



## **The Role Of HRM Practices in Shaping Organisational Innovation in Malaysia Waqf Institutions: A Conceptual Paper**

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**Received:** 18<sup>th</sup> September 2023    **Accepted:** 24<sup>th</sup> November 2023    **Published:** 4<sup>th</sup> December 2023

### **ABSTRACT**

The current pace of change in the world is unprecedented. As a result, the environment of NPO institutions and organisations has been affected by this rapid change, particularly the major development in the domains of management and the requirements of the society they serve. Third-sector organisations, particularly waqf institutions, must constantly innovate in order to maintain a competitive advantage and achieve their goals of high economic and social values. Human resource management practices can be used to achieve this goal. Thus, the objective of this research is to examine the correlation between human resource management practices and organisational innovation. Using a cross-sectional approach, the study involved waqf institutions in Malaysia. Two human resource management practices served as independent variables in this study (performance appraisal and training and development). Organization innovation (Product / service innovation) was used as dependent variable.

**Keywords:** Human resource practices, organizational innovation, waqf institutions

## INTRODUCTION

In recent years, governments, scholars, researchers, and management practitioners have attached great importance to the role of human resources in the non-profit organisation (NPO) and their potential for a positive contribution to the welfare of the society and building healthy communities. According to Bastida, Marimon, and Carreras (2018), Human resource management (HRM) is becoming increasingly crucial in improving the efficacy and efficiency of non-profit organizations. The human factor is considered the most significant value in non-profit organizations and an essential element for their long-term viability. Thus, human resource is the key factor in such organizations (Parsehyan, 2017), as they have the capacity to promote innovation and creativity (Gupta & Singhal, 1993; Diaz-Fernandez et al., 2015; Aman et al, 2018), so human resources continue to a strategic responsibility in ensuring organizational effectiveness (Acosta et al., 2020).

HRM practices can thereby help the development of corporate innovation (Nawab et al., 2016). As a result, innovative organizations are often looking for better ways to handle their human resources in order to create and develop new goods and services. It is therefore important to consider why and how human capital fosters innovation as well as how HRM practices can help a company achieve its goals and enhance its competitiveness in innovative ways (Andreeva et al., 2017).

In order to preserve excellence and efficiency, dynamic and flexible HRM practices are important as they promote the organization's innovation. Chow (2018) claimed that innovation and creativity are required to be able to win in the ever-changing competition and organizational settings after innovative firms have demonstrated their strong position in the market. Organisations that always prioritise innovation can adjust faster to environmental changes to achieve better results (Do et al., 2016; Suleman et al., 2023). Furthermore, organizations nowadays tend to adopt innovative methods (e.g., new product development, new service delivery and new customer engagement) to gain access to new markets, contribute to economic growth, boost competitiveness and ensure long-term business survival (Marín-García et al., 2019).

HRM plays a crucial role in organizations by ensuring that employees are well-equipped to contribute to the organization's goals and objectives. It involves various aspects, such as recruitment, training, performance management, and compensation, all of which aim to create a

productive and efficient workforce (Budiman, 2014; Suleman et al., 2023). In the context of Waqf institutions, the quality of human resources has been a concern, as low productivity can hinder the effectiveness of these institutions (Budiman, 2014).

Waqf is an important Islamic financial instrument that plays an active role in creating and generating sources of financing for the state and meeting the needs of any growing Islamic nation. Since 1957, Malaysia has been developing and organizing waqf activities and moving towards a more efficient and systematic administration, whereby awqaf are placed under state authority (Mahamood, 2006; Yaacob, 2013; Hapsari et al., 2021). Nevertheless, they have encountered difficulties in adjusting to contemporary management practices, and only a limited number of western academics have regarded them as applicable to present-day economic development (Budiman, 2014). Consequently, there is a dearth of research regarding the influence of HRM practices on organizational innovation within Waqf institutions. Unfortunately, One of the most prevalent managerial challenges that confront waqf administration is the lack of attention paid to human resource management (HRM), despite its crucial role in enhancing the institution's performance (Mohamad et al., 2017; Hasan et al., 2019). This difficulty is becoming more apparent as a result of the scarcity of trained and qualified personnel, the shortage of trained and competent staff and waqf employees with the necessary skills and ability to innovate is making this a growing issue, this deficiency in human resource management adversely affects the efficacy, proficiency, and productivity of waqf institutions (Mahmood, et al., 2017; Suleman et al., 2021).

Park et al. (2019) highlighted that while numerous empirical studies have underscored the importance of HRM practices in fostering innovation, there remains ample need for further understanding of how these practices specifically facilitate product, process, and management innovation. This project intends to investigate the impact of HRM practices on organizational innovation in order to address the existing research gap and provide more understanding of how certain HRM practices influence innovation within an organization.

## **LITERATURE REVIEW**

In the present literature, managing innovation and promoting innovation ability have become some of the most significant and interesting topics (Prasad & Junni, 2016; Tian et al., 2018). Considering the need for further innovative approaches in addressing socio- economic difficulties, particularly

in the present economic climate, the Malaysian government has realized that innovation can become a solution in overcoming difficulties. This can be done by putting in efforts to develop a culture of innovation within the country, including the establishment of many organizations tasked to carry out programmes designed to promote social well-being via innovation (Nasir & Subari, 2017). In accordance with recent research, the greatest option for firms to be sustained over a long term in these chaotic markets would be innovation (Villajos & Sotoca, 2018). It is also considered an important factor in organizational cohesion as, when applied to organizational design and structure, innovation can result in enhanced intra-organizational collaboration and cooperation mechanisms (Rasool et al., 2019).

Academics generally agree that non-profit organizations (NPOs) can enhance their efficiency and performance through innovation, which in turn allows them to better serve their community (Suh et al., 2018; Klassen & al., 2020). In some cases, non-profit organizations outperform their for-profit competitors in terms of product or service quality (Singh & Mthuli, 2021) whereby innovation plays a larger role in some aspects of performance than others. Credibility and peer efficiency as well as the satisfaction of beneficiaries, may be more crucial considerations when it comes to innovation (Klassen & al., 2020). It is essential as a key determinant in resuming high levels of performance (Nuñez-Pomar et al., 2020). However, non-profit organizations, on the other hand, face a more significant problem when implementing innovation policies, particularly in developing countries because they do not prioritise innovation as a key strategy for ensuring stability and continuity due to high resistance to change within these organizations and a low tolerance for risk. Regardless of what innovation has to offer in terms of identifying beneficiaries' needs, locating new resources and sources of revenue, using innovative approaches to solve social problems and diversifying project partners are vital (Hull & Lio, 2006; Winand et al., 2011).

As an increasing number of non-profit organizations recognize the value of their personnel in attaining organizational goals, human resource management (HRM) is emerging as a vital element in enhancing the efficiency and effectiveness of these entities (Bastida, Marimon, & Carreras, 2018). The human resources (HR) department maintains a strategic role in guaranteeing the efficiency of the organization through the utilization of HR's resources (Acosta et al., 2020). According to Aman et al. (2018), the goal of HRM practices is to create an atmosphere favourable to developing employees' competencies and skills for innovation. Consequently, HRM practices

can greatly enhance the innovative talents of employees. The ability of HRM systems to change and gain innovative behaviours from employees has recently been highlighted as a main instrument for boosting organizations' innovation outcomes (Yasir & Majid, 2020).

Anderson et al. (2014) demonstrates that human resource management practices such as job design flexibility and work organization-based job diversity and independence, performance-based compensation, training and development are likely to result in increased innovation. Furthermore, certain human resource management practices also have a beneficial effect on business entrepreneurship, which enables incremental, sustainable innovation. Beyond that, Seeck and Diehl (2017) state that innovation can be understood as an outcome related to human resource management, where some HRM practices impose their impact on innovation. These practices are linked to increased organizational innovation in process, product and knowledge innovation (Rasool et al., 2019). However, the extent to which HRM practices influence innovation differs. Some HRM practices increase product innovation, while others increase process and knowledge innovation, but all HRM practices increase management's desire for innovation in many areas of the organization. In the Malaysian context, Ling and Nasurdin (2010) identified just two HR practices - training and performance appraisal - as being substantially and significantly connected to organizational innovation in Malaysian manufacturing industry. Additionally, Yacoob et al. (2021) found that HRM practices including training and development, compensation and performance appraisals facilitate innovation in the service sector in Malaysia, especially in the hotel sector. However, recruitment and selection did not have a big impact on innovation. Similarly, in the context of medium-sized enterprises, Shuhaizi and Abdullah (2021) found in their study that training and performance appraisal have a positive effect on innovative work behaviour.

While recent studies have made significant strides in determining which HRM practices have the greatest influence on innovation, the exact mechanism by which high-commitment HRM practices contribute to this phenomenon remains unknown (Lertxundi et al., 2019). Several critics have emphasized the necessity for further research to examine the connection between HRM and innovation (Laursen & Foss, 2014; Shin et al., 2018) since empirical studies demonstrating the effects of HRM practices on innovation have been scarce (Waheed et al., 2019) and they have not been thoroughly investigated (Haneda & Ito, 2018). Therefore, it is imperative that additional research be undertaken in order to comprehensively understand the correlation between HRMP

and organizational innovation, with a specific focus on waqf institutions in Malaysia. To that end, an additional extensive measure could be implemented.

## **RESEARCH METHODOLOGY**

Quantitative research methodology is chosen for this study in accordance with the accompanying justifications. The purpose of this study is to investigate the correlation that exists between HRM practices and organisational innovation. In order to reduce the duration of longitudinal research, researchers choose to employ a cross-sectional survey methodology for this investigation. Therefore, a questionnaire is appropriate for examining several attitudinal and behavioral components in this cross-sectional study. Employees of waqf institutions are considered as a unit of analysis. The aforementioned data will be collected by the use of questionnaires at a specific point in time (cross-sectional study).

State Islamic Religious Councils (SIRCs) in Malaysia have been granted the authority to manage waqf. Additionally, certain institutions have been permitted by these SIRCs to serve as mutawalli (waqf managers) and oversee the administration of waqf on behalf of the SIRCs. This entails the creation of subsidiary organizations of SIRCs, which include waqf Selangor (PWS) and MAIWP Sdn Bhd. In addition, there exist other institutions that possess the authorization from SIRCs to manage waqf, even if they are not under the supervision of the SIRCs. These entities encompass Waqaf An-Nur (WANCorp), Awqaf Holding Berhad (AWQAF), public universities, and specifically chosen Islamic non-profit organizations in Malaysia. Therefore, the study's target population are the staff from the Islamic Religious Council headquarters, district offices, JAWHAR, Yayasan Wakaf Malaysia and staff from private organizations, since the private sector has created excellent collaboration relationships with waqf institutions in order to carry out specialised waqf projects in partnership with SIRC. The anticipated total population, calculated by adding together the number of waqf personnel in each institution, is 500. According to Krejcie and Morgan's (1970) sampling table estimates that 218 samples are necessary to accurately reflect this group of employees (500). In order to achieve a high response rate, the research distributed a twofold amount of sample size ( $218 \times 2 = 434$ ) (Gregg, 2008; Hair et al., 2017). Following the self-administration approach, the researcher distributed a total of 434 questionnaires to the targeted

respondents. In this research, 372 questionnaires will be distributed to full-time employees at waqf institutions in the Klang Valley region of Malaysia, Penang, Johor and Kedah.

## **CONCLUSION**

The paper highlights the substantial influence of Human Resource Management (HRM) practices on innovation within organizations. Findings indicate that a combination of employment diversity, autonomy, performance-based compensation, and training and development are likely to lead to a higher level of innovation. Moreover, specific human resource management practices have been associated with increased levels of organizational innovation in terms of process, product, and knowledge innovation. It is important to acknowledge that the impact of HRM practices on innovation can vary. Certain practices are more favorable for product innovation, while others are better suited for process and knowledge innovation. However, all human resource management practices contribute to promoting management's desire for innovation in different areas of the organization.

These observations highlight the significance of customizing human resources management practices to suit the unique requirements and circumstances of organizations, especially within the distinct context of Waqf institutions. Therefore, it is advisable for future research and organizational efforts to concentrate on employing these HRM practices to cultivate an environment of innovation within Waqf institutions, consequently promoting incremental and sustainable innovation.

To successfully respond to the changing demands of the modern business environment and contribute to the progress of the Waqf sector, institutions can align their HRM practices with the specific innovation goals of Waqf institutions. It is important to consider the complex impact of these practices on various aspects of innovation.

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