

INNOVATIVE PRACTICE MANAGEMENT IN HUMAN RESOURCE

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ABSTRACT

Organizational innovation has been viewed as an essential weapon for organizations to compete in this competitive business environment. Particularly, Malaysia manufacturing firms strive to transform their business model from labour-intensive to knowledge-intensive, which aim to immerse themselves in higher value added activities such as, developing new products, processes, and services, to continual sustain the competitiveness within the rivalries. One of the ways to heighten the organizational innovation is through effective human resource management (HRM) practices and effective knowledge management. This study examined the direct relationships between HRM practices (performance appraisal, career management, training, reward system, and recruitment) and organizational innovation (product innovation, process innovation, and administrative innovation). Additionally, it also examined the mediating role of KM effectiveness on the direct relationship. Data was drawn from a sample of 171 large manufacturing firms in Malaysia. The regression results showed that HRM practices generally have a positive effect on organizational innovation. Specifically, the findings indicate that training was positively related to three dimensions of organizational innovation (product innovation, process innovation, and administrative innovation). Performance appraisal also found to have a positive effect on administrative innovation. Additionally, this study also demonstrates that training and performance appraisal, are positively related to knowledge management effectiveness. Knowledge management effectiveness fully mediates the relationship between training and process innovation, training and administrative innovation, and performance appraisal and administrative innovation. A discussion of the findings, limitations, and implications are provided.

key words: Human resource practices, product innovation, process innovation, administrative innovation, knowledge management effectiveness, Malaysian manufacturing firms

1.1 INTRODUCTION

Human Resource is the process of recruitment, selection of employee, providing proper orientation and induction, providing proper training and the developing skills, assessment of employee (performance of appraisal), providing proper compensation and benefits, motivating, maintaining proper relations with labour and with trade unions, maintaining employee's safety, welfare and health by complying with labour laws of concern state or country. For any organisation to function effectively, it must have resource of men, money, materials and machinery. The resources by themselves cannot fulfil the objectives of an organisation, they need to be collected, co-ordinated and utilised through human resources. And, the effective management of human resources is also vital. Hence, HR has emerged as a major function in organisations. HR is the organizational function that deals with issues related to people such as compensation, hiring, performance management, organization development, safety, wellness, benefits, employee motivation, communication, administration, and training. HR is a long-established task within the Government's Management Framework. Through this task the Government meets its obligation to be a good employer; seeks to secure staff commitment; and develops and manages staff to give of their best to help the Government serve the community. HR is a relatively new approach to managing people in any organisation. People are considered the key resource in this approach. It is concerned with the people dimension in management of an organisation. Since an organisation is a body of people, their acquisition, development of skills, motivation for higher levels of attainments, as well as ensuring maintenance of their level of commitment are all significant activities. These activities fall in the domain of HR. Human Resource is responsible for maintaining good human relations in the organisation.

Organizational innovation

Organizational innovation has been widely defined as the creation of new idea and new behaviour to the organization. The dimensions of organizational innovation are extremely complex and multiple; it can be reviewed from two aspects: (1) breadth of innovation, which includes policies, system, administrative, processes, products, services, and others; (2) depth of innovation, which includes the importance, the degree of influence, effect on long term profitability, and others. Fundamentally, there are two distinctive types of organizational innovation have been classified in most literature, namely technological innovation, and administrative innovation. Chuang has further categorized technological innovation into secondary dimensions: product innovation and process innovation; while administrative innovation remains distinct from the other two. Under Mavondo, Chimhanzi and Stewart's study, organizational innovation was distinctively classified into three dimensions, namely: product innovation, process innovation and administrative innovation. The present study divided organizational innovation into the main dimensions of product innovation, process innovation and administrative innovation based on the most prevalent types that have been discussed in the previous literatures. Product innovation, process innovation and administrative innovation are the important predecessors for manufacturing firms and have the equal capability to improve performance or effectiveness, solve problems, add value, and create competitive advantage. Given the importance of product innovation, process innovation and administrative innovation in enhancing manufacturing firm performance, therefore, the organizational innovation is operationalized to be multidimensional comprising of these three types of organizational innovation. Product innovation is a systematic work process which drawing upon existing knowledge gained from research and practical experiences directed towards the production of new materials, products and devices, including prototypes.

Human Resource Training

As the world is becoming more competitive and unstable than ever before, manufacturing-based industries are seeking to gain competitive advantage at all cost and are turning to more innovative sources through HRM practices. HRM practices have been defined in several aspects. Schuler and Jackson defined HRM practices as a system that attracts, develops, motivates, and retains employees to ensure the effective implementation and the survival of the organization and its members. Besides, HRM practices is also conceptualized as a set of internally consistent policies and practices designed and implemented to ensure that a firm's human capital contribute to the achievement of its business objective. Likewise, Minbaeva viewed HRM practices a set of practices used by organization to manage human resources through facilitating the development of competencies that are firm specific, produce complex social relation and generate organization knowledge to sustain competitive advantage. Against this backdrop, we concluded that HRM practices relate to specific practices, formal policies, and philosophies that are designed to attract, develop, motivate, and retain employees who ensure the effective functioning and survival of the organization.

Among the main approaches to develop HRM universal or best practice approach; strategic HRM practices approach; contingency approach; and configuration approach, previous studies revealed that HRM practices, which were related to organizational innovation, mainly focused on universal or best practice approach. A review of the literature demonstrates five common practices that have been consistently associated with innovation, encompassing performance appraisal, career management, reward system, training, and recruitment.

Developing management effectiveness

The learning process occurred to improve the stock of knowledge available to the organization and to amplify the value of its intellectual assets, such as innovation capital when knowledge is acquired and applied. If an organization demonstrates competence in knowledge management, it can be considered as having a knowledge management-orientation. Knowledge management has been broadly defined from many perspectives. Wiid viewed as a set of activities that lead an organization in acquiring knowledge both internally and externally. According to Salisbury, knowledge management is defined as the deployment of a comprehensive system that enhances the growth of an organization's knowledge. In an effort to expand the knowledge management discipline, knowledge management can be defined as the management functions that encompass the creation of knowledge, management of the flow of knowledge within the organization, and usage of knowledge in an effective and efficient manner for the long-term benefit of the organization. Hence, knowledge management effectiveness is regarded as a management discipline which focused on the development and usage of knowledge to support the achievement of strategic business objectives.

Knowledge management effectiveness can be analyzed from a process perspective. In general, knowledge management effectiveness can be conceived as the effectiveness of an organization in managing the knowledge acquired, shared, and applied by its employees. In summary, knowledge management effectiveness is conceived as a process to enhance knowledge application to achieve organizational innovation for improving business performance. Organizations that effectively manage their knowledge within organization will have higher organization innovation in turn to achieve breakthrough competitive advantage.

Human Resource and Innovation

Resource-based view and Ability, Motivation and Opportunity theory appear to be the most popular theories applied in the studies that link HRM and performance. RBV argues that human resource is one of the organization's resources, a subset of which enable them to achieve a competitive advantage, and a subset of those that lead to superior long-term performance. The AMO theory illustrates that when employees are motivated, they are likely to perform better, leading to higher firm performance. HRM practices play an influential role in motivating employees to exhibit favourable attitudes and behaviours, which are required to support and implement the competitive strategy of an organization. According to Wang innovative firms treat HRM practices as the organization's strategy to encourage team responsibilities, enhance organizational culture, and build up customer relationships through participation and empowerment. In turn, it will help to create and market new products and services. When firms develop and introduce new product, new process and/or new administrative practices, they require innovative and creative employees, who are flexible, risk taking, and tolerant of uncertainty and ambiguity. These employees are highly recognized in manufacturing industries as they contribute to firm on the basis of market responsiveness, product and process innovation. Therefore, it is important for a firm to implement supportive HRM practices that can motivate and stimulate employees to be innovative. On the basis of arguments put forth by previous scholars, we would expect HRM practices to be positively related to organizational innovation.

For instance, performance appraisal increase employee commitment and satisfaction since employees are given chance to discuss about their work performance. This, in turn, will lead them to perform greater in innovative activities. In a similar vein, career management assist employees to attain their career goals and objectives. If employees are likely to feel satisfied with their career management, which in turn, lead to motivate them to perform in innovative activities. Training helps employee master knowledge, skill, and ability which would be contribute to innovation in terms of products, production processes, and management practices in daily operation. Hence, training develops the knowledge, skill, and ability of employees to perform effectively in their job that will lead to higher organizational innovation. Reward system provides financial reward, promotion and other recognition, in order to motivate employees to take risk, develop successful new products and generate newer ideas. Reward system encourages employee to become motivated, thereby increase their participation in contributing innovation ideas, which leading to high organizational innovation. Recruitment involves employing and obtaining appropriate and competent candidates through external sourcing. Recruitment gives greater importance to be attached to fit between person and company culture. Hence, the high level of implementation of recruitment that attaches individual organizational fit is likely to result in high organizational innovation. Drawing upon the argument given above, thus, our main hypotheses are constructed as follows:

H1: The level of HRM practices (performance appraisal, career management, training, reward system, and recruitment) will be positively related to the organizational innovation (product innovation, process innovation and administrative innovation).

- H1a: The level of HRM practices will be positively related to the product innovation.
- H1b: The level of HRM practices will be positively related to the process innovation.
- H1c: The level of HRM practices will be positively related to the administrative innovation.

Developing management effectiveness as a mediator

A number of scholars, such as Hilsop, Morrow and McElroy and Moynihan et al have argued on the missing link between HRM practices and organization outcomes. The missing link between HRM practices and organization outcomes illustrate the existence of a black box. The black box model indicated that there is an unknown apparatus which is apparently invisible in increasing organizational innovation. Knowledge management is recognized as the fundamental activity for obtaining, growing and sustaining intellectual capital in organizations. Knowledge management is not only served as predecessor to organizational innovation, but also an intervening mechanism between organizational factors and organizational outcomes. Previous studies have examined the role of knowledge management as a mediator. For instance, Tung's study evidenced that knowledge management mediates the relationship between an organization's culture and structure, and organizational effectiveness. Rashid Alshekaili's study reveals that knowledge management mediates the relationship between human capital and innovation performance. Since HRM practices are assumed to be a managerial process that allows firms to manage effectively so as to improve the organizational innovation, it is important to view knowledge management effectiveness as the —black box underlying the relationship between HRM practices and organizational innovation, which has been omitted in previous studies. Thus, this study sought to examine the indirect relationship between HRM practices and organizational innovation via knowledge management effectiveness. Therefore, we hypothesized that:

H2: Knowledge management effectiveness mediates the relationship between HRM practices (performance appraisal, career management, training, reward system, and recruitment) and organizational innovation (product innovation, process innovation and administrative innovation).

- H2a: Knowledge management effectiveness mediates the relationship between HRM practices and product innovation.
- H2b: Knowledge management effectiveness mediates the relationship between HRM practices and process innovation.
- H2c: Knowledge management effectiveness mediates the relationship between HRM practices and administrative innovation.

2. CONCLUSION

. Human Resource is responsible for maintaining good human relations in the organisation. Organizational innovation has been widely defined as the creation of new idea and new behaviour to the organization. Performance appraisal increase employee commitment and satisfaction since employees are given chance to discuss about their work performance. This, in turn, will lead them to perform greater in innovative activities. Knowledge management is not only served as predecessor to organizational innovation, but also an intervening mechanism between organizational factors and organizational outcomes. For any organisation to function effectively, it must have resource of men, money, materials and machinery. The resources by themselves cannot fulfil the objectives of an organisation, they need to be collected, co-ordinated and utilised through human resources.

