

# Innovation and new capabilities: the search for a new HR strategy

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## ABSTRACT

The purpose of this paper is to examine the impact of strategic HRM in Alkaloid Skopje, one of the biggest Macedonian pharmaceutical companies. Through the case study method, we provide empirical evidence by addressing Alkaloid Skopje's effort and the innovative strategy of its HR department, with a focus on improving the company's strategic competitiveness and overall performance. Structured interviews were conducted with employees from the HR department of Alkaloid Skopje who had long work experience in HR. The key objective of this case study is to explore current practices and strategic actions that potentially increase the performance of Alkaloid Skopje and could be further enhanced and implemented by top management in order to improve the competitive advantage of the company. Key findings of the case study show that strategic human resource management is an important factor in explaining company performance and competitive advantage. The practical implications acknowledge that to be competitive businesses must adopt new and innovative approaches in their strategic HR policies and practices that could be implemented with the aim of achieving better results for the organization.

**KEYWORDS:** *HR department, HR strategy, competitive advantage, increasing performance, employee*

## INTRODUCTION

A company's level of performance in its industry has been shown to have a strong correlation to the human resource (HR) capabilities that the company possesses. In order to maintain a company's viability and longevity in a changing environment and ensure that it continues to generate profits, the company under consideration needs to be able to rapidly adapt to new circumstances and respond to the ever-evolving environment that it operates in.

The disease known as COVID-19 was discovered to be caused by a novel coronavirus that had never been observed in people before. Even though COVID-19 has brought a more or less volatile climate for businesses, the company Alkaloid Skopje that is subject of this case study is still developing at a rapid pace in terms of its sales, profits, market share, and the employment of new employees. The company's HR department had already developed innovative strategies that provided the company with a competitive advantage even when circumstances were tough. A link exists to the resource-based view (RBV) theory, which explains the performance of organizations with the resources to build and retain innovative capabilities.

The aim of this paper is to conduct an analysis of the strategic HR practices that are currently in place by the company. Furthermore, it is essential to document and assess the manner in which the innovation is significant for both the strategic HRM (human resource management) and the long-term perspectives of the company. In addition to this, to integrate the theoretical and practical research being conducted in this area.

The structure of this paper consists of a literature review of the most recent research on HR practices, strategies, and organizational innovation. Moreover, there is data analysis from the interviews that were conducted, and the paper ends with a discussion and conclusion.

## LITERATURE REVIEW

As a result of the globalization of services, manufacturing operations, and the advancement of the business environment, there is now an increased level of competitive pressure that is always rising. This motivates firms to alter and refresh their procedures, methods, and systems, as well as the services they provide. In most cases, this is referred to as innovative organizational practices in order to produce advantageous competitive advantages (Hussinki et al., 2017). In a highly developed business environment, firms concentrate their efforts on gaining an understanding of HR practices and the benefits such practices provide for the innovative performance of the organization (Andries and Czarnitzki, 2014). Therefore, firms have swiftly updated their activities and management systems to survive themselves in the competitive environment that includes globalization and various technologies (Hamoud et al., 2016).

Scholars of strategic HRM have argued, in the wake of research on the resource-based view approach (RBV) that HR strategies have the potential to lead to firm competitive advantage by creating one-of-a-kind and valuable employee-based resources (Lepak and Snell, 1999; Collins and Smith, 2006). RBV is a management framework that identifies the strategic resources a company may use to generate a sustained competitive advantage (Barney, 1991). According to the RBV, HR practices are an essential component of all the organization's resources in order to maintain a competitive stance and ensure the organization's continued existence (Farooq et al., 2016). Consistent with this theory,

there is considerable empirical evidence that HR strategies that concentrate HR policies on high levels of investment in people are significantly and positively associated to greater levels of company performance via their influence on employee-based resources (Jiang et al., 2012; Jackson et al., 2014). This shows that the RBV has a strong connection with strategic HRM in order for organizations to have a competitive advantage.

Prior to the pandemic, HR departments had a challenging job, but in 2019, more than half of HR directors battled to ensuring that staff had the essential skills to manage an increasingly digital workplace. Nevertheless, this “future of work” had always appeared to be a safe distance away at least far enough to deliberately plan for (Bingham, 2020). Both companies and employees were thrown into a state of disarray and uncertainty as a result of the COVID-19 pandemic, and there is no sign of an end in sight (Harbert, 2021). HR techniques that, according to the organizational innovation, develop acceptable job attitudes among the employees are regarded as effective and dependable procedures (Tan and Nasurdin, 2011). It is important for a company’s HR practices to be adaptable and creative so that they may be readily implemented and help the organization better deal with the challenges posed by the business environment (Torella et al., 2015).

Activities in HR are defined as deeds performed with the intention of accomplishing a certain objective or purpose. Training, recruitment and selection, remuneration, participation, incentives, and performance evaluations all fall within the purview of HR at the organizational level (Mohanapriya and Sasikala, 2015). The competencies and attitudes that employees bring to their jobs, which are connected to the overarching mission of an organization to improve its capacity for innovation, have a significant impact on the HR strategies that companies use (Prieto and Perez-Santana, 2014). Through motivation, incentives, and the engagement of its workforce, an organization’s top aim is to establish a secure working environment that is aligned with the overarching strategic purpose of the business.

An organization’s HR practices are a collection of actions used to manage the business’s capabilities, such as building public relations, collecting and managing data, and generating competitive advantages. (Shipton et al., 2005). It is possible to assert that successfully managing organizational innovation has evolved into a strategy that may be utilized for continued existence (Ortt and Van der Duin, 2008). By effectively managing their creative and productive resources, businesses are able to successfully manage organizational innovation (Barbaroux, 2012).

Zanko et al. (2008), on the other hand, investigated the link between HR practices and innovation with regard to absenteeism and internal policies in organizations. It has been suggested that organizations should apply efficient HR procedures in order to cultivate the employees’ knowledge, skills, motivation, and capabilities, which are the factors that drive organizational innovation. In a similar vein, HR policies can boost an organization’s capacity for innovative thinking (Jiménez-Jiménez and Sanz-Valle, 2008). This suggests that applying strong HR strategies and practices could foster organizational innovation and innovative thinking, as well as improve certain organizational processes.

The opinions and attitudes of top management regarding the HR function (Brandl and Pohler, 2010) as well as the value of HRM and their workforces (Arthur et al., 2016) may significantly influence HRM effectiveness and the degree to which HR departments can contribute to an organization’s strategy since they are the main decision-makers. In all phases of HRM adoption, including the choice of introducing new HRM policies, the design of those policies, and the quality of their implementation, they also play an

essential role as either primary implementers or key assessors (Guest and Bos-Nehles, 2013). As a consequence, one would anticipate that there is a connection between the way top management views HR as a strategic resource and the way that top management approaches incorporating HR in the process of strategic management.

With regard to all the points mentioned above there are two main research questions:

*What can the HR department do to provide an innovative strategy in order to increase the performance of Alkaloid Skopje?*

*How can top management improve the competitive advantage in Alkaloid Skopje by implementing HR strategy?*

## **METHODOLOGY**

Case study methodology as a form of qualitative research provides tools for researchers to study complex contemporary phenomena within their real-life contexts using a variety of data sources. This methodology gives the researcher an opportunity to explore individuals or organizations through complex relationships, interventions, programs or communities (Yin, 2003). In addition, Yin (2003) distinguishes between a single case study (data from embedded subunits of a single case are being analyzed within, between and across all subunits) and multiple-case study (several different cases are being analyzed to understand similarities and differences between them). Darke et al. (1998) point out that single cases are better suited for in-depth investigation and a rich description of the researched phenomenon, whereas multiple-case study designs provide literal or theoretical replication and cross-case comparison, which in turn leads to greater certainty.

For the purpose of this case study research a single case shall be chosen, which is a company that is relatively relevant (Alkaloid is the largest pharmaceutical company in North Macedonia) and it is suitable for explanatory analysis that in turn should provide an extensive answer to the previously defined research question. Moreover, it was chosen by the author of the research due to immediate involvement in the company over the years and a vast and detailed knowledge and insights of all its internal processes, which should be of great interest for the proposed analysis.

Eisenhardt and Graebner (2007) indicate that the interview is the main source of information in case study research, since it is a very efficient way of gathering rich, empirical data. Therefore, we chose the interview as a primary instrument for data collection, combining it with insights of direct observation and participation as well as an inquiry of the archival records of the selected company. In order to acquire highly reliable and relevant information for the purpose of this research, the persons for the interviews were mainly employees holding a relevant position within the company. Finally, we thought that it would be most appropriate to opt for developing a case description by means of explanation building as an analytical technique.

## **ANALYSIS**

In this part, we analyze and discuss in depth the internal processes of the selected company for the purpose of this case study, that is the pharmaceutical company from North Macedonia, Alkaloid Skopje. First, a brief summary of the company and its business strategy shall be presented followed by a detailed data analysis from the conducted interviews.

### ***Alkaloid's context and business strategy***

Alkaloid Skopje is an organization that has been in operation for more than eight and a half decades. It has been involved in the production of pharmaceuticals, cosmetics, and chemical goods as well as the processing of botanical raw materials. Pharmaceuticals and Chemicals, and Cosmetics and Botanicals are the two profit centers that make up the joint stock organization known as Alkaloid Skopje. The organization has two subsidiaries in the country, in addition to 18 subsidiaries and 2 representative offices located outside the country. There are a total of 2,015 employees that work for the organization inside the borders of the nation, in addition to 604 individuals that are working for subsidiaries and representative offices located outside the country (Alkaloid, 2022).

The company's underlying goal is to continue in the direction of accomplishing its primary strategic objective, which is its development as an export-oriented enterprise with a stable market position (Alkaloid, 2021).

In accordance with the vision and strategic intent to create a contemporary employment environment, the company's headquarters added 266 new positions by the end of 2020. Moreover, fourteen interns as part of the young talents program were employed in the company. In line with the mentoring and development plans, as well as the current needs of the business operations, the HR department conducted several training sessions for the newly hired employees. In 2020, 94 employees took part in the talent management program. Based on the evaluations that were done, 75 employees got bonuses and 885 employees got promotions. Moreover, throughout the course of 2020, they organized a variety of internal and external training sessions for their staff with the goal of enhancing their knowledge, skills, and abilities. Throughout the pandemic, the HR department faced a number of challenges, including compensating between the ambitious plan for new hires and the conditions on the national labor market in terms of a disparity between the company's actual demands and the labor market's supply, while utilizing online tools in its processes (Alkaloid, 2021).

### ***Data analysis***

The findings from the interviews have shown that overall Alkaloid has standardized performance metrics to prove the efficacy of its HR practices. The HR department assesses performance annually using KPIs and main goals. Also, satisfaction with the selection and recruiting process for top management is measured. In addition, there is a review of the training provided to employees and its impact on their performance.

In recent years, the high pace of new hires at Alkaloid Skopje has grown production capacity and sales in existing and new countries. With ongoing training and education, employees become more productive and generate innovative ideas to enhance the performance of the organization. Purchasing new gear and equipment enables the business to increase output and improve product quality. Adoption of digitalization, including applicant selection and interviewing technologies. In addition, the applied talent management approach and 360/180 feedback as part of this process, reveals the organization's top personnel, resulting in exceptional performance. This suggests that the deployment of digitalization and a comprehensive talent management system in HR operations might have a substantial effect on performance.

According to those interviewed, the most important HR strategies that need to be improved or adopted are those that include creating a system for essential job successors

in order to maintain or enhance the current level of performance. In addition, building a reward system, bonus schemes and team-building activities for the entire business are essential for enhancing performance. This shows that enhancing job satisfaction and the implementation of employee engagement programs is anticipated to be advantageous to the company's employees.

The partial dual education developed with a medical high school from Skopje and the "Young talents program" as a chance for young students to obtain work experience are helping top management to have knowledgeable and trained personnel. In addition, the implementation of an employee satisfaction survey is essential for the company to strengthen its competitive advantage by adopting employee feedback and suggestions. Moreover, the incorporation of benefits for the children of employees for extracurricular activities increased the satisfaction of employees. The competitive advantage that the implementation of all of these methods provide is an indicator that the incorporation of more relevant strategies such as these results in benefits for the top management but also for the employees.

The most important strategies to put into action in order to strengthen the company's position as the industry leader are the establishment of Intranet and digital software for talent management. In addition, there are several recommendations, some of which involve enhancing the process of career development and onboarding new employees. This suggests that even though the company already has strategies in place, Alkaloid should put a greater emphasis on relevant strategies that have not yet been implemented.

## **DISCUSSION AND CONCLUSION**

Reviewing the literature, we may conclude that the pandemic provided HR departments with a challenging moment during which companies and employees were pushed into chaos and uncertainty. In addition, the RBV framework has shown that investing in people is significantly and positively linked to better company performance, thus resulting in increased competitive advantage. Despite the case's many limitations, we may generalize several arguments that may assist HR managers see the significance of innovation.

Based on the findings of the paper, it is possible to draw the conclusion that the HR department at Alkaloid Skopje has already put into practice a significant number of methods that are contributing to the overall improvement of the company's performance. In addition, numerous advised ways could increase the company's performance and improve certain processes. Moreover, the top management of the company may be able to contribute significantly to the expansion of the company's advantage over its competitors with implementation of recommended strategies.

This provides a solid base for future studies with a bigger sample size. In addition, it is challenging to provide reliable assurance that their responses are significant. Assuming that the HR department is capable of implementing these HR strategies to improve the company's performance is unduly optimistic. It would be useful to explore more major pharmaceutical businesses in the future so that we may compare and contrast the offers of each of these companies.

This case study research has been conducted only for one single case due to the time limitations for research that is more extensive and the willingness of the author for a more detailed description and analysis of the researched phenomenon.

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