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Abstract

This study is aimed at understanding how Innovative HRM leads to HR value creation and organizational performance. Its purpose is to understand the conceptual development of the term viz Innovative HRM, its definition, how it is different from traditional HRM, what are its linkages with strategic HRM and its relationship with HR Value Creation and Organizational Performance. Various variables and issues related to it are further elaborated. An exhaustive literature review is carried out of theoretical and empirical research studies to study the relationship between innovative HRM, HR Value Creation and Organizational Performance and depicted using a conceptual model.
1. Introduction

In a world of increasing competition an effective human resource management (HRM) can no longer be pleased with simple, routine and standard set of practices. Contemporary business environment creates the need to develop and implement new and improved HR practices on a regular basis. Tannenbaum and Dupreee-Bruno(1994) have found a very strong link between the external environment and HR innovations. It is also believed that there are some human resource activities that are better than others and, thus, should be adopted by the organization (Harel and Tzafrir, 1999). Innovative HR not only promotes employee’s commitment but also improves performance of the organization and enhances well-being and development of the employees.(Zornitsky,1995). This results in better productivity, effective production, efficiency and loyalty. It ultimately leads to HR Value Creation which is mutually beneficial to employees and Organisation both.

This study is aimed at understanding how Innovative Human Resource Management (IHRM), leads to HR Value creation and Organizational performance. It aims at understanding the conceptual development of the terms viz IHRM,HR Value Creation and Organizational Performance,its definition, how it is different from traditional HRM and what are its linkages with strategic HRM . Various variables and issues related to it are further discussed and analyzed. The study is qualitative in nature based on literature review from secondary sources which includes, research journals, magazines, paper, references and quotes available on the topic. Thus this study has been undertaken to study the relation between innovative HRM and how it leads to HR Value creation in an organisation.

2. Conceptual Development of the terms

An exhaustive literature review is carried out to understand and develop the key words viz IHRM,HR Value Creation and Organizational Performance.

2.1 Innovative HRM. An attempt is made to understand the term IHRM,its usage how it is different from Traditional HRM in terms of its aim, scope,nature, roles and perspectives. This term has been used in the same prespective by various authors as ‘high commitment practices’ (Pfeffer, 1994); ‘progressive HR practices’ (Kravetz. 1988; Huselid, 1995); ‘quality HR’ (Huselid, 1994). Thus various definitions are explored to understand their context and usage.

2.1.1 Definitions. Several authors since last two decades have familiarised and coined the term Innovative HRM in different prespectives. Selected few definitions are given in the table below (Annexure 1). Closely related concepts/definitions are avoided and the relevant ones are included which have been cited over a span of twenty years.

Annexure 1. Table 1. Definitions of Innovative HRM

Some of the important conclusions that can be drawn from the table are as follows :

- IHRM stands for recent, systematic, disciplined high involvement HR strategies and practices that not only enhance the value of Human Capital but also enhances organizational performance.
- It has been perceived and creates new, current capabilities and competencies.
- It is important to prove here that HR practices and innovations have a positive impact on competitive advantage as they affect employees’ attitude, behavior
and perceptions which will in turn create competitive advantage for the organization.

- It enhances employees commitment, job satisfaction, enhances motivation and ultimately leads to HR value creation.
- They also lead to substantial financial benefits and returns to the organization.

2.1.2 Difference between Traditional HRM & Innovative HRM: HRM has traversed a long journey from traditional personnel management, administrative functions to being a strategic role player in the organization. However, with increasing global competition, there is a need for innovative means of developing human capital in an organization. Hence the need to differentiate between the approaches on various identified parameters. The following Annexure 2, Table 2, brings out the differences between the traditional HRM approach and innovative HRM with reference to its definition, aim, scope, nature, role of manager, perspective, control and accountability.

Annexure 2 Table 2: Difference between Traditional and Innovative HRM

Some of the important conclusions that can be drawn from Table 2 are as follows.

- Traditional HRM specialises employees in a particular area while Innovative HRM helps them adapt their work profile to the changes in the external environment thus leading to strategic use of human assets.
- Traditional HRM was just restricted to HR activities while innovative HRM is interdisciplinary in nature, flexible, proactive and systematic. It fosters an open, participative culture for the development of people. Traditional HRM is transactional in nature and connected with short term objectives of the organization while innovative HRM is transformational in nature and concerned with the long term objectives, which includes changes in the new organizational structures, work systems and job design to support strategic changes in the global business environment.
- Traditional HRM is accountable as a cost centre but innovative HRM is considered as an investment in human assets.

2.1.3 Discussion on IHRM

Various references and studies on Innovative HRM are further discussed to analyse the issues related to it. The literature references have been categorized to understand - does internal and external environment leads to Innovative HR Practices in the organization, what is its role and function; - Identify the process of Innovative HRM which includes mainly formulation, implementation and evaluation stages, - what are the sub functions of Innovative HR practices and its role. These sub functions have been classified into: acquisition, development and retention practices.

Innovative HRM and environment: Every organization exists in an environment with which it has a dynamic relation. Environment is an important contingency factor that affects an organisation’s structure, internal behaviours and its management (Child, 1972; Williamson, 1975). Some environmental factors affecting an organization are government laws and regulations, globalization of markets, internationalization of business, major political and social events, technological advancements, organizational growth, and fluctuations in business cycles have been mentioned (Dawson 2001). The HR system of a firm must be
aligned with the macro variables in the external environment and linked with its internal operations (Becker and Gerhart, 1996). HRM is affected by the macroenvironment variables represented by the acronym PESTEL viz, political, economic, socio-cultural and technological and legal environment. The legal perspective suggests that HR practices may have to be incorporated into the organization because of government regulation to the effect or to appear legitimate with market practices. With the changing government regulation the HR practices need to be aligned and incorporated.

Similarly internal environment of an organization defines the structure, format, process, and functions of HR. Innovative HRM plays an important role in leading the organization to align its strategies with its culture and further redesign it. Innovative work practices can have an impact on organizational culture or in the other way, the prevalent culture can influence the HR practices of the organizations. HR systems shape the behavior of employees, thus becoming the means whereby cultures are created and sustained (Schwartz and Davis 1981). Guest (1994) suggests that, through selection, socialization and training procedures, innovative HRM can contribute to both the emergence and maintenance of shared patterns of norms, values and informal rules within organizations. Organization leaders vision, create, implement and enhance Innovative HR practices in an organisation. According to Damanpour and Schneider (2006) the climate for innovation in an organization directly results from the top manager’s leadership style. Transformational leadership supports innovation in HR practices which only can ensure the long term survival of an organization. (Ancona & Caldwell, 1987). Transformational leadership refers to such leadership which motivates subordinates to identify with organizational goals and interests. It motivates employees to deliver beyond expected levels of performance. Consequently, employees feel personally linked with the organization. They are rewarded and deliver better performance alongside displaying enhanced satisfaction levels.

**Innovative HRM and its process:** Krishnan and Singh, 2004 define the process of innovative HRM to be a dynamic one consisting of three stages closely interlinked with each other. The Innovative HRM process can be divided into three stages: formulation, implementation and evaluation of business strategy. The first stage is that of formulation of business strategy and then evolving strategic HRM objectives from it. The formulation is highly dependent on external and internal environmental variables. According to Mello (2001), the key external variables are: competition, government regulations, technology, market trends and economic conditions; key internal variables are: culture, structure, politics, employee skills and past strategy. Strategic HRM objectives define the process goals, practices and procedures for the implementation of HR systems in the organization. The implementation stage involves the development of formats, process, sequences and interlinking with other functional aspects of the organizations. The right process reduces the gaps and leads to effective implementation. The third and final stage of evaluation, is that of reviewing the efficacy and strategic integration of the HRM systems.

**Sub functions of Innovative HRM** Literature references suggest various innovative HR practices which are new and contemporary. The various practices of
recruitment, selection, training & development, performance management, compensation and reward systems, career management and talent management have evolved and become dynamic. These functions have been categorized into: HR acquisition, HR development and retention practices. Each of the subfunctions are further discussed below and the list is categorically given in Annexure 3.

Annexure 3. Table 3: Listing of Traditional and Innovative HR Practices

Some of the important conclusions that can be drawn are:

**Innovative HR Acquisition practices**, includes recruitment and selection practices. It is a strategically linked process starting from overall organisation’s vision and mission and is translated into specific job specifications. The involvement of the line managers is significant. It involves an integration of technology as well as traditional methods viz; use of the company website for advertising vacancies, electronic CV screening, short-listing and interviewing, online video conferencing. It leads to not only cost reduction techniques, innovation, quality enhancement process but also creates skilled and flexible workforce. **Innovative HR development** includes training & development practices. Innovative Training is an investment in people so that they can give good performance making the best use of their natural abilities. Development is aimed at helping employees reach a maturity stage where they realise their full potential. Innovative training and development prepares employees for assuming new roles and responsibilities that might come up in the organization later. It is a formal process and involves planning by the line managers. Employees are especially trained on technology, new work designs and customer management. The recent training and development practices are not only long term, but also linked with career management, succession planning and reward and compensation practices of the organisation.

**Innovative HR Retention** - This includes performance management and compensation management practices. The innovative 360 degree feedback system is becoming popular over the traditional practice of annual performance reviews as it is more comprehensive and gives a balanced feedback. The special feature of this system is that apart from superiors, subordinates, peers, the customers also appraise. It is linked well with training and development as well as career development function. **Compensation management**: Strategic human resource management demands innovative compensation management which has a long term focus to suitably reward people for what they do and achieve. Even a small change in compensation systems can make a big motivational difference, in case of employees. It has a clear assessment criteria linked with a flexible reward structure, and also is the basis of training and development, strategic planning and initiatives in the organizations. Various organizations have adopted different approaches which are innovative viz, goal sharing, gain sharing, profit sharing, stock sharing, merit pay and piece rate pay. Zheng, Morrison and O’Neill (2006) examined the high performance HRM practices with about 74 Chinese SMEs and saw that the performance-based pay, along with some amount of participatory decision making, and the free market selection along with a good performance evaluation, did bring in a high-level employee commitment which is by far a crucial key HRM outcome in enhancing performance.
A study of these sub functions of innovative HRM has given us an understanding of the meaning of these HR practices. It is also important to develop an insight about the awareness level of employees regarding these HR practices and their perception about the implementation of these. The most important factor to be considered about these practices is about their role and impact on the performance of the organization.

2.2 HR Value Creation and Organizational Performance

HR practices have been found to have a significant impact on organizational performance (Delaney & Huselid, 1996; Katou & Budhwar, 2007; Sing, 2004; Tzafrir, 2006). Literature indicates that HR practices influence employee commitment and other HR performance measures, which then lead to organizational effectiveness (Rao, 1990; Yeung and Berman, 1997). Hiltrop (1996) said that the HR practices of an organization have a strong effect on employee motivation so that the employees behave in a manner needed to help the organization develop competitive advantage. Firms having good HR practices will have less employee absenteeism and turnover thus reducing substantial costs. The annual cost of unscheduled absence has been estimated to range from about $250 to $500 per employee. (Cascio, 1995). HR oriented firms will have a more competent workforce. The development of employees into a highly competent workforce has been argued to produce competitive advantages that are more valuable and also more difficult to imitate (Pfeffer, 1994). For these reasons, a strong HR orientation may bring significant economic benefits to companies (Gatewood and Field, 1994; Cascio, 1995).

The figure below explains the interrelationship between various aspects of HR value creation one leading to another. Innovative HRM leads to enhanced organizational commitment and motivation which leads to improved HR performance and creation of competent, valuable and unimitable workforce which ultimately leads to enhanced organisational performance.

Figure 1: Value Chain Of HR

3. Relationship between IHRM, HR Value Creation and Organisational Performance

Strategic Human Resource Management (SHRM) researchers are of the view that there may exist a definite and strong relationship amidst the quality of a organisation’s HRM system and its performance (Wright, Gardner, Moynihan, & Allen, 2005). Researchers state that HR practices create a sustainable competitive advantage for organisations by creating employee-based competencies that are difficult to imitate, rare, valuable, and non-substitutable (Collins & Smith, 2006; Wright, Dunford, & Snell, 2001). Research focusing on the impact of HR practices on the level of organization has become prominent in recent years (Delaney and Huselid, 1996). There is literature linking HR practices with various measures of organizational performance (Huselid et al., 1997; Venkataramat, 1997). However, literature on the relationship of innovative human resource practices and organizational performance is very little.
The earliest study on Innovative Human Resource Practices was done by Schuster (1986), who said that more innovative practices in an organization would indicate a more people oriented management and hence a more efficient organization. Other studies have also reported a relationship between progressive/sophisticated HR practices and various measures of organizational performance (Hiltrop, 1996, 1999; Stroh and Caliguiri, 1998; Varma et al., 1999). Hiltrop (1996), says there is no conclusive evidence that innovative or progressive HR practices cause better financial performance but only that the two may be related. Huselid's (1994) said that the relationship between HR practices and organizational performance does not make it clear whether sophisticated HR practices lead to higher performance in the organization or if higher-performing organizations chose to invest in more sophisticated HRM practices. Huselid’s (1995) study of the relationship between HR practices and corporate performance is the most cited work in this area. His study found high-involvement HRM practices to be positively influencing organizational performance including work attachment, organisations financial performance, and productivity. In yet another study, Delaney and Huselid (1996) found that HR practices, such as highly selective staffing, incentive compensation, and training, were also positively linked to organizational performance.

Thus it could be concluded that HRM does positively effect the organizational performance, and also seen is a rising interest for the need of additional quantitative evidence for supporting the HRM-performance relation (Gerhart 2005). When one looks at the investigations which have been seen from the different contexts this becomes all the more important. Thus the prior and recent research have also investigated this topic in-depth which does link HRM and performance for the context of developing and not to forget the emerging economies. However, studies in context of developing economies are less and there is scope for much research here. In relation to developing economy like that of India, crucial is the study and examination of Singh (2003) whose survey of 84 companies showed a significant relationship among the strategic HR orientation index with the said organisational performance. It was seen that no one single HRM practice showed a direct causal connection to the said organizational financial performance, but the HRM practices did have a good indirect influence and did effect the operational and financial performance in the organisations.

This study fulfills the aim of understanding the conceptual development of terms Innovative HRM and HR Value creation, its deviation from traditional HR practices and linkages with organizational performance. Thus there are some important conclusions that can be drawn out of discussions on IHRM, HR Value Creation and Organisational Performance. This can be represented diagrammatically below as given in Fig 2.
Organizational strategy is framed keeping in mind the external and internal environment within which an organization performs. Amongst the external macrovariables the legal and the institutional framework along with the finances become important criteria for framing the organizational strategy. On the other hand, organizational culture and leadership become important internal variables that define the organizational strategy. Organization strategy helps in drawing various functional strategies including strategic HRM. Innovative HRM links strategic HR with new, adaptable, transformational and long-term HR practices. It consists of basic stages of formulation, implementation and evaluation of innovative HR acquisition, development, and retention practices. Innovative HRM helps in creating HR value and enhanced organisational performance.

3. Conclusions

The relationship proposed in the paper on IHRM, HR Value creation and Organizational Performance highlights the importance and relevance of Innovative HR practices in an organization. What is important is the linkages and systematic flow of the planning, execution and evaluation of the process. This study adds to the existing body of literature in the area and creates the need to explore empirically the linkage between IHRM, HR Value creation and organizational performance. The empirical findings can significantly indicate the need for constant renewal of HR systems and adoption of innovative HR practices in organizations.
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