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HRM Practices, Human Capital, Individual Performance, and Organizational Performance: An Empirical Evidence from Indonesian SMEs

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Abstract: *This study aims to prove whether or not human capital and employee performance mediate the relationship between HRM practices and organizational performance in the context of SMEs. For this purpose, a set of questionnaires were distributed to 300 respondents consisting of 40 batik SME owners and 260 employees. The collected data were analyzed by using the PLS-SEM method. The findings show that human capital and individual performance positively and significantly mediate the relationship between HRM practices and organizational performance. Hence, it is suggested for batik SME owners/managers implement HRM practices that effectively improve human capital and employee performance.*

Keywords: HRM practice, human capital, employee performance, SMEs, Jambi batik, organizational performance

INTRODUCTION

Organizational Performance (OP) is a critical issue for practitioners. This is because OP has various functions such as (1) a report to shareholders, (2) an instrument to determine market position, (3) a monitoring instrument, and (4) a source of information needed in making strategic business decisions (Wazirman et al., 2020; Wilson, 2013).

The significance of OP makes entrepreneurs or company leaders take all efforts to improve their performance. Their efforts include the implementation of HRM practices (HRMP). This effort is based on the premise that the company's success depends on the employees. Two things that are considered very important are competence and motivation. It is believed that high competence and motivation can improve individual or employee performance. However, Armstrong & Taylor (2014) and Daft (2000) argued that the relationship between HRMP and OP is unclear. In other words, there is a black box or missing link. This means that there is no comprehensive explanation of how HRMP affects organizational performance.

In the absence of a clear relationship between two constructs, it is recommended that researchers take a mediation approach. It is believed that the mediation approach can address

this gap. In other words, how exogenous affects endogenous is well described. In terms of the relationship between HRMP and OP, research with a mediation approach has been widely carried out. However, many researchers have not appreciated the use of human capital (HC) and individual performance (IP) as mediators. As a result, information about the roles of these two constructs is not available in the literature. Therefore, closing this gap is the main objective of this study.

Experts argue that a construct can be a mediator if the construct is related to the independent and dependent variables (Baron & Kenny, 1986). It is believed that HC and IP can be a mediator in the relationship between HRMP and OP. This is because these two constructs are related to HRMP as the predictors and OP as the consequents. According to experts, HRMP is an investment in human resources. With an effective HRMP, the competence and motivation of employees can be improved so that employee performance increases and ultimately improves OP.

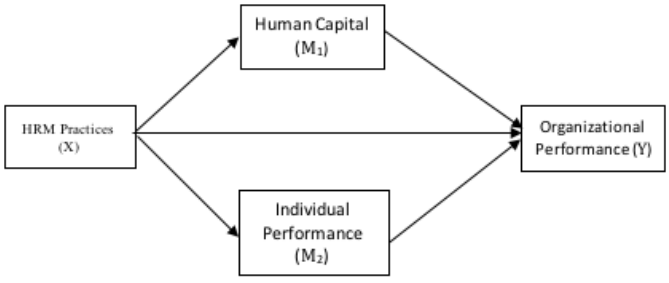
Researches on the relationship between HRMP and OP have been widely carried out. However, the studies are generally based on large organizations. In the context of small organizations such as SMEs in developing countries such as Indonesia, it is still rarely found. Therefore, the next objective of this study is to prove the relationship between HRMP and OP through the mediation of HC and IP in the Jambi batik industry.

The Jambi batik industry falls into the small industry category. This is because the number of workers in each business unit is not more than 20 people, and their assets do not exceed 500 million rupiahs. The Jambi batik industry is recognized as having a significant role in improving the welfare of the community. However, this industry faces challenges. Some of these challenges are (1) competition both from local enterprises and import, (2) changes in the business environment where consumers tend to be more demanding of product and service quality, and (3) low quality of human resources. In addition to this, Amin, Heriberta, & Kurniawan (2018) criticize that the Jambi batik business owner-manager applies traditional management in which employees are recruited from family and relatives. To face this challenge, Owners-managers are required to improve the quality of human resources through effective HRM practices.

LITERATURE REVIEWS

Conceptual Framework

HRM practices affect organizational performance. However, this relationship is not yet clear. Therefore, it is necessary to do a mediation approach. In this study, two constructs that are thought to mediate the relationship are human capital and employee performance. If, HRM practices can improve human capital and employee performance effectively, then in the end organizational performance will increase. Conceptually, the inter-relationship between these constructs is presented in Figure 1 below.



Picture 1: Coceptual Model of the Study

Effect of HRM Practices on Organizational Performance

Human resource management (HRM) is defined as the process of obtaining, developing, and maintaining employees (Armstrong & Taylor, 2014). Accordingly, HRMP is defined as managerial policies and activities that aim to improve employees' productive contributions to the organization (Sabiu et al., 2019). There is an argument that HRM is the key to employee development and organization (Mangai, 2011). HRMP aims to improve employee contribution to the company performance. This is in line with the Resource-Based View (RBV), which states that HR can contribute to a company's competitive ability if HR is managed effectively (Barney & Arikan, 2008). In other words, if HRMP run effectively, it will improve OP.

Various empirical studies also prove the relationship between HRMP and OP. The more effective the HRMP is, the higher the OP is. On the contrary, the less effective the HRMP is, the lower the OP is. Huselid (1995) revealed that HRMP are positively and significantly correlated with employee productivity and financial performance. Additionally, Bryson & Forth (2018) revealed that SMEs that apply formal management have the potential to have higher performance compared to SMEs that do not apply formal management. Furthermore, Mangai (2011) found that HRMP in the form of recruitment, compensation, training, and assessment are critical factors in achieving the success of SMEs. Similaly, Banerjee (2017) found a positive and significant correlation between HRMP and OP. Thus, hypothesis one is developed as follows:

H1. HRMP has a positive and significant effect on OP.

Effect of HRM Practices on Organizational Performance through Human Capital

Human capital (HC) is an intangible asset in the form of knowledge, skills, motivation, and flexibility inherent in employees. HC is related to HRMP. HC is the result of the accumulation of HRMP. In other words, the practice of HRM is an investment in improving human capital. HC also has a relationship with OP. Companies that have effective HC tend to have high OP. In other words, HC can affect OP.

Researches show that the variations in OP can be explained by HC. The higher the HC is , the higher the OP is. On the contrary, the lower the HC is, the lower the OP is. This premise also applies to small organizations. For example, Yang & Lin (2009) found that HC has a significant effect on OP.

Becker (1964) and Schultz (1961) argued that human capital is the knowledge, skills, and abilities that an individual possesses. HC is a collection of competencies, knowledge, experiments, experiences, attitudes, commitments, and wisdom that individuals have in the organization. HC consists of ability, behavior, effort, and time. According to (Tovstiga & Tulugurova, 2007) the HC model consists of competence, attitude, and intellectual agility. Competence is a combination of knowledge, skills, and experience. Attitudes include motivation, behavior, and mindset. Meanwhile, intellectual agility consists of innovativeness, creativity, flexibility, and adaptability. Thus, hypotheses two, three, and four are developed as follows:

H2. HRMP has a positive and significant effect on HC.
H3. HC has a positive and significant effect on OP.
H4. HRMP has a positive and significant effect on OP through HC.

Effect of HRM Practices on Organizational Performance through Individual Performance

Employee performance is defined as the employee's contribution to the organization. This contribution is supported by employee attributes such as work competence, work motivation, and work attitudes that employees have in carrying out their assigned tasks. These attributes are the result of HRM practice (HRMP).

Similarly, employee performance is defined as the behavior shown by employees in performing their jobs. With this definition, the attributes of employees commonly used to measure performance are competence and motivation. These two elements are believed to be critical predictors of employee performance. The higher the competence and motivation of employees are, the higher their performance is. On the contrary, the lower the competence and motivation are, the lower the employee's performance is.

In this research, individual performance (IP) is seen from three dimensions, namely: (1) task performance, (2) contextual performance, (3) adaptive performance. This is in line with the model proposed by Allworth & Hesketh (1999). According to Colquitt, Lepine, & Wesson (2015), task performance is all employee behavior that is directly related to the transformationof organizational resources into products produced by the company.

Borman & Motowidlo (1993) identified five categories of contextual performance. The categories are (a) volunteering to perform task activities that are not a formal part of the job; (b) persist with extra enthusiasm when necessary to complete self-assignment activities; (c) assisting and cooperating with others; (d) following organizational rules and procedures even if personally uncomfortable; and (e) supporting the achievement of the organizational goal.

Adaptive performance is the ability of employees to adapt to the environment.The individual can make significant changes. Adaptability is essential, considering environmental changes that affect the effectiveness of an organization in maintaining its existence(Allworth & Hesketh, 1999). Similarly, Armstrong (2012) argued that HRMP first affects IP, then ultimately OP. HRM is strategic management that emphasizes the acquisition, organization, and motivation of human resources. According to Armstrong (1999), HRM is the day-to-day operation of HR management. HRMP are policies and activities aimed at developing the potential of human resources. HRMP is an investment activity in HR (Snell & Dean, 1992).

In small organizations, the mediating role of IP has also been proven in the relationship between HRMP and OP. Banerjee (2017) argues that IP, which he calls employee outcomes, positively affects. Therefore, it should be assumed that employee performance can mediate the relationship between HRMP and OP in the batik industry in Jambi Province. Thus, hypotheses five, six and seven are developed as follows:

H5. HRMP has a positive and significant effect on IP.
H6. IP has a positive and significant effect on OP.
H7. HRMP has a positive and significant effect on OP through IP.

METHODS

Population and Sample

The population of this study was Jambi batik entrepreneurs and craftsmen. Based on the current data from the Jambi Province Industry and Trade Agency, there are 84 Jambi batik business units classified as small and medium enterprises with 84 owners and 885 craftsmen. Thus, the overall population is 969 people. The Slovin method is used to determine the number of samples. With this method, it is known the minimum sample size is 285 people, consisting of 25 owners and 260 craftsmen.

Data Collection Techniques

Primary data in the form of respondents' perceptions of the observed variables were collected through a questionnaire distributed through Google Form. The use of this platform is based on the assumption that the respondents have or can access a mobile phone that can support this application.

Data Analysis Techniques

The collected data were analyzed in two stages. The first stage is descriptive analysis. This analysis aims to describe the variables under study. The second stage is verification analysis. This analysis aims to verify the proposed hypothesis. SEM analysis with the PLS

approach was used in this analysis. There are three stages of analysis in the PLS-SEM analysis. First, the measurement model analysis, then followed by the structural model analysis. Finally, testing the hypothesis (Hair et al., 2014).

Variables and Measurements

This study involved four latent variables, namely HRMP (X) as the independent variable, OP (Y) as the dependent variable, HC (M1) as the first mediating variable, and IP (M2) as the second mediating variable.

HRMP is operationally defined as all systematic efforts made by Jambi batik business entrepreneurs to increase the contribution of craftsmen to the achievement of batik business goals as measured from four dimensions, namely recruitment & selection, training & development, compensation, and performance appraisal. There are 20 statement items used to measure this variable with details as follows: 5 items to measure the dimensions of recruitment & selection, 5 items to measure training & development, 5 items to measure the dimensions of compensation, and 5 items to measure the dimensions of performance appraisal.

Human capital is operationally defined as the intangible assets inherent in the craftsmen and batik business managersas measuredby three dimensions, namely competence, attitude, and intellectual agility (Tovstiga & Tulugurova, 2007). There are 9 statement items used to measure this variable with details of 3 items to measure competence, 3 items to measure attitudes, and 3 items to measure intellectual agility.

Individual performance is operationally defined as the results and behavior of Jambi batik craftsmen that can contribute to Jambi batik business as measured from three dimensions, namely task performance, contextual performance, and adaptive performance. There are 16 statement items used to measure this variable with details of 5 items to measure task performance, 6 items to measure contextual performance, and 5 items to measure adaptive performance.

Organizational performance is operationally defined as the results achieved by Jambi batik business by managing the craftsmen effectively and efficiently which is measured from four perspectives, namely financial perspective, customer perspective, process perspective, and growth perspective. Organizational performance instruments consist of 20 statement items with details of 5 items to measure financial perspective, 5 items to measure customer perspective, 5 items to measure internal process perspective, and 5 items to measure growth perspective.

RESULTS AND DISCUSSION

Characteristics of Respondents.

The Respondents fall into two groups, namely entrepreneurs group and craftsmen group. The group of entrepreneurs consists of 40 people (bigger than the required minimum size of 25 people) while the craftsmen group is 260 people. Thus, there are 300 respondents in total. The majority of respondents, namely 77%, are women. This figure confirms that the Jambi batik industry is the domain of women. This is understandable because the Jambi batik industry began as a home industry in which women played a big role. However, in the entrepreneur group, the number of men is relatively large, at 40% of the total number of entrepreneurs. This is perhaps due to the growing Jambi batik industry so that it can be used as the main source of income for the family.

In terms of age, 78% of respondents were dominated by those aged 35 years and over. These data indicate that the younger workforce does not look to the Jambi batik industry as a promising income-earning job. In terms of years of service, respondents were dominated by those who had worked for ten years and over. This confirms the lack of interest in the younger generation for a career in the Jambi batik industry. In terms of formal education, respondents in both the businessmen and craftsmen groups were dominated by those with high school

education and below. This data can indicate that human resources are one of the challenges that must be faced in the development of the Jambi batik industry.

Variable Descriptions

Table 1 summarizes the descriptions of the research variables. This table shows that the practice of recruitment, training, and performance appraisals has not been effectively implemented. As a result, the implementation of HRM practices as a whole is also considered less effective. Interestingly, the practice of compensation is considered to be quite good. This means that the respondents are considered quite satisfied with the applied compensation system. Human capital is a very important aspect to achieve performance. In the Jambi batik industry, overall, human capital is considered quite good. This can be seen from the three measured dimensions showing a fairly good value. This means that the craftsmen are considered to have sufficient competence, attitude, and agility.

Table 1. Description of Research Variables

Variables	Dimensions	Index (%)	Category
HRM Practice	Recruitment&Selection	61	Low
	Training & Development	62	Low
	Compensation	66	Medium
	Performance appraisal	61	Low
	Average	61	Medium
Human Capial	Competence	64	Medium
	Attitude	65	Medium
	Intellectual agility	65	Medium
	Average	65	Medium
Individual Performance	Task performance	65	Medium
	Contectual performance	65	Medium
	Adaptive performance	65	Medium
	Aveage	65	Medium
Organizational Performance	Financial	69	Medium
	Customer	65	Medium
	Internal process	65	Medium
	Growth	63	Medium
	Average	65	Medium

The task performance of the craftsmans considered quite high. Likewise, contextual performance and adaptive performance are considered quite good. This means that the performance of craftsmen is generally considered good. This data can show that the craftsmen have good performance even though they are not maximal. From the four dimensions of organizational performance, it can be seen that financial performance, customers, and internal processes are considered quite good. However, the growth performance is considered to be less than good. This makes the overall performance of the organization only at a moderate level.

Measurement Model Evaluation

Validity Test. The definition of validity refers to the ability of each item (manifest) to measure latent variables. In PLS-SEM, validity consists of convergent validity and discriminant validity. Convergent validity is a measure to determine how much and how significant the indicator (manifest) is correlated with the latent construct. Convergent validity is seen from two aspects, namely, the loading factor value (Tabel 2) and the AVE value (Tabel 3). The greater the loading factor value, the better the indicator measures latent constructs. Based on the PLS regulations, the instrument is declared valid if the loading factor value is greater than 0.7 and the AVE value is greater than 0.5. Discriminant validity refers to the understanding that two different constructs can adequately show conceptual differences. The

point is that the combined set of indicators is not unidimensional. Discriminant validity is seen from two criteria, namely Fornell-Larcker and cross-loading criteria (Tabel 4).

Table 2. The loading factor

HRM Practice		Human Capital		Individual Performance		Organizational Performance	
X11	0,811	M111	0,864	M211	0,864	Y11	0,822
X12	0,803	M112	0,872	M212	0,860	Y12	0,824
X13	0,802	M113	0,892	M213	0,902	Y13	0,831
X14	0,842	M121	0,931	M214	0,931	Y14	0,884
X15	0,846	M122	0,898	M215	0,892	Y15	0,887
X21	0,797	M123	0,923	M221	0,913	Y21	0,843
X22	0,840	M131	0,926	M222	0,911	Y22	0,852
X23	0,843	M132	0,929	M223	0,862	Y23	0,864
X24	0,858	M133	0,929	M224	0,861	Y24	0,857
X25	0,859			M225	0,893	Y25	0,854
X31	0,821			M226	0,930	Y31	0,834
X32	0,855			M231	0,892	Y32	0,876
X33	0,835			M232	0,903	Y33	0,864
X34	0,787			M233	0,913	Y34	0,849
X35	0,834			M234	0,907	Y35	0,866
X41	0,812			M235	0,910	Y41	0,853
X42	0,803					Y42	0,847
X43	0,818					Y43	0,869
X44	0,837					Y44	0,771
X45	0,864					Y45	0,757

Table 3. Average Variance Extracted (AVE)

	Average Variance Extracted (AVE)
Human Capital	0,824
Individual Performance	0,804
Organizational Performance	0,715
HRM Practice	0,687

Table 4. The Fornell-Larcker Criterion

	HRM Practices	Human Capital	Employee Performance	Organizationa Performance
HRM Practice	0,829	0,793	0,819	0,292
Human Capital		0,908		0,266
Individual Performance			0,897	0,326
Organizational Performance				0,846

According to Table 2, the loading factor value of each item is greater than 0.7. According to Table 3, the Average Variance Extracted (AVE) value is greater than 0.5. These results indicate that all indicators are considered valid convergently to measure the construct. The results of the data processing as shown in Table 4 also show that the indicators meet the Fornell-Larcker criteria and the cross-loading value is greater than 0.5. This indicates that all

indicators meet discriminant validity which means that each indicator is a unique measure of the construct.

Reliability Test. Reliability is defined as the consistency of the respondent's answer. In PLS-SEM, reliability is seen from two criteria, namely Cronbach's Alpha value, and composite reliability. The indicators of a construct are considered reliable if the Cronbach's Alpha value is> 0.6 and the composite reliability value is> 0.8. The result of the data processing showed that the Cronbach's Alpha value is > 0.7 and the composite reliability value was > 0.8 (Table 5), so it can be concluded that the indicators used to measure latent constructs have reliability. Thus, the next analysis, namely structural model analysis, can be conducted.

Table 5. The value of Cronbach's Alpha and Composite Reliability

	Cronbach's Alpha (>0,6)	Composite Reliability (>0,8)
Human Capital	0,973	0,977
Individual Performance	0,984	0,985
Organizational Performance	0,979	0,980
HRM Practice	0,976	0,978

Structural Model Evaluation

The structural model analysis is carried out to ensure that the model being built is robust or accurate. This accuracy is seen from the results of the coefficient of determination (R^2), predictive relevance (Q^2), effect size (f^2), and Goodness of Fit (GoF). The coefficient of determination (R^2) shows how much exogenous affects the endogenous. The results of the analysis (Table 6) show that the value of R^2 for human capital is 0.629, which means that 63% of human capital can be explained by the practice of HRM. Meanwhile, the R^2 value of individual performance is 0.671, which means that 67% of individual performance can be explained by HRM practice. Meanwhile, the R^2 value of organizational performance is 0.701, which means that 70% of organizational performance can be explained by HRM practice, human capital, and individual performance. From the results of this processing, it can also be seen that HRM practices can increase if it is mediated by human capital and individual performance.

Table 6. R-Square

	R-Square
Human Capital	0,629
Individual Performance	0,671
Organizational Performance	0,702

The results of the coefficient of determination are strengthened by predictive relevance analysis. Manual data processing with the formula $Q^2 = 1 - (1 - 0.629) (1 - 0.671) (1 - 0.702) = 1 - 0.036374 = 0.963626 = 0.96$ results in a value of $Q^2 = 0.96$ which means 96% organizational performance is explained by HRM practice, human capital, and individual performance. However, the value of f^2 is known to be 0.092 for the relationship between HRM practice and organizational performance (Table 7). This means that the effect of HRM practices on organizational performance is weak. The results of this data processing suggest that HRM practices have a major effect on organizational performance when mediated by human capital and individual performance.

Table 7. Effect Size (f^2)

	Human Capital	Kinerja individu	Kinerja Organisasi

Human Capital			0,032
Individual Performance			0,042
Organizational Performance	1,695	2,043	0,092

Model Fit Test

The final part of the structural model evaluation is the model fit test. The pathway model proposed is considered very 'robust' if the Goodness of Fit (GoF) value is 0.38. Manual calculation of GoF is administered with the formula $\sqrt{AVE\ x\ R^2}$. The result is that the GoF value is above 0.38. Thus, based on the results of the GoF analysis plus the values of R^2, f^2, and Q^2, it is concluded that the proposed structural model is robust, so the hypothesis testing can be proceeded.

Hypothesis Testing

The results of the direct effect test are shown in Table 8. Firstly, the original sample (O) of HRM practice (X) towards human capital (M1) has a positive value of 0.793. This means that every one unit of HRM practice can increase human capital by 0.793 units. Meanwhile, the t-statistic value is 18.805 > 1.96 and the P-value is 0.000 <0.05. This means that HRM practices have a positive and significant effect on human capital. Concequently, H_1 can be accepted.

Table 8. Path coefficient estimation and t-statistics of total effect

	Original Sample (O)	T Statistics (|O/STDEV|)	P Values
(X) -> (M_1)	0,793	18,805	**0,000**
(X) -> (M_2)	0,819	20,513	**0,000**
(X) -> (Y)	0,292	2,807	**0,005**
(M_1) -> (Y)	0,266	2,214	**0,027**
(M_2) -> (Y)	0,326	2,432	**0,015**

Secondly, the original sample (O) of HRM practice (X) towards individual performance (M_2) has a positive value of 0.819. This means that every one unit of HRM practice can increase individual performance by 0.793 units. Meanwhile, the t-statistic value is 20.513 > 1.96 and the P-value is 0.000 <0.05. This means that HRM practices have a positive and significant effect on individual perfromance. Concequently, H_2 can be accepted. Thirdly, the original sample (O) of HRM practices (X) towards organizational performance (Y) has a positive value of 0.292. This means that every one unit of HRM practice can increase organizational performance by 0.292 units. Meanwhile, the t-statistic value is 2.807 > 1.96 and the P-value is 0.005 < 0.05. This means that HRM practices have a positive and significant effect on organizational performance. Concequently, H_3 can be accepted.

Fourthly, the original sample (O) of human capital (M1) towards organizational performance (Y) has a positive value of 0.266. This means that every one unit of human capital can increase organizational performance by 0.266 units. Meanwhile, the t-statistic value is 2.214 > 1.96 and the P-value is 0.027 < 0.05. This means that human capital (M1) has a positive and significant effect on organizational performance (Y). Concequently, H_4 can be accepted. Lastly, the original sample (O) of individual performance (M2) towards organizational performance (Y) has a positive value of 0.326. This means that every one unit of individual performance can increase organizational performance by 0.326 units. Meanwhile, the t-statistic value is 2.432 > 1.96 and the P-value is 0.015 < 0.05. This means that individual performance has a positive and significant effect on organizational. Concequently, H_5 can be accepted.

Mediation Test

The results of the mediation test are presented in Table 9. From this table it is known that the original sample value (O) of the indirect effect of HRM practices on organizational performance through human capital as a mediator is 0.211, which means there is a positive influence. This also means that an increase of 21.1% in organizational performance is influenced by HRM practices mediated by human capital. Meanwhile, the t-statistic value is 2.110 > 1.96 and the P-value is 0.035 < 0.05, which means there is a significant effect. Thus, it can be concluded that H_6 is accepted meaning human capital mediates the relationship between HRM practices and organizational performance.

Table 9. Inderect Effect

	Original Sample (O)	T Statistics (|O/STDEV|)	P Values
(X) -> (M_2) -> (Y)	0,267	2,512	0,012
(X) -> (M_1) -> (Y)	0,211	2,110	0,035

From this table it is also known that the original sample value (O) of the indirect effect of HRM practices on organizational performance through individual performance as a mediator is 0.267, which means there is a positive effect. This also means tha an increase of 26.7% in organizational performance is influenced by HRM practices mediated by individual performance. Meanwhile, the t-statistic value is 2.110 > 1.96 and the P-value is 0.035 < 0.05, which means there is a significant effect. Thus, it can be concluded that H_7 is accepted which means individual performance mediates the relationship between HRM practices and organizational performance.

DISCUSSION

In the management literature it is stated that HRM practices have a relationship with organizational performance. However, this relationship is not yet clear. Therefore, to determine how HRM practices affect organizational performance, researchers must use a mediation approach.

This research, as previously mentioned, aims to find out whether or not human capital and individual performance can mediate the relationship between HRM practices and organizational performance. If the answer is yes, how do these two mediators mediate the relationship. This needs to be done to help Indonesian SME owners/managers, especially Jambi batik industry, improve their business performance.

The direct effect test shows that HRM practices have an effect on organizational performance. However, the results of the descriptive analysis show that HRM practices have not been implemented properly. As a result, organizational performance is not optimal.

At least, there are four factors why HRM practices are not implemented properly. The first is the employee recruitment system that has not been selective. This can be seen from the fact that employee acceptance is based more on the existence of an emotional relationship such as a family relationship between the prospective employee and the owner/manager. Second, the compensation system is not yet competitive and not very motivating. This can be seen from the income of employees as batik craftsmen which are still below the minimum wage. In addition, craftsmen's wages do not differentiate between achievers and non-achievers. As a result, craftsmen are less interested in improving their performance.

The third factor is the training and development program. In general, the Jambi batik industry does not have internal employee training and development programs. Everything is more dependent on external parties in this case the government. Indeed, there are a few companies that conduct craftsman training internally. However, this is not done in a programmed, structured and systematic way.

The fourth factor is performance appraisal. In the Jambi batik industry, there has never been a comprehensive assessment of craftsmen's performance. In general, the assessment on employee performance is only product-based. It's not done systematically either. As a result, the development of the competence of craftsmen is not carried out properly.

The mediation test results show that human capital and individual performance can significantly mediate the relationship between HRM practices and organizational performance. This shows that HRM practices must be related to improving human capital and individual performance. In other words, proper and effective HRM practices are HRM practices that can increase the motivation and competence of craftsmen.

Subsequent analysis shows that there are differences between human capital and individual performance in influencing organizational performance. The individual performance coefficient is greater than the human capital coefficient. This shows that individual performance is better than human capital in bridging the gap between HRM practices and organizational performance. In other words, if one wants to improve organizational performance, HRM practices that must be implemented are only those that can directly improve individual performance. However, this kind of practice is problematic. On the one hand, employee engagement is an ideal management practice in enhancing the integrity of employees into the organization. On the other hand, management practices that prioritize individual performance pay less attention to the human side of employees.

Descriptive analysis shows that HRM practices in the Jambi batik industry have not been effectively implemented. This has an impact on the value of human capital and individual performance values. In the end, it has an impact on organizational performance. This finding is reinforced by hypothesis testing, which proves that HRM practices have a significant effect on human capital, individual performance, and organizational performance.

Analysis of the coefficient of determination explains that HRM practice has a moderate effect on organizational performance. However, this influence can increase if mediated by human capital or individual performance. This is reinforced by the mediation test, which reveals that the HRM practice has a significant indirect effect on organizational performance through human capital or individual performance.

CONCLUSION

Conclusion

Based on the results of data analysis, several conclusions can be drawn as follows: (1) HRM practices have a direct effect on human capital, individual performance and organizational performance. The more effective HRM practices, the more optimal organizational performance will be. (2) Human capital and individual performance both jointly and partially have a direct effect on organizational performance. Increasing employee motivation and competency through effective recruitment, training and development systems, compensation systems, and performance appraisal systems can maximize organizational performance. (3) Human capital and individual performance can mediate the relationship between HRM practices and organizational performance effectively. Effective HRM practices increase human capital and individual performance, then maximize organizational performance. (4) In practice, the increase in organizational performance through individual performance is greater than through human capital. However, this has become problematic. Employee involvement as an ideal management practice from a human perspective is given less attention, while management practices which assume that employees are only one factor of production are more emphasized.

The main objective of this research is to prove the mediating role of human capital and individual performance in the relationship between HRM practice and organizational performance. Data processing results on 300 respondents have confirmed the hypothesis that

HRM practice has a positive and significant effect on organizational performance through human capital and individual performance. So far, in literature and empirical research results, it is revealed that the relationship between HRM practice and organizational performance is unclear and inconsistent. The results of current research can be a novelty in small organizations where it is proven that human capital and organizational performance can mediate the relationship between HRM practices and organizational performance. The empirical findings in this study also clarify how HRM practices affect organizational performance.

Implications

The results of this study have implications for theory and practice. The empirical findings in this study contribute to the literature on the relationship between HRM practices and organizational performance, especially in small organizations or SMEs, especially in the Jambi batik industry. It was found that human capital and individual performance have a significant mediating role in HRM practices on organizational performance.

The findings of this study also have implications for entrepreneurs, tiny industry entrepreneurs. Based on the results of this study, it is recommended that entrepreneurs in implementing HRM practices need to pay attention to improving human capital and individual performance if they want to improve organizational performance.The findings of this study also contribute to entrepreneurs in managing their businesses, especially batik businesses as SMEs. Based on the results of this study, it is recommended that entrepreneurs in implementing HRM practices need to pay attention to increasing human capital and individual performance if they want to improve organizational performance.

Limitation

This research is limited to the Jambi batik industry. Meanwhile, small organizations cover various types. To understand the concept in this broader and more profound sense, it is necessary to research other sectors with different contexts. Furthermore, it is suggested that other dimensions be added to the HRM practice variable. It is because HRM practice is not prescriptive but situational. This means that each organization can choose HRM practices according to their needs. Data processing also found that HRM practice has a partial mediating role. Therefore, in the subsequent research, it is expected that it can be examined which dimensions of HRM practice have the most influence on organizational performance and which dimensions of organizational performance are most influenced by HRM practice.

Suggestion

Based on the findings above, it is recommended as follows:

(1) Further researchers are advised to examine more deeply why HRM practices in the Jambi batik industry are not effective. In other words, what are the factors that cause HRM practices not to be implemented properly? More specifically, it is necessary to know why the Jambi batik industry tends to apply model management compared to other models.
(2) Jambi batik business actors in particular and MSME actors in general are advised to implement HRM practices that can improve human capital and individual performance if they want to improve organizational performance.

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