factors of the organisation that require the organisations to innovate and thus lead to innovation. A dynamic environment requires organizations to innovate in order to adapt to the changing environment (Meyer & Goes 1988). (Kahneman & Tversky, 1979) observed that organisations are more likely to innovate in times of great uncertainty as they are more likely to be risk seeking in those times.

The internal factors of the organisation, the Internal Variables are the ones which are responsible for initiating and employing Innovation in HRM practices effectively, within the organisation. Here it is worth mentioning that as per the resource-based view of the firm, it is the capabilities of an organization that provide the necessary stimulus which is required to achieve a competitive advantage in the marketplace (Barney, 1991). Thus, those organisations which are able to well embrace innovative HRM practices/strategies are the ones that can develop the needed capabilities for the same. Finally, the Innovative HRM Practices employed as a result of responding to the changing environment, contribute towards the Organisational Performance.

Keeping in view all the studies reviewed, it is clear that Innovative HRM has started being in vogue and making its place amongst the central ways that are needed to achieve sustainable corporate excellence. It has been quite a while when the world became au fait of the strategic role of HR and now is the time the power of innovation be realized by the star performers.

6. Implications for Theory and Practice

6.1 Practical Implications

In an increasingly globalizing economy, this study has five distinct implications for managers worldwide. It may be worthwhile for managers to look into their own organisations and explore if there is a need to redefine, redesign and innovate their HRM strategies and practices. There might be issues which may sound trivial at first sight but may be a precursor to long-term competitive advantage and superior performance. Also, the study finds support for a well-established system for innovative HRM being highly useful for attaining excellence in the present scenario. Thus, it is highly relevant for the real world managers that they embrace Innovative HRM as an important strategic partner instead of treating it merely as a supporting practice.
6.2 Theoretical Implications

Although a lot of work has been attempted upon by scholars and experts on Innovation, Organisational Innovation, HRM Practices, and their links with Organisational Performance; less of work has been done on direct relationship of Innovative HRM and Organisational Performance. More of empirical research is needed in the area; the model proposed in the paper might be of help for the same.

7. Conclusion and Suggestions for Future Research

As per the data analyzed under the literature review, the study finds support that the work pattern in India is under transition with more innovative HRM practices. The findings reveal how top performing Indian firms are seen adopting innovative HRM practices as their strategic weapon to survive the dynamic business environment. Moreover, it has been observed that the organisations which are seen putting incessant efforts in innovating through their people practices are growingly becoming most preferred employers (Great Places to Work, 2016) and eventually resulting into better and sustained performers.

Although further research needs to be done towards identifying the missing links that are keeping the academic and corporate world unaware of the potential benefits of Innovative HRM for the organisations employing them. The model being proposed in the paper can be used for further empirical testing in various industries, and defining elements in the external & internal variables and the variables mediating the relationship between Innovative HRM & Organisational Performance, if any.

Lastly, this paper hails the corporate community to embrace more of Innovative HRM, in the scenario of cut throat competition and sustainability issues, to discover the best of them. The words of Azim Premji seem to be the best reflection of this discussion, “The attitude to nurture the potential capabilities of employees, coupled with sensitive and innovative people practices has resulted in a deep pool of talent in the organisation. It is this depth of leadership that has fuelled Wipro’s sustained growth and success”.

8. References


