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Towards an HRM Model predicting Organisational Performance by Enhancing Innovative Work Behaviour: A Study among Dutch SMEs in the Province of Limburg

Jol M.M. Stoffers, MSc, MBA

Zuyd University of Applied Sciences &

Prof. Beatrice I.J.M van der Heijden, PhD

Maastricht School of Management, Open University of the Netherlands, University of Twente

Abstract

This study portrays a model aimed to investigate the relationships between employability, leader-member exchange, innovative work behaviour, and objective- and perceived organisational performance. It also includes the moderating effect of organisational politics upon these relationships. This manuscript reports the study design that will be operationalised in Dutch small & medium- sized enterprises (SMEs) that are active in various branches in the province of Limburg.

We envisage that this research project is important to management practice because it is believed that by stimulating and investing in employability, and in the quality of the relationship between employees and supervisors, innovative work behaviour and improved organisational performance may be achieved. Moreover, an awareness of how organisational politics has an impact on work outcomes is critical to all parties involved in the business community.

Successful organisations find it absolutely essential to launch new product features, offer better services, and provide more efficient and effective internal processes. This is because product, service, and process innovation require organisations to incorporate the alterations made to markets, technology, and competition.¹ According to Katz, “an organisation that depends solely upon its blueprints of prescribed behaviour, is a very fragile social system”.² In order to be able to improve production processes and to develop new products, innovation is vital and is supposed to contribute to proper organisational performance. Organisations can only meet the demands of their customers when their employees are innovative.³ Moreover, in order to achieve a continuous flow of innovation, employees need to be both willing and able to innovate.⁴ They must have adequate competences, and the quality of their relationship with supervisors is assumed to be related to innovative behaviour and subsequently applied for the benefit of the organisation.

Because of the impact globalisation has had on the world’s economy, SMEs in predominantly regional economies, such as, for instance, Limburg, a province in the South of the Netherlands, ought subsequently to also focus on innovation. Moreover, it is desirable that employees in such organisations possess sufficient and even higher-level competences.⁵ SMEs are usually keen to innovate.⁶

Organisational politics is an important phenomenon because of the potential consequences and effect they can have on work outcomes. Theoretical literature suggests that politics often interfere with regular organisational processes, and may harm performance on individual and organisational levels.⁷ Politics might also have an impact on employability, the quality of the

relationship between employee and supervisor, and on innovative work behaviour. As a result, politics could have implications for the level of organisational performance.

This study aims to investigate the relationships between employability, leader-member exchange (independents), innovative work behaviour (mediator), and objective- and perceived organisational performance (dependents). It will also investigate the moderating effect of organisational politics upon these relationships.

As such, this research project will address issues which have yet to be resolved in existing literature. This refers specifically to the relationships between employability, LMX (leader-member exchange), innovative work behaviour, organisational politics and objective- and perceived organisational performance. Organisational politics is a widespread phenomenon in all organisations and according to Pfeffer, researchers and practitioners should give the issue much more attention and empirical examination.⁸ Moreover, a special focus of this study is the investigation of these relationships in SMEs, for little is known about the science and practice of Human Resources (HR) in these organisations.⁹

It is believed that by stimulating and investing in employability and in the quality of the relationships between employees and supervisors, innovative work behaviour and improved organizational performance can be achieved. The awareness of how organisational politics has an impact on work outcomes is therefore critical to professional practitioners. The research findings may provide scholars with an example of the mediating effect of innovative work behaviour on the relationship between employability, LMX and organisational performance. Moreover, the moderating effect of organisational politics on these relationships can be observed and recorded.

Practical implications

Over 99% of the companies in the Netherlands are SMEs. Through innovation, these SMEs greatly contribute to economic growth and employment.¹⁰ In 2007, the European Commission launched the Competitiveness and Innovation Framework Program (CIP). Its key issues are specifically aimed at SMEs, that is to say, aimed at a better understanding of how they are able to improve competences, and on their ability to be competitive and innovate.¹¹

The results obtained from this research study may also provide a sound basis for making an analysis concerning employability and innovative work behaviour practices in SMEs. Based upon the analysis that will take place within the framework of this research, we, together with consultants, professionals, and HRM students, will actively advise clear-cut interventions and facilitate the process at the participating SMEs in Limburg. Although the analysis itself will have a 'solid' scientific base, it is precisely the combination of consultants, professionals, and students that focuses on those practically applicable interventions that are in touch with the language and experience of the SME entrepreneur.

Before SME entrepreneurs are prepared to invest significantly in employability and promising leadership practices, they need access to best practices, preferably based upon empirical proof in a similar business. The circulation and assimilation of the concerned knowledge is also envisaged to be an important practical implication of this research. Researchers and their students can provide SME entrepreneurs with essential information and interventions based on best practice.

In this research we also aim to identify which dimensions of employability and which factors of LMX are decisive for innovative work behaviour and organisational performance. Furthermore, we will investigate which stage of innovative work behaviour (and competences needed for this stage) is (are) decisive for organisational performance. By doing so, we can provide SMEs with purposeful intervention strategies.

After analysing the extent of individual employability, management and employees of SMEs should subsequently focus upon antecedents of employability - career-enhancing activities on an individual-, job- and organisational level.¹² Attention for enhancement (by stimulating and investing in employability, and in the quality of the relationships between supervisor and subordinate) of innovative work behaviour is expected to contribute to organisational performance, and to increased competitiveness of the specific branch. Ideally, the outcomes will lead to branch-specific recommendations aimed at sustainability at every level, the individual employees, and the companies. By itself, interventions already evolve employee attention and reinforced activities. Improving dialogue between supervisor and subordinate, based upon the analysis of employability, can strengthen the psychological contract and contribute to a sustainable work relationship.¹³

Theoretical Background

Organisational Performance

Significant investments in employees make organisations more flexible and effective. Organisations should strive to achieve a kind of optimal 'fit' between people, technology, work, and information. Such practices can increase employees' abilities, commitment and motivation and can positively affect firm performance.¹⁴ Delaney and Huselid stated that employee participation and empowerment as well as extensive employee training, and related HRM practices can improve organisational performance.¹⁵ This also has a positive effect on innovation, e.g. the introduction of new products and services.¹⁶

Organisational performance can be measured by using a set of objective performance indicators, such as profit per employee, return on sales (ROS) and productivity per employee. This measurement of objective organisational performance is based on Huselid¹⁷ and Van Loo and De Grip.¹⁸ Organisational performance also can be measured by using Delaney and Huselid's scale of perceptions of organisational performance (a subjective measure).¹⁹ There are two variables: the respondents' perceptions of their firm's performance relative to that of similar organisations, and the respondents' perceptions of their firm's performance relative to product market competitors.

Innovative Work Behaviour

Several theories have revealed that innovation is an indispensable factor in achieving improved performance. Marketing theories illustrate that organisations which focus on speed of innovation gain a larger market share, thus allowing them to create higher income and higher profitability. Studies conducted on strategic theory underline that organisations which decide to introduce an innovation, ahead of others, are in a position in which they can create 'isolation mechanisms; because knowledge of the implemented innovation cannot be obtained by competitors, these mechanisms guard profit margins, allowing essential benefits to be gained. Highly-qualified staff members who possess competencies, resources, and

technologies are needed in order to adopt the innovation, since their qualities will make an external imitation more difficult and may permit firms to sustain their competitive advantages.²⁰

As a consequence, a positive link exists between innovation and organisational performance,²¹ or between the different aspects of innovation (e.g., innovation design or speed, flexibility) and performance.²²

The more valuable, imperfectly imitable and rare these innovations (e.g., technological) are, the higher the performance will be.²³ Technological organisations with greater innovation will attain a better response from the environment, obtaining the necessary capabilities to increase performance and to consolidate a sustainable competitive advantage more easily.²⁴ Innovative projects and activities which are not stimulating will have a negative effect on productivity and performance.²⁵

Based on West and Farr, and West,²⁶ innovative work behaviour can be defined as “the intentional creation, introduction and application of new ideas within a work role, group or organisation, in order to benefit role performance, the group, or the organisation”.²⁷

Janssen also claimed that innovative work behaviour can be linked to the stages of the innovation process (idea generation, idea promotion, and idea realization).²⁸ Moreover, individual innovative behaviour is not only creative behaviour, but also includes the adequate promotion and implementation of creative ideas.²⁹

Employability

An organisation's skill to innovate depends on its intellectual capital and how it uses its knowledge resources. Part of this intellectual capital consists of human capital, which in turn, reflects the general skills, expertise, and knowledge levels possessed by the employees within the organisation.³⁰

Each individual employee should possess the skills, expertise and knowledge needed in order to interact and communicate with stakeholders within and outside the organisation. In order for this interaction to take place, knowledge and skills are not only momentarily of importance, but they are also important in the future when employees are assimilating new professional expertise in adjoining areas.³¹ In case workers have a high amount of employability, their work behaviour will serve as an asset to the organisation's innovation. Employability can be defined as “the continuously fulfilling, acquiring or creating work through the optimal use of competences”.³² Van der Heijde and Van der Heijden have conceptualised employability at the individual level. The five dimensions of employability are occupational expertise, anticipation and optimisation, personal flexibility, corporate sense, and balance. Using a competence-based approach to employability, they have defined competence as “the behavioural result of conceptions, personal capabilities, and motivational, personality, and attitudinal factors”.³³

Leader-Member Exchange

The quality of the relationship has an important bearing on performance, job satisfaction, work commitment and other organisational variables,³⁴ and is related to innovativeness as well.³⁵ Leaders and subordinates are involved during a role development process in which the amount of decision latitude, influence, and autonomy that is awarded to the subordinate is established.³⁶

The LMX measure incorporates the evolution of leader-follower relationships over time. It can be used as a diagnostic instrument which measures the followers' levels of satisfaction with their leader, and reveals the differences in how the relationship between leader and follower are perceived. The theory addresses a facet of leadership not represented in other theories about leadership, namely, the awareness that a single leader may develop different types of relationships with different followers. Hence, the LMX theory emphasises the individual relationship between a leader and a follower, and the way it develops over time into a relationship between 'hired hand' (out-group) or 'cadre' (in-group). Previous research has found evidence that the theorised characteristics of mutual trust, respect, and obligation capture the essence of relationships between leaders and subordinates.³⁷

Perceptions of Organisational Politics

Perceptions of organisational politics might serve as a central dimension that employees use in sense-making within organisational life.³⁸ Perception of organisational politics is a multi-dimensional, subjective and context-specific psychological phenomenon. It consists of how employees perceive the 'general political behaviour' of others within the organisation, how the inaction of other members of an organisation is perceived by an individual as 'going along to get ahead', and how 'pay and promotions' are perceived in order to be politically applied by others.³⁹ Ferris et al developed a conceptualisation of organisational politics in which the individual's perception of events is interpreted as his or her view of reality, which thereby propels his or her cognitive and behavioural responses.⁴⁰ They define such politics as "a social influence process in which behaviour is strategically designed to maximize short-term or long-term self-interest, which is either consistent with or at the expense of others' interests".⁴¹

Parker et al noted that employees who perceived a higher level of organisational politics also viewed that the organisation is less innovative.⁴² However, the items of organisational politics were based on the POPs (Perceptions of Organisational Politics) scale but they were not exactly the same as the original scale items.

The innovation process itself has been characterised as political⁴³ and, more specifically, it has been noted that in order to acquire support for innovations, political activities such as alliances and power bases need to be formed.⁴⁴ Innovation is a social process and in essence political because the power elites in organisations must be convinced to support the particular innovation.⁴⁵ On the one hand, organisational politics can hinder innovation efforts,⁴⁶ while on the other hand, the political behaviour of an employee is necessary for successful innovation.⁴⁷

Previous research has not connected the concepts of Employability, LMX, Innovative Work Behaviour, Organisational Politics, and Organisational Performance. However, it is believed that by stimulating and investing in employability, and in the quality of the relationship

between employees and supervisors, both innovative work behaviour and improved organisational performance can be achieved.

Research Questions and Hypotheses

On the basis of previous research that has been outlined above, the following research questions and hypotheses have been formulated:

Research Question 1:

What is the relationship between employability and (objective & perceived) organisational performance, and does innovative work behaviour mediate this relationship?

What is the relationship between LMX and (objective & perceived) organisational performance, and does innovative work behaviour mediate this relationship?

Hypotheses:

(1a) Employability is positively associated with (objective & perceived) organisational performance.

(1b) LMX is positively associated with (objective & perceived) organisational performance.

(1c) Innovative work behaviour mediates the relationship between employability and (objective & perceived) organisational performance.

(1d) Innovative work behaviour mediates the relationship between LMX and (objective & perceived) organisational performance.

Research Question 2:

Do organisational politics moderate the relationship between employability and innovative work behaviour?

Do organisational politics moderate the relationship between LMX and innovative work behaviour?

Hypotheses:

(2a) Employability is positively related to innovative work behaviour.

(2b) LMX is positively related to innovative work behaviour.

(2c) Organisational politics moderate the relationship between employability and innovative work behaviour. More specifically, a higher score for perceived organisational politics decreases the strength of the positive relationship between employability and innovative work behaviour.

(2d) Organisational politics moderate the relationship between LMX and innovative work behaviour. More specifically, a higher score for perceived organisational politics decreases the strength of the positive relationship between LMX and innovative work behaviour.

Research Question 3:

Do organisational politics moderate the relationship between innovative work behaviour and (objective & perceived) organisational performance?

Hypotheses:

(3a) Innovative work behaviour has a positive impact on (objective & perceived) organisational performance.

(3b) Organisational politics moderate the relationship between innovative work behaviour and (objective & perceived) organisational performance. More specifically, a higher score for

perceived organisational politics decreases the strength of the positive relationship between innovative work behaviour and (objective & perceived) organisational performance.

The theoretical model for conceptualising these hypotheses have been summarised and are shown in Figure 1.

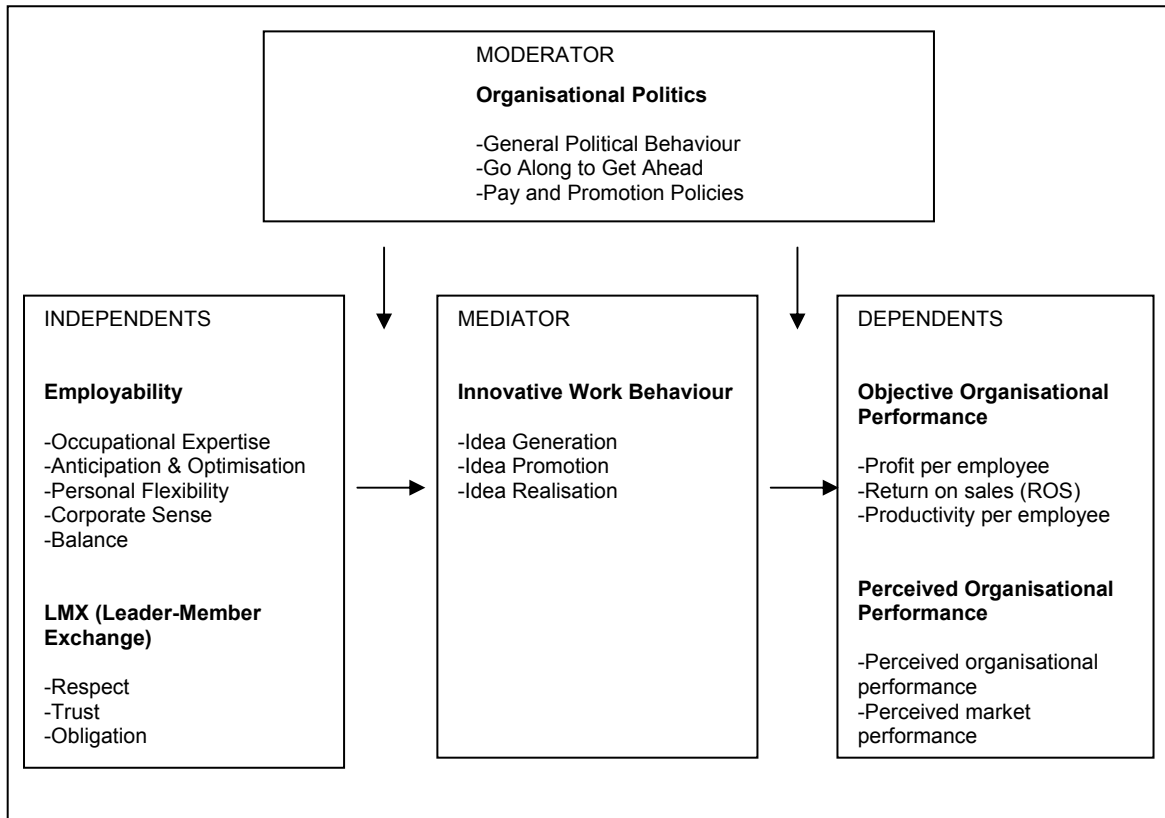


Figure 1: Towards an HRM Model predicting Organisational Performance by Enhancing Innovative Work Behaviour: A Study among Dutch SMEs in the Province of Limburg.

Method

Sample and procedures

The hypotheses in this study will be tested by using a quantitative deductive approach. It is appropriate to use survey methodology for this type of research as it measures attitudes and rates behaviours.⁴⁸ Survey methodology gives more control over the research process as it makes use of a questionnaire in which these data can be standardised, allowing for easy comparison.⁴⁹

The respondents are employees and supervisors of SMEs who work in the province of Limburg in the Netherlands. For SMEs the definition used by the European Union has been adopted: 'Companies that employ fewer than 250 employees'. The employees hold numerous types of jobs at mainly middle and higher occupational levels within SMEs and in various branches (not just a single particular industry), in the province of Limburg, the Netherlands. To prevent a common-method bias in this study, it is important to obtain data on the independent and dependent variables from respectively different sets of respondents.⁵⁰ The data on employability and leader-member exchange (independents) will be obtained by the employees themselves. The data on organisational politics (moderator) also will be obtained by the employees. The data for innovative work behaviour (mediator), and for objective and perceived organisational performance (dependents), will be obtained by their immediate supervisors and by senior managers.

Sampling criteria comprise a representation of the SMEs in Limburg, the Netherlands, their various branches, and the importance of employability and innovative work behaviour to the company. Companies in this study will be identified through personal contacts of the researchers and their students. Thus, the sample strategy will be a convenient sample of companies that fit the criteria. In this research, on-line questionnaires will be used for the employee version as well as the supervisor version. Employees will receive a feedback report about their employability.

Because innovation is a key indicator of organisational performance within SMEs, important stakeholders such as the province of Limburg and the Employers' Association SME Limburg are involved in conducting and participating in the follow-up process and implementation of the research outcomes.

Measures

The concept of employability will be measured using the thoroughly validated five-dimension scale of employability developed by Van der Heijde and Van der Heijden.⁵¹ The characteristics will be measured by means of five lists of items ranging in length from seven to fifteen. For the measurement of employability, in total 47 items will be used, and all items will be scored using six-point rating scales. The response format ranges from, for instance, 'not at all' to 'to a considerable degree', and 'never' to 'very often', depending upon wording of the item.

The quality of the supervisor-employee relationship will be measured by using Graen, Novak and Sommerkamp's LMX instrument.⁵² The supervisor-employee relationship will be assessed by the seven-item version of the LMX instrument. Six items assess the leader-member relationship on the three dimensions (respect, trust and obligation), and one global item addressing the quality of the relationship. The items will be scored on a five-point scale.

The concept of innovative work behaviour will be measured by using the measurement scale developed by Janssen.⁵³ In Janssen's nine-item scale, three items refer to idea generation, three items refer to idea promotion, and three items refer to idea realisation. The items will be scored using a seven-point rating scale. The response format ranges from 'never' to 'always'.

Perceptions of organisational politics will be measured by using Kacmar and Carlson's measurement instrument.⁵⁴ The 15 items will be scored on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

Objective organisational performance will be measured by using three questions concerning respondents' organisational performance over the past year, including measurement of profit per employee, return on sales (ROS), and productivity per employee, based on the work of Huselid⁵⁵ and Van Loo and De Grip.⁵⁶

Perceived organisational performance will be measured by using Delaney and Huselid's two scales on perceptions of organisational performance which comprises two variables.⁵⁷ The first variable consists of seven items assessing respondents' perceptions of their firm's performance over the past three years relative to that of similar organisations (perceived organisational performance). The second variable consists of four items concerning respondents' perceptions of their firm's performance over the past three years relative to product market competitors (perceived market performance). Each of the variables will be measured using a four-point rating scale ranging from 1 (worse) to 4 (much better). Some concepts and scales have been originally constructed in English. In order to employ these concepts and scales so that the employees and supervisors of the SMEs in Limburg will be able to respond to them accurately and with full comprehension, they had to be translated into Dutch. The translation-back translation methodology has been used in order to guarantee high linguistic qualities.⁵⁸

Conclusions

The next phase of this research will start in November 2009 by collecting data together with the data collection team which consists of HRM students who are in the final phase of their Bachelor study. After gathering approximately 800 data sets (employees/ their immediate supervisor/senior managers), the data analysis by the researchers can start.

The concepts of employability, LMX, innovative work behaviour, organisational politics and objective- and perceived organisational performance appear to be an important and promising set of variables. The relationships between these model variables can lead to interesting conclusions and practical recommendations for SMEs in Limburg, on the question of how to achieve innovative work behaviour and improved organisational performance.

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