THE INFLUENCE OF INDIVIDUAL HR PRACTICES ON INNOVATION IN SERVICE ORGANIZATIONS

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SUMMARY

This research explores the relationship between innovation and Human Resource Management (HRM) in service organizations. The reason for this is that both within the service sector and within HRM important shifts can be identified. The two shifts show that there is a need for more scientific research, because of the opportunities the service sector offers and the role HRM can play in seizing those opportunities. The main question in this research is therefore:

"HOW DO INDIVIDUAL HR PRACTICES STIMULATE INNOVATION IN SERVICE ORGANIZATIONS?"

To provide insight in this relationship the HR practices staffing, training and development, appraisal, compensation and planning have been chosen to investigate, because the research of Jiménez-Jiménez and Sanz-Valle (2005) and the work of Boselie, Dietz and Boon (2005) show that these are the most commonly used practices.

To see if the proposed relationships actually exist, six interviews were conducted within three service organizations. In each organization, one interview took place with a HR-manager and one with a manager from another department.

Based on the data obtained, it can be stated that it is likely that hiring from outside has a positive influence on innovation in service organizations. However, this only applies when experts are hired. When temporary agency workers are used to fill staff shortages, this is not considered as potential for innovation. For team based training as well as for flexible compensation the proposed relationships were justified. In this research, the relationship between results-oriented appraisal and innovation was not supported. Finally, a relationship between job rotation and innovation could not be justified, because no organization applied this HR practice.

In conclusion it can be stated that HR practices indeed encourage innovation. The way in which they do this in practice, is different from what is assumed in literature.

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1. INTRODUCTION

This introductory chapter describes the reason for the research, the problem statement and the research approach.

1.1. REASON FOR THE RESEARCH

This research explores the relationship between innovation and Human Resource Management (HRM) in service organizations. The reason for this is that both within the service sector and within HRM important shifts can be identified.

The first shift relates to the changing face of the Dutch market and the opportunities this presents for the service sector. Dutch organizations started outsourcing business activities to foreign countries a long time ago, but the last few years more and more organizations have outsourced certain activities abroad and it is expected that it will continue to grow (Berenschot, 2005). Appendix 1 shows the cumulative displacement of business activities of Dutch organizations in percentage of total organizations. The average percentage of Dutch organizations that moved business activities in the last ten years is nearly ten percent, although it differs per sector (see Appendix 2) (Berenschot, 2005). This displacement is due to the fact that the Netherlands cannot compete in labor-intensive production, which is moved to low wage countries. Although the production is largely moved abroad, this movement also offers new opportunities for Dutch organizations. There is a shift towards a knowledge economy, of which especially customization and service organizations can benefit, because these organizations are involved in site-specific activities (Berenschot, 2005). This shift is also reflected in the market development of the Dutch service industry, which shows a still growing number of new organizations (see Appendix 3).

The growing number of new organization in the market has more competition as a direct result. If service organizations want to continue to benefit from the change to a knowledge economy, they must constantly search for new ways to keep ahead of competition. One way to do this is to innovate, because innovation can strengthen an organization's competitive advantage. Gupta and Singhal (1993, pp. 41) endorse the importance of innovation: "Successful companies create competitive advantage in the marketplace through innovation and creativity". In order to achieve this innovation and creativity, effective management of human resources is of great importance. "Successful innovation-based companies have learned how to manage, motivate and reward people" (Gupta & Singhal (1993, pp. 41).

However, over the years different views on the contribution that HRM should make to the success of an organization have emerged. The term HRM arose during the eighties as a successor of the term personnel management or personnel administration (Biemans, 2007; Legge, 1995; Verburg & den Hartog, 2008). According to de Leede and Looise (2005, pp. 109) HRM can be defined as "all management decisions and activities that affect the nature of the relationship between the organization and its employees – the human resources".

Although personnel management and HRM demonstrate some similarities, for example the recognition of the importance of the integration of personnel practices into the organizational goals (Legge, 1995), HRM

is something different then personnel management and therefore the terms can't be used interchangeably. Personnel management was reactive, bureaucratic, professional, focused on compliance and on the collective, used external control and wanted to achieve cost reduction. On the other side, HRM has a long term perspective, focuses on commitment and self control, is individualized and organic, integrated in line management and wants to achieve maximum utilization (de Nijs, 1998; Guest, 1987; Legge, 1995; Verburg & den Hartog, 2008).

The second shift reflects the shift from personnel management to HRM and the associated changes described above, because this obviously requires new ways to manage employees. Humans became more and more the vital factors in an organization and they can make or brake the quality and quantity of the product or service (Biemans, 2007). So to be successful, an organization is depended on her employees.

Another aspect of the changing body of HRM is due to the constantly changing business environment (Biemans, 2007; Boselie & Paauwe, 2005; Delery & Doty, 1996; Farndale et al., 2010; Ulrich, Brockbank, Johnson, & Younger, 2007). Because of globalisation, national boundaries are fading away and competition is not restricted to the home country anymore. New markets emerge in countries never thought of before and due to technological innovations employees can work all over the world. These changes can create new opportunities for organizations, but they also require a different kind of management. Ulrich, et al. (2007) believe that HR professionals and HR departments should meet these challenges that confront contemporary organizations. Therefore HR professionals must do more than solely manage employees and focus on terms and conditions of work, instead more strategic contribution is expected.

These two shifts show the need for scientific research, because of the opportunities the service sector offers and the role HRM can play in seizing those opportunities. However, there are relatively few studies in the field of HRM with a focus on this sector. Section 1.2 elaborates on this in more detail.

1.2. PROBLEM STATEMENT

Over the past two decades a lot of research has been done in the field of HRM; HRM in the context of organizations and their environment (Jackson & Schuler, 1995; Paauwe & Boselie, 2003), HRM in relation to strategy (Jackson & Schuler, 1987; Miles, Snow, Meyer, & Coleman, 1978), work systems and the relation to firm performance (Arthur, 1992; Boxall & Macky, 2009; Cappelli & Neumark, 2001; Guthrie, 2001), HRM and employment relationships (Lepak & Snell, 1999, 2002; Way, Lepak, Fay, & Thacker, 2010), and the role of the HR department and HR professionals in organizations (Bowen & Ostroff, 2004; Francis & Keegan, 2006). In addition, researchers studied HR roles (Conner & Ulrich, 1996; Farndale, et al., 2010; Francis & Keegan, 2006) or HR competencies (Boselie & Paauwe, 2005; Ulrich & Brockbank, 2009; Ulrich, et al., 2007). Despite the enormous amount of research in both field of innovation and in the field of HRM, there is still a lack of knowledge about how HRM can be able to meet the role in affecting innovation (Becker & Matthews, 2008; de Leede & Looise, 2005).

Furthermore, in contrast to the manufacturing sector, there is little scientific understanding of the service sector. This while there is a great difference between manufacturing and services; not only do they differ in the way they serve customers, also their patterns of innovation are different (Sheehan, 2006).

Nowadays services play a key role in developed economies (Sheehan, 2006, pp. 43) and as nearly 80 percent of all economic activity can be attributed to the service industry (Chesbrough, 2006, pp. 36), more research is needed to understand how organizations can be successful in this industry.

So, although research has been done in the field of HRM, innovation and services separately, there is little understanding of how these concepts relate to each other. Based on this, the goal of this research is to explore how HRM stimulates innovation in service organizations. The importance of this study is that it – to our knowledge – has not been done before. This study therefore attempts to gain a first insight in how these relationships are structured.

1.3. RESEARCH APPROACH

In order to be able to investigate the research problem described above and to achieve the purpose of this study, the follow research approach was taken.

In the next Chapter the theoretical framework is described. The theoretical concepts discussed there, are the foundation for this research. The terms HRM, business strategy and innovation are explained, as well as the existing relationships between those concepts. Attention is also given to the different HR practices.

Based on the theoretical framework, Chapter 3 discusses the methodology. Case studies are done within three service organizations. Interviews are used as the main research tool to find out what HR practices services organizations use to stimulate innovation. The answers of the six respondents are transcribed and analyzed. In Chapter 4, the results of this analysis are presented and these results are discussed in Chapter 5. Finally, in Chapter 6 the limitations and recommendations for future research are described as well as the conclusions of this research.

2. THEORETICAL FRAMEWORK

The goal of this chapter is to define and delineate the topics HRM, innovation and strategy and to link those topics to each other by using scientific literature. It provides the theoretical foundation for this study.

2.1. HRM

Despite the enormous amount of research in the field of HRM over the past twenty years, there is still a lack of theory about HRM (Guest, 1997, 2011; Paauwe, 2009). However, there are three commonly used approaches in HRM-research that link organizational strategy and HRM: the 'best fit' approach, the 'best practice' approach and the resource-based view (Boxall & Purcell, 2003).

The contingency or 'best fit' approach includes a range of models that advocate fitting HR strategy to its surrounding context. A well-known example of this approach is the framework of Miles and Snow (1984) in which they link HR strategy to three basic types of organizational strategies: defenders, prospectors and analyzers. Defenders are operating in stable, predictable markets and they produce only a few products for a segment or for the whole market. They produce high volumes against low costs and efficiency is the highest goal. Prospectors have a changing product line and the market is constantly changing. They are constantly seeking for new product and market opportunities and aim to compete through innovation. Analyzers are a mix of defenders and prospectors. They operate in both stable as changing markets and their product line is also stable as well as changing. They seek new opportunities while maintaining the core business (Walton, 1999). Another example of a model of fit in strategic HRM is the framework of Schuler and Jackson (1987) in which they link HR practices and desired employee behaviors to Porter's (1980) 'generic strategies'. Porter (1980) states that organizations should choose between overall cost-leadership (cost reduction), differentiation (produce a unique product) or focus (focus on costs or differentiation in a targeted market). The model of Schuler and Jackson (1987) argues that business performance will improve when HR practices are designed to reinforce the organization's choice of competitive strategy.

The universalistic or 'best practice' approach can be seen as one that stresses the universal importance of a number of HRM practices (de Leede & Looise, 2005). It states that the implementation of those best practices will lead to improvements in all organization's performance irrespective of the context. Pfeffer's (2005) list of 13 HR practices for 'competitive advantage through people' is a well-known example of this approach. The AMO-model by Boxall and Purcell (2003) is another example of this approach. It focuses on the function of employees' abilities (skills and competences), motivation and their opportunity to participate, which will lead to individual performance outcomes.

Since the 1990's there is increasing attention for the resource-based view (RBV) (Boxall & Purcell, 2003). This approach aims to discover a fit between the human and non-human resources and organizational objectives to achieve higher levels of performance. If an organization possesses desirable resources –

resources that are valuable and scarce, inimitable, non-substitutable and appropriable – it has a sustained competitive advantage over their rivals, because their rivals are unable to compete. In HRM research, this view is mainly seen as the management of capabilities and (core) competencies (de Leede & Looise, 2005). The composition of various HR practices is viewed as a unique source of competitive advantage that is difficult for competitors to replicate.

2.2. STRATEGIC HUMAN RESOURCE MANAGEMENT

A business strategy is "the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations" (Johnson, Scholes & Whittington, 2005, pp. 9). There are several ways to gain advantage over competitors, for example through cost reduction or differentiation. However, as the human factor became more important within organizations and the business environment became more competitive, a growing role is ascribed to HRM as an important tool for achieving competitive advantage.

Strategic Human Resource Management (SHRM) creates a bridge between HRM and strategy. An early definition of it is given by Wright and McMahan (1992, pp. 298): SHRM is 'the pattern of planned human resource deployments and activities intended to enable the firm to achieve its goals'. The underlying idea of SHRM is that organizations that adopt a particular strategy require different HR practices then organizations that adopt an alternative strategy (Delery & Doty, 1996). This reveals the importance to achieve a fit between the HR strategy and the chosen organizational strategy. According to Boon (2008) this strategic fit can be achieved when HR practices focus on stimulating people to fulfill the organizational goals.

In strategic HRM research several forms of fit can be identified. Delery and Doty (1996) distinguish between the universalistic, contingency and configurational perspective for theorizing the relationship between HRM and performance. The universalistic or 'best practice' approach argues that some HR practices are always better then others, irrespective of the context in which they are implemented.

The contingency or 'best fit' perspective argues that an organization's HR practices must be consistent with other aspects of the organization. It is likely that when firms differ in the way they operate and compete, there will be different contingencies that influence the way HR practices are applied. For example, firms that pursue an overall cost-leadership strategy might have less benefit from extensive investments in HR practices focusing on organizational change than firms pursuing a differentiation strategy (Lepak, Bartol, & Erhardt, 2005). Although most researches focused on the contingency between organizational strategy and HR practices, there are more contingencies that can be identified. Jackson and Schuler (1995) developed an integrative framework for understanding internal and external environmental factors that affect HRM systems in organizations. Important components of internal environments include technology, structure, size, life cycle stages, and business strategy. For the external environment these are legal, social, and political environments; unionization; labor market conditions; industry

characteristics; and national cultures. Lepak, Marrone and Takeuchi (2004) proposed a framework for investigating the relativity of HR systems across organizations. This framework suggests that the relationship between business-level strategy and HR policies is likely to be contingent on desired employee contributions and the organization's overall HR philosophy. They conclude that a particular business strategy places unique demands on different employees within firms, even when these firms pursue the same strategy. Another contingency mentioned in literature is organizational culture. Organizational culture can be defined as "the deeply seated (often subconscious) values and beliefs shared by personnel in an organization" (Martins & Terblanche, 2003, pp. 65). Lau and Ngo (2004) found in a survey of 332 firms in Hong Kong that organizational culture can act as a mediator between an organization's HR system and product innovation. However, organizational culture can also function as an antecedent to the HR system (Bowen & Ostroff, 2004). Furthermore, the HR system can be contingent on the sector in which it operates (Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009). It is likely that organizations in different sectors place different requirements on the composition of the HR system. Batt (2000) for example, states that service organizations are likely to use high involvement systems only to serve higher value-added customers because of the high costs of these systems and the labor-intensive nature of services, whereas in the manufacturing sector high involvement systems have emerged in a wide variety of product markets.

The configurational approach consists of 'ideal types' or 'bundles of practices'. HR systems should achieve both horizontal (internal consistency of HR policies and practices) and vertical (congruence of the HR system with other organizational characteristics) fit.

Guest (1997) also distinguishes different types of fit in SHRM. Figure 1 displays the five types of fit that are ordered along two dimensions: Internal-External fit and Criterion specific or Criterion free.

	Criterion specific	*Criterion free*
Internal	Fit to an ideal set of practices	Fit as gestalt Fit as 'bundles'
External	Fit as strategic interaction	Fit as contingency

Figure 1: Five types of HRM fit. Adapted from Guest (1997).

Fit as a strategic interaction tries to link the external context and HR practices. Organizations should choose a strategy about how to respond to the environmental conditions and the HR practices should match this strategy. The more fit between the external context and HR practices, the better the performance. Example of this type of fit are Schuler and Jackson (1987) who link Porter's (1980) generic strategies to HR practices and the differences between HR practices and analyzers, defenders and prospectors as described by Miles and Snow (1984). Fit as a contingency refers to the contingency approach. Organizations that are more responsive to external factors (e.g. legislative changes or the nature

of the market) will achieve superior performance. An example of a study on this type of fit is the fit between HR practices and competitive strategy by Delery and Doty (1996). Fit as an ideal set of practices argues that there is an ideal set of HR practices that are always better then others (e.g. Pfeffer's (2005) list of 13 HR practices). The closer the real HR practices fit the ideal set of HR practices, the better the organizational performance will be. Fit as a gestalt states that organizations should find the right combination of HR practices, which leads to a unique gestalt that is hard to replicate for other organizations. Delery and Doty (1996) used this type of fit by testing the similarity of HR practices to theoretically derived HR systems which match the organization (Boon, 2008). Fit as 'bundles' implies the existence of configurations of HR practices. As there are different bundles possible, organizations should determine which configuration will be the most effective and will eventually lead to higher performance. According to Boon (2008) the categorization of Guest (1997) shows resemblance to the three modes of theorizing the HRM - performance link of Delery and Doty (1996). Figure 2 provides an overview of the typologies described above. This research uses the universalistic approach to investigate HR practices. In section 2.5 will be described why this is chosen.

Delery and Doty (1996)	Guest (1997)
Universalistic approach	*Internal fit:* Fit to an ideal set of practices
Contingency approach	*External fit:* Fit as strategic interaction Fit as contingency
Configurational approach	*Configurational fit:* Fit as gestalt Fit as 'bundles' *Internal fit:* Fit to an ideal set of practices

Figure 2: Comparing typologies of fit. Adapted from Boon (2008).

2.3. INNOVATION

Today's business environment is constantly changing. Globalization has ensured that competition is all over the world, but also that new markets can be conquered. Furthermore, innovations in information and communication technologies have made it possible for employees to work all over the world. In such a rapid changing environment, innovation is more important than ever before to gain competitive advantage (Jørgensen, Becker, & Matthews, 2009; Raytcheva & Hermel, 2010; Smith, Courvisanos, McEachern, & Tuck, 2010). According to Becker and Matthews (2008, pp. 1) "innovation has become almost a prerequisite for business success".

According to Veenendaal, van Velzen and Looise (2009) innovation is a 'buzzword' and is used in all kinds of contexts. It was decided to use the definition of Tidd, Bessant & Pavitt (2005, pp. 66) in this research: innovation is "a process of turning opportunity into new ideas and of putting these into widely used practice".

Tidd, et al. (2005) distinguish between four types of innovation, also called the "4P's" of innovation. Product innovations are changes in de products or services an organization offers to their customers. Process innovations are changes in the way products or services are created and delivered. Position innovations are changes in the context in which the products or services are introduced and paradigm innovations are changes in the underlying mental models which frame what the organization does (Tidd, et al., 2005). The boundaries between the typologies of innovation are not always straightforward and organizations can use multiple P's simultaneously (Tidd, et al., 2005). For example, an innovation in the way a service is delivered may be classified as a product innovation as well as a process innovation.

Another distinction Tidd, et al. (2005) make is the degree of impact an innovation has on the organization and beyond. Incremental innovations are about continuous improvement of (some of) the 4P's. Examples of incremental innovations are improved components into a car engine and the constant minor adjustments in Gillette's razor blades. Radical innovations are completely new to the world and world changing (Tidd, et al., 2005). Examples of radical innovations are the introduction of the steam engine and the introduction of the personal computer.

2.4. LINKING HRM AND INNOVATION AS A PEFORMANCE OUTCOME

Several authors describe the central role HRM can play in affecting innovation (Shipton, Wets, Dawson, Birdi, & Patterson, 2006; Veenendaal, et al., 2009). The underlying idea is that employees are involved in the whole innovation process and that organizations are highly dependent on the knowledge and creativity of their employees for the implementation of innovations (Jiménez-Jiménez & Sanz-Valle, 2008). Without human resources, innovation will not occur (Becker & Matthews, 2008). Thus, employees are used strategically to increase innovative output. In order to stimulate innovation, organizations should develop and implement HR practices which are in line with the stimulation of innovation.

One of the main models describing the linkages between organizational strategy, strategic HRM and organizational performance is the model of Guest (1997) which is shown in figure 3.

Figure 3: Linking HRM and performance. Adapted from Guest (1997).

The model shows schematically the process of organizational strategy through HRM practices, HRM outcomes, behavioral and performance outcomes to financial outcomes. HR practices should be designed in such a way that they lead to the desired performance outcomes. The usage of careful selection and high investment in training will for example encourage higher skills and abilities (quality) (Guest, 1997). According to the model, only when all three HRM outcomes are achieved, organizations can expect higher performance and eventually higher financial outcomes (Guest, 1997).

Although over de past decade a lot of research has been done into the relationship between HR practices and organizational outcomes – especially financial outcomes – the precise relationship is up to now still unclear. This study seeks to gain insight in this relationship and focuses on innovation in service organizations as a performance outcome. This leads to the following main question:

"HOW DO INDIVIDUAL HR PRACTICES STIMULATE INNOVATION IN SERVICE ORGANIZATIONS?

2.5. HR PRACTICES

As mentioned before, a lot of research has been done in the field of HRM. A logical consequence is that many HR practices have been extensively tested in many forms. This has resulted in a wide range of HR practices that may affect all kinds of outcomes.

In section 2.1 the different perspectives to examine HR practices are addressed, but which perspective is most suitable is so far unclear. Guest (2011) argues that the universalistic versus contingency debate is still going on, there is no conclusive perspective to examine HR practices. On the other hand, Delery & Doty (1996) found relatively strong support for the universalistic perspective, in contrast to only some support for the contingency and configurational perspective. Guest (2011) argues that the contingency approach seems to be most logic, but Combs, Liu, Hall and Ketchen (2006) found empirical evidence for the universalistic approach. "An initial challenge is therefore to provide insights that will help to resolve this apparent contradiction between logic and evidence" (Guest, 2011, pp. 7). In order to contribute to the search for a conclusive perspective to examine HR practices, it was chosen to use the universalistic approach to provide new insights in the validity to use this approach. Thus, the influence of *individual* HR practices on innovation will be examined.

Besides focusing on the universalistic perspective, this study uses the service industry for the data collection. Most employees work in service-producing industries (Bartel, 2004), but there is a lack of research in this industry. Prior industry studies focus mainly on the manufacturing sector (Bartel, 2004; Harley, Allen, & Sargent, 2007), while "human resource management may be even more important in the service sector than in the manufacturing sector" (Bartel, 2004, pp. 183-184). There is a substantial difference between products and service. Whilst products are tangible, produced and consumed separately and leave the consumer out of the production and delivery process, the opposite is true for services (Bartel, 2004). Because of the direct contact employees have with the costumer, more knowledge, skills and abilities (KSA's) are necessary to interact effectively with customers. HR practices can play a contributing role in developing those necessary KSA's.

To investigate the relationship between individual HR practices and innovation in service organizations, it was chosen to use the same method as Torka (2011) used: theoretical exploration followed by the establishment of propositions with the aid of qualitative research. She explored the proposed relationship by the use of semi-structured interviews within three organizations. Preparing propositions also seems a suitable method for this research, because little scientific research has been done is this field. Because of the lack of knowledge about the relationship between HRM and innovation, and about the service sector, it is hard to come up with testable expectations about empirical reality in terms of a hypothesis (Babbie, 2007). However, based on existing literature in other fields (e.g. the manufacturing sector) it is possible to make more general propositions about the proposed relationships.

The exact method that is used to investigate the proposed relationships in this research is as follows. Based on the exploration of theory as described in the theoretical framework, five propositions were formulated. A semi-structured interview was established to see whether or not the propositions could be

confirmed. For a more complete understanding of how HRM can be able to meet the role in affecting innovation in service organization, it was decided to use qualitative research. A detailed description of how this qualitative research is designed can be found in Chapter 3.

In developing universalistic predictions, first important HR practices must be identified and second arguments that relate the individual practices to innovation outcomes must be presented (Delery & Doty, 1996). In a study of 350 Spanish firms, Jiménez-Jiménez and Sanz-Valle (2005) found that the Schuler and Jackson model appears to result in higher levels of innovation performance amongst the firms in the sample (Smith, et al., 2010). It is important to note that Schuler and Jackson (1987) took the contingency perspective to study these practices; they linked the HR practices to different business strategies. Anyway, it's interesting to test if those practices are reinforcing each other or if they are equally, perhaps even more effectively, influencing innovation separately. Another reason to test these practices is the work of Boselie, Dietz and Boon (2005). In a meta-analysis of 104 studies, they found that training and development, contingent pay and reward schemes, performance management (including appraisal) and careful recruitment and selection are most commonly used. Therefore, the focus of this study is to investigate the following HR practices: staffing, training and development, appraisal, planning and compensation.

2.5.1. STAFFING

Staffing can be defined as "the process of attracting, selecting, and retaining competent individuals to achieve organizational goals" (Ployhart, 2006, pp. 868). Every organization uses staffing in a certain manner. It is the first way an organization can influence it's diversity and human capital, and it should be one of the most important strategic mechanisms for achieving competitive advantage (Ployhart, 2006, pp. 868). Therefore, staffing is regarded as an important HR practice for innovation (Jiménez-Jiménez & Sanz-Valle, 2008).

Innovative organizations are constantly changing and searching for new markets to serve and this sets requirement on the skills of employees. This type of organization needs employees with a variety of professional skills, such as creativity, flexibility, risk taking and tolerance of uncertainty and ambiguity (Chen & Huang, 2009; Gupta & Singhal, 1993). Furthermore, employees should be able and motivated to work with new ideas (Shipton, et al., 2006). Effective staffing can help to make sure that employees with these characteristics will be attracted.

Within the staffing process, organizations can choose to hire employees from within or outside the organization. As innovation requires a constant development of ideas (Nesheim, Olsen, & Kalleberg, 2007), innovative organizations have to find ways to get these ideas into the organization. One way to get an influx of new ideas is to hire employees from outside. Employees who are recruited from outside, might look at the organization with a fresh perspective. Therefore, they are able to contribute innovative ideas in order to make the organization more efficient.

Proposition 1: Hiring from outside will have a positive effect on innovation in service organizations.

2.5.2. TRAINING AND DEVELOPMENT

Another HR practice that is considered to be important for innovation is training and development. Training seems to be associated with higher innovative performance (Beugelsdijk, 2008; Shipton, et al., 2006). It provides employees with the necessary KSA's needed for innovation and openness for innovative ideas (Jiménez-Jiménez & Sanz-Valle, 2008). According to Shipton et al. (2006) these KSA's are necessary when it is important to foster innovation, because employees will be better able to break with day-to-day survival at work.

Innovative organizations tend to train and develop their employees on a team basis. According to Senge (1990, in: Barker & Neailey, 1999) team learning is "the process of aligning and developing the capability of the team to create the results its members truly desire".

Team-based learning is seen as a good way to foster innovation, because "heterogeneity in decision making and problem solving styles produces better decisions through the operation of a wider range of perspectives and a more thorough analysis of issues. An organization with a diversity of perspectives should have more resources to draw on and should be more creative and innovative" (Richard, 2000, in: Beugelsdijk, 2008).

Furthermore, team-based learning can act as a stepping stone approach on which other teams in the organization can build and it is therefore a platform for developing a major source of competitive advantage (Barker & Neailey, 1999).

Proposition 2: Team-based training and development will have a positive effect on innovation in service organizations.

2.5.3. APPRAISAL

Little research has been done in the relationship between performance appraisal and innovation (Shipton, et al., 2006). Some authors delineate that performance appraisal should reflect the longer term and group-based achievements (Jackson & Schuler, 1987). Besides, several authors found that performance appraisal should be results-oriented.

Delery and Doty (1996) for example, advocate for results-oriented appraisal, because innovative organizations will quickly move on if the product appears to be not popular and profit will hold of.

Akhtar, Ding & Ge (2008) found that results-oriented appraisal has a significant positive effect on financial as well as product/service performance. They state: "the results-oriented appraisal system provides substantial incentives for employees to work hard to accomplish their performance objectives. Therefore, it is reasonable to suggest that a results-oriented appraisal system has significant effects on both measures of performance" (Akhtar, et al., 2008).

Bach (2000) states that performance appraisal also has an important role to play in ensuring that staff are aware of the expectations of them with regard to the overall organizational goals.

Proposition 3: Result-oriented appraisal will have a positive effect on innovation in service organizations.

2.5.4. COMPENSATION

Also in the way the compensation system is used, there are many choices. Flexible compensation represents "that proportion of total remuneration paid where specific performance stipulations have been fulfilled" (Shipton, et al., 2006, pp. 7).

In innovative organizations profit sharing is used extensively (Delery & Doty, 1996). Employees tend to be stockholders, so that they have more freedom in to choose for example a mixture of bonus or stock options (Jackson & Schuler, 1987). People are motived by more then money, but if employees are responsible for a part of the profitability they want to share in that (Pfeffer, 2005).

Several authors found a relationship between the use of incentive-based compensation and innovation (Chen & Huang, 2009; Jiménez-Jiménez & Sanz-Valle, 2008). This creates a clear connection between the tasks and the rewards; the bonuses are seen as a confirmation of one's competences or as a means of enabling employees to do better and more interesting work in the future, which can stimulate creativity (Shipton, et al., 2006).

Flexible compensating seems to be an appropriate tool to compensate employees in innovative organizations, because in this way they get paid for performance. If the organization performs better, employees will receive higher wages if profit sharing is used. Therefore, employees will presumably be more motived to think of new creative ways to optimize products, services or processes.

Proposition 4: Flexible compensation will have a positive effect on innovation in service organizations.

2.5.5. PLANNING

HR planning is about putting the right people in the right place to develop heterogeneous teams that display a 'skill-mix' (Gupta & Singhal, 1993). In innovative organizations, jobs are broadly defined which leaves space for job enrichment (Arthur, 1992; Delery & Doty, 1996; Jackson & Schuler, 1987). According to Pfeffer (2005) this has a several advantages. First, doing more things can make the work more interesting; variety can make the work more challenging (Pfeffer, 2005). Second, doing multiple jobs keeps the work transparent and simple. If new tasks need to be done immediately, they need to simple so that they can be learned quickly (Pfeffer, 2005). Last, if the work is transparent and simple, newcomers can easier identify things that can be improved that experienced employees don't see anymore (Pfeffer, 2005).

Job rotation can contribute to innovative performance of the organization because knowledge is more easily shared (Laursen & Foss, 2003). Through job rotation employees can develop another view that is required to question and challenge existing ways of operating (Shipton, et al., 2006)

Furthermore, innovative organizations need to be flexible, so that the organization can quickly respond to changing demands in the market. Job rotation can help to foster this flexibility, because employees can be deployed at several positions in the organizations.

Proposition 5: Job rotation will have a positive effect on innovation in service organizations.

The above-described propositions can be captured in the following research model:
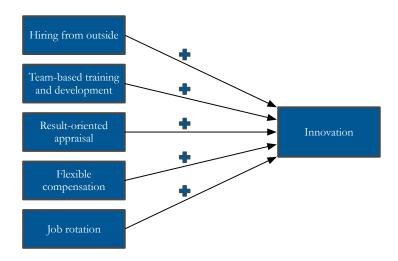

Figure 4: Research model.

3. METHODOLOGY

This chapter explains how the research questions are examined. The methods that are used will be presented and extensive attention will be given to explain why these methods are chosen.

3.1. RESEARCH STRATEGY

The most significant decision that must be taken within a study is the choice of a research strategy. This choice can be determined based on three key questions: width versus depth, quantitative versus qualitative and empirical versus desk research (Verschuren & Doorewaard, 2000).

The aim of this research is to get a detailed understanding of the link between individual HR practices and innovation. It is important to determine which HR practices are implemented in service organizations and which HR practices encourage innovation. To make this possible an in depth research with a small-scale approach is chosen.

A second choice to be made is the choice for quantitative or qualitative research. In quantitative research the results are often presented in statistic models, tables and figures (Verschuren & Doorewaard, 2000). This type of research does not seem applicable, since it is difficult to record choices and opinions in numbers. On the other hand, qualitative research ensures that the results can be reported contemplating (Verschuren & Doorewaard, 2000), what is intended with this research.

This research can be characterized as empirical, because the data will be collected in the field and based on an analysis of these data conclusions will be drawn. This contrasts with desk research, where data is collected from existing literature (Verschuren & Doorewaard, 2000).

By answering the three key questions above, the choices for a research strategy are narrowed down and therefore a case study is the most obvious research strategy. Section 3.2 elaborates on the case study in more detail.

3.2. THE CASE STUDIES

Throughout literature a lot of definitions of a case study can be found. In this research the definition of Gerring (2004, pp. 342) is used: a case study is "an intensive study of a single unit for the purpose of understanding a larger class of (similar) units."

For practical reasons, it was decided to take three case studies within organizations in the service sector. In this way we try to enhance the insight in the relationship between HRM and innovation in those organizations.

As any research method, case studies have some advantages and disadvantages. Case studies have the advantage that they provide an overall picture of the research object and that there is need for applying structure in advance. This means that a case study is more flexible than an experiment of a survey. Another advantage compared to an experiment or survey is that the case study provides more 'daily' data,

which results in more acceptance from the field (Verschuren & Doorewaard, 2000).

A disadvantage of a case study has to do with the external validity. The external validity of the results is less, because fewer objects are investigated. The results may therefore be less well generalized to the whole population. However, because of the immersion, the extensive research methods and the flexibility of a case study, it has a much stronger internal validity then an experiment or survey (Verhoeven, 2007; Verschuren & Doorewaard, 2000)

3.3. DATA COLLECTION

This study uses interviews as the main research tool. There are different types of interviews: structured, semi-structured and unstructured (Al-Saggaf & Williamson, 2004). A structured interview involves conducting a prepared questionnaire, whereby all respondents answer the same questions in the same order and they can only respond in limited set of categories (Al-Saggaf & Williamson, 2004). In a semi-structured interview, the interviewer uses a list of topics that relate to the research question, but the order of the questions is not fixed and this type of interviewing is more flexible than the structured interview (Al-Saggaf & Williamson, 2004). An unstructured interview relies on the social interaction between interviewer and respondent to elicit information; it is like a normal everyday conversation (Al-Saggaf & Williamson, 2004).

Unstructured and semi-structured interviewing are both forms of in-depth interviewing. In-depth interviewing offers the possibility to focus on the respondents' perspective. In this way, the researcher gets a glimpse into the world of the respondent (Al-Saggaf & Williamson, 2004)

Face-to-face interviews have some advantages: it decreases the number of answers such as 'don't know'; when a respondent misunderstands the question, the interviewer can rephrase it in a manner so that the question is clear for the respondent; and it offers the possibility to ask further if the interviewer has the feeling that the answer is not complete (Babbie, 2007). Furthermore, social cues, such as voice, intonation and body language of the interviewee can give the interviewer a lot of extra information that can be added to the verbal answer of the interviewee on a question (Opdenakker, 2006). This visibility can also be a disadvantage, because it can lead to disturbing interviewer effects, when the interviewer guides with his or her behavior the interviewee in a certain direction. This can be overcome by using an interview protocol and by the awareness of the interviewer of this effect (Opdenakker, 2006).

It should be noted that the way in which a question is asked might subtly bias the answer (Babbie, 2007). However, this is explicitly taken into account when preparing the questionnaire (see Appendix 4). For instance, to prevent for leading questions it was explicitly asked what respondents thought was the influence of the organization's *policy* on innovation. In addition, the interviewer adopted a critical attitude during the interviews to verify if the answers that respondents gave were reliable. For example, when it was not clear what the respondents meant, further questions such as: "Why do you think this is true?" or "Could you give an example of a situation where this has occurred?" were asked.

In comparison with surveys and experiments, qualitative interviews have a much greater validity, which

means that interviews better measure what they are supposed to measure (Babbie, 2007). A disadvantage of interviews is their reliability, because the measures are often very personal (Babbie, 2007). The judgment of the answers is dependent on the interviewer's view of the matter. A manner to overcome this issue is to make comparative observations (Babbie, 2007).

For this study a semi-structured interview seems most appropriate. It is based on a set of topics that will be discussed in depth, rather then a standardized questionnaire in which there is no room for further explanations (Babbie, 2007; Verhoeven, 2007).

3.4. RESEARCH UNITS

For practical reasons, a small number of case studies were chosen. The research units in this study are service organizations. The sample consists of three service organizations. These organizations were chosen on the basis of nonprobability sampling; they were not selected on the basis of the probability theory (Babbie, 2007). Nonprobability sampling methods can be divided in accidental and purposive sampling. For practical reasons, it was decided to make use of the accidental sampling method. This method of the taking of a sample is based on convenience and therefore there is no evidence that sample is representative of the populations where one wishes to generalize to (Trochim, 2006). However, this study is not aimed at finding statistical evidence and therefore three organizations within the network of the researcher were approached.

Within the three organizations, two interviews were conducted so that respondents could complement to each other: one with a HR-manager and one with a manager from another department. The interviews took place within the organization and lasted approximately one hour.

Organization	Health insurance	Caterer	Hospital
Activities	Health insurance for individual and corporate clients	Catering services and facility services	Medical and nursing care, along with research and development
Organizational scope	National	International	National
Number of FTEs	2,216 FTE	Not available. Employs over 413,000 employees worldwide, including 5,900 employees in the Netherlands.	3,497 FTE (excluding 254.7 FTE medical specialists)
Operating profit 2010	€ 130,036,000	Not available. Operating profit at corporate level: € 771,000,000	€ 13,038,000
Function respondent within organization	R1: HR advisor	R3: Human Resources Manager	R5: HR advisor
	R2: Chairman works council (former regional manager)	R4: Regional manager	R6: Nursing department head cardiology

Figure 5: Overview cases.

3.5. INTERVIEW PROTOCOL

As mentioned before, the interviews were based on a set of topics that are discussed in depth. To structure the interviews and to make sure that no topics were overlooked, an interview protocol is used. The protocol consists of nine sections. In the fist section, the interviewer introduced herself, the research and the goal of the research. The second section attempted to determine how the respondents saw the concept innovation. The purpose of this section was to check what the respondents meant by the term innovation. This section made sure that there was measured what was intended to measure by clearly stating that innovation in this interview refers to the definition of Tidd, et al. (2005). Section three to seven discussed the usages of the HR practices and asked for the relationship between the specific HR practices and innovation. Section eight went into the general relationship between HRM and innovation in order to check that no items where overlooked and to see whether there are HR practices that stimulate or inhibit innovation that are not included in this research. The ninth and last section converted the end of the interview. A more detailed description of the interview can be found in Appendix 4 (in Dutch).

3.6. DATA ANALYSIS

To ensure that no important data was lost, the interviews were recorded using a voice recorder. This has the advantage that the interview report is more accurate than writing out notes (Opdenakker, 2006). The interviews are conducted in Dutch and the passages that have been used are translated in English as literally as possible.

For the analysis of the interviews, the researcher read the transcriptions carefully. After that, the transcribed texts are coded by highlighting them. Subsequently, these passages are grouped and compared. The goal of such an analyses is to establish a link between the literature in the theoretical framework and the data obtained through the interviews by means of interpreting the data (Zanoni, 2005). This analysis provides answer to the central and sub questions.

4. RESULTS

This chapter provides a representation of the results of the interviews. It was decided to literally display passages from the interviews to reflect the data as real as possible. The most significant and striking passages are selected to display here. For privacy reasons the names of individuals are omitted.

4.1. INNOVATION

Before respondents were asked about the relationship between HR and innovation, general questions were asked about the concept of innovation. This was intended to get an idea of what respondents meant by innovation. Renewal was most commonly associated with it.

"Innovation means that you always need to have a proactive attitude in your day to day work to see how you can renew again, how you can put certain things back on the map and how you should carry that outwards." [Interview hospital 1]

To ensure that the respondents and the interviewer spoke about the same meaning of the term innovation, and to make sure that there is actually measured what was intended to measure, the definition of innovation as used in this research was presented to the respondents. They were told that innovation is defined as "a process of turning opportunity into new ideas and of putting these into widely used practice" (Tidd, et al., 2005, pp. 66). Subsequently, it was clearly stated that when there was asked about innovation in this interview, it refers to innovation as described by Tidd et al. (2005). After that, it was asked whether the respondents saw this description of innovation reflected within their organization. All respondents answered affirmatively to this question.

Next, the question was asked what they thought the role of innovation was within their organization. All respondents recognize that innovation is of great importance within their organization.
Furthermore, the interviews revealed that most respondents see innovation as depend on external factors.

"Innovation plays an important role, an increasingly important role. This has largely to do with the fact that we operate in a displacement market, that is, it is mandatory for our customers to take out insurance, but they are free to choose at what organization they do it. That means that there is a free market in that area, that there is competition. […] And in what way can you distinguish yourself at a given point from other health insurers? That is by coming up with renewed and innovative concepts." [Interview health insurance 1]

"What a very clear trend is at the moment is that we see that the catering market is saturated. It's nicking land from each other, but that you do not know how to utilize a new market. Eventually, we realized that we should focus somewhere else in the future, not just on catering." [Interview caterer 1]

"Innovation in a hospital has two sides. People become more critical and are 'shopping' for better medical care, the possibilities became broader. On the other hand are we much more bound by rules and numbers that are compared to national figures, […] so we are almost every day busy admitting patients to the hospital, treat them as adequate as possible to get them out of the hospital as quick as possible". [Interview hospital 1]

When asked about the different types of innovation, not all of them are recognized. Product and process innovation are immediately mentioned. Position innovation is sometimes identified; paradigm innovation is not mentioned once.

Respondents were also asked about the division between incremental and radical innovations. The organizations are mainly concerned with the improvement of existing products and processes. However, attention is also paid to radical innovations.

"…of course there are totally new concepts, but it is much easier to improve than to totally renew." [Interview caterer 2]

"Innovation within our organization is enormous. In the medical field we do nothing but innovate […] and in all areas: both radical and incremental innovations of course. We continuously develop what is already there and we also develop new things." [Interview hospital 2]

The second part of the interview covered the various HR practices, how these are applied within the organization and the role that these practices have on innovation.

4.2. STAFFING

The interviews showed that external workforces are often used in different kinds of areas. The major part of the external workforces is composed of temporary agency workers; the remaining part of external workforces consists of interim staff.

Respondents indicated that vacancies are fulfilled both internally and externally. Vacancies are first reported internally and over time they are also brought outside. The underlying idea is that employees can flow through the organization and that they can gain experience. Respondents explained that it is important that the organization keeps retaining and inspiring their existing staff. The vacancies at the bottom of the organization are usually internally fulfilled. At higher functions and functions for which specialized knowledge is required, this is often not possible. These vacancies are therefore usually fulfilled externally.

Then the question was asked what impact was of their staffing policy on innovation within the organization. Respondents think that this influence is large.

"Yes, I think that it should have a very positive effect, because eventually you do not just think within your own organization, in your tunnel vision. You let the eye openers, people who look from outside very open-minded at things, look at your

organization and your processes. They can give very good advice in their specialist area about how you can further develop your organization." [Interview caterer 1]

"People who come from another organization bring all sorts of new ideas from there and come up with new concepts. It is good to have at least a proper balance between internal and external influx. Particularly in departments such as portfolio management or marketing it is important to have regular innovations." [Interview health insurance 1]

It is frequently noted that there are important differences between the external work forces, especially in the reason why they are used. It appears that temporary agency workers are used because of personnel shortages and that the interim staff is used to gain in-house expertise.

"If you employ people from external organizations in places where you have shortages, then they just replace someone else. If you say on the other hand, we are going to do an innovation project concerning medication or catheters or what so ever, and someone from a specific firm participates who also wants something with it, or professors from Belgium or Italy join the project, then you deploy them specifically for their expertise." [Interview hospital 2]

One respondent answered to the question what the thought is behind the use of external workforces within their organization:

"The expertise of course! A company can have a broad range of specialists, but on a general level. However, when you really need specialist knowledge, you should not want to do it in-house anymore. Other companies have a lot more knowledge about it. Then you know who to hire." [Interview caterer 1]

4.3. TRAINING AND DEVELOPMENT

Regarding training and development, the question was asked in which way training is offered. It is revealed that a wide range of training is provided. This could include training for basic computer skills to specialist financial training for location managers.

Training is offered at all levels and depending on the type of training everybody is eligible for this. Respondents indicated that it might be that the organization requires that the employee develops itself, because he or she falls short in certain skills. On the other hand, it might also be that the employee feels the need to further development. If this is also in the interest of the organization it is usually accepted.

The application of training on an individual or group is not uniform. Two organizations indicate that have a mix of individual en team training. However, when further questions were asked, it appears that they mainly focus on training at the individual level. One organization prefers training at team level. Because of these differences, there are therefore different ideas about the kind of training in relation to innovation. One respondent thinks that team training is especially important:

"…because then there more support for innovation. This is also why I prefer it. If one person invents something, other people might think: Shit, I wish I had invented that. When an innovation is established within a team, then it is the achievement of the team and it will be more likely that everybody stands behind it." [Interview caterer 2]

Interestingly, the organizations who reported a mix, but ultimately turn out to focus mainly on individual training, implicitly indicate that the impact of team training and group meetings is highest for innovation.

"Employees who visit conferences or are part of working groups come back with innovative ideas that we implement in our daily business." [Interview hospital 1]

"If you want to innovate as organization, you are dependent on the ideas that people generate in that context. If they follow training, if they are participants of all kinds of new developments in the sector, in the market or in other branches, or come in contact with people who are employed elsewhere in the labor market, they see there new developments they ultimately translate that into our organization." [Interview heath insurance 1]

4.4. APPRAISAL

The interviews revealed that employees are being assessed at least once a year. Two of the three companies adopted a performance cycle, which starts with a target interview at the beginning of the year, a performance review after half a year and appraisal interview at the end of the year.
In all organizations the appraisal is also linked to training and development. One respondent indicated:

"The appraisal is supported by an instrument in which you can attach, for example, a personal development plan. […] And in that way we eventually want to make educational arrangements so that in the long run, people will not only be able to meet the requirements of their tasks now, but also anticipate on developments that can be foreseen." [Interview heath insurance 1]

The criteria on which employees are assessed can be divided into both behavioral and result components. These components are of equal weight. One respondent illustrates the importance of behavioral components:

"We find it important that an employee comes across friendly and with a big smile, than it doesn't matter much if it's busy that you spill some coffee, in a way of speaking, then that it is served with a grumpy face. So in that way we like to say that we want to reward good behavior." [Interview caterer 1]

When asked whether there are criteria that encourage innovative behavior, it appears that this primarily dependent on the function of the employee.

"If I ask you to become an administrative employee, where innovation is not an issue, then you don't have to be reviewed on that subject. But if you're going to work at a research and development department, then I hope you are a little bit innovative. That is what we ask there. And that is noted in the competence-function-profiles. Look, if you work as a specialist on the partnership cardiology, and the part of cardiology is one of the most progressive parts of all hospitals in the Netherlands, then it is expected that you come up with renewing ideas." [Interview hospital 2]

"In some functions that competence (read: innovative behavior) is emphatically returned. If you look at the administrative employee, there that competence does not emerge explicitly. But if you look at other departments, other departments within the cluster care management, where they are concerned with care renewing, if you look at portfolio management, marketing, where are that kind of competences, and there comes up the in particular the behavioral and the result oriented component in a different way than on a pure production department." [Interview heath insurance 1]

Striking with respect to the stimulation of innovation is that respondents thought that in particular the space that employees get to develop innovative ideas is important.

"Well, look I think that if you also stimulate behavior in the direction of innovation, that you can and may be innovation engaged, that are often the people that come up with ideas et cetera. If that is being stimulated, so also in the behavior and is also fed from the board of directors and management, that you put people in their power. I think that it is also very often being blocked a little by the result oriented aspects which are attached to those functions, that in the end it is about whether you have reached your targets or not. And I think that there is some sort of brake with respect to the behavioral component." [Interview heath insurance 2]

"In my perception you cannot enforce that, but you can highlight the importance of it and give them more space, and facilitating, to excite and challenge, to come up with distinctive concepts." [Interview heath insurance 1]

4.5. COMPENSATION

In all organizations employees are rewarded on the basis of the collective bargaining agreement. When employees function well, they get an annual periodic. In contrast to the other organizations, the compensation policy in the hospital is not linked to the appraisal policy. Employees here are given a periodic regardless of their functioning. The respondent sees a negative relationship between the compensation policy and innovation and would like to apply a different policy:

"I think that on the moment you have an annual review, you can also come to the conclusion that you say, ok you will get a periodical and on the moment that I see someone which I think he is making a half-hearted attempt and he goes to a complete different route and does not belong here, it can sometimes take a year before you have ended such route, but you do get more money and that is not in comparison. […] I would rather evaluate someone on result and on basis of that result and that review grant someone a periodical." [Interview hospital 1]

The other respondent in the hospital also feels that in terms of compensation there is need for improvement:

"I think that in terms of compensation we still have things to do, to further encourage employees and in that sense to work more innovative. But that the whole remuneration system, which is a whole force field within the entire healthcare, where you cannot just play along. We are very bounded to rules and so we can hardly compete or offer something or give people an extra incentive. That is quite different than in the business world." [Interview hospital 2]

No organization uses profit sharing, but they do use bonus payments when an employee performs exceptionally well. They see compensation as a tool that can encourage employees to achieve organizational goals.

"At the moment that I have the idea that someone stands out from the crowd, like he is doing things at the department which I can gracefully use and where we have come quite somewhere at the department, then at the end of the year, I'm able to give someone like that a bonus." [Interview hospital 1]

4.6. PLANNING

Within the organizations, there is no active policy with respect to job rotation. It is up to the manager to determine if he/she considers job rotation as an important tool. As a result, job rotation is only done rarely. Respondents within the hospital indicate that job rotation is difficult to initiate because of the specialist expertise of its employees. Within the catering business they think it is hard to implement because of geographical difficulties. At the health insurance job rotation is an item for 10 or 15 years, but it is hardly put into practice.
Anyway, the respondents believe that job rotation is of great importance for innovation:

"Well, I think that by doing job rotation you get many new ideas. That your creativity is being encouraged. That it makes you free. In our organization some department heads are sitting on the same spot for twenty years. Yes, I cannot imagine something at that, but then something does happen. Something happens with yourself and something happens with your department. And I think that is very bad." [Interview hospital 1]

"Imagine, you are a cook and work at a small bistro, and you visit a kitchen in another bistro, then you get back with ideas. […] Recently I visited a Healthcare supplier, they make dishes for prisons, and there we had a meeting and a tour. That works innovative, because I think like 'he!' I brought some containers to show to our product marketing like maybe that's something for us, can we do something with this. That works very well." [Interview caterer 2]

"At the moment you have to do with employees who have gained experience on multiple departments, they have a more broader view on what is happening within an organization and what the interrelationships and influences are. From that

setting they have a broader view and can place certain processes within the organization and the related developments in a broader framework. Therefore, in that sense I think that that certainly has a positive effect." [Interview heath insurance 1]

4.7. OTHER STIMULATORY AND INHIBITORY HR PRACTICES FOR INNOVATION

During the latter part of the interview some more questions have been asked about the relationship between HR practices and innovation. At the first question, respondents were asked to indicate which of the above HR practices is most effective for innovation. Five out of six times is referred to job rotation. The sharing of experience and knowledge that can be established with the application of job rotation is regarded as extremely important. Two respondents mention the use of external forces, because they feel that innovation requires periodically a fresh view on the organization.

The interview also revealed that some HR practices stifle innovation. Regulation is considered as the main inhibiting factor. Two respondents indicated that regulation in more general terms stifles innovation, while another respondent thinks that the regulations within the HR function are inhibitory:

"Well, if you have so many rules within the HR, filling in lists and keeping up things, then it will surely slow down. That will clearly take too much time. And you cannot spend that time on thinking about nice things that can generate money or have a positive effect on your customers. So too much regulations" [Interview caterer 2]

Keeping functions narrow and judging employees on tight targets within very narrow functions is also regarded as stifling for innovation.

"… that undermines your creativity and that undermines your vision too." [Interview hospital 1]

When asked whether other HR practices that are not mentioned above foster innovation, motivation is mentioned several times. Motivation is seen as a prerequisite for innovation.

"You always need to move your people in such a way that they are motivated to go along with the changes. Otherwise you can never realize your targets. Then you can never bring about innovation." [Interview caterer 1]

"… if you can keep up the intrinsic motivation, then your people are also inclined to continuously work on the quality and deliver the quality as well." [Interview hospital 2]

Five out of six respondents experience the role of HR in innovation supportive. Only one respondent finds that HR has a leading role.

"Well, I see it not only as supporting. I also certainly see it as a kind of pullers function, because you can introduce new concepts from within HR by in any case involve the management, warm up the management therein. […] HR has, in that sense, also a role to introduce new work methods, new concepts within the organization and the management, reflect to the management what the effects are of the way they are implemented and which other roads therein can be taken. So in that sense I think that HR certainly has a role therein." [Interview health insurance 1]

5. DISCUSSION

In the previous chapter, the results of the interviews are displayed. The interviews showed that the relationship between HR practices and innovation is different than assumed in the theoretical framework. In this chapter these differences will be discussed as well as other main points that have emerged from the interviews. In addition, they will be compared with the theoretical framework. Before turning to the discussion of the results it should be noted that no differences were found between the cases in the way they use the various HR practices and the relationship with innovation. As a result, no case has transmitted the alleged relationship in a different direction.

5.1. INNOVATION

The analysis has shown that the organizations are constantly working on innovations. The role that innovations plays in the organizations under investigation is high, in particular in case of incremental innovations; organizations are constantly improving their existing products and processes. However, there is also attention paid to radical innovations, but to a lesser extend. For example, within the hospital there are sometimes new techniques invented that are completely new to the world. This happens just not as often as improvements to existing techniques.

The analysis revealed that respondents see innovation as dependent on external factors. They do not rely on their internal resources in order to come to an innovation, but innovations are a response to what happens in the market place. This corresponds with what de Wit and Meyer (2010) call the outside-in perspective. In this strategic perspective, organizations are constantly taking the environment as a starting point for the strategy. These organizations are determined to adapt to the unfolding opportunities and threats encountered; markets are leading, resources are following (De Wit & Meyer, 2010). In this perspective the demand of the customer is key and organizations should try to serve their customers more adequately then their competitors do. It is not surprising that service organizations take the outside-in perspective. After all, within service organizations the customer is the only revenue source.

5.2. STAFFING

From the interviews emerged that there seems to be a dichotomy with regard to the use of external forces, because these organizations used different types of external forces for different activities. The use of temporary agency workers seems to be contingent on the availability of the current workforce. Within the three organizations in this research, temporary agency workers are only used to fill staff shortages and are not linked to innovation, because they have no unique value for the organization and are therefore easily replaceable. When they are no longer required, they are just not hired anymore. The organizations show the same pattern when vacancies need to be filled at the lower end of the organization. These are relatively simple functions that can be easily fulfilled out of the current staff.

On the other hand, external employees in the form of interim staff are used when in-house expertise must be obtained. They are used specifically for their specialist knowledge and are therefore directly linked to innovation. This policy is also reflected when vacancies for senior positions must be filled. These functions require more expertise and can often not be met internally. Therefore, the organizations in this research recruit these employees from outside.

Because in this research the relationship between the use of external workforces and innovation is only found for expert knowledge and no evidence was found for a relation between temporary agency workers and innovation, proposition 1 is only partially supported based on these results.

5.3. TRAINING AND DEVELOPMENT

The data suggests that training is mainly offered at individual level. Respondents indicated that the purpose of these trainings is to improve the personal skills or the professional knowledge of employees that has to be applied on a daily basis.

However, it seems that when employees come into contact with each other or with persons in the same industry and they share knowledge about new developments, this is usually translated back into the organization. In terms of Richard (2000, in: Beugelsdijk, 2008), these events lead to more heterogeneity in thoughts, allowing more knowledge to build on, which eventually should lead to more creativity and innovation in the organization. So, this study points to evidence of a relationship between team training and innovation. Therefore, proposition 2 is justified based on these results. It is for the organizations thus advisable to make greater use of team training, so the diffusion of knowledge and thereby the diffusion of innovations is stimulated.

5.4. APPRAISAL

Within the organizations under consideration, employees are assessed both on behavior and on results. These components are of equal weight and are not specifically used to stimulate innovation. Whether employees are judged on their innovative output is mainly contingent on their function. For many functions, innovation is not that important, except for positions in departments such as research and development or portfolio management.

It is likely that the inclusion of the behavioral component is more important within service organizations, because services are produced and consumed at the same time. The inclusion of the consumer in the production and delivery process has as a direct result that the employees are in direct contact with their customers. Therefore, the behavior of employees (e.g. friendliness to customers) seems more important in service organizations than in manufacturing organizations, because the behavior is more visible to the customer.

In addition, the respondents indicated that innovative behavior cannot be forced through the implementation of results-oriented appraisal. They indicate that it is especially important to emphasize the

importance of innovative behavior and to give employees the space to be innovative and to facilitate them in the development of ideas by giving them time to do so.

Thus, in this research no respondent described a situation in which results-oriented appraisal led to innovation. Therefore, no evidence of a relation in line with proposition 3 was found. Consequently, proposition 3 was not justified based on these results.

5.5. COMPENSATION

Two of the three organizations make use of flexible compensation in the form of annual periodicals. The organization that is not using flexible periodicals, assigns periodicals annually regardless of the employee's functioning. However, these respondents think it is a bad habit to reward employees who do not function equal as employees who function good and they would like to see this linked to performance. The link between appraisal and compensation is clearly present in the other organizations.

All organizations make use of bonuses for employees who function better than average. Bonuses are seen as a tool to encourage employees to go the extra mile, to work more towards organizational goals and to encourage innovative behavior.

From the above it appears that respondents indicated a relation between compensation and innovation. Based on these results, proposition 4 is supported.

5.6. PLANNING

In contrast to what was expected from the literature, job rotation is not applied within any organization. Consequently, it was not possible to make statements about the proposed relationship between job rotation and innovation in this research. Based on this research, nothing can be said about proposition 5.

In order to add a minimal understanding of the proposed relationship, respondents were asked what they thought was the impact of job rotation on innovation. Remarkably, job rotation is seen as most important practice of the five HR practices for innovation. However, the reasons that are given in order not to do so can easily be overcome. For example, within the hospital is assumed that employees are too specialized to implement job rotation. It is true that a heart surgeon cannot suddenly perform a lung transplant, but he can walk along sometime to see how another department operates, whether there are efficient processes that can also be applied within their own specialty. In any case, it is recommended to structurally include job rotation in the HR policy.

5.7. OTHER STIMULATORY AND INHIBITORY HR PRACTICES FOR INNOVATION

In concluding this chapter, it should be noted that respondents think that innovation can only be established if employees have the possibility to be innovative. Management should give employees more space, facilitation, excitement and challenges to come up with distinctive concepts. In short, management must create a culture in which innovative behavior is encouraged. The importance of an organizational

culture that stimulates innovation is also recognized in the scientific literature (e.g. Martins & Terblanche, 2003). As already mentioned in section 2.2, Lau and Ngo (2004) found that organizational culture acts as a mediator between a organization's HR system and product innovation. This means that organizations can implement certain HR practices to achieve an organizational culture that encourages innovative behavior within employees, which leads in tern to innovative output. However, organizational culture can also function as an moderator to the HR system (Bowen & Ostroff, 2004). In this context, the HR practices that are implemented are influenced by what the organizational culture implies and emphasizes (Wei, Liu, & Herndon, 2011). For organizations that develop a culture oriented towards innovation, this means that the mindsets of employees' are directed toward development and innovation.

Besides organizational culture, respondents see motivation as a prerequisite for innovation. Without motivated employees, organizations may never realize innovations. However, the organizational culture can make a powerful contribution in motivating employees, because it enhances employees' commitment to the organizational goals (Hartmann, 2006). In other words, an organizational culture oriented towards innovation, motivates employees to acquire new resources, initiate entrepreneurial activities, and identify and solve problems in more creative ways, in order to develop more new products, which eventually leads to more effective SHRM on the firm's product innovation (Wei, et al., 2011).

In addition to practices that encourage innovation, respondents indicate that regulations are an inhibiting factor on innovation within the organizations. One respondent indicated that regulation within the HR function stifles innovation, while the other two organizations mention that regulation in more general terms inhibits innovation. This difference can be explained, because the cases differ from each other. The hospital and the health insurer are faced with much more regulations that are determined by the government, than the caterer is. Because they must adhere to these rules, it is likely that they have fewer possibilities to innovate (for example because they have to comply with rules set for medical research).

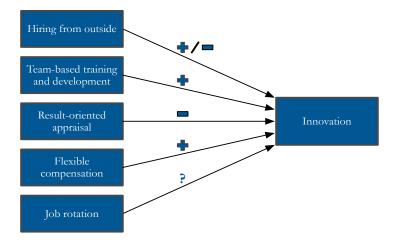The results of this research can be captured in the following model:

Figure 6: Research model 2

6. LIMITATIONS, RECOMMENDATIONS AND CONCLUSION

In this chapter, the limitations and recommendations for further research will be elaborated. Furthermore, the main question of this research will be answered.

6.1. LIMITATIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

Like all researches, this research has important limitations. The first limitation is that HR practices have been chosen on the basis of the work of Jimenez-Jimenez and Sanz-Valle (2005) and Boselie, Dietz and Boon (2005). However, there might be more HR practices that influence innovation in service organizations that are not included in this research. Further research is needed to investigate if there are more HR practices that stimulate innovation and what their precise influences are. Moreover, it is conceivable that some HR practices are stimulating innovation more than others. For instance, the results in section 4.7 provide evidence that external forces might have more impact than for example flexible compensation. This suggests a need for a future empirical research on the strength of the influences.

A relation between job rotation and innovation could not be described, as job rotation was not applied in any organization. However, that this relationship was not found in this study does not mean that it does not exist. Indeed, the interviews showed that there are clear indications that the relationship between job rotation and innovation might exist. More research is needed to understand the relationship between job rotation and innovation.

In addition, there were no indication for a direct relationship between results-oriented appraisal and innovation. The data revealed that the way in which appraisal is applied, is likely to be contingent on the sector, since in the service sector more value is placed on the behavioral component. This relationship also appears to be influenced by the function of the employee within the organization. This suggests a need for a future empirical research into the contingencies that might influence this relationship.

As already described in Chapter 3, the semi-structured interviews have many advantages, like the flexibility and the focus on the respondents' perspective (Al-Saggaf & Williamson, 2004). However, their disadvantages are another limitation of this research. The judgment of the answers is dependent on the interviewer's view of the matter (Babbie, 2007). This means that another interviewer could have interpreted the answers otherwise. Another disadvantage that came to light along the way is the flexibility of semi-structured interviews, which caused that the data was not perfectly the same. The interviewer took the freedom to ask through and sometimes didn't ask the precise same questions as the ones that were made in advance. As a result, it has occurred that in some interviews not all questions have been asked as was predetermined. On the other hand, some questions could not remain unasked. This has ensured that there is a more comprehensive picture of the situation within the organizations under consideration.

Another limitation has to do with possible interactive effects that may play between the HR practices under investigation. It is for example conceivable that when external forces are deployed to obtain more expertise within the organization, less training and development is needed. These possible relationships

have not been examined, because this was not the purpose of this study. However, it cannot be ruled out that these relationships exist and therefore further research into these possible interactive effects is needed.

The last limitation of the research mentioned here, is that it has attempted to answer the main question by conducting six interviews with three service organizations. The strong point of this method is that within every organization two interviews were conducted, so respondents could confirm and complement each other. However, because of the limited resources that were available during this study and the relatively short period of time in which this research took place, it was not possible to obtain a more extensive dataset. Therefore, generalization should be done with caution. Because of the small population, it is hard to say if the propositions hold for all service organizations in the Netherlands, other sectors, other organizational sizes or organizational structures, different types of workforce, different types of strategies, and so on. More research is needed to investigate if the results found in this research also hold for organizations with other characteristics. It is advisable to choose for a larger dataset or to use qualitative methods, so that the external validity of the study will increase (Shadish, Cook, & Campbell, 2002).

6.2. CONCLUSION

The previous chapter has attempted to obtain clarity about the propositions. In this conclusive section, the main question will be addressed: *"How do individual HR practices stimulate innovation in service organizations?*

First it is important to note that HR practices indeed seem to encourage innovation. However, the way in which they seem to do this in practice, is likely to be different from what was assumed based on the theoretical framework.

Hiring from outside seems to have a positive influence on innovation in service organizations, but this only applies when experts are hired. When temporary agency workers are used to fill staff shortages, this is not considered as potential for innovation.

For team based training, the results suggest a positive relationship. Particularly the sharing of knowledge ensures that the innovative capacity of organizations increases.

There are no indications for a relationship between results-oriented appraisal and innovation. Whether employees are judged on their innovative output is mainly dependent on their function. For many functions, innovation is not that important (e.g. receptionist). In addition, the sector also seems to play a role in this relationship, since there is equal importance attached to the behavioral component.

Based on the results of this research, there is evidence for a relationship between flexible compensation and innovation. Flexible compensation is seen as a motivating tool to encourage employees to go the extra mile, to work more towards organizational goals and to encourage innovative behavior.

Finally, based on the data obtained in this research, a relationship between job rotation and innovation could not be justified, because no organization applied this HR practice. This doesn't mean that this relationship does not exist. Indeed, from the data emerged that job rotation is seen as most important of the five HR practices for innovation.

In conclusion, it can be stated that this research gives improved insight into the relationship between individual HR practices and innovation in service organizations. Yet, how some relationships are structured and whether there are other contingencies that may have an impact on the alleged relationship is not yet fully clear. This suggests a need for a future empirical research.

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APPENDICES

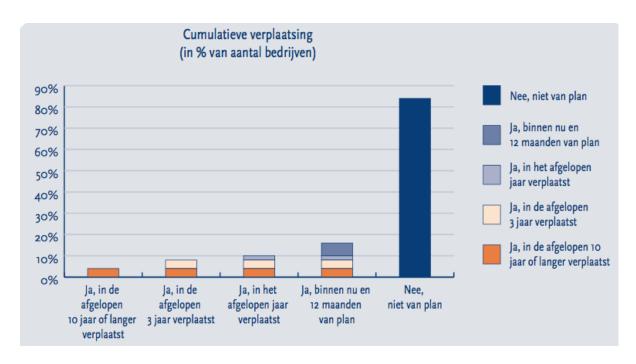## APPENDIX 1: CUMULATIVE DISPLACEMENT OF BUSINESS ACTIVITIES

Figure 1: Cumulative displacement in percentage of organizations (Berenschot, 2005, pp. 5)
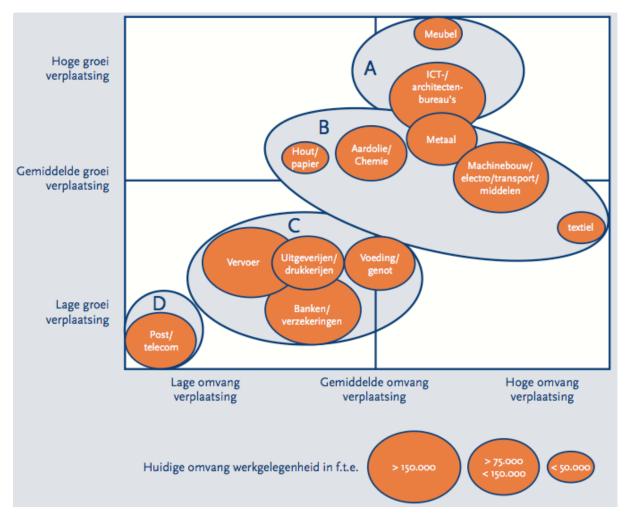
Figure 2: Classification of industries to categories (Berenschot, 2005, pp. 7).
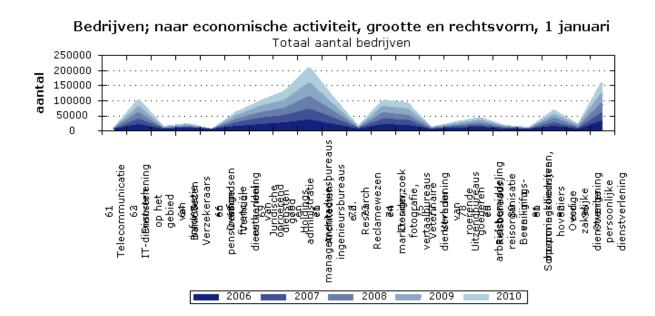
Figure 3: Number of organizations, economic activity, size and legal form in the Dutch financial and business service (CBS, 2011).

APPENDIX 4: INTERVIEW QUESTIONS (IN DUTCH)

Interview bachelor opdracht

Sectie 1: Introductie interviewer, onderzoek en doel van het onderzoek

Zoals we al per mail/telefoon besproken hebben, zal dit interview plaatsvinden in het kader van mijn bachelor opdracht. Het zal gaan over de mate waarin HRM een bijdrage kan leveren op het innovatieve vermogen van service organisaties. Ik wil graag benadrukken dat de antwoorden die u geeft in dit interview volledig anoniem zullen worden verwerkt in mijn verslag. De antwoorden worden dus wel gebruikt, maar uw naam en de naam van uw werkgever zullen daarbij niet vermeld worden. Verder zou ik het interview graag willen opnemen. Hebt u daar bezwaar tegen? Ik zal misschien ook wat aantekeningen maken, maar laat u daardoor vooral niet afleiden. Wees vrij om uit te wijden. Soms zal ik u misschien onderbreken, maar dat is dan om de zaken voor mezelf iets duidelijker te krijgen. Hebt u tot dusver vragen?

Naam geïnterviewde:

Functie geïnterviewde:

- Kunt u mij vertellen wat uw functie precies inhoudt en hoe lang u al in dienst bent binnen deze organisatie?

Sectie 2: Innovatie (± 20 minuten)

Het interview bestaat uit drie blokken en in het eerste blok zou ik graag met u willen praten over innovatie en uw visie daarop.

- Wat is innovatie volgens u?
- In mijn scriptie definieer ik innovatie als "het proces van kansen omzetten in nieuwe ideeën en deze vervolgens in de veel gebruikte praktijk brengen". Wanneer ik in dit interview vraag naar innovatie, bedoel ik hier deze omschrijving van de term innovatie mee. Ziet u deze omschrijving van innovatie ook terug binnen uw organisatie?
- Welke rol speelt innovatie binnen de organisatie volgens u?
- Ziet u de verschillende vormen van innovatie terug binnen uw organisatie? (product, proces, positie en paradigma)
- Wat is de verdeling tussen incrementele en radicale innovatie? Waaruit blijkt dat?

HR Praktijken (± 30 minuten)

Het tweede blok heeft betrekking op de verschillende HR praktijken en hoe deze binnen uw organisatie worden toegepast en de rol van deze praktijken op innovatie.

Sectie 3: Staffing

- Welke rol spelen externe krachten binnen uw organisatie?
- Worden vacatures die vrijkomen veelal intern of extern vervuld, waarom?
- U gaf zojuist aan dat u wel/niet gebruik maakt van externe krachten. Wat denkt u dat de invloed is van dit beleid op innovatie?

Sectie 4: Training and Development

- Welke trainingen worden aangeboden aan medewerkers binnen uw organisatie?
- Om wat voor soort trainingen gaat het (individueel of als groep)?
- Komt iedereen in aanmerking voor training of zijn hier voorwaarden aan verbonden?
- Op welke manier heeft individuele training/groepstraining (afhankelijk van wat van toepassing is) invloed heeft op innovatie binnen de organisatie?

Sectie 5: Appraisal

- Hoe worden medewerkers beoordeeld?
- Van welke vormen van beoordelen wordt er gebruik gemaakt (gedrag of resultaten)?
- Op basis van welke criteria worden medewerkers beoordeeld?
- Kunt u vertellen welke invloed deze manier van beoordelen heeft op innovatie?

Sectie 6: Compensation

- Hoe zit het beloningsbeleid binnen uw organisatie in elkaar (salaris/winstdeling)?
- Hoe wordt het salaris vastgesteld? Is het een vast salaris, of is er ook een flexibel deel? Waaruit bestaat het flexibele deel?
- Wordt er binnen de organisatie gebruik gemaakt van winstdeling?
- Is deze winstdeling gebaseerd op basis van persoonlijke prestaties of op de winstgevendheid van het bedrijf als geheel?
- Waarom is er voor deze manier van winstdeling gekozen?
- Staat beoordeling los van beloning of is er hierbij sprake van samenhang? Op welke manier?
- Welke relatie ziet u tussen innovatie en de manier waarop de winstdeling binnen uw organisatie plaats vindt?

Sectie 7: Planning

- Hoe gaat uw organisatie om met job rotation?
- Wordt dit gestimuleerd vanuit de organisatie of wordt dit wellicht toepast vanuit de wens van de medewerker?
- Hoe ver gaat deze rotatie? Andere functie binnen de afdeling, zelfde functie buiten de afdeling, nieuwe functie buiten de afdeling, etc.
- Wat denkt u dat de invloed van het wel of geen gebruik maken van job rotation is op innovatie?

Sectie 8: Algemene relatie HR praktijken en Innovatie (± 10 minuten)

- Als u zou moeten aangeven welke van de vijf HR praktijken (staffing, training, beoordeling, planning en beloning) het meest effectief is voor innovatie, welke zou dat dan zijn en waarom?
- Zijn er ook HR praktijken die innovatie afremmen?
- Wat is volgens u per saldo het effect van HRM op innovatie? Welke functie speelt HRM hierin?
- Zijn er nog andere onderdelen binnen het HR beleid die u van belang acht voor innovatie, maar die niet aan de orde zijn gekomen in dit interview?

Sectie 9: Afsluiting

Dit is het einde van het interview. Heeft u verder nog vragen of opmerkingen?

Ik zal een uitwerking van dit interview naar u opsturen, om er zeker van te zijn dat u het eens bent met mijn interpretatie van uw antwoorden.

Wanneer ik mijn scriptie heb afgerond, kan ik het u toesturen. Hebt u hier belang bij? JA/NEE

Misschien dat er bij de uitwerking van de interviews nog vragen opkomen n.a.v. dit interview, dus het kan zijn dat ik u nog eens benader als dat goed is.

Ik wil u vriendelijk danken voor de tijd die u heeft vrijgemaakt.