

Knowledge Sharing Effect on HRM Practices and Organisational Innovation among Malaysia's Four and Five Star Hotels

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Abstract: The objective of this study was to: determine the relationship between human resource management practices and organisational innovation, identify the relationship between human resource management practices and knowledge sharing and examine the mediating effect of knowledge sharing on the relationship between HRM practices and organisational innovation. Data was gathered using an online survey for 200 heads of department in five and four-star rating hotels (53 hotels) in Malaysia. The results of the direct relationships between HRM practices and organisational innovation found a significant and positive influence of the three dimensions of HRM practices (e.g., training and development, compensation and performance appraisal) on organisational innovation. Meanwhile, three (staffing, training and development and compensation) out of four dimensions of HRM practices were found to positively influence knowledge sharing and in turn, knowledge sharing significantly influencing organisational innovation. It was also found that knowledge sharing mediated relationships between training and development and compensation on organisational innovation. Overall, it can be concluded that hotels with a higher level of HRM practices will produce a higher level of innovation through the effects of knowledge sharing. The theoretical contributions and implications of this study were also highlighted.

Key words: Service innovation, hotel industry, HRM practices, knowledge sharing, development

INTRODUCTION

The tourism industry became one of the most important service sectors and contributed to Malaysia's economy significantly, especially in terms of employment. For example, it was reported that in 2013, Travel and Tourism Malaysia contributed 14.1% of total employment (1,857,500 jobs) and this trend was expected to rise in the coming years. The major components of the tourism industry are: hotels, resorts, lodgings, tour services, travel agencies, restaurants, catering services and transportation. Despite increased importance of the tourism industry to Malaysia's economy, little is known about innovation in this sector, especially in the hotel sector. Hotel sector was selected in this study due to its significance as basic tourism receptive units and one of the important key segments of tourism offerings (Jacob *et al.*, 2003; Pikkemaat, 2008; Pikkemaat and Weiermair, 2007).

The hotel sector was suffering from failure to differentiate its offerings (Melhem and Mat, 2014)

which means that services offered by one hotel were homogeneous and easily substitutable (Melhem and Mat, 2014). This caused difficulties for hotel managers to appear exclusive and unique from its competitors (Melhem and Mat, 2014). As an alternative to this challenge, a new and innovative offering may help to differentiate a hotel from its competitors, achieving lower costs and higher quality outputs (Chadee and Mattsson, 1996; Ottenbacher and Gnoth, 2005; Melhem and Mat, 2014). This study was aimed at: determining the relationship between human resource management practices and organisational innovation, identifying the relationship between human resource management practices and knowledge sharing and examining the mediating effect of knowledge sharing on the relationship between HRM practices and organisational innovation. This study proposes that HRM practices (staffing, training and development, compensation and performance appraisal) and knowledge sharing are crucial factors in promoting innovation in the service sector in general and the hotel sector in particular. Such

consideration also indicates the feasibility of implementing innovation in the hotel sector that could enhance a hotel's image, improve profitability and provide customer satisfaction (Jacob *et al.*, 2003).

Literature review

HRM practices and innovation: HRM practices in this study refers to staffing, training and development, compensation and performance appraisal. They are selected over others because they were found to be the most influential on business performance (Boselie *et al.*, 2005).

Staffing: Staffing includes organisational practices to attract, recruit and retain employees with traits that support innovations. Employees become important sources of new ideas in a firm's innovative process through effective staffing. The theoretical role of staffing in enhancing innovation has generally received empirical support (Beugelsdijk, 2008; Chen and Huang, 2009; Jimenez-Jimenez and Sanz-Valle, 2011; Jiang *et al.*, 2012). For instance, Jiang *et al.* (2012) found that recruitment and selection of employees affected both ability and motivation of employees to be creative which were positively related to innovation. In these regards, Atuahene-Gima (1996) found that innovation activities in an organisation may require creative employees who are flexible, risk taking and tolerant of uncertainty and ambiguity due to the nature of greater uncertainty and variability in the innovation process (Madsen and Ulhoi, 2005). Therefore, firms must place more emphasis on these characteristics in the staffing process. When hiring and utilising selection criteria, organisations emphasised innovative capabilities and innovative characteristics so that their employees are likely to spawn a diversity of ideas and commit to more innovative behaviours (Brockbank, 1999; Atuahene-Gima, 1996). Additionally, Chen and Huang (2009) argued that selecting employees with appropriate skills and attitude to perform at work will enable organisations to integrate diverse sources of knowledge and therefore stimulate innovations. In addition, Brockbank (1999) contended that when organisations use innovative capabilities and creative characteristics for selection and hiring criteria, their employees are expected to produce a diversity of thoughts and become more innovative. Therefore, the following hypothesis is developed:

- H₁: staffing has a positive influence on organisational innovation

Compensation: Employees can be motivated to be more innovative as a result of compensation (Chen and Huang,

2009) which plays an important part to stimulate innovation. In firms that are innovation driven, a reward system can be a very influential factor to motivate staff to take risks, develop more products and propose novel ideas (Gupta and Singhal, 1993). De Leede and Looise (2005) indicated in their study the importance of the appropriateness of compensation to motivate employees, but drew attention to the danger of negative implications that can result when the reward system is not implemented in a balanced manner.

Research on compensation systems and innovation reported inconsistent results. Whereas some found that compensation (such as bonuses and pay increases) had a positive effect on innovation (Chen and Huang, 2009; Eisenberger and Cameron, 1996; Jimenez-Jimenez and Sanz-Valle, 2011), others failed to find a significant effect (Shipton *et al.*, 2005, 2006; Zoghi *et al.*, 2010). However, Ling and Nasurdin (2010) found that a reward system has a negative effect on product innovation in a sample of 674 manufacturing companies in six states in Malaysia recognised as having a high percentage of innovation. They explained that the sampled companies were under pressure to reduce costs to gain a competitive advantage. Therefore, the following hypothesis is developed:

- H₂: compensation has a positive influence on organisational innovation

Performance appraisal: Empirical evidence on the impact of performance appraisal on innovations is mixed. For example, Tan and Nasurdin (2011) found performance appraisal to have both a direct and indirect effect on administrative innovations but not on product innovation or process innovations. Lopez-Cabrales *et al.* (2009) found a positive relationship between performance appraisal and innovation but Jiang *et al.* (2012) did not find any significant relationship between performance appraisal and administrative and technological innovation. They explained that performance appraisal may result in undermining intrinsic motivations of employees since performance appraisals are mainly used when the level of payment is about to be determined. In examining different types of performance appraisal, Li *et al.* (2006) found that subjective assessment was positively related to technological innovation whereas objective assessment such as return on investment and return on assets was found to be negatively related to technological innovation (Hitt *et al.*, 1996; Li *et al.*, 2006). Therefore, the following hypothesis is developed:

- H₃: performance appraisal has a positive influence on organisational innovation

Training and development: According to Edralin (2007), training and development is a vital function in human resource management and is considered an important factor to promote innovation because this practice improves job performance, helps improve and acquire technical skills, develops creativity and problem-solving skills, helps retain a competent and efficient workforce, helps to achieve overall organisational objectives and contributes to flexibility in order to adapt to changes. In general, there appears to be an overwhelming support for the role of training and innovation. Shipton *et al.* (2006) showed that exploratory learning, conceptualised as a set of practices that expose individuals to new and different experiences and perspectives was shown to be a very powerful platform that can be used to inspire innovations in an organisation. Li *et al.* (2006) also found a positive effect of training on technological innovation in their study that focused on high-tech firms in China. Beugelsdijk (2008) found that training was important for employees to generate incremental but not radical, innovations. Tan and Nasuridin revealed that training had both a direct and an indirect impact through knowledge management as a mediator on the different types of innovations: product, process and administrative innovations. Walsworth and Verma (2007) also found that training and development had a positive effect on both process and product innovations. In a fairly recent study, Chang *et al.* (2011) found training to have a significant and positive effect on hotel innovation in China.

Despite the positive effects training was reported to have on innovation, Jiang *et al.* (2012) found no relationship between training and administrative and technological innovation. Their explanation for this result was that in many firms, training tended to focus on routine knowledge or skills and performance of current jobs. They argued that innovation not only requires the ability to understand task-relevant techniques but it also transcends logical and sequential thinking, making a leap towards innovation. Therefore, the following hypothesis is developed:

- H₄: training and development has a positive influence on organisational innovation

Knowledge sharing: Knowledge sharing emerged as an important area in the study of innovation in organisations. Innovation activities are enhanced when organisational members exchange information, insights, skills, lessons learned and experiences (Wang and Wang, 2012). Access to employee knowledge, skills and experiences requires effective HRM practices that can motivate employees to actively collect knowledge and experience from colleagues to learn from them, therefore constituting organisational

innovation (Darroch and McNaughton, 2002). Since, knowledge-sharing such as knowledge collecting and knowledge donating involves significant time and effort (Stenmark, 2001). Knowledge-sharing requires that employees are motivated to make such inputs. Knowledge sharing occurs when employees perceive an incentive of knowledge contribution that exceeds costs required for knowledge sharing (Kelley and Thibaut, 1978).

Empirical evidence generally shows that knowledge sharing and innovation are positively associated. For instance, Birasnav *et al.* (2013) collected data from 119 service firms located in the Kingdom of Bahrain to study the role of knowledge sharing among them in predicting product and process innovation. They found that knowledge sharing had positive associations with product and process innovation. Spencer's revelation was that companies practicing knowledge sharing performed more innovatively while Seidler and Hartmann (2008) maintained that companies that encouraged knowledge sharing among its employees exhibit higher levels of success in innovation. Tsai (2001) also revealed that knowledge sharing among business units led to better understanding and learning that enabled a business unit to successfully innovate. Hu *et al.* (2009) found that knowledge sharing to be significantly and strongly related to service innovation at international tourist hotels in Taiwan. Despite overwhelming evidence on the effect of knowledge sharing on innovation, some studies did not manage to provide such empirical support (Yesil *et al.*, 2013).

Researchers found a loophole in the link between HRM and innovation regarding "what exactly leads to what" (Gerhart, 2005; Katou, 2008, 2011; Marinova and Phillimore, 2003). To clarify such a relationship, this study considers knowledge sharing as a mediator in the relationship between HRM practices and innovation. Chen and Huang (2009) argued that certain HRM practices can be used to cultivate the level of knowledge sharing in organisations to enhance employees' propensity to innovate. Therefore, the following hypothesis is developed:

- H_{5a}: knowledge sharing mediates the relationship between staffing and organisational innovation
- H_{5b}: knowledge sharing mediates the relationship between compensation and organisational innovation
- H_{5c}: knowledge sharing mediates the relationship between performance appraisal and organisational innovation
- H_{5d}: knowledge sharing mediates the relationship between training and development and organisational innovation

MATERIALS AND METHODS

Sample and procedure: Data was gathered using an online survey from 200 head of departments in five and four-star rating hotels (53 hotels) in Malaysia. Out of 200 questionnaires sent, only 170 questionnaires were returned and usable, making a response rate of 85%, which is considered very good. Total 49.4% of the responses were from 5-star rated hotels while 50.6% of the responses were from 4-star rated hotels. Most of the respondents in this study were attached to the Food and Beverage Department (26.5%) and Room Service Department (24.7%), followed by the IT Department (18.2%). The 12.4% of the responses were from the Customer Service Department as well as Marketing Department. However, out of the 170 responses, only 7 responses were from the Public Relation Department while 3 responses were from the Engineering Department. In terms of industry tenure, a majority (68.3%) of the respondents were in the hotel industry for 4-9 years. Nevertheless, on average, the organisational tenure for respondents were only 1.59 years (SD = 0.69).

In this study, structural equation modelling was employed to analyse the proposed relationship in this study. In particular, Partial Least Squares technique (PLS), which is a variance-based structural equation modelling technique was applied. Given that the objective in this study was predictive in nature, therefore PLS is more appropriate than covariance-based SEM.

Measures: Measures were originally developed in English. Items were measured on a 5-point Likert response scale ranging from 1 (strongly disagree) to 5 (strongly agree). HRM practices (i.e., staffing, training and development, performance appraisal and compensation) were measured using Singh (2004) and Qureshi *et al.* (2006). Seven items were used to measure staffing, 8 items for training and development, 7 items for performance appraisal and five items for compensation. Organisational innovation was measured using 24 items used in previous studies (Tseng *et al.*, 2008). Knowledge sharing was measured using 11 items used in previous studies (Van den Hooff and De Ridder, 2003).

RESULTS

Evaluation of measurement model: The loadings for most of the items are satisfying the minimum threshold recommended by Chin. The result is presented in Table 1. The composite reliability ranged from 0.818-0.890

Table 1: Item reliability and internal consistency

Construct/item	Loading	CR	AVE
Staffing (ST)			
ST2	0.770	0.871	0.629
ST4	0.804		
ST5	0.769		
ST7	0.828		
Compensation (Co)			
C1	0.778	0.860	0.607
C3	0.819		
C4	0.707		
C5	0.806		
Perf. Appraisal (PA)			
PA4	0.829	0.818	0.691
PA7	0.834		
Training and Development (T and D)			
TD3	0.796	0.890	0.619
TD4	0.783		
TD5	0.793		
TD7	0.775		
TD8	0.787		

a: Composite Reliability (CR) = (square of the summation of the factor loadings)/((square of the summation of the factor loadings)+(square of the summation of the error variances); b: Average Variance Extracted (AVE) = (summation of the square of the factor loadings)/((summation of the square of the factor loadings)+(summation of the error variances))

indicating the satisfactory level of the internal consistency in the measurement model. To determine convergent validity, Fornell and Larcker (1981) suggested a minimum AVE of 0.5. Based on the result tabulated in Table 1, it can be said that the measurement model has sufficient convergent validity given that the AVE values ranged from 0.607-0.691.

Evaluation of structural model: After examining the reliability and validity of the measurement model, a structural model was tested to determine the significance of the hypotheses variance explained (R²) and the predictive relevancy of the model. To determine the path coefficients between HRM practices (staffing, compensation, training and development and performance appraisal) and organisational innovation, a PLS algorithm was conducted.

Figure 1 presents the coefficient between HRM practices (staffing, compensation, training and development and performance appraisal) and organisational innovation. Figure 2 presents the t-values for the relationships.

The details of the path coefficients, standard errors, t-values and decisions for the proposed relationship between HRM practices (staffing, compensation, performance appraisal and training and development) and organisational innovation is tabulated in Table 2.

Table 2 shows that out of the four proposed hypotheses, three hypotheses were supported. Specifically, staffing was found to have a non-significant relationship bwith organisational innovation ($\beta = -0.047$,

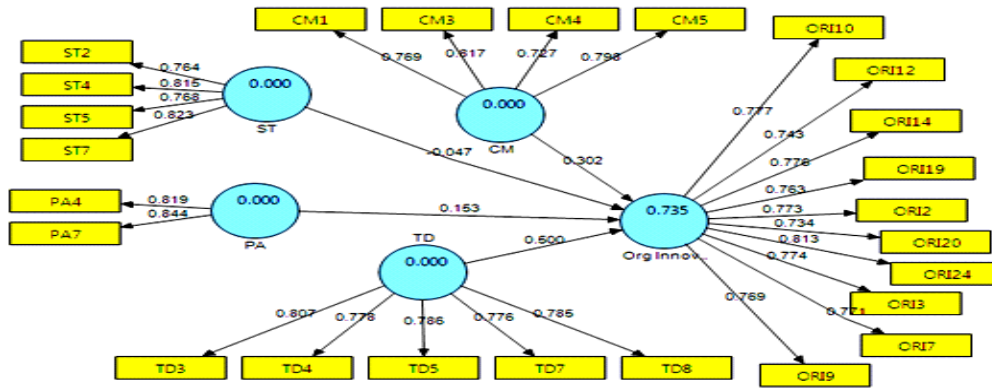


Fig. 1: Path coefficients for the relationships

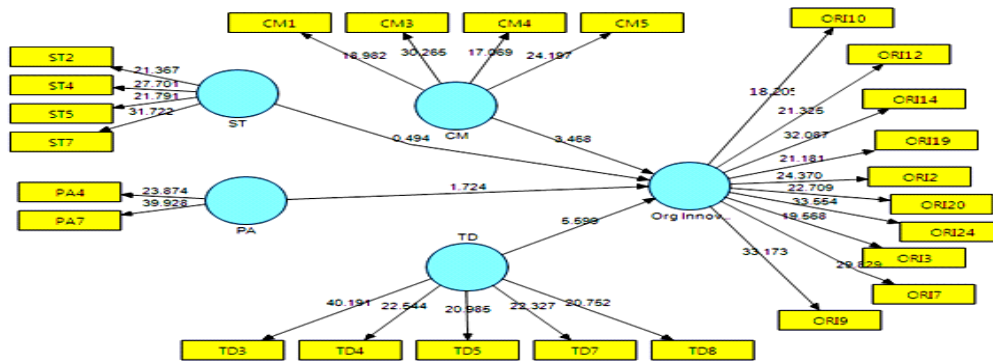


Fig. 2: t-values for the relationships

Table 2: Path coefficients, standard errors, t-values and decisions for direct relationships

Hypothesis	Relationships	Beta	SE	t-values	Decision
H ₁	ST->Org innov	-0.047	0.095	0.494	Not supported
H ₂	CO->Org innov	0.302**	0.087	3.468	Supported
H ₃	PA->Org innov	0.153*	0.089	1.724	Supported
H ₄	TD->Org innov	0.500**	0.089	5.599	Supported

p**<0.01 (2.33); *p<0.05 (1.645)

p>0.05), therefore H₁ was rejected. Meanwhile compensation ($\beta = 0.302$, $p<0.05$), performance appraisal ($\beta = 0.153$, $p<0.05$) and training and development ($\beta = 0.500$, $p <0.05$) were found to have a positive and significant relationship with organisational innovation, thereby supporting H₂, H₃ and H₄.

After determining the significance of direct relationships, the path coefficient for indirect relationships was examined. Figure 3 shows the path coefficients for indirect relationships whereby knowledge sharing was proposed to mediate the relationships between HRM practices (staffing, compensation, training and development and performance appraisal) and organisational innovation. To determine the significance of the path coefficients, a nonparametric bootstrapping was applied to obtain the t-values (with 5,000 resamples and 170 cases). Figure 4 shows the t-values for the paths between HRM practices (staffing, compensation, training

and development and performance appraisal) and knowledge sharing and organisational innovation (Table 3).

Based on the path coefficients showed in Fig. 3 and t-values presented in Fig. 4, it indicated that knowledge sharing has a positively significant relationship with organisational innovation ($\beta = 0.868$, $p<0.05$). Meanwhile, out of the four variables of HRM practices, only performance appraisal was not significantly related to knowledge sharing ($\beta = 0.091$, $p>0.05$) while staffing ($\beta = 0.132$, $p<0.05$), compensation ($\beta = 0.271$, $p<0.05$) and training and development ($\beta = 0.491$, $p<0.05$) had a positive and significant relationship with knowledge sharing.

According to Baron and Kenny, a mediating variable is expected to account for the relation between the independent variable and the dependent variable and is often guided by casual steps. Nevertheless, the casual

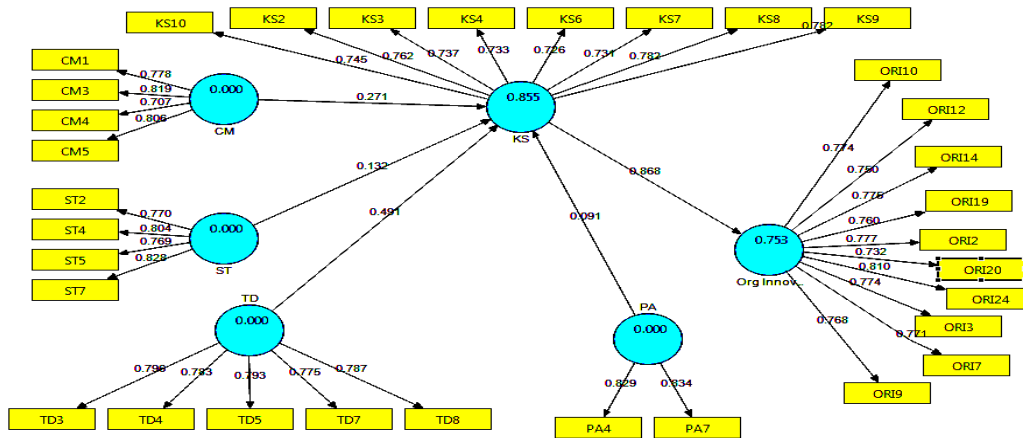


Fig. 3: Path coefficients for indirect relationships

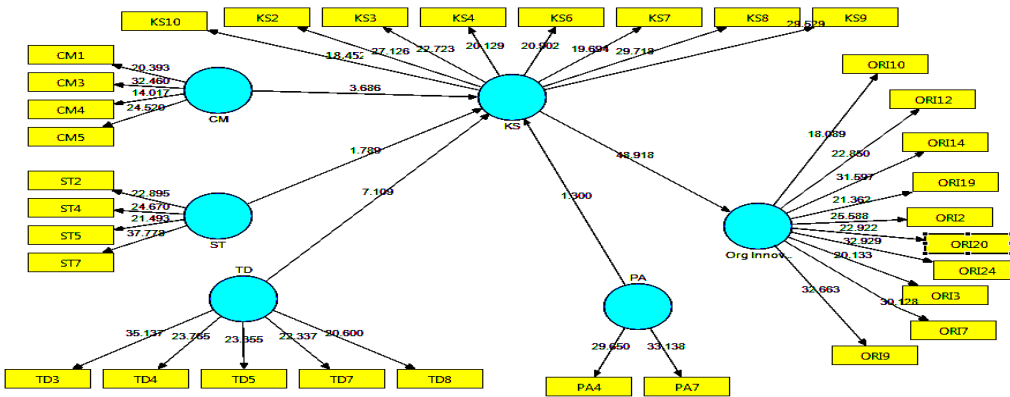


Fig. 4: t-values for indirect relationships

Table 3: Path coefficient for indirect relationships between HRM practices, knowledge sharing and organisational innovation

H	Relationship	Path a	Path b	Indirect path (a*b)	SE	t-values	Boot strapped confidence interval		Decision
							95% LL	95% UL	
H _{5a}	ST->KS->ORI	0.132	0.868	0.114*	0.064	1.793	-0.030	0.259	Not supported
H _{5b}	CM->KS->ORI	0.271	0.868	0.235**	0.064	3.684	0.091	0.379	Supported
H _{5c}	PA->KS->ORI	0.091	0.868	0.079	0.063	1.263	0.137	-0.058	Not supported
H _{5d}	TD->KS->ORI	0.491	0.868	0.426**	0.064	6.681	0.291	0.561	Supported

p**<0.01 (2.33), p*<0.05 (1.645)

steps approach suggested by Baron and Kenny was criticised. According to Preacher *et al.* (2007), the indirect effect suggested by Baron and Kenny did not estimate based on tests of the product term (ab) but rather inferred from a set of tests on their constituent paths. A more reasonable and powerful approach suggested by Preacher and Hayes (2008) is to get bootstrapped indirect effects. Bootstrapping has an advantage of building an indirect effect and confidence interval for the indirect effect by empirical approximation of the sampling distribution. If there is no zero between the lower and upper limit of the bootstrapped confidence interval, the

indirect effect is regarded as significant. To determine the significance the role of knowledge sharing in mediating the relationships between HRM practices (staffing, compensation, training and development and performance appraisal) and organisational innovation, this study follows the strategy suggested by Preacher and Hayes (2008). As a result, it can be concluded that knowledge sharing mediates the relationship between compensation and organisational innovation ($\beta = 0.235, p < 0.05$) with the CI (Confidence Interval) ranging from 0.091-0.379. Similarly, knowledge sharing also mediates the relationship between training

and development and organisational innovation ($\beta = 0.426, p < 0.05$) with the CI ranged from 0.291-0.561. Therefore, H_{5a} and H_{5d} were supported. However, the mediation of knowledge sharing among the relationship between performance appraisal and organisational innovation ($\beta = 0.079, p > 0.05$) was not supported given that the CI ranged from 0.137-0.058. Likewise, the mediation relationship of knowledge sharing among the relationship between staffing and organisational innovation was also rejected given that the CI ranged from -0.030 to 0.259.

DISCUSSION

In general, the findings managed to provide empirical support for the relationship between HRM practices and organisational innovation. In particular, the results further indicated that HRM practices, namely training and development, performance appraisal and compensation promoted organisational innovation in the service sector, particularly in the hotel sector. Taken together, these findings highlight the critical roles of human resource management practices in innovation. However, it was surprising to find that staffing (recruitment and selection) does not significantly influence organisational innovation as most previous researches consistently found a significant relationship (Jimenez-Jimenez and Sanz-Valle, 2011; Chen and Huang, 2009; Beugelsdijk, 2008; Jiang *et al.*, 2012). One possible reason could be that employee turnover is among the highest in the hospitality industry. It was estimated that an average annual employee turnover ranged from around 60-300% (American Hotel and Motel Association). Hotels spend thousands every year for each new employee they must train to replace those that left. In Malaysia, the survey done by the Malaysian Employers Federation (MEF) in 2012 shows that the Hotel/Restaurant sector experienced a turnover rate at 32.4% which is considered high.

Employees can be motivated to be more innovative as a result of compensation which plays an important part to stimulate innovation. In firms that are innovation driven, the reward system can be a very influential factor to motivate staff to take risks, develop more products and propose novel ideas (Gupta and Singhal, 1993). Leede and Looise indicated in their study the importance of the appropriateness of compensation to motivate employees but drew attention to the danger of negative implications that can result when the reward system is not implemented in a balanced manner.

Performance appraisal was also found to have a significant and positive influence on service innovation. One of the possible explanations may relate to the fact

that organisational innovation is usually done within a shorter period of time since changes in organisational management or structure can be adjusted according to the needs of the organisation. Therefore, feedback obtained from performance appraisal activities are usually conducted at least once annually, can help an organisation further improve the management or structure of the organisation to be more flexible enough to support innovation. The result of this study is in line with Tan and Nasuridin (2011)'s finding which found performance appraisal had both a direct and an indirect effect on organisational innovation.

Training and development was also found to have a positive influence on organisational innovation. The result is in line with previous studies that looked at the role of training and development in service innovation (Beugelsdijk, 2008; Chen and Huang, 2009; Chang *et al.*, 2011; Li *et al.*, 2006; Tan and Nasuridin, 2011). When a hotel industry gives a lot of focus on training and development programs, it will advance the growth of employees' requisite knowledge, skills and their potential to learn. With an effective training and development program, employees are able to generate new understandings and new ideas that will be useful for innovation.

Knowledge sharing was found to mediate the relationship between training and development and compensation. This result suggests that training and development and compensation are likely to increase knowledge sharing which in turn leads to greater organisational innovation. A plausible explanation for these results could be that innovation depends on employees' knowledge, skills and experiences in value creation (Wang and Wang, 2012). Access to employee knowledge, skills and experiences requires effective HRM practices such as training and development and compensation that can motivate employees to actively collect knowledge and experience from colleagues in order to learn from them (Darroch and McNaughton, 2002). Taken together, this study succeeded in demonstrating that HRM practices in general, promote knowledge sharing among employees which is important in enhancing innovation efforts in the hotel industry. Knowledge sharing with employees and customers are helpful in improving service offerings, avoiding service failure and reducing costs in service organisations. From a managerial perspective, this result implies that managers should realise that employees' willingness to obtain knowledge and willingness to contribute their knowledge to colleagues including work-related experience, expertise, know-how, skills and contextual information from or to other employees can impact positively on service innovations. Therefore, managers should create a suitable

environment that gives special attention to employees' willingness to collect and donate knowledge with colleagues and customers to learn new capabilities, experience and skills that enhance service innovation.

Implications of the study: The practical implication of this finding is that managers may be able to actively manage their firm's human capital through a variety of HRM practices to stimulate knowledge sharing and build a competitive advantage. Furthermore, knowledge sharing activities such as knowledge collecting and knowledge donating in organisations can form the basis for creative and innovative thoughts that may eventually lead to even greater service innovation. More importantly, the results suggest a mediation effect of knowledge sharing on the relationship between training and development and compensation on organisational innovation. To facilitate the link between HRM practices and favourable organisational innovation, managers need to be aware of the importance of knowledge sharing, devote the necessary effort to conduct effective knowledge sharing by encouraging employees to share their knowledge, skills and experiences through training and development and an attractive compensation package.

Training and development was found to have a direct and indirect effect on organisational innovation. This implies a need for managers to provide adequate training and development programs to equip employees with the necessary knowledge, skills and competencies to develop organisational innovation. Providing such programs are also beneficial in promoting knowledge sharing in an organisation as indicated by this study's finding. The following are some suggestions on the training programs that can be used to foster knowledge sharing and hence, organisational innovation. Managers can conduct a systematic training needs assessment to identify the proper training required in an organisation, provide cross-functional training and development where the employees are able to develop multiple skills, provide job relevant training (on-the-job training and off-the-job training) for their employees and facilitates transfer of training to actual job performance where employees are able to apply what they learn in the actual job performance. A training program in the service sector and particularly the hotel sector should focus on developing employees' knowledge, skills and abilities so that they would be able to perform their tasks and improve organisational innovation.

Knowledge sharing which was found to have a mediating effect, needs to be enhanced in order to further increase organisational innovation. For example, HRM managers should prepare a career path to enable

employees to acquire and integrate different sources and types of knowledge from business partners as well as internal and external training programs. In addition, HR managers should also establish a trail to enable knowledge to be shared and transferred from the organisation to an individual, from an individual to an individual and from an individual back to the organisation. They should also facilitate employees to be able to use and apply the knowledge to improve efficiency and solve problems. With the enhancement of knowledge sharing activities through an adequate and proper training and development program and attractive compensation package, organisational innovation would be improved and increased.

It is essential for the service sector to provide good performance appraisals to their employees. Results from the study showed that a performance appraisal was found to influence directly organisational innovation. This is because a fair performance appraisal reinforces employees' motivation leading to increased innovation (Tan and Nasurdin, 2011). Fair and effective performance appraisals in the service sector particularly also encourages employees to reach goals that are important to organisation performance. In this regard, HR managers should give focus on the relevant domains in assessing employee performance, use quantifiable criteria in performance appraisal, use participative performance appraisal, communicate performance appraisals to employees to increase transparency, give performance appraisal feedback to employees and link the rewards to performance appraisal. With such features, it is anticipated that such performance appraisal will be able to promote knowledge sharing and therefore, service innovation.

In addition to effective training and development and performance appraisal, it is essential for the service sector to provide good compensation that offers employees with monetary and non-monetary incentives and rewards to motivate them to engage in organisational innovation initiatives. Since knowledge-sharing, such as knowledge collecting and knowledge donating involves significant time and effort (Stenmark, 2001), knowledge-sharing requires that employees are motivated to make such inputs. Knowledge sharing occurs when employees perceive that incentive of knowledge contribution exceeds costs required for knowledge sharing (Kelley and Thibaut, 1978). Therefore, if there is an appropriate compensation system (e.g., rewards or incentive mechanisms such as bonuses or career advancement), employees will be motivated to share their knowledge (Bartol and Srivastava, 2002; Bock *et al.*, 2005; Kankanhalli *et al.*, 2005).

CONCLUSION

Taken as a whole, this study provided empirical evidence on the relationships between HRM practices, knowledge sharing and organisational innovation. More importantly, this study succeeded in answering all of the research questions. Although, there are voluminous studies on the associations of HRM practices and organisational innovation, this study addressed the gap by incorporating knowledge sharing as a significant mediating variable.

This study also lent empirical support for the mediating role of knowledge sharing on the relationship between HRM practices, namely training and development and compensation on organisational innovation. The direct and indirect influences of HRM practices on organisational innovation in the hotel sector was also evaluated. Besides theoretical implications, the research results has practical implications for managers on the need to develop a conducive environment through the provision of an effective HRM system to enable and promote knowledge sharing so that employees can be encouraged to provide innovative services to customers, particularly in a hotel sector. In conclusion, this research added valuable theoretical and practical ramifications to the body of knowledge in the respective fields.

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