

HUMAN RESOURCE MANAGEMENT PRACTICES AND ITS EFFECT ON ORGANIZATIONAL INNOVATION IN THE BANKING SECTOR

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ABSTRACT

This paper examined the influence of Human Resource Management Practices and Organizational Innovation. The paper reviewed literatures on human resources practices and organizational innovation. Based on the review, it was concluded that HRM Practices influence product, innovation, process innovation and administrative innovation of banks in Nigeria. The paper recommends that organization in order to be innovative and also remain innovative should engage in active HRM Practices.

Keywords: Human Resources, Practices, Organizational, innovation

INTRODUCTION

Unfortunately, the Nigerian banking sector is still backward in terms of innovation. The banking operations and functions which were intended to meet emerging challenges of bank consolidation, slashing operating cost, outsourcing, portfolio investment, payments and settlement system call for adequate human resource management practices through innovation. Impala (2005) posited that the objectives of banking system are to ensure price stability and facilitate rapid economic development. Regrettably these objectives have remained largely unattained in Nigeria as a result of some deficiencies in our banking system, these include; low capital base, as average capital base of Nigeria banks was about \$10 million which is very low, a large number of small banks with relatively few branches, the dominance of a few banks, poor rating of a number of banks, weak corporate governance evidence by inaccurate reporting and non compliance with regulatory requirements, insolvency as evidenced by negative capital adequacy ratios of some banks, eroded shareholders fund caused by operating losses, over dependence on public sector deposit, and foreign exchange trading and the neglect of small and medium scale private savers. Practicing good human resource management enables managers to express their goals with specificity, increasing worker comprehension of goals, and provide the necessary resources to promote successfully accomplishment of said goals. Though some authors like Preffer in Wikipedia, Derlery & Doty (1996) assert that there are some best practices for achieving competitive advantage which consistently lead to higher organizational performance, independent of an organization's stated strategy like employment security, selective hiring, extensive training, sharing information, self-managed teams, high pay based on company performance and the reduction of status differentials. Fornbrum, (1984) in Ashok Som, 1(2007) opines that HRM practices such as recruitment, selection, training, appraisal and reward system can be construed as an innovation, when practiced for the first time in an organization.

Despite numerous efforts by renowned authors on organizational innovation, our organizations, especially within the Nigerian work environment are still not innovative.

It is on this premise that the author wishes to explore the effect of Human resources management practice on organizational innovation.

HUMAN RESOURCES MANAGEMENT PRACTICES

Salisbury (2003) claimed that HRM practices established the tone and conditions of the employee-employer relationship which can encourage or discourage employees to become more innovative. Most studies on HRM practices suggest that high-commitment practices by their very nature enhance employee commitment. Agarwala in Tan & Nasurdin(2010)

Human resource management practices comprise of a system that attracts, develops, motivates, and retains employees to ensure the effective implementation and the survival of any organization and its members. Heathfield S. (2008) defined HRM as the function within an organization that focuses on recruitment, management, and providing direction for the people who work in the organization. She identified the following as the HRM practices - compensation, hiring, performance management, organizational development safety, wellness, benefits, employee motivation, communication., administration & training. Shipton et al (2005) in Oltra & Alegre (2011) and Tan & Nasurdin 2010 declared that effective management of a firm's human resources would be able to promote innovation by enabling employees to create, transfer, & institutionalize knowledge. Harter et al (2000) in Cole & Cole suggested that HRM practices can generate increased knowledge, motivation, synergy, and commitment of a firm's workers, resulting in a source of sustained competitive advantage for the firm. In the same vein Damanpour & Gepalakrishnan (1998) highlighted the role of HRM practices in predicting a firm's innovative behaviour for the firm.

Like other authors like Pfeffer in Wikipedia, Som A (2007), and standard Chartered Bank have all identified several HRM practices for achieving competitive advantage and have a working force with creative ideas to solve problems. The HRM practices include variety of activities, among them are deciding the staff needs of an organization and whether to use independent contractors or hire employees to fill these needs, recruiting and training the best employees, ensuring they are high performers, dealing with performance issues, and ensuring that personnel and management practices conform to various regulations. Activities also include managing employee benefits and compensation, employee records and personnel policies etc. Tan & Nasurdin (2010) in their research work on similar topic tested 5 independent variables of HRM practices such as performance appraisal, career management, training, reward system and recruitment.

Tan and Nasurdin (2010) research revealed that Agarwala (2003) argued that organizations need to continually modify their HRM practices in line with the changing business environment and growing expectations and aspirations of the workforce, as a result employee commitment will be fostered, which in turn leads to increased performance for an organization, improved well-being and development for the employees.

Although no agreement have been reached as to what constitutes best practice especially for banks. With effective HRM practices, employees will be encouraged to experiment new ideas, developed shared understanding with one another, and implement changes in a firm's activities which will contribute positively to an organizational innovation.

Tan & Nasurdin (2010) argued that HRM practices that encourage exploration rather than exploitation can give rise to three types of innovation - product, process and administrative and emphasized that the level of such practices, the higher would be the level of innovation in products, process and administration. The review so far shows that the researchers focused on manufacturing firms, the HRM practices that were considered by Shipton et al (2005), Jemenez-Jemenez & Sanz-Ville, (2005), Laursen & Foss, (2003) in Tan & Nasurdin (2010) are performance appraisal, career management, training, reward system and recruitment and their studies show that the level of HRM practices (performance appraisal, career management, training, reward system and recruitment) will be positively related to

the level of organizational innovation. Hence, this research work will focus on the HRM practices and organizational innovation and the mediating role of corporate culture.

Gupta and Singhal (1993) were of the opinion that 'people, not products are an innovative company's major assets, a widely accepted statement now. They identified four dimensions around which HRM strategies can foster innovation and creativity: HR planning, performance appraisal, reward systems, and career management.

Since people are an innovative company's main asset, and through these people the achievement of organizational goals can be facilitated. Performance appraisal identifies who or what delivers the critical performance with respect to the business policy and objectives, and ensures that performance is successfully carried out (Roberts 2001). Evans in Edwardson 2003, suggests that on the basis of what gets measured normally gets done, it is important that firms consider the culture component in their performance management systems. Moreover, she recommends that a balance scorecard method be adopted if employees are to recognize that the firm is taking corporate culture seriously. Shipton et al (2005) suggested that "sophisticated approaches to recruitment and selection, induction, appraisal and training predict organizational innovation. He stated that training and induction were innovation predictors and added team working and exploratory learning HR practices (e.g. engagement with customers and suppliers or on the job development) as innovation supportive practices. HRM practices which is the management of an organization's employees, effective practice within an organization requires a strategic focus to ensure that people resources can facilitate the achievement of organizational goals. Gupta and Singhal (1993) said that-people not products are an innovative company's major assets they identified 4 dimensions around which HRM strategies can foster innovation-planning, performance appraisal, reward systems and career management.

Zarraga and Bonache (2003) in Suliman 2007 write that traditional reward systems reward those who produce rather than those who share. Therefore, if an individual is rewarded for what he/she knows and others do not know, he/she is being assessed as doing his/her job better than his/her colleagues, and sharing and disseminating has a high cost to the individual. Knowledge sharing rewards is about lowering the cost of sharing or, also, increasing the benefit associated with that type of behaviour. In addition, they argue that group incentives, promotion systems that encourage individuals to be more cooperative and 360° appraisal systems are practices that help create a suitable climate for the transfer and creation of knowledge. According to Narsudin & Tan 2010, most literature review shows five common practices that have been consistently associated with innovation which are performance appraisal, career management, reward system, training, and recruitment- (Gupta & Singhal 1993, Jimenez-Jimenez et al 2005, Laursen & Foss 2003). The researcher adapts these practices - performance appraisal, career management, employee, training and development and which are in line with above practices.

ORGANIZATIONAL INNOVATION

Most literature review has classified organizational innovation into 2 major types namely technological innovation, and administrative innovation; Tan & Nasurdin (2010). Chuang (2005) further categorized technological innovation into secondary dimensions; product and process innovation, while administrative innovation was distinct from the other two. In Stewart (2003) study, organizational was classified into three dimensions product, process and administrative innovations. Therefore, this study shall be classified into the main dimensions as categorized by Tan & Nasurdin (2011) & researchers like Chuang (2005) in Tan & Nasurdin (2010), Damanpour et al, (2006), etc, though their study was based on

manufacturing firms, this study shall focus on the service firm (Banking industry) rather than the usual manufacturing firms, Human Resources Management (HRM) practices and organizational innovation. Since organizational innovation is a broad concept as was identified by Gera & GU (2004) which includes strategies, structural, and behavioural dimensions- competitive strategy (i.e. role of innovation, costs, people etc), structural characteristics of the organization such as hierarchy, functional lines, and organizational boundaries, work processes including the use of different production inputs, the flow of work etc, organizational innovation is operationalized to be multi-dimensional consisting of the three types

1. Product innovation
2. Process innovation
3. Administrative innovation

Damanpour & Gopalakrishnan (2001) defined **product innovation** as the development and commercialization of new product to create value and meet the needs of the external user or the needs of the market. Product innovation is systematic work process which draws upon existing knowledge gained from research and practical experiences ejected towards the production of new materials, products and devices.

Process innovation is viewed as a creation of new process or improvement to existing process. It involves the implementation of a new significantly improved production or delivery method, which includes changes in techniques, equipment etc. While **Administrative innovation** is viewed as performance derived from the changes to organizational structure and administrative process, reward and information system, and it encompasses basic work activities within the organization which is directly related to management (Chow, 2000, Damanpour & Evans, 1984). Administrative innovation ensures that firms should have routines and procedures in place to design and produce products or create services, and how to get these products to end users. For the purpose of this study, **Product innovation** is defined as the introduction and subsequent creation of a good or service that is either new or improved on previous goods or services of its kind which should be of value to its consumers. While process **innovation** is the approach attempted to plan the most efficient, effective and direct ways of achieving the introduction and creation of new product or improving on existing ones.

Administrative innovation is a change in an organizational structures administrative processes.

THEORETICAL FRAMEWORKS

The Nigerian banking sector experienced dramatic change in post-consolidation, neither the industry nor the regulators were adequately prepared to maintain and check the sector's explosive growth.

One of the ways banks should restructure themselves is to create and deliver value to its stakeholders in the face of this global competition, technological advancement, greater customer expectations etc is innovation through human resource management practices.

Scholars such as Corso et al, 2001, Du Plessis 2007) in Tan & Narsuridin 2010, see innovation as one of the key factors underlying a firm's long-run competitive advantage. In similar way, Lagrosen (2005) said new market and growth possibilities can be created through innovation.

Innovation according to Damanpour & Evan 1994 is the adoption of idea or new behaviour to a system. In this research work innovation will take the form of a new product or service,

a new production process and a new structure or administrative system, It has been acknowledged that effective HRM practices are significant in extracting positive work behaviour among staff which will equally lead to organizational innovation. Harter in Tan & Nasuridin 2010 suggest that HUM practices can generate increased knowledge, motivation, synergy and commitment of a firm's employees, resulting in a source of sustained competitive advantage for firm. Some researchers argued that there should be need to research more on the indirect relationship between HRM practices and organizational innovation since knowledge exist in an individual and given the role of HRM practices in influencing an individual's attitude and behaviour, it is believed that HRM practices have significant and positive relationship on organizational innovation through corporate culture. The post-consolidation of the banking industry in Nigeria by the CBN governor Sanusi Lamido Sanusi has propelled the banks in Nigeria to strive to transform their business model, seek new ways, ideas, and creative solutions in improving their current product, process, system and technology.

Therefore, HRM practices set the tone and the condition of the employer-employee relationship which can encourage the employees to become more innovative, meaning that if these HRM practices are properly straightened, it can play a vital role in contributing to the management of organizational culture, and innovation will be realized through the ability to use the culture to identify and pursue the opportunity. In identifying and pursuing this opportunity for innovative ideas, bank managers ought to create a culture and attitude that make it attractive and easy for employees to take initiative to solve problems and develop innovative solutions.

Hence, this study is to examine the role of corporate culture as it affects the relationship between HRM practices and organizational innovation in some selected banks in Port Harcourt.

CONCLUSIONS

Based on the discussions above, the paper thus concludes that human resource practices influence product, innovation, process innocation and administrative innovation of banks in Nigeria.

Consequent on the following conclusions above, the researcher therefore recommends that;

1. Management should integrate some group of influential employees of their firms into the firm's career development programs, it is expected that such measures will give workers a sense of belonging and as such motivating them into enhanced productivity.
2. Employers of labour should strive to ensure that their organizational goals in some ways align with those individual goals of their employees since this could serve as a source of empowering the employees towards the achievement of their individual goals.
3. Workers should be given adequately on the job training and capacity development as this could be instrumental in equipping employees towards contributing positively towards the growth of the organization.

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