

INNOVATION AND OTHER HIGH PERFORMANCE WORK PRACTICES FOR ORGANIZATIONAL IMPROVEMENT

Dr. Wurim Ben Pam*

*Federal University, Dutsin-Ma, Katsina State, Nigeria

wurimpam@yahoo.com

ABSTRACT

There has been continuous pressure on organizations to drive out excessive costs, obsolete products and services, and general inefficiencies so as to compete in the price sensitive global arena. Can the innovation strategy be a potent tool for bailing organizations from this circumstance? The major objective of this paper is to assess the relationship between the innovation strategies of organizations and their impact on firm performance. The paper draws substantially on extant literature and research work carried out on the innovation strategy and other High Performance Work Practices (HPWPs) and to consider their impact on the improvement of organizations. It was discovered that the innovation strategy and other HPWPs indeed impact financial and operational outcomes of organizations; achieve higher levels of productivity than more traditional approaches with combinations of certain innovative practices in HR leading to improved productivity. The paper concludes that innovations and other HPWPs are key vehicles in promoting the improvement of organizations. As a result of the aforementioned, the paper recommends the incorporation of measures and benchmarks of the diffusion of HPWPs; the encouragement of an understanding of HPWPs among managers and the specification and incorporation of the knowledge of innovative HR management practices in major management qualifications.

Keywords: Innovation strategy, High performance work practices, productivity, organizational, improvement, HR innovations, organizational efficiency

1.0 INTRODUCTION

During the past decade, rapid worldwide technological changes have precipitated the “globalization” of the economy where in every industry and sector throughout the world, success and in some cases survival will depend upon the ability of organizations to compete globally (Potocki & Brocato, 1995). Fueled by this change, organizations of all types, including business, government, education, health care, military and research & development have been rethinking their operations and management approaches (Deming, 1993). Faced with escalating costs, competition for limited resources and a demand for higher – quality outcomes, organizations are under pressure to operate more effectively. The old paradigms simply are not working anymore (Barker, 2000). Transformation into a new strategy of management is required.

The aforementioned trend has led to increased interest in the impact of the innovation strategy on organizational performance, to possibly discover a relationship between so-called “high-performance work practices (Huselid, 1995:635-670) and different measures of company performance. Furthermore, there is some empirical support for the hypothesis that firms which align their HRM practices with their business strategy will achieve superior outcomes (Bae & Lawler, 1999:502-517).

Specifically, survival and long – term success in a business enterprise is becoming hinged on two outcomes: sales growth or lower costs, and hopefully both. Rapid change, globalization and connectivity in the global economy have led to impressive growth across many sectors of the global economy. Most companies have spent the last decade or two putting continuous pressure on their organizations to drive out excessive costs and inefficiencies, so as to compete in this increasingly price sensitive global arena. Increasingly, executives in these same companies see growth, particularly growth via innovation, another related high performance work practices (HPWPs), as the key priority to their firms long-term survival and prosperity (Pearce II et al, 2011).

1.1.1 Statement of the Problem

One of the key reasons cited for the failure of quality improvement initiatives is that many strategic innovation

plans are simply amorphous to generate better products and services. The major justification for the enormous sums of money invested in the innovation initiatives of organizations is increased customer satisfaction and improved competitive position. However, several organizations have failed to translate these innovation initiatives into activities that add value to them and such attempts have not been able to align with organizational strategic direction. Resultantly, they have failed to make a meaningful contribution to the bottom line and have been constantly discarded. Many companies have fallen into this “activity trap” and are confused as to whether the innovation strategy can actually impact organizational performance. Thus, there is a need to assess the effectiveness of the innovations techniques and how great the impact is on firm’s performance and outcomes. Specifically, the objective of this study is to examine the relationship between the innovation strategy of organizations and their impact on firm performance. To achieve this objective, an unempirical approach is adopted by reviewing prior literature and research works and drawing far reaching conclusions and recommendations.

1.1.2 Research Questions

To help the study contribute to existing knowledge, the following research questions have been advanced:

- 1) What are the prospects of the innovation strategy in improving organizational performance?
- 2) Can other high performance work practices improve organizational performance?

The aforementioned research questions have necessitated the need to make clearer how they (research questions) lead from the review of existing literature to the contribution that the study makes to knowledge. This leads to implications and conclusions

2 EXTANT LITERATURE AND DISCUSSIONS

The literature on innovations in work organizations is both extensive and multi-disciplinary, drawing on studies from management science, operations management, technology studies and economics among others. However, the concept of innovation can be viewed in both social and technological forms (Pot, 2011:468-473). A number of authors have argued that there has been a tendency to equate analysis of innovation solely to advances in technology and product markets at the expense of social reforms and changes to organizational structures, policies and processes, which can play an equally significant role and have important implications for how people are managed.

For managers who manage innovation, there are two types: incremental and breakthrough. Pearce II et al, (2011) see incremental innovation as simple changes or adjustments in existing products, services or processes and continuous improvement (called Kaizen in Japan) as the process of relentlessly trying to find ways to improve and enhance a company’s products and processes from design through assembly, sales and service. However, there are various degrees of “newness” and therefore different kinds of innovations.

The Oslo (2005) manual defines innovation as relating to the introduction of a new product or service; introduction of new production processes such as those enabled by new technology or new work routines; introduction of new forms of organization; new market behavior, new strategy, new marketing methods and new alliances.

It is evident that these categories can be mutually dependent, so the introduction of a new production process may demand innovations in how work is organized. However, within this framework, the innovations relating to the management of people are covered predominantly by the category of new forms of organization or ‘organisational innovations’. Within this category, organizational innovation includes:

- **business practices** – including knowledge-sharing and staff development;
- **workplace organization** – including devolution of decision-making to employees;
- **external relations** – between employees in one part of an organization and those of other departments or externally;
- **other innovations** – including use of variable pay as a change to reward systems or typical employment contracts.

Although work organization innovation is not a commonly used term in the academic literature, there is a small and growing body of literature that seeks to understand changes in work organization as examples of organizational innovation. Workplace innovation has been recently defined as ‘the implementation of new and combined interventions in the fields of work organization, HRM and supportive technologies’ [9]. This

places the emphasis on a possible connection between people management and technology utilization, although this is not a specific focus of this study. A broader definition is provided by Ramstad who sees innovation relating to work organization as:

Renewals in the structures, processes or boundaries of a work organization that achieve savings in the use of labor or capital resources, or an improved ability to respond to customer needs...

This definition clearly identifies the possibility for innovations to focus on the structure and process of people management with an emphasis on organizational benefits. However, to find an adequate theoretical underpinning for the concept of work organization innovation, we need to explore the literature on human resource management (HRM). Here the term 'innovation' is not generally used, although the adoption of new types of HRM practices can be regarded as innovative by the companies making these changes (Oslo, 2005).

Work organization is usually understood as a narrower, specific subset of HR practices, commonly interpreted as whether employees work individually or in teams, and may also include work scheduling and working time. Instead the terms 'high commitment'; 'high performance' or 'high involvement' work practices are commonly used to describe innovations in work organization of the kind of interest to this study. The differences in emphasis on commitment, performance and involvement usually reflect particular interests or focus on the study's outcomes; they do not necessarily imply different practices are used to achieve them.

High performance working is defined by Belt and Giles (2009] as 'a general approach to managing organizations that aims to stimulate more effective employee involvement and commitment to achieve high levels of performance'. These innovative work practices are seen as distinct from the hierarchical 'control' practices of traditional Taylorist systems of management, with a move towards eliciting higher levels of 'commitment' from workers.

2.1 Implications of the Innovation Strategy and Other HPWPs on Organizational Performance

To convince organizations of the benefits of HPWPs, it is essential to document their impact on organizational performance, as economic arguments are often those of greatest significance to managers. Research evidence by Boselie et al, 2005:367-374) has illustrated the impact of HPWPs on the variety of organizational performance indicators including:

- financial outcomes such as profits, sales, market share and accounting measures;
- operational performance outcomes; for example, output measures such as productivity, quality, and efficiency.

Recent evidence from analysis of the European Company Survey (ECS) shows that HPWPs such as profit-sharing, autonomous team working and the take-up of flexible working opportunities by at least a fifth of the workforce are associated with lower employee absence levels and fewer problems with staff motivation. Employee retention problems were also lower where autonomous team working and formal employee representation was used (Eurofound, 2011).

These HR-related outcomes are important due to the influence employee behaviours can have on organizational outcomes (Purcell, 1999:326-34; Paauwe, 2009:129-142). Innovative work practices including stringent recruitment and selection, autonomous teamwork, flexible job assignments, intensive communication and training achieve higher levels of productivity than more traditional approaches according to a number of studies (Ichniowski et al, 1997: 291-313; Wood, 1999: 367-413).

Analysis of the ECS 2009 shows that HPWPs such as training, performance pay, team working and flexible working practices have been associated with 'above average' company productivity. It was also found that practices with 'beneficial' links to a 'good economic situation' for the company are training, pay and teamwork practices. The ECS showed that the effects of HPWPs on organizational performance can be achieved rather than having a direct effect on 'operational and organizational outcomes' (Eurofound, 2011).

This is confirmed in the wider literature dating back to the mid-1990s. The well-known study by Huselid (1995) found evidence that interactions between sets of HPWPs improved company performance. Using survey data from 968 US companies, he found that an increase in one standard deviation in each innovative work practice raised sales by an average of \$27,044 per employee in one year [4]. Meta-analyses and

reviews of large numbers of HPWPs and performance studies have also found links between HPWPs and performance (Boselie et al, 2005; Wood, 1999: 367-413). More broadly, Combs et al [18] examined the relationship between HR and organizational performance through a meta-analysis of 92 recent studies of this relationship. They found that an increase of one standard deviation in the use of HPWP is associated with a 4.6% increase in return on assets and a 4.4 percentage point decrease in turnover. Similar conclusions are reached by other reviews, including that of Wood and Wall (Wood & Wall, 2007: 1335-1372) who found that 19 of 25 studies examined reported some statistically significant positive relationships between HR practices and performance, albeit with small effect sizes.

Combinations of practices including flexible job design, employee involvement, skill development and relating rewards to performance have been related to improved productivity in a survey of 398 manufacturing companies in Finland. Improvements in workplace organization and adoption of non-technical innovations have been linked to improved productivity and financial performance in the Netherlands (Pot, 2011:468-73).

A study by Black and Lynch (Black & Lynch, 2004:97-116) using the 1994 US National Employers Survey found that work practices (for example, recruiting strategies) have little relationship to labor productivity at the organization level unless they are introduced in combinations with other work practices and they found that TQM only impacts performance when a significant number of the workforce is involved in programs of employee participation. Other studies illustrate the operational benefits of TQM systems. Easton and Jarrell studied the effect of TQM using a measure of the financial performance of publicly listed companies. They compared a sample of companies that had introduced TQM with a sample of similar non-user companies and found that the impact of TQM was better performance, demonstrated through accounting measures and better stock prices. These studies are generally cross-sectional rather than longitudinal, which makes attributing causality to innovations in work organization impossible. However, the aggregation of results in large-scale surveys from many different organizations may actually diminish the apparent impact that such innovations have in individual organizations and therefore underestimate the potential benefits to individual companies of implementing HPWPs.

The literature also suggests that improved financial performance resulting from the adoption of HPWPs may also enable organizational expansion. Results from the EPOC survey also suggest that companies utilizing participatory forms of work organization report increased employment rates; 34% of workplaces involved in direct participation measures had seen an increase in employment rates over the previous three years compared to 24% among companies that did not use these measures. 'Non-participatory' companies were also more likely to report a fall in employment rates; 35% had reduced numbers compared to 27% among participatory workplaces (Eurofound, 2011). Overall, increased opportunities for participation and team working within European companies may lead to short-term pain for long-term gain in terms of job creation. On balance, longer term employment prospects are likely to be better in those companies that make changes than in those which do not (Sission, 2009).

2.2 Impact of Individual HPWPs

Some evidence of positive impacts on organizational outcomes have also been found in analysis of specific HPWPs. Evidence from Sweden, which examined how companies organize work for innovation and growth, showed that organizational success was positively correlated to organisational conditions that promote job satisfaction and work innovation such as job enrichment, job enlargement, participation and autonomy. Other evidence shows that team working has a positive impact on a company's financial performance and productivity. Analysis of the ECS shows a positive link between adoption of team working and management perceptions of financial performance and productivity (Eurofound, 2011). Analysis of the Workplace Employment Relations Survey (WERS) shows that 59%.6% of companies which organized work in teams believed their productivity was above average compared with other establishments in the same industry, compared to 46.6% of companies using other forms of work organization (Procter & Burrige, 2008:153-168). On financial performance, 65.4% of organizations using team working scored themselves above average compared with 51% of companies that did not engaged in the practice. Devaro (2006:217-69) also used survey data on companies' assessment of their financial performance to measure the impact of team working. He found the predicted benefit of team production for the median establishment was considerable, with an 8.7 percentage point increase in the probability that financial performance is a lot better than the industry average.

The evidence around the impact of greater autonomy in team working is more ambiguous. Procter and Burrige [22] found that allowing teams to be semi-autonomous produces an additional positive impact on productivity and work quality, but not a financial performance, while Devaro found no such effect for

autonomous teams. This highlights the importance of the definition and level of autonomy adopted. Devaro (2006:217-69) defines 'autonomous teams' as those where members work together and are given responsibility for specific products or services and can jointly determine how the work is performed.

2.2.1 Training

Links have also been found between training and improved individual performance; for example in the semi-conductor industry where investment in training improved the problem-solving skills of machine operators and was found to reduce the number of production defects. The same study showed that training can have a strong positive effect on productivity. Company productivity was measured using a production function to estimate the value added per employee, designed to measure productivity rather than profitability to discount impacts beyond companies' control. They found the effect of extensive training was both statistically and substantively significant, representing a gain of over 6% in value added per employee. Similarly, analysis of the ECS shows that provision of training has links to improved productivity and self-reported perceptions of organizational financial performance (Eurofound, 2011).

More specifically, studies have shown that training plays a significant role in developing innovation and organizations providing training benefit from enhanced knowledge and skills and 'innovative capability' in performing work tasks. Therefore it is through training that companies develop the 'organisational expertise in terms of demand and content for the innovation'. Training investment increases employees' skills across all levels of the organization. This is supported by further evidence showing the importance of developing workforce skills in order to be able to reap the benefits of HPWPs. The EPOC survey found that managers believed a well-trained workforce was vital to securing the effectiveness of participatory workplaces; the proportion of workplaces using direct participation methods requiring highly trained staff was double that of those who did not use such techniques. Furthermore, the number of managers reporting direct participation measures had been a complete success was more than double among those with a highly skilled workforce than those with low-skilled employees (Eurofound, 2011)

2.2.2 Employee Involvement, Knowledge-Sharing and Communication Practices

Studies of employee involvement, knowledge-sharing and communication practices show that they have a generally positive effect on productivity. Ichniowski et al, 1997:291-313) used data from companies engaged in steel production to highlight this finding. They measured productivity through an 'engineering production function', looking at the total 'uptime' of production lines. They found that production lines that adopted employee information and consultation practices gained an average of 3.5 percentage points of uptime. HPWPs that encourage workers to think and interact are some of those most strongly associated with increased firm productivity in US manufacturing companies. Black and Lynch, 2004:97-116) used data from US manufacturing companies to estimate that workplace innovation practices contributed 1.4% per year to company productivity (measured as output per hour). This would mean that, at the most generous estimate, innovative workplace practices accounted for approximately 30% of output growth in manufacturing over the period 1993-1996, or 89% of multifactor productivity. Other studies have found specific links to innovation including the significance of reducing recruitment, retention and absenteeism difficulties through improving the dialogue between management and employees.

The role of less formal and non-institutionalized communication and consultation techniques can also be helpful. According to analysis of the ECS, use of 'ad hoc consultation in the absence of formal employee representation' has a positive effect on organizational productivity (Eurofound, 2011). Similarly, open and transparent communication practices which support employee involvement are also found to have a positive influence in promoting creativity and innovation. The results from a survey of 6,322 workplaces in Canada show that decentralized decision-making and information-sharing are both strongly correlated with innovation; establishments that use one of these forms of workplace organization were 14-22% more likely to have an innovation than those who do not, and the marginal effect of information-sharing was consistently larger than the marginal effect of decentralization (Zoghi et al, 2010:622-639). Hempell and Zwick (2008: 331-33) also argue that providing stronger employee participation significantly increases the probability of product and process innovations in subsequent periods by more than 10 percentage points.

As well as enhancing participation to improve business outcomes, studies have identified that employee involvement plays an important role in ensuring that the innovation processes function optimally and the importance of involving as many workers as possible. High levels of employee participation indecision-making it more likely that employees will work through the problems associated with introducing innovation. For example, teams that meet regularly to exchange information and contribute to decision-making will more 'comprehensively process information and options about the innovation and the innovation process, and

ensure a more effective outcome'.

Similarly, empirical studies emphasize the importance of involving employees in the implementation of innovative working practices. In their studies on labor productivity in US manufacturing companies, Black & Lynch, (2004:97-116) found that what mattered was not the adoption of a particular practice, but how practices were implemented. For example, they state that: ...simply adopting a Total Quality Management system has an insignificant or negative impact on productivity unless the proportion of workers involved in regular decision making within the plant is also high.

2.2.3 Reward Systems

Evidence on the performance effects of reward systems tends to be more positive about group-based systems rather than individual performance-based systems. Group-based or company performance based pay systems achieve their effects through stimulating employees to make suggestions for organizational improvements and innovations because they will stand to gain a share in rewards accruing as a result.. These pay practices are also more likely to be effective if employee interest is presented in the operation or design of the system.

Additional performance benefits of motivated staff are that they are less likely to be absent, which has been illustrated for a number of group-based pay systems including profit-sharing (Eurofound, 2011) and may be less likely to leave their job, although this may be due to 'look in' effects while employees wait for shares to vest rather than genuine commitment to the organization. Nevertheless, such scheme may be important to foster higher levels of effort including innovation because of the requirement to risks to attempt to innovate. This is easier in a high trust environment, which is more likely to be fostered among colleagues with longstanding working relationships.

It is also important for new reward systems to be implemented together with other HPWPs in complementary systems of practices, rather than as individual innovations. For example, Kandel and Lazear as cited in Black & Lynch, (2004) shows that introducing a profit-sharing plan for all workers in a company may have little or no impact on productivity unless it is linked with other practices that address the inherent free rider problem associated with company-wide profit-sharing plans. Profit-sharing and employee involvement in decision-making are often complementary (Pot, 2011:468-473). Overall, much of the literature shows that the processes of allocating rewards and providing constructive feedback on performance are likely to have stronger psychological effects than extrinsic rewards themselves (Blinder, 1990). This places greater emphasis on the role of associated appraisal and performance review processes, not merely as a means of delivering a decision on pay but as having an important independent function.

There is further debate about the contribution of individual performance-related pay (IPRP) to HPWP systems. Authors have suggested that individual performance-related pay can discourage cooperation and adversely affect trust levels if employees compete to achieve higher levels of pay. Analyses of how to create 'inspiring' culture for innovation have discussed the use of financial incentives for innovative activity. They show that while effective, especially in the short-term, the focus on performance-related pay could see intrinsic motivation replaced by extrinsic motivation and foster a focus on innovation for immediate, personal reward rather than longer-term or whole-company benefits. There may also be a clash between the processes that make performance monitoring for the purposes of IPRP possible such as repetitive tasks undertaken in isolation and with other HPWPs such as team working and devolution of autonomy.

2.3 Innovation Performance

Adoption of HPWPs has been argued to be a prerequisite to enable other forms of innovation in an organization to take place and organizations that are relatively more innovative are argued to have greater competitive advantage and in turn be more likely to engage in innovation and adopt HPWPs. These organizations are more likely to be responsive to change, for example if a product market collapses or changes significantly; this is supported by research that illustrates that seeking to implement an HRM approach which encourages innovation has been linked to market success in pharmaceutical research and development. Other examples include evidence in the literature that innovations in HRM have taken place to support office rationalization. For example, in one major company's real estate department, work space was underutilized for 40% of the time and the increase in mobile working required changes in work organization and change in employee management from a presenteeism approach to managing by output. This workplace innovation was seen to enable more flexible ways of working to the benefit of employees and the employer (Pot, 2011).

Beugelsdijk (2008:821-847) established a distinction between 'incremental' and 'radical' innovations, stating

that innovative work organization practices have a positive impact on innovation outcomes but that different types of practices may have differing impacts according to whether 'incremental' or 'radical' innovation is the intended result. His data, drawn from a sample of 988 Dutch companies, suggested that, while performance-based pay and training are both positively associated with incremental innovation, they are not associated with radical innovation. The proportion of employees with flexible working hours, however, was not related to incremental innovation but was significantly and positively related to radical innovation (Beugelsdijk, 2008:821-847). Incremental innovation may therefore be relatively easier to 'organise' since it is more dependent on a clearly identifiable set of practices.

A study by Zoghi et al (2010:622-639) focuses on the effects of new HR practices on innovative and entrepreneurial activities within companies. While they all find generally positive effects, the main questions appear to link to the combinations of different types of HR practices that may have the greatest impact on innovative activity, and whether or not particular activities act as a substitute or complement to one another. Previous analysis of the EWCS has shown that combinations of workplace practices which foster high levels of responsibility, task delegation and problem-solving opportunities to employees are associated with higher levels of organizational innovation.

3 CONCLUSIONS

The study investigates organizational roles for adopting innovations, methods of implementation, impact on employees and organizations, and identified common facilitating conditions which help to explain 'what works and why'. There was relatively limited evidence of clear integration of different high performance work practices to support the same goal. In some cases, this was deliberate where one issue was of interest, but overall it is consistent with wider evidence that organizations adopt innovations in work organization in a piecemeal fashion.

Also, some clear sectoral patterns explained drivers for change. Organizations in knowledge – intensive industries and/or an expanding market tended to focus on innovations concerned with 'talent management' and employer branding which would enable them to recruit and retain staff. At one level, cognitive or knowledge – based learning to develop familiarity with new management processes was essential for staff at all levels to understand the new principles and methodologies being adopted. Innovations based on improving health and well-being often included some form of learning intervention at raising awareness of the importance of maintaining good health.

The presence and active participation of worker representatives, whether in an official unionized capacity or not, was helpful in enabling both managers and employees to understand differing needs and priorities; overcome any resistance to change on both sides through consultation, and resolve and initial problems or difficulties in implementing the innovation through well established communication structures.

4 RECOMMENDATIONS

Arising from the study and given the conclusions above, the following recommendations are brought forward:

1. Top management should continue to raise understanding of the nature and impact of High Performance Work Practices among policymakers at organisational and national levels.
2. Top Management of organizations should encourage an understanding of High Performance Work Practice among managers, focusing on how different policies, processes and systems can be integrated to develop synergies in over HR strategies resulting in optimal performance outcomes. Incorporate knowledge of innovative HR management practices in major management qualifications.
3. Incorporate measures and benchmarks of the diffusion of High Performance Work Practices through an organizational Employment Strategy to monitor progress on the adoption of practices. This might include measures of the adoption of practices such as performance management, employee consultation/involvement/communications methods and levels of job autonomy, in addition to training provision indicators already measured through the Continuing Vocational Training Survey.
4. Top management should enhance diffusion of understanding, promotion and support for work organization innovations through building funding eligibility into existing policy programs.
5. Stakeholders should take actions to support and promote a network of organizations to exchange good practice and undertake cross-country research and comparisons. Wider reviews of the literature often show that managers are skeptical and unconvinced of the benefits of HR innovations. Their preferred method of learning about the benefits of innovations is primarily through the experience of comparable

organizations, so exchange visits could be funded. These should be focused on implementation of work organization innovations in a variety of organizational contexts and illustrate the impact of work organization innovations not as an end in themselves but how they contribute to wider organizational change and key performance indicators.

6. Improve consistency of mechanisms designed to enhance working conditions and labor standards across sectors.
7. Develop synergies between National policies on working conditions and public health policies on individual well-being outside the workplace. This would help to bridge the interface between employer responsibilities for staff health and safety and individual rights and responsibilities held by all citizens.

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