Fostering Organization Culture & Innovation through Strategic Human Resource Management

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Abstract:
Continuous changes in the economic scenario and intense competition in the public and private sectors have compelled the organizations to undergo radical changes in its approach towards business. Innovation is one of the vital processes through which organizations achieve competitive advantages in the dynamic knowledge driven economy. Effective management of human capital is a key component for organization wide innovation. This paper focuses on the essential human resource policies and practices through which organizations can create and preserve a culture which fosters innovation. Strategic HRM initiatives are targeted at nurturing the desirable skills and behaviors in employees which are in tune with an innovative organization.

Key words: SHRM, innovations, organization culture, competition, strategies

1. Introduction

Innovation has nothing to do with how many R&D dollars you have…..It's not about money. It's about the people you have, how you're led, and how much you get it.   - Steve Jobs, Fortune, November 9th, 1998.

Many organizations put great emphasis on and effort into formulating strategies to achieve competitive advantage. Yet strategy itself is less important than the organizational capability to execute, which further depends heavily on organizational culture. Culture is critical to any organizational success and perhaps is the most important area through which Human Resource can help an organization improves innovation.

Organizations can innovate by introducing new products and services or technologies. Adoption of a new way of operating the business can be termed as innovation. Formulation   and execution of new business models and strategies and formulation of a new organizational structure to facilitate changed work processes are part of the innovative process. An innovative organization constantly focuses on finding the problems and weaknesses in the products produced or the service delivered by it through the observation of process and feedback from customers. A close follow-up of the current trends in the market, strategic moves of the competitors and changing pattern of consumer demand are the essential requirements for an organization to be innovative.

The next stage is the generation of ideas about a new product or service which can fix the existing   problems or provide an edge to the organization over its competitors. The most important stage is the execution of these ideas which would actually result in an improved performance for the organization. The key difference between creativity and innovation is execution: the capacity to turn an idea into a successful service, product or venture.

The importance of innovation in the present global context need not be overemphasized. According to a survey conducted by conference board, in 2004, among the CEOs of global companies, innovation was ranked as the fourth highest priority from a list of 62 challenges. As innovation is also an enabler of customer loyalty, the third highest priority in the survey, it gains more importance.

The opinions expressed in the survey indicate that innovation is not only a desirable but essential component for achieving other objectives of the organization. In the survey, CEO expressed the opinion that innovation can lead to enhanced competitiveness in developing countries.
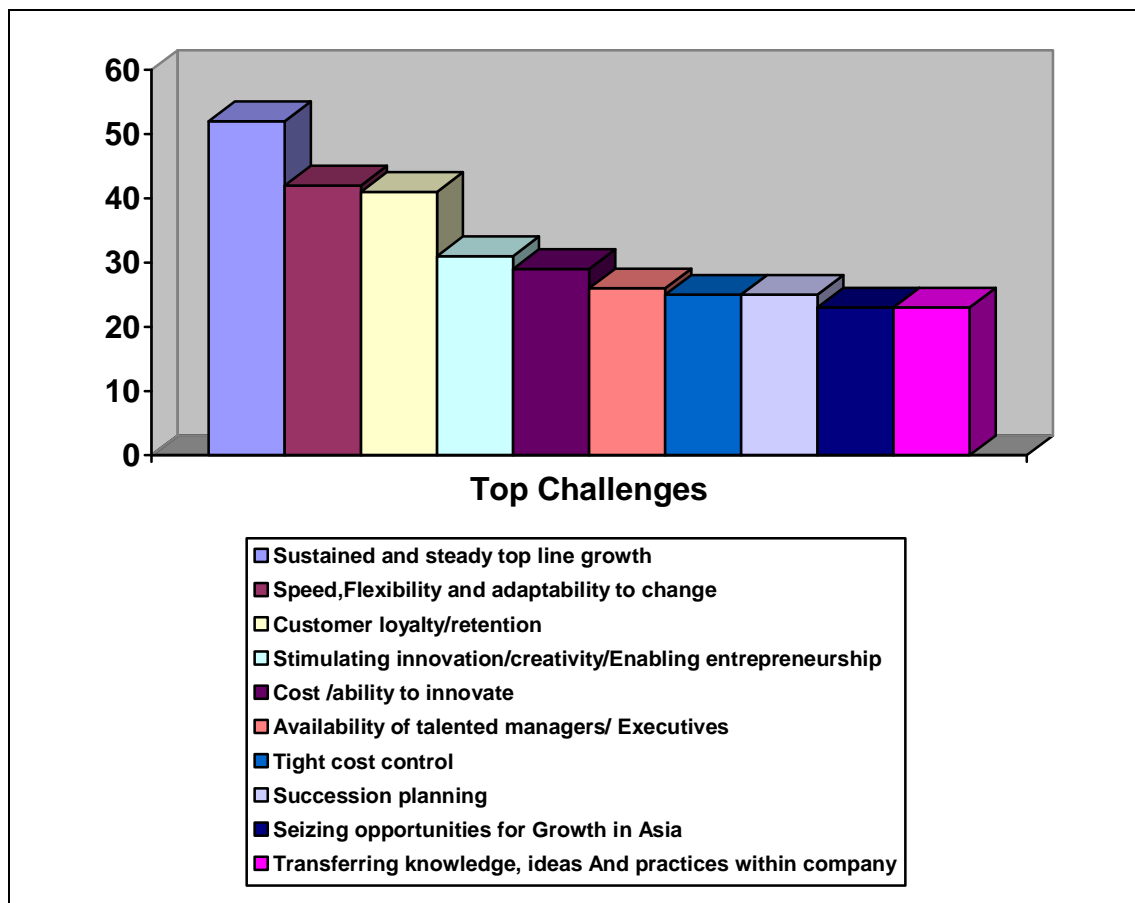
Figure 1: Top Ten Challenges Worldwide
(Source: CEO Challenge 2004: Perspectives and Analysis, the Conference Board)

2. Review of Literature

The review of literature reveals that organizations today are open to many changes and innovation. Chung Ming Lau (2004) An HR system which emphasizes extensive training, performance-based reward, and team development is necessary to create an organizational culture that is conducive to innovation.

David Grey (2009) in HBR mentions, strategies for workforce can be changed, modified or adopted as per choices available in organizational structure.

Organizations are in the process of changing over to new practices for better performance, linking performance with rewards and motivating high performance (Clarks Hoffman, 2002)

3. The Strategic Role of Human Resource Management

The primary responsibility of strategic HRM function is to help in generating innovative ideas in the organization. Ideas can evolve inside the organization or it can be borrowed from outside. Anyone can be the source of ideas for an organization: Suppliers, partners, customers and even competitors. In order to create a systematic process of idea generation within the organization, HRM can be a crucial player. Through the formation of cross functional, cross hierarchical groups and teams focused on innovation, organizations can reap benefits. Conglomerate businesses can form cross-unit teams to facilitate the generation of ideas or transfer of knowledge.

For creating a culture of innovation, it is not sufficient only to facilitate the idea-generation process but the HRM function has to continuously support the idea generation process with linked measures. This linkage or alignment is to be achieved right from the process of human resource planning. The HR department has to identify the Key Performance Areas (KPAs) needed for the crucial designations.

During recruitment, the candidates' skills, abilities, and experiences have to be matched with the organization's innovation requirements.

The selection process has to be designed accordingly so that only those candidates who have the essential and desirable qualities are ultimately entered into the organization. While selecting someone at the senior position, the organization has to be extra careful in selecting someone with proven track record in innovation.

It is very important that the new employees and executives at all levels are properly communicated about the innovation culture within the organization during the initial days and the induction process.

Mind Tree Consulting, a fast growing software development company in India, spends a substantial amount of time in communicating the organization's principles of "Imagination, Action and Joy".

For best utilization of the acquired talent in the company, the people have to be placed in appropriate job designations and groups. If an innovative employee is not facilitated by essential support from peers and resources, he can hardly contribute to the innovation process of the organization. Aligning the performance management and reward process of the organization in sync with performance of the innovative employees is another prerequisite.

Moreover Innovation has to be recognized and rewarded through monetary as well as non monetary benefits.

Let us look at how the HR function, through its activities, can create an innovation-oriented organization.

- **Recruitment and Selection**

  Experts have generally proposed application of a less formalized and implicit selection criteria for innovative organizations. The argument for a more open system of recruitment and selection is that it would allow employees to select themselves into innovative organizations. This will result in a desirable fit between the individual and the organizational goals. Psychological tests have been prescribed for identifying the right candidates but there is no general consensus on a best practice of recruitment and selection.

- **Socialization**

  Not surprisingly, experts and researchers in strategic HRM not only reach a consensus, but also emphasize on the importance of socialization in an innovative organization. Socialization involves acclimatizing an individual to the culture, norms and values of the organizations.

- **Training**

  Training activities in innovative organizations should be spontaneous, informal, and unsystematic and should encourage participation, according to RS Schuler, who is one of the eminent scholars in the strategic HRM field. Supporting his view, experts have said that the training process should be continuous, less structured, and should stress on individualized knowledge requirements. This form of training would enable employees to adjust to the changing conditions in a more appropriate manner. In innovative organizations, intense training should be provided where employees develop a broad range of skills. There is a different school of thought although, which is in favor of a very little amount of training.

- **Career Development**

  In an innovative organization, broad career paths which develop employees based on implicit rather then specific criteria are more adaptable. This is more suitable for changing circumstances and all round development of employees. Traditional methods of career development planning are unlikely to facilitate innovation in organizations. A progressive career development program attracts highly skilled employees to innovate employees, as it provides greater scope for advancement in a variety of different positions. At the same time, an effectively designed "promoting from within" policy motivates employees for better performance.

- **Performance Appraisal**

  HRM department should be focused on formulating a performance appraisal scheme which communicates a tolerance for failure and which provides employment security. An approach to performance appraisal with a long term perspective and result oriented approach influences employee motivation in innovating the organizations. Research suggests that appraisals which assess group rather than individual achievements are most likely to achieve positive results.

- **Compensating Systems**

  Designing the right compensation structure for an innovative organization is arguably the most contentious issue among scholars as well as practitioners. There are contrasting views which lay emphasis on individual incentives and group based incentives. There is also a debate whether results or behavior should be the main parameter for rewarding employees. While some authors on strategic management argue that innovating organizations should adopt compensation systems which stress on external or market based equity, others argue that internal equity should be emphasized. However, the consensus is that the designing of the compensation package should be flexible and it should include employee stock options.

As there are conflicting opinions about the best suited HRM approach in innovative organizations, the key decision makers have to be very cautious about making a choice among different options. A crucial aspect here is the "horizontal fit" or "internal congruence" among the different HRM functions, which effectively points out, there might be a possibility of having "deadly combinations"- bundles of HR practices which neutralize rather than reinforce one another. Notwithstanding the difference in opinions among the strategic HRM specialists, empirical results form different surveys have established a set of HRM practices which are most suitable for an innovative organization. Significantly, these bundle or set of individual HRM practices are similar to the ones known for high performance organizations. These are as following:

- Extensive skills training
- Incentive compensation
- Promotion from within
- Result- oriented appraisals
- Employee participation
- Employment security

4. Conclusion

Indian economy has been showing signs of unprecedented growth for the last three financial years. Buoyant domestic economy has propelled some major Indian companies to acquire foreign companies in the last couple of years. Gradually, as Indian companies are making their presence felt at the global scale, there is a renewed importance to the strategic management of human resources. To compete and prosper at the global level, innovation is something which companies cannot do without. At a stage, when HRM is trying to find a more important and strategic place in the decision- making of a company, a vital role is to be played by it for driving and empowering innovation.

5. References

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