

A STUDY ON DETERMINING THE RELATIONSHIP BETWEEN STRATEGIC HRM PRACTICES AND INNOVATION IN ORGANIZATIONS

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Abstract:

Human resource management practices and functions have gained more strategic role in today's competitive organizations. Traditional personnel management and human resources management activities are not enough to compete in the challenging environments. HR departments should become strategic partners of organizations' top management level teams and be a part of the strategic planning process. All HRM functions should be designed consistent with the strategies and goals of organizations. There should be vertical and horizontal consistency among all HR functions and firm's strategies. In order to develop the skills of employees and support their innovativeness, HRM functions and practices should be implemented according to the needs of employees. Organizations can gain competitive advantage by designing their HRM functions systematically and support their employees for being innovative. In this paper, firstly the evolution and importance of strategic HRM are investigated. The role of strategic HRM on innovativeness in organizations is analysed by a research which was conducted on 48 organizations in various sectors. A positive relationship between strategic HRM practices and innovation is found in the analysis and the results are discussed in the conclusion section.

Keywords: Strategic human resources management, competitive advantage, HRM functions, innovation.

1. INTRODUCTION

The strategic dimension of human resource management started to receive specific attention from researchers at the end of the 1970s with the influence of two basic changes in the literature: first, the shift from the old personnel administration approach to the more modern concept of human resources and second, the reorientation of generic strategic models to internal aspects of the organization (Alcazar et al., 2005, p. 633). HRM can contribute to the strategies and strategic planning process of the organization in different ways. HRM functions like performance evaluation, human resource planning, employee selection, training and wage management should be designed according to the strategic plans of the organization. Most of the organizations prefer to integrate their HRM systems with their strategy implementation process (Greer, 1995). Human resource planners have started to learn the techniques of strategic planning and have assumed a more proactive role in promoting strategic thinking in the human resources area and have extended the personnel function beyond the limits of its traditional activities (Miles & Snow, 1984). Nowadays, it is a common belief in both the business and the academic world that the human resources of an organization can be a source of competitive advantage, provided that the policies for managing people are integrated with strategic business planning (Panayotopoulou et. al, 2003).

A typical way to approach strategic HRM is to define it as “bridging” the concept of business strategy and HRM. Strategic HRM focuses on the point that there should be a link between a firm’s strategy and the utilization of its human resources. According to this perspective, people management can be a key source of sustained competitive advantage (Karami et. Al., 2004, p. 50). The main rationale for strategic HRM thinking is that by integrating HRM with the business strategy, rather than human resources strategies being a separate set of priorities, employees will be managed more effectively, organizational performance will improve and therefore business success will follow. Strategic HRM has a clear focus on implementing strategic change and growing the skill base of the organization to ensure that the organization can compete effectively in the future. Strategic human resources departments are future oriented and operate in a manner consistent with the overall business plan in the organization (Holbeche, 2004). In order to have a strategic role and get effective results in the organization, HRM departments should design their practices and functions consistent with the strategies and goals of the organization.

Whether the organization choose to compete through lower product prices or through a strategy based on differentiation, all HRM functions should be designed according to the needs of the organization and support the strategic planning process. If the business is focused on low operational costs, then HR strategy should also mirror that strategy by automating processes and introducing high levels of employee self-service. However, differentiated organizations rely on people to create value, so “a human capital management” strategy should be the priority (Foster, 2010). In such organizations innovation culture is fostered through research & development activities and investment in human capital. As long as organizations have a strategy that focuses on knowledge and human capital, HR will be much more likely to be a full strategic partner. Employee skills and competencies can be developed and enhanced with systematically designed HRM functions. By that way, organizations can have more efficient and motivated employees.

2. STRATEGIC HUMAN RESOURCE MANAGEMENT

Typically, strategic HRM bridges business strategy and HRM and HRM focuses on the integration of HR with the business and its environment. Strategic HRM has a clear focus on implementing strategic change and growing the skill base of the organization to ensure that the organization can compete effectively in the future (Holbeche, 2004). Organizations develop their HR strategy as an integral part of formulating the high-level corporate strategy rather than developing it in parallel with or after the corporate strategy. In this sense strategic HRM bridges corporate level strategy and HRM tightly integrating HR with the business. Strategic HRM is crucial in today’s business world. The main reason is that, with the shift from a manufacturing to knowledge based economy; many organizations’ competitive advantages now stem more from their human assets (skills, knowledge, behaviour and attitudes). When implemented successfully, strategic HRM translates human assets into shareholder value. Another reason that strategic HRM is important has to do with the benefits it generates for both a company’s workforce and its HR team. When people understand what their company is trying to do and how their work contributes to those efforts, their focus and job satisfaction increase (Harvard Business School, 2006). Effective HRM acquires quality employees, motivates them to maximize

performance and helps meet their psychological and social needs. This leads to long term relationships with skilled and happy employees (Stewart & Brown, 2011). HRM focuses on people in organizations. People are a major component of any organizations so organizations with more productive employees tend to be more successful. Employee productivity increases when organizations hire and motivate employees effectively. In addition, good human resource practise create more satisfied employees (Stewart & Brown, 2011). From this point, it is possible to say that good HRM practice can improve work and efficiency in organizations by motivating employees.

It is also important to highlight the point that HRM is not the property of particular specialists. HRM should be seen as an aspect of all management levels. HRM is concerned with both the structure of work in a company and with all the related employment practices that are needed to carry out the work. HRM is not simply about HR or people practices; it is about the management of work and people in the company. HRM is concerned with managing people both individually and collectively (Boxall & Purcell, 2003). In today's competitive business world both HR managers and line managers have become responsible for all HRM processes and practices.

Research in literature suggests that a major key for long term profitability is a clear strategy for being better than competitors, along with a highly effective workforce that carries out that strategy. With regard to HRM in organizations, there are actually two types of strategy. One is competitive business strategy which focuses on choices and actions about how to serve the needs of customers. The other is HR strategy which focuses on choices and actions concerning the management of people within the organization. These two types of strategy must work together to ensure high organizational effectiveness (Stewart & Brown, 2011).

Human performance becomes increasingly variable in jobs of high complexity so it is obvious that HRM should play a major role in improving the quality of strategic management process (Boxall & Purcell, 2003).

Table 1: Traditional HR versus Strategic HR

	Traditional HR	Strategic HR
<i>Responsibility for HR</i>	Staff specialists	Line managers
<i>Focus</i>	Employee relations	Partnerships with internal and external customers
<i>Role of HR</i>	Transactional change follower and respondent	Transformational change leader and initiator
<i>Initiatives</i>	Slow, reactive, fragmented	Fast, proactive, integrated
<i>Time horizon</i>	Short-term	Short, medium, long (as necessary)
<i>Control</i>	Bureaucratic roles, policies and procedures	Organic and flexible
<i>Job design</i>	Tight division of labour, specialization	Broad, flexible, cross-training teams
<i>Key investments</i>	Capital, products	People, knowledge
<i>Accountability</i>	Cost center	Investment center

Source: Mello, 2011, p. 158.

Strategic HR differs radically from traditional HR in a number of ways as can be seen in Table 1. To realize the strategic value of human resources, administrative or operational HR functions must be altered to have a strategic orientation (Ulrich, 1997).

2.1. The Strategic Aspect of Implementing HRM Functions

HRM functions and practices are the infrastructure elements of strategic HRM process. Organizations 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 are necessary for effective management of an organization's human resources. The major purposes of these activities traditionally have been to attract, retain, and motivate employees. They are referred as HRM practices and the key HRM practices include; human resource planning, staffing including recruitment, selection and socialization, appraising, compensation, training and development. The result of effectively managing human resources is an enhanced ability to attract and retain qualified employees who are motivated to

perform, and the results of having the right employees motivated to perform are numerous. They include greater profitability, low employee turnover, high product quality, lower production costs, and more rapid acceptance and implementation of corporate strategy (Schuler & MacMillan, 1984).

There is an extensive literature in the HRM that has investigated the strategic aspect of HRM functions' design and implementation. Initially, HR planning is critical to an organization's strategic plan through systematically matching the interests, skills and talents of the workforce with long-term goals and opportunities in the organization (Nixon, 2011). The strategic importance of job analysis and competency assignment is grounded in their usefulness as systematic procedures that provide a rational foundation on which to build a coherent approach to managing human resources. This role of modeling competencies becomes especially obvious during strategic change periods when jobs in an organization are likely to be suddenly transformed (Jackson and Schuler, 2005). Strategic approaches to recruitment are rare but recruitment is a strategic opportunity indeed. Ideally recruitment should not simply be a question of filling gaps, instead should be proactively focused on bringing the specific kind of skills and experiences in the organization especially those which cannot be built from within (Shafique, 2012). It shows if there is a clear purpose behind recruitment instead of mere replacement. Besides recruitment, efforts to retain qualified employees should also be considered as a part of an overall career management strategy - driven by the business strategy (Holbeche, 2004). Attracting and retaining individuals with the skills related to the core competencies of the organization are key HR activities directly relevant to organizational capability (Khandekar & Sharma, 2005). Several studies asserted that HR capabilities and its attributes are associated with organizational effectiveness (Huselid & Becker, 1997) and the key to achieve outstanding organizational performance (Pfeffer, 1994). The strategic importance of people who fill key roles is apparent, because making the right selection may be critical to the success or failure of the business but other selection decisions are no less important (Jackson & Schuler, 2005). The strategic HRM field has emphasized human and social capital as key resources for firms, yet focused primarily on organizational-level conjectures such as the configuration of high-performance work practices and their 'fit' with the organizational strategy (Mäkelä, Sumelius, Höglund & Ahlvik, 2012). Improving the competence of workforce through training and development activities is seen as a way of creating a competitive advantage. From the strategic perspective, training is employed not only to improve an employee's current skills, but also to prepare each employee for future responsibilities. In the process of learning within an organization, human capital becomes increasingly firm-specific and cannot readily be reproduced by its competitor (Chen&Hung, 2010). Thus the competitive organizations use training and development practices to improve the ability of the workforce to implement their business strategy (Jackson & Schuler, 2005). By offering training and career development opportunities, employers help employees to acquire the competencies that are required to implement a strategic HR function.

In conjunction with an organization's recruitment and selections efforts, a total compensation system provides pay that is sufficient to attract and retain key employees and keep them motivated to perform with the best of their competencies. Unless the total compensation program is perceived as internally fair and externally competitive, good employees are likely to leave (Jackson & Schuler, 2005). To effectively enhance employee motivation and productivity, the performance measurement and feedback process must be aligned with the organization's business strategy and organizational culture. For start-up firms, performance-based pay system can be more useful to attract external talents. By aligning personal interests with company objectives, performance-based pay system motivates workers to realize the strategic objectives of the HR function (Kim & Sung-Choon, 2013). Many organizations are experimenting with more flexible packages which include elements of variable pay, linked to job performance, competence, skills development and desired team and leadership behaviors. If organizations require high level of flexibility, reward systems may also need to be flexible (Holbeche, 2004).

To sum up HR executives need to know how all the HR subsystems interact so they can create and maintain alignment, rebalancing the organization as the market shifts (Jamrog & Overholt, 2004) particularly driven by the innovative competitors.

2.2. The Role of HRM Through Innovation

Although HR executives' involvement in strategic management was not always associated with firm performance, their involvement had a substantial effect when the firms pursued an innovation strategy for which skilled employees were a critical source of core competence (Kim & Sung-Choon, 2013). To

manage innovative workforce effectively, traditional HRM practices, such as work systems, HR flows, rewards and employee influence, have to be renewed to be in line with the innovative strategy of the organisation. “HRM innovation” seeks a model that pays attention to the dynamic character of various types of innovations – not just cost reduction or quality – in organizations, that is in line with an innovation oriented organizational strategy supported by deliberately chosen (HRM) policies and practices at all relevant levels (Leede & Looise, 2005) .

3. RESEARCH METHODOLOGY

The purpose of the study is to determine the relationship between strategic human resources management practices and innovation. Another purpose of the study is to reveal the perceptions of companies on strategic human resources management practices and innovation and explain the development needs. Also it is investigated that whether the perceptions of strategic human resources management practices and innovation show difference or not according to employee number, company age and capital structure.

The study is important to show the relationship between strategic human resources management practices and innovation. With the results of the research, it is possible to give valuable insights about the effect of strategic HRM practices on innovation. There is a lack of empirical study in the related literature about the relationship between strategic HRM and innovation perception. By considering the need of empirical studies in this field, it is obvious that both the theoretical and empirical results of this research will give an important contribution to the related literature.

3.1. Sample and Data Collection

Different companies from various sectors (health, media, textile, retail and banking) participated to the research (n=48) between November 2012-February 2013. The method of the research sampling is “convenience sampling”.

Two scales were used in the questionnaires as measurement instrument of the research. The first scale developed by Akhtar, Ding & Ge (2008) has 7 dimensions that measure strategic HRM practices. The scale was translated to Turkish by the researchers and one dimension was eliminated by considering the structure of Turkish companies so the strategic HRM scale was used as with 6 dimensions (training and development, participation to decisions, job security, job identification, performance evaluation and career management) and 24 items in the research according to face validity. Face validity is a judgment by scientific community that the indicator really measures the construct (Neuman, 2004).

The second scale developed by Kaya, Koc & Topcu (2010) has 4 items that measure support for innovation. The questions about social demographic qualifications such as gender, education, seniority, position and age were included to the items and the questionnaire form was developed. The questionnaires were sent to employees via e-mail and collected by the same way. Questionnaires were sent to HR employees who are working in different sectors. HR employees replied the questionnaires from these sectors.

3.2. Data Analysis

The items of strategic HRM scale were presented using “Yes” or “No”. If the company had this HRM practice, the answer was “1: Yes” and if the company did not have this HRM practice, the answer was “0: No”. Then the total index score of strategic HRM practices was computed. This scoring had an advantage of determining the existence of strategic HRM practices in the companies and integrating organizational level analysis. The items of innovation scale were presented using a five-point Likert item as “1: strongly disagree” and “5: strongly agree”. Data was analyzed by SPSS for Windows 18.0 package program.

Cronbach alpha reliability value was computed in order to find the reliability of the scale. The reliability values are 0,877 for strategic HRM scale and 0,880 for innovation scale. The reliability values of both scales are high for researches in social sciences (Kalaycı, 2005). Descriptive statistical analysis (arithmetic mean and standard deviation) and Pearson correlation test were used to determine the

relationship between strategic HRM and innovation perceptions. Also, one-way ANOVA test was used to determine the differences according to demographic qualifications such as company age, employee number and capital structure.

3.3. Research Hypothesizes

The main hypothesizes of the research are given below:

- H1:** There is a relationship between strategic HRM practices (index score) and innovation.
- H2:** HRM practices show difference according to employee number.
- H3:** HRM practices show difference according to capital structure.
- H4:** HRM practices show difference according to company age.
- H5:** Innovation perceptions show difference according to employee number.
- H6:** Innovation perceptions show difference according to capital structure.
- H7:** Innovation perceptions show difference according company age.

3.4. Findings and Results

Different companies from various sectors participated to the research (n=48). The average employee number of the companies is 5329 and the average company age is 28. 34 companies (71%) has national capital structure, 9 companies (18%) has international capital structure and 4 companies (8%) has both national and international capital structure. 1 company did not answer this question.

When we examine the descriptive statistical analysis (arithmetic mean and standard deviation), the SHRM index score is computed as 0,61 (std.dev.: 0,24). The arithmetic mean of innovation support is computed as 3,46 (std dev.: 0,95). These scores indicate that companies answered the strategic HRM practices almost as “Yes”. This result shows that most of the companies has majority of these HRM practices. Also most of the companies answered innovation support items as “I agree”.

Table 2. Descriptive Statistics

	N	Mean	Std. Deviation
Innovation	48	3,46	,95
Training-Development	48	,56	,32
Participation to Decisions	48	,69	,32
Job Security	48	,61	,29
Job Identification	48	,59	,34
Performance Evaluation	48	,65	,36
Career Management	48	,54	,32
SHRM Index Score	48	,61	,24

According to descriptive statistics results, it can be seen that most of the companies support their employees to participate decision making process but they do not reflect this to career management processes.

- H1:** There is a relationship between strategic HRM practices (index score) and innovation.

Table 3. Correlations

	Index	Training	Particip. to Decisions	Job Security	Job Ident.	Perf. Evaluation	Career Man.	Innovation
Index	1							
	48							
Training	,720**	1						
	,000							
	48	48						
Participation to Decisions	,776**	,453**	1					
	,000	,001						
	48	48	48					
Job Security	,701**	,494**	,523**	1				
	,000	,000	,000					
	48	48	48	48				
Job Ident.	,658**	,353**	,307**	,417**	1			

	,000 48	,014 48	,034 48	,003 48	48		
Performance Evaluation	,755** ,000 48	,448** ,001 48	,559** ,000 48	,353** ,014 48	,331** ,022 48	1	
Career Management	,768** ,000 48	,420** ,003 48	,565** ,000 48	,356** ,013 48	,464** ,001 48	,551** ,000 48	1 48
Innovation	,732** ,000 48	,556** ,000 48	,754** ,000 48	,485** ,000 48	,305** ,035 48	,499** ,000 48	,620** ,000 48
							1 48

There is a strong positive relationship between HRM practices and innovation ($r: .74$; $p<.001$). Also there are relationships between training-development ($r: 0,72$; $p<.001$), participation to decisions ($r: .77$; $p<.001$), job security ($r: .70$, $p<.001$), job identification ($r: .65$, $p<.001$), performance evaluation ($r: .75$, $p<.001$), career management ($r: .76$, $p<.001$) and innovation. As a result we can say that strategic HRM practices support innovative opinions of employees.

4. CONCLUSION

Human resources are the valuable and unique assets of organizations for gaining competitive advantage in today's challenging environments. The organizations which can select and retain qualified employees with the needed skills can be successful today. HRM practices are important for selecting and retaining these qualified employees. Designing these HRM functions and practices in a strategic way and according to the needs of employees can help organizations to attract and retain these workforces. Strategic HRM practices also have important role in supporting innovation in organizations. 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. Taking into account that, the relationship between strategic HRM practices and innovation is investigated in this study. As a result, a positive and strong relationship has been found between innovation and HRM practices such as training-development, participation to decision making, job analysis, job identification, performance evaluation and career management. Also it is seen that organizations that participated to the research have been using these strategic HRM practices in a medium level.

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