



## The Effect of Human Resources Management Practices on Innovation and Employee Performance (Study Conducted at NGOs Members of FONGTIL) Dili

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### **Abstract**

This research was conducted to determine the effect of Human Resources Practices on innovation and employee performance and the effect of innovation on employee performance. This study applies qualitative and quantitative data by using a questionnaire to collect data directly from research subjects. The number of respondents in this study was 167 respondents from Local NGOs. This study uses WarpPLS software to conduct a Partial Least Square analysis to test hypotheses. The results show that 1) human resource management practices have a positive and a significant effect on employee performance 2) human resource management practices have a positive and a significant effect on innovation and 3) innovation has a positive and significant positive effect on employee performance. It is suggested that attention is needed on compensation, especially in the provision of compensation according to employee performance, regular evaluation of employees who have received training, job appraisals as a basis for providing salaries. Another attention required is on the aspect of innovation, especially the creativity in the development of organizational technology, distribution of tasks according to employees' abilities and the adaptability of employees within the organization and on the workloads.

**Keywords:** *Human Resource Management Practices; Innovation; Employee Performance*

### **Introduction**

Humans have a strategic role in economic, infrastructure, social and institutional strengthening. The progress indicator of a country can be seen from the quality of its human resources, and vice versa, because both have reciprocal effects. Without quality human resources, it is difficult for a country to develop into a developed country. Measuring the quality of human resources can be viewed from the aspects of the quality of education, health and income level.

The government and Non-Government Organizations (NGOs) are required to develop and continue to innovate and excel in terms of practices and strategies for achieving organizational goals. This requires efficient human resource management (HRM), which will motivate the employees to develop and improve their performances, which will contribute to the success of the organisations. In other words, HRM is a valuable tool for both government and non-government organizations to support success. Humans are an important factor as an organizational asset that functions for planning, organising, implementing and controlling strategic functions in achieving organizational goals. Gibson et al. (2009) argues that the task of human resource management revolves around managing the human element with its potential so that satisfactory and satisfying human resources can be obtained for the organization. NGO's human resource development is very important so that this institution can support the government in development according to people's expectations.

The pace of development in both governmental and non-governmental organizations is demanded to be more creative and innovative in improving employee performance. To maintain excellence, it is necessary to adopt an adaptive and responsive HRM practice that supports the sustainability of the organization. According to Chow (2017), to be able to win the increasingly fierce competition and the ever-changing organizational environmental conditions requires innovation and creativity. Innovative organizations are proven to be able to maintain their competitive advantage compared to competitors (Johannessen and Skaalsvik, 2015 and Gosh, 2015). Organizations that always give priority to innovation development are able to respond to environmental changes more quickly so they tend to perform better (Do et al, 2016).

Studies have found that practising HRM can positively impact on organisational as well as employee performances. Gil-Marques and Luzon (2013) stated that the practice of HRM has a positive impact on organizational innovation. Sheehan et al. (2013) stated that the practice of HRM can make a positive contribution in helping create organizations to innovate. The research results from Prieto and Santana (2014) emphasize the important role of the practice of HRM in fostering innovative employee behaviour. Research conducted by Kangyin (2015) states that the practice of HRM has a positive and significant effect on organizational innovation. Thus, HRM practices can support the creation of organizational innovation. Nawab et al. (2016), and Alusa and Kariuki (2015) state that the practice of human resource management can function effectively in supporting the achievement of organizational performance.

From the opinion of the researchers above, in reality, there are some common problems faced by NGO in Timor-Leste. These problems include human resources that lead to an understanding of the organization's strategic vision, knowledge in fundraising and fulfilling donor requirements, program quality and strengthening of the institutions, especially rules and procedures to support the sustainability of the organization. On the other hand, there are still few references to discussing human resource management practices in NGOs, especially in Timor-Leste. Based on these empirical problems and gaps, the authors of this research are encouraged to conduct research on human resource management practices, especially in NGO institutions in Timor-Leste with the following research problem 1) does HRM practices affect the performance of NGO employees in Timor-Leste? 2) does HRM practices influence innovation in NGOs in Timor-Leste? and 3) does innovation affect the performance of NGO employees in Timor-Leste?

## **Literature Review**

### **HRM Practices**

HRM practices are the main way organizations to influence and shape individual skills, attitudes and behaviours to do work and achieve organizational goals (Yu, 2013). HRM practice is “a series of different but interrelated activities, functions, and processes that are directed to attract, develop, maintain, and even terminate the organization's human resources (Florén et al, 2016). A number of researchers (Laursen & Foss, 2003; Tan & Nasurdin, 2011) explained that there are five dimensions of HRM practices, namely performance appraisal, career management, reward system, training, and recruitment. Boon (2009) defined human resource management as an effective and dynamic approach to managing people, which has generated a lot of interest and debate in academic and practical circles. Furthermore, according to Tan and Nasurdin (2011), and Manafi and Subramaniam (2015) this effective and dynamic approach are namely on compensation, training, performance appraisal, and participation.

### **Innovation**

Innovation has occupied a strategic position in society through the creation of innovation in organizations, and the end of traditional organizations on the other. The stages of innovation can be grouped into two phases, namely innovation creation and innovation adoption (Gopalakrishnan and Damanpour, 1997). The phase of innovation creation includes the creation of ideas and problem solving for the product or solution process. The adoption phase is the acquisition or implementation of innovation. The organization can carry out one or two of the other phases or it can be involved in the two phases of innovation. Imran et al. (2010) said that to be able to compete in this era of technological growth, every company needs innovations that generate new ideas. These new ideas can meet existing needs in the market so that the company remains able to compete with other companies, while Younis et al. (2010) stated that innovation is the process of both generating and implementing such creative ideas in certain contexts. In an organizational context, the term innovation is often used to refer to the entire process by which an organization generates new ideas and converts them into something new that is useful. An important element for creating innovation is human resource management as a tool for shaping attitudes and behaviour.

### **Employee performance**

Performance is intended as the level of achievement (achievement) of the organization in carrying out its activities within a certain period (usually within one year). Performance is a reflection of whether the organization or company has been successful or not in its business endeavours. Koopsman (2014) differentiates performance into four, namely task performance, contextual performance, adaptive performance, and counter-productive work behaviour. Performance according to Koopsman (2014) is based on individual competence whether the individual is qualified and competent in their field, activities that support the organization, the ability to adapt to the demands of the work environment, and have deliberate actions that aim to hurt the organization or organization members. Employee performance is employee productivity and output that describes employee development (Hameed and Waheed, 2011). Mohammad et al., (2014) added that employee performance is the biggest factor affecting organizational performance. Employee performance is the use of knowledge, skills, experience and abilities in carrying out the mission set by a manager effectively and efficiently. Meanwhile, according to Elnaga and Imran (2013) employee performance is everything related to the performance of employees in an institution, company or organization. Employee performance is very important for companies in conducting their business. In general, it can be concluded that performance is a person's ability to produce work results both in quality and quantity then compared with the agreed work standards.

### Research Conceptual Framework

Based on the description of the background and literature review, the following conceptual research framework can be seen as below:

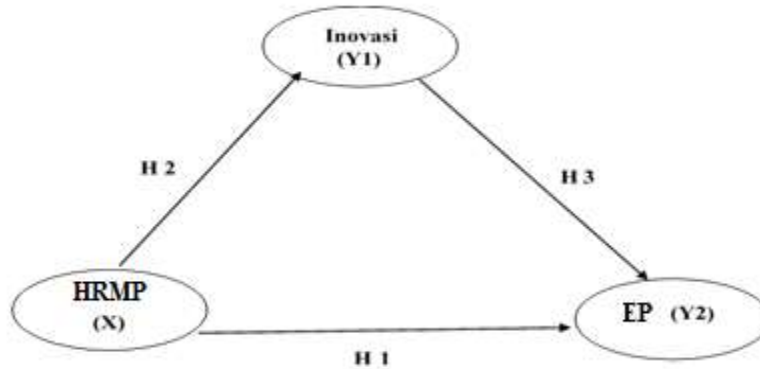


Figure 1. Research Conceptual Framework

\* HRMP= Human Resource Management Practices, EP = Employee performance

### Research Hypothesis

1. The influence of human resource management practices (HRMP) Muamar Gaddafi's on employee performance has been widely practised. Gaddafi's (2019) study concludes that employee empowerment and job design on employee performance have a significant positive effect on employee performance. Also according to Mesra (2015), the HRM practice has a positive and significant effect on employee performance. Therefore, the first hypothesis of this research is the HRM practice has a positive and significant effect on the employee performance of NGO members of FONGTIL.
2. Sherine et al (2016) state that HRM practice has a positive and significant effect on innovation. Thus, the second hypothesis of this research is the effect of HRM practice has a positive and significant effect on the innovation of NGO members of FONGTIL.
3. Jihanti Dama and Imelda W.J. Ogi (2018) stated that there is an influence between the independent variables, namely innovation, and the dependent variable, namely employee performance. Thus, the last hypothesis is innovation has a positive and significant effect on employee performance.

### Methodology

This research uses explanatory research, which explains the relationship between variables through testing the hypotheses proposed above. The model used is causality, that is research that aims to analyze the causal relationship between two or more variables. Furthermore, this study was conducted to analyze the effect of HRMP on employee innovation and performance. This research targeted to 18 NGO offices that are members of FONGTIL, including Mata Dalan Institute (MDI), Hafoun Timor Lorosa'e (HTL), Kadalak Sulimutu Institute (KSI), Ra'es Hadomi Timor Oan (RHTO), Lao Hamutuk, Belun Timor-Leste, Asisténsia Legal ba Feto no Labarik (ALFELA), Luta Hamutuk, Grupu Feto Foin-sa'e Timor-Leste (GFFTL), Forum Tau Matan (FTM), Asosiasaun HAK, Permaculture Timor-Leste (PERMATIL), Timor-Aid, Forum Komunikaun ba Feto Timor-Leste (FOKUPERS), Psychosocial

Recovery and Development in East Timor (PRADET) and Alola Foundation. Questioners that were distributed to these organizations, after being filled, collected and analyzed using the Statistical Package for Social Science (SPSS) for Window and Partial Least Square analysis to test hypotheses using the WarpPLS software.

## Results

The assessments are well responded by the NGOs and the results show that the average value of the innovation variable assessment is higher than employee performance variable assessment and HRMP variable assessment. The assessment of HRM practice variables shows an average value of 3.93, which means compensation, training and performance appraisal are very important and are practised in the organizations studied. Meanwhile, the result of the assessment of the innovation variable indicates an average value of 4.36, while the average value of the assessment of employee performance variables is 4.20.

### Discriminant Validity

Discriminant validity is a measurement of reflective indicators based on cross-loading of the latent variables by looking at the AVE (Average Variance Extracted) value. Can be used to evaluate convergent validity, the criteria that must be met, namely the AVE value  $> 0.50$ . The results of discriminant validity testing are presented in Table 1 below.

**Table 1. Discriminant Validity Testing**

Variable	Average variance extracted (AVE)	Criteria
Human Resource Management Practices (X)	0.549	$> 0,50$
Innovation (Y1)	0.693	$> 0,50$
Employee Performance (Y2)	0.517	$> 0,50$

### The Goodness of Fit Model

Testing the Goodness of Fit (GoF) structural model on the inner model uses the Q2 predictive-relevance (Q2) value to test the variables used in the model so that it can be seen how much influence exogenous variables have on endogenous variables. The R2 value of each endogenous variable in this study can be seen in Table 2 below.

**Table 2. Discriminant Validity Testing**

Dependent variable	R-square
Human Resource Management Practices (X)	
Innovation (Y1)	0,401
Employee Performance (Y2)	0,402

The calculation result shows the predictive-relevance value of 0.642 ( $> 0$ ) or 64.2%. These results indicate that the structural model has a good fit (Goodness of Fit Model). In addition, this result implies that 64.2% can be explained by the variables used in the research model, while the remaining 35.8% is explained by other variables outside the research model.

### Evaluation of the Structural Model (Inner Model)

The next stage is to conduct a structural evaluation (inner model) which includes the model fit test, path coefficient, and R model compatibility. There are 3 test indices, such as the average path coefficient (APC), average R-squared (ARS) and average variance. Factor (AVIF) with the criteria for APC and ARS is accepted with the condition that the p-value is  $<0.05$  and the AVIF is smaller than 5 (Mahfud Sholihin and Dwi Ratmono, 2013: 61).

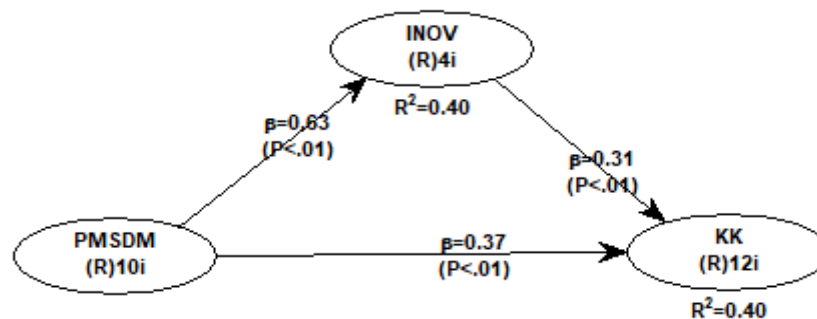
**Table 3. General SEM Analysis Results Output**

	Index	<i>p</i> -value	Criteria	Remarks
APC	0,440	$P < 0,001$	$p < 0,05$	Accepted
ARS	0,402	$P < 0,001$	$p < 0,05$	Accepted
AVIF	AVIF=2.010, Good if $< 5$		AVIF $< 5$	Accepted

The output result above, explains that APC has an index of 0.440 with a p-value  $<0.001$ , while ARS has an index of 0.402 with p-value  $<0.001$ . Based on the criteria, APC and ARS have met the criteria because they have a p-value  $<0.001$ , while for the AVIF value which must be  $<5$ . The result is satisfied because the AVIF value is 2.010, which means it smaller than 5 (Table 3), so the inner model is acceptable.

### Hypothesis Testing

This study uses the Partial Least Square analysis to test hypotheses using the WarpPLS software. To test and analyze the research hypotheses that have been stated previously. Before conducting the analysis, first is to test or evaluate the empirical research model. The results of the analysis of the empirical research model using the WarpPLS analysis tool is demonstrated in Figure 2.



**Figure 2. Research Model Test Results**

PMSDM (Human Resource Management Practices) KK (Employee Performance)

The summary of the test results using WarpPLS is shown in Table 4.

**Table 4. Results of Path Coefficients**

Variable	Path Coefficients	P-value	Remarks
Human Resource Management Practices (X) → Employee Performance (Y2)	0,372	0,001	Significant
Significant Human Resource Management Practices (X) → Innovation (Y1)	0,634	0,001	Significant
Innovation (Y1) → Employee Performance (Y2)	0,313	0,001	Significant

Hypothesis testing is done by looking at the results of the correlation between constructs measured by path coefficients and the level of significance. The research results from the effect size that have been obtained based on the results of data processing as follows.

Based on the results shown in Table 4 the hypothesis testing can be explained as follows:

1. Human resource management practices have a significant positive effect on employee performance. The coefficient test results show that the practice of HRM on employee performance shows a significant positive relationship with the Path Coefficients value of 0.372 with a p-value of 0.001. This means that the better application of HRM practices will help improve employee performance.
2. HRM practices have a significant positive effect on innovation. The coefficient test results show that between HRM practices and innovation there is a significant positive relationship with the Path Coefficients value of 0.634 with a p-value of 0.001. This indicates that the better the application of HRM practices will help in increasing innovation.
3. Innovation has a significant positive effect on employee performance. The coefficient test results show that between innovation and employee performance there is a significant positive relationship with the Path Coefficients value of 0.313 with a p-value of 0.001. It points out that better innovation will further improve employee performance.

## **Conclusion**

This research has performed the analysis on the effect of HRMP on employee performance and innovation, at the effect of innovation on employee performance. The be concluded that HRM practices have a significant positive effect on innovation and employee performance. Therefore, with good HRM practices such as compensation, training, job appraisals will create innovation and increase employee performance in the organization. Additionally, further attention on realization of staff compensation, training, routine evaluation, appraisal, staff creativity and innovation, attention to workload and adaptation to the organizational context is required to enhance organizational and employee performance.

## **Research Implications**

1. This research is the evidence of several previous research results related to HRM practices, innovation and employee performance. The results of the analysis show that the variables of HRM practices, innovation and employee performance are all well perceived by respondents. In terms of

research methodology, especially the determination of the sample by purposive sampling, it is very suitable for selecting organizations that have been functioning for a long time and have real ongoing programs that focus on both community service and advocacy.

2. From this research, it can be seen that the level of approval of the 18 NGOs will be a managerial concern in the organization, particularly the policies within the organization to pay attention to HRM practices, in terms of compensation, training and job appraisals and how these three things can contribute to the sustainability of the organization, especially in the aspects of innovation and employee performance.

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