THE EFFECTS OF HUMAN RESOURCE MANAGEMENT PRACTICES (HRM) ON SERVICE INNOVATION IN MALAYSIAN ISLAMIC BANKS

By

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ABSTRAK

Objektif kajian ini adalah untuk mengkaji kesan amalan sumber manusia pada inovasi perkhidmatan dalam konteks bank-bank Islam dan secara praktik kajian ini meneliti tiga dimensi amalan HRM: pampasan, prestasi penilaian dan penyertaan.

Tiga hipotesis mengenai kaitan hubungan telah diuji dengan menggunakan sampel 130 pekerja sebanyak 10 bank Islam yang terletak di Pulau Pinang. Faktor analisis dan ujian kebolehpercayaan mengesahkan bahawa inovasi perkhidmatan dalam konteks Malaysia bank-bank Islam terdiri dari lima dimensi walaupun HRM terdiri daripada 14 dimensi. Regresi analisis menunjukkan bahawa pampasan dan penyertaan mempunyai hubungan dengan inovasi perkhidmatan yang tidak ketara manakala penilaian prestasi didapatimempunyai hubungan positif dan berkait dengan ketara inovasi perkhidmatan. Implikasi teori dan praktikal kajian serta cadangan untuk kajian akan datang juga disediakan.

Keywords: perkhidmatan inovasi, amalan HRM, bank Islam

ABSTRACT

The objective of this study is to examine the effect of human resource practices on service innovation in the context of Islamic banks. This study examines three dimensions of HRM practices: compensation, performance appraisal and participation.

Three broadly hypothesized relationships were tested using a sample of 130 employee of 10 Islamic banks located in Penang. The factor analyses and the reliability test confirmed that service innovation in the context of Malaysia Islamic banks is a five-dimension While HRM consists of 14 dimensions. Regressions analyses demonstrated that compensation and participation have an insignificant relationship with service innovation while performance appraisal was found to be positively and significantly related to service innovation. The theoretical and practical implications of the study as well as suggestions for future studies are also provided.

Keywords: service innovation, HRM practices, Islamic bank

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CHAPTER 1

INTRODUCTION

1.1 Introduction

This study discusses the effects of human resource management practices (HRM) on service innovation in the context of Malaysian Islamic banks. In doing so, it will be divided into two broad sections. The first section will define the concept of HRM in terms of its emergence and historical development, objectives, functions and practices. The next section deals with the statement of the problem, research objectives, research questions, definition of variables and significance of the study.

1.2 Background of study

Malaysia is dependent on (12) national key economic areas, (NKEA) in their efforts to achieve a higher gross income by 2020. The financial sector is one of the (NKEA) areas that Malaysia trying to develop to reach these goals. This is according to the Malaysian Performance Management & Delivery Unit (PEMANDU, 2010) which, has over time, become a remarkable Islamic financial system in Malaysia. The evolution of Islamic financial infrastructures in Malaysia such as Islamic banking, Islamic insurance, Islamic capital market, Islamic interbank money market, Kula Lumpur stock exchange shariah index is comprehensive to say the least. All developing economies depend on strong banks to enrich the economy and its society through the founding and attracting investments. To date, the Malaysian Islamic banking services are considered one of the major compounds of the financial system. Notably, it has been one of Malaysia's steady drives for a stronger economy. Malaysia established its first Islamic banking system in 1983 and has been a thriving industry since that date.

Despite an active role of Islamic banking instituted primarily to attract Muslim consumers it has been a financial intermediation over other conventional banks for religious reasons. Islamic banking plays an important role in the overall economy its importance is revealed in the use of the Islamic banking system especially after the American financial crisis

According to an indicated study, the link between Islamic banking and Malaysia's economic growth, using a cointegration test and vector error model shows that Islamic banking has a significant and positive impact on economic growth. In fact, it plays a major role as financial intermediaries when transferring funds between surplus households to deficit households (Furqani & Mulyany, 2009).

Despite the progress in banking Malaysian has achieved in the last decade there have been huge changes in the economy and throughout the business environment. The technological changes also reflect new rules that financial institutions have to compete with in order to survive. The central bank of Malaysia (bank Negara) has indicated through the financial master plan some of the challenges faced in Malaysian Islamic banking:

- The increase of competition due to globalization and providing Islamic products from conventional banks
- The important role of technology which shape the structure of financial markets
- The experienced customers demand for sophisticated and differentiated products

Islamic banking is a financial institution working according to the "Al Shariah" principals, whereas in its self, face vast challenges from conventional banks. Constant changes in technology impact of use of the mobile banking merging with non-Islamic banks as well as its corroboration for delivering new products in innovative ways. With the strict Islamic law that Islamic banks follow, traditional banks find themselves facing newer bigger challenges. Islamic banks are also tested in their ability to adopt to change. Many studies have illustrated roles of innovation based in order to compete in the market and deliver new ways to keep up with sustainable quick changes in today's business world (Tan & Nasurdin, 2011). One study indicated that much of the development and innovation in Islamic banking comes from conventional banks which allow conventional banks to provide an Islamic window allowing the Islamic banking industry to compete with well-established banks such HSBC (Karbhari& Naser et al, 2004).

The objective of the central bank of Malaysia was to create an efficient, progressive and competitive Islamic financial system. While contributing to the effectiveness and efficiency of the Malaysian financial sector it would also meet the economic needs of the nation (Bank Negara financial master plan 2000). Malaysia seeks to be a fully development country in 2020 with the use of the new economic model presented by Dato' Sri Mohd Najib bin Tun Abdul Razak. It indicates that the improvement of Islamic banking through innovation will aid in gaining a competitive edge in addition to the improvement of other sectors.

From the importance of innovation to working towards a competitive edge all give the ability to compete in the market. Few researchers have examined innovation in the services industry in relation to investment banks. It is a widely acknowledged fact that effective human management resource (HRM) practices are significant in extracting positive work behaviours among employees, which then lead to organizational innovation (Tan & Nasurdin, 2010). According to Harter, Schmidt, and Hayes (2002), HRM practices can generate increased knowledge, motivation, synergy and commitment of a firm's employees which then result in a source of sustained competitive advantage for the firm. However, a number of researcher such as Hilsop

(2003), Morrow and McElroy (2001), and Moynihan, et al (2001) have highlighted the missing link between HRM practices and organization outcomes. For instance, Wright (2001) argued that more research needs to concentrate on the indirect relationship between HRM practices and organizational innovation.

Therefore the present study seeks to examine the indirect effect of HRM practices on service innovation in Islamic banks in Malaysia

1.3 Problem Statement

Malaysia is an example of a fast developing post industrial economy which is currently experiencing fierce competition from similar economies, especially from the Asian/Pacific region. In order to meet this challenge and compete successfully, Malaysia has recently launched its new economic model, otherwise known as the Economic Transformation Model (ETP), which aims to transform the manufacturing sector from being product based to knowledge based. In order for this model to succeed, it is vital that companies understand the fundamental drivers influencing an organization's ability to innovate successful new products, idea, practices and systems. Only then can these companies compete in the dynamic marketplace.

More pertinently, in its vision to attain developed status by 2020, Malaysia has identified the financial services sector as one of the key areas that needs to be developed. According to the Malaysian Performance Management and Delivery Unit (PEMANDU,2010), the financial services sector is one of the twelve national key economic areas (NKEA) that will help develop the economy and transform the country into a high income nation (2020) .

In Malaysia, there has been a rapid increase in the number of Islamic banks as well as Islamic banking facilities. These institutions that offer Islamic banking find themselves operating in a very competitive and demanding industry that requires them to be able to meet their customers' financial needs in order to be successful (Usmani, 2002). In this regard, service innovation is seen as the key successful factor to maintain and promote growth of business. Therefore, faced with the stiff competition from other banks, Islamic or otherwise, it is essential for banks that provide Islamic banking facilities to focus on service innovation in order to develop and improve the industry and in the process increase public confidence.

While the Islamic financial system in Malaysia has been able to provide comprehensive Islamic financial infrastructures and play an important role in the economy through its positive contributions to the economy (Furqani & Mulyany, 2009), the industry needs to be more innovative and creative especially in light of the stiff competition from conventional banks which have had more experience in the services industry and thus have been more receptive to innovation and adopting new models.

In this regard, a number of studies have been conducted to investigate the many challenges facing the Islamic banking sector. One of the challenges is the lack of innovation as much of the development and innovation in the Islamic banking sector actually originates from conventional banks which allow these conventional banks to provide Islamic banking services as part of their overall services. This means that the Islamic banks themselves have to compete with well established non- Islamic banks such as the HSBC (Karbhari, Naser et al. 2004).

While there have been a substantial number of studies on innovation, they have all focused on product manufacturing and technological innovation. There has been very little research into innovation in the area of Islamic banking especially in terms of the services sector. Thus this study aims to investigate how innovation can help increase the level of creativity among the employees of Islamic banks through human resource management practices (HRM). As Damanpour and Gopalakrishanan (1998) point out, human resource management practices have a positive influence on individual behavior which leads to innovation in the workplace. Thus in light of the Malaysian authorities efforts to promote Malaysia as a leader in the global Islamic financial sector (Bank Negara, Master Financial Plan 2000), this study is focusing on innovation as a key driver for Islamic banks to compete with conventional banks and develop the ability to adopt new models and be more effective in meeting the changing business environment

This study will investigate the concept of innovation in Islamic banks in Malaysia in relation to the three most common human resource practices as identified in the relevant literature. They are 1).Compensation 2), Participation and 3) Performance Appraisal.

1.4 Research objectives

The objectives of this study are:

1. To examine whether Compensation in human resource practice (HRM) has a positive impact on Islamic banking service innovation.
2. To examine whether Participation in human resource practice (HRM) has a positive impact on Islamic banking service innovation.
3. To examine whether Performance Appraisal in human resource practice (HRM) has a positive impact on Islamic banking service innovation.

1.5 Research questions

To achieve the objectives of this research, the following research questions are:

1. Does human resource practice (HRM) Compensation influence the performance of Islamic banking employees in order to sustain innovation in the work place?
2. Does human resource practice (HRM) Participation influence the performance of Islamic banking employees in order to sustain innovation in the work place?
3. Does human resource practice (HRM) Performance Appraisal influence the performance of Islamic banking employees in order to sustain innovation in the work place?

1.6 Significance of the study

This study investigates three types of human resource practice in relation to innovation in Islamic banks in Malaysia. In doing so; firstly, this study will help to fill the gaps in research in HRM and innovation in Islamic banking field. Secondly, it will help Islamic banks in Malaysia to be more creative and innovative such that they will be in a better position to compete with well established conventional banks that also offer Islamic banking services. Thirdly, this study will help the Malaysian authorities to improve and develop Islamic banking such that it will not only play a more important role in the economy but also help to build Malaysia's global reputation as a premier Islamic banking centre. Fourthly, the present study will help Malaysian Islamic Banks to move up the value chain by accelerating the transition towards higher value-added service.

1.7 Definition of Variables

The various variables used in this present study are defined as follows:

1.7.1 Service innovation: Jana (2007) proposed a helpful definition taken from Finland's research Agency, TEKES (2006): "Service innovation is a new or significantly improved service concept that is taken into practice. It can be, for example, a new customer interaction channel, a distribution system or a technological concept or a combination of them

1.7.2 Human Resource Management Practices

In this study, human resource management practices refer to all management decisions and activities that affect the nature of the relationship between the firm and its employees (Ivancevich, 1998; Noe, Hollenbeck, Gerhart & Wright, 2008). They are the primary means by which firms not only influence the attitudes and behaviour of individual employees, but also nurture the knowledge, skills and abilities of the employees so as to achieve the firms' goals (Beer et al., 1984; Collins & Clark, 2003). In this present study, three dimensions of HRM practices will be examined. They are Compensation, Participation and Performance Appraisal. The definition of Participation is adopted from Delery and Doty (1996) while the definitions of Performance Appraisal and Compensation are adopted from Lepak and Snell (2002).

1. Compensation is conceptualized as the extent of an equitable rewards system wherein employees are attracted to the work and motivated to perform organizational tasks in the organization.

2. Participation is defined as the degree to which employees are allowed to have input into their work and the degree to which the firm value their input.

3. Performance appraisal is defined as the degree of implementation of performance management in the organization, whereby managers ensure that employees" activities and outputs are congruent with the organizational goals.

1.8 Organization of the remaining chapters

Chapter one gave an overview of the study. The objectives of the research have been stated to give a target to the study. It presents the background, illustrates the problem statement and the discussed the scope and significance of the study to provide rationale of conducting the research. The chapter two presents the review on human resource management practices, service innovation, theoretical framework and the hypotheses development.

Chapter three will explain the research methodology. This will illustrate the data and variable in term of research design, research method, research instrument, sample collection, measurement of variables, the method of data analysis and expected outcome on the study. Chapter four discusses the data analysis and the result of the findings. This will analyzes the results of finding, focusing on statistical analysis, descriptive statistic, factor analysis, correlation analysis, multiple regression analysis and hierarchical regression analysis and the summary of research results.

Lastly, chapter five reports the discussion and conclusion on the research. It will present the overall findings and implications of the research will be discussed, limitation of the study as well as suggestion for future research and recommendations to increase the performance of Islamic banks.

CHAPTER 2

LITERATURE REVIEW

1.2 Introduction

This chapter presents a review of literature on the topic of Human Resource Management (HRM) Practices and Service Innovation. The purpose is to provide an understanding of human resource management (HRM) practices, the independent variables and the dependent variable, which is service innovation, that are used in this study. This chapter ends by presenting the proposed theoretical framework together with the hypotheses.

2.2 Definition of Innovation

Innovation is a very broad research field and there are many definitions of innovation that have been introduced in the past years. The main definitions are discussed below.

The Oxford Advanced Learner's dictionary (2005) defines innovation as the introduction of new things, ideas, or ways of doing something. It implies that innovation may be undertaken by individuals or organizations and, innovations may take place in any functional area such as R&D, human resources management, manufacturing and inventory control. It may or may not entail risk, or bring about financial gain to the originators. This definition is important as it stresses that innovation is characterized by novelty, uniqueness, and exclusivity.

On the other hand, O'Sullivan and Dooley (2009) defined innovation as the process of making changes, large or small, radical or incremental, to products, processes, and services that result in the introduction of something new for the organization. Innovation adds value to customers and contributes to the knowledge store of the organization. This definition covers a broader scope and emphasizes the economic value of innovations.

Yet another definition of innovation is provided by West and Anderson, (1996, p. 681) as *"the intentional introduction and application within a role, group or organisation of ideas, processes, products or procedures, new to the relevant unit of adoption, designed to significantly benefit the individual, the group, organisation or wider society".* There are several important aspects to this definition. First, innovation is restricted to intentional attempts to derive anticipated benefits from change. Second, a broad perspective on the anticipated benefits, rather than a sole criterion of economic benefit, is adopted. Thus, possible benefits might be personal growth, administrative efficiency, better interpersonal communication, improved group cohesiveness, staff well being, etc. Third, this definition allows for the introduction of a new idea designed not to benefit the role, group or organisation, but to benefit the wider society. Fourthly, the definition is not restricted to technological change but subsumes new ideas or processes in administration or human resource management.

In addition, this definition also requires an application component, thus encompassing what many would regard as the crucial social element of the process of innovation. Last but not least, it does not require absolute novelty of an idea, simply following (Altink et al, 1996)agreeing the idea be new to the relevant unit of adoption. Thus, a team bringing new ideas to an organization would be considered an innovation within the terms of the definition.

2.2.1 Innovation and Creativity

Innovation has been widely accepted as central to the growth of output and productivity. The rapidly developing and changing global economy has resulted in an equally fast paced evolution in the process of innovation. Globalization has resulted in greater international competition and new organizational forms in order to manage global supply chains. Globalization has also led to a dramatic increase in access to information technology, as well as the emergence of new markets for organizations. Thus as a number of researchers and world organizations have noted, in view of the advances in technologies and greater flows of information, knowledge has become the central driver of economic growth and innovation (Damanpour, 1987, 1991; Cooper & Kleinschmidt, 2000; OSLO 2005). It is therefore necessary to better understand various critical aspects of innovation, such as product development, research and development, interactions among employees, conducive work environment, as well as human resources management (HRM) practices that can nurture and facilitate the flow of relevant knowledge, which eventually encourage the adoption of innovation within an organization.

All innovation begins with creative ideas. The successful implementation of product and service development programmes depends on a person or a team having a novel idea and further developing that idea beyond its fruition (Damanpour, 1991; Amabile, Conti, Coon, Lazenby, Herron, 1996 ;). Creativity consists of devising new concepts, new ideas, new methods, new directions, and new modes of operation (Amabile, 1996; Mclean, 2005). The operative word is "new". On the other hand, innovation is the successful implementation of creative ideas within an organization (Amabile, 1996; Mclean, 2005). The operative word is "successful implementation". Thus, no innovation is possible without the creative processes that signal the beginning of the process. Therefore in any organization, it is the individual or team creativity that is the starting point for innovation. It is instructive to note that on its own, innovation cannot take place for successful innovation depends on other factors that come from creative ideas originating within the organization as well as ideas from external sources. Therefore creativity and innovation focus on combining creativity with innovative management (Amabile, 1983, 1988, 1996; Amabile at al., 1996; Kuhn, 1998; McLean, 2005).

According to Poilites (2004) cited from Amabile, the concept of creativity includes all factors that contribute to creativity. A person's creativity is made up of three components. They are expertise, creative thinking and intrinsic task motivation and these components are linked to three organizational work environment factors, which are management practices, organizational motivation and resources. Creativity produced by individuals and teams serves as a primary source for innovation within organizations. Elements of the work environment impact the creativity of individuals and teams. In other words, the work environment influences creativity by influencing the individual and team components (politis, 2004)

2.2.2 Service Innovation

The term "services" can be described and classified in several ways. Usually, consumers pay in advance for something which they hope to receive. This means that services are, to a large extent, based on trust. For instance, a tourist expects that his/her ticket, which has already been paid for, will actually give him/her access to the plane and if for any reason something goes wrong he/she expects that the insurance company will compensate him/her for the loss.

According to Jong (2003) said no single definition of a service is capable of encompassing the full diversity of services and complex attributes that accompany them. Therefore, in practice, there are a wide range of definitions. To (Edvardsson, 2005)a service can be defined as an activity or series of activities of more or less intangible nature that normally, but not necessarily, take place in interactions between the customer and service employees and/or physical resources and/or systems of the service provider, which are provided as solutions for customer problems.

For (Amarjit S. Gill, 2006), service refers to any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything, while Hertog (2000) agree with Gadrey et al.,to define service as the organization of a solution to a problem (a treatment, an operation) which does not principally involve supplying a product. In other words, service entails providing a selection of capabilities and competences (human, technological, organizational) for a client to use to organize a solution.

Based on these definitions, it can be concluded that a service only becomes a service when it is being delivered. Also services have distinguishing characteristics. They are intangible, simultaneously produced and consumed and often customized to a client's needs.

A service innovation always includes replicable elements that can be identified and systematically reproduced in other cases or environments. The replicable element can either be the service outcome or the service process or a part of them. A service innovation is a service product or service process that is based on some technology or systematic method (Jana, 2007). Thus, service innovations can, for example, be new solutions in the customer interface, new distribution methods, and novel application of technology in the service process, new forms of operation with the supply chain or new ways to organize and manage services (Jana, 2007).

A comprehensive definition of service innovation was proposed by Van Ark et al (2003), as "*a new or considerably changed service concept, client interaction channel, service delivery system or technological concept that individually, but most likely in combination, leads to one or more new service functions that are new to the firm and do change the service/good offered on the market and do require structurally new technological, human or organizational capabilities of the service organization.*" This definition covers the notions of technological and non-technological innovation. Non-technological innovations in services mainly arise from investment in intangible inputs.

However, most researchers share the view that innovation in the services sector has a different character than in the manufacturing sector (Bernardt, 2000; OECD, 2000; Johne and Storey, 1998). The relevant literature contains several definitions. Innovation in services is the development of service products which are new to the supplier (Johne & Storey, 1998) or an offering not previously available to a firm's customers resulting from additions to or changes in the service concept (Menor et al., 2002) otherwise encompassing ideas, practices or objects which are new to the organization and to the relevant environment, that is to say to the reference groups of that innovator (Van der Aa & Elfring, 2002). Thus what is clear is that innovations in service industries are often non-technological. They mostly involve small and incremental changes in processes and procedures. In addition many service innovations are not very radical and have often already been implemented in or by other service organizations.

2.2.2.1 The Differences between Service Innovation and Product Innovation

The differences between service and product innovation have been the subject of debate for some time (Vermeulen, 2002). There are some researchers who claim that the differences can be ignored (politis 2004). On the other hand, according to Berry (2006), service innovation is different from product innovation in three important ways. For example, the actual providers and the service delivery staff are part of the innovation and the customer experience in labor-intensive and interactive services (Alam, 2002). In addition, service innovators usually do not carry a brand name with a tangible product. However, there is a consensus among researcher regarding the characteristic features of services as opposed to a manufactured product. There are four important differences as illustrated in Table 2.1

Services tend to be	Products tend to be
Intangible	Tangible
Simultaneous production and consumption: customers participate in production	Separation of production and consumption: customers do not normally participate in production
Heterogeneous	Homogeneous
Perishable: cannot be kept in stock	Can be kept in stock

Table 2.1 *Differences between Services and Products*

First, according to Bernardt (2000), services tend to be intangible and appear to be the only feature common to all services. Thus intangibility best differentiates services from manufactured products. Because of their intangible nature, customers do not know exactly what they purchase as there is no transfer of ownership. In other words, services can be seen as performances instead of objects, because they cannot be seen or touched (Edvardsson 2005). However, the degree of intangibility will differ between services. In addition, in many cases, services are accompanied by tangible elements, for example, credit cards in financial service. As Sampson (2006) point out, most services contain a mix of tangible and intangible attributes that make up a service package (Sampson, 2006)

The second feature of services is the simultaneity of production and consumption (Bernardt, 2000). This means that services are produced and consumed in the presence of customers or 'require substantial interaction' (Vermeulen , 2004). This differs from products which have to be produced before they can be sold and finally consumed. In producing services, the customer takes part in the production process, while this is rarely the case in manufacturing.

The third feature, which is heterogeneity, concerns the variability of services. For instance, as

Jong (2003) state, the customized aspect is more significant in services than in manufacturing goods. According to several researchers like Jong (2003); Menor and Roth, (2007), various deliveries of one particular service differ substantially because of the personal perceptions of clients. There are a number of reasons why these differences exist. For example, as Jong (2003) and De Brentani argue that the degree of heterogeneity depends on whether the service is people- or equipment-based. The role of company personnel is often crucial as they 'deliver' the service to the customer in people-based services. Front-line employees are often unable to standardize the output (the actual service). On the other hand, a cash machine (ATM) is an equipment-based service and is able to provide exactly the same service over and over again. Customers will perceive this type of service as less heterogeneous. However, if customers in a bank have to queue and wait a long time to be served, this will increase their level of irritation and influence their perception of the quality of service provided.

The fourth distinguishing feature of services is perishability. It is common knowledge that services that are available but are not being consumed cannot be stored (Van der Aa, 2000). Usually the production and consumption of services are mostly linked to time and place and take place near the customer. Since services cannot be stored, it can be difficult to synchronize supply and demand. For instance, in transport services the available seats in a plane might not all be filled, which means that all the empty seats are 'lost'. They cannot be used as a buffer for a period of high demand, as opposed to unsold products which can be stored and sold in times of high demand. However, it is instruction to note that perishability does not apply to all services. For instance, computer software is not perishable.

In actual practice, though, products and services cannot be distinguished as clearly as discussed above. As Özyilmaz (2005) stated that Easingwoo argues ‘not all services are intangible, produced simultaneously, heterogeneous, and perishable”, since “manufactured goods may possess one or more of these characteristics as well’. For instance, in transport services, travel documents and (insurance) policy conditions can be thought of as the tangible parts of the service. Another example is the effect of information technology (IT) on the delivery of services. Software service providers tend to offer homogeneous products which are not produced and consumed simultaneously. In addition in manufacturing most products are usually accompanied by additional services like repair and maintenance services.

Thus, in summation, it is more useful to think about the difference between services and physical products as the extremes on a continuum Jong (2003) agreed with Johne and Storey (1998). However, in this current study, the investigation will be based on the differences as illustrated in Table 2.1. The rationale for doing so is based on the fact that a substantial number of studies in HRM and innovation stress the specific characteristics of services as compared with products. Thus, given the stress on the differences, it is only logical and appropriate that a specific methodology/approach to service innovations is investigated and developed. Indeed as politis , (2004) pointes out; it comes as no surprise that the number of researchers who see no need for a specific approach to service innovation is rather limited. However, it is equally important to bear in mind the views on innovation in manufacturing. Since products and services can be considered to be opposites on a continuum, not all research findings from manufacturing contexts are irrelevant in a service context.

2.3 The Concept of Human Resource Management Practices

The term "human resource management" has been in common usage for at least the past fifteen years. Before that, the field was generally referred to as "personnel management". However, there are differing views regarding the two terms. For instance, Dessler (1991) did not differentiate between personnel management and HRM since MRM is a modern expanded version of traditional personnel management due to technological changes in the work environment and a shift in societal values. On the other hand, Torrington and Hall (1998) highlighted the differences between personnel management and HRM. To them, personnel management is considered as workforce-centered while HRM as resource-centered. To Guest (1987), HRM is not an alternate to personnel management but rather a particular form of personnel management which stresses the strategic issues of employee commitment, flexibility, quality and integration.

Since there is no consensus regarding the meaning of HRM vis-à-vis personnel management, there exists a number of definitions of HRM. Armstrong (1995) defined HRM as "a strategic and coherent approach to the management of an organization's most valued assets – the employees who individually and collectively contribute to the achievement of the objectives of the business." Beer et al. (1984) viewed HRM as involving all management decisions that affect the relationship between the organization and employees – its human resources. Storey (1995) considered HRM as a distinctive approach to employment management which seek to obtain competitive advantage through the deployment of a highly committed and skilled workforce, using an array of techniques. And there are others who have defined HRM as being concerned with the need to achieve congruency among the various HRM policies and practices so that they become mutually supportive, rather than conflicting (Milliman, Von Glinow & Nathan, 1991; Schuler & Jackson, 1987).

Notwithstanding the different interpretations and definitions of HRM, it is a fact that a major transformation in the form and function of HRM practices has taken place within the past two decades globally. A number of significant factors have led to this transformation. For instance, intensified foreign competition, rapid technological changes, greater needs for innovation and workers' demands for empowered jobs have resulted in organizations engaging in efficient human resource practices (Kalleberg & Moody, 1994). Organizations try to establish an effective HRM because there is a positive relationship between HRM effectiveness and a firm's performance (Huselid, 1995). For instance the findings of a study on 385 small businesses in the USA revealed that HR practices influenced organizational climate, which in turn influenced customer HR practices such as developmental performance appraisal systems and establishing an internal equity of rewards positively affected employee commitment towards the organization (Whitener, 2001). It is because of such benefits that arise out of effective HR practices, that more and more organizations are developing and implementing HRM practices.

2.4 Human Resource Management Practices

Currently, in today's business world, human resource management is considered a key element for successful innovations. Though the working human factor is a vital part of the process it has been found that HRM is enmeshed in the entire innovation development (Galbraith, 1984; Vrakking, 1990).

There an intimate relationship that develops between innovation and HRM. Generally, this relationship has been studied throughout literature from a contingent perspective. As many research studies in the past have indicated there is a vital link between HRM practices and organization performance. Much of the literature has indicated that the essential HRM practices are associated with organization innovations and performance outcomes as training regimes and development stages (Jimenez-Jimenez & Sanz-Valle, 2005). Other associated practices can be seen through recruitment and selection (Kulik, 2004), compensation and reward (Lepak & Snell 2002), performance appraisal (Gupta & Sinhai, 1993), and as a Participation (Delery & Doty, 1996).

This section outlines specific the sub-fields of human resource management which include recruitment selection, training, performance appraisal, compensation management, and participation

2.4.1 Recruitment and Selection

Recruitment can be defined as the process of seeking and attracting a pool of people in order to select qualified candidates for vacant positions within the organization (Byars & Rue, 1991). Recruitment processes can be initiated in many ways. Some organizations may choose to use both internal and external sources to fill vacant positions. The internal recruitment process seeks candidates among existing employees and post open positions internally. These opens posts may be advertised as vacancies throughout the entire areas of the companies or centralized to assure that all employees have an opportunity to view available posts. Other methods, is to allow advertising via word of mouth. Friends of employees and friends of friends of the company may apply. It is also common to accept employee recommendations from their present employees regarding friends to help fill vacancies. Recruiting externally is strictly from outside the existing firm. Methods for external recruiting can be using the available forms of media such as, school campuses and advertising. Outside recruitment can also be engaged through the internet and company databases as well as private agencies that help place their candidates. Recruitment fairs are also an excellent way to use a face to face type of recruiting as Sözer (2004), indicated in his study from Ivancevich, (1992).It is important to note that the firm give an accurate account of the job position before posting as not to mislead potential employees. This includes all the aspects of the job whether favourable to a new hire or a monotonous sounding task (Sözer, 2004).

Upon the completion of the recruitment process selection commences. “Selection is the process of choosing from a pool of applicants the individual or individuals who best fit the selecting criteria for a position” (Harvey & Browin, 1996, p. 120). Selections must begin with a vigorous application process in order to gather as many details of the applicant as possible. The sooner the screening can begin the better in order to short list the applicants. The short listed applicants are brought through a brief personal interview to aid the collection of the personal and background information data. Following the interviews, the firm would conduct cognitive or psychomotor ability tests to acquire more truthful knowledge and related skills that the applicant may have. This is also a good test to understand their emotional intelligence, integrity and personality. A full formal is one of the final steps conducted. They are formatted in a structured, semi-structured or unstructured fashion in which the applicant must respond to sets of questions pre-set by the interviewer. The interviewer must stay in absolute control of this process except in the case of the unstructured interviews which are flow controlled by the applicant. During the interview it is important to note that the statements are repeated to encourage the applicant in further discussion. Unstructured interviews are normally subject to the interviewer’s interpretations of an applicant’s responses (Bragger et a, 2006). Unstructured interviews have a relatively low validity compared to structured interviews because of the centre of their overall assessments (Buckley, 2000). Other types of interviews such as panel, situational and stress interviews can prove useful when structured properly. Panel interviews are especially effective when the applicant has to meet with a group of individuals from the firm. The applicants may be asked to solve a particular problem or describe a scenario on how they would behave in a specific situation whether it be job related or in personal life. Either way, applicants are often subjected to the stresses and strains supposedly encountered in possible job situations (Bragger et al, 2006).

Following interviews, references are checked for accuracy and legitimacy as well as letters submitted for character behaviour from other jobs or personal life. Applicants are often subject to physical examination or drug tests for most organizations. Final hiring decisions are based on the results of the stages and overall selection process.

Other selection processes that may be employed are through assessment centres which require the candidate to perform tasks and at times actually perform simple tasks during the interview. During standard conditions the applicant must display their competence for the tasks that they may be responsible for in the position that they're currently applying for. These centres are standardized to show and give a measure on how well a recruit is able to perform the tasks of a specific job. Many of the simple exercises may include basket exercises, leaderless group exercises, problem solving skills and role-play exercises

.2.4.2 Performance Appraisal and innovation

Performance management tends a strategic approach in order to increase the effectiveness of organizations. This can be done by improving the performance of the employees and by developing the capabilities of teams and individual contributors (Esu & Inyang 2009). Kuvaas (2006) suggested that task performance relates to proficiency. This clearly states that employees perform core technical activities important for their jobs. The contextual performance relates to extra tasks and its proficiency that contribute more to the organization. These social and psychological environments help to achieve organizational goals as a whole. Many contextual factors include characteristics like persistent enthusiasm and extra effort. It is also stressed through many companies that volunteering to carry out extra duties or not formally part of one's job is essential for endorsing and supporting organizational objectives (Kuvaas, 2006).

Performance appraisals may help determine how an employee is performing on the job. This will later be communicated back to the employee for feedback. Lepak and Snell (2002), have documented the results of performance appraisal and the use feedback from to employees about their performance to help develop their performance.

HRM activities aid in providing data from using appraisal systems with are also responsible for keeping detailed information on promotions, layoffs, hirings and firings. These performance appraisals can also provide input for training and development to further see to the needs of employee growth. Appraisals are also used to provide input for the validation of selection procedures and human resource planning (Riggio, 2003).

Employee's performance is generally evaluated by their supervisors. Their peers and miscellaneous outside sources such as customers and other employees also aid in the performance evaluations. Muchinsky (1999), stated the difference in methods for performance appraisals and their classifications. One group classification is the Graphic Rating Scales (GRS). Though the most commonly used techniques for performance appraisals, rates are used to number traits and factors. A judge will then rate these numbers on a 5-7 point scale (Muchinsky, 1999).

Another group is classified as an employee comparison method. It involves a rank-order, paired comparison, followed by a forced distribution curve. The scales for this distribution are referenced where the employees are actually evaluated against each other. Rank orders are rated from high to low on a given performance dimension, however, the rank-orders form the data which have an ordinal scale characteristic. Therefore, the level of performance cannot be exactly