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Enhancing Innovative Work Behavior Through High-Involvement HRM Practices and Knowledge Management Capability

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Abstract

High-Involvement Human Resource Management (HI-HRM) has been recognized as an important driver of employee innovation; however, the mechanism through which it influences Innovative Work Behavior (IWB) remains underexplored. This study examines the mediating role of Knowledge Management Capability (KMC) in the relationship between HI-HRM and IWB among workers in the MSME and industrial sectors in Jepara Regency, Indonesia. This study employed a quantitative approach using Partial Least Squares Structural Equation Modeling (SEM-PLS). Data were collected from 132 workers in the MSME and industrial sectors through purposive sampling. The structural model demonstrated substantial explanatory power, with R^2 values of 0.734 for IWB and 0.600 for KMC. The results indicate that HI-HRM has a significant positive effect on KMC ($\beta = 0.775$; $p < 0.001$) and IWB ($\beta = 0.455$; $p < 0.001$). KMC also has a significant positive effect on IWB ($\beta = 0.454$; $p < 0.001$). Furthermore, KMC partially mediates the relationship between HI-HRM and IWB ($\beta = 0.352$; $p < 0.001$), highlighting the importance of knowledge management capability in translating HRM practices into innovative employee behavior. These findings support the Resource-Based View (RBV) and Dynamic Capability Theory by demonstrating that KMC functions as a strategic capability linking human resource management practices and innovation outcomes. The study suggests that organizations should strengthen knowledge management systems and implement high-involvement HRM practices to enhance sustainable innovation and competitiveness.

Keywords: HI-HRM, *Knowledge Management Capability, Innovative Work Behavior*

1 Introduction

As the global business environment becomes more dynamic, companies must constantly adapt through innovation. Innovation doesn't just depend on technology anymore. It also depends on the people in the organization being able to come up with and carry out new ideas. In this situation, innovative work behavior (IWB) is one of the most important things that sets an organization apart from its competitors. IWB shows how employees act when they come up with, promote, and put into action new ideas that have a direct effect on how well the organization does (Janssen, 2000). The OECD report from 2023 says that companies that encourage employee innovation have 20–30% more productive workers than companies that don't.

Furthermore, the international economy has become knowledge-based, making knowledge the most critical asset for organizations. A 2022 World Bank study states more than 60% of modern firms' value derives from intangible assets like information and cognition. KMC, knowledge management capacity, is the capacity to manage knowledge in companies. It helps sustain innovation. Getting, sharing, and applying knowledge affects a person's ability to generate new ideas (Fayda-Kinik & Cetin, 2023; Gold et al., 2001).

However, studies reveal that many businesses struggle to maximize knowledge management. A corporate culture unable to encourage knowledge sharing, a lack of information systems, and unmotivated staff might make knowledge sharing difficult (Donate & Sánchez de Pablo, 2015; Naqshbandi & Jasimuddin, 2018; Sarkar et al., 2016).. This makes it impossible for the company to leverage its expertise to generate new ideas alone. Even if the company has ample expertise, people do not innovate.

Along with knowledge, HRM practices drive IWB. Modern HRM emphasizes employee engagement to promote performance and innovation. Rana & Chopra (2019) report that 23% of workers worldwide are engaged. The remainder are either engaged or not. Minimal staff engagement results in a diminished quantity of inventive concepts and advancements. Individuals no longer believe that HRM approaches centered on control, compliance, and operational efficiency foster innovation. The high-involvement HRM method enhances employee engagement and fosters creative behavior through empowerment, training, open communication, and incentive systems (Boxall & Macky, 2014; MacKy & Boxall, 2008). Human resource management that prioritizes employee engagement transforms the workplace into an environment where employees may actively contribute to the generation of innovative ideas.

In Indonesia, especially in the industrial sector, making IWB better is getting harder and harder. According to the Central Statistics Agency (2023), the manufacturing sector makes up about 18% of the country's GDP. However, compared to other ASEAN countries, the level of industrial innovation is still fairly low. This shows that there is a gap between the potential of the industry and its ability to innovate. At the regional level, like Jepara Regency, which is known for making furniture and other things, the problems with innovation are getting worse because of competition from other countries and the needs of the export market.

Many firms in Jepara are small and medium sized enterprises (SMEs) embedded in industrial clusters, unlike large companies that usually have formal innovation systems and structured knowledge management processes. These firms are based on tacit knowledge, apprenticeship systems, informal knowledge sharing, family business traditions and collaborative social networks. Knowledge is often passed on by observation, experience and interpersonal interaction, rather than through formal organizational systems. So the innovation of the Jepara industrial cluster is not only influenced by organizational resources but also by the willingness of employees to share knowledge, collaborate and actively participate in innovation activities. The

extraordinary conditions indicate that the mechanisms of innovative work behavior may not be the same as in large companies and tech-intensive industries.

A number of earlier studies have looked at how KMC and IWB are related, as well as how HRM and IWB are related. Andreeva & Kianto (2012) study found that organizations that are good at managing knowledge are more likely to come up with new ideas. At the same time, Jiang (2012) and Renkema et al. (2017) found that HRM practices can help employees do better by getting them more involved. Nonetheless, the majority of these studies analyzed the variables in isolation and failed to incorporate both factors into a cohesive model.

Most of the existing research has also been carried out in large organisations, multinational corporations or technology intensive industries in developed countries. As a result, the influence of knowledge management capability and high-involvement HRM practices on innovative work behavior in SMEs in industrial clusters with informal knowledge-sharing mechanisms and strong socio-cultural relationships is still poorly understood. This limitation is not to be underestimated as the innovation processes in SMEs are often based on the interaction between people, transfer of tacit knowledge and employee initiative rather than formal innovation systems.

A considerable part of HRM research still follows a general organizational perspective and pays limited attention to employee engagement. However, employee engagement is an important psychological and behavioral mechanism which connects organizational resources and HRM practices to innovative outcomes. Psychologically engaged employees tend to invest discretionary effort, share knowledge and engage in innovation-related activities.

Although the awareness of employee engagement as an important organizational resource is increasing, relatively few studies have examined its mediating role in translating knowledge management capability and high involvement HRM practices into innovative work behavior. The theoretical gap is of particular relevance in industrial-cluster contexts, where innovation is heavily reliant on employee involvement, collaboration and informal learning processes.

Moreover, most of the empirical work has been carried out in developed economies or in large industrial organizations. Evidence in the context of developing countries and SME environments is thus scarce. This makes the findings so far less generalized, especially in understanding how innovation arises in regional industrial clusters such as Jepara Regency. Hence, further empirical research is needed to generate context-specific evidence on determinants of innovative work behavior.

Therefore, this research intends to fill the theoretical and contextual gaps by developing an integrated framework that examines the impact of knowledge management capability and high-involvement HRM practices on innovative work behavior through employee engagement. The present study has three important novelties. First, it explores innovative work behavior in the context of the Jepara creative manufacturing cluster, which is still underrepresented in the innovation and HRM literature. Second, it combines knowledge management capability and high-involvement HRM practices in a single framework rather than examining them separately. Third, it positions employee engagement as a core behavioral mechanism that converts organizational knowledge resources and HRM practices into innovative work behavior.

Thus, this study aims to investigate the extent to which knowledge management capability and HRM practices that enhance employee engagement contribute to innovative work behavior. This study contributes to a more contextualized understanding of innovation in developing economies by extending the Resource-Based View (RBV) and Dynamic Capability Theory to the context of SMEs and industrial clusters. The results are expected to provide theoretical and practical

contributions for organizations to improve innovation capability and improve the competitiveness of industries in Jepara Regency.

2 Literature Review

2.1. High – Involvement Human Resource Management (HI-HRM)

High-Involvement Human Resource Management (HI-HRM) refers to a system of HR practices designed to maximize employees' involvement in organizational decision-making and improve organizational performance through empowerment, participation, extensive training, information sharing, and incentive systems Lawler (1986). Unlike traditional HRM approaches that focus primarily on control and supervision, HI-HRM emphasizes employee autonomy, competence development, and psychological ownership. Employees are encouraged to actively contribute ideas, solve problems collaboratively, and participate in continuous improvement activities.

Research has consistently demonstrated that HI-HRM enhances employee creativity, organizational commitment, work engagement, and innovation performance Boxall & Macky (2014) ; Jiang et al., (2012). According to AMO Theory (Ability Motivation Opportunity), HI-HRM improves employees' innovative behavior by simultaneously increasing their abilities through training, motivation through rewards, and opportunities through participation in organizational decision-making. Consequently, organizations implementing HI-HRM create an environment that stimulates experimentation, creativity, and innovation among employees.

2.2. Knowledge Management Capability (KMC)

Knowledge Management Capability refers to an organization's capability to effectively acquire, create, store, share, integrate, and utilize knowledge to achieve organizational objectives. KMC consists of both infrastructure capabilities (technology, organizational culture, organizational structure) and process capabilities (knowledge acquisition, conversion, application, and protection) (Donate & Sánchez de Pablo, 2015). Organizations possessing strong KMC facilitate continuous learning and enable employees to access relevant knowledge efficiently. This environment encourages collaboration, organizational learning, and innovation.

According to Dynamic Capability Theory, KMC enables organizations to transform available knowledge into innovative products, services, and work practices (Zahra & George, 2002). Previous studies have consistently reported that firms with stronger KMC exhibit higher innovation performance and employee creativity Donate & Pablo (2015). Therefore, KMC is expected to function as an important organizational capability linking HRM practices and employee innovation.

2.3. Innovative Work Behavior (IWB)

Innovative Work Behavior (IWB) refers to employees' intentional behavior aimed at generating, promoting, and implementing new ideas that improve organizational performance Janssen (2000). Unlike creativity, which primarily concerns idea generation, IWB encompasses the entire innovation process, including idea exploration, idea generation, idea championing, and idea implementation (de-Jong & den-Hartog, 2010).

Employees demonstrating high IWB actively seek new opportunities, propose creative solutions, mobilize organizational support, and implement innovative ideas in their work. Previous research indicates that IWB is influenced by various organizational factors, including leadership,

organizational climate, HRM practices, knowledge sharing, and learning capability (bos-Nehles & Veenendaal, 2019). Because innovation increasingly depends on knowledge-intensive work, organizations require effective HRM systems and strong knowledge management capabilities to encourage employees' innovative behaviors.

3 Research Methodology

This study used quantitative methods to determine causal associations between research model variables. This study examined how knowledge management and employee engagement-focused HRM affect IWB. The researchers chose this method because it produces quantitative empirical evidence and allows statistical hypothesis testing.

The population of this study was those who were actively involved in the industrial and creative business activities in Jepara Regency, Indonesia. Different from the large scale manufacturing industry that has formalized organizational structures, the industrial ecosystem in Jepara is the existence of micro and small enterprises organized in local industrial clusters. In such contexts, business owners, entrepreneurs, managers and employees are often directly involved in operational activities, knowledge sharing processes, workforce management, and innovation-related decision making. This is why the unit of analysis in this study is not restricted to formal employees, but also includes individuals who are actively involved in organizational and innovation processes.

The research setting is selected in Jepara Regency because it is known as one of the prominent industrial clusters in Indonesia especially in the field of furniture, woodcraft and creative industries. Due to the global competition and the requirements of the export market, the local industries are under increasing pressure to improve their innovation capabilities through an effective knowledge management and human resource management practices.

The respondents were obtained by purposive sampling. The inclusion criteria were: (1) actively engaged in industrial business activities for at least 1 year, (2) engaged in operational, managerial, or innovation activities in their organization or business unit, and (3) had sufficient understanding of organizational knowledge management and workforce management practices. These criteria were established to ensure that respondents could assess knowledge management capacity, high-involvement human resource management practices and innovative work behavior in their work environment. A total of 132 valid responses were collected and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The sample size was larger than the minimum requirement for PLS-SEM and considered adequate to test the proposed research model.

This research measured variables using a Likert scale from 1 to 5, with 1 indicating severe disagreement and 5 strong agreements. KMC is measured using Gold et al. (2001) organizational capacity indicators. Lee & Choi (2003) and Chuang (2004) expanded this strategy. KMC's three main components—knowledge acquisition, knowledge sharing, and knowledge utilization—show how firms may efficiently share and use information to stimulate innovation.

Furthermore, the concept of high-involvement HRM practices was developed by Wood et al. (2012) and enriched by Boxall & Macky (2014) and Jiang (2012) to measure HRM practice variables based on employe involvement. Four main indicators operationalize this variable: empowerment, training and development, information sharing, and reward systems. These indicators show how strongly the organization encourages active participation, enhances competence, provides information transparency, and offers fair compensation to employes to increase their engagement in work. Meanwhile, the variable IWB is measured using a scale developed by Janssen (2000). This scale consists of three main dimensions: idea creation, idea

promotion, and idea implementation. These dimensions describe the overall individual innovation process, from idea creation to its implementation in the work environment.

The study collected data by questionnaire. Respondents received the questionnaire immediately and online based on specified variable indicators. Before wider dissemination, the instrument was pilot tested to verify clear question items and avoid measurement bias. This step is essential for instrument content authenticity.

For data analysis, researchers employed Partial Least Squares-based Structural Equation Modeling (SEM-PLS) with the SmartPLS software. This program can evaluate complex models without normal distribution assumptions. Researchers evaluated the outside measurement model to assess its validity and reliability. This comprised factor loading, AVE, discriminant validity, Cronbach's alpha, and composite reliability tests. A structural model, the inner model, assessed variable correlation strength using R^2 and coefficient values. Bootstrapping the hypothesis to determine t and p metrics was the final step. If the t measure is more than 1.96 and the p value is less than 0.05 at 5% significance, the hypothesis is accepted.

The method allowed researchers to provide trustworthy findings on KMC and employee engagement-based HRM practices' effects on IWB in the Jepara Regency industrial region.

4 Research Findings and Discussion

4.1. Research Findings

The respondent profile indicates that females made up 59% of the sample and males 41%. Most respondents (62%) were aged between 18 and 25 years old, indicating that the industrial sector in Jepara is dominated by productive-age people. In terms of educational attainment, 67 percent of respondents had completed senior high school or vocational education, and 16 percent had a bachelor's degree.

Table 1. Respondent Profile

Category	Frequency	%
Gender		
Male	54	41
Female	78	59
Age		
18–25 years	82	62
26–30 years	14	11
31–40 years	20	15
41–50 years	12	9
51–60 years	4	3
Education Level		
Junior High School	18	14
Senior High School/Vocational School	88	67
Diploma (D3)	4	3
Bachelor Degree (D4/S1)	22	16
Occupational Status		
Entrepreneur/Owner-Manager	64	48
Private/Factory Employee	42	32
Informal Worker	12	9
Others	14	11
Company Size		

< 10 Employees	96	73
11–49 Employees	18	14
50–249 Employees	6	5
250–999 Employees	4	3
≥ 1,000 Employees	8	5

With regard to occupational status, 48% were entrepreneurs/ owner-managers, 32% were private-sector or factory employees, 9% were informal workers and 11% were of other occupational categories. This composition is a reflection of the distinctive characteristics of Jepara's industrial cluster, in which the business owners are often involved directly in the operational, managerial, and innovation-related activities.

As for firm size, 73% of respondents were linked to companies with less than ten employees, confirming the predominance of micro and small enterprises in the Jepara industrial ecosystem. This finding is consistent with the structure of the furniture and creative industry clusters in Jepara where the innovation activities are largely driven by owner-managed businesses and informal knowledge sharing practices.

Table 2. Respondent Role Classification

Group	Frequency	Percentage
Employees	54	41%
Owner-Managers	64	48%
Others	14	11%

As shown in Table 2, 48% of the respondents were owner-managers, 41% employees and 11% other occupational categories. This composition is a reflection of characteristics of Jepara's industrial cluster dominated by micro and small enterprises where the business owners directly involve in operational, managerial and innovation related activities. Unlike large organizations, owner-managers in these firms often perform human resource, knowledge management and innovation functions simultaneously. Their inclusion in the sample thus offers a more accurate representation of innovation processes in the local industrial ecosystem. By including both employees and owner-managers in balanced representation, the study is better able to capture different perspectives on knowledge management, HRM practices and innovative work behavior in cluster-based industries.

Evaluation of the Measurement Model (Outer Model)

Convergent Validity

The Stage I outer loading evaluation shows that all HI-HRM, IWB, and KMC indicators have sufficient loading levels. HRM5, HRM7, and HRM8 had values below 0.70, but they were deleted or abolished (Hair et al., 2021; Henseler et al., 2015).

Table 3a. Outer Loading I

	HI-HRM	IWB	KMC
HRM1	0.724		
HRM2	0.717		
HRM3	0.730		
HRM4	0.756		
HRM5	0.684		
HRM6	0.733		
HRM7	0.712		
HRM8	0.684		

HRM9	0.800		
HRM10	0.804		
HRM11	0.777		
HRM12	0.777		
HRM13	0.795		
HRM14	0.766		
HRM15	0.765		
HRM16	0.709	0.771	
IWB2		0.825	
IWB3		0.815	
IWB4		0.750	
IWB5		0.818	
IWB6		0.841	
KMC1			0.763
KMC2			0.746
KMC3			0.877
KMC4			0.729
KMC5			0.798

The second stage evaluation of the measurement model is shown in Table 3b. The results show that most indicators have outer loadings above the threshold of 0.70 recommended, which shows satisfactory indicator reliability and convergent validity. The outer loadings for the HI-HRM construct vary from 0.706 to 0.810, except for HRM7 which has a loading value of 0.688. This value is a little lower than the recommended threshold of 0.70 but it is above the minimum acceptable level of 0.60 for exploratory studies. However, HRM7 contributes relatively weakly to the construct in comparison to the other indicators.

The load value of the indicators of Innovative Work Behavior (IWB) is high, from 0.750 to 0.841. Likewise, the Knowledge Management Capacity (KMC) indicators also have satisfactory loadings in the range of 0.729 to 0.877. The highest loading value is found for KMC3 (0.877) which means this indicator is strongly representing the KMC construct. Loading values were in general acceptable, but later assessment of discriminant validity showed that the Fornell–Larcker criterion was not fully met. Hence, further model refinement was undertaken to improve construct quality and distinctiveness.

Table 3b. Outer loading II

	HI-HRM	**IWB**	**KMC**
HRM1	0.730		
HRM2	0.728		
HRM3	0.725		
HRM4	0.751		
HRM6	0.725		
HRM7	0.688		
HRM9	0.810		
HRM10	0.810		
HRM11	0.791		
HRM12	0.786		
HRM13	0.808		
HRM14	0.765		
HRM15	0.771		
HRM16	0.706		
IWB1		0.771	
IWB2		0.825	
IWB3		0.815	

IWB4		0.750	
IWB5		0.818	
IWB6		0.841	
KMC1			0.763
KMC2			0.746
KMC3			0.877
KMC4			0.729
KMC5			0.797

HRM7 was dropped to enhance the psychometric quality of the measurement model because of its relatively low loading value and its possible contribution to the construct overlap. Table 3c shows the modified measurement model. The outer loadings of the remaining HI-HRM indicators increased marginally after the removal of HRM7 (ranged from 0.707 to 0.816). HRM10 (0.816), HRM13 (0.810), HRM9 (0.806), and HRM11 (0.794) were the strongest indicators suggesting that these items contribute the most to the HI-HRM construct.

The values of loading were between 0.750 and 0.841 which made the IWB construct stable. Similarly, the loadings of the KMC construct were strong with values between 0.730 and 0.877. After refinement, no indicators fell below the recommended threshold. Comparing Tables 3b and 3c, the removal of HRM7 improved the overall measurement model while retaining the theoretical integrity of the construct. Therefore, the refined model shows higher convergent validity and indicator reliability and is retained for further validity, reliability and structural model analyses.

Table 3c. Outer loading III

	HI-HRM	**IWB**	**KMC**
HRM1	0.734		
HRM2	0.730		
HRM3	0.721		
HRM4	0.755		
HRM6	0.727		
HRM9	0.806		
HRM10	0.816		
HRM11	0.794		
HRM12	0.795		
HRM13	0.810		
HRM14	0.760		
HRM15	0.776		
HRM16	0.707		
IWB1		0.771	
IWB2		0.825	
IWB3		0.815	
IWB4		0.750	
IWB5		0.817	
IWB6		0.841	
KMC1			0.762
KMC2			0.747
KMC3			0.877
KMC4			0.730
KMC5			0.797

Table 4 shows the final measurement model after indicator purification process. The refinement was done in order to improve the quality of the measurement model and to solve the problem of discriminant validity found in the previous stages of analysis.

Table 4. Outer Loading IV

	HI-HRM	IWB	KMC
HRM1	0.756		
HRM2	0.744		
HRM3	0.706		
HRM4	0.740		
HRM9	0.814		
HRM10	0.814		
HRM11	0.803		
HRM12	0.805		
HRM13	0.828		
HRM14	0.750		
HRM15	0.778		
IWB1		0.771	
IWB2		0.825	
IWB3		0.815	
IWB4		0.749	
IWB5		0.817	
IWB6		0.841	
KMC1			0.762
KMC2			0.747
KMC3			0.877
KMC4			0.731
KMC5			0.797

The results reveal that the outer loading values of all remaining indicators are above the recommended value of 0.70. Outer loadings of the High-Involvement Human Resource Management (HI-HRM) construct are from 0.706 to 0.828. The strongest indicators are HRM13 (0.828), HRM9 (0.814), HRM10 (0.814), HRM12 (0.805), and HRM11 (0.803) which indicate that these items are important in the representation of employee involvement-oriented HRM practices. The lowest loading value is for HRM3 (0.706) which is still above the acceptable threshold.

The construct of Innovative Work Behavior (IWB) had a good reliability of indicators with loading values from 0.749 to 0.841. The highest loading among these indicators is IWB6 (0.841), followed by IWB2 (0.825), IWB5 (0.817), and IWB3 (0.815). The results show that the indicators can sufficiently reflect the innovative behaviors of employees, such as idea generation, idea promotion and idea implementation.

Similarly, the construct of Knowledge Management Capacity (KMC) has good loading values ranging from 0.731 to 0.877. The highest loading value (0.877) is KMC3, which indicates that it is the most representative indicator of organizational knowledge management capability. The other indicators also have a good level of reliability with loading values above the recommended threshold.

In summary, the final measurement model exhibits satisfactory indicator reliability and convergent validity. The psychometric properties of the model were improved by eliminating several weaker indicators while preserving the theoretical representation of each construct. Thus, the refined measurement model was used to move to the validity, reliability and structural model assessments.

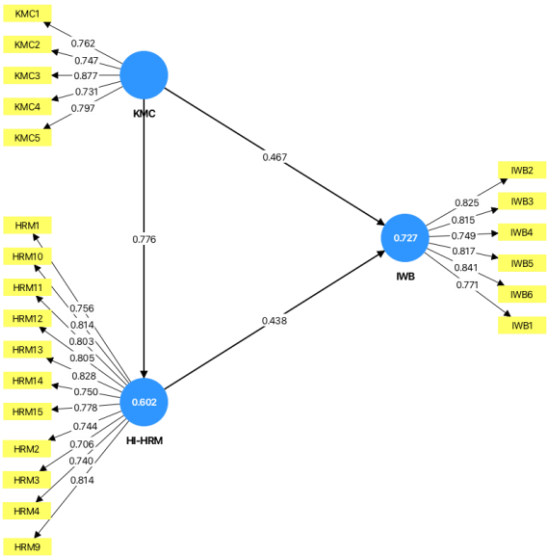

Figure 1. *Outer Model*

Discriminant Validity

Discriminant validity was tested using three complementary approaches, namely the Heterotrait–Monotrait Ratio (HTMT), Fornell–Larcker criterion, and cross-loading analysis. Although the Fornell–Larcker criterion indicates a marginal overlap between HI-HRM and IWB, this issue is common in organizational behavior research where constructs are theoretically interconnected. The relatively high correlations may reflect substantive relationships rather than measurement problems. Therefore, the HTMT criterion should be considered as a complementary and more robust assessment of discriminant validity. If all HTMT values remain below the recommended threshold of 0.90, the discriminant validity of the measurement model can still be considered acceptable despite the partial violation of the Fornell–Larcker criterion.

Table 5. Fornell-Larcker

	HI-HRM	IWB	KMC
HI-HRM	0.777		
IWB	0.800	0.804	
KMC	0.776	0.807	0.826

The HTMT values of all construct pairs were below the recommended threshold of 0.90 (Henseler et al., 2015), which indicates good discriminant validity. In particular, the HTMT values were 0.875 for HI-HRM and IWB, 0.867 for HI-HRM and KMC, and 0.892 for IWB and KMC.

Table 6. HTMT

	HI-HRM	IWB	KMC
HI-HRM			
IWB	0.875		
KMC	0.867	0.892	

Cross loading analysis was conducted to further test for discriminant validity. Table 7 shows that all indicators have the highest loading on their respective construct compared to other constructs. For example, HRM10's loading on HI-HRM is the highest (0.816), IWB6's loading on IWB is the highest (0.841) and KMC3's loading on KMC is the highest (0.877). These results indicate that each measurement item sufficiently represents its intended construct.

Table 7. *Cross Loading*

	HI-HRM	IWB	KMC
HRM1	**0.756**	0.590	0.715
HRM2	**0.744**	0.618	0.615
HRM3	**0.706**	0.574	0.539
HRM4	**0.740**	0.617	0.526
HRM9	**0.814**	0.594	0.598
HRM10	**0.814**	0.630	0.633
HRM11	**0.803**	0.659	0.642
HRM12	**0.805**	0.626	0.566
HRM13	**0.828**	0.645	0.552
HRM14	**0.750**	0.677	0.650
HRM15	**0.778**	0.592	0.562
IWB1	0.557	**0.771**	0.620
IWB2	0.616	**0.825**	0.655
IWB3	0.652	**0.815**	0.716
IWB4	0.630	**0.749**	0.562
IWB5	0.680	**0.817**	0.661
IWB6	0.714	**0.841**	0.668
KMC1	0.636	0.655	**0.762**
KMC2	0.496	0.575	**0.747**
KMC3	0.691	0.691	**0.877**
KMC4	0.561	0.631	**0.731**
KMC5	0.638	0.604	**0.797**

Several indicators had relatively high cross-loadings, especially for HRM1 (0.734 in HI-HRM and 0.715 in KMC), but the main loading was higher in the assigned construct. This pattern suggests a certain degree of conceptual proximity between HI-HRM, KMC, and IWB, which is theoretically expected. High-involvement HRM practices help employees acquire, share and use knowledge, which in turn encourages them to generate, promote and implement innovative ideas. Therefore, moderate correlations among these constructs suggest their complementary roles in organizational innovation processes, instead of the absence of construct distinctiveness. Therefore, the cross-loading assessment further supports discriminant validity Additionally, all HTMT values were below the recommended threshold of 0.90, which implies that the constructs are still empirically distinct.

Construct Reliability

Construction reliability and validity tests verify that all study variables are well-measured. Based on Cronbach's Alpha, HI-HRM is 0.941, IWB 0.890, and KMC 0.842. All these scores are over 0.70, indicating strong internal consistency, implying the indicators may assess the same notion across all structures (Hair et al., 2021).

Table 8. Results of Construct Reliability Test

	Alpha	rho_a	rho_c	AVE
HI-HRM	0.941	0.941	0.948	0.585
IWB	0.890	0.893	0.916	0.646
KMC	0.842	0.848	0.888	0.615

The composite reliability values (rho_a and rho_c) provide excellent results. The HI-HRM construct has a rho_c of 0.948, IWB of 0.916, and KMC of 0.888. All these values surpass the

minimal criterion of 0.70, signifying the robust capacity of the construct to elucidate the hidden variable. In SEM-PLS, composite reliability is deemed more precise than Cronbach's alpha since it accounts for the contribution of each indication (Henseler et al., 2015).

The AVE value for each concept also passes convergent validity requirements. The AVE for HI-HRM is 0.585, IWB 0.646, and KMC 0.615. Since all values are over 0.50, the latent construct explains more than half of the indicator variance. This means each variable's indicators accurately represent the measured construct (Fornell & Larcker, 1981). Thus, the measurement model fulfills convergent validity and reliability requirements. Thus, these data may be used for a deeper structural model study (Hair et al., 2021; Henseler et al., 2015).

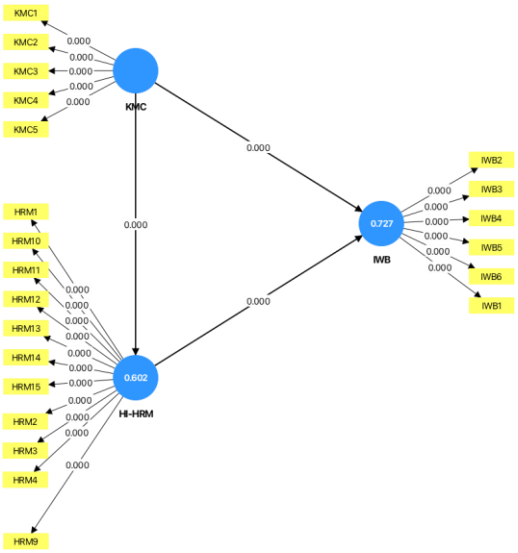

Figure 2. *Inner Model*

Evaluation of the Structural Model (Inner Model)

The structural model (inner model) evaluation shows significant prediction and relevance in explaining endogenous variables. The R-squared (R^2) value for the IWB variable is 0.727, and the adjusted value is 0.723. HI-HRM and KMC explain 72.7% of IWB variance. Meanwhile, the R^2 value for HI-HRM is 0.602 (adjusted 0.599), indicating the capability of KMC to explain 60.2% of the variation in HI-HRM. Hair et al. (2021) classify R^2 values of 0.75 as high, 0.50 as moderate, and 0.25 as weak. The model has great explanatory power for IWB and moderate for HI-HRM.

Table 9. R-Square Value

	R-Square	R-Square Adjusted
HI-HRM	0.602	0.599
IWB	0.727	0.723

Subsequently, the f-square (f^2) findings demonstrate the impact of each exogenous variable on the endogenous variable. The influence of HI-HRM on KMC has an f^2 value of 1.514, indicating a very large effect. HI-HRM has 0.279 and KMC 0.318, both significant to substantial effects on IWB. Cohen (1987) classifies f^2 values of 0.02 as small, 0.15 as medium, and 0.35 as big. Therefore, HI-HRM significantly improves KMC and IWB, both directly and indirectly.

Table 10. F-Square Value

	HI-HRM	IWB
HI-HRM		0.279
KMC	1.514	0.318

From the perspective of predictive relevance, the Q^2 predicted value for KMC is 0.590 and for IWB is 0.643, both higher than zero. The results prove that the model predicts observational data excellently. The model's prediction errors are within an acceptable range due to its low RMSE and MAE values (Hair et al., 2021). These results show that the structural model has substantial explanatory power, significant connection effects, and decent predictive capacity, making it ideal for assessing variable relationships in this study.

Table 11. Q^2 Predict Value

	Q²predict	RMSE	MAE
KMC	0.590	0.654	0.461
IWB	0.643	0.607	0.456

Research Hypothesis Testing Results

The structural model evaluation indicates the positive and significant relation of all the hypothesis. As shown in Table 12, High-Involvement Human Resource Management (HI-HRM) has a significant positive effect on Innovative Work Behavior (IWB) ($\beta = 0.438$, $t = 5.965$, $p < 0.001$). The finding suggests that organizations that practice employee centered HRM practices such as empowerment, participation, training and information sharing are more likely to foster innovative behavior among employees. The more employees are engaged in organizational processes, the more they tend to actively contribute by way of idea generation, promotion and implementation.

The results also reveal that HI-HRM has a positive effect on Knowledge Management Capability (KMC) ($\beta = 0.776$, $t = 16.098$, $p < 0.001$). This is the most robust relationship in the model, suggesting that engagement-oriented HRM practices are important for the development of organizational capabilities related to knowledge acquisition, sharing and utilization. This finding underlines the importance of HRM systems as strategic tools for the development and preservation of knowledge resources in organizations.

Moreover, KMC has a strong effect on IWB ($\beta = 0.467$, $t = 5.861$, $p < 0.001$). The result shows that the better the organization manages and uses knowledge, the more likely employees will perform innovative activities. The availability of relevant knowledge, opportunities for knowledge sharing, and the utilization of organizational knowledge support the development of creative ideas and innovative solutions at the workplace.

The mediation analysis further supports the significant mediating role of KMC in the relationship between HI-HRM and IWB ($\beta = 0.340$, $t = 5.106$, $p < 0.001$). As both direct effect of HI-HRM on IWB and indirect effect through KMC are significant, the mediation is partial mediation. The result suggests that HI-HRM has both direct and indirect effects on innovative work behavior through the enhancement of organizational knowledge management capabilities.

The results of the SMEs' point of view in Jepara Regency show that employee involvement alone is not enough to generate sustainable innovation. Instead, there is a need for organizational mechanisms that support employee participation and facilitate knowledge sharing and knowledge utilization. Most of the SMEs in the Jepara area are in industrial clusters where tacit knowledge, craftsmanship and informal learning processes are the dominant sources of competitive

advantage. Therefore, companies that implement participative HRM practices and have effective knowledge management systems are more likely to create innovative behavior in their employees.

The findings also support the Resource Based View and Dynamic Capability Theory. HI-HRM is an organization mechanism to develop valuable human resources while KMC is a strategic capability that enables organizations to integrate, transform and exploit knowledge resources. These capabilities together contribute to the organizational innovation capacity and value creation and to the firms' competitiveness in the face of increasingly dynamic business environments.

Table 12. Summary of Hypothesis Testing Results

Hypothesis	O	T-statistics	P-value	"Decision"
HI-HRM → IWB	0.438	5.965	"0.000"	"Supported"
HI-HRM → KMC	0.776	16.098	"0.000"	"Supported"
KMC → IWB	0.467	5.861	"0.000"	"Supported"
HI-HRM → KMC → IWB	0.340	5.106	"0.000"	"Supported"

The results indicate that KMC partially mediates the relationship between HI-HRM and IWB. Moreover, the high coefficient of the HI-HRM → KMC path affirms that knowledge management capability is an important channel linking engagement-oriented HRM practices to innovative employee behavior. The results show the importance of the integration of human resource management and knowledge management strategies in the development of sustainable organizational innovation.

4.2. Discussion

The research results show that HI-HRM has a positive and significant impact on IWB. These findings indicate that engagement-based HRM practices can create a work environment that encourages employes to innovate. Employe involvement in decision-making, training, and competency development strengthens intrinsic motivation to generate new ideas. These findings are consistent with research showing that HRM plays a crucial role in fostering employe creativity and innovative behavior (Hoang Dang et al., 2025; Mehboob & Haque, 2024; Otoo et al., 2025).

Furthermore, the strong influence of HI-HRM on IWB can also be explained thru the perspective of Social Exchange Theory, where organizations that provide support and trust to employes will receive a return in the form of innovative behavior. When employes feel valued, they tend to contribute more in the form of ideas and creative solutions. This is in line with the finding that engagement-based HRM practices create a positive reciprocal relationship between the organization and employes (Alam et al., 2024).

The findings are especially relevant to the context of Jepara Regency where many firms are small and medium-sized enterprises operating in industrial clusters, particularly in the furniture and woodcraft industries. Unlike large firms that rely on formalized innovation systems, the innovation of Jepara SMEs is often based on practical experience, tacit knowledge, and direct contact of employees with customers and production processes. Therefore, HRM practices that foster participation, empowerment and communication become important mechanisms to stimulate innovative work behavior. Employees who are actively involved in the activities of the organization can better identify the shortcomings of the production process, make suggestions for improving the product and adapt to changing market conditions.

The study also found that HI-HRM strongly impacts KMC. This shows that HRM approaches are both administrative and strategic in establishing knowledge-based organizational capabilities. Learning systems, information exchange, and sustained competency development are HRM

functions. Research shows that HRM affects knowledge management skills in firms (Abu-Mahfouz et al., 2023; Kokkaew et al., 2022; Nguyen & Le, 2024; Shahin et al., 2025).

The Resource-Based View (RBV) views KMC as a strategic resource that is hard to copy and gives a competitive edge. HRM accumulates and develops those resources. Knowledge-managing firms will innovate (Chen & Huang, 2009; Cristache et al., 2025; Hamdedi et al., 2024). This relationship becomes more meaningful in SME environments where knowledge is often embedded in individuals rather than documented in formal systems. Many SMEs in Jepara rely heavily on experiential knowledge acquired through years of craftsmanship and customer interaction. Consequently, HRM practices that facilitate communication, training, and collaboration serve as important mechanisms for transforming individual knowledge into organizational knowledge. Without such practices, valuable knowledge may remain isolated within individuals and fail to contribute to organizational innovation.

This research similarly found a strong KMC effect on IWB. This suggests that knowledge management helps organizations foster innovation. Structured and accessible knowledge helps people innovate and enhance work. Research shows that information management capabilities directly increase IWB (Nassani et al., 2024). KMC also stores knowledge and facilitates organizational learning. Individual innovation is driven by information exchange, development, and application. Research shows that information quality and management improve employees' innovation (Anser et al., 2020).

The strong relationship between KMC and IWB may also reflect the importance of informal knowledge sharing behavior in local industrial clusters. Knowledge exchange in Jepara generally happens informally, in the form of informal discussions, peer-to-peer, apprentice practices, and between firms and networking. Informal mechanisms allow employees to find practical solutions, new production techniques and innovative ideas from their peers. Innovation is thus not only produced by formal organizational processes, but also shaped by the social and collaborative dynamics of the local industrial ecosystem.
The study also found that KMC mediates HI-HRM-IWB. This suggests that HRM affects innovation both directly and indirectly via improving knowledge. This mediation confirms that successful HRM improves the organization's knowledge system, which fosters innovation. These findings support evidence indicating knowledge management mediates HRM-innovation relationships (Shahin et al., 2025). KMC is an organization's knowledge management capacity to adapt to environmental changes, according to dynamic capability theory. HRM activates knowledge resource development, integration, and reconfiguration. Thus, HRM and KMC are essential for sustainable innovation (Isa & Ar Rahmah, 2023; Mukarram et al., 2025; Singh, 2018).

The mediation effect found in this study suggests that employee involvement is not enough to result in innovation unless there are mechanisms in place for the acquisition, sharing and use of knowledge. Thus, HRM is the social context for engagement and KMC translates engagement into innovative outcomes. This finding makes a contribution to the literature by demonstrating that organizational innovation in SMEs is not only an outcome of motivated employees, but also of the extent to which organizations can mobilize and leverage knowledge resources.

The correlation between HI-HRM, KMC, and IWB suggests human aspects and organizational systems are integrated. HRM offers structure and support, whereas KMC implements knowledge management. This connection strengthens the company's innovation ecosystem. According to research, human capital and knowledge systems boost innovation (Linda et al., 2020). This research also supports the idea that innovation depends on both individuals and the organizational framework. HRM and KMC simultaneously foster an atmosphere that promotes innovation.

Employees are encouraged to engage in innovative thinking and are equipped with the requisite resources and information.

Empirically, current findings align with other prior studies demonstrating an excellent relationship among HRM, knowledge management, and innovation. The primary contribution of this research is the integration of the three variables into a cohesive model, especially within the framework of knowledge-based companies. However, the relatively high HTMT value between KMC and IWB indicates that both constructs have conceptual proximity. This can be explained because innovation is often a direct output of knowledge management. Therefore, it is important for future research to clarify the conceptual boundaries between these two variables.

More importantly, the study contributes to literature through empirical evidence from SMEs and industrial clusters in a developing country context. Previous studies have mainly been carried out in large organizations and developed economies. However, the innovation process in SMEs is often characterized by limited resource availability, informal organizational structures and the reliance on tacit knowledge. Thus, the findings complement the existing theories by showing that integration of HRM and knowledge management is still important in a resource-scarce environment.

On the basis of this study, the companies should design HRM strategies with an emphasis on employee involvement and knowledge systems. Training, knowledge exchange and IT investment boost innovation. And companies need to encourage learning and experimentation. This culture will enhance the HRM-KMC interaction and creativity. HRM and knowledge systems will not work well without a supporting culture.

Jepara's SMEs practitioners' innovation policies should not only focus on technology adoption but also on strengthening the employee participation and creating opportunities for knowledge sharing. Firms can build communities of practice, mentoring systems, collaborative learning forums and digital knowledge repositories to preserve and disseminate valuable knowledge across generations of workers. This is particularly relevant for very craftsmanship- and tacit knowledge-dependent industries. Overall, this study emphasizes HI-HRM and KMC as the major determinants to enhance IWB. Together they create a powerful synergy for individual and organizational innovation. Thus, organizations wishing to increase their competitiveness must focus on the simultaneous and strategic management of human resources and knowledge.

Some limitations are to be acknowledged. Firstly, the study was cross-sectional in design limiting the causal inference between variables over time. Second, the self-reported questionnaires might be subject to common method bias and social desirability bias. Third, the research was only conducted in Jepara Regency, so the research results may not apply to other industrial areas with different economic and cultural characteristics. Fourth, the sample consisted of both employees and owner-managers, which may cause differences in perceptions of HRM practices, knowledge management and innovative behavior.

Future research should examine these relationships over time with a longitudinal research design. Other variables that researchers may consider include organizational culture, leadership style, climate of innovation, psychological empowerment as well as informal knowledge sharing behavior. Further comparative studies across different industrial clusters and regions are required to understand the influence of local contextual factors on innovative work behavior. Finally, future research may develop multilevel models that integrate individual, organizational and cluster-level determinants of innovation for a more comprehensive explanation of innovation processes in SMEs.

5 Conclusion

This study demonstrates that highly engaged human resource management (HI-HRM) significantly enhances IWB both directly and indirectly. Engagement-focused human resource management strategies may enhance workers' inventive behavior by fostering a work environment that promotes active engagement in tasks, skill enhancement, and transparent cooperation.

Knowledge management competency is also significantly affected by HI-HRM. Thus, human resource management methods include both human resource management and a strategy for establishing knowledge-based competencies in the business. After that, KMC improves IWB, demonstrating that knowledge management drives individual creativity. Another key discovery is that KMC partially mediates the HI-HRM-IWB connection. This means HRM methods improve innovation and knowledge management. This suggests that organizational structure and human characteristics drive innovation.

This research supports the Resource-Based View (RBV) that views KMC as a strategic resource. HRM builds and integrates organizational capabilities, according to the dynamic capability theory. Integration of human resources and knowledge management ideas explains how to create innovation systematically. This research suggests that MSME and industrial companies should establish HRM strategies that prioritize employee engagement and knowledge management. Training, skill development, and a culture of perpetual information exchange are methods to attain this objective. This research indicates that the enhancement of innovation is contingent not alone upon individuals but also on the efficacy with which businesses strategically manage human resources and information.

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