

# The Role of HRM in Enhancing Organizational Performance

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**Abstract** The purpose of this article is to study the human resource management (HRM) relevance in innovation, environmental management and organizational performance. Through literature review on the related fields of study including resource-based view and organizational performance, information have been extracted and served as the backbone for the conceptual framework development. This paper aims to fill the gap in the organization performance literature by highlighting the contribution of HRM in influencing business organizational performance through its intermediate effect on innovation and environmental management. Managers from the manufacturing industry will be benefited by gaining better understanding on the role of human resource practices on improving sustainable performance by enabling innovation and environmental performance.

**Keywords** HRM, Innovation, Environmental Performance, Organizational Performance, Malaysia

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## 1. Introduction

Human resource (HR) is treated as one of the critical resource in organizations nowadays. The activities of managing human resources are termed human resource practices. Since 1990s, some researchers had investigated and furnished supportive evidence on the role of HR practices on establishing and enhancing organizational performance[1] and financial performance[2]. However, the study on the association between HR practices and innovation, as well as environmental management is still scarce. A well-designed and managed HRM program expected to the flourishing of innovations[3] is much sought after by the manufacturing firms. Another competitive edge is achieved through implementing a proactive environmental program. In order to attain environmental performance, business leaders have been searching for management practices aiming to reduce the costs incur and overcome technical difficulties via technology innovation. HRM is frequently practiced in firms to act as a catalyst for formation of human capital which will lead to competitive organizational performance.

## 2. Literature Review

### 2.1. Human Resource Management (HRM)

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According to advocates of resource-based view, scarce human resource is as valuable as other tangible assets of organizations. Hence, top executives of various organizations have paid much attention to managing human resource. In organizations, human resource management (HRM) is essentially one of the areas of management concerning the productive utilization of the firm's workforce in attaining its business objectives[4]. HR practices being deploy consist of hiring, training and development, performance management, rewards and compensation, safety and health, etc.[5]. HRM practices were valued for facilitating the integration of employee activities in intellectual capital formation, leading to the attainment of competitive advantages in business firms[6]. The desired knowledge, skills, abilities, values and attitudes of employees are moulded through HRM practices.

### 2.2. Innovation Performance (IP)

Innovation is process that comprises the creation, adoption and implementation of new ideas or practices within the organization[7]. Researchers study innovation from the following three different perspectives: I) Technical and administrative innovation, II) Product and process innovation, and III) Radical and incremental innovation. Improvement relates on products made, services provided and production processes is technical innovation, whereas administrative innovation is a result of amendment in an organization's structure and administrative procedures[8]; product innovation refers to the supply of new product and services, whereas the implementation of new manufacturing process or improvements of current process is process innovation[9] initiating a one-time and significant change to

core business activities is achieved through radical innovation, whereas incremental innovation is a result of routine changes of current activities[7]. Competitive advantage for long-run sustainability is created essentially through innovation[10].

### 2.3. Environmental Performance (EP)

The advent of environmental management shows business leaders nowadays are getting more conscious about environmental sustainability, the urgency to protect the natural environment and conservation of natural resources. Since 1990s, firms began to aware that environmental management will create value for their firm and voluntarily take action to reduce waste, pollution and environmental harmful activities. Consequently, firms establish various approaches and systems for environmental management through product design initiatives, use less pollution materials, less packaging materials and less energy consumption. In business organizations, environmental management initiative is expected to deliver EP which is deemed one of the essential performance indicators of firms, apart from financial indicators. According to the resource-based view, firms deploy value-creating strategies to create synergy out of its resources to outperform its competitors in order to generate superior return[11]. EP is an indicator of the degree of success a firm is engaged in implementing environmental programs to minimize the negative impact of its manufacturing processes, products and waste on the natural environment[12].

### 2.4. HRM and IP

HRM enable innovative organizations by effectively attract, develop and manage talent in organization[13]. When manufacturing firms expand its innovation activities, they need creative and innovative employees with characteristics of being flexible and risk tolerant[14]. Resource-based view implies that the firm's resource is critical for the long-term development. Human capital is a key resource that affects innovation performance, if they are highly valuable and scarce, difficult to imitate and non-substitutable[15]. Many empirical studies have proven that effective HRM sustain competitive advantage, innovation and corporate performance. A study[16] found that HRM affected technological innovation and led to superior corporate performance. Training and non-material incentives were positively related to technological innovation. Additionally, training in HRM is the most directly related to product, process and administrative innovation[17]. Whereas, performance appraisal was affected the administrative innovation positively. Given the importance of HRM practices, that will lead to the superior performance of innovation. Thus, of we proposed following that:

**Proposition 1: Higher level of HRM practices lead to higher level of innovation performance.**

### 2.5. HRM and EP

In organizations strategize for environmental performance, HRM practices are expected to shape environmental friendly human capital and culture of a firm through hiring pro-environment employees, training employees with skills and competency in technology and innovation, as well as providing rewards and incentives for making environmental management a success. By and large, a positive relationship between HRM and organizational performance was found in past research[18]. However, less attention has been paid to fine tuning of HRM practices to improve the effectiveness of environmental management until recent years. In 2008, the green HRM practices were clearly categorized for environmental management, such as recruitment; performance management and performance appraisal; training and development; employment relations; and pay and reward[19].

In tandem with the above findings, lean production, an in-process environmental initiative which is associated with reduction in materials consumption, waste and pollution is found providing complementary effect to EP[20]. Referring to the above literature review and our insight, it is proposed that HRM practices influence EP as follows:

**Proposition 2: Higher level of HRM practices lead to higher level of environmental performance.**

### 2.6. IP and EP

Environmental management effectiveness is in line with innovation of technologies deployment in firms to reduce material wastes[21]. Learning new knowledge and practices and developing preventive solutions are the firms' environmental initiatives, which may involve alteration in industrial processes or the acquisition of new equipment[22]. Besides that, strategies to reduce pollution also require introduction of new methods that involve exploiting knowledge know-how which will spur innovation. For instance, ISO 14001 documentation will support environmental knowledge dissemination and preservation in the firm. A study[23] revealed some of the corporate environmental practices which undoubtedly required innovative environmental management tools, such as eco-design for creative products, product stewardship, clean technologies, waste management, reuse of packaging, etc. Innovation plays a central role in enabling the development of related technologies, equipments, processes for effective environmental management. Hence, innovation performance is viewed as one of the imperative performance factors that drive the environmental practices deployment of organizations. Therefore, in this study, it is proposed that innovation performance is going to enhance environmental performance as below:

**Proposition 3: Innovation performance is positively linked to environmental performance.**

### 2.7. IP and Organizational Performance (OP)

Innovation is seen as a competency that leads to competitive advantage and organizational performance[24].

However, mixed results were obtained previously when scholars examining the relationship between innovation and organizational performance[25]. Similarly some studies reported positive relationship, some negative and some no relationship at all[26-28]. Inconsistent results could be due to different measures of innovation and firm performance[29]. In addition, combinations of different types of innovations yield divergent organizational performances[25].

Technological innovations tend to improve company competitiveness that in turn increase company value[30]. Market innovations enable companies to provide appropriate offerings and yield greater revenues[31]. Work process innovations become an avenue for improving short term profitability[32]. Significant relationship was found between innovation and organizational performance in Taiwan[25]. However, they limited their results by pointing out that organizational size is an important antecedent of organizational performance. We tend to consider innovation as both radical and incremental along a continuum and that innovation performance (IP) comprises four types: technological, marketing, administrative, and strategic. Based on our literature review, we postulate that innovation performance is an indicator of organizational performance. We hypothesize that:

**P4: Higher innovation performance will lead to higher organizational performance**

### 2.8. EP and OP

Some studies attempt to examine the relationship between environmental performance (EP) and financial performance[33-35]; however, the causal relationship is not conclusive and may be clouded by the effect of firm attributes and other characteristics.

Environmental performance such as pollution reduction can increase efficiency, minimize compliance cost and reduce future liabilities[35-36]. In addition, various financial returns were found to be positively related to EP[34].

Most studies concern correlation and there is no attempt to determine causation[35]. While some researches show changes in financial performance is caused by pollution (emission per sales dollar) but the measurement validity of EP is still weak[35]. Thus, the question is: "Is it that it pays to be green?"

The above cited studies point to the fact that the relationship between EP and financial performance is significant and positive. But the effect of causality remains inconclusive. However, we are of the view that EP will eventually lead to improved organizational performance (OP) depending on how the variables are measured or constructed. We therefore propose that:

**P5: Higher environmental performance will lead to higher organizational performance.**

## 3. Conceptual Framework

Figure 1 illustrates the proposed the role of HRM in promoting higher organizational performance through the

presence of innovation performance and environmental performance.

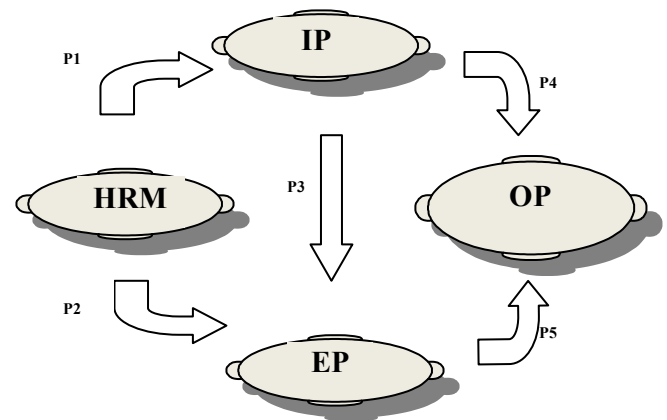


Figure 1. A Conceptual Framework

## 4. Theoretical and Managerial Implications

From a practical point of view, the proposed model provides certain benefits to the manufacturing firms. Integration of green HRM with innovation together with environmental management will induce a fruitful outcome; namely organizational performance for firms, which enhance the sustainability of the firm with continuous improvement by fulfilling the urgency to protect the natural environment as well as pressure from the government and society. Besides, the proposed framework also provides an useful insights to the researchers to understand the role of HRM in enhancing organizational performance through innovation performance and environmental management.

## 5. Conclusions

Human resources are vital for firms to achieve advanced innovations and sustainable performance in the ever-changing environment. The standpoint of this study emphasizes the important role of innovation performance and environmental performance when addressing the link between human resource management and organizational performance. Subsequently, incorporation of green element in HRM will certainly enhance sustainable improvements which benefit long term organizational performance.

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