

# The Effect of Human Resource Management: Strategy and Culture, Toward Performance Through Innovation

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Accuracy in implementing strategic human resources strengthens an organisation. It involves reliability in strategic human resources and a strong organisational culture. This is a challenge for organisations, especially boarding schools. This research aims to analyse the influence of strategic human resource and organisational culture on organisational performance through innovation strategies in learning and in service in Islamic boarding schools. Specific targets to be achieved are strategic human resource fields, which are appropriate and carried out by Islamic boarding schools to improve the performance of their organisations. They should be supported by a strong organisational culture and reliable Strategic HR in order to create innovations that meet the needs of stakeholders. The object of this research is a boarding school that has educational facilities in several cities in East Java. The analysis tool was used by SEM with the Amos approach. This research is quantitative causal in design and used explanatory research. It was conducted at Islamic boarding schools in Ponorogo, Trenggalek, Tulungagung, Malang Kediri, Sidoarjo. The population includes managers, teachers, and employee representatives making human resources management strategic decisions. The findings show that strategic human resources directly influences the performance of Islamic boarding schools, and that strategic human resources have a significant effect on performance through innovation mediation and innovation acts as a partial mediation. Organisational culture does not directly affect performance, but organisational culture can improve performance through mediation of innovation. Innovation acts as full mediation.

**Key words:** *Human resource strategic, organisational culture, innovation, and organisational performance.*

## Introduction

East Java is one of the provinces in Indonesia, and has the most populous population in Indonesia. In line with the dense population, each year continues to have great potential for the emergence of children who are looking for school. The children and adolescents who are looking for schools are a problem for the community, government and other related parties. Not all schools can be accommodated in public general schools, but in the East Java region there are also many Islamic boarding schools. Based on the appeal and the Decree of the Minister of Religion and the Minister of Education of the Republic of Indonesia, Islamic boarding schools are not only accommodating people who study Islam (Diniyah), but must pay more attention to the users of their services, in this case students and their parents. Students not only expect religious learning services and general education but also expect an increase in emotional intelligence, comfort, good accommodation, and harmonious relationships between the lodge manager, teacher or cleric, and clerks / employees. The latest issues are the emergence of schools managed by Islamic boarding schools, which are able to get high trust from the community. In the learning process, they are able to create competitiveness through the creation of science and technology, as well as an entrepreneurial spirit within learning process. High public trust is supported by the role of a reliable strategic HR, strong organisational culture, and human resources who create innovations so that they can support the achievement of expected organisational performance competitiveness. East Java has quite a number of Islamic boarding schools scattered in several areas including Malang Raya, Pasuran, Probolinggo, Kediri, Ponorogo, Jombang, and others.

Islamic boarding schools are one of the developments in the world of Islamic-based education that seems to be a paradigm shift, with a higher level of public trust in the implementation of education that not only relies on religious teaching, but also high-quality public knowledge, and are professionally managed. Such Islamic boarding schools are based on diniyah and advanced science. Community trust is certainly supported by the role of human resource strategy which includes motivation, commitment, training and development, compensation, and a work culture that is able to bring up innovations and improve organisational performance.

Human resource strategy is a strategic area of organisation that requires organisations to open themselves to the demands of change and strive to develop strategies and policies that are in line with changes in the organisational environment. Human resource strategy can assist organisations to increase the efficiency and cost effectiveness of their human resources, and operating efficiency, increase innovation and revolutionary capabilities, as well as enhance organisational performance benefits (Chang & Huang, 2005). Strategic human resource management is defined as a system that enhances, encourages, and retains employees for better results (Schuler and Jockson, 1987). Schuler and Jackson define strategic human resource management into four main parts such as planning, staffing, assessment, compensation,

training and development. Human resource management must be done strategically. It must always be linked and harmonised with company strategy (Millmore et al, 2007; Leopold and Harris, 2009; Snell and Bohlander 2010). Lengnick-Hall et al (2009) and Pourkiani et al. (2011) added that strategic human resource management focuses on the company's strategic options related to human resource management and their impact on performance as aligned with company goals.

The success of Islamic boarding schools can be related to how well they manage the organisation. One of the keys to the success of the organisation is strategic HR management. Nigam, Nongmaithem, Sharma, and Tripathi (2011) in their research found that there is a significant influence between strategic HR on organisational performance through moderation of business strategies. Another study found that strategic HRM and innovation had a significant effect on organisational performance (Chang & Huang, 2005). However, there are inconsistencies in the results of research on the influence of Strategic HR on performance which are not significant (Akong'o Dimba, 2010)

Every organisation in any field always tries to create a conducive work culture in the hope that it will be able to improve organisational performance. If the company wants to achieve superior performance, it must create inter-functional coordination, openness and flexibility which are the basic values supporting the success of the organisation. Lee, WL, Chong, AL, and Ramayah (2018) found that organisational culture can improve performance. Organisational culture can enhance competitiveness and high responsiveness to environmental changes perfectly. However, research conducted by Zhao, Teng, and Wu (2018) shows that organisational culture does not have a significant effect on organisational performance as represented by financial performance.

Research by Naranjo-Valencia, Jiménez-Jiménez, and Sanz-Valle (2011) examines the influence of organisational culture on innovation orientation. The results show that specifically culture of adhocracy will have a positive effect on innovative orientation, while hierarchical culture will foster imitative orientation. Furthermore Anning-Dorson (2017) found that innovative organisational culture mediates and reduces the original effects of innovation and the interaction of market demand on company performance. The effect of product terms between product innovation and market demand on company performance is mediated by organisational culture predictor variables (product terms from product innovation and market demand), which are significantly related to mediator variables (organisational culture) while mediators are also related to performance variables (financial and non-financial). The results show that all mediation paths are significant; thus, product innovation and market demand in organisational culture are significant, as well as organisational culture, which significantly related to both financial and non-financial performance. The results showed that the introduction of innovative organisational culture into the equation changed the negative effects

of product innovation in periods of high demand on performance. Xenikou and Simosi (2006) examine organisational culture and transformational leadership on the performance of business units. The results show that the achievement and orientation of adaptive culture has a significant direct effect, whereas transformational leadership and humanistic orientation have an indirect influence on the achievement of performance.

The positive significant effect between strategic HR on innovation is found by Singh (2018). The results of interpretation show that there is an influence of Strategic HR on innovation performance through knowledge management capabilities. The research proves that strategic human resource management significantly influences the ability of innovation and furthermore the ability of innovation also significantly influences innovation performance. To improve their innovation capabilities, companies must pay attention to good strategic human resource management so that companies are expected to have a competitive advantage.

Based on the description and phenomena above, it is necessary to do research on the interrelation of the role of strategic HR and work culture on organisational performance as mediated by employee innovation.

## **Theory**

### ***Strategic Human Resources and Performance***

Human resource strategy is a strategic area of an organisation that requires organisations to open themselves to the demands of change and strive to develop strategies and policies that are in line with changes in the organisational environment. Strategic HR can assist organisations in increasing the efficiency and cost effectiveness of their human resources, operating efficiency, increasing innovation and revolutionary capabilities, and enhancing organisational performance benefits (Chang & Huang, 2005).

Another study found that human resource strategy and innovation had a significant effect on organisational performance (Chang & Huang, 2005). However, there are inconsistencies in the research regarding the influence of human resource strategic on performance. Some results are not significant (Akong'o Dimba, 2010).

The success of Islamic boarding schools can be related to how they can manage an organisation. One key to the success of the organisation is human resource strategic management. Nigam, Nongmaithem, Sharma, and Tripathi (2011) found that there is a significant influence between human resource strategy on organisational performance through the moderation of business strategies.

**H1:** Implementation of strategic HR can improve organisational performance



### ***Organisational Culture and Performance***

Every organisation in any field always tries to create a conducive work culture in the hope that it will be able to improve organisational performance. If the company wants to achieve superior performance, it must create inter-functional coordination, openness and flexibility which are the basic values supporting the success of the organisation. Lee, WL, Chong, AL, and Ramayah (2018) found that organisational culture can improve performance. Organisational culture can enhance competitiveness and high responsiveness to environmental changes perfectly. However, research conducted by Zhao, Teng, and Wu (2018) show that organisational culture does not have a significant effect on organisational performance as represented by financial performance.

**H2:** The stronger a work culture, the higher the performance

### ***Human Resources and Innovation Strategy***

The positive significant effect between human resources strategic on innovation is the findings of Singh (2018). The results of interpretation show that there is an influence of human resource strategy on innovation performance through knowledge management capabilities. The research proved that strategic human resource management significantly influences innovation and furthermore innovation also significantly influences innovation performance. To improve their innovation capabilities, companies must pay attention to good strategic human resource management, so companies are expected to have a competitive advantage.

**H3:** Implementation of strategic HR can increase innovation

### ***Organisational Culture and Innovation***

Research by Naranjo-Valencia, Jiménez-Jiménez, and Sanz-Valle (2011) examined the influence of organisational culture on innovation orientation. The results shown that the culture of adhocracy will have a positive effect on innovative orientation, while hierarchical culture will foster imitative orientation. Furthermore Anning-Dorson (2017) found that innovative organisational culture mediates and reduces the original effects of innovation and the interaction of market demand on company performance.

**H4:** Increase a work culture processes can increase to the innovation

### ***Innovation and Performance***

Similar research conducted by Chang and Huang (2005) entitled, “The Relationship Between Strategic Human Resource Management and Firm Performance: A Contingency Perspective,” found that strategic HR and innovation had a significant effect on organisational performance with PMS (strategic marketing product) variables as moderating factors. The survey was conducted in Taiwan on 235 companies using regression analysis tools.

Research conducted by Aryanto, Fontana, and Afiff (2015) entitled, “Strategic Human Resource Management, Innovation Capability and Performance: An Empirical Study in Indonesia Software Industry,” found as many as 42 companies out of 172 Indonesian software companies. This proves that strategic human resource management significantly influences the ability of innovation and furthermore the ability of innovation also significantly influences innovation performance. To improve their innovation capabilities, companies must pay attention to good strategic human resource management so that companies can have a competitive advantage.

Strong organisational culture can affect the performance of the organisation. This is evidenced in a study by Anning-Dorson (2017) entitled, “Moderated-mediation Effect to the Market Demand and Organisation Culture on Innovation and Performance Relationship Resulting in an Innovative Organisational Culture Mediating and Reducing Original Effects from Innovation and the Interaction of Market Demand on Company Performance.” The effect of product terms between product innovation and market demand on company performance is mediated by organisational culture. In mediating effects using SEM (Lu, Y., Zhou, L., Bruton, G. and Li, 2010) predictor variables (product terms of product innovation and market demand) must be significantly related to mediator variables (organisational culture), while mediators are also related to the outcome variable (financial and non-financial performance). The results show that all mediation paths are significant. Product innovation and market demand in organisational culture are significant, and organisational culture is also significantly related to both financial and non-financial performance. The results show that the introduction of innovative organisational culture into the equation changed by the negative effects of product innovation in periods of high demand on performance.

**H5:** Increase in innovation can improve organisational performance.

### **Methodology**

Roscoe (1975, in Malhotra, 1993) argued that in determining a size of the sample, i.e. if the variables are used a lot, the minimum sample size is the number of indicators multiplied by 5-10 times. It is also possible that the determination of the number of samples will be adjusted to

the conditions in the field. Solimun (2002) required that SEM analysis have a sample size between 100-200 units by considering the causality relationship between research variables.

This research was conducted using a quantitative approach with SEM analysis. The unit of analysis is a boarding school that has been successful in managing the performance and success of the organisation. The survey was conducted by the research team assisted by field staff. Researchers conducted the initial approach to the managers and staff of Islamic boarding school teachers to determine their willingness to become research respondents before conducting data collection using a questionnaire that had been made.

The subjects included the managers, teacher staff, and academic staff in the Islamic boarding school. The object is a boarding school with a level of education at the level of junior high / Madrasah Tsanawiyah or high school / Madrasah Aliyah in East Java.

The population is a boarding school in East Java which in accordance with the object of research. The sample units are managers, teachers and employee representatives making human resources strategic management decisions with the consideration that they are the parties involved in the implementation of human resource management in Islamic boarding schools. The sample unit is also a party that directly feels the work culture in the boarding school where they work. Accurate population numbers are not available due to the absence of statistical data on this matter. Based on these conditions, the step taken by researchers is to go directly to cities in East Java that have boarding schools to see the distribution and diversity.

The sampling technique is "purposive sampling," meaning that researchers will deliberately choose a boarding school that meets the sample criteria in accordance with the research objectives, such as Islamic boarding schools in Ponorogo (Ponpes Darussalam Gontor, Ponpes Mawadah, Ponpes Ngabar), Trenggalek (Ponpes Sunan Giri Trenggalek), Tulung Agung (Ponpes Modern Darul Hikmah Putri), Malang (Ponpes Ar-Rohmah Islamic Boarding School Putra), Ponpes Ar Rohmah Putri, Ponpes An Nur Putra, Ponpes An Nur Putri, Ponpes International Islam Boarding School (IIBS), Tazkia Putra, Ponpes Tazki Putri, Ponpes Azkia Putri, Ponpes Daarul Ukhuwwah Putra Pakis Malang, Ponpes Daarul Ukhuwwah Putri Malang, Ponpes Ar Rifai Putra, Ponpes Ar Rifai Putri, Ponpes Daarul Aliyah Malang, Ponpes Azkia Batu), Sidoarjo (Ponpes Al-Fattah Putri and Ponpes Darul Fikri), and Kediri (Al Falah Mojo Kediri and Ponpes Lirboyo).

## **Results and Discussion**

The work culture created in the Islamic boarding school environment is already high. This is proven because, even though the salary is not too big, it has a high morale. The managers and teachers are not only materially oriented but also oriented towards obtaining charity. The reality

is that many parents / guardians of students give to charity, are steadfast in the form of food, and some even give waqf in the form of land, although sometimes the waqf involves mutual cooperation from several people.

Learning innovations other than tahfiz, Darpes Fikri Sidoarjo Islamic Boarding School has animal husbandry and mini market businesses. Service innovations in the field using financial technology and digital marketing have been implemented in all boarding schools with proven ease of access through Google Maps. Some forms of training conducted by Islamic Boarding School include training in the preparation of syllabus teaching kits or learning program plans.

An Al-Fatah Islamic Boarding School in Sidoarjo has high entrepreneurial practices in business management including having a fish pond business located in the area of Ponpes, goat farming in cooperation with residents around Ponpes, tent rental for a celebration, a business of order for students who have worked; a cheaper tariff of 40% is reserved for teaching staff. Al-Fatah Islamic Boarding School gives rewards in the form of free umrah for managers / educators. In addition, Al-Fatah Islamic Boarding School facilitates educators to continue their education with the help of scholarships.

Islamic boarding school improves the quality of human resources through formal education with the help of scholarships. Islamic Boarding Schools improve the quality of human resources through informal education in the form of training in the preparation of syllabus or Learning Program Plans.

In innovation, as well as basic learning, it also provides programs to develop students' interest in Arabic, English, books, Scouts, and Tahfids. Related to the use of FinTech, it is intended for students who come from outside the area.

In general, businesses run by Islamic boarding schools, in addition to the core business in the field of general education and religion, includes businesses in the field of trade (mini markets, cooperatives), businesses in the field of animal husbandry (goat raising), fisheries (catfish), Agriculture, Hajj and Umrah Bureau, Laundry business, and home stay or guest housing. The line of business involves the community around the boarding school as workers. These businesses turned out to generate significant profits and are usually used to improve the welfare of managers and the development of Islamic Boarding Schools.

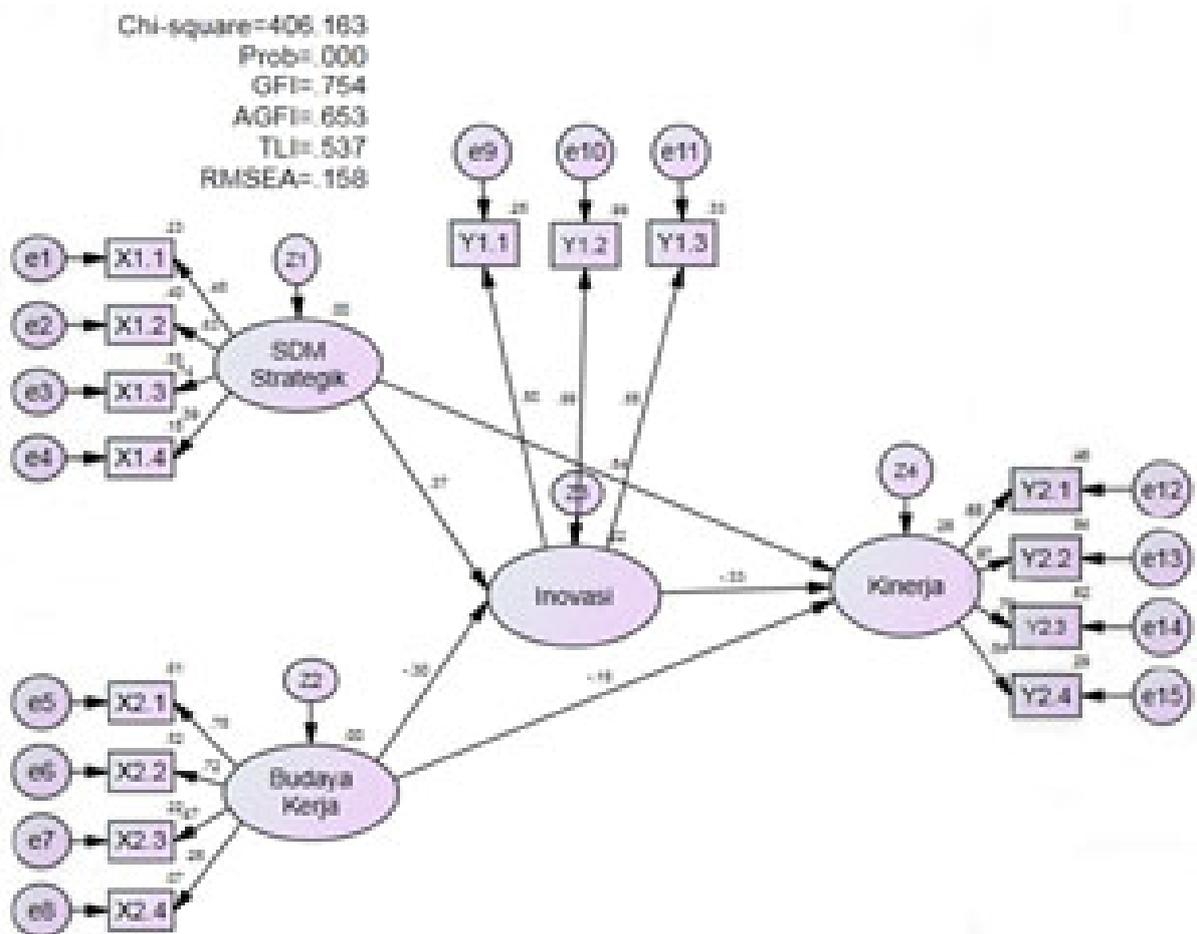
### ***Structural Equation Modelling Test (SEM)***

Based on the method of determining values in the model, the first model testing variables are grouped into exogenous variables and endogenous variables. Exogenous variables are variables whose values are determined outside the model, whereas endogenous variables are variables

that are determined through equations or relationship models that are formed. Included in the group of exogenous variables are strategic HR management and work culture, while those included in endogenous variables are innovation and performance.

The model is said to be good if the development of a hypothetical model is theoretically supported by empirical data. To be more clear, we will illustrate in full the initial structural equation modelling in Figure 1.

**Figure 1.** Measurement of factors and model test results on the relationship between strategic human resource management (X1), work culture (X2) to innovation (Y1), and initial performance (Y2):



**Table 1:** Evaluation of the Early Stage Goodness of Fit Index Model criteria

Criteria	Cut-off Value	Results	Conclusion
Chi-Square	Small	406.163	Not Good
P Value	$\geq 0.05$	0.000	Not Good
AGFI	$\geq 0.90$	0.653	Not Good
GFI	$\geq 0.90$	0.754	Not Good
RMSEA	$\leq 0.08$	0.158	Not Good
TLI	$\geq 0.95$	0.537	Not Good

Source: primary data processed (2019)

### Final Stage SEM Test Results

The final stage model test results consider the link between strategic human resource management (X1), work culture (X2) to innovation (Y1), and performance (Y2), and are presented in Figure 2 below.

**Figure 2.** A measurement of factors and model test results on the relationship between human resource management strategy (X1), work culture (X2), to innovation (Y1), and performance (Y2):



The model test results presented in the picture above are evaluated based on the goodness of fit indices criteria in Table 1. The following are presented with the model criteria and critical values that have data suitability.

**Table 2.** Evaluate the Final Stage Model Goodness of Fit Index criteria

Criteria	Cut-off Value	Result Model	Conclusion
Chi-Square	Small	80.616	Good
P Value	$\geq 0.05$	0.047	Not Good
AGFI	$\geq 0.90$	0.873	Not Good
GFI	$\geq 0.90$	0.935	Good
RMSEA	$\leq 0.08$	0.046	Good
TLI	$\geq 0.95$	0.961	Good

**Source:** primary data processed (2019)

The model shows that the evaluation of the model for the construct as a whole has produced a value above the critical value, except for the evaluation results with the p-Value and AGFI criteria. So, it can be stated that the model can be accepted or is in accordance with the data.

### ***Hypothesis Testing***

Testing this hypothesis is done to answer the questions in the study. Table 3 presents the values of the regression coefficient (regression weight estimate) and critical ratio (t arithmetic) to facilitate the making of conclusions and analysis of research results. The hypothesis will be accepted if the value of the critical ratio (t arithmetic) is greater than the value of t table or the value of p value  $\leq 0.05$ .

**Table 3:** Test Model - The Relationship Between Strategic Human Resource Management, Work Culture to Innovation and Performance

Hypothesis	Independent Variable	Dependent Variable	Loading factor	T Count (C.R.)	P value	Results
H.1	Human Resource Management Strategic	Performance	1.124	3.187	0.001	Accepted and significant
H.2	Work Culture	Performance	-0.511	-1.531	0.126	Rejected and not significant
H.3	Human Resource Management Strategic	Performance	0.421	2.611	0.009	Accepted and significant
H.4	Work Culture	Performance	-0.467	-2.034	0.042	Accepted and significant
H.5	Innovation	Performance	-0.612	-2.964	0.003	Accepted and significant

Source: Primary Data Processed (2019)

Based on Table 3, it can be seen that from the 5 (five) hypotheses tested, there were 4 (four) tests that were received and had a significant influence. There was 1 (one) test that was rejected and had a non-significant effect.

## Discussion

### *The Effect between Human Resources Strategic Management on Performance*

The results of hypothesis testing shows that strategic HR management represented by indicators of HR planning, HR development, performance management and reward management influence performance. This means that boarding school performance is

supported by careful HR planning and attention to improving the ability of managers in the form of training, evaluating and providing compensation both in financial and non-financial forms. This research expands the study by Aryanto (2015), which was conducted at software companies in Indonesia. Both studies produced the same findings even though organisational performance was measured using different indicators namely technical, internal, commercial, economic and social performance. In addition, these findings also support research conducted by Chang and Huang (2005), Ali et al. (2018), Sanchez et al. (2015) and Unnikammu (2011). This research is not in line with research conducted by Dimba (2010) on 50 companies in Kenya whose performance measurements use indicators of product quality, company image and interpersonal relationships.

### ***The Effect between Work Cultures on Performance***

The results of hypothesis testing shows that work culture as represented by indicators of involvement, consistency, adaptability and mission do not influence performance. This means that the achievement of performance in the fields of finance, marketing, human resources and operations achieved by the boarding school is not influenced by the work culture that exists between the managers and employees of the boarding school. These findings support the research of Zhao et al (2018) on publicly listed companies in China which shows that work culture does not significantly influence the company's financial performance because the companies that are listed as sample companies are not varied or homogeneous. Thus, work culture does not affect performance.

Research conducted by Lee et al. (2018) showed that manufacturing companies in Malaysia use indicators of appreciation, cooperation, openness, professionalism, quality and success to measure work culture variables. The results indicate that organisational culture influences the competitiveness and responsiveness of the company. The research conducted by Simosi (2006) used achievement orientation, humanistic indicators, and adaptation, to show that work culture influences an organisation's financial performance.

### ***The Effect between Strategic Human Resource Management and Innovation***

The results of hypothesis testing show that strategic HR management as represented by indicators of HR planning, HR development, performance management and reward management, influence innovation. This means that the innovations made by Islamic boarding schools are influenced by the ability of Islamic boarding school employees in implementing strategic HR management. These findings broaden and strengthen the research conducted by Ariyanto (2015) in software companies that distinguish the indicators of innovation, namely sensing capability, combination, networking. Singh (2018) uses certain administrative and technical indicators of innovation in the hospitality industry in India.

### ***The Effect between Work Culture and Innovation***

The results of hypothesis testing shows that work culture as represented by indicators of involvement, consistency, adaptability and mission influence innovation. This means that the innovations carried out by boarding schools are influenced by the work culture that exists between the managers and employees of boarding schools. These findings are in line with previous research conducted by Valencia (2011) which uses work culture indicators, including adhocracy, clan, market, hierarchy, and technical innovations, in companies in Spain. Pickled & Pickled (2012) uses indicators of work culture, including adhocracy, clan, market, hierarchy, innovation, products, processes, markets, behaviour and strategies, in hospitals in Turkey. Uzokurt et al, 2013 uses indicators of innovation, including incremental innovation and customer advantage (INCA), in banking companies in Turkey.

### ***The Effect between Innovations on Performance***

The results of hypothesis testing shows that innovation as represented by indicators of product innovation, learning innovation and service innovation, have an influence on performance. This means that the performance achieved by boarding schools is influenced by innovations made by the managers and employees of boarding schools. These findings are in line with Dorson's research (2017) using indicators of product innovation on financial and non-financial performance in companies in Ghana without limiting the type of industry. Al-Nahyan (2016) looked at banking companies in the United Arab Emirates. McDermott & Prajogo (2012) said that used the Innovation indicator: Exploitation and Exploration of financial and marketing performance. Valencia et al., (2016) examined indicators of product innovation, process and management innovation on performance in industrial companies, except agriculture, in Spain.

### **Research Implications**

Based on the results of this study there are several developments that can be done in further research. In this study it was found that work culture did not influence the performance of Islamic boarding schools. This is due to the characteristics, values, and norms of Islamic Boarding School, which are different from other educational institutions, so it is necessary to adjust indicators on work culture variables.

### **Conclusions and Recommendations**

Strategic human resource management has been proven to improve the performance of Islamic boarding schools. An achievement in Islamic boarding schools in the fields of finance, marketing, human resources, and operations is influenced by the ability of managers and



employees in carrying out human resource planning, human resource development, performance management, and reward management.

Work culture is not proven to be able to improve the performance of Islamic boarding schools. The achievement of Islamic boarding schools is not directly influenced by the work culture that exists between managers and employees.

Strategy for human resource management is proven to be able to increase innovation in Islamic boarding schools. Product innovation, learning and services carried out by boarding school managers and employees are influenced by the strategic implementation of human resource management.

Work culture has proven to be able to increase innovation in Islamic boarding schools. The application of involvement, consistency, adaptability and shared mission in the work culture in Islamic boarding schools can strengthen the implementation of product, learning and service innovation by managers and employees.

Innovation is proven to improve the performance of Islamic boarding schools. Innovation is proven to be able to fully mediate the influence of work culture on boarding school performance. This shows that the application of involvement, consistency, adaptability and shared mission as work culture in Islamic boarding schools must be accompanied by product innovation, learning and services in order to improve the performance achieved by Islamic boarding schools.

### **Suggestion**

Although the majority of employees are not too oriented towards wages, salaries, incentives, because they have an orientation to worship and charity, increased attention to employees (teachers and managers) is needed, especially in terms of improving welfare by providing incentives.

Encouraging employees in implementing a work culture that innovates in learning and service innovation is also needed, given the role of innovation in improving organisational performance is very high.

Islamic boarding schools are the object of research. Although the majority already have high performance, they need to continually make adjustments to learning, so that it is tailored to the needs of the millennial generation, specifically in terms of being more responsive and adaptive to the need for knowledge about information technology and business in the e-commerce era.



Preparing boarding school human resources, namely teachers and managers, through competency improvement training both in teaching and managing boarding schools is also needed.

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