

ORGANIZATIONAL INNOVATION CAPABILITY: INTEGRATING HUMAN RESOURCE MANAGEMENT PRACTICE, KNOWLEDGE MANAGEMENT AND INDIVIDUAL CREATIVITY

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**ORGANIZATIONAL INNOVATION CAPABILITY: INTEGRATING HUMAN
RESOURCE MANAGEMENT PRACTICE, KNOWLEDGE MANAGEMENT AND
INDIVIDUAL CREATIVITY**

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Abstract: *Despite research that reveals the organizational innovation capability has been carried out by several researchers, research that integrates human resource management practice and knowledge management model in build creativity is still underdeveloped. Therefore, the present study aimed to examine the nexus between human resource management practice and knowledge management with creativity to influence organizational innovation capability in small and medium enterprises. The present study used data collected from 405 respondents from the managerial level of 135 woodcraft SMEs in Indonesia. Data analysis employing partial least square SmartPLS 3.2.7. The results showed that human resource management practices, knowledge management, and creativity significantly influence organizational innovation capability. Meanwhile, knowledge management has no significant influence on organizational innovation capability. Another important finding is that creativity is a double mediator in the mediation mechanism tested in this research. Furthermore, the research helps managers to optimize HRMP when seeking for creative employees to boost innovation capability, develop analytical skills to improve knowledge management practices and realize that KM not only signifies knowledge acquisition, rather it also greatly establishes metacognitive strategies for adopting, disseminating, and creating new ideas. This research also discusses the associated limitations.*

Keywords: *human resource management practice, knowledge management, organizational creativity, organizational innovation capability*

JEL Codes: *D23, D83, M12, O31, O34*

1. Introduction

Since time immemorial, innovation has been recognized as an important predictor of organizational success (Yi et al., 2021); (Shafique et al., 2019); (Loewenberger, 2013). Therefore, several preliminary studies have been carried out to determine the factors that facilitate or hinder organizations' innovation activities. In the industrial revolution 4.0 and society 5.0 eras, marked by technological changes, the dynamics of the business environment, and brief, productive life cycle pressurizes companies to create innovations consistently (I. Wayan Edi Arsawan, Koval, et al., 2020). Furthermore, several studies have also explored predictors of innovation such as creativity (Lam et al., 2021); (J. Jiang et al., 2012), knowledge management (Ode & Ayavoo, 2020); (Nowacki & Bachnik, 2016); (Grimsdottir & Edvardsson, 2018), and human resource management practices (HRMP) (Rondi et al., 2021); (Haneda & Ito, 2018). In addition, these are implemented in several businesses, including the service sectors (Ode & Ayavoo, 2020); (Abbas & Sağsan, 2019), SMEs (Colclough et al., 2019); (I. Wayan Edi Arsawan, Rajiani, et al., 2020), manufacturing (Haneda & Ito, 2018), and hospitality industries (Chang et al., 2011).

The issue regarding the role of innovation in business entities has been investigated globally using various variables, however it needs to be comprehensively explained. Therefore, **this research** tries to bridge the existent gap as follows. **First**, although innovation **was** investigated using various antecedent formations, it has never been tested with a comprehensive model involving HRMP, KM, creativity, and innovation link. This model is expected to provide a holistic description of HRMP and its contributions to creativity and organizational innovation capability. Conversely, KM is one of the important predictors of knowledge that potentially enhances creativity (Saulais & Ermine, 2012) and innovation capability (Grimsdottir & Edvardsson, 2018); (Mardani et al., 2018).

Second, the role played by the HRMP in building organizational innovation capability is still unexplored. Therefore this research attempts to explain the relationship between these 2 variables (Barba-Aragón & Jiménez-Jiménez, 2020). Organizational innovation capability is examined because it is a fundamental part of development (Zhao et al., 2020); (Chaubey et al., 2021). Besides, great effort is needed to understand it due to its implications on employees. In addition, it is rarely analyzed despite playing a critical role in boosting a company's success and

competitiveness in the current dynamic business environment.

Third, analyses on HRMP in respect to organizational innovation capability are identified as a black box by several studies (Messersmith & Guthrie, 2010); (Beugelsdijk, 2008). Accordingly, this research investigates the interrelations between HRMP and organizational innovation capability. These variables are also tested using mediation or moderation mechanisms to understand the relationship between them as well as provide a structured, systematic, and comprehensive description (Easa & Orra, 2021).

Fourth, there is a dearth of research linking KM and organizational innovation capability, especially from the perspective of developing countries (Ode & Ayavoo, 2020) and SMEs with limited resources and reactive mentalities. Therefore, they are demanded to be more innovative in formulating strategies (Du, 2021) by adopting sustainable creativity (Saulais & Ermine, 2012; Areed et al., 2021; Yankovyi et al., 2021); and building an innovation culture (I. Wayan Edi Arsawan, Koval, et al., 2020) in order to succeed in the competitive business environment and high market turbulence (Grimsdottir & Edvardsson, 2018). According to World Economic Forum-WEF (2019), Indonesia was ranked the 74th developing country. This simply means that it needs to further strengthen organizational innovation capability in various activities, especially in building SMEs and boosting its contributions to economic development and growth (I. Wayan Edi Arsawan, Rajiani, et al., 2020).

Furthermore, this study is organized as follows. First, it considers the research gaps and explores the organizational innovation capability. In addition, it formulates hypotheses based on the HRMP and KM impact on creativity and capability. The present study aimed to examine the nexus between human resource management practice and knowledge management with creativity to influence organizational innovation capability in small and medium enterprises. This research focuses on HRMP, KM, creativity, and innovation and examines the relationship between variables in the SME context. Subsequently, creativity acts as a mediating variable between HRMP, KM, and its innovations. Furthermore, the mechanisms that strengthen this innovation capability are closely explored. The results from these investigations were further reported and analyzed. Knowledge management has no significant influence on organizational innovation capability. Another important finding is that creativity is a double mediator in the mediation mechanism tested in this research. Finally, the research limitations and supports were discussed.

2. Literature Review and Hypothesis Development

2.1 Literature Review

Human resource management practice (HRMP) is extremely important, especially in the fields of economics, human resource, and strategic management (Easa & Orra, 2021). It describes the managerial processes enabling organizations to acquire valuable and extraordinary knowledge as well as influence innovative activities, thereby leading to high performances (Singh et al., 2021). HRMP influences employees' work-related attitudes, abilities, and behaviors with respect to achieving organizational goals (Minbaeva, 2013). Also, it plays an important role in supporting an organizational environment and promoting creativity and innovation in knowledge management.

Presently, organizations have to accept the challenges of the new knowledge-based economy, as well as integrate and protect it from boosting their development (Teece, 2000). Subsequently, they need to maintain specific and dynamic capabilities to remain competitive (Mardani et al., 2018). Knowledge management plays a relevant role in compiling the organizations' unique capital, both tangible and intangible (Saulais & Ermine, 2012). Ali et al. (2020), stated that knowledge works efficiently when members of an organization are aware of those that are good in a particular domain. KM consists of 3 interrelated processes, namely knowledge acquisition, conversion, and application (Mardani et al., 2018).

Based on several previous studies, creativity plays an important role in developing sustainable excellence, and adding value, to the organization. In a challenging dynamic environment, there is a need for mechanisms that aids in the development of innovative solutions (Loewenberger, 2013), irrespective of the conflict between ability and commitment to organizational practices. Creativity is described as a divergent thinking approach that tends to combine previously unrelated knowledge, products, or processes to formulate something new (Fong et al., 2018) both in the individual and teamwork contexts (Somech & Drach-Zahavy, 2013). It is related to work motivation in terms of building innovation (Lin & Liu, 2012). Even though creativity is described as something new and useful (Amabile, 1986). This definition does not imply that there is a universal norm for judging novelty and usefulness (Kwan et al., 2018).

Innovation is a newly formulated business model inspiring diverse knowledge to be turned into creative results. According to Lam et al. (2021), it provides a mechanism for organizations to exploit the inflow and outflow of knowledge in order to become more creative. This extensive and diverse research focuses on organizational-level innovation. This term contains conceptual

ambiguity and varied interpretations, therefore, it has no generally accepted definition (Chaubey et al., 2021).

2.2 Hypothesis Development

However, studies linking and testing HRMP with creativity are sparse. Nevertheless, the research carried out by J. Jiang et al. (2012) reported that HRMP motivates employees to develop a sense of autonomy, thereby causing them to effectively solve problems including creating new ideas to cope with job demands. Referring to the social exchange theory (Blau, 1964), the HRMP system in accordance with high commitment has a positive influence on employee creativity. In this circumstance, the role played by the manager provides a better understanding of organizational creativity patterns (Loewenberger, 2013). Therefore, all elements are committed to optimizing personal resources (Lin & Liu, 2012). HRMP is crucial in order to facilitate the creativity employees, the better HRMP made in company, it will contribute not only to increase creativity but also innovation culture in companies, that would be hard to imitate by other company (Binyamin & Carmeli, 2010; Bratnicki, 2005), specification of HRMP had strong ties to creativity in the private company than public company, Liu et al. (2012). Based on the aforementioned description, the following hypothesis was formulated

H1: HRMP has a positive and significant influence on creativity

Several studies including the research carried out by Özbağ et al. (2013), stated that HRMP fosters innovation. However, Barba-Aragón & Jiménez-Jiménez (2020), reported that it had an insignificant influence on innovation. This is because HRMP does not have a direct influence on organizational innovation capability, and requires the development of certain behaviors that ultimately result in sustainability. This shows that it is present and plays an important role in promoting innovation at the organizational (Easa & Orta, 2021) and individual level (I. Wayan Edi Arsawan, Rajiani, et al., 2020). Based on this description, the following hypothesis was formulated

H2: HRMP has a positive and significant influence on organizational innovation capability

Various previous studies have reported the positive impact of KM on organizational existence and competitiveness. Considering that knowledge is needed to generate new innovations

(Baldé et al., 2018), its practice influences creativity (Nonaka & Von Krogh, 2009). However, research on the way and manner knowledge influences creativity is limited (Schulze & Hoegl, 2008). Consequently, this research identifies the effect of KM on creativity (Joo et al., 2014).

Based on this description, the following hypothesis was formulated

H3: KM has a positive and significant influence on creativity

KM is an important predictor of organizational success (Areed et al., 2021). It effectively facilitates the knowledge exchange required for the improvement of organizational innovation capability realized through by developing new insight and abilities (Yi et al., 2021). Hock-Doepgen et al. (2021), stated that organizations are enabled to identify and process knowledge into innovative business opportunities. This is carried out in order to manage, implement, develop, leverage (Mardani et al., 2018) and strengthen its capability, knowledge creation, and innovative performances (Lai et al., 2014). Based on this description, the following hypothesis was formulated

H 4: KM has a positive and significant influence on organizational innovation capability

Furthermore, several empirical studies reported a similar notion about creativity and innovation, even though these 2 are entirely different (Gurteen, 1998). Creativity is described as a divergent thinking process that leads to the generation of new ideas (Saulais & Ermine, 2012); (Gurteen, 1998). Conversely, innovation is the successful implementation of creative ideas in an organization (Chaubey & Sahoo, 2019). Creativity is related to innovation, which is the process of adopting and converting new ideas into market offerings (Scarborough, 2016; Luchaninova et al., 2020). This means that it is the main foundation or basis of innovative behavior (Chaubey & Sahoo, 2019) both in the individual employees' (I. Wayan Edi Arsawan, Rajiani, et al., 2020) and organizational context (Shafique et al., 2019). This led to the following hypothesis

H5: creativity has a significant and positive influence on organizational innovation capability

HRMP plays a strategic role in developing organizational performance and competitive advantage through creativity and employee autonomy stimulations (J. Jiang et al., 2012); (Loewenberger, 2013) which attracts ideas (Shafique et al., 2019) that improves innovative work behavior (I. Wayan Edi Arsawan, Rajiani, et al., 2020). Furthermore, creativity has a unidirectional

relationship with innovation because it is considered the main foundation for its development (Chaubey & Sahoo, 2019). Based on this description, the following hypothesis was formulated

H 6: creativity mediates the relationship between HRMP and organizational innovation capability

This research further stated that the relationship between KM and organizational innovation capability is mediated by creativity. In other words, the KM dimension serves as the basis of creativity (Ode & Ayavoo, 2020; Bettiol et al., 2012) which further facilitates the development of innovative ideas (Kwan et al., 2018). This is because KM lays the foundation for building creativity, which, in turn, is a source of organizational innovation. Therefore, this led to the following hypothesis.

H7: Creativity mediates the relationship between KM and organizational innovation capability

Therefore, this research examines and explains the direct relationship between HRMP, knowledge management, creativity, and innovation capability. Furthermore, creativity was tested as a variable mediating the relationship between HRMP and innovation capability, as well as between KM and innovation capability. The research framework is shown in Figure 1.

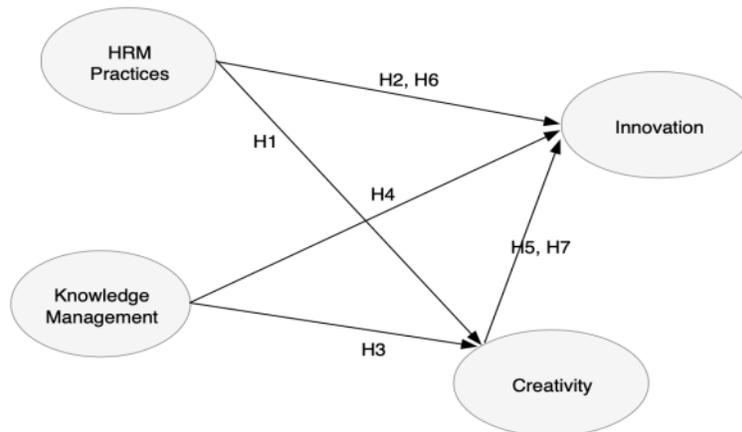


Figure 1. Research framework

3. Methodology

3.1 Sampling method

The research population comprises of 204 woodworking SMEs spread across 7 regencies in Bali, Indonesia. Furthermore, the sample frames are selected using the simple random sampling method, namely the lottery methods without recovery. Moreover, every member of the population was only sampled once. The number of sample frames was determined using the formula formulated by Krejcie & Morgan, (1970), and a total of 135 SMEs was obtained. Accordingly, 3 respondents were asked to fill out the research questionnaire. The total number of respondents is 405, as shown in Table 1. They were categorized based on 3 managerial levels, namely the lesser one represented by supervisors, middle by assistant managers, and the top management by woodworking SME owners. They are considered to have knowledge of research variables and strategic policies related to organizational innovation capability.

Table 1: Population and Sample

No	Regencies (1)	Population (2)	Percentage of Population (3)	(x) Sample (4)	Sample (5)	Respondents (6)
1	Denpasar	5	0,024509804	3,30882353	3	9
2	Badung	18	0,088235294	11,9117647	12	36
3	Karangasem	1	0,004901961	0,66176471	1	3
4	Klungkung	53	0,259803922	35,0735294	35	105
5	Tabanan	14	0,068627451	9,26470588	9	27
6	Bangli	34	0,166666667	22,5	23	69
7	Gianyar	79	0,387254902	52,2794118	52	156
	Total	204	1.00	135	135	405

3.2 Measurements

All measurement tools are adopted from previous studies and modified for further analysis. All constructs are designed with a self-assessment report namely Likert scale approach of 1 to 5 (1-strongly disagree to 5-strongly agree). The questionnaire is prepared in simple and easy-to-understand language thereby achieving the research objectives. Furthermore, a total of 14 dimensions and 39 indicators were used to measure the research construct.

HRMP is measured with 3 dimensions including training, job appraisal and rewards with 3, 5 and 4 indicators, respectively (J. Jiang et al., 2012). Variable knowledge management is measured with 4 dimensions, namely knowledge management transfer, storage, application and creation with 3 indicators each (Donate & Sánchez de Pablo, 2015). Furthermore, the variable

creativity is measured with 4 dimensions, namely people, process, pressure and product with 2 indicators each (Hansen et al., 2012). The variable innovation capability is measured with 3 dimensions, namely market, product and process innovations with 2, 3, and 2 indicators respectively (Byukusenge & Munene, 2017).

4. Result and Analysis

4.1 Respondents Profile

This research involves a total of 405 respondents employed from 135 woodworking SMEs that have to manufacture highly artistic valuable products in good quality. The research objectives, was realized by distributing questionnaires to supervisors, assistant managers, managers and owners. This research also seeks information on strategic policies related to these variables. Table 1, shows the respondents' demographic information.

Table 2. Respondents profiles

	Classification	Frequency	Percentage
Business entity	PT (Limited Liability Company)	27	20
	CV (Limited Partnership)	23	17,03
Company age	Family business	85	62,97
	1990 – 1999	27	0,2
	2000 – 2009	23	0,17037037
Gender	2010 – 2016	85	0,62962963
	Male	267	0,659259259
	Female	138	0,340740741
Age	21 – 30	27	0,066666667
	31 – 40	89	0,219753086
	41 – 50	194	0,479012346
	51 – 60	78	0,192592593
	> 60	17	0,041975309
Marital Status	Married	378	88,9
	Single	27	11,1
Education	Bachelor	354	0,874074074
	Master	43	0,10617284
	Doctor	8	0,019753086
Total workers	1 – 15	178	0,439506173
	16 – 30	166	0,409876543
	31 – 45	49	0,120987654
	46 – 60	12	0,02962963
Working Status	Owner/ Manager	135	0,333333333
	Assistant manager	135	0,333333333
	Supervisor	135	0,333333333

4.2 Outer model measurement

The research data are analyzed using SmartPLS-3.2.7 software with a second-order approach. The measurement model was evaluated to determine the indicators' validity and reliability. It also includes the dimensions used to test the inner model through the resampling bootstrapping process.

Based on the reliability measurement concept, this research used 3 instruments. The include convergent, and discriminant validities, and composite reliability for each indicator (Joseph F Hair et al., 2016). The first method is convergent validity, which is a measure the indicators' validity of the construct shown by the outer loading factor value. In the early stages of a measurement scale development also called exploratory research, a loading factor value between 0.50 and 0.60 is considered sufficient (Chin, 1998). In this study, the outer loading factor value of each indicator is between 0.539 and 0.993 thereby meeting the convergent validity requirements. The next step is to test discriminant validity used to measure the indicators' reliability. This method compares the square root average of variance extracted (\sqrt{AVE}) coefficient of each latent variable. In addition, the correlation coefficient is between other latent variables in the model. The recommended AVE value is greater than 0.50.

Table 3: The Value of AVE, AVE Root and Coefficient between Latent Variables

Variable	AVE	\sqrt{AVE}	Correlation coefficient			
			HRMP	KM	Cr	IC
HRMP	0.501	0,708	1,000			
Knowledge management	0.518	0,719	0,771	1,000		
Creativity	0.576	0,759	0,660	0,757	1,000	
Org. Innovation Capability	0.598	0,773	0,747	0,747	0,659	1,000

The AVE root value of HRMP is 0.719, which is greater than the correlation coefficient between other variables, namely 0.771, 0.660, and 0.747. The AVE root value of KM is 0.759, which is greater than the correlation coefficient between other variables, namely 0.757 and 0.747. The AVE root value of the innovation capability is 0.773, which is greater than the correlation coefficient between other variables, namely 0.659. This indicates that the indicators reflecting the variables dimensions in this research have good discriminant validity.

The third step is to use composite reliability to measure the reliability value between the variable indicators. The indicator test is reliable assuming the composite reliability and Cronbach alpha have a value of > 0.70 (Hair Jr et al., 2016; Joseph F Hair et al., 2016).

Table 4. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
X1	0.906	0.914	0.922	0.501
X1.1	0.798	0.817	0.881	0.711
X1.2	0.887	0.910	0.920	0.700
X1.3	0.810	0.823	0.876	0.639
X2	0.913	0.918	0.927	0.518
X2.1	0.744	0.752	0.762	0.517
X2.2	0.734	0.736	0.850	0.653
X2.3	0.795	0.806	0.879	0.709
X2.4	0.823	0.824	0.895	0.741
Z	0.893	0.897	0.915	0.576
Y1.1	0.750	0.750	0.851	0.741
Y1.2	0.814	0.820	0.915	0.843
Y1.3	0.752	0.753	0.852	0.742
Y1.4	0.778	0.779	0.900	0.818
Z	0.888	0.890	0.912	0.598
Y2.1	0.818	0.819	0.917	0.846
Y2.2	0.805	0.806	0.885	0.720
Y2.3	0.778	0.782	0.900	0.818

The model reliability is measured with Cronbach's alpha (Joseph F. Hair et al., 2013; Hair Jr et al., 2016). However, a Cronbach's alpha value of 0.7 is considered appropriate (Joe F Hair et al., 2014). As described in Table 4, all Cronbach's alpha values are > 0.7. The convergent validity of the research model is assessed through composite reliability (CR), average variance extract (AVE), and item reliability of each variable (factor loadings) (Hair Jr et al., 2016). According to the preliminary studies, the CR and AVE values need to be > 0.7 and > 0.5 respectively. Table 4 shows that all CR and AVE values maintain these criteria. The loading factors of all items at the individual level are also greater than 0.7.

4.3 Inner model measurement

After testing the outer model, the inner model was tested using 3 approaches, namely, first, the initial evaluation of the model's feasibility through a review of the R^{2y} analysis. It shows the strength and weaknesses of the relationship between the exogenous and endogenous variables. Therefore, R^2 shows the strengths and weaknesses of the research model. The R^2 value of 0.67, 0.33 and 0.19 is classified as strong, moderate and weak models respectively.

Table 5: Distribution of R^2 and Adjusted R^2 Values

Variable	R^2	Adjusted R^2	Description
Creativity(Y_1)	0,469	0,458	Moderate
Innovation Capability (Y_2)	0,690	0,681	Moderate
Average	0,579	0,569	

Table 5 shows that the R^2 value of creativity and innovation are 0.469, and 0.690 respectively. According to Chin, (1998) the R^2 value of 0.67, 0.33 and 0.19 is strong, moderate and weak respectively. The R^2 values, was used to obtain an average of 0.579. This means that HRMP, KM, creativity, and innovation constructs explains only 57.9 percent of the relationship model, while the remaining 42.1 percent is explained by other external variables. The Adjusted R^2 value is smaller than the distributed one. This means that there is a possibility of changing or expanding the research model to include other latent variables.

After an ideal value was realized from the R^2 analysis, it was tested using the Q Square Predictive Relevance (Q^2) method. This aims to measure the accuracy of the observed model. Q^2 ranges from 0 to 1 (Joseph F. Hair et al., 2013). Furthermore, when the is closer to 1, it means that the model has a better predictive ability. The Q^2 value is calculated using the formula

$$Q^2 = 1 - [(1-R^2y1) (1-R^2y2)] = 1 - [(1-0,469) (1-0,690)] = 1 - [(0,531) (0,310)] = 0,836$$

A value of 0.836 was realized, which means the model was properly observed. This implies that the model is explained by 83.60% of the relationship between the variables. Conversely, the remaining 16.40% is illustrated by the factor error or other variables not included in the research model. The third step involves testing the Goodness of Fit (GoF) criteria because it is a single measure and this is realized by validating the overall and structural model (Joseph F Hair et al., 2016); (Joseph F. Hair et al., 2013).

$$GoF = \sqrt{com \times R^2} = \sqrt{0,400 \times 0,579} = 0,481$$

A value of 0.4812 which is close to 1 was realized from the GoF calculation. This implies that the predictive model is fit and accurate. However, this is based on the GoF value, including 0.10 (small), 0.25 (Moderate) and 0.36 (large). Therefore this research model is categorized as GoF Large (Joseph F Hair et al., 2016).

Furthermore, the effect size (f^2) was tested to provide detailed information about a group of independent and dependent variables realized through a system of structural equations (Joseph F Hair et al., 2016). The criteria for effect size (f^2) are from 0.02 to 0.15 (weak influence), 0.15 to 0.35 (moderate influence) and >0.35 (strong influence) (Joseph F Hair et al., 2016; Joe F Hair et

al., 2014). Subsequently, supposing the f^2 value is within the range of 0.02 then the research model is assumed to be weak, 0.15 and 0.35 are declared to have moderate and strong influences respectively.

Table 6. Cohen Effect Size Analysis

Construct*	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (IO/STDEV)	P Values
HRMP -> OIC	0.213	0.211	0.054	3.948	0.000
KM -> OIC	0.088	0.090	0.049	1.809	0.071
Average	0.151				

*HRMP: human resource management practices, KM: knowledge management, OIC: organizational innovation capability

The results shown in Table 6 proves that the original sample for the HRMP and OIC constructs is 0.213. Conversely, the original sample for the KM and OIC constructs is 0.088. Therefore, the average original sample was calculated as 0.151 indicating that the relationship pattern is predictable (Joseph F Hair et al., 2016).

4.4 Hypothesis test

Hypothesis testing was carried out through 2 stages, namely evaluating the direct and indirect influences of exogenous and endogenous variables. Table 7, shows that a direct relationship exists between the variables, this was determined by analyzing the path coefficient values through the original sample.

Table 7. Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (IO/STDEV)	P Values	Remarks
HRMP -> Cr	0.513	0.516	0.094	5.481	0.000	Accepted
HRMP -> OIC	0.444	0.444	0.100	4.444	0.000	Accepted
KM-> Cr	0.213	0.215	0.106	2.016	0.044	Accepted
KM-> OIC	0.062	0.060	0.089	0.694	0.488	Rejected
Cr -> IOC	0.415	0.415	0.078	5.321	0.000	Accepted

*HRMP: human resource management practice, KM: knowledge management, Cr: creativity, OIC: organizational innovation capability

The path coefficient used to determine the existence of a direct relationship between HRMP and creativity is 0.513 and T Statistics $5.481 > 1.96$ (STDEV 0.094; $O/STDEV$ 5.481 PV 0.000). This is significant, therefore hypothesis 1 is accepted. The results are consistent with the research

carried out by J. Jiang et al., (2012) which stated that HRMP is positively correlated to creativity. Increasing the implementation of HRMP dimensions such as training carried out in accordance with need analysis tends to trigger creativity through a divergent thinking process (Chaubey et al., 2021). This helps employees to pro-actively acquire knowledge (W. Jiang & Gu, 2015) in terms of creatively solving work-related problems (J. Jiang et al., 2012). Furthermore, the organization needs to explore the appraisal system designed to meet the unique motivational requirements of creative employees (HE et al., 2012; Mullin & Sherman, 1993). It is also relevant to create a proportionate reward system even though there are ongoing debate about this issue (Friedman, 2009).

Moreover, the path coefficient that determines the direct relationship between HRMP and IC is 0.444 T Statistics 4.444 > 1.96 (STDEV 0.100; O/STDEV 4.444; PV 0.000) which is significant, therefore hypothesis 2 is accepted. The results are consistent with the research carried out by Easa & Orra, (2021) which stated that innovation capability is influenced by the effectiveness of the HRMP implementation in an organization. HRMP plays a strategic role in creating a conducive work environment thereby stimulating the potential for organizational innovation to develop (Barba-Aragón & Jiménez-Jiménez, 2020). It is a proven fact that HRMP is the starting point in building organizational innovation capability (Rondi et al., 2021); (Kianto et al., 2017); (Chang et al., 2011).

The path coefficient that determines the direct relationship between KM and creativity is 0.213 T Statistics 2.016 > 1.96 (STDEV 0.106; O/STDEV 2.016; PV 0.044) which is significant, therefore hypothesis 3 is accepted. The results are consistent with the study carried out by Baldé et al., (2018), which stated that knowledge management plays an important role in developing creativity (Joo et al., 2014; Nonaka & Von Krogh, 2009). This is also in line with the study carried out by Schulze & Hoegl, (2008), which stated that research on the way and manner knowledge acquisition influences creativity is extremely limited.

The path coefficient that determines the direct relationship between KM and OIC is 0.062 T Statistics 0.694 > 1.96 (STDEV 0.089; O/STDEV 0.694; PV 0.488) meaning that it is insignificant, therefore hypothesis 4 is rejected. In woodworking SMEs, KM has an insignificant influence on organizational innovation capability because the knowledge possessed was not fully shared. In addition, knowledge management has not been optimally implemented due to differences in the SMEs characteristics (Mota Veiga et al., 2021). Therefore, these results

contradicts the research carried out by Ode & Ayavoo, (2020), and Mardani et al., (2018) which stated that organizational innovation capability is closely related to creating and exploring available knowledge resources in organizations (Lam et al., 2021).

The direct correlation coefficient of creativity with OIC is 0.415 T Statistics 5.321 > 1.96 (STDEV 0.078; O/STDEV 5.321; PV 0.000) which is significant, therefore hypothesis 5 is accepted. The results are in line with the research carried out by Lin & Liu, (2012) which stated that creativity, the ability to produce new works, is considered the starting point and root of innovation. It increases the chances of successful innovation (Botega & da Silva, 2020).

Afterwards, the position of the mediating variable in an indirect relationship was determined. This model, comprises of 2 mediation pathways tested according to the research framework. Based on the studies carried out by Joseph F Hair et al., (2016), and Joe F Hair et al., (2014), the VAF method was adopted with respect to the following criteria VAF < 0.20 is no mediation, 0.20 to 0.80 is partial mediation, and > 0.80 is full mediation.

Table 8. Mediation Effect Test

Link*	Mediator*	Independent Variable-Mediator	Mediator-Dependent Variable	Direct	Indirect	Total effect	VAF (%)	Decision
HRMP-IC	Cr	0.513	0.415	0.444	0.213	0.659	0.323	Partial mediation
KM-IC	Cr	0.213	0.415	0.062	0.088	0.150	0.587	Partial mediation

*HRMP: human resource management practice, KM: knowledge management, Cr: creativity, IC: innovation capability, VAF: Variance Accounted For

Table 8 provides and justifies the information concerning the role played by mediation. In this perspective, the mediating influence on the research model, was determined by using a non-parametric bootstrapping approach (Hair Jr et al., 2016). The mediating factor is assessed by absorbing some of the direct influences on the independent and dependent variables respectively. Finally, it was calculated using the Variance Accounted For (VAF) to evaluate the size of the indirect and total link (Joe F Hair et al., 2014). In this context, assuming the VAF is greater than 80 percent then it is categorized as full mediation. However, supposing the index is between 20 and 80 percent, it is called partial mediation and when it is less than 20 percent, there is no mediating influence (Joe F Hair et al., 2014).

However, because 2 mediation pathways were tested in this research, it was concluded that creativity partially mediates the relationship between HRMP and IC. The VAF value is equal to

24.4 percent, therefore hypothesis 6 is accepted. The results are consistent with the studies carried out by J. Jiang et al., (2012), which stated that creativity serves as a mediating variable between HRM and innovation. Overall, these results suggested that HRMP enhances creativity by hiring employees with creative potentials and further using the reward systems and job design to boost their motivation (J. Jiang et al., 2012). In Indonesia, the HRM function of woodworking SMEs plays an important role in facilitating organizational innovation capability by hiring and rewarding creative employees, (I. Wayan Edi Arsawan, Rajjani, et al., 2020) thereby enabling them to design jobs that increase intrinsic motivation and social facilitation.

Besides, creativity also partial mediates the relationship between KM and IC with a VAF value of 37.50 percent. Therefore, this means that hypothesis 7 is accepted. In the second mediation pattern, creativity acts as a mediator between KM and organizational innovation capability. According to Ode & Ayavoo, (2020) and Bettiol et al., (2012) KM facilitates the development of creative ideas towards increasing innovation capability (Kwan et al., 2018). Hereafter, optimally absorbed knowledge increases capability (I.W.E. Arsawan et al., 2018). This is because KM lays the foundation for building creativity which is perceived as a source of organizational innovation, as shown in Figure 2.

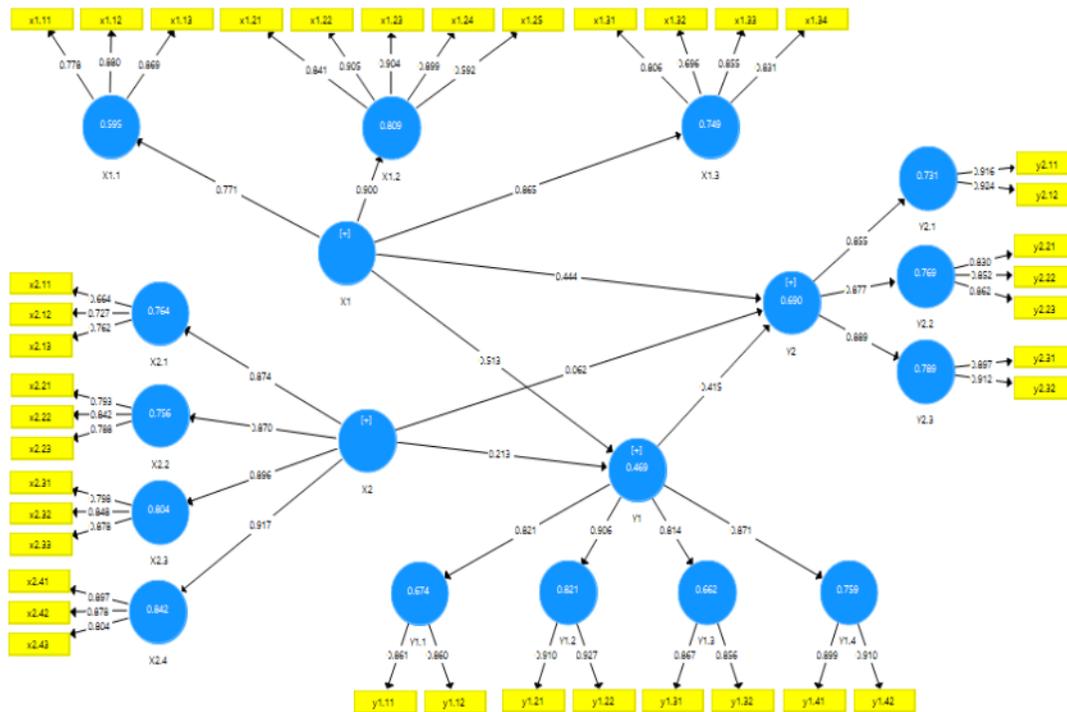


Figure 2. Output Analysis

5. Conclusion

5.1 Theoretical implications

Several preliminary studies have reported that knowledge management is an important antecedent of a company's innovation capacity (Ode & Ayavoo, 2020). As explained in the introductory aspect, this research has succeeded in closing the 4 gaps, namely first, offering knowledge and the conceptualization of newly comprehensive models, providing a clear and systematic understanding of the variable interrelationships. Furthermore, the research on innovation capacity has been investigated in various antecedents formations however, it has not been tested with a comprehensive model involving HRMP, KM, creativity, and innovation link. Therefore, this model provides a holistic understanding that HRMP largely contributes to creativity and organizational innovation capability. Meanwhile, KM is one of the important predictors in terms of knowledge that potentially aids in developing creativity (Saulais & Ermine, 2012) to increase organizational innovation capability (Grimsdottir & Edvardsson, 2018; Mardani et al.,

2018). Second, this research explains the relationship between HRMP and innovation that has not been examined extensively (Barba-Aragón & Jiménez-Jiménez, 2020) even though innovation is an important aspect of organizational development (Chaubey et al., 2021); (Zhao et al., 2020).

Third, this research explains the way and manner HRMP influences innovation through a mediation model to provide a structured description (Easa & Orra, 2021) as well as comprehensively illustrate the views concerning the relationship between these two variables regarded as a black box (Messersmith & Guthrie, 2010; Beugelsdijk, 2008). In this research, creativity acts as a double mediator connecting HRMP and innovation, as well as the KM and innovation pathways. Fourth, SMEs in developing countries, especially Indonesia, provides an important insight to building innovation as a culture (I. Wayan Edi Arsawan, Koval, et al., 2020) by adopting creativity in a sustainable manner (Areed et al., 2021); (Saulais & Ermine, 2012). It also views innovation as an important strategy (Du, 2021) in order to compete in a competitive business environment and high market turbulence (Grimsdottir & Edvardsson, 2018).

5.2 Managerial implications

According to a managerial point of view, this research provides a grid for practitioners to have a better understanding of their tasks in terms of optimizing the role of creativity and innovation capability in SMEs. First, this research shows that managers need to optimize HRMP when seeking for creative employees to boost innovation capability. Second, there is a need to develop analytical skills to improve knowledge management practices at all managerial levels, because it supports creativity (Stojanović-Aleksić et al., 2019). Therefore, innovation is developed while capability is sustainable. Managers need to realize that KM not only signifies knowledge acquisition, rather it also greatly establishes metacognitive strategies for adopting, disseminating, and creating new ideas.

Third, they are also expected to optimally manage intellectual capital (Grimsdottir & Edvardsson, 2018) while employees develop in respect to their best potentials. Furthermore, appreciation of their contribution fosters collective intelligence and professional development of innovation (Ayanbode, 2020). Conversely, managers need to strategically focus on designing innovative policies from a multidimensional approach (Exposito & Sanchis-Ilopis, 2018). Consequently, developing relevant HRMP patterns also aids to build innovative work behavior (I. Wayan Edi Arsawan, Rajiani, et al., 2020), business performance and sustainability (I. Wayan Edi

Arsawan, Koval, et al., 2020) especially in terms of human resource management (Popescu et al., 2020).

5.3 Limitations and future research

This research has some limitations. First, it used a self-assessment report instrument in determining the way respondents feel about the variables. Although self-report is suitable for measuring psychological ownership, in terms of research variables, it is the best evaluation method. However, only the informants are able to understand themselves although this is inseparable from the bias effects.

Second, the subjects are only woodworking SMEs in Bali which indeed demands creativity and innovation therefore the results need not be generalized. In the future, behavioral research needs to be carried out to investigate the relationship between creativity and innovation capability by involving more variables and adopting a longitudinal design. Therefore, it is necessary to conduct comparative research in order to compare SMEs with other fields, such as the educational, banking, and information technology sectors. Moreover, research opportunities on innovation are more interesting when other control variables such as company size, age, and ownership type are used.

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