

UNVEILING THE MEANING AND PRACTICE OF HUMAN RESOURCE MANAGEMENT STRATEGIES IN IMPROVING MSME PERFORMANCE

Muh. Husriadi

Halu Oleo University, Kendari, Indonesia

husriadiadi@gmail.com

ABSTRACT

This research is based on the fact that human resource management in MSMEs is still largely carried out informally and is heavily influenced by personal relationships between business owners and employees. This situation often makes the relationship between HR practices and business performance unclear and difficult to measure systematically. Although HR is understood as a vital intangible asset that plays a role in creating business excellence, there are still limitations in understanding how these practices are truly interpreted and implemented in the context of MSMEs in areas such as Kendari City. This study aims to explore the meaning and practice of HR management in MSMEs, while also examining how this relates to business performance. The approach used is a qualitative phenomenological approach with data collection techniques through in-depth interviews, field observations, and thematic analysis with 12-15 informants consisting of MSME owners and key employees in the food and beverage sector in Kendari City. The results show that HR management is better understood as a process of building warm relationships and maintaining emotional closeness, often referred to as "heart management." Emerging practices include proximity-based recruitment, informal rewards that emphasize loyalty, and flexible and less structured performance evaluations that still foster a friendly work environment. Therefore, this research emphasizes the importance of developing HR strategies that remain relevant to local culture while simultaneously moving toward a more measurable system that allows for continuous monitoring and improvement of business performance without diminishing existing family values.

Keywords: human resource management, human resource strategy, labor relations

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the Indonesian economy. In addition to providing employment for a large portion of the national workforce, MSMEs also contribute to income equality and economic growth across various regions . (Salsabillah et al. 2023) . The existence of MSMEs is not only seen as a profit-generating economic activity, but also as an instrument that encourages economic inclusion and improves community welfare. (Khumairo 2025) . In the midst of increasingly competitive economic dynamics, MSMEs are required to be able to adapt to market changes, technological developments, and ever-evolving consumer needs. (Anggraeni, Hodijah, and Umiyati 2026) .

So far, various efforts to increase the competitiveness of MSMEs have been more directed at aspects of capital, market access, digitalization, and strengthening business networks. (Anatan and Nur 2023) . Although these aspects are important, there is another factor that often does not receive adequate attention, namely human resource (HR) management. (Alexandro and Alexandro 2025) . In fact, the success of a business is ultimately determined by the quality of the individuals who carry out the business activities. (Ferdianto 2022) . The availability of sufficient capital and adequate technology will not produce optimal results if not supported by competent human resources who are able to manage them effectively. (Widyanti, Siringoringo, and Kuswanto 2026) . From the perspective of the resource-based view and the theory of competitive capabilities, human resources are seen as strategic assets that can be a source of sustainable competitive advantage. (Anggraini and Yona 2026) . The knowledge, skills, experience, creativity and commitment of the workforce are resources that are difficult for competitors to imitate. (Nastase and Adomnitei 2025) . Therefore, an organization's ability to manage human resources is a determining factor in business success in increasing productivity, maintaining product or service quality, and producing the innovation needed to face changes in the business environment.

Several studies in recent years have supported this view. Research (Farah, Dewi, and Fadiah 2025) shows that human resource competency has a positive influence on improving MSME performance. Business actors with better managerial skills, technical skills, and business understanding tend to be able to manage their businesses more effectively. Similar findings were reported by (Pitoyo and Nasrudin 2025) which found that human resource quality is a crucial factor in determining the success of MSMEs, alongside capital support and government policies. Meanwhile, research (Yuningsih 2023) Research shows that human resource quality not only directly impacts business performance but also contributes to driving innovation, ultimately strengthening the competitiveness of MSMEs.

These findings demonstrate that human resources are not merely a factor of production but also a strategic asset that determines business sustainability and growth. However, the reality that is still often found in the field shows that HR management in MSMEs is generally carried out simply and has not become part of a systematically designed business strategy. (Harney et al. 2022) . Recruitment of workers is often based on family relationships or personal closeness (Abas 2024) . Training takes place informally through a learning-by-doing process without a clear curriculum. (Anatan and Nur 2023) . On the other hand, compensation systems are typically focused solely on a company's financial capabilities, while performance evaluations are not supported by measurable indicators. This situation has the potential to cause various problems, ranging from low productivity and limited innovation to high employee turnover. (De Blick, Paeleman, and Laveren 2024) . The characteristics of MSMEs, which are synonymous with small-scale businesses, simple organizational structures, and limited resources, make implementing formal HR management practices like those practiced by large companies challenging. Therefore, a

deeper understanding of how MSMEs interpret HR management and how they translate that understanding into daily practice is necessary.

This understanding is crucial because an effective HR strategy for MSMEs must be able to address the real needs of the business while considering the limitations they face. Based on these findings, it appears that there is still a significant area of research that remains underexplored. Most previous studies have tended to address competency, training, or organizational structure separately, thus failing to provide a comprehensive picture of HR management strategies as a unified, interconnected system. Furthermore, research that combines the subjective experiences of MSME owners with their HR management practices is still relatively limited. Yet, business owners' perceptions often form the basis for workforce-related decisions. Another gap lies in the paucity of research that simultaneously connects HR management practices with various MSME performance indicators, such as productivity, product or service quality, revenue growth, and employee retention. Furthermore, the influence of local culture, family business characteristics, and differences in business sectors have not received much attention in previous research. As a result, understanding of HR strategies that truly suit the conditions of Indonesian MSMEs remains underdeveloped. Based on these conditions, this study seeks to fill the existing gap by simultaneously examining the meaning, practice, and impact of HR management in the context of MSMEs. The study focuses not only on what business actors do in managing their workforce but also attempts to understand the reasons, considerations, and experiences behind these practices. Thus, this study is expected to explain how HR management strategies are applied in the reality of MSMEs in Kendari City and the extent to which these practices contribute to increased productivity, business quality, turnover growth, and workforce retention.

The main contribution of this study lies in its effort to integrate a strategic management perspective with the actual experiences of MSME actors in Kendari City in managing HR. In addition to enriching the literature on human resource management in the context of micro and small businesses, the results of this study are also expected to produce more contextual, realistic, and easily implemented recommendations. Thus, the findings obtained will not only be useful for theory development but also serve as a reference for the government, supporting institutions, and business actors in designing human resource development strategies that can support the sustainability and competitiveness of MSMEs.

RESEARCH METHODS

This study uses a qualitative approach with a phenomenological design. This approach was chosen based on the research objective, which not only seeks to identify human resource (HRM) management practices in MSMEs but also to understand the meanings given by business actors to these practices. In this context, the experiences, views, and interpretations of business owners and managers are important sources of information to explain how HRM strategies are implemented and how these strategies are perceived to contribute to business

performance. The phenomenological approach is deemed appropriate because it allows researchers to explore the subjective experiences of informants in depth and understand the realities, they experience in their daily HRM activities. The research was conducted on MSMEs in the food and beverage sector in Kendari City, Southeast Sulawesi. Kendari City was selected based on several considerations. *First*, Kendari City is the center of economic and trade activity in Southeast Sulawesi, demonstrating rapid MSME development in recent years. *Second*, the food and beverage sector are one of the most dominant sectors and has a relatively high labor absorption rate compared to other MSME sectors. *Third*, most MSMEs in Kendari City are still managed with simple organizational structures and rely on informal working relationships, thus providing a relevant space to examine how HR management strategies are understood and implemented in business practices. Furthermore, the diverse characteristics of MSMEs in Kendari City in terms of business scale, ownership background, and workforce management patterns are expected to provide a richer picture of the dynamics of HR management in the context of micro and small businesses in Indonesia. Research informants were selected purposively, considering their involvement in the HR management process within the business. To broaden information and obtain more diverse perspectives, the informant selection process was also developed using a snowball sampling technique.

The number of informants ranged from 12 to 15 people, or until the data obtained reached data saturation. Informants consisted of the business owner, operational manager, and one or two employees who played important roles in operational activities and workforce management. This composition was chosen to provide researchers with a more comprehensive understanding of HR practices from various perspectives directly involved in business activities. Data collection was conducted through in-depth interviews, field observations, and documentation studies. In-depth interviews were used to explore informants' experiences, views, and interpretations regarding recruitment processes, training, task allocation, performance evaluation, and compensation.

Furthermore, observations were conducted to understand the work situation and interactions that occur within the business environment, so that the information obtained did not rely solely on informants' verbal explanations. Documentation, such as business records, organizational structures, job descriptions, and other documents related to HR management, served as supporting data sources to strengthen the interview and observation results. The collected data were analyzed using the Miles and Huberman interactive analysis model, which encompasses three main stages: data reduction, data presentation, and conclusion drawing or verification. In the data reduction stage, the researcher selected, grouped, and simplified the data according to the research focus. The next stage was data presentation in narrative form, matrices, or themes, making it easier for the researcher to see patterns of relationships between findings. Furthermore, the verification process was carried out continuously throughout the research to ensure consistency and accuracy of interpretation. To enhance the credibility of the research results, the researcher also applied

source and method triangulation by comparing the results of interviews, observations, and documentation obtained from various informants. Through these procedures, this research is expected to produce a deeper understanding of how MSMEs in Kendari City interpret and implement HR management strategies, while also explaining the relationship between these practices and their business performance.

RESULTS AND DISCUSSION

The Meaning of Human Resource Management

The research findings show that MSMEs in Kendari City view human resource management as something much broader than mere administrative activities or workforce management. For them, managing employees is not only about assigning tasks, supervising work, and providing wages, but also about building good relationships and maintaining a comfortable work environment. In this context, human resource management is often interpreted as an effort to understand employee characteristics, maintain harmonious communication, and create a work atmosphere that feels like a family. This picture is evident in the daily practices carried out by many MSMEs in Kendari City.

The relationship between business owners and employees is generally built on trust, emotional closeness, and mutual respect. Employees are not treated simply as workers performing specific tasks, but as part of the extended business family who contribute to the business's growth. Therefore, when problems arise in the workplace, they are more often resolved through personal approaches, direct dialogue, and deliberation rather than through the application of rigid written rules. Furthermore, MSME owners strive to foster a sense of security and comfort for their employees. This concern can be seen in their commitment to timely salary payments, support when employees face personal difficulties, and appreciation for work achievements. While rewards are not always financial incentives, verbal recognition and genuine attention are often considered significant for employees. This is believed to increase loyalty, strengthen engagement with the business, and encourage better performance in the long term. The findings of this study align with those of Anggraini and Yona (2026). that harmonious working relationships, providing non-financial appreciation , and direct assistance from business owners have an important role in increasing employee commitment and performance in the MSME sector. Although most HR management practices remain informal, approaches that emphasize interpersonal closeness have been shown to create a more conducive work environment. Furthermore, research (Dudija, Naibaho, and Wibowo 2024; Wahl et al. 2026) also shows that MSMEs that successfully build a positive organizational culture tend to have higher levels of productivity and competitiveness. This culture is characterized by collaboration, active employee involvement, and appreciation for individual contributions to the organization. These research findings confirm that the implementation of HR management in MSMEs cannot be separated from the social relationships and togetherness that develop in the work environment. Based on these findings, it is understandable that HR management in MSMEs in Kendari City is not merely

viewed as a series of technical activities to manage the workforce. Furthermore, HR management is interpreted as a process of building relationships of mutual understanding, support, and growth for the sake of business sustainability. This understanding suggests that the success of human resource management in MSMEs is greatly influenced by the business owner's ability to create strong social bonds, maintain trust, and foster a sense of belonging among all members of the organization.

Recruitment and Selection Practices

The research results show that the employee recruitment and selection process in MSMEs in Kendari City is still dominated by informal approaches. Most business owners have not implemented structured recruitment procedures, such as written tests, competency-based interviews, or formally documented employment contracts. Nevertheless, these practices remain crucial for maintaining business continuity because they foster relatively stable working relationships based on mutual trust. In practice, the search for prospective employees is generally conducted through social networks close to the business owner, such as family members, relatives, friends, or neighbors. This close relationship is often a primary consideration over the prospective employee's educational background or work experience. For MSME owners, selecting someone they already know is considered safer because their character and behavior are already known. Therefore, trust often plays a greater role than the administrative requirements typically applied in larger companies. In addition to relying on social proximity, the selection process is also heavily based on personal assessment. Business owners tend to pay attention to the attitude, honesty, communication skills, and politeness of prospective employees through direct conversations and simple observations. A "trial first" approach is also often employed, where individuals are given the opportunity to work to determine their suitability for the company's needs before committing to a longer-term position. On the one hand, this approach makes it easier for new employees to adapt because the work environment feels more familiar and less formal.

However, on the other hand, this approach also has the potential to cause problems if personal relationships are prioritized over required technical skills. As a result, there is a potential mismatch between employee competencies and job requirements. This finding aligns with research (Ferreira et al. 2023; Nugroho and Ariyani 2025). Research shows that recruiting through family and friendship connections can indeed expedite the job search process. However, without clear and objective criteria, the quality of the human resources obtained may not always align with the organization's needs. Therefore, trust-based recruitment practices still need to be supported by more targeted selection standards to maintain employee quality and sustainably grow business performance.

Reward and Recognition Practices

The research findings indicate that employee reward and recognition practices in MSMEs in Kendari City are largely built through interpersonal relationships rather than through formal, structured systems. In everyday business practices, rewards are not always given in the form of large bonuses or standard incentive schemes. Instead, appreciation is

often expressed through gradual salary increases, uniforms, thank-yous, direct praise, or simple celebrations for specific achievements. For business owners, these forms are considered sufficient to demonstrate that employee contributions are valued and recognized. Interestingly, rewards in the context of MSMEs in Kendari are not only related to tangible work results. Consistent attendance, loyalty to the business, a positive attitude, and a willingness to help when the business faces difficulties are also important considerations. Therefore, many business owners place a sense of appreciation at the heart of the working relationship. As long as communication is good and interpersonal relationships remain harmonious, the existence of written reward policies is often considered less urgent. Furthermore, forms of social concern are also part of the rewards given to employees. When employees experience illness, family problems, or financial hardship, business owners often provide assistance according to their ability.

This condition indicates that appreciation is not only understood as a reward for work, but also as a form of concern for the individual's overall well-being. This finding aligns with research (Hyeon 2025). who found that reward and recognition systems have a positive relationship with employee loyalty in MSMEs. This research indicates that recognition of employee contributions is one factor that can maintain long-term work commitment. These research findings are also supported by (Vidushi 2025). which explains that recognition and appreciation are elements of reward that significantly influence employee job satisfaction. When workers feel appreciated, their satisfaction levels tend to increase, resulting in better work performance. However, some research offers a different perspective. findings (Damayanti et al. 2025) emphasized that employee loyalty cannot be built solely through social rewards or informal recognition. The study showed that a more structured reward system, combined with a good work-life balance, has a stronger influence on employee loyalty, especially among the younger generation. Based on these findings, it is understandable that informal rewards still play a significant role in the context of MSMEs in Kendari City. However, as businesses grow and the need for professionalism increases, a personal-based approach needs to be balanced with clearer reward mechanisms to sustainably maintain employee motivation, satisfaction, and loyalty.

Performance Evaluation and Consequences

The research results show that the employee performance evaluation process in MSMEs in Kendari City is still carried out in a simple manner and is not supported by a structured assessment system. Most business owners assess employee performance based on daily observations, collaborative work experiences, and impressions formed during the work process. In other words, assessments rely more on the business owner's personal perceptions than on standardized assessment instruments. In practice, business owners tend to observe employees' discipline, responsibility, honesty, and commitment to work. These assessments typically emerge through daily interactions, informal conversations, and direct observation of work behavior. Because there are no clear indicators such as work targets, whether written performance appraisals or checklists, the evaluation process is

often subjective and varies from employee to employee. When performance is deemed unsatisfactory, the response is generally not formal sanctions. Business owners often express dissatisfaction through verbal reprimands, changes in attitude, or personal expressions of disappointment. This approach is chosen because it is considered more in line with a work culture that prioritizes family relationships and maintaining interpersonal comfort. However, this situation can also create uncertainty regarding the company's actual work standards. Furthermore, this study found that employees deemed unsuitable for the business's needs are more often replaced by new employees rather than provided with training or competency development programs.

This suggests that human resource decisions are still largely based on the fit between the individual and the job and the work environment, rather than on systematic skill development efforts. This finding aligns with research by Rahman and Nugroho (2024), who found that most MSMEs in Indonesia still rely on direct observations by business owners to assess employee performance. The study explained that limited resources and the relatively small scale of the business make implementing a formal evaluation system a priority. This research finding is also supported by the findings of (Until 2022) which shows that relationship-based performance appraisals are still common in the MSME sector. While this approach can maintain harmonious working relationships, objectivity in assessments often poses a difficult challenge. However, these findings differ from research (Rahmawati 2025), which shows that the implementation of a KPI-based evaluation system in MSMEs can increase productivity, transparency, and clarity of work expectations. The study confirms that measurable assessment standards can help employees understand the targets to be achieved while reducing the potential for bias in the evaluation process. Based on this description, it is understandable that performance evaluation in MSMEs in Kendari City is still influenced by a culture of closeness and strong interpersonal relationships. Although this approach can maintain a harmonious work environment, the implementation of clearer performance indicators is still needed to make the assessment process more objective, fair, and able to support sustainable business performance improvement.

CONCLUSION

Based on the overall research results, it is clear that MSME owners in Kendari City view human resource management as a process that focuses not only on administrative aspects or formal regulations. For most business owners, success in managing employees is largely determined by the ability to build good relationships, maintain trust, and create a comfortable and collaborative work environment. In this context, employees are positioned not only as workers performing tasks, but also as part of the business environment that deserves respect and attention. The research findings indicate that various HR management practices, from recruitment and reward processes to performance evaluations, are still dominated by a personal approach. Business owners tend to prioritize social closeness, honesty, loyalty, and character compatibility over the use of structured procedures. Employee

appreciation is also more often expressed through attention, social support, and direct recognition rather than through formal incentive systems. These conditions can essentially create a sense of security, increase emotional closeness, and strengthen employee loyalty to the business.

However, this study also identified several challenges that require attention. One is the lack of a clear and measurable performance evaluation system. Performance appraisals still rely heavily on the personal observations of business owners, potentially leading to subjectivity. Furthermore, when an employee is deemed unsuitable for the business's needs, the most common solution is to replace them rather than provide ongoing coaching or competency development. This situation can limit opportunities for long-term human resource improvement. From an academic perspective, the results of this study indicate that a phenomenological approach provides a deeper understanding of how MSMEs interpret human resource management. These findings also demonstrate that the effectiveness of HR management is not always determined by the level of formality of the system implemented, but also by the ability to maintain a balance between strong interpersonal relationships and the implementation of more structured work mechanisms. Based on these findings, further research is recommended to expand the study to more diverse business sectors and regions, using either a qualitative approach or a combination of quantitative and qualitative methods. This will allow for a more comprehensive understanding of the relationship between HR management practices and MSME performance. Meanwhile, MSMEs and local governments need to encourage human resource development that remains aligned with the characteristics of small businesses. Basic skills training programs, the development of simple work procedures, and the implementation of an easy-to-understand assessment system can be relevant alternatives.

In this way, the family atmosphere that has become the strength of MSMEs in Kendari City can be maintained without neglecting the need for increased professionalism and business sustainability in the future.

REFERENCE

- Abas, Mohamad Fathanudin. 2024. "Unlocking Human Potential: A Literature Review on HR Challenges and Innovations in SME Entrepreneurship." : 770–84.
- Alexandro, Rinto, and Rinto Alexandro. 2025. "Strategic Human Resource Management in the Digital Economy Era: An Empirical Study of Challenges and Opportunities among MSMEs and Startups in Indonesia and Startups in Indonesia." *Cogent Business & Management* 12(1). <https://doi.org/10.1080/23311975.2025.2528436>.
- Anatan, Lina, and Nur. 2023. "Micro, Small, and Medium Enterprises' Readiness for Digital Transformation in Indonesia." *Economies* 11(6).
- Anggraeni, Lidya, Siti Hodijah, and Etik Umiyati. 2026. "Unlocking Inclusive Growth: The Mediating Role of E-Commerce in MSME Digitalization for Economic Development and SDGs' Achievement in Jambi Province, Indonesia." : 1–30.
- Anggraini, Dini, and Mira Yona. 2026. "Human Resource Management and Its Impact on Employee Performance in MSMEs — SLR." (February): 1–10.

- De Blick, Tristan, Ine Paeleman, and Eddy Laveren. 2024. "Financing Constraints and SME Growth: The Suppression Effect of Cost-Saving Management Innovations." *Small Business Economics* 62(3): 961–86. <https://doi.org/10.1007/s11187-023-00797-9>.
- Damayanti, Arfia Putri, Evi Fitriyanti, Vita Aulia Rachma, and Retno Purwani Setyaningrum. 2025. "The Influence of Organizational Culture and Rewards on Employee Loyalty at My Kopi O! Bekasi Mediated by Employee Engagement." 8(April): 73–86.
- Dudija, Nidya, Sartika Naibaho, and Satrio Budi Wibowo. 2024. "Enhancing Performance: The Role of Organizational Culture, Commitment, and Support in the Indonesian Paper Industry." 51(2): 141–57.
- Farah, Almas, Dinna Dewi, and Isti Fadah. 2025. "LINKING HUMAN RESOURCE COMPETENCY TO THE PERFORMANCE." 8(1): 82–97.
- Ferdianto, Jemmy Regri. 2022. "THE EFFECT OF HUMAN RESOURCE QUALITY, ENTREPRENEURIAL ORIENTATION, AND DIGITAL MARKETING STRATEGY ON MSME S PERFORMANCE.": 917–25.
- Ferreira, Aristides I, Rosa Rodrigues, Helena Carvalho, and Donald Truxillo. 2023. "Social Interaction Matters to Job Search over the Long Haul." *Current Psychology* 42(36): 32398–416. <https://doi.org/10.1007/s12144-022-04123-6>.
- Harney, Brian, Mark Gilman, Susan Mayson, and Simon Raby. 2022. "Advancing Understanding of HRM in Small and Medium-Sized Enterprises (SMEs): Critical Questions and Future Prospects." *The International Journal of Human Resource Management* 33(16): 3175–96. <https://doi.org/10.1080/09585192.2022.2109375>.
- Hyeon. 2025. "The Impact of Recognition, Fairness, and Leadership on Employee Outcomes: A Large-Scale Multi-Group Analysis.": 1–25. <http://dx.doi.org/10.1371/journal.pone.0312951>.
- Khumairo, Hazmatul. 2025. "The Role of MSMEs in Driving Economic Growth and Income Equality in." 3(1): 22–32.
- Nastase, Carmen, and Andreea Adomnitei. 2025. "Strategic Human Resource Management in the Digital Era: Technology, Transformation, and Sustainable Advantage."
- Nugroho, Arif Andi, and Prof. Nafiah Ariyani. 2025. "The Impact of Recruitment Processes on Company Productivity: A Systematic Review and." 16(3): 1–5.
- Pitoyo, Djoko, and Inayati Nasrudin. 2025. "EMPOWERING MSMEs: ENHANCING CAPABILITIES WITH MANAGERIAL SKILLS, STRATEGIC ALLIANCES, AND DIGITAL MARKETING TRAINING." 14(2): 181–97.
- Rahmawati, Meylin. 2025. "BUSINESS SUCCESS EVALUATION MODEL FOR MSMEs: PERFORMANCE AND STRATEGY." 10(1): 40–54.
- Salsabillah, Winda, Nur Azizah, Uut Tarissyaa, and Muhammad Raihan. 2023. "THE ROLE OF MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMEs) IN SUPPORTING THE INDONESIAN ECONOMY Winda Salsabillah, Hafizzallutfi, Nur Azizah, Uut Tarissyaa, Thia Fathona, Muhammad Raihan." : 255–63.
- See you, Jacoline Festi. 2022. "JManagER Micro, Small and Medium Enterprises Performance Indicators – Possible Application in the 5.0 Society JManagER." 1(2): 1–11.
- Vidushi. 2025. "EXPLORING THE RELATIONSHIP BETWEEN." 3(1): 201–11.
- Wahl, Ingrid, Julia Stranzl, Christopher Ruppel, and Sabine A Einwiller. 2026. "Employee Appreciation: A Systematic Review and Research Recommendations." (November 2025): 30–47.
- Widyanti, Oktarina Nur, Hotniar Siringoringo, and Adi Kuswanto. 2026. "A System Literature

Review on Digital Competence and Human Capital Competitiveness in Micro, Small, and Medium Enterprises.” 15(1): 302–12.

Yuningsih, Nining. 2023. “Analysis of Knowledge Management and Human Resource Quality on Business Performance Through Innovation as a Mediating Variable in MSMEs.” 12: 56–62.