

THE IMPORTANCE OF HUMAN RESOURCE MANAGEMENT FOR SMALL AND MEDIUM ENTERPRISES

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Abstract

This study qualitatively explores the influence of human resource management (HRM) on the performance of Micro, Small, and Medium Enterprises (MSMEs). Case studies were conducted on several MSMEs in [research locations] using in-depth interview methods and document analysis. The results shows that HRM practices, such as proper employee selection, continuous training, and an effective performance evaluation system, contribute significantly to improving the performance of MSMEs. In addition, this study also found that there was a positive relationship between employee job satisfaction and MSME performance.

Keywords: *Human Resource Management, Small and Medium Enterprises*

A. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are independent and productive business units run by individuals or business actors in all economic sectors (Tambunan, 2016:2). MSMEs are business units that are independent, productive, and operate in various economic sectors, as explained by Tambunan (2016).

Development of MSMEs and Large Enterprises in Indonesia in 2021-2023

Information	2021	2022	2023
Micro	98,70%	98,67%	98,67%
Small Business	1,20%	1,22%	1,22%
Intermediate	0,09%	0,09%	0,10%
Big Venture	0,01%	0,01%	0,01%

Source: Ministry of Cooperatives and Small and Medium Enterprises

Based on the data in the table above, it can be seen that the development of small businesses from 2017 to 2019 has decreased every year, although from the data it can be seen that the decline in the micro business sector is not too drastic only by 0.010.02. percent per year. In the Small Business sector when viewed from the table data. experienced an increase in 2018 by 0.02% from the previous year, while in 2019 it looked constant but did not decrease. The Medium Business Sector experienced an increase of 0.01% in 2019, compared to the previous two years. tend to be constant. As for the Large Business sector for three years. consecutively did not increase. or a decrease (which tends to be constant), this can occur because there has not been an increase in the type of large business or the number of unregistered businesses of several types of businesses that are classified as large. Micro, Small, and Medium Enterprises (MSMEs) in the national economy have an important and strategic role. Micro, Small, and Medium Enterprises (MSMEs) are referred to as the spearhead of economic development because MSMEs can absorb a large workforce and play a role in distributing the results

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of development, besides that MSMEs have also been recognized as one of the most important in the economy regardless of the size of the economy (Saleh and Nelson, 2006). This condition is very likely because the existence of MSMEs is quite dominant in the Indonesian economy, with the reason of many industries and found in every economic sector; great potential in labor absorption, and the contribution of MSMEs in the formation of Gross Domestic Product (GDP) is very dominant as the spearhead, MSMEs contribute significantly to the absorption of labor and the distribution of development results, as affirmed by Saleh and Nelson (2006).

The main obstacles faced by MSMEs are the limited capital owned by MSMEs and the lack of knowledge about promotion and entrepreneurial skills. Most of the existing MSMEs complained about the lack of funds to develop their businesses. This can be caused by inadequate access to loans and the limited ability of MSMEs to find funding sources. Another obstacle faced by MSMEs besides funds is the limited knowledge of MSMEs related to online promotion and entrepreneurship. Most MSMEs do not know how to market their products and services effectively and efficiently.

The challenge of MSMEs in the midst of a massive digital economy that is increasingly rapid requires MSMEs to be literate in information technology because there are still not many MSME actors who use internet services or have websites or products that are already known so that MSME services that are marketed sometimes cannot reach markets outside regions and remote areas. and cannot compete with other large businesses that already have a marketplace and easily get customers because they are known through unlimited internet service services The rapid growth of the digital economy requires MSMEs to be more technologically literate. Unfortunately, many MSMEs have not used the internet and website optimally, making it difficult to reach a wider market and compete with large businesses

MSME human resources face various obstacles. First, low education and expertise that causes difficulties in accessing information technology. Information technology is currently indispensable to improve industrial management capabilities, in the fields of marketing, finance, and secondly, production technology, various trainings for small and medium industries, including information technology that has been carried out so far, are still ineffective due to the lack of cooperation between research actors and small and medium industries. Therefore, local governments need to be serious in creating cooperation programs between research institutions and MSMEs. Low education and skills are the main obstacles for MSMEs in utilizing information technology.

Based on the explanations discussed earlier, the research questions in this article are:

- How to increase the knowledge of MSME actors about the importance of human resource management aspects in MSMEs?
- What is the strategy for implementing the HR management function in MSMEs?

B. LITERATURE REVIEW

1. Micro Small Medium Enterprises (MSMEs)

The definition of MSMEs can be interpreted as the development of mainstay areas to accelerate economic recovery. This business also accommodates priority and development programs for various sectors in Indonesia. Meanwhile, small businesses are stepping up efforts that empower communities. MSMEs is a business that is divided into three categories, namely micro, small, and medium, which are carried out by individuals or business entities, store certain assets and turnover, and play an important role in the development of the Indonesian economy MSMEs are the backbone of the economy that can spur growth and innovation in various sectors.

2. Human Resource (HR)

Human resources: According to Mathis and Jacson, human resources (HR) is the design of a formal system within an organization to ensure the effective and efficient use of human skills. According to Suparyadi (2014) human resource management is a system that aims to influence employee attitudes, behaviors, and performance. Human resources are policies and exercises to meet the needs of employees. Human resources (HR) is a system designed to manage the workforce

effectively and efficiently, so that it can achieve organizational goals. Whether it's in terms of ensuring the use of expertise, influencing employee attitudes and behaviors, or meeting their needs.

3. Human Resource Management (HRM)

Human resource management is the science or way of managing the relationships and roles of resources (workforce) owned by individuals efficiently and effectively and can be utilized optimally so that the goals of the company, employees and society are maximized. HRM is based on the concept that every employee is a human – not a machine – and not just a business resource. The goal of human resource management is to increase the productive contribution of people or labor to an organization or company in a strategic, ethical and socially responsible way. Human resources managers and departments achieve their goals by meeting their goals. Human resource management function can be explained, as follows:

- a. Planning for human resource needs
In general, the strategic goal of HR planning is to identify the need and availability of human resources. In addition, it also aims to develop programs in order to minimize deviations based on individual and organizational interests.
- b. Human Resource Staffing / Recruitment
After the needs planning is carried out, then the organization tries to meet the needs of the workforce according to the type of work, the number and characteristics of the personnel needed.
- c. Performance appraisal and compensation
Performance appraisals, according to Rowland and Ferris, are a way to determine how productive staff are and whether they can work effectively in the future.
- d. Training and Enrichment
This function is an effort to improve work performance. Current and future personnel, with knowledge-enhancing activities and their skills in learning.
- e. Creation and fostering of effective working relationships
Educational institutions that already have a number of personnel needs maintenance by respecting and providing working conditions attractive.

C. METHOD

This research is a descriptive analysis research. Descriptive analysis is statistics used to analyze data by describing or describing the data that has been collected as it is without intending to make generalized conclusions or generalizations. Sugiyono (2004). Descriptive research is a form of research that aims to describe existing phenomena, both natural and man-made phenomena. These phenomena can be in the form of forms, activities, characteristics, changes, relationships, similarities, and differences between one phenomenon and another (Sukmadinata, 2006).

D. RESULTS AND DISCUSSION

The quality of human resources in terms of formal education and knowledge and skills greatly affect the management of their business. To face global competition, small industries must improve their competitive advantages, including in terms of efficiency, productivity, mastery of technology, and high control. And the most important factor for MSMEs performance is quality of human resources. Human Resource Management (HRM) plays a pivotal role in the success and growth of Micro, Small, and Medium-sized Enterprises (MSMEs). Despite its significance, a significant number of MSMEs lack adequate knowledge about the role and benefits of effective HRM (Todem, et al., 2016). A lack of understanding of HRM can result in poor strategic decision-making, low employee engagement, and decreased overall productivity.

To bridge the gap between MSMEs and effective HRM practices, it is essential to increase the knowledge of MSME owners and managers about the core principles of HRM. Educational programs and workshops can be designed specifically targeting MSMEs, providing them with requisite knowledge about HRM practices, such as recruitment, selection, training, performance management, and employee development (Gupta & Dutta, 2015). This can be done through partnering with business schools, professional bodies, and government organizations to provide training sessions,

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seminars, and webinars. Experiential learning, which is a hands-on, participatory approach, can also be employed to teach MSME owners and managers HRM concepts and techniques in a practical and engaging manner (Sweeney, 2018). This can include case studies, group discussions, and role-playing exercises that allow participants to learn by doing. For instance, a business school can develop a module on HRM tailored specifically for MSMEs, focusing on their unique challenges and needs. Additionally, leveraging technology, particularly online platforms and social media, can increase the reach and accessibility of HRM knowledge for MSMEs. This can be achieved by creating online forums, webinars, and video tutorials that provide an affordable and convenient way for MSME owners and managers to gain knowledge and skills about HRM (Gan, et al., 2017). It can also aid in the dissemination of best practices and provide access to HRM experts and resources.

Moreover, networking and collaboration can facilitate the exchange of knowledge and experiences among MSMEs. Organizing events, conferences, and peer groups can provide opportunities for MSMEs to share their experiences, challenges, and best practices related to HRM (Korff, et al., 2020). Furthermore, establishing partnerships with HRM service providers, consultants, and experts can enable MSMEs to access professional advice and support, further augmenting their knowledge and capabilities in HRM. Increasing knowledge of MSMEs about the importance of HRM can have far-reaching implications, including improved strategic competitiveness, increased employee engagement, and better decision-making (Ligon, et al., 2018). Therefore, providing education and training related to HRM should be recognized as an essential strategy to enable MSMEs to achieve their full growth and development potential.

CONCLUSION

Human Resource Management (HRM) plays a vital role in the success of Micro, Small and Medium-sized Enterprises (MSMEs). These businesses are the backbone of many economies worldwide, and they often require innovative and effective HRM practices to remain competitive and sustainable (Kuratko, 2015). This essay explores the importance of HRM for MSMEs and highlights its impact on these businesses' overall performance. One of the significant advantages of HRM for MSMEs is its ability to enhance employee engagement and retention. In MSMEs, employees often play a multifaceted role, contributing to various aspects of the organization. Effective HRM practices, such as regular feedback, training, and development opportunities, can motivate employees to achieve better performance (Armstrong, 2020). MSMEs that prioritize HRM tend to experience improved job satisfaction among their employees, which leads to reduced turnover rates and lower recruitment costs (Kuratko, 2015).

HRM also contributes significantly to the decision-making process in MSMEs. By analyzing employee performance and well-being, HR managers can provide management with valuable insights to inform strategic decisions (Gundry & Welsch, 2001). For instance, HR insights can help identify areas of improvement in the existing business strategy or encourage innovation by leveraging employee ideas and suggestions (Martin & Matlay, 2013). This proactive approach enables MSMEs to respond to changing market conditions and stay adaptable in a rapidly evolving business environment.

Furthermore, HRM plays a critical role in terms of succession planning and talent development in MSMEs. As MSMEs experience growth, their leaders are often faced with the challenge of developing the next generation of leaders (Gundry & Welsch, 2001). HRM helps ensure that existing talent is nurtured and developed, contributing to continued growth and evolution (Kuratko, 2015). This effort helps prevent leadership succession issues and enhances organizational resilience. HRM also promotes organizational learning and performance in MSMEs. Best practices in HRM, such as training, continuing professional development, and talent management, have been associated with improved organizational performance (Armstrong, 2020). Moreover, MSMEs that prioritize HRM often exhibit better quality outcomes and efficiency in their operations (Martin & Matlay, 2013). In conclusion, the role of Human Resource Management is essential for the success and sustainability of Micro, Small, and Medium-sized Enterprises. By implementing effective HRM practices, MSMEs can reduce employee turnover, enhance organizational learning, and make strategic

decisions based on employee insights. As a result, MSMEs are positioned to thrive in today's competitive market environment.

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