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HUMAN RESOURCE MANAGEMENT PRACTICES AND FIRM INNOVATION: MEDIATING ROLE OF HUMAN CAPITAL

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Abstract
Firms' ability to innovate becomes a more significant concern over the hypercompetitive and dynamic business environment. Within this context, how to promote innovation in organisations becomes challenging. Many studies far less focused on the role of human resource management in promoting firm innovation. Since the human resource management practices vary from country to country and firm to firm, the findings of the studies limit its application in a diverse context. Sadly, there is bereft of such studies recorded in many developing countries. Consequently, the study aims at investigating the relationship between human resource management practices and firm innovation and the mediating role of the human capital of such relationship. This study deploys PLS-SEM to test the hypotheses in a sample of 127 firms operating in Sri Lanka. The data were collected through a self-reported questionnaire. The result shows that human resource management practices are significantly, positively, related to human capital, which positively affects firm innovation. The findings support that human capital plays a mediating role between human resource management practices and firm innovation. Finally, this study discusses the implications and highlights the future research directions.
Keywords:Human capital, human resource management practices, firm innovation, Sri Lanka

1. INTRODUCTION

In today's modern business world, the universal fact is that "adapt or die" allows firms to grasp success. Ideally, the concept of innovation has become widely cultivated as a significant source of economic development and the firm's growth (Jiménez-Jimenez and Valle, 2008). Zhou (2006) claimed that innovation has become an essential requisite in reaping competitive advantage and is one of the key concerns in management literature. Increasingly, findings also show that innovation is another primary source for managers. They want to better inspire and organise innovation within their firm to ensure sustainability (Adla et al., 2019). Innovation enriches opportunities to respond to the changes created by the environment and discover new changes that significantly benefit the firm's survival. It can further stimulate competitive advantage because it enables the firm to produce and market new or better products; as a result, satisfying customer needs. In firms, innovation-related practices facilitate robust culture for life-long learning, growth and personal advancement.

Innovation is recognised as a responsibility of both individuals and their effective management (Kang and Snell, 2009). The literature shows that human resource management is the determining factor in a firm's innovative behaviour. According to Jiménez-Jiménez and SanzValle (2005), human resource management strategies allegedly improve the quality of employee-employer intimacy (Shipton et al., 2006). As a result, the degree of employee-employer intimacy can either inspire or hinder individuals from being more innovative. Additionally, experts have argued that a greater understanding of human and organisational characteristics might boost creativity and innovation (Haneda and Ito, 2018; Waheed et al., 2019; De Saa-Perez and Díaz-Díaz, 2010). Effective HRM practices encourage employees to experiment with fresh ideas, improve their intimate understanding of one another, and implement changes in business operations, all of which contribute considerably to firm innovation (e.g. Kengatharan, 2020; Shipton et al., 2006). Gloet and Terziovski (2004) argue that if innovation is viewed as a byproduct of knowledge management, businesses must develop sophisticated human resource practices that support the innovation process. When companies create new goods and methods, they rely on the motivation and capacity of human capital to generate innovative ideas,

Management Research and Practice
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develop novel techniques, and exploit new opportunities (Scarbrough, 2003). HRM can influence and adjust employees' attitudes, capacities, and actions to accomplish organisational goals (Collins and Clark, 2003). It is critical in fostering the environment necessary for stimulating and guiding persons toward innovative activities (Scarbrough, 2003; Laursen and Foss, 2003; Michie and Sheehan, 2003; Collins and Smith, 2006). Firms can use various strategic human resource techniques, including staffing, training, participation, performance appraisal, and compensation, to increase employee commitment and involvement in creative thinking and innovation (Damanpour, 1991; Laursen and Foss, 2003). Thus, the present study claims that HRM practices are crucial in determining innovation performance.

As firms gradually seek various innovation models, they need to bring a new team of individuals into the innovation cycle. This calls for committed training, new performance indicators, new rewards, better approaches for communicating with and among individuals, yet, it needs operative HRM activities. Relatedly, firms may open up the innovation cycle inside to be explicit by dynamically sourcing ideas and knowledge from the firm's people (Dodgson et al., 2006). Such drives energetically call for new HRM drives.

Shipton et al. (2006) posit that firms have the potential to diversify, adapt and reinvent themselves through implementing new products and new technology. Despite this, individuals hesitate to outperform innovatively due to the monopolistic nature, employee rigidity, and insufficient innovation climate (Waheed et al., 2019). HRM practices can cultivate talented, contended, and innovative employees to elevate innovation. Additionally, the relevant literature has not responded to the inquiries of how and which HR practices influence the ability of firms to produce innovations suitably. Also, the resource-based view of the firm and the past literature on HRM was not sufficiently explored how organisations can successfully exploit their HR practices to elevate innovative outcomes (Beugelsdijk, 2008). Despite the HRM/innovation research streams, it is vital to consider the clustering of HRM practices. Laursen and Foss (2003) identify two HRM practices clusters favourable to innovation; however, they fail to theorise why differences exist. The extant research has so far had little to address about it. Consequently, there is an apparent lacuna in the literature, specifically for developing countries like Sri Lanka, studies on firm innovation thus far in the infancy stage (Wan Jusoh, 2000). It is evidenced that scholars have grasped a vast range of knowledge about the intimacy between HR practices and firm performance in terms of finance (Hutchinson et al., 2003); still, the knowledge about the extent to which HRM promotes firm innovation is lacking. Thus, a need to discover which HRM practices or a blend of practices are related to innovation at the firm level (Shipton et al., 2006). Consequently, HR managers are now encountering a substantial risk of developing and launching the practices essential to simplify innovation.

Additionally, various policies, strategies, and interventions are recommended by multiple SME promoters to elevate this sector. A few researchers have explored the factors that ruin the SMEs development within definite arias; although, not much research focused on developing economics. Beck et al. (2005) reported that SMEs created over 60% of employment in manufacturing in most developing countries. Notwithstanding, SMEs are confronted with considerable drawbacks which hinder their performance and development. Intriguingly, the performance insinuations of innovations in SMEs have grasped significant attenuation among scholars and practitioners (Rosenbusch et al., 2011). Although, empirical research on innovation-related performance in SMEs reveals contradictory findings. SMEs encounter significant resource constraints; however, they are always successful innovators. Focusing on attractive niches with innovative products primarily benefits SMEs compared to big firms due to their finite size and larger nimbleness. Thus, all these benefits of innovation facilitate SMEs to effectively beat well-implemented incumbents based on a significant resource base than their smaller counterparts. Previous literature claimed that many studies were being conducted to explore the hampers to innovation in SMEs in the western context despite a finite number of studies being done in developing countries. Notably, no definitive research studies have been conducted to explore innovation issues in SMEs in Sri Lanka. Heneman and Tansky (2000) argued that attention should be given to the interplay between firm size and HRM practices; however, this may be difficult because of missing sound theory and information on HR practices in SMEs. Since the theory does not become flexible to SMEs, the research utilised to test the theory and the restricted knowledge derived from the study may not apply to the necessities of specialists (Adla et al., 2019). HR theory and the research being led may not be compatible with the real HR issues challenging SME experts in the field. Also, experts might be unconscious of practical problems that they ought to be aware of that can be distinguished and clarified through academic research. A

survey directed by Heneman et al. (2003) indicates that it is apparent that young entrepreneurial leaders of SMEs are effectively looking for extra knowledge about HRM issues.

Thus, the present study investigates the mediating role of human capital in the relationship between HRM practices and firm innovation in SMEs.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Human resource management and innovation

Human resource is one of the salient factors for organisational success (Kang and Snell, 2009). Effective HRM practices lead employees to experiment with novel ideas, elevate intimate understanding with one another, and execute transformations in firm operations, all of which significantly facilitate firm innovation (Kengatharan, 2020; Shipton et al., 2006). Additionally, innovation is a two-stage process: the first implies 'exploration,' or the creation of creative thoughts and needs individuals to take risks, exploration and be flexible while, in the second step, individuals should work in a climate where 'exploitation' is recognised and they are inspired to pursue specific policies to elevate efficiency. Firms require the ceaseless drive, energy and ability of human capital to bring creative ideas, develop innovative approaches and exert new opportunities when firms develop new products and improve management processes (Scarbrough, 2003).

Researchers emphasised that HRM be ingrained in firm strategy to foster innovation (Tidd, 2006). According to Jiménez-Jiménez and Sanz-Valle (2005), HRM practices are claimed to build the quality of the employee-employer intimacy. In response, the quality of the employee-employer intimacy can evoke or hinder the individuals from becoming more innovative. Further, scholars have stated that a broader knowledge about individual traits and qualities can elevate creativity and innovation. Gloet and Terziovski (2004) posit that it is vital for the firm to formulate sophisticated HR practices that foster the innovation process. Chen and Huang (2009) highlighted that when the firm focuses on innovative activities such as launching a new product, new process, and new administrative practices, they constantly require creative and innovative employees who are adaptable, taking a risk, tolerant of uncertainty and ambiguity. Increasingly, firms now are experimenting with new HRM systems in their endeavours to confront strategic aims. To be competitive, the evolution of HRM policies should foster innovation. Presently, HRM theory for innovation is not well formulated. It is crucial to comprehend how and why human capital fosters innovation in firms and what HRM practices can be adapted to simulate the anticipated level of innovative performance (Foss and Laursen, 2012). Collins and Clark (2003) posit that HRM practices have the ability to shape employees' attitudes, competencies, and work-related behaviours to achieve organisational goals. HRM plays a dramatic role in nurturing the necessary conditions for catalysing and steering individuals towards the advancement of innovation process (Scarbrough, 2003; Laursen and Foss, 2003; Michie and Sheehan, 2003). Firms can deploy HR practices, such as hiring, training, participation, performance appraisal, and compensation, to motivate employees' commitment and make themeengaged in creative thinking and innovation (Damanpour, 1991; Laursen and Foss, 2003).

Empirical evidence showed that innovation implies the espousal of specific HRM practices (Ling and Nasurdin, 2010; Jiménez-Jiménez and Sanz-Valle, 2005; Waheed et al., 2019), the quality of innovation strategy indicates the exploitation of incentive-based compensation, facilitating individual active participation, appraisal scheme and career advancement opportunities.

Jimenez- Jimenez and Sanz-Valle (2008) found a significant positive association between HR practices such as flexible job design, individual empowerment, teamwork, and skill-oriented staffing with three types of firm innovation (product, process, and administrative). According to Lepak et al. (2006), harnessing HRM practices such as job security, training interventions, and compensation policies eventually stimulate an individual's involvement and upgrade HR competencies and knowledge. Haneda and Ito (2018) found that implementing different HR practices (interdivisional cooperation/teams and the creation/relocation/integration of R & D centres) is positively associated with product and process innovation. Intrudingly, holding board members with R & D contextual is positively associated with product innovation, indicating that top-down R &

Management Research and Practice
Volume 14, Issue 2 / June 2022

D decision-making may be pivotal for firms to introduce new products. Florén et al. (2014) emphasised that HRM practices permit employees' commitment to enhancing the firm's environment for knowledge sharing and innovation. Also, they found that different HRM policies and practices support the innovation process in particular industries. Saa-Perez and Díaz-Díaz (2010) found that the formalisation of the HR policy plan and the job stability elicited the innovation process. Intriguingly, the firm's structure, specifically their HRM practices, is pivotal to human capital's input to innovative performance. Foss and Laursen (2012) found that training interventions, decisions on reward systems, assigning decision rights, and so forth have dramatic consequences for the contribution of human capital to innovation. Shipton et al. (2005) reported that HRM is ample enough to foster firm innovation. They have presented longitudinal data from thirty-five manufacturing firms in the UK to support that efficient HRM practices encapsulating robust approaches to hiring and selection, induction, performance appraisal, and training that significantly foster firm innovation in products and production technology. Shipton et al. (2006) state that HR practices enhance organisational innovation. They found a significant association between innovation facets and HR practices, such as exploratory learning focus, training, appraisal, induction, and teamwork. Further, Shipton et al. (2006) suggest that two categories of HR practices are seemingly eliciting innovation in firms designed to facilitate exploratory learning. Those practices aimed atutilizing existing knowledge (training, induction, appraisal, contingent pay, and team working) significantly related to product innovation and technical systems. HR practices such as staffing, training, performance appraisal, and compensation, enable firms toevoke their capability in introducing new products, services, and management systems subsequentlyproduce better level of innovation outcomes (Chen and Huang, 2009). Nilakanta et al. (2006) highlight that knowledge plays a dramatic role in the firm's competitiveness. The preceding arguments in the literature recommend that firms deploy specific HR practices to influence the behaviour and employee's expectation and add more excellent value in developing innovation in firms. Thus, it can be hypothesized as:

H1: human resource management practices positively relate to firm innovation.

2.2. Human capital theory, HRM practices and firm innovation

Innovation has long been recognised as an underlying factor in economic prosperity and one of the significant challenges for both researchers and managers to comprehend why and how organisations innovate. The capacity to innovate depends on attracting talented and creative people (Teixeira and Fortuna, 2004). That is to say, the capacity to innovate hinge on a firm's ability to absorb human capital and provide sufficient opportunities for talented and creative people to produce innovative outcomes (Teixeira and Fortuna, 2004). Human capital is receiving considerable attention during the past two decades. Human capital refers to the skills, information, ideas, stock of knowledge, abilities, the health of individuals and related innate or acquired qualities embedded in individuals that contribute to fostering productivity in an organisation (Tan, 2014). Human capital is saliant in the modern economy, and firms must invest in people throughout their lives. Traditional scholars delineated human capital in terms of knowledge and intellectual capital (Becker, 2006). However, today, the human capital concept encapsulates human attributes and productivity ranging from an individual's personality traits to characteristics, for instance, creativity, self-efficacy and resilience (Lenihan et al., 2019). A country's human capital stock enables that country's production of new goods and services, new ideas and discoveries (Barro and Lee, 2000). Researchers have found that investment in human capital dramatically contributes to productivity and is a vital player in evoking technological transformations (Sianesi and van Reenen, 2003). Scholars suggest that innovative action is influenced by human capital. Further, the role of human capital creates a condition for immersion and generation of technology and innovation. Several studies and investigations have shown that specific HRM practices are essential for influencing human capital (Yamao et al., 2009). Specifically, recruitment and selection practices will aid the firms to find the best candidates. Further, recruitment practices facilitate having a large number of qualified and talented candidates, which in return can affect the stock of knowledge possessed by new employees through the relevant selection process of candidates (Huselid, 1995). Training and development practices could improve the better level of the organisation's human capital (Minbaeva et al., 2009). Performance appraisal is the critical aspect in which organisations can capitalise on their most vital resource employees and gain a human capital advantage (Daoanis, 2012). Performance appraisal is linked to other functions in the organisation. It provides a favourable environment to sustain the existence of human capital (Ahmad and Bujang, 2013).

Management Research and Practice
Volume 14, Issue 2 / June 2022

In a nutshell, human capital theory believes that education enhances productivity and individuals' earnings; thus, education is a substantial investment. Education and individual experience are the focal point in the human capital concept (Sweetland, 1996). Education augments an individual's stock of knowledge, information and skills to identify and utilise new opportunities effectively. The learning capacity linked to human capital stock significantly leverages the spread of knowledge. Experience evokes an individual's human capital and mitigates uncertainty regarding the value of opportunities. Experience includes work experience and other relevant practical learning on the job and non-formal education such as training. Human capital is the most critical factor in understanding individual and managers readiness and tendency to contribute to innovation in firms. Without profound investment in human capital by all nations, the global economy cannot prosper. Generally, human capital investment encompasses health and nutrition, and education constantly appears as the major human capital investment (Teixeira and Fortuna, 2004). The victorious countries and successful firms specialise in knowledge-intensive products and services, whereas unsuccessful countries specialise in lower-skilled and raw material-intensive products. However, in emerging countries, investment in human capital is vital if they want to eradicate poverty. Human capital is inestimable for the generation of knowledge and production of goods and services. Due to the sift of knowledge-intensive production processes, its importance has increased (De la Fuente, 2003).

The underlying assumptions in human capital theory include: the people absorb knowledge and skills by training and education, which is known as human capital. These skills and stock of knowledge would augment their productivity in the workplace (Marginson, 1993). This productivity will lead to a higher salary for the people because in a perfect employment market, the salary of an individual, determined by the individual's productivity. Thus, individuals might invest in education above and beyond to the point where the private paybacks from education are equivalent to the private cost. Given the stated assumptions, the cogency of human capital theory vibrant that training and education augment human capital, bringing higher productivity, consequently it leads to a higher salary for the people (Sweetland, 1996). Grounded on this argument, scholars claimed that education and individual incomes are positively associated, that is to say, education enhances an individual's skills, this eventually augments productivity; then the higher productivity should be rewarded by higher salary and therefore education and training ought to be facilitated in firms (Sweetland, 1996).

The configuration of human capital is the best determining factor of innovation in firms. Generally, a higher level of formal education in human capital is significantly linked to open-mindedness and receptiveness to innovation (Kimberly and Evanisko, 1981). Thus, it is critical for firms to captivate and systematise knowledge and to be innovative (Protogerou et al., 2017) because talented, skilled employees, managers, and innovative entrepreneurs are needed to handle sophisticated technology, to produce efficiency to create new products and processes, and to absorb innovations. Various studies support that human capital facilitates individuals to recognise and develop opportunities (Shepherd and DeTienne, 2005). One of the salient features of innovation is the ability to identify and capitalise on opportunities. Therefore, human capital is a profound component in the innovation process. Innovation and firm success require desired role behaviours that transcends the standard job requirements and considerably hang on an individual's enthusiasm and motivation to engage in these behaviours (Lenihan et al., 2019). Specifically, individuals' readiness to engage in such work behaviours to support innovation depends on their attitude towards their jobs and firms (Allen et al., 2011). Therefore, these attitudes and behaviours about jobs and company said to be the critical element of human capital that can leverage innovation in organisations.

H2: Human resource management practices positively relate to human capital

H3: Human capital positively relates to firm innovation

H4: Human capital mediates the relationship between human resource management practices and firm innovation

Management Research and Practice
Volume 14, Issue 2 / June 2022

3. METHODOLOGY

Based on the ontological and epistemological assumption, the present study investigates the mediating role of human capital in the relationship between HRM and firm innovation in SMEs. The present study adoptsa survey method as the research strategy and the data were gleanedfrom slef-reported questionnaire. Constructs in the questionnaire comprise the background information, human resource management practices, human capital and firm innovation. The unit of analysis is firm-level data. The respondents were chosen using a purposive sampling technique. The population of the study is the SMEs operating in the Northern region. A total of 170 questionnaire were distributed. Of the 148 returned questionnaires, 21 were incomplete. The remaining 127 questionnaires were used for further quantitative analysis. The response rate was 74.70 per cent.

3.1. Measures

Recruitment and selection was measured using a five-item scale developed by Edgar and Geare (2005). The sample question includes "the recruitment and selection processes in this organisation are impartial". Training and development was measured using a three-item scale developed by Boselie et al., 2001). The sample item includes "I am well prepared for my work because of the training, I received from my business unit". Performance appraisal was measured by a seven-item scale adopted from (Singh, 2004). The sample item includes "performance of the employees is measured based on objective, quantifiable results, appraisal system in our organisation is growing and development-oriented". Compensation system was measured using a three-item scale developed by Boselie et al.(2001). The sample item includes "'I am not getting underpaid for my work". Human capital was measured with a five-item scale developed by Youndt and Snell (2004). The sample item includes "our employees are creative and bright". In this study, innovation performance was measured by a nine-item (product, process and administrative innovation) scale developed by (Jiménez-Jimenez and Valle, 2008). The all iterms were measured on a Likert scale where the respondents were requested to specify their level of agreement on each item ranging from 1=strongly disagree to 7=fully agree.

4. RESULTS

The PLS-SEM involves the evaluation of measurement model and the evaluation of the structural model (outer model). The evaluation of measurement model (inner model) includes measuring the internal consistency of the model (reliability and validity). The evaluation of the structural model includes the assessment of the R2, f2, Q2, and path coefficients (Hair et al., 2014).

The internal consistency of the models was assessed using Cronbach's Alpha, Composite Reliability. According to Hair et al. (2014) the standard threshold value is 0.7. In this study, the three constructs' values show high level of internal consistency, exceeding in all cases a value of 0.8 (Table 1). Convergent validity was tested using AVE. If AVE values greater than 0.5 recognised as good (Hair et al., 2020). It indicates that more than half of the variability of the constructs they reflect. Table 1 shows all AVE values are higher than the threshold values, meaning the convergent validity is supported.

Discriminant validity was assessed using two methods; Fornell-Larcker criterion and Heterotrait-Monotrait Ratio (HTMT).

Fornell-Larcker criterion indicates that square root of AVE of each construct in the model (diagonal) should be greater than the intercorrelations (off-diagonal) of other each construct (Hair et al., 2014). Table 2 shows all AVE values (bolded) are greater than the correlations with any other constructs. This indicates that the discriminant validity of the model has been achieved.

Management Research and Practice
Volume 14, Issue 2 / June 2022

TABLE 1 - CONSTRUCT VALIDITY AND RELIABILITY

Variables	Item	Outer loadings	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
HRM	h1	0.810				
	h2	0.511				
	h3	0.641				
	h4	0.698				
	h5	0.784				
	h6	0.727				
	h7	0.569				
	h8	0.747	0.863	0.983	0.884	0.526
	h9	0.597				
	h10	0.627				
	h11	0.688				
	h12	0.835				
	h13	0.809				
	h14	0.757				
	h15	0.551				
Human capital	hc1	0.693				
	hc2	0.880				
	hc3	0.640	0.853	1.041	0.890	0.685
	hc4	0.820				
	hc5	0.760				
Innovation	inn1	0.517				
	inn2	0.793				
	inn3	0.879				
	inn4	0.753	0.924	0.928	0.944	0.771
	inn5	0.950				
	inn6	0.748				
	inn7	0.676				

TABLE 2 - FORNELL-LARCKER CRITERION

	HRM	Human capital	Innovation
HRM	**0.725**		
Human capital	0.543	**0.828**	
Innovation	0.458	0.774	**0.878**

Additionally, table 2 shows the correlations among constructs. HRM positively associated with firm innovation ($r=0.458$, $p<0.05$). Human capital positively associated with firm innovation ($r=0.774$, $p<0.05$). HRM positively associated with human capital ($r=0.243$, $p<0.05$).

Table 3: Heterotrait-Monotrait Ratio (HTMT)

	HRM	human capital
human capital	0.479	
Innovation	0.427	0.778

The table 3 shows the HTMT results. It indicates that construct's values are fall under the suggested value of 0.85 (Hair et al., 2014). Thus, it does not indicate any discriminant validity problems of the model.

Management Research and Practice
Volume 14, Issue 2 / June 2022

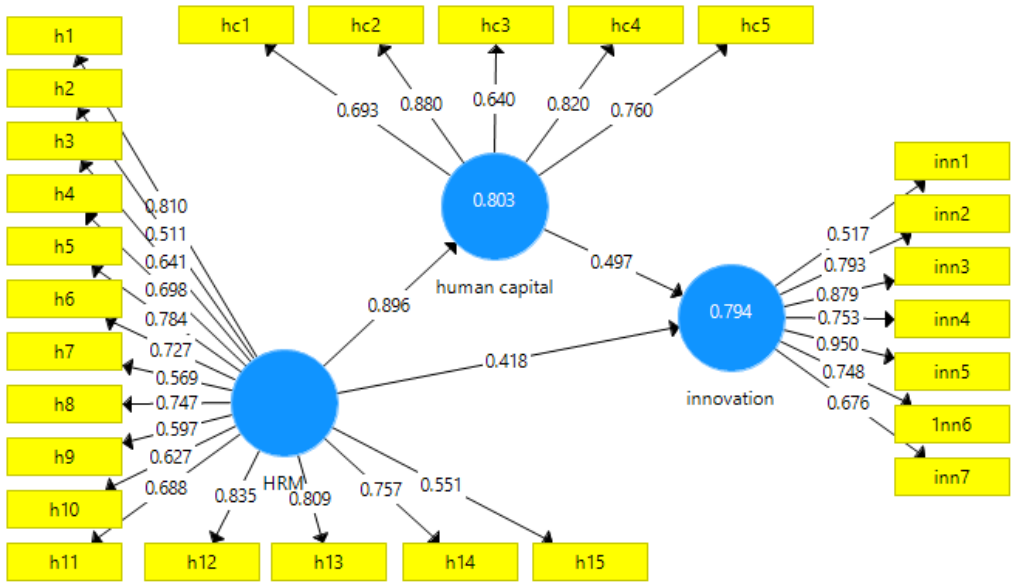

FIGURE 1 - PLS ALGORITHM

Referring to table 4, the R^2 for human capital was 0.803, innovation was 0.794. This shows that 80.3% of the variance in the human capital, 79.4% of the variance in the innovation is explained by the independent constructs in the model.

Q2 measure is an indicator of predictive relevance of the model. Using blindfolding procedure, Q2 values are calculated to assess the quality of the model. In the SEM, the Q2 values should be greater than zero for a specific endogenous latent variable (Hair et al., 2021). The Q2 values for this model was equal to (0.448, 0.454), which was greater than the threshold value, and satisfies that the path predicative relevance of the path model was adequate for the endogenous constructs.

TABLE 4 - PATH COEFFICIENTS

	Path coefficients	Standard Deviation	T Statistics	P Values	f2	R^2	Q^2
HRM → human capital	0.896	0.015	59.426	0.000	0.082	0.803	0.448
HRM → Innovation	0.418	0.056	7.466	0.000	0.167	0.794	0.454
Human capital → Innovation	0.497	0.054	9.232	0.000	0.236		
HRM→ human capital→ innovation	0.445	0.049	9.066	0.000			
Total effect							
HRM → Innovation	0.863	0.022	38.700	0.000			

PLS-SEM with 5000 subsamples bootstrapping was used to test the hypotheses, and the results are displayed in Figure 1. Hypothesis (H1) predicted that human resource management practices positively relate to firm innovation (β=0.418, t=7.466, p<.001) was supported. Hypothesis (H2) foretold that human resource management practices positively relate to human capital (β=0.896, t=59.426, p<.001).Hypothesis (H3) predicted that human capital positively relates to firm innovation was supported (β=0.497, t=9.232, p<.001). Mediation analysis was performed to assess the mediating role of human capital on the relationship between human resource management practices and firm innovation (H4). The result (see table 4) revealed that the total effect of HRM practices on firm innovation was significant (β=0.863, t=38.7, p<.001). With the inclusion of the mediating variable (HC), the impact of (HRM) on (FI) became significant (β=0.418, t=7.466, p<.001). The indirect effect of HRM on FI through HC was found significant (β=0.445, t=9.066, p<.001). This shows that the relationship between HRM and FI is partially mediated by HC. With regard to effect sizes of the

constructs (f2), HRM and human capital has small effect (0.082), HRM and innovation has medium effect (0.167), and human capital and innovation has medium effect (0.236).

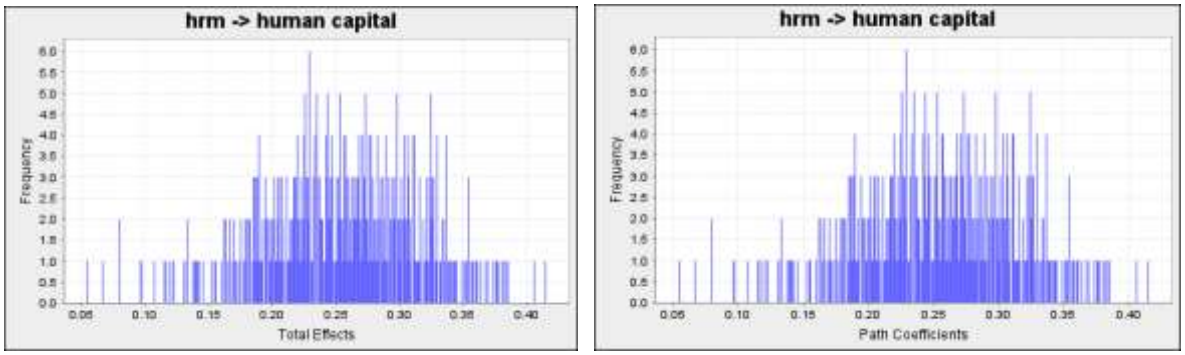

FIGURE 2 - GRAPHICAL REPRESENTATION OF THE PATH COEFFICIENT

5. DISCUSSIONS

This study sought to investigate the impact of HRM practices on firm innovation, and to explore the role that human capital plays in this relationship. The findings indicate that HRM practices positively associated with human capital, which in return relate positively to firm innovation. Moreover, the hypothesis(H_1) predicted that HRM practices positively relate to firm innovation was supported. The findings are in line with the previous research (Jiménez-Jimenez and Valle, 2008; Shipton et al., 2006; Adla et al., 2019; Chen and Huang, 2009; Ling and Nasurdin, 2010; Shipton et al., 2005). They found HRM practices such as recruitment, training, performance appraisal, compensation system positively relates to organisational innovation. The hypothesis (H_2) prophesied that HRM practices positively related to human capital was supported. Several explorative studies have found that specific HRM practices are the rudimentary in order to influence the human capital of the firm (Yamao et al., 2009; Youndt and Snell, 2004). The hypothesis (H_3) foreseen human capital positively relates to firm innovation was supported. The results are consistent with the earlier findings (Nieves and Quintana, 2018). The literature emphasises that stimulating human capital could facilitate organisational innovation (Kasaeva et al., 2014; Nieves and Quintana,2018). That is to say, knowledge, skills and capabilities and attributes embedded in firm's human resources is saliant to organisation's ability to captivate and shape the knowledge needed in the innovation process. The hypothesis (H_4) foretold that human capital mediates the relationship between HRM practices and firm innovation was supported. The findings show support for the mediating effect of human capital on the relationship between HRM practices and firm innovation. HRM practices works their valuable effects on firm innovation through the capacity in human capital.

The present study contributed to the human resource management theory by unearthing the relationship between HRM practices, human capital and firm innovation. On an equal footing, this study provides significant practical implications for managers who are in the quest to evoke firm innovation to reap sustained competitive advantage. Thus, mangers have to severely manage their human capital using various HR practices to evoke its ability in facilitating firm innovation. Moreover, ceaseless investment in human capital can foster skills, knowledge, capabilities and competencies required for creative and innovative thoughts that ultimately leverage innovation performance. Further, to simplify the link between HR practices and firm innovation, managers or owners should understand the strategic significance of the human capital. Subsequently, they must deploy HR practices to reap a robust human capital which in return enhancing desired firm innovation outcomes.

6. CONCLUSIONS

Research on HRM practices and firm innovation are plethora in developed countries, nonetheless, such studies in developing counties such as Sri Lanka are still in infancy stage. Importantly, the resultsobtained from developed countries cannot be generalisable to the context of developing countries. Thus, this study

filled the gaps by examining the mediating effect of human capital in the relationship between HRM practices and firm innovation. The findings emphasize the vital roles of HRM practices and human capital in the process of firm innovation. To augment the firm innovation, HRM practices and human capital of the firm should be monitored ceaselessly.

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