

The Effect of Human Resource Management Management, To Performance Through Innovation Organization

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ABSTRACT

This study aims to describe human resource management practices, organizational innovation and organizational performance, analyze the effect of HR management practices on organizational innovation, analyze the influence of HR management practices on organizational performance, analyze the influence of organizational innovation on organizational performance, and analyze the impact of HR management practices on performance Organization through organizational innovation. This study included research to test the hypothesis (hypothesis testing). The sample in this research is 140 companies. The analytical technique using Structural Equation Modeling. Based on the results of the analysis shows that the practice of human resource management has an impact on organizational innovation. The practice of human resource management is concerned with organizational performance. Organizational innovation affects organizational performance. Organizational innovation mediates the impact of human resource management practices on organizational performance.

Keywords: Human Resource Management Practices, Organizational Performance, Organizational Innovation

1. INTRODUCTION

Organizational performance is very important as the end result of all organizational activities because it can be used to evaluate the level of ability, the success of the work process conducted by the organization whether it is in accordance with the expected or not. The organizational performance will be influenced by many factors, some of which are human resources, innovation ability and leadership that exist in an organization, organizational culture, strategy, team work and other factors. Therefore, good recruitment to get qualified employees, employee development, a good compensation system and performance evaluation of the company is an important factor in the organization, as well as leadership factors associated with a clear vision of a leader and able to encourage changes in the Improvements can also help employees. The ability of innovation itself must be built so as to create a dynamic, innovative and high-performing organization and, capable of producing competitive products in local and global markets.

Human resource factors, innovation, and leadership skills will be mediated by organizational innovation in order to be able to produce quality and competitive products in the marketplace. On the other hand, investors who invest in manufacturing companies also want the best returns, so companies are also required to perform to satisfy investors, so it is important to examine the influence of human resource management practices, innovation skills and transformational leadership on organizational performance.

East Java as the second largest province in Indonesia after Jakarta cumulative export value in the first quarter of 2015 experienced a slowdown compared to the same period in 2014 (Disperindagprov Jatim). It needs to be investigated what causes the decline in the ability to export manufactured products from quality factors Human resources, innovation ability and leadership of the organization.

Total exports of the first Quarter of 2014 amounted to US \$ 4,947,185,600 to US \$ 4,774,543,850 in the first quarter of 2015 (-3.49%). Based on preliminary information on spinning, textiles, packaging products or processed mushrooms of Kampinyon, even some producers in Mojokerto, Probolinggo have gone out of business because they can not compete in the international market. While yarn and plain textile products have been on reducing production due to intense competition in overseas markets, especially in terms of price. It needs to be explored why some companies can still survive, what tips are for human resources, innovative skills or leadership style. Organizational innovation as mediator whether it has been done to manufacturing company in East Java in a small degree, medium or until breakthrough.

But some companies that innovate in the middle and lower degrees have been able to make efficiency to continue to survive and compete in the export market due to the price of its competitive products in the global market. The decline in exports also occurred in vegetable oils, wooden goods, (-6.52%), cardboard (-5.56%), organic chemicals (-52.50%), processed fish (-12.59%). The top ten export destinations of East Java are Japan, the United States, Taiwan, China, Malaysia, Singapore, Thailand, India, South Korea and the Netherlands. Companies that are able to compete in some cases have attempted to innovate products, innovating the process by replacing parts and incremental equipment and machinery (incremental, distinctive and breakthrough innovation) for example in a baby seat and textile companies. Replacing or substituting raw materials, improving the administrative system (procedural innovation) for example in packaging food, recruiting new workers who have higher formal education than those who previously only graduated from junior high or high school now D2 or D3 and mastering English because the new equipment and machines all Using English language manuals, machine-installed experts, and English-speaking foreigners and in some companies in East Java still employ operational managers, GM expatriates who still use English communication. Here it is clear how important the company is to innovate products, processes,

and procedures and improve the qualifications of its employees who have adequate knowledge of the technology used, good skills and foreign language communication (English) so that responsive to macroeconomic changes, changes in technology processes and changes Market tastes that continue to occur even can always be anticipative when led leader who is visionary and able to encourage employees always develop themselves to be in tune with the demands of his job.

Based on the background of the problem, there are several objectives to be achieved in this research is to describe the practice of human resource management, organizational innovation and organizational performance, analyze the influence of HR management practices on organizational innovation, analyze the influence of HR management practices on organizational performance, Organizational performance, and analyze the impact of HR management practices on organizational performance through organizational innovation.

2. LITERATURE REVIEW

2.1 Organizational Performance

Measuring the success of innovation is not easy but establishing relationships between the 2 categories of performance should be done although not easy, the success of organizational innovation can be measured using two main categories that are first associated with accounting and financial performance, such as profitability, Return on Investment (ROI). Second with marketing performance in the form of market share and market growth. According to Robbins and Coulter (2005: 226), Organizational Performance is the accumulation of the end result of all processes and work activities of the organization. Organizational Performance is a complex but important concept, and managers need to understand the factors that contribute to high organizational performance. Furthermore, according to Werner and Souder (1997) Organizational Performance is a measure of a company's success after making innovations that are often measured using commercial size.

Each job has its own performance standards, so a performance can be said to be good when it is able to meet or exceed predefined standards. The performance of an organization depends on the performance of individuals or in other words individual performance will contribute to Organizational Performance, meaning that the behavior of member organizations both individually and in groups gives strength over Organizational Performance. Organizational Performance is important for Robbins and Coulter (2005: 226) as it will result in good asset tangible and asset intangibles, improving the ability to provide customer value, create a good corporate reputation, and improve the size of organizational knowledge. Companies need to conduct performance evaluations that focus on skills and potential employees that are inadequate so

that they can be developed and improved in order to achieve high organizational performance.

2.2 Organizational Innovation

According to Schumann (1994: 2), innovation is an organizational way to implement new ideas, creative concepts come true and as a basis for competitive advantage in order to anticipate and meet consumer needs. Schumann explains a lot about innovation, especially in manufacturing companies. According to Chan (2003) innovation is related to the introduction of new combinations of the essential factors of production into the production system.

Herkema (2003) defines innovation as a knowledge process to achieve new knowledge for commercial development and viable solutions. Innovation is the terminology to explain how an organization creates value by developing new knowledge and/or using existing knowledge in new ways. Furthermore Tan and Nasurdin (2011) define Organizational Innovation is the ability to create new ideas and new ideas and behavior for the organization, it consists of innovation in product, innovation in process and innovation on administration (procedure).

Innovation Management is the management of all innovation, research and development processes, in a broad sense R & D management can be defined as innovation management when it comes to invention processes and innovation processes.

According to Freeman (1982) and Johne (1999), there are 3 types of innovation: Product Innovation, Process Innovation, and Market Innovation. Product innovation will be clear to generate revenue. Process innovation is intended to control and improve quality and save costs. Market innovation is concerned with improving with the mix (mix) how the selected target market can be served with the best.

According Schumann (1994) innovation can be seen from 2 dimensions of the nature and how much change is done. Dimension I. (basic nature) of innovation can be classified into 3 categories: (i) Product Innovation is all related to functions that can be given to the customer (internal and external) or form that works. Product Innovation involves the way things interact with things. (ii) Process Innovation is anything that involves the way a product is developed, manufactured and prepared e.g. improvements in manufacturing processes, distribution systems. Innovation Process involves the interaction of people with things. (iii) Innovation Procedure is what involves the way in which products and processes are integrated into the operations of an organization. For example improvement marketing method, administrative methods. Procedure Innovation involves the way people interact with people.

2.3 Human Resource Management Practices

An increasingly competitive and unstable business world over the previous year the manufacturing industry is looking for ways to gain a competitive advantage over all costs and resources, as well as human resource management (Sparrow et al., 1994). HR management practices are defined as attracting, developing, motivating and retaining employees systems to ensure effective implementation in ensuring organizational survival. Human resource management practices are also conceptualized as a consistent set of internal policies and planning and implementation frameworks to ensure human capital contributes to the achievement of business goals (Delery and Doty, 1996). Schuler and Jackson (1987) define human resource management practices as a system that attracts, develops, motivates and makes retain employees work to ensure effective implementation of a company's survival

According to Tan (2011), the study shows that PPSDM contributes 18% to innovation products and processes and 30% to administrative innovation. Then the PPSDM variable consisting of training and development, reward system, and recruitment can be used in this research.

2.4 Research Hypothesis

H₁ : HR management practices affect organizational innovation.

H₂ : Human Resource Management practices have a significant effect on Organizational Performance.

H₃ : Organizational Innovation has significant effect on Organizational Performance.

H₄ : Human Resource Management practices affect Organizational Performance through Organizational Innovation.

3. RESEARCH METHODS

3.1 Research Design

This research includes an explanatory explanation of causal relationship and test hypothesis of purpose to be analyzed (the purpose of Study), hence this research including research to test a hypothesis. From aspects of research methods including survey research that collects information from a number of populations. This study includes quantitative research to answer the formulation of the problem, with variables that are quantitative and in data collection using the perceptual approach as a measurement.

3.2 Operational Definition of Variables

Organizational performance

Organizational Performance is the end result of all activities of the company including the results of innovation activities. The indicators used are: (i) Marketing performance; (ii) Financial performance

Organizational Innovation

Organizational Innovation is the foundation that begins in a manufacturing company to improve its performance, organizational effectiveness and problem solving, added value, competitive advantage. The indicators used are as follows: (i) Product innovation; (ii) Process innovation; (iii) Innovation procedure

HR Management Practice

HR Management Practice is the best practice in managing human resources in a company which is one way to increase the competitive advantage of the previous ability for the manufacturing company. The indicators used are as follows: (i) Evaluate employee performance; (ii) Employee Career Management; (iii) Training and employee development; (iv) Reward system run; (v) Recruitment of employees

3.3 Population and Sample

The population in this study are all manufacturing companies in East Java which amounts to 228 manufacturing companies in East Java that exports in accordance with the SKA User Exporters List available at the office of Disperindag East Java Province in 2014 so that as the target population of this study as many as 228 companies spread in 10 cities in East Java. Based on the Slovin formula, the sample size is 140 firms, and it is satisfied to use SEM analysis. Sampling in this research with simple random sampling technique.

3.4 Data Analysis Technique

The data collected from the perceptual approach compiled in the questionnaire will be analyzed using descriptive analysis and multivariate statistical method (Structural Equation Modeling) with the application of AMOS version 18 software.

4. RESULTS AND DISCUSSION

4.1 Normality test

Based on the results of processing CR value of multivariate value of 2.163 which is between the interval -2.58 to 2.58, it is concluded multivariate normality assumption has been fulfilled, thus assumption of normality needed by SEM analysis have been fulfilled.

4.2 Outlier Test

The result of outlier test with Mahalanobis distance squared shows that observation variable has Mahalanobis Distance Observed Variable which is detected as smaller than chi square table ($df = 20$, $\alpha = 0,001$) that is 45,32. Based on the results of the analysis is known that the 20 indicators used in this study have the value of Mahalanobis distance squared is smaller than 45.32 so that no containing outlier.

4.3 Multicollinearity and Singularity Test

Based on the SEM output analyzed using AMOS the determinant of the sample covariance matrix shows a result of 1.103, which means that the value is greater than zero, so it can be concluded that there is no multicollinearity or singularity, so this data is feasible to use.

4.4 Results of SEM Analysis

In accordance with the study of literature and research objectives, then developed the overall structural model as follows:

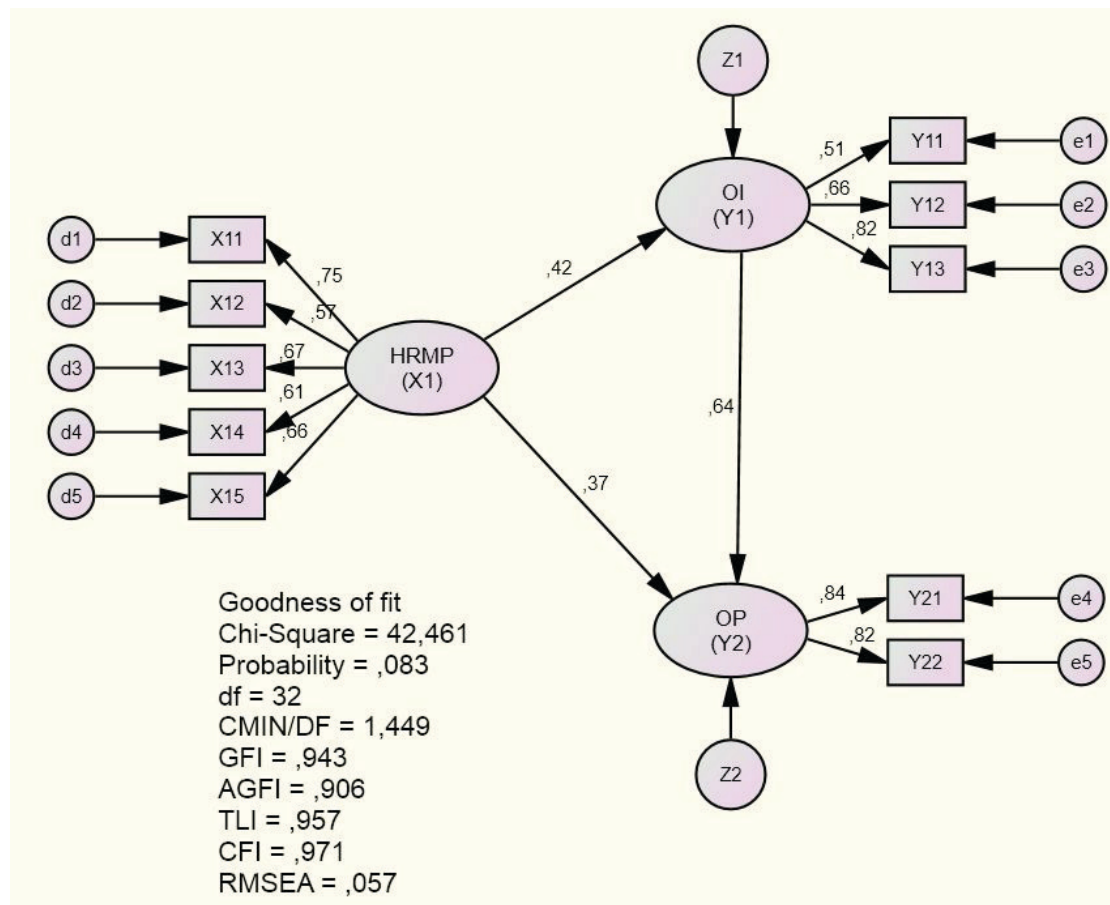


Figure 1 Results of SEM Analysis

Information:

HRMP (HR Management Practice)

X₁₁ = Evaluate employee performance

X₁₂ = Employee Career Management

X₁₃ = Employee training and development

X₁₄ = Reward system running
 X₁₅ = Employee recruitment
 OI (Organizational Innovation)
 Y₁₁ = Product innovation
 Y₁₂ = Innovation process
 Y₁₃ = Innovation procedure
 OP (Organizational Performance)
 Y₂₁ = Marketing performance
 Y₂₂ = Financial performance

Based on AMOS 18 computations for this SEM model, a goodness of fit indexes are presented in Table 1. Furthermore, these index values are compared with the cut-off values of each index. A good model is expected to have the goodness of fit indices that are greater or equal to the critical value.

Table 1. Test Result of Goodness Of Fit Modified Structural Model

Goodness Of Fit Index	Cut-off Value	Model Results	Information
Chi-Square (df = 32)	46,19	42,461	Good
Probability Chi-Square	≥ 0,05	0,083	Good
CMIN/DF	≤ 2,00	1,449	Good
RMSEA	≤ 0,08	0,057	Good
GFI	≥ 0,90	0,943	Good
AGFI	≥ 0,90	0,906	Good
TLI	≥ 0,95	0,957	Good
CFI	≥ 0,95	0,971	Good

Source: Primary data processed, 2017.

Based on the evaluation of the Goodness of Fit Indices criteria in Table 1, it shows that the evaluation of the overall model meets the acceptable model.

Table 2. Hypothesis Testing

Hip	Variable			Regression Coefficients				Information
	Eksogen	Mediasi	Endogen	Direct		Indirect	Total	
				Koef	Prob.			
H ₁	HR Management Practice	-	Organizational Innovation	0,42	0,001*	-	0,42	Supported
H ₂	HR Management Practice	-	Organizational Performance	0,37	0,000*	-	0,37	Supported
H ₃	Organizational Innovation	-	Organizational Performance	0,64	0,000*	-	0,64	Supported
H ₄	HR Management Practice	Organizational Innovation	Organizational Performance	0,37	0,001*	0,27	0,64	Supported

* Significant at α 5%.

5. DISCUSSION

5.1 Description of Organizational Performance, Organizational Innovation, and HR Management Practice

Organizational Performance is formed by marketing performance and financial performance. The most significant contribution to the formation of Organizational Performance is marketing performance reflected in sales revenue, market share and customer satisfaction. Marketing performance is a measure of achievement gained from the overall marketing process activities of a company or organization. In addition, marketing performance can also be viewed as a concept used to measure the extent to which market achievements have been achieved by a product produced by the company. Marketing performance is a factor that is often used to measure the impact of a company's strategy. Company strategy is always directed to produce good marketing performance and also good financial performance. Good marketing performance is expressed in three major values, namely sales revenue, market share and customer satisfaction. Companies that are able to create competitive advantage will have the power to compete with other companies because their products will remain in demand by customers. As the concept of Robbins and Coulter (2005: 226) which states that Organizational Performance is the accumulation of the end result of all processes and activities of the organization. Organizational Performance is a complex but important concept, and managers need to understand the factors that contribute to high organizational performance.

Organizational Innovation established product innovation, process innovation, and innovation procedures. The most significant contribution to the formation of Organizational Innovation is the innovation of the procedure reflected in the improvement of the administrative system so that the procedure is faster and efficient, the decrease in intensity of interaction between people and people in the company's activities makes administration faster, set new distribution channels so that product delivery to market faster Without lowering the quality, new marketing method policies lead to easier and faster administrative requirements and openness/transparency will encourage employees to work better in the administration/working procedures of the company. As Tan and Nasurdin (2011) concepts that Organizational Innovation is the ability to create new ideas and new ideas and behaviors for the organization, this consists of product innovation, process innovation and innovation in administration (procedure).

HR Management Practice is formed from employee performance evaluation, employee career management, employee training and development, reward system run, and employee recruitment. The main contribution to the establishment of HR Management Practice is the evaluation of the performance of employees reflected in the performance evaluation of the company is able to increase employee commitment and satisfaction, fairness in the evaluation of

employee performance will greatly motivate employees to work better, commitment and employee satisfaction will encourage employees more innovative in work, A consistent performance evaluation used by the company in evaluating the performance of company employees, and annual performance evaluation helps many companies in improving the system of corporate administration. Performance evaluation is a method and process of assessment and execution of duties of a person or group of persons or units of work within a company or organization in accordance with predetermined performance standards or objectives. Performance evaluation is the fairest way to reward employees. The purpose of performance evaluation is to ensure the achievement of the goals and objectives of the company and also to know the company's position and the level of achievement of corporate goals, especially to determine if there is delay or deviation to be repaired immediately so that goals or objectives are achieved. Individual performance evaluation results can be utilized for many uses. As the concept of Delery and Doty (1996), HR Management Practice is also conceptualized as a consistent set of internal policies and planning and implementation frameworks to ensure human capital contributes to the achievement of business goals.

5.2 Effect of HR Management Practice on Organizational Innovation

Organizational Innovation is a new way and perspective to add value to the output of the organization. The success of Organizational Innovation is influenced by HR Management Practice, innovation ability, and transformational leadership. HR Management Practice has Organizational Innovation influence when applied employee performance evaluation, employee career management, training and employee development, reward system and recruitment of employees. An organization will be able to create Organizational Innovation by utilizing the potential of human resources, both knowledge, skills, and ability in creating innovative ideas. HR in the organization is a key element in the efforts to realize Organizational Innovation. Therefore employees in a company should be encouraged to innovate through the implementation and development of HR Management Practice. The results of this study are consistent with Tan (2011) which states that HR Management Practice contributes 18% to innovative products and processes and 30% on administrative innovation. HR management is required to be more proactive and responsive. All activities undertaken should be able to anticipate the various developments that occur, then take action to deal with business issues related to human resources. Human resource management (MSDM) has been transformed from a stand-alone specialization function into a function that is integrated with all other functions within the organization, to achieve established goals. Changing the functionality and focus of MSDM requires changing the qualifications of MSDM managers in order to keep up with developments and respond accordingly. As appropriate, current company

calculations are aimed at the continuous and significant development of human resources management. The development of human resource management must meet the needs of the organization and developmental demands. Can not be denied by the rapid development of human resource management technology directed to support a broad and growing business. As Schuler and Jackson (1987) conclude that human resource management practices are a system that attracts, develops, motivates and retains employee so as to ensure effective implementation for survival a company.

5.3 Effect of HR Management Practice on Organizational Performance

HR Management Practice plays a role in improving Organizational Performance. HR Management Practice which gives the biggest contribution to the improvement of Organizational Performance is performance evaluation reflected from performance evaluation of company able to increase commitment and employee satisfaction, fairness in employee performance evaluation will motivate employees to work better, commitment and employee satisfaction will encourage more employees Innovative in work, consistent performance evaluation of the company's use in evaluating the performance of company employees and performance evaluation that do annual help many companies in the improvement of corporate administrative system. HR is part of the strategic planning process and is part of developing organizational policies and practices. The development of information technology and communications technology requires the company to have competent human resources that HR has managerial talent with knowledge, skills, and high ability to master the development of technology. Therefore, it is necessary for human resource management to achieve the main target of improving and creating high-quality human resources and managerial skills and mastery of technology so that Organizational Performance can be achieved. This is in line with Schuler and Jackson's (1987) opinion that human resource management practices are a system that attracts, develops, motivates and makes retain employees work to ensure effective implementation For the survival of a company. Organizational Performance is a description of the work of the organization in achieving organizational goals which of course will be influenced by the resources owned by the organization. The results of this study support Susilowati et al. (2013) stating that HR Management Practice has an effect on Organizational Performance.

5.4 Organizational Innovation Effect on Organizational Performance

Organizational Innovation is an effort to maintain the organizational existence and enhance organizational progress, with Organizational Innovation expected to respond to environmental complexity and dynamics of environmental change especially in tight competition and create resources for

competitive advantage. This can be achieved through product innovation, process innovation, and procedural innovation. As Tan and Nasurdin (2011) concepts that Organizational Innovation is the ability to create new ideas and new ideas and behaviors for the organization, this consists of product innovation, process innovation and innovation in administration (procedure). Product innovation is reflected in new product innovations made technically, the specifications and functions as a whole are different from the present; The novelty of the product now leads to improved use and customer satisfaction; Product breaking now uses components and materials that are different from the previous ones; There is a decrease in the production costs, components, and materials of the present product and there is an increase in the quality of production in terms of components and materials of the present product. Process innovation is reflected in reducing the activity of distribution companies that have no added value for the company, lowering variable costs and increasing the speed of delivery in terms of logistics processes, reducing the process step so that production costs become cheaper, it is important for companies to choose the right location to get the production factor Cheaper locally and globally, and need optimization in terms of energy so that the production process is really the most efficient. Innovation of the procedure is reflected in the improvement of the administrative system so that the procedure is faster and efficient, the decrease in the intensity of interaction between people and people in the company's activities to make administration faster, set new distribution channels so that product delivery to market faster without lowering the quality, Leading to easier and faster administrative requirements and openness/transparency will encourage employees to work better in the administration/ working procedures of the company.

Organizational Innovation indicator that most influence Organizational Performance is innovation procedure. Innovation procedures involve the way in which products and processes are integrated into the operations of an organization. The better the implementation of organizational invoices can increase the Organizational Performance in terms of marketing performance and financial performance. The results of this study support the research Suryo (2010) and Sartika (2015) which states that Organizational Innovation effect on Organizational Performance.

5.5 Effect of HR Management Practice on Organizational Performance Through Organizational Innovation

HR Management Practice is reflected from employee performance evaluation, employee career management, training and development, reward system, recruitment. This research has provided theoretical meaning that Organizational Innovation is mediating the influence of HR Management Practice on Organizational Performance. Organizational Innovation indicator that gives the biggest contribution is reflected from the innovation of procedure

such as improvement of administrative system so that the procedure is faster and efficient, the decreasing intensity of interaction between person and person in company activity makes administration faster, set new distribution channel so that product delivery to market faster Without lowering the quality, new marketing method policies lead to easier and faster administrative requirements and openness/transparency will encourage employees to work better in the administration/working procedures of the company. Thus the HR Management Practice represented by the employee performance evaluation reflected in the fairness in the employee performance evaluation will greatly motivate the employees to work better..

6. CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusion

Organizational Performance is formed by marketing performance and financial performance. The main thing is the establishment of Organizational Performance marketing performance is reflected in the market share. Organizational Innovation is formed from product innovation, process innovation, and procedural innovation. The main thing in the formation of Organizational Innovation is the innovation of the procedure is reflected from the improvement of the administrative system so that the procedure more quickly and efficiently. HR Management Practice, in this case, is formed by employee performance evaluation, employee career management, training and employee development, reward system run, and employee recruitment. The main thing about the establishment of HR Management Practice is the evaluation of employee performance reflected in the fairness in the evaluation of employee performance will greatly motivate the employees to work better.

HR Management Practice has an effect on Organizational Innovation. This finding can be explained that the HR Management Practice that is perceived by employee performance evaluation can improve Organizational Innovation.

HR Management Practice has an effect on Organizational Performance. This finding can be explained that HR Management Practice that is preceded by employee performance evaluation, can improve Organizational Performance.

Organizational Innovation is an effort to maintain the existence of the organization in order to increase Organizational Performance. The results of this study are in line with Suryo (2010) and Sartika (2015) stating that Organizational Innovation has an effect on Organizational Performance.

HR Management Practice has an effect on Organizational Performance through Organizational Innovation. Organizational Innovation is a booster (mediate) HR Management Practice on Organizational Performance. This gives the meaning of Organizational Performance in the form of marketing performance and financial performance can be established if Organizational Innovation is formed from HR Management Practice that is supervised by

employee performance evaluation. This HR Management Practice can create Organizational Innovation. Organizational Innovation will create Organizational Performance.

6.2 Recommendation

Theoretically

Enriching the concept of Organizational Innovation by developing the concept of HR management practices, as a driver of Organizational Performance.

Practically

The Company maintains a good Organizational Performance, and for the coming years is further enhanced on the financial aspect by operating cost efficiency as it will affect the size of the profits to be gained from the sale.

Companies can make improvements with the main priority that needs to be fixed on the ability is the adjustment of work given to employees who are tailored to the interests and talents as well as knowledge and motivation to employees to be more creativity in doing the work such as providing computer facilities and internet in the environment so that employees can With easy to see information and trends in the world of industry and commerce.

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