

The Influence of Human Resource Practices on Organizational Innovation; mediated by Knowledge Management

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Abstract

This study aims to analyze the influence of human resource practice on knowledge management, analyze the influence of human resource practice on organizational innovation, analyze the influence of knowledge management on organizational innovation and analyze the role of knowledge management in mediating the influence of human resource management practices on organizational innovation. The population in this study is all active managers of Village-Owned Enterprises in South Buton Regency, Southeast Sulawesi Province, Indonesia, totaling 60 institutions, with 157 employees. Data collection using questionnaires. The research data was analyzed using Smart PLS because the research design used a structural equation model. Research results; Human resource practices have a positive and significant effect on knowledge management, human resource practices have a positive and significant effect on organizational innovation, knowledge management has a positive and significant effect on organizational innovation, knowledge management is able to mediate the influence of human resource practices on organizational innovation. The findings in this study are a reference for the Regional Government of Buton Selatan Regency to implement human resource practices for Village-Owned Enterprises so that they can be managed professionally to create organizational innovations that support the independence and sustainability of Village Owned Enterprises which are the drivers of the village economy to increase income and community welfare.

Keywords: Village-Owned Enterprises, Innovation, Knowledge Management, Human Resource Practices.

1. INTRODUCTION

Previous research illustrates that the application of effective human resource practices can increase organizational innovation (Colakoglu et al., 2019; Jennie Karlsson, 2013). The importance of human resource practice for organizations, and the increasing need for human resource practice, so many empirical studies focus on the impact of human resources on the performance of company innovations (Mahroum, 2016; Zehir et al., 2016). Thus, human resource practice can unite training, employee development and compensation to achieve organizational success.

Managing the human resources of an organization requires the use of various effective practices that can influence the behavior, attitudes, and performance of individuals by creating a learning culture and increasing their learning capacity (Ortega Parra & Sastre Castillo, 2013). So that in the end it will help the organization to achieve and maintain the desired performance. The practice of human resources is essential to develop the knowledge and skills of employees needed by the organization to be competitive and to be innovative (Chen & Huang, 2009).

Human resource practices can increase organizational innovation because effective human resource management practices will move employees to increase their knowledge (Zehir et al., 2016). Resource based view (RBV) theory states that human resources are the essential resources of all organizational resources (M. Farooq, Irfan. Ullah, 2016). Therefore, the skills that employees have will help human resources in the organization to achieve the desired goals. Research by Weisberg (2006) shows that human resource practice will increase innovation activities, because human resource practices support learning activities to achieve desired organizational goals. When an organization provides access for employees to acquire knowledge, expertise and skills, then the company needs to use knowledge management instruments to achieve organizational goals. Managing knowledge effectively is a technique to maintain a balance between organizational expertise and individual thoughts (Ling & Nasurdin, 2010). Therefore, we need quality human resources and good planning to achieve these expectations.

The practice of human resources is the main tool by which companies can influence and shape the skills, attitudes and behaviors of individuals to do their work and to achieve organizational goals (Collins & Clark, 2003). Knowledge management is not a direct determinant of organizational performance, but its existence becomes an important input of the strategic planning process in an effort to improve organizational performance. Research by Al Kaabi et al., (2018); who shows that knowledge sharing is positively related to the company's innovation performance, besides that human resource practices have a positive effect on innovation performance.

The application of effective human resource practices and knowledge management to improve organizational innovation is needed in for-profit organizations, public organizations and rural community organizations which aims to be an intermediary between the government and the community in order to develop the community's economy as well as village-owned enterprises. The institution is a pillar of

economic activity in the village that functions as a social institution and a commercial institution. Village-Owned Enterprises contribute to the provision of social services and seek profits through the offering of local resources. Thus, it is important to conduct this research in order to know the role of human resource practice and knowledge management in increasing the innovation of village-owned enterprise organizations.

2. Literature Review and Hypothesis

2.1. Human Resource Practice

Human resource practice is an approach that organizations use to reshape employees, understand, think, and behave in the desired way to achieve organizational goals (Kehoe & Wright, 2013). According to Snell & Bohlander (2013), HRM practice is the process by which organizations can manage their human resources to achieve organizational goals. In particular, the practice of HRM is a fundamental activity in which organizations can develop and shape the skills, abilities and behaviors of employees to perform their work successfully and focus on meeting targets, that is, organizational goals.

A resource-based view highlights the impact of human resource management practices on company performance (Becker et al, 1997), particularly when it comes to innovation (Chen & Huang, 2009; Cooke & Saini, 2010). Human resource management practices encourage organizational learning, thereby increasing innovation (Laursen & Foss, 2003). The use of incentives, teamwork, participatory programs, delegation, and decentralization helps the diffusion of knowledge that is central to generating new ideas (Alegre & Chiva, 2008).

The main contributors to the development of human resource management come from psychological theory (Werner, 2014). Perceived human resource practices are contributors to the suitability of the organization and the suitability of the work felt by each individual (Nongmaithem Robindro Singh, 2016). Knowledge sharing is used in

everyday work processes to optimize relationships and motivate collaboration among employees (Ibrahim & Heng, 2015). Several studies have focused on human resource management practices that influence knowledge sharing. Minbaeva et al. (2003) highlights the importance of evaluating the synergistic effect of human resource management practices on knowledge sharing because extensive use of training, performance-based rewards and internal communication contributes to knowledge sharing within organizations, knowledge sharing requires conditions that encourage creativity.

The application of human resource practices can increase innovation (Jennie Karlsson, 2013; Mahroum, 2016). Human resources practice brings together employee training, compensation and development for organizational success (Hanif et al., 2016). The results of empiric research conducted by M. Farooq & Ullah (2016), Zehir et al. (2016) show that human resource management practices generally have a positive impact on organizational innovation. Ling & Nasuridin (2010) also describes that effective and reliable human resource practices create specific work attitudes among employees towards the company's innovations. Nevertheless, the results of the research of James C. McElroy & Morrow (2001), illustrate that there is a weak relationship between human resource practices and the activities of companies greatly affecting the goals of the organization.

Research Zoghi et al., (2010) states that the process and plan of innovation always depends on the creative skills of the employee, while knowledge, proficiency and dedication are the main instruments for the value creation procedure. Research Ullah MS & Yasmin (2013) identifies and sorts out a set of strategic HR practices, which test the effect of HR practices on employees can achieve organizational goals through innovation activities. However, the results of research by Gope et al., (2018) show that the existence of human resource management practices aimed at improving individual learning, motivation and employee retention for knowledge acquisition and knowledge sharing, in a strategic

perspective to improve organizational performance. Based on the results of the study as stated, it can be concluded that;

H1: Human resource practice has a significant effect on knowledge management.

H2: Human resource practice has a significant and positive influence on organizational innovation.

2.2. Knowledge Management

According to North & Kumta (2014) knowledge management is a series of processes developed to create, collect, maintain, and disseminate knowledge. Knowledge management is also defined as the acquisition, storage, retrieval, application, generation, and summary of all the organization's knowledge assets in a controlled manner. Knowledge management is basically about how to get the right knowledge to the right people at the right time. Knowledge management may also include the creation of new knowledge, or perhaps simply focus on knowledge sharing, storage, and refinement (Qureshi et al., 2009).

Knowledge management is key for organizations to remain competitive. In addition, knowledge management also creates innovations and unique ideas from others (Si Xue, 2017). The innovation process relies a lot on knowledge, especially since knowledge represents a field much deeper than conventional data, information and logic; therefore, the power of knowledge lies in its subjectivity, which underlies the values and assumptions that form the foundation for the learning process (Crossan, 1996). Innovation is related to knowledge that can be used to create new products or processes and services to increase competitive advantage and meet the ever-changing needs of customers.

The relationship between knowledge management and organizational innovation is developed based on RBV theory. In the RBV theory it is said that knowledge is a major asset other than the tangible in an organization. The success of an organization depends on the management of knowledge in the face of environmental changes. Adaptability to

changing environments will increase organizational innovation. López-Nicolás & Meroño-Cerdán, (2011) analyzing the relationship between Strategic knowledge management and corporate innovation strategies shows that both knowledge management strategies affect innovation. The relationship between knowledge management, innovation and performance was also researched by López-Nicolás & Meroño-Cerdán (2011) stated that knowledge management affects organizational performance both directly and indirectly through innovation.

Research by Yeşil et al., (2013) which focuses on sharing knowledge affecting innovation capabilities and innovation performance. The results of research by (Mardani et al., 2018) show that knowledge management affects innovation, but innovation has no influence on performance. Furthermore, the results of research Al-Hakim & Hassan (2016); Chen & Huang (2009) show that knowledge management has a significant positive effect on innovation, namely the better knowledge management, the better the innovation. This supports the opinion of Malhotra (2005), that one of the reasons for the implementation of knowledge management in the enterprise is to increase the level of innovation. Based on the findings of previous studies, the research hypothesis:

H3: Knowledge management has a positive and significant effect on organizational innovation

2.3. Organizational innovations

Innovation can be understood as the adoption of a new idea or behavior in an organization. This new idea is a combination of old ideas, schemes that challenge the current order, unique formulas or approaches that are considered new by the individuals involved A. H. Van de Ven (1986), and it can be developed internally (Pennings & Harianto, 1992). The breadth of innovation includes product innovation, process innovation and administrative innovation. However, forms of information are broadly categorized into

administrative and technological innovations (Ling & Nasurdin, 2010).

Some of the results of research that have been carried out to try to connect human resource management practices with innovation. Bataineh et al. (2016) finding correlations between human resource management practices, innovation and knowledge management, in this case shaping the perspective of employee achievement and commitment to the company's brand. The research results of Beugelsdijk (2008) found that human resource management practices affect the innovation of corporate organizations which makes human resource management practices a valuable resource for companies that want to innovate.

Human resource management practices must nurture innovation with practices that are conducive to the best interests of all parties through an organizational culture that motivates and excites, gathers feedback and offers support by sharing knowledge (Ortega Parra & Sastre Castillo, 2013). This is achieved by assisting employees in achieving optimal performance, motivating employees to achieve organizational goals by meeting their career and development expectations and providing a work environment that stimulates energy and creativity (Salamzadeh & Mirzadeh, 2016). Schumpeter's approach is used to categorize innovation into product and process innovations. Product innovation involves product change.

Olubunmi (2015) agrees that organizations that do not implement knowledge management strategies will be challenged by increased competition for assets. Key aspects of process innovation include robotics and monitoring systems (Yüzbaşıoğlu & Topsakal, 2014). Basically the organization must establish the necessary conditions for innovation. Knowledge sharing is considered an intermediary between human resource management practices and innovation.

Resource-based view highlights the impact of safe resource management practices on company performance particularly in terms of

innovation (Cabello-Medina et al., 2011). Human resource management practices encourage organizational learning and consequently increase innovation (Laursen & Foss, 2003). Thus, organizations should leverage human resource management practices and encourage knowledge sharing to maximize innovation performance. Nongmaithem Robindro Singh (2016) also discussed the relationship between human resource management practices, including the level of innovation and found a positive correlation to innovation. Based on the findings of previous studies, the research hypothesis:

H4: Human resource practices have a significant effect on organizational innovation mediated by knowledge management.

3. Research Methods

3.1. Variable Measurement

In this study, exogenous variables are human resource practice variables with size dimensions: performance appraisal, career management, training and reward system, these items refer to research developed by M. Farooq & Ullah (2016) and Al Kaabi et al. (2018). The intervening variables in this study are knowledge management variables with dimensions of size: knowledge acquisition, knowledge sharing, knowledge storing and knowledge application. The items refer to research developed by Waribugo et al. (2016). While the endogenous variables in this study are organizational innovations, with size; product innovation, process innovation and administrative innovation. Product innovation, developed by Cooper (1998) and Waribugo et al. (2016). Process innovations developed from research by Cooper (1998) and M. Farooq & Ullah (2016). Meanwhile, the administrative innovation developed from research Al-Hakim & Hassan (2016) and Al Kaabi et al., (2018).

3.2. Samples and Data Sources

All elements of the active management of Village-Owned Enterprises in the South Buton regency of Southeast Sulawesi Province of Indonesia consisting of directors, secretaries

and treasurers totaling 157 people, as the research population. The determination of the sample in this study was determined by census technique, then the sample of this study was 157 respondents. Furthermore, the data in this study will be collected through a questionnaire and measured using a five-point likert scale.

4. Results and Discussion

4.1. Results

The measurement model can be seen from the value of composite reliability, AVE, and Cronbach Alpha, as well as the results of the goodness of fit model assessment. Table1 illustrates that all constructs, namely: human resource practice, knowledge management and organizational innovation provide value that meets the criteria of the fit model so that the measurement model can be declared good.

This study has three latent variables with 12 dimensions. Evaluation of the latent variable measurement model is based on substantive content, namely by comparing the magnitude of relative loadings and looking at the significance of the size of the loadings. Furthermore, based on table2, it shows that of the five indicators reflecting human resource practice variables, four indicators reflecting knowledge management, and three indicators reflecting organizational innovation, they are significant because the probability value is smaller than 0.05. Based on the value of outer loadings, the t-statistical value danp-value is known that of the five indicators are very dominant in forming human resource practice variables, four indicators are very dominant in forming knowledge management variables and the three indicators are very dominant in forming organizational innovation variables.

Table3 illustrates that the model of the influence of human resource practice on knowledge management gives an R-square value of 0.5895. furthermore, the R-square value of the influence of human resource practices and knowledge management on organizational innovation is 0.7524. Meanwhile, the role of knowledge management

in mediating the influence of human resource practices on organizational innovation with a Q-square value (Predictive relevance) of 0.898 which can be interpreted that the variability of organizational innovation constructs can be explained by human resource practices and knowledge management of 89.80% while the remaining 10.20% is explained by other variables outside the model.

Table 4 shows that the effect of human resource practice on knowledge management with a path coefficient of 0.769 with a positive direction, while the t test value of $18.705 > 1.97$ (t-table) and a p-value of 0.000 is smaller than the alpha value of 0.05 is significant. The effect of human resource practice on organizational innovation with a path coefficient of 0.602, while the t test value of $6.855 > 1.97$ and the significance value (0.000) is less than the alpha value (0.05) it is declared significant. The influence of knowledge management on

organizational innovation with a path coefficient of 0.318 with a positive direction. While the t test value of $3.682 > 1.97$ and the significance value (0.000) is less than the alpha value (0.05) it is declared significant. The influence of human resource practice on organizational innovation mediated by knowledge management with a path coefficient of 0.245 with a positive direction. The t test value is $3.8741 > 1.98$ (t-table) then it is declared significant. Both the direct influence of human resource practice variables on knowledge management and organizational innovation, as well as knowledge management on organizational innovation, as well as the indirect influence of human resource practice variables mediated by knowledge management, are equally significant at 0.01 percent. Dengan demikian, maka peran mediasi juga memperkuat pengaruh knowledge management terhadap inovasi organisasi.

Table 1: Measurement Model Goodness Test Results

Constructs	AVE	Composite Reliability	Cronbachs Alpha	Remarks
Organizational Innovation (OI)	0.6904	0.8696	0.7770	Fit
Knowledge Management (KM)	0.8168	0.9469	0.9253	Fit
Human Resource Practice (HRP)	0.4627	0.7413	0.5541	Fit

Table 2: Estimated Parameters of Measurement Model

No.	Variables / Indicators	Outer Loading	Mean of Indicators	Standard Errors	T Statistic	P-value
1.	Human Resource Practice					
	a. Performance Appraisal	0.9102	0.9129	0.0106	85.801	0,060
	b. Career Management	0.6170	0.6111	0.0636	9.7011	0,000
	c. Training	0.7260	0.7177	0.0782	9.2896	0,000
	d. Reward System	0.7305	0.7287	0.0510	14.3113	0,000
	e. Recruitment	-0.2094	-0.1995	0.1422	1.4727	0,000
2.	Knowledge Management					
	a. Knowledge acquisition	0.9064	0.9065	0.0179	50.6383	0,000
	b. Knowledge Sharing	0.8764	0.8768	0.0185	47.3623	0,000
	c. Knowledge Storing	0.8987	0.9000	0.0163	55.2564	0,000
	d. Knowledge Application	0.9327	0.9327	0.0113	82.2103	0,000

3.	Organizational Innovation					
	a. Product	0.8088	0.8095	0.0338	23.9483	0,000
	b. Process	0.7882	0.7896	0.0463	17.0184	0,000
	c. Administration	0.8922	0.8938	0.0170	52.4930	0,000

Notes: Significant at the 0.05 level.

Table 3: Structural Model Goodness Test Results

KM => Knowledge management	0.5895
OI => Organizational innovations	0.7524
<i>Q Square (Predictive relevance)</i>	0.8980

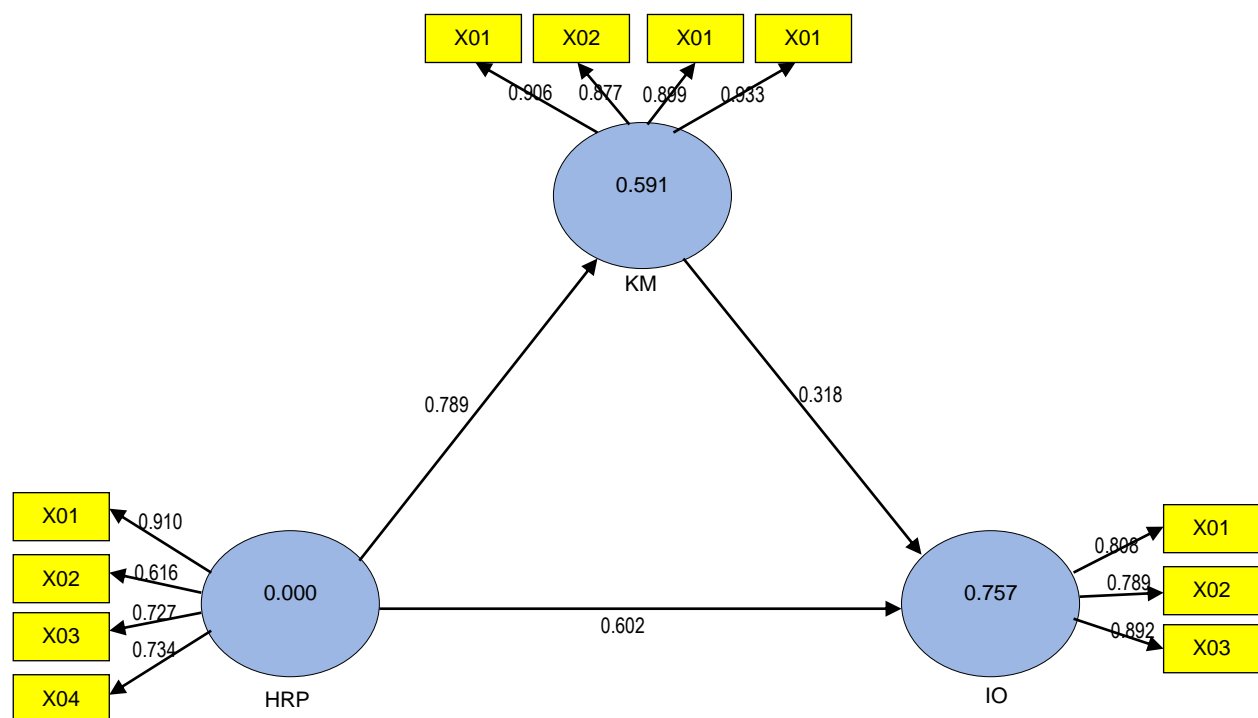
Variabel	<i>R-Square</i>
HRP => Human resource practice	

Table 4: Path Coefficient

Hypothesis	Path Coefficient	T-statistic	P-Value	Conclusion
HRP => KM	0.769	18.705	0.000	Supported
HRP => OI	0.602	6.855	0.000	Supported
KM => OI	0.318	3.682	0.000	Supported
HRP => KM => OI	0.245	3.874	0.000	Supported

Notes: Significant at the 0.05 level.

Figure1: Empirical Model of Research Results



4.2. Discussion

The results showed that human resource practice has a positive and significant effect on knowledge management. Thus, the practice of human resources as a guide in carrying out organizational activities to achieve the goals that have been set. The results of this study support previous research that human resource practices are used effectively to achieve organizational goals (Collins & Clark, 2003). Human resource practice is very important for managing knowledge in the company (Chatzoudes et al., 2015). In line with the results of the research conducted by Cohen, (2015) demonstrates the importance of effective human resource practices by underlining that companies that are highly skilled in core human resource practices, will increase revenue growth. Thus, the competitive advantage of the organization lies in the ability of human resources to identify and transfer knowledge (Patricia, 2006). Nair et al. (2016) found that human resource management practices such as training and development, rewards and recognition, performance appraisal and teamwork contribute to knowledge sharing in organizations.

The results of this study support the findings of Harter et al. (2002) which revealed that human resource management practices can result in increased knowledge, motivation, synergy, and commitment of company workers, resulting in a sustainable source of competitive advantage for the company. Researchers believe that effective knowledge is the basic model of wealth creation and prosperity. Knowledge is one of the most significant forces for the success of an organization (Alshekaili & Boerhannoeddin, 2011).

The practice of human resource management and knowledge management are two complementary processes and interdependent constructions in the knowledge-based theory of the company (Okoronkwo & Grant, 1996), since both have a direct and indirect relationship with intangible assets, which are considered key strategic resources of the organization (Geiger & Schreyögg, 2012). The practice of human resource management refers

to the effective use of people in the organization to stimulate them to interact, share knowledge and achieve organizational goals (Al-Tit, 2015). Knowledge management deals with capturing, developing, organizing, sharing, implementing and exploiting knowledge assets in an organization to gain an advantage and maintain a competitive advantage, with a central role played by individuals (Inkinen, 2016).

The results of the study that human resource management practices have a positive and significant effect on organizational innovation. The application of human resource practices in the organization, employees have good competence so that they have creative ideas that can be applied to improve organizational performance. This supports the research of Jerez Gómez et al (2004) that human resource management practices, such as selection, compensation and training and development, serve as a driver to orient the behavior and motivation of employees, thereby influencing their learning attitudes to help the organization achieve its best performance. Human resource practice has been shown to have a positive influence on organizational innovation (Al Kaabi et al., 2018).

The results of this study are in line with the results of research conducted by M. Farooq & Ullah (2016) showing that human resource management practices generally have a positive impact on organizational innovation, in particular, for the dimensions of training and employee recognition are positively related to the three dimensions of organizational innovation. Previous research has also found that human resource management practices can guide employees towards organizational goals and increase innovation (Camelo-Ordaz et al., 2008).

The results of knowledge management analysis on innovation found a positive and significant influence, this finding shows that knowledge management variables are able to explain organizational innovation. The results of research conducted by Papa et al. (2018) show that knowledge acquisition positively affects innovation performance. The results of

the study, Bogers et al. (2019), showed that human resources have an important role in recognizing and integrating sources of knowledge in the innovation process, as well as managing knowledge strategically (López-Nicolás & Meroño-Cerdán, 2011).

Human resource practices have a positive and significant effect on organizational innovation mediated by knowledge management. The results of this study are in line with the resource-based view of Becker & Huselid (1998), which highlights the impact of human resource management practices on company performance, especially in terms of innovation (Almeida & Kogut, 1999; Cooke & Saini, 2010). Laursen & Foss (2003) found that human resource practices encourage organizational learning and consequently increase innovation. Research findings by Al Kaabi et al. (2018) that there is a positive relationship between knowledge sharing, human resource practice and innovation. This phenomenon is also in line with the findings of Mahroum (2016) which illustrates the positive effect between the practice of knowledge management human resources and innovation. Therefore, the human resources paraktek states that training, compensation and employee development can encourage the success of the organization (Hanif et al., 2016).

Furthermore, knowledge sharing is also a central area in promoting innovation in business (Olaimat, 2014). Knowledge mediation in human resource management practice provides the basis for the exchange of information, communication and technology. So this has become a motivating factor for many companies to actively pursue new ways or innovations in doing business (Daniel Jimenez-Jimenez, 2012). The results of this study are also in line with the view of Amin et al (2014), that human resource management paraktek can significantly predict organizational performance either directly or indirectly through knowledge management (Al-Tit, 2015).

5. Conclusion

This study examines the influence of human resource practice on organizational innovation mediated by knowledge management. The results of this study show that the practice of human resources has a positive and significant effect on knowledge management. Human resource practices and knowledge management have a positive and significant effect on organizational innovation. Similarly, the influence of human resource practice on organizational innovation mediated by knowledge management variables shows a positive and significant influence. Thus, it is important for the Regional Government to provide requirements for the community who will recruit village-owned enterprise administrators such as: level of education, work experience and providing technical education and training to managers so that they have the desire to develop knowledge and apply their knowledge to improve organizational innovation.

Conflict Of Interest Statement

The author states that there is no conflict of interest accompanying the series of research activities and publication of this article.

Funding Information

The author does not receive financial support for research, authorship, and/or publication of articles in

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