

Polina Ivanova

Supervisor

Natalya Borisova

Plekhanov Russian University of Economics

HR Innovation as a competitive advantage

Innovation has been long recognized as a source of competitive advantage. Although human resource (HR) is considered the most valuable asset in today's firms, how HR innovation enables firms to deliver superior performance remains an area of ambiguity. There is a general consensus that competitive advantage built on human resource innovation is not easily imitable, and therefore vital to the sustainability of firm growth and competitiveness. Yet, the primary focus of both practitioner and academic studies has been on technical (product and process) innovation with little attention paid to non-technical innovation such as HR innovation.

Non-technical innovation differs from technical innovation, which means that the approaches adopted to capture the latter may not be adequate and appropriate to understand the complexities involved in HR innovation. HR innovation therefore warrants closer investigation. Our work in HR innovation suggests that some questions of practical interest worth answering are: What form does HR innovation take? What is the role of HR professionals in undertaking HR innovation? How do HR professionals create and utilize knowledge resources required for HR innovation? What is the role of line and top management in successful HR innovation? And, how does HR innovation enable firms to compete better? This article addresses these questions while exploring how firms can gain competitive advantage through HR innovation.¹

Many of us have had great ideas or visions. How do we get more ideas and visions from all employees? And how do we turn these into reality? Too often, we think of innovation as the responsibility of a product team or a business unit. Innovation springs from the minds of creative individuals working in an environment that spawns and encourages innovation.

¹ U.Amarakoon, J.Weerawardena, & M. Verreyne Competitive Advantage Through HR Innovation, September 8, 2014, The European Business Review

HR leaders need to understand the critical importance of innovation today and how to contribute to your organization's Innovation mandate by attracting and keeping the most innovative people, constantly improving their skills and creating a culture of innovation. This will enable your organization to differentiate itself. These are a part of the role of HR. HR innovation can happen in any firm at varying degrees. It can be as simple as a firm changing from paper-based recruitment advertising to on-line advertisements.

This may require major changes in strategy and tactics of personnel management, the understanding of need in a qualified workforce, in the intellectual resources that in future can be transformed into intellectual capital. However, practice shows that the achievement of organizational goals is impossible without the understanding and support by the majority of employees. Appropriate motivation is needed.

Analysis of the theory and practice of modern personnel motivation systems helps to discover such exceptional features of modern motivation systems as: flexibility, the ability to be modified or restructured, the search for innovative solutions to improve the competitiveness of personnel, integration of personnel motivation in a management system of the enterprise.

As the main trends of motivation system development we have identified innovation-oriented strategy, implying the involvement of the maximum number of employees in the process of innovation. In our opinion, the structure of the motivation system, structured for innovative development should include HR strategy, its organizational structure and methodological basis of motivation, a flexible motivation model, including its tools and techniques and a business project to increase staff competitiveness. An algorithm for constructing such a system includes the definition of the formation stages and implementation of innovation-oriented motivational strategies, which, in turn, involve the use of innovative tools and management techniques.

Modern tools and methods include both traditional (financial and non-financial ones), and new, innovative ways to motivate staff through the system of corporate training (business training, business games, tests, questionnaires, interviews, etc.), coaching, development and implementation of business motivation projects, marketing competition research, monitoring of business processes, etc. For example, particular attention Russian HR management focuses on the least discovered but the most growing tool.

Analysis of the coaching theory and practice evolution drives us to perceive it as technology to improve the efficiency of management activities within the

strategy of innovative development of the organization. Coaching brings out the internal potential, a resource person, which a person does not know or can not independently implement, determine the direction of its development. This method specificity is in its ability to educate a person to deal and be able to solve problems, being only an expert in the decision making process, having no influence. We define coaching as a way to enhance the competitiveness of the individual worker and the entire staff. It seems that it strengthens corporate opportunities to improve personal liability, disclosure of emotional intelligence, motivation to achieve corporate goals, overcome resistance to change, to improve the microclimate in the team, the disclosure of its total capacity to prevent turnover. This approach allows us to consider this as an element of modern corporate training, the specifics of which is to reveal the innovative capacity of the individual, training programs, tools and training methods, giving, ultimately, an effect of synergy.

It is commonly believed that, the desire to learn is awakened either internal or external motivation, or a combination thereof. The reward is the process of acquiring new knowledge and skills.

HR innovation is an HR management activity adopted by a firm that is new and value creating to the adopting firm. The degree of HR innovation differs based on the degree of newness, extent of change, number of employees affected, and nature of its outcomes. To illustrate, the 20% Project introduced by Google, which allowed their engineers to work on pet projects 20 per cent of their paid working time (that is one day a week), was a radical innovation in Google's work design. The 20% Project was an innovation that added value by improving motivation and performance, retaining current employees and attracting new talent.

Before we can understand how we can help our organizations with its innovation agenda, we need to understand the meaning of innovation. What is innovation? For many of us, innovation means the introduction of new technology and inventions—such as the internet, cell phone, etc. It is true that innovation led to the development of these new products but innovation is much more than that. Innovation goes beyond technology and requires collaboration from many areas to come together to achieve success. Innovation is a collaborative process; where people in many fields contribute to the implementation of new ideas.

David Neeleman, founder and CEO of JetBlue started a new airline at a time when the marketplace was flooded with airlines. He said; "Innovation is trying to

figure out a way to do something better than it's ever been done before." To accomplish this his edge was innovation.²

The essential first step for HR innovation is to identify a requirement or an opportunity for innovation by HR professionals. Thereafter HR professionals must assess associated risks and resource requirements. Every HR change comes with risks such as the risk of investment, implementation failure, and failure to deliver desired outcomes. Therefore, the decision to undertake innovation has to be made with a good understanding of associated risks and resources. Although the size of the firm may affect resource availability to undertake HR innovation, evidence from the in-depth interviews we had in Australian manufacturing and service firms suggests that firms irrespective of their size undertake HR innovation. However, **all HR innovations required HR professionals to acquire, share, and integrate, new knowledge.**

HR professionals pursuing HR innovation acquire new knowledge from both external and internal sources. External knowledge may include, but is not limited to, learning from competitors, industry networks, customers, and previous work experience. Internal knowledge often includes trial and error learning and learning from line managers and operational employees. HR professionals must maintain an appropriate balance between external and internal learning efforts as any emphasis on one form of learning will lead to an imbalance. For example, if HR professionals of a firm heavily invest in external knowledge generation, ignoring internal knowledge, there is a higher probability that they will focus more on the latest HR trends rather than identify what is actually required by the firm. HR is a support function of the firm. Therefore, it is essential for HR professionals to develop a thorough understanding of the firm's HR requirements.

Consider the Google example mentioned earlier. Google is not the first to introduce programmes similar to its 20% Project; 3M and HP had similar programmes and obtained many positive outcomes. When Google faced the challenge of maintaining an innovative firm culture and providing challenging jobs to its highly talented workforce, people operations of Google learnt from its external environment. Google's programme, even though conceptually similar, is significantly different from others in terms of flexibility and resource allocation and is designed to match Google's requirements. Therefore, it demonstrates a high degree of internal learning too.³

² M. Stanleigh Innovation: A Strategic HR Imperative, March 12,2012, Business Improvement Architects

³ M. Stanleigh Innovation: A Strategic HR Imperative, March 12,2012, Business Improvement Architects

The work that we undertook in the Australian service and manufacturing context also suggests that firms that undertake a higher degree of HR innovation have HR professionals who actively acquire internal and external knowledge. To illustrate, in our in-depth interviews the HR manager of a mining service provider and the general manager HR of an Australian financial service institution respectively related to their internal and external knowledge acquisition:

‘We need to understand how other departments work, how they relate and interact with each other, what their problems and issues are, for us to deliver our services effectively’ or ‘We do a lot of research externally to say, okay well that’s what is happening’.

According to Susan Meisinger, former President and CEO of the Society for Human Resource Management, “The takeaway for me in all this is we all think these things matter, but most of us are not doing something about it.” Secondly, she adds, “It is difficult; if it were easy, we’d all be doing it.”⁴

Hiring for innovation requires that we identify people who can **"think outside the box."** Let's not assume that everyone is equally innovative, but instead let's recruit people for their innovation capabilities. Are they inquisitive? Are they locked into one viewpoint or willing to consider others? Are they open to new ideas, new concepts? These questions have a lot to do with how people are recruited and how their skills are improved to welcome innovation.

Seth Waugh, CEO of Deutsche Bank Americas, advises, “You must have people with that hunger to always learn, who are always open and who think about things in a different way.”

Intuit, a manufacturer of financial management software including Quicken, ensures their culture is sustained through their hiring process by making sure that every new employee understands their "Customer Evangelist Culture" that has resulted in tremendous customer loyalty and market share growth.

Another **example of a culture that drives innovation** is Apple. What makes Apple so unique and competitive is that on top of their great products, they also seem to have a great culture, and it’s this culture that drives their innovation, and hence their superior products.

It’s interesting that even though Apple has been around since the 1970’s, it hasn’t developed the rigidity that is so apparent in many long established companies, yet they have changed their CEO over the years and grown

⁴ M. Stanleigh Innovation: A Strategic HR Imperative, March 12,2012, Business Improvement Architects

considerably. They have somehow managed to retain a casual working environment and resisted any real push for policies and procedures or dress codes or time sheets. They continue to create a common desire, energy and enthusiasm to develop great products and to overcome their competition.⁵

Today, Apple has about 35,000 permanent employees, yet continues to retain a culture of innovation through their HR practices. They hire, reward and recognize employees for a common desire, energy and enthusiasm to create great products. They encourage employees not to be afraid to fail. There is no punishment for this.

The ability to help create, protect and build **organizational culture** is a critical role for HR to play, as it **is a major driver for innovation**. However, management needs to support, plan for and nurture an innovation culture for innovation to be successful. The most powerful force in business is culture. While corporate culture is not necessarily the responsibility of HR leaders, the people who are hired and the training and cultural imperatives placed on the business are done so through the role of HR, so HR leaders can have a big impact on whether or not the organization is culturally attuned to innovation.

The Boston Consulting Group, McKinsey & Company and Booz Allen Hamilton completed studies, in 2007 on Innovation. On the positive side, the results indicated that it remains a high priority for most corporate leaders around the world; they recognize it as a key growth driver. Unfortunately, they also found that there is a broad belief that most organizations don't have the leadership, systems, or tools to successfully and consistently innovate. As well, they found no statistically significant connection between the amount of money an organization spent on innovation and its financial performance.

An Unsupportive Culture is the Number One Obstacle to Innovation. An IBM Global CEO study in 2008 cited an unsupportive culture as the number one obstacle to innovation. Organizations that have a culture that supports innovation are often customer focussed, value-driven and strategic. They ensure that their operating strategies are developed through interactions with their: employees, customers, partners, vendors, suppliers and consultants. They review market trends and identify, through benchmarking, what is required to out-perform their competition.

⁵ U.Amarakoon, J.Weerawardena, & M. Verreyne Competitive Advantage Through HR Innovation, September 8, 2014, The European Business Review

A recent study by the Harris Group indicated that Executives see a culture of **innovation as crucial** to not only growing their business (95%) and profitability (94%) but also **for attracting and keeping talent** (86%).⁶

It is very difficult for management today to build successful innovation processes in organizations. This is because management is often encumbered with constant short-term, bottom-line oriented pressures as well as a shorter term to accomplish change. The decreasing lifespan of executive teams diminishes the focus on the long-term innovation process and tends to increase the focus on sustaining the status quo and existing product line. That's a dangerous move in volatile markets.

To move outside of this realm, organizations will need to re-evaluate how management performance is measured; the extent to which adding new products and services is included in the measurement of management's performance and how much time in management meetings is spent on innovation versus day-to-day business. Performance measures need to give consideration as to whether or not employees are given the time and resources to experiment, generate ideas, explore these and make presentations to management? Or is this done on an ad hoc, more haphazard basis.

For example, Google ensures their culture of innovation remains strong by giving their engineers time to invent. They spend 20% of their time working on projects they feel passionate about. And their performance reviews consider how they spent this time. Other characteristics of Google's innovation culture are⁷:

- They aren't afraid to take calculated risks; they hire for taking risks.
- They have developed a very flat organizational structure to foster innovation.
- All employees have easy access to face-time with senior management to present their ideas.
- They desire to get new products up quickly as a prototype so that customers can play with them, feel them and provide feedback on them. In this way, they can quickly improve them, re-launch them and make them great. If they wait until it's perfect before launching their experience has shown that they will: lose market share, increase development costs, and in some cases, never get to

⁶ M. Stanleigh Innovation: A Strategic HR Imperative, March 12,2012, Business Improvement Architects

⁷ M. Stanleigh Innovation: A Strategic HR Imperative, March 12,2012, Business Improvement Architects

launch a product that the customer actually wants. Striving for perfection before releasing innovation can be a killer.

Design and implementation of HR innovation in a firm should be an inclusive process that requires input from line management and recognition from top management. As mentioned earlier, new HR activities or practices should meet the requirements of the firm, or in other words, the requirements of the line management. Internal learning assists better understanding of line management requirements. However, evidence from our work suggests that those firms who undertake a higher degree of HR innovation go beyond knowledge acquisition and involve line managers in design and development stages of HR innovation.

Effective design and implementation of HR innovation importantly requires top management support, as well. There are two types of support: first, recognition for HR in general, which includes HR representation in top management, autonomy for HR professionals in strategically important HR related decision making, and confidence of the top management in the capabilities of HR professionals, and second, recognition of the proposed HR innovation which involves resource allocation for proposed HR changes and explicit endorsement by the top management. In situations where there is limited top management support, HR innovation suffers. To illustrate, a senior HR partner of an Australian subsidiary of a global construction service provider showed how its highly centralised decision making structure has limited the capacity of local HR to use local knowledge to implement HR changes. The changes imposed on them by their head office left no room for discretionary initiative at the local levels. As the senior HR partner stated:

‘The decisions around processes and systems are made in the US and they get rolled out in a similar fashion to the whole world. We have the opportunity to provide feedback, but it doesn’t change anything’⁸.

Getting support of top and line management alike is often dependent on the credibility of the HR function. Such credibility is earned when HR professionals are knowledgeable of firm requirements and what is happening in the external environment, which further underpins the importance of internal and external learning. Most importantly, credibility comes from their ability to deliver on promises.⁹

⁸ U.Amarakoon, J.Weerawardena, & M. Verreyne Competitive Advantage Through HR Innovation, September 8, 2014, The European Business Review

⁹ U.Amarakoon, J.Weerawardena, & M. Verreyne Competitive Advantage Through HR Innovation, September 8, 2014, The European Business Review

In July 2014 The Harvard Business Review (HBR) magazine published highly interesting article by Ram Charan, which last months has been very controversial topic to discuss among HR-management worldwide. Ram Charan is a business advisor to CEOs and corporate boards, and coauthor of the new book, *Boards That Lead*, with Dennis Carey and Michael Useem. He is the author or coauthor of 18 books, including the best-seller “*Execution*”. In interview to HBR he shared extremely new point of view on HR department structure, which is going to be huge innovation soon.

“My proposal is radical but grounded in practicality: Split HR into two strands: HR-A (for administration) and HR-LO (for leadership and organization)”¹⁰ – says Ram Charan.

The solution is radical, but it is grounded in practicality. The proposal is to split HR into two strands. One—we might call it HR-A - would primarily manage compensation and benefits. It would report to the CFO, who would have to see compensation as a talent magnet, not just a major cost. The other, HR-LO, would focus on improving the people capabilities of the business and would report to the CEO.

HR-LO would be led by high potentials from operations or finance whose business expertise and people skills give them a strong chance of attaining the top two layers of the organization. Leading HR-LO would build their experience in judging and developing people, assessing the company’s inner workings, and linking its social system to its financial performance. They would also draw others from the business side into the HR-LO pipeline. After a few years these high potentials would move to either horizontal or higher-level line management jobs. In either case they would continue to rise, so their time in HR-LO would be seen as a developmental step rather than a ticket-punching exercise.

This proposal is just a bare outline. There are already some of opposition to it today. But the problem with HR is real. Nowadays HR is main and one of the biggest structures in a company. One way or another, it will have to gain the business acumen needed to help organizations perform at their best.

To sum it all up, firms can utilize HR innovation to gain competitive advantage. Providing practical examples and evidence from our work in the Australian manufacturing and service setting, we suggest that all firms can undertake HR innovation, albeit in varying degrees. HR professionals drive this type of innovation, which requires them to acquire and integrate internal and external

¹⁰ R. Charan It’s Time to Split HR, July 26, 2014, Harvard Business Review

knowledge and obtain support from both the line and top management. We therefore argue that HR professionals who undertake HR innovations as sources of value addition and/or competitive advantage should not only engage in continuous learning from their internal and external environment, but also gain the respect and confidence of internal stakeholders. At a time when firms increasingly look for non-traditional sources of competitive advantage, we encourage viewing **HR innovation as a feasible path for the HR function to add value and contribute to competitive advantage.**

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