

HRM PRACTICES FOR PROMOTING INNOVATION IN SMEs: A REVIEW

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ABSTRACT

The objective of this review is to explore the theoretical and empirical findings of research work, which link human resource management (HRM) practices with innovation. Innovation focused on the bundles of HRM practices to develop and sustain innovative potential and capacity of small and medium-sized enterprises (SMEs). Findings of this review reveal the role of theoretical and empirical status of HRM practices in development and retention of innovation potential and capacity of SMEs, and further enhance the existing body of knowledge and the literature concerning the relationship between HRM practices and innovation. In addition, this review demonstrates the key roles of HRM practices for promoting innovation in SMEs.

KEYWORDS: Human Resource Management Practices, Innovation, Small & Medium-sized Enterprises.

Introduction

It has been widely acknowledged that effective human resource management (HRM) practices are significant in extracting positive work behaviours among employees, which consecutively lead to organisational innovation (Damanpour & Gopalakrishnan, 1998; Tan & Nasurdin, 2010). Organisational innovation has been viewed as an essential weapon for organisations to compete in this competitive business environment which aim to immerse themselves in higher value-added activities such as, developing new products, processes, and services to continually sustain the competitiveness within the rivalries. One of the ways to heighten the organisational innovation is through effective human resource management (HRM) practices and effective knowledge management. HRM practices set the tone and condition of the employer-employee relationship which can encourage the employees to become more innovative (Rousseau & Greller, 1994).

Human Resources (HRs)

Human resources (HRs) are a term used to describe the individuals who make up the workforce of an organisation, although it is also applied in labour economics to business sectors or even whole nations. William R. Tracey (2003) defines human resources as 'the people that staff and operate an organization.' Human resources are the human labour, the physical abilities, and mental abilities that produce the goods and services of businesses. In a business, the terms human resources are often used to refer to management of the people employed by the business. Human resources management specialists recruit and interview employees, advising on hiring decisions in accordance with policies and requirements that have been established in conjunction with management, provide training to enhance employee skills, and develop compensation plans and incentive programs to motivate employees. In some businesses this is called personnel management.

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Human Resource Management (HRM)

HRM is the management function that implements strategies and policies relating to the management of persons (Patterson, 1987). "HRM is a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce, using an array of cultural, structural and personnel techniques" Storey (1995). Therefore, human resource management is a planned approach to managing people effectively for performance. It aims to establish a more open, flexible and caring management style so that staff will be motivated, developed and managed in a way that they can give their best to support organization's missions. HRM is the organisational function that deals with issues related to people such as compensation, hiring, performance management, organisation development, safety, wellness, benefits, employee motivation, communication, administration, and training.

HRM Practices

HRM functions and practices are the infrastructure elements of strategic HRM process. Organisations should strategically utilize these infrastructure requirements to gain competitive advantage, particularly through their human resources and human resource management practices. Infrastructure requirements consist of those functions and activities that are necessary for effective management of an organization's human resources. The major traditional purpose of these activities has been to attract, retain, and motivate employees. They are referred as HRM practices and the key HRM practices include human resource planning, recruitment, selection, socialization, appraising, compensation, training and development. According to Wang (2005), innovative firms treat HRM practices as the organization's strategy to encourage team responsibilities, enhance organisational culture, and build up customer relationships through participation and empowerment. It is important for a firm to implement supportive HRM practices that can motivate and stimulate employees to be innovative.

Innovation

Innovation can be viewed as either a process or an outcome. It refers to "the act of introducing something new" or "a new idea, method or device". Innovation is the way of transforming the resources of an enterprise through the creativity of people into new resources and wealth (Schumann, 1993). Innovation does not relate just to a new product that would come into the marketplace. Innovation can occur in processes and approaches to the market place (Schmittlein and Mahajan, 1982). The purpose of innovation is revealed and operated creativity, in other words, innovation means operated and creative thought that is presentation of product, process and new services to market. It is mental creativity of transforming one thought into originality with use of a new concept.

Methodology

This review explores the theoretical and empirical findings, which links HRM practices with innovation. Tranfield et al. (2003) suggests how literature review conducted systematically by using a three stages method, enables the reviewer to structure the review and build a reliable knowledge base in the respective study area. The three stages are: planning the review, conducting a review, and reporting and dissemination. This review follows these three stages in order to produce knowledge by exploring the theoretical and empirical findings, which links HRM practices with innovation. This review uses publications from the relevant text books, journal articles, edited works, and other research materials to achieve the objective of this review.

Literature Review

- **HRM Practices and Innovation**

HRM is defined as the "process of attracting, developing and maintaining a talented and energetic workforce to support organisational mission, objectives, and strategies" (Schermerhorn, 2001). Minbaeva (2005) viewed HRM practices as a set of practices used by the organisation to manage human resources by facilitating the development of competencies that are firm specific, produce complex social relation and generate organisation knowledge to sustain competitive advantage. HR innovation can happen in any firm at varying degrees. It can be as simple as a firm changing from paper-based recruitment advertising to on-line advertisements (Amarakoon et al., 2013).

- **Role of HRM through Innovation**

Recent research has found a positive and strong relationship between innovation and HRM practices such as training-development, participation to decision making, job analysis, job identification, performance evaluation and career management (Bal et al., 2013). Strategic HRM practices such as

training and development activities, participation to decision making process and empowerment can support employees' innovative ideas and encourage them to be active in innovation process.

- **HRM Practices for Promoting Innovation in SMEs**

HRM practices have gained more strategic role in today's competitive organisations. HRM practices should be implemented according to the needs of the employees. Organisations can gain competitive advantage by designing their HRM functions systematically and supporting their employees for being innovative. SMEs (small and medium-sized enterprises) have been defined using various criteria, such as number employed, volume of sales or output, and value of assets. According to Kotey and Sheridan (2004), HR practices within the small to medium firms are influenced by the size of the firm, changing with size towards the prescribed practices. The increase is rapid initially and then occurs at a slower pace thereafter. HRM practices in small firms cannot be portrayed by a standardized description and the management training and advice for small firms must recognize the diversity associated with it. Two innovative practices - performance based pay and employee involvement in decision making - have been widely adopted by Chinese SMEs according to their specific business characteristics (Zheng et al., 2009).

Strategic HRM practices also have an important role in supporting innovation in organisations. Strategic HRM practices such as training and development activities, participation to decision making process and empowerment can support employees' innovative ideas and encourage them to be active in innovation process. Urbano and Yordanova (2007) comment that the presence of an HR department, cooperation with other organisations and possession of previous experience in similar positions by the person responsible for HRM are associated with greater adoption of HRM practices in firms. This explores the relationship between the adoption of HRM practices in SMEs and the characteristics of the firm and the person responsible for HRM. Carda et al. (2014) identified a positive relationship between HRM practices and innovation in both the processes and the products. Particularly, certain HRM practices such as autonomy, participation, training, career plans and organized recruitment processes are strongly linked to creativity and innovation.

They revealed that both the hiring of multi-skilled core customer-contact employees and the training of core customer-contact employees, with respect to their multiple skills, have significant and positive effects on incremental and radical innovation in the hospitality companies. The firms that were able to adopt all of these categories were primarily foreign-related firms, of at least a moderate size and not new starts suggesting that ownership, size and age influence whether firms have the wherewithal and resources to implement the full range of innovative HR practices. Two innovative practices performance based pay and employee involvement in decision making have been widely adopted by firms. HRM practices i.e., recruitment and selection, training and development, performance appraisals, employee voice and compensation individually and collectively have a significant influence on the performance of SMEs, and the better the HRM practice, the higher the performance of the SME (Omolo et al., 2014).

Hazana et al. (2010) studied the influence of HRM practices on innovation, as measured by a number of new products, products improvements as well as manufacturing improvements among forty-four food and beverages Johor SMEs. HRM practices (recruitment and selection, and job security) were found to explain 57% variance in innovation among SMEs. It was observed that SMEs' owner managers tend to opt for immediate measure to promote innovation through recruitment of innovative employees due to limited resources. Ortiz et al. (2009) examined the relationship between the HRM policies and practices from the perspective of total quality management and performance in innovation among 106 Spanish industrial organisations. The study observed a direct relationship of the strategic orientation to innovation (particularly, the positive effects of teamwork on technological innovation), but no evidence of the moderating effect of strategic orientation.

HRM fosters the knowledge capability, which leads more innovation in organisations. HRM capabilities are positively related to knowledge management capability, which turn into innovation. In addition, the HRM capabilities, as mediated by knowledge management capabilities, have both direct and indirect effect on innovation (Ozbag et al., 2013). Further, the top management's strategic vision alone does not explain organisational innovation performance, the existence of compensation or reward management practices based on the ideas generated and developed by project teams is also required simultaneously (Ordaz et al., 2008). These findings provide relevant implications for HRM functions about the way and how teams should be rewarded and supported in order to improve the organization's innovation efforts.

Conclusion

This review concludes that innovative HRM practices (HRM innovation) are important to foster organisational innovation. Integrating organisational innovation processes with HRM functions and respective practices have significant and positive effects (directly and indirectly) on innovation performance of the organisations. The findings of the literature review indicate that no single HRM practice may be sufficient to promote innovation; rather bundles of strategies need to be studied empirically. This review of relevant HRM and innovation literature about the relationships between HRM and innovation aim to form a sound basis for future research. Our intention is to contribute to the management of SMEs intellectual capital and maximize innovative performance with appropriate HRM systems and practices. The literature on the links between HRM and innovation has expanded considerably over the last one and a half decades since both HRM and innovation have been expanding fields in this period. This also reflects trends in the business world that prompt the emerging integration of HRM and innovation research. As SMEs increasingly adopt open innovation models and engage with external knowledge sources, they find that they need to bring new groups of employees into the innovation process. This calls for dedicated training, performance-based pay, new performance evaluation, encouragement of employee participation in decision making and adoption of innovative strategic recruitment and selection.

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