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HUMAN RESOURCE MANAGEMENT, INNOVATION AND PERFORMANCE



Human Resource Management, Innovation and Performance

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Human Resource Management, Innovation and Performance

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*I dedicate this book to my father, Colin David Ryder,
1929–2013, whose mind was high and spirit generous,
compassionate and wise.*

Helen Shipton

*I dedicate this book to my mother, Daya Kaur, 1923–2015.
She improved the lives of most who came in contact with her.*

Pawan Budhwar

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Contents

<i>List of Figures</i>	x
<i>List of Tables</i>	xi
<i>Foreword</i>	xii
Cary L. Cooper	
<i>Preface</i>	xiii
<i>Acknowledgements</i>	xvii
<i>Notes on Contributors</i>	xviii

1 Human Resource Management, Innovation and Performance: Looking across Levels	1
<i>Helen Shipton, Pawan Budhwar, Paul Sparrow and Alan Brown</i>	

Part I People, Innovation and Performance: An Overview

2 Strategic HRM, Innovation and HR Delivery for Human Resource Management, Innovation and Performance	15
<i>Paul Sparrow</i>	
3 Human Resource Management and Innovative Behaviour: Considering Interactive, Informal Learning Activities	32
<i>Karin Sanders and Cai-Hui (Veronica) Lin</i>	
4 Human Resource Development, Creativity and Innovation	48
<i>Pauline Loewenberger</i>	
5 Applying an Apprenticeship Approach to HRD: Why the Concepts of Occupation, Identity and the Organisation of Workplace Learning Still Matter	66
<i>Alison Fuller and Lorna Unwin</i>	
6 The Costs and Benefits of Apprenticeships to Employers: Policy, Funding and Training Quality	80
<i>Lynn Gambin and Terence Hogarth</i>	

Part II People, Innovation and Performance: In Context

- | | | |
|----|--|-----|
| 7 | Innovativeness of Indian Firms – Catalysts and Deterrents
<i>Smitha Nair, Kishore Gopalakrishna Pillai, Manjusha Hirekhan and Pawan Budhwar</i> | 97 |
| 8 | Ensuring Engagement and Commitment to Innovative Behaviours in High-Growth, Medium-Sized Businesses
<i>Frances Jørgensen</i> | 115 |
| 9 | Exploratory Learners, HR Ambidexterity and e-HRM Projects
<i>Carole Tansley and Susan Kirk</i> | 130 |
| 10 | The Impact of Human and Client Capital on Innovation
<i>Juani Swart and Nicholas Kinnie</i> | 145 |

Part III Leadership and Innovation

- | | | |
|----|---|-----|
| 11 | A Bird's Eye View of the Creativity–Innovation Nexus: The Moderating Role of Supervisor Support and Decision Autonomy
<i>Matej Černe, Tomislav Hernalaus, Anders Dysvik and Miha Škerlavaj</i> | 163 |
| 12 | Leadership Style and Behaviour, Employee Knowledge-Sharing and Innovation Probability
<i>Maura Sheehan</i> | 179 |
| 13 | A Tale of Two Approaches: How and Why a Person-Centred Approach would Provide New Insight into the Leadership of Innovation
<i>Yvonne van Rosenberg</i> | 197 |
| 14 | Leading the Diffusion of Intellectual Capital Management Practices in Science Parks
<i>Ehsan Khavandkar, Nick Theodorakopoulos, Mark Hart and Jude Preston</i> | 213 |
| 15 | Innovation, Leadership and Staff Engagement: Insights from CEOs
<i>Johan Coetsee, Patrick C. Flood and Steven Kilroy</i> | 232 |

**Part IV The Bedrock for Innovation:
Building Capability at the Individual Level**

16	The Role of Career Adaptability and Flexible Expertise in Developing Individual Innovative Behaviour <i>Alan Brown</i>	249
17	Practising Innovating through Learning-in-Crisis: Realising the Impact of Man-Agement in HRM Practice <i>Elena Antonacopoulou</i>	266
18	Creativity at Work: The Role of Context <i>Jorge Gomes, Filipa Rodrigues and Ana Veloso</i>	282
19	Creativity Training <i>Kamal Birdi</i>	298
20	Making Creativity an Attractive Option <i>Qin Zhou and Helen Shipton</i>	313
21	Conclusion: On Multiple Levels of Analysis, Context, Contingency and Capital <i>Paul Sparrow, Helen Shipton, Pawan Budhwar and Alan Brown</i>	328
	<i>Index</i>	345

List of Figures

3.1	A multi-level model of HRM and employees' innovative behaviour	34
4.1	Climate factors promoting organisational creativity and innovation	53
4.2	Hierarchical Linear Model of climate factors by the openness dimension of personality	54
5.1	The expansive/restrictive framework	71
6.1	Apprenticeship starts, all levels and all ages, 2002/03 to 2013/14	84
7.1	Facilitators of Organisational Innovation – top 5 choices	104
7.2	Facilitators of Organisational Innovation – aggregated scores across 5 choices	105
7.3	Inhibitors of Organisational Innovation – top 5 choices	106
7.4	Inhibitors of Organisational Innovation – aggregated scores across 5 choices	108
9.1	The relationship between HR ambidexterity, intellectual capital and exploratory learners	133
10.1	The Client-Innovation Matrix (CIM)	149
11.1	The relationship between employee creativity and individual innovation moderated by supervisor support and decision autonomy	171
14.1	The general framework for intellectual capital management in SMEs	217
14.2	Intellectual capital management practices and the knowledge path-dependency continuum	219
14.3	Dimensions of intellectual capital management practice variability and adaptation in onsite SMEs	223
17.1	Learning-in-crisis – returning to reflexivity	272
17.2	Practising innovating HRM practice	276
19.1	The principal steps of the CLEAR IDEAS innovation development model	308

List of Tables

2.1	Alternative organisation design solutions for innovation	21
6.1	Employers' reasons for training apprentices according to who receives the training	87
6.2	Average net costs of apprenticeships to employers (by sector and level)	90
6.3	Payback periods of apprenticeship (by sector and level)	91
7.1	Facilitators & inhibitors – categories & description	103
10.1	Summary of the case studies and data collected	148
12.1	Hierarchical estimation results – leadership style and behaviours and knowledge-sharing	188
12.2	Probit estimation results – leadership style and behaviours, employee knowledge-sharing and innovation probability	189
13.1	A tale of two approaches	200
13.2	Profiles	209
17.1	The relationship between HRM and innovation	268
18.1	Context factors influencing creativity	288
18.2	Combining, promoting and enabling context factors	295

Foreword

Cary L. Cooper
University of Manchester

The challenge of innovating in human resource management

Machiavelli reminds us that innovators tread a delicate balance: on the one hand, placating those who are hostile to new ideas and, on the other, persuading and influencing those who have yet to be convinced of the benefits of doing things differently.

Yet, only by innovating is 'real' change achieved, and it is about time that HRM went beyond the metrics of engagement and challenged the status quo by advocating the importance of innovation and creativity in performance. This book is the start of that exploration in highlighting the role that HRM has in fostering creativity through leadership, organisational learning and the innovative area of ambidexterity. The editors of this volume should be congratulated for having stepped out of their HRM comfort zone by bringing together scholars to explore constructs not usually found in the human-resource literature but in other social science disciplines: concepts such as tolerance of risk, job autonomy, employee proactivity, employee learning, psychological commitment, self-determination, knowledge-sharing, authentic leadership, tolerance of errors and many more. These editors and authors are testing and extending the boundaries of HRM by working together to explore the relevance of constructs outside their discipline, adapting them and creating new and more resilient ones to hasten the move towards a more performance-led HR.

This book is the start of a vision, a new beginning for the field in extending its reach and going beyond engagement, talent management and so on, into creating a more innovative and liveable workplace culture. As Mark Twain once wrote: 'If you always do what you always did, you'll always get what you always got'. This book enters and explores new territory, which will open up the field beyond recognition.

Preface

The genesis for this book was an ESRC-funded seminar series organised by the members of three academic institutions, namely, Aston Business School, Lancaster School of Management and the Warwick Institute for Employment Research, during 2011–2013. Titled ‘Organisational Innovation, People Management and Sustained Performance: Towards a Multi-level Framework for Medium-Sized Businesses’, a key remit of the series was to generate new insights into this important and dynamic area.

The series was driven by our strong belief that the question of how to achieve sustained organisational performance is of national and international economic significance. Organisations that embrace innovation rather than remaining entrenched in long-standing ways of working have a higher likelihood of achieving high performance over time, sustaining jobs and creating the conditions for economic growth. It struck us that, although a lot of research focuses on the technical aspects of innovation, less attention has been devoted to understanding the people management implications that this way of working presents (OECD, 2010; Sparrow, 2010).

Reflecting the significance of this challenge, our seminar series proposed a multi-level framework for exploring the role of people management in shaping organisational innovation. Our focus was medium-sized businesses, although we envisaged from the outset that our work would have wide applicability across the business sectors. Our proposal was original in adopting a multi-level perspective, suggesting that factoring in change at one level without taking into account any wider impact might lead to outcomes that would be unexpected or even harmful (OECD, 2010). We were fortunate to bring into the series leading scholars as well as vibrant and motivated early- and mid-career researchers whose work is suggestive of a multi-level perspective. We were equally fortunate to have representatives of the Confederation of British Industries and policymakers and practitioners from a variety of industries and government bodies involved in the seminars.

Our objectives for the seminar series were as follows:

1. To build a preliminary multi-level framework to guide scholars as well as practitioners who are interested in understanding more about the

role of people management in fostering organisational innovation. This will be achieved by drawing on both the knowledge-based theory and the notions of 'knowledge flow'. Our belief is that factoring change in organisational systems at one level, without taking into account any wider impact, might lead to outcomes that are unexpected or even harmful.

2. To promote the cross-fertilisation of ideas across academic literature – such as strategic HRM, knowledge exchange, workplace learning and creativity, which have largely evolved in tandem – in order to foster understanding about our central question, namely, the way in which effective people management might elicit organisational innovation. We attempted to do this by:
 - (a) bringing this literature into a single discussion forum;
 - (b) actively searching for synergies across the five sessions;
 - (c) encouraging leading scholars as well as junior faculty to look across levels at their work.
3. To shed light on a sector recently singled out as having been 'neglected' (CBI, 2011) – medium-sized businesses (MSBs) – by drawing on insights from the above literature with particular focus on the implications for this sector. This involved input from leading scholars and dialogue with practitioners from the MSB sector that would be actively engaged in using the applicants' networks.
4. To compare and contrast literature concerned with people management and innovation that takes an organisational-level perspective in order to foster understanding about how employers might make the best use of people's skills for innovation and about any role that managerial practices, learning cultures and formal or informal education might play.
5. To assess what implications a multi-level perspective on people management and innovation presents for leaders and the development of leaders.
6. To enable academics, early career researchers and students who research and teach – especially in the area of HRM – to understand and appreciate the importance of looking at organisational innovation from a multi-level perspective.
7. To produce and widely disseminate reports of the seminar proceedings in order to make the insights arising from the series available to HRM and other business decision-makers within MSBs, including the Chartered Institute of Personnel Development (CIPD).
8. To produce a series of scholarly outcomes, including a book and a special issue of a leading journal, in order to influence the scholarly

community about the role of HRM in organisational innovation and factors to be taken into account when conceptualising a multi-level framework.

In reflecting on the objectives detailed above we are reminded of the words of Marcel Proust: 'The real voyage of discovery consists not in seeking new landscapes but in having new eyes'. Our journey over the past five years has inspired debate, highlighted synergies and points of contention, fertilised collaborations within and across scholarly and practitioner communities and led to outcomes which continue to unfold. At times, rather than having answers to the issues raised, we are left with questions and ideas. This has inspired us to continue our research endeavours with a new vision, informed in part through the thought and dialogue that the series has evoked.

In more concrete terms, the seminar series has allowed each of the three schools mentioned above to exploit the synergies that exist across their combined expertise. This has (we believe) enriched our own thinking as leaders of the series, and strengthened collaboration not just across these three institutions but also with Nottingham Business School, where the principal investigator took up a chair in July 2013. The keynote speakers – who have influential positions in their respective institutions – we hope and believe, have also been beneficiaries of the series. Their ideas have been discussed and questioned through the seminars and in many cases captured in the pages of this book. We also sense that keynote speakers have taken back to their institutions new ideas likely to enrich both the thinking of PhD or other students for whom they are responsible as well as the academic curricula, more widely. Other presenters, drawn from a wide range of institutions in the UK and overseas, have been exposed to many different perspectives in relation to the seminar theme. We would like to think that this has been an enriching process, feeding into presenters' research agendas as well as their teaching duties and informing their academic profiles 'more widely' was just used.

We feel that the series has presented many opportunities for learning for junior faculty and research students. At their early stage of development, these scholars have, we sense, gained new insights in both theoretical and methodological terms into the role of people management in fostering organisational innovation. They have also, based on our observations during and since, learned from the continuing informal dialogue with other researchers and the many opportunities to observe role models and gain guidance and insight from more experienced faculty members.

There are perhaps two scholarly achievements that deserve particular note. First, we are delighted to have a special issue on-going with *Human Resource Management Journal*, entitled: 'Human Resource Management and Innovation: Looking across Levels'. At the time this book was going to press, we had a set of high-quality papers that have passed through the initial desk screening process and are currently under review. The special issue is expected to go to press towards the end of 2016.

A second output of which we are especially proud is the present book. Taken together, the book represents a collective repository of state-of-the-art knowledge in the area of people management, innovation and performance, drawing on the expertise of those directly involved in the series as well as of those whose research interests overlap. We bring together macro- and micro-perspectives in order to foster deeper understanding of the systemic nature of innovation and the implications that are presented for the management of people. We speak to both scholars and executives who are interested in considering how an organisation might enhance its innovative propensity through people. Our particular focus for the book, though, is students, both those pursuing Master's-level study (in HRM or innovation) as well as those undertaking doctoral-level study. We hope that the book inspires creativity (original new ideas) and innovation (an ability to apply these ideas) as readers take forward the guidance and vision offered in the pages that follow.

Acknowledgements

We received support for this project from many sources, not all of which can be acknowledged on this page. First and foremost, we are grateful to the Economic and Social Research Council (ESRC) for funding the seminar series, which enabled academic and executive communities to come together in a way that has inspired this book. Second, we appreciate the support we have received from the institutions at the heart of the series – the Aston Business School, the Centre for Performance-Led HR, Lancaster University Management School and the Institute of Employment Research, University of Warwick (IER). We experienced generosity from these academic institutions, not just in allowing staff time to present their work and participate in the seminars, but also in making rooms available free of charge and contributing towards subsistence costs. Our thanks extend to Nottingham Business School, which made it possible for the principal investigator to continue to contribute to the series after taking up a new position in July 2013, providing resources for attending the seminars and freeing up time. We thank the Confederation of British Industry for supporting the series, attending and presenting at several events, and supporting ideas and suggestions for publicity and impact. Professor Jenny Bimrose from IER was one of the original applicants and was involved in the delivery of the seminar series. We appreciate her vision and support.

Several others have made contributions that deserve acknowledgement. Three Aston PhD students – Margarita Nyfoudi, Jude Preston and Jenny Surtees – provided valuable help in setting up the seminar series website and setting in motion the organisation of the seminars. This was no small feat, especially considering the demands of doctoral study. Administrators at the above-mentioned three schools provided different types of logistical support. They include Zabin Shamsi at Aston, Teresa Aldren from Lancaster and Amanda Kerry from Warwick. Alison Wade at NBS also played an important role especially during the final busy stage.

Finally, we are grateful for the support of our publishers, Palgrave Macmillan, originally Virginia Thorp and more recently Kirandeep Bolla. They helped us to keep on target, and their belief in our project inspired us to bring our vision to fruition.

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1

Human Resource Management, Innovation and Performance: Looking across Levels

Helen Shipton, Pawan Budhwar, Paul Sparrow and Alan Brown

There are no old roads to new directions.

The Boston Consulting Group

The importance of innovation can hardly be exaggerated, given that landmark change has defined human progress in our technological age. The business pages of popular journals are replete with a dazzling array of inventions that have overturned existing ways of working and fundamentally changed human experience – from agricultural drones that offer farmers new ways to increase crop yield to genome editing that provides powerful insights into genetically baffling brain disorders. Innovation has become a topical theme within organisations, too, with no shortage of advice and suggestions often targeted at business leaders about how to craft an innovation strategy or increase the number and quality of ideas with a view to enriching organisational life. The quote at the start of this chapter bears testament to the sheer effort of moving away from familiar, habitual practices in the direction of less-certain, risky future terrain. Setting aside what has gone before to move in new directions requires determination, resilience and courage at a personal level. Often overlooked, though, are the multi-level dynamics that this entails.

Rather than occurring in a vacuum, innovation is prompted, shaped and enacted through an individual or a collective group engaging with the context, whether that of the wider team, the organisation, the institutional framework or even society itself (Gupta et al., 2007). In its simplest form, innovation might arise through an actor's reaction to

stimuli presented within a work setting. More complex, but conceptually similar, determinants might govern whether or not influences from the external environment, derived through inter-organisational networks, cause an organisation to embrace a new technology or a novel technique (e.g., cross-functional work systems). Added to this, influences may occur from the bottom up (initiated by individuals) or top down (triggered by contextual factors). Some impacts might be set in motion by management (a reward structure that recognises risk and experimentation) whilst others are likely to occur by accident (an informal discussion at a conference about a new product or idea).

Reflecting these considerations, our central goal in this book is simple. It is to bring people, or rather the complexities of managing of human resources in organisations, centre stage. While scholars have been inspired by the idea that HRM has the potential to build a committed and engaged workforce, thereby maximising firm performance (Jiang, Lepak, Hu & Baer, 2012), until recently rather less attention has been devoted to HRM's role in fostering creativity and innovation (Shipton, Budhwar, Sparrow & Bimrose, 2012). Innovation scholars, by contrast, have devoted attention to the external context and the institutional framework (Chesbrough, 2004). HRM has been tangential, rather than central, in this literature. In bringing together the two strands, HRM and innovation, we believe that our text makes a novel contribution. Added to this, we draw into one conversation disciplinary perspectives such as leadership (Carmeli & Azeroual, 2009), workplace learning (Brown & Bimrose, 2014) and ambidexterity (Kang, Snell & Swart, 2012) that have evolved largely separately from one another. We do so in order to shed new light on the antecedents and enablers of innovation, with specific reference to people and the way in which they are managed.

Inherent in most conceptualisations of innovation, and our starting point for the book, is the notion of value (Gupta et al., 2007). The innovation or change must add something that is beneficial for the organisation, either complementing existing practice or adding something that supersedes and perhaps overrides what has happened before. Novelty is centre stage, in that innovation brings out previously unconsidered alternatives for change. Rather than absolute novelty, however, innovation is original within a context; its newness is relative and bounded. Level-of-analysis issues permeate reflections on definitions. Innovation is often conceptualised, at the individual level, in terms of an employee's creativity (Amabile et al., 1996) or of the ability to devise new and potentially valuable ideas in a work context. Others examine an individual's innovative behaviour (Scott & Bruce, 1994). The latter is suggestive

of a propensity not only to devise original ideas, but also to work simultaneously with others so as to facilitate the implementation of those ideas. The micro-perspective of innovation also entails consideration of the attributes and antecedents of effective leadership for innovation.

Taking an organisational-level perspective, innovation is often conceptualised depending upon its incremental or radical nature. The former entails fairly minor adjustment to strategic functioning while, through the latter, significant and major amendments are proposed or have occurred (Zhou & Li, 2012). Linked with this is the notion of exploration and exploitation. March's (1991) seminal work proposed that organisations face inherent tensions, on the one hand seeking to extend the boundaries of knowledge to pursue new and risky alternatives and, on the other, to refine and improve existing ways of working in order to deepen and enhance strategic functioning. The balance achieved varies across organisations, depending on many factors, including the volatility of the external environment, managerial orientation and employee skills and attitudes, including motivation and the nature of trust (Kang et al., 2007).

Chapter scheme

The first two parts of the book take an organizational-level perspective, presenting inspiring and research-informed insights into the outstanding HRM considerations relating to key themes of this book. We then, in Part III examine leadership considerations with innovation in mind, concluding in Part IV with a series of contributions that adopt a micro-level perspective, while simultaneously taking account of the context within which individuals are embedded.

Part I: People, innovation and performance: an overview

Chapter 1, written by Paul Sparrow, proposes that, for innovation, the notion of 'best practice' HRM may be less helpful as a conceptual lens than what is described as 'conditioning contingencies' – in other words, designing organisational structures to allow opportunities for knowledge flow across and within organisational boundaries. Sparrow alludes to the challenge of radical innovation, whereby psychological foundations inhibit members' willingness to contemplate proposed change that may be seen to threaten the established order. Acknowledging the emotional fallout from innovation and from building appropriate support structures may be an important part of the HR remit in dealing with innovation of this kind. Sanders and Lin, in Chapter 2, focus upon

'high commitment' HRM practices, in particular those that foster tolerance for risk, job autonomy and employee proactivity. At the heart of their chapter lies the notion of interactive, informal learning, which allows employees to make connections across time, networks and institutional frameworks. Their chapter emphasises that HRM practices influence employee perceptions and actions to the extent that they are accurately detected by employees. Drawing on Bowen and Ostroff (2004), they argue that in order for HRM to influence performance outcomes – including innovation – effective communication and interpretation are key. To this end, they reference various stakeholders, including senior and line managers and HR specialists.

The next three chapters of Part I consider human resource development (HRD), that sub-section of HRM concerned with employee learning insofar as it flows from strategic goals. In Chapter 3, Pauline Loewenberger highlights HRD considerations where creativity and innovation are to be fostered. The chapter focuses upon creativity training and makes reference to a number of reliable models to guide the process. There is discussion of diagnosis at the organisational level, with recommendations for using a valid and reliable instrument to assess climate properties that can provide a valuable starting point for crafting a climate apposite for the purpose of innovation. They reference studies showing that the payback in terms of innovation is much greater where internal systems allow for learning, under the auspices of a strong innovation climate, rather than promote an implicit view that external training is sufficient for this purpose.

The HRD theme continues in Chapter 4 with a discussion of work-based apprenticeship schemes and the role that structured training can play in fostering an organisation's propensity to innovate. The apprenticeship model of learning proposes a graduated approach to the formation of expertise. Fuller and Unwin argue that, through building an expansive rather than a restrictive work environment, apprentices and other learners have the potential to achieve functional expertise and to give back to the organisation in terms of guiding and supporting the learning of others. They argue that all employees can benefit from the supportive structuring of their development, as proposed in the apprenticeship model. They illustrate their framework through reference to case-study examples that demonstrate contrasting perspectives on the development of occupational identity and functional expertise. In Chapter 5, the final chapter of Part I, Gambin and Hogarth show that renewed interest from government and organisations means that apprenticeships are once again featuring as a tool in Human Resource

Management policy, after a period of decline. Like Fuller and Unwin, Gambin and Hogarth point out that to add value to organisations as well as to individual learners, apprenticeships should be provided within a wider package of HR processes and approaches. In order for employers to retain apprentices and thereby recoup their investment, other HR policies are required which improve retention and provide development and progression opportunities as well as other incentives for former apprentices.

Part II: People, innovation and performance: in context

The second part of the book uncovers some of the contextual contingencies that influence whether and how innovation plays out. Chapter 7, by Nair, Pillai, Hirekhan and Budhwar, gives a novel and exciting insight into innovation within a developing economy – that of India. They outline HRM's role in fostering what they label 'frugal innovations', referred to as *jugaad*. These innovations, while affordable, are based on simple ideas that entail leveraging scarce resources adapted for the local environment as appropriate. The chapter describes a cross-sectional survey of 174 Indian firms in order to shed light on the main factors promoting or hindering innovation. The authors note that, as proposed in the opening chapters of the book, HR practices need to be designed, developed and implemented to cater to an organisational environment that motivates employees, encourages collaboration and learning, improves employee commitment and promotes teamwork.

Frances Jorgenssen, in Chapter 8, provides an insightful discussion of HRM within small, high-growth firms. Jorgenssen shows that formal HRM systems may not necessarily be conducive to innovation and growth for this sector, especially where they are adopted uncritically, without taking account of underlying attitudes such as staff engagement and commitment. The chapter reports that high-growth firms tend to encounter numerous and sporadic 'tipping points' (Phelps, et al., 2007), defined as significant strategic challenges, decisions that appear on target at one point in time but which may rather rapidly become outdated as circumstances change. These tipping points influence the extent to which formal, rather than informal, HRM practices are apposite in a given context, and also influence the role of ambidexterity, jointly balancing exploration and exploitation. The chapter illustrates these points through reference to a high-growth technology firm based in Denmark which, being sensitive to changing employee perceptions, made rapid adjustments to HRM systems in order to facilitate ongoing growth.

In Chapter 9, Tansley and Kirk, in a study of a local authority in the UK which has a sophisticated e-HRM system, argue that in order to support organisational innovation, HR practitioners must first understand the challenges of innovating within their own functional areas. They further develop the theme of ambidexterity, which entails HR specialists exploiting existing HR knowledge while enabling the integration of new knowledge from inside and outside the organization. An effective e-HRM system relies on the skills and expertise of exploratory learners – labelled ‘communication stars’ – who reach outside the organisation to bring in new ideas and share them with others, benchmarking e-HRM practice elsewhere, especially (given the local authority setting) within related organisations such as Social Services and Highways. Balancing exploration and exploitation is, in the eyes of these scholars, an overriding challenge for HR specialists seeking to foster innovation within their own functional areas.

In Chapter 10, Swart and Kinnie highlight the impact of human and client capital on innovation within professional service firms (exemplified through reference to accountancy and legal service companies). They further develop the notion of external liaison expounded above, proposing that professional service firms work within a complex set of external stakeholder relationships to develop products and services. Their empirical work in this area suggests that HRM systems vary according to the degree of power exhibited by the client, as well as to the extent of work integration between the focal organisation and the client. Four configurations are proposed reflecting these factors: regeneration, refreshment, re-use and re-invention. Each configuration requires a specific set of HRM practices. For example, for the re-invention orientation, HR has a role to play in protecting employees from burnout that may ensue from dealing with the most demanding clients. Added to this, HR has the task of developing client relationship skills in order to address the strains of this type of client base. Rewarding high performers by showcasing exceptional achievement may be a key consideration for employees performing a re-invention role.

Part III: Leadership and innovation

The third part of the book deals with the challenges faced by leaders who have responsibility for implementing innovation within their organisations. The part starts with Chapter 11, a study by Černe, Hernaus, Dysvik and Škerlavaj, who have an interest in the antecedents of innovation implementation. Drawing on the Self-Determination Theory (Deci & Ryan, 1985), they present a conceptual case for supervisor support in conjunction with employee autonomy in decisions