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Introduction
Globalisation and liberalisation of the world economy has resulted in widespread competition for big and small and organisations alike. To sustain today’s global competition an organisation needs to build upon its strategic advantage. Innovation is a decisive factor that allows the firms to go out of the traditional boundaries of the business world and hold an irreplaceable position in the market. Innovation embodies, combines and synthesises knowledge in unique, significant and novel products, services or processes. (Jolly, 2003)

Innovation is driven by employee skills, knowledge and abilities. It allows an organisation to create and transform ideas and put them into practice to gain a competitive advantage. Human resource practices have an important role to play in developing and enhancing knowledge and skills of the employees. Moreover, HRM is responsible for creating the work culture and environment which in turn drives innovation. (Verloop and Wissema, 2004)

This study will explore how human resource practices impact innovation by studying the HR practices at a small manufacturing company, widely known for its innovative products. The company was founded in the early 2000’s and began production in the mid-2000’s. It is based in New Zealand and employs less than 50 full time staff. The company has won multiple awards for its innovative products and remains leaders in innovation in its products.

The study covers three aspects within the company which have contributed to innovation in the organisation and HR practices that have addressed these aspects concluding with the recommendations towards the end. The three aspects the study covers are,

- Knowledge management processes and the innovation value chain
- Work culture of the firm
- Synthesis of knowledge and culture creating innovation.

Innovation Value Chain: Creating, Developing and Diffusing Knowledge
According to the knowledge based view, knowledge, skills and abilities of the employees in a company facilitate expertise and innovation in the organisation. People’s skills and abilities are vital as they are the repositories of firm’s competitive advantage in the dynamic market situations. (Youndt et al., 1996). Managing knowledge enhances productivity, flexibility and financial performance of an organisation and HR has a key role in building a learning organisation. (Collins and Clark, 2003)
According to Chen and Huang (2009), leveraging human expertise is an important aspect of innovation. Managing knowledge is a complex process and needs to address all the three stages of the innovation value chain, i.e. idea generation, conversion and diffusion. Hansen and Birkinshaw (2007) stress the fact that generation of ideas, concepts and knowledge to establish different mechanisms enables the firm to be competitive, innovative and protect itself from other businesses.

The CEO of the company acknowledges the role of managing knowledge as a key component of promoting innovation in the organisation. The company aims for implementing exemplary management practices to ensure the constant influx of knowledge in the organisation. The firm aims at going beyond the traditional boundaries of business and believes in articulating the company’s purposes in terms of knowledge and skills of their employees in order to deliver the best product to the consumer.

To ensure knowledge flow in the organisation, the company has various practices implemented to address all three stages of the innovation value chain. Lengnick-Hall and Lengnick-Hall (2003) described the role of HR as the knowledge facilitator, to ensure creation and acquisition, use and assimilation and diffusion of knowledge. The HR practices at the company promote creation of new ideas and their development and eventually diffusing them throughout the organisation so that every employee is working together in same direction.

**Idea generation**

Hansen and Birkinshaw (2007) pointed at idea generation as the vital ingredient to ensure innovation in the company. Knowledge management literature emphasises that creation of new knowledge is crucial to attain strategic advantage over competitors. Cantner et al. (2009) stressed the fact that creation of new knowledge in the firm results in innovation.

To generate new ideas, the company has the following human resource practices in place,
- Horizontal hierarchy and flatter organisational structure
- Cross-functional ‘pool’ teams
- An engineer exchange programme.

**Horizontal hierarchy and flatter organisational structure**

According to Alder (2001), a horizontal hierarchy promotes information sharing within the organisation. Employees are more empowered to come up with new ideas and share them with other employees. The company has a flat organisational structure that enhances the communication process amongst the employees. According to Cantner et al. (2009), a flatter organisational structure ensures smooth flow of ideas and knowledge from top management to the employees and vice versa. This kind of organisational structure promotes knowledge sharing and gives birth to new ideas. Lengnick-Hall and Lengnick-Hall (2003) described the major advantages of a flat organisational structure. They are,
- Employees are more autonomous and allows creative freedom
- Fast and clear communication process
- Subordinates are free from strict supervision which hinders them from being at their creative best
- Creates fewer levels of management
- Everybody has access to top management.
The CEO of the company also believes in empowering people to generate new ideas and a flat organisational structure ensures a smooth and clear communication channel between the top management and the employees in the office and factory. This kind of structure has made sure that anyone from the factory or office can directly approach the CEO with any ideas or suggestions they might have. The firm values inputs from all its employees and believes that it removes any hindrance in the communication and information sharing process. The flatter organisational structure also allows for idea diffusion in the innovation value chain.

**Cross-functional ‘pool’ teams**

A cross-functional team can be defined as a group of people from varied business functions representing the firm’s interests and for a specific product or product line (Weber, 2012). According to Parker (2003), a cross-functional team is beneficial for a firm in various ways. They are,

- Helps generation of new ideas and solutions to problems
- Bringing up issues to any potential obstacles
- Helps employees understand each other’s jobs better
- Resolve problems and promote customer-oriented culture
- Increased product quality and innovation.

Cross-functional teams hold deep expertise because of their diversity. People from different business functions excel in their fields; bringing them together on a single platform allows generation of more innovative ideas. Diverse personalities and multiple perspectives from each employee result in better decisions and better outcomes. To add to that, employees have broad experiences which results in more creativity, insight and subsequently innovation (Miller, 2012).

According to Hansen and Birkinshaw (2007), building cross-unit networks can contribute to the idea generation stage in a big way. The company has similar ‘pool’ teams with employees from the marketing department, IT, factory and engineering to allow them to discuss ideas and resolving any problems. The pool team allowed the employees to come up together with ideas and create knowledge. The firm also faced an issue of huge gap between the factory and office workers. These pool teams allowed both office and factory workers to understand each other’s job in a better way and come up with new ideas for products and processes. These teams were also able to resolve various issues they had in the organisation.

**Engineer exchange programme**

The knowledge management literature emphasises the role of acquisition of knowledge from the sources out of the firm’s boundaries. According to Lengnick-Hall and Lengnick-Hall (2003), HR acts as a mediator between the employees and knowledge. Acquisition of knowledge from the external sources ensures constant influx of new ideas into the company which challenges the dominant knowledge that was built on the existing capabilities of the employees. Hansen and Birkinshaw (2007) emphasised the use of external networks to enhance the knowledge and generation of new ideas. Acquiring knowledge helps the firms to be more creative and gain strategic and competitive advantage. Apart from this, it helps the firm to be innovative (Blackman and Henderson, 2012).
The engineer exchange programme at the company allows knowledge acquisition by the firm. Four engineers from Denmark are hired as interns to generate new ideas and are rotated after every five months. This enables the company to add fresh knowledge to the organisation and generation of new ideas. It helps in exchange of new notions and improves collaborative capabilities.

**Idea Conversion and Retention**

New ideas generated by the employees do not prosper if necessary arrangements to test them are not put into place. In most of the traditional businesses, the novel ideas are lost because of conventional practices and thus results in firm not able to innovate. New ideas require sufficient resources to be allocated to progress to the idea conversion stage. (Hansen and Birkinshaw, 2007) It is also vital for a firm to retain ideas being generated to ensure that they are not lost. To progress from idea generation to idea conversion stage and retaining ideas, the company has following human resource practices in place,

- Pilot projects
- Visual management.

**Pilot projects**

Having pilot projects is an important HR practice that the company has in place to ensure the ideas being generated are being developed and worked upon. Sufficient amount of financial resources, time and human resources are allocated to the employees to test the ideas in real world. According to Cantner et al. (2009), it builds upon the knowledge of the company and leads to experiential learning.

The pilot projects being tested are then coupled with other projects to eventually implement a new product or process innovation. These pilot projects lead to incremental process innovation throughout the firm. According to Hansen and Birkinshaw (2007), testing ideas helps the firm in various ways. They are,

- Allows the firm to introduce new product or process
- Keeps the employees motivated and dedicated
- Strategic and competitive advantage
- Innovate.

The knowledge management literature also emphasises on the use of knowledge being created in the organisation. The HR has a vital role to play to ensure that the knowledge being generated is not lost and hence codified and assimilated within the organisation. (Lengnick-Hall and Lengnick-Hall, 2003)

**Visual management**

According to Ross (2010), visual management allows a business to eliminate any information deficit. It ensures that a clear communication channel is being created in the business by inserting clues, cues and any useful information. He also argues that visual management increases the efficiency and effectiveness of a process and makes it noticeable, easy to remember and keep at forefront of the attention.
This technique also helps in communicating information which is needed to make any decision and eliminating possible deviations from the information being communicated to the employees (Ross, 2010).

The challenge every innovative firm today faces is the retention of ideas. With many practices that the company has in place, there was a chance that the ideas being generated by the employees may be lost. To enable retention of ideas, the company implemented visual management practice that allowed instilling of ideas into the minds of the employees. To serve this purpose they implemented two ways. They are,

- Colourful noticeboards
- Whiteboards.

The firm believes that visual management is an effective technique to ensure that people in the company are aligned with the company’s mission to innovate. These techniques help employees throughout the organisation to become aware of the ideas being produced and ensures that they are communicated amongst all employees throughout the firm. Also, it makes sure that the ideas generated are retained and not lost.

**Idea Diffusion**

According to Hansen and Birkinshaw (2007), it is vital for the firm to spread and diffuse the ideas being created and developed to allow successful implementation. Firms should formulate channels of communication in order to align all the employees in same direction to implement an idea in to a product or process.

As mentioned earlier, the company promotes a clear communication channel and has variety of practices in place to allow smooth communication between all the employees. A horizontal organisational structure not just allows the employees to be creatively free but also ensures the constant information sharing in the firm.

Visual management on the other hand makes sure that ideas are retained, but also enables elimination of any information deficit and forming a clear communication channel. The noticeboards and whiteboards are used to communicate to the employees and hence help in idea diffusion throughout the organisation.

**The Work Culture and Innovation**

Work culture of an organisation is characterised by the values, beliefs, attitudes, behaviours and underlying assumptions shared amongst the group of people. It is the environment that surrounds the employees at work and has a great effect on the overall organisational productivity and efficiency. The work culture of the organisation is vastly influences employee’s skills, knowledge and abilities as well as the decision making and strategic direction of the firm (Heathfield, 2011).

According to Deloitte, culture of an innovative business is envisioned, created and supported by the leaders. (Lamoureux, 2010) The CEO of this company recognises this fact and believes that leadership of the organisation determines the culture and subsequently effects the path organisation would follow. The vision of the leader hugely effects innovation as it is the
responsibility of the leader to motivate, align and make people work towards same organisational goal.

Deloitte also recognises the role of HR in shaping the work culture of an organisation. The HR is responsible for creating an environment which enables knowledge creation and creativity. The HR practices determine the organisation’s strategy and leadership approach by fostering creation, supporting and creating positive work environment. To build a learning organisation, it is essential to create an environment that fosters creativity, freedom and knowledge. (Lamoureux, 2010)

Work culture at the company has been an important factor for the innovation. The firm believes in giving freedom to the employees to create knowledge and provide a relaxed and fun working environment. The human resource practices the company has in place for this purpose are,
- Casual approach and work setting
- Transparent appraisal process and financial information sharing
- Customer-oriented culture.

Casual Approach and Work Setting
According to Bremer (2004), casual work setting can enhance productivity and creativity of employees by providing them a relaxed and fun atmosphere to work. It makes employees happier and more dedicated and diligent towards their work. According to Brookins (2004), a casual workplace can benefit an organisation in many ways. They are,
- Firstly, it improves productivity and commitment of the employees. The employees are relaxed and have much more understanding of the organisation. A casual workplace reinforces the way a firm operates and allows the creativity and ideas to be shared amongst the workers. Businesses adopting an informal work setting have more chances of being innovative as employees demonstrate higher level of commitment towards work.
- Secondly, it creates a brand identity of a firm which further impacts the talent a firm can attract. The innovative minds work best in an environment which fosters creativity. A casual work setting provides a mutual consensus between work and lifestyle.
- Lastly, it forms unity between the employees and employer. Employees work in a relaxed environment and are not hesitant to provide solutions, suggestions or ideas to their managers. It enables the employees to feel the part of the corporate culture and talk to their peers in a friendly and non-hesitant manner.

The work culture at the company is hugely influenced by its casual and informal approach. The firm believes that it empowers employees to be at the creative best as their employees work in a very casual atmosphere which fosters creativity and innovation. The company has provided an informal work setting to the employees in following ways,
- Bright coloured furniture – mix of red, yellow and orange furniture to maintain a happy and cheerful atmosphere at workplace.
- Stand-up offices and meeting rooms – instead of round table discussions. The firm believes that it fosters creation of knowledge and sharing.
- Encouraging employees to talk freely – allows more knowledge sharing and discussions and debates on the ideas for a product or process.
Transparent Appraisal Process and Financial Information Sharing

Rewarding employees with monetary and non-monetary compensation is an important aspect in order to keep employees motivated. Restoring compensation and appraisal practices is critical to keep the employees knowledge driven and empowered. (Cohen, 1997)

The company has challenged the industry norm of discussing salaries at workplace which is generally considered as a taboo in majority of firms. The employees have meeting with the CEO every three months to discuss if they are happy or unhappy with their salaries and a possible hike they might receive. The CEO believes that this eliminates any issues that employees might have that hinders the motivation to work with the company.

The company also acknowledges the advantages of honest, open and clear communication with the employees as a key HR practice that allowed them to innovate. The firm has put up notices in the office displaying information about their financial position and making the employees know how much profits or losses they have been making in recent years. This fosters a mutual trust between the employers and employees and results in higher level of loyalty of employees towards the firm. According to Shearer (2004), sharing information with the employees has added benefits to the organisation. They are,

- Firstly, employees risk their futures, financial well being and lifestyle for the success of the organisation they work for. Therefore, if the firm shares its information with the employees is enhances employer-employee relationship and results in greater levels of work commitment of employees.
- Secondly, committed, involved and trustworthy employees are more likely to generate ideas to improve business’s performance and help innovate. This enables the firm to be more responsive towards changes and subsequently prosper and innovate.

Customer-Oriented Culture

According to Staelin et al. (2006), it is vital for an organisation to focus on customer needs and hence many firms are now adopting a customer centric approach or a customer-oriented culture. In order for a long term innovation goal, firms need to address the work culture as well as the consumer needs together. A customer-oriented culture is a mutual consensus where organisational culture and consumer needs are bind together to innovate.

Tajeddini and Truman (2012) stressed that for the firms it is crucial to understand that, to be able to innovate they should aim at becoming market leaders not followers. The firms who understand their customer needs are more likely to innovate. Understanding consumer needs provides a fulcrum for the business strategy company wants to implement which allows the firm to create innovation in their products. A customer oriented culture positively influences the product innovation in the firm as the firm develops a relationship with their consumers by understanding their needs and giving them exactly what they want. Wattanasupachoke (2009) gives a detailed analysis of customer-oriented culture when combined with the Innovation Value Chain we studied before in the study results in adoption of Innovation oriented strategies, thereby improving organisational performance and Innovation. This is depicted in the diagram below,
Wattanasupachoke (2009) argued that organisational culture has a huge impact on the innovation strategies a firm adopts. Idea generation, conversion and diffusion when specifically altered to a customer centric approach encourages employees to implement new strategies which are innovative and subsequently lead to innovation of the firm. Citing Hansen and Birkinshaw (2007), he also argued that gathering knowledge from the external sources such as the consumers builds upon the skills, abilities and knowledge of the employees and enables the firm to innovate. Staelin et al. (2006) stated that a customer-oriented culture is beneficial for an organisation in the following ways,

- Customer centric approach is relationship oriented
- Fosters knowledge building
- Strategic and competitive advantage over other firms
- Allows firms to understand customer
- Market leadership and customer loyalty
- Innovative products.

Customer centricity is a part of the company’s corporate policy. The company hugely depends on developing their products focused on customers. When the company was founded, the CEO saw the gap in the market for the good-looking and stylish products. The company started off with customer orientation.

The company builds upon its knowledge of the customers by encouraging employees from different business functions in the firm to interact with consumers during conventions and home shows. This allows the employees to get a detailed insight into the customer's needs and wants, generating high level of employee involvement and motivation. According to Shearer (2004), involved, motivated and committed employees are more likely to generate innovative ideas. A customer-oriented culture has allowed the company to innovate their product offering and ensure that their products are designed in accordance with the consumer needs.

Creating a Synthesis of Knowledge and Culture to Innovate
The company believes that it is just not one practice that has enabled them to be innovative, it is a bunch of activities combined together that fosters innovation. The CEO agreed on the fact that leadership, culture and knowledge building are interdependent and support one another in
innovation. The HR practices form linkages between all and allow building a learning organisation that is prosperous and innovative.

Looking at the literature, Azimi et al. (2012) said that knowledge resides in the healthy mind of an individual and the employees utilise their cognitive processes to transform their knowledge into an idea. In order to ensure healthy minds of the employees, organisational culture is an important factor. Citing Schwandt and Marquardt (2000) and Schein (2010), Azimi et al. said that organisational culture effects knowledge in following ways,

- Organisational culture is intrinsically fosters learning processes in a firm by making sure that the knowledge being created is stored, shared and updated
- Knowledge sharing is hugely influenced by the degree to which employees have environment and shared context of sharing knowledge
- Culture influences organisational structure which further influences knowledge sharing. A hierarchical structure negatively influences knowledge whereas a flatter structure results in a strong inter-organisational relationships.

Leidner and Kayworth (2005) created a conceptual model about relationship between organisational culture and values, knowledge management and outcomes. This is depicted below.

![Organisational Culture and Values](image)

Source: Leidner and Kayworth (2005)

According to them, a sound organisational culture promotes knowledge building in the organisations. A good culture keeps employees motivated and empowered. It is more likely that new ideas are generated and hence productivity is improved fostering innovation.

Another model by Martins and Martins (2002) described culture enabling knowledge building and subsequently leading to increased creative and innovative activities. According to them, culture represents leadership, strategic vision and mission, interpersonal relationships, environment, employee needs and objectives, management processes and structure which positively influences,

- Flexibility and freedom
- Autonomy and creativity
- Empowerment and decision making
- Co-operative teams and group interaction
- Open communication

The availability of these five factors fosters knowledge building, creativity and innovation, hence proving that knowledge is derivative of the culture. These five factors are basic ingredients to create and share knowledge allowing employees to be creative and more innovative. Culture
enhances knowledge which further fosters innovation. Moreover, the presence of other factors such as rewards and recognition further empowers and motivates employees. An effective knowledge management system further fosters innovation.

According to Cantner et al. (2009), innovation is fostered by creation and acquisition of knowledge, development of competencies and further knowledge diffusion. Knowledge management systems thrive on the generating and sharing of information creating innovation. The skills and abilities of the employees are vital components of innovation and the human resource practices play an important role in ensuring the same.

The role of HR practices in creation of knowledge is crucial. HR acts as a knowledge facilitator and a relationship builder between the knowledge and employees. Providing an environment that allows knowledge creation and further fostering innovation is a crucial role that HR plays (Lengnick-Hall and Lengnick-Hall, 2003).

According to Collins and Clark (2003), human resource practices form the basis of influencing and shaping skills, behaviours and knowledge of the employees enabling them to achieve organisational goals. Innovation tends to be initiated through employee’s knowledge, expertise and skills, and culture provides an ideal environment which fosters knowledge building.

The company has an informal approach and a clear communication channel. They promote employees to stand up and talk freely about any ideas and suggestions they might have. Moreover, the firm focusses on making work fun by additional practices such as the informal work settings and stand up meetings creating a relaxed organisational culture which enhances the interpersonal relationships amongst employees. The organisational culture of the company has contributed in a huge way to the generation of novel ideas. Therefore, the work culture at the company has led to building knowledge in the firm, which is their major competency.

Therefore, we can conclude that a good organisational culture promotes building of knowledge and subsequently an effective knowledge management system fosters innovation. It is a chain of practices linked together, supporting each other that enables and organisation to innovate. It is the synthesis of culture and knowledge, one supporting another, fostering Innovation.

Recommendations and Conclusion
The company has the right components in the right place to ensure innovation. A relaxed and fun organisational culture which promotes knowledge creation and sharing, practices supporting generation and development of ideas, high level of co-ordination between the management and employees because of a flatter organisational structure and a visionary and innovative leadership. The firm, however, reported two major issues they experienced. They are,

- Recruitment of innovative minds
- Eliminating practices that hinder innovation.

According to Arthur (2012), there is a need for going beyond the traditional practice of employee recruitment and re-imagine a new practice of recruiting people who are innovative. As discussed in previous chapters,
innovation is a derivative of employee knowledge, skills and expertise combined with right culture and set of practices, it shows the importance of the need for attracting and retaining top performers and innovative minds for any firm. The firm reported to lack such a framework of recruiting innovative minds. The CEO believes that the firm has to look for attracting people who are creative. Male (2010) lists a few creative recruiting practices that might work for the company. They are,

- Look for talent in unusual places – job fairs are not ideal location to look for a creative person. Looking for a candidate on blogs, social media are the next trends.
- Advertise job vacancies through non-traditional methods – use of podcasts, LinkedIn rather than recruitment websites or newspapers.
- Publicise referral incentives at workplace – employees already working in the firm know the firm better than anybody else. They might know someone who is creative and if the firm finds the right candidate, it can provide incentives to referrer.
- Group interactions – handpick prospective employees and arrange for a group interaction. This will allow the firm to know the level of interest of the candidates and their perspective.

Secondly, eliminating practices that hinder innovation is important as well. According to Chen and Taylor (2009), innovation is a primary product of knowledge, management practices and processes. In some instances, some management practices and processes diminish knowledge building by discouraging employees and making them dissatisfied with their workplace. In such a case, there is a need to abolish such practices so that the firm is able to innovate.

Summing up the findings of the study, we can conclude that innovation is created with the set of interlinked practices, not just one single practice. These practices should support creation, acquisition, development and diffusion of knowledge and create an environment where employees are empowered and motivated to share information among themselves. Human resource practices have a crucial role to play in creating a culture that spurs knowledge building which further fosters innovation. Looking at the real world scenario at the company and the findings from the literature, we can conclude that innovation dwells on the three actualities of culture, people and knowledge, and people practices of a firm has a positive impact on these three. These three factors form the basis for an organisation that is prosperous and spurs innovation.

References


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