

CONTRIBUTION OF HUMAN RESOURCE MANAGEMENT TO THE BUSINESS PERFORMANCE OF ENTREPRENEURS IN PURWOKERTO

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Abstract: *This study aims to analyze the contribution of Human Resource Management to the Business Performance of Entrepreneurs. This research is a case study at the UKM association in Purwokerto and respondent from this study were 84 from UKM association. This study used data analysis techniques namely PLS (Partial Least Square) analysis using Smart PLS 3.0. The results showed that recruitment and selection had effect on business performance, training and development had effect on business performance. The results also show that compensation has no significant effect on business performance. The results showed that performance appraisal has no significant effect on business performance. Basically the Human Resource Management function has a contribution to the business performance of SMEs. This is evidenced by the value of R² 49,2% of the variability in the construction of SME business performance is influenced by recruitment and selection factors, training and development, and performance appraisal.*

Keyword: *Recruitment and selection, training and development, compensation, performance assessment, business performance*

1. Introduction

The formal and informal sectors greatly affect the economic growth in a country. The informal sector is a small-scale business with limited capital, scope and development and lack of official protection from the government. The people's economy will take place in a balanced and sustainable manner with the informal sector. SMEs in Indonesia are one of the strategic sectors in the national economy and their existence is very important. SMEs are business units that are able to absorb quite a lot of labor in Indonesia today. The development of the competitiveness of SMEs today is heavily influenced by various factors such as technology, finance, and production processes, and the most important sources are employees with intellectual capital/assets, skills, creativity and information (Mashavira, 2020).

Human resource management is one of the important organizational functions because it must be able to provide quality workforce in order to achieve organizational goals. Management demands are getting higher in order to be able to employ workers who have quality and competence. In addition, management must be able to manage human resources in order to continue to provide the best performance for the organization. Good human resource management is inseparable from the contribution of the applied human resource management

function. (Cherrington, 1995) has the opinion that there are several functions of human resources, namely the process of staffing, training and development, compensation and performance appraisal.

Recruitment and selection is the initial stage in human resource management. (Bohlander & Snell, 2010) said that there are people who are responsible for carrying out the recruitment process, for small companies the recruitment is carried out by an HR generalist, but for companies that do not have HR, the recruitment process can be carried out by the general manager or supervisor. (Handoko, 2001) said that selection is a series of activities used in deciding whether applicants who have registered are accepted or not.

The function of human resources that has an important contribution to support performance is training and development. Business performance will be easier to achieve when you have employees who have competent skills. Training is defined as an attempt to improve employee performance in current and related jobs (Bernardin & Russell, 1993). Programmed and well-executed training and development will be able to support the achievement of organizational performance.

The compensation system is used for various purposes, one of which is to trigger better employee performance. Optimizing the achievement of business performance goals will be supported by good employee performance. A strong, true and fair basis must be applied in providing compensation so as not to cause employee disappointment. Compensation can be material and non material. Material compensation is usually given in the form of money, in the form of salaries, bonuses, allowances, etc. Meanwhile, non-material compensation can be given in the form of awards, praise or social recognition for their performance (Goldina, 2011).

The activity of comparing employee performance in one period against a mutually agreed agreement is called performance evaluation. Performance appraisal is one part of human resource management. In the performance appraisal there is a monitoring and reporting function that is used to evaluate employees or prospective employees. (Dyck & Neubert, 2009) Performance management is the use of human resource management processes to ensure that each employee's activities and outputs are aligned with organizational goals.

Organizational performance can be likened to an illustration of an organization that has completed all its main tasks so that it can achieve the organization's vision and mission (Keban, 2004). Organizational performance can be positively influenced by recruitment and selection as well as employee training and development (Saifalislam et al., 2014). Organizational performance can also be positively influenced by employee performance appraisals (Indriyanti, 2014) and compensation (Aslam et al., 2015).

Many studies related to SMEs have been carried out, but there is still very little research related to the contribution of the human resource management function to the business performance of SMEs in Purwokerto. There are still SME players who pay less attention to and even don't care about the role of the human resource management function in optimizing

the achievement of SME business performance. This research was conducted with the hope of providing input for SMEs to be able to implement the human resource function effectively.

The importance of the contribution of the human resource management function in the business performance of SMEs makes researchers interested in conducting research. HR functions used in this research are recruitment and selection, training and development, compensation and performance appraisal. This study aims to determine the contribution of each human resource management function to the business performance of SMEs in Purwokerto.

2. Research Method

This research was conducted on SMEs who are still active in carrying out their business in Purwokerto. Respondents or SMEs used in this study are those who have more than 3 employees. And the survey method used in this study by distributing questionnaires openly. This research data is processed using Partial Least Square (PLS) analysis.

Contribution of HRM to Business Performance

Through the HRM Division, the company will try to manage problems that occur in its resources so that it is in line with its values and culture. The human resource management function is very much needed by the company in providing quality talent management. (De Kok et al., 2006), classified the functions of human resource management into five categories namely staff recruitment, selection, compensation, training and development, employee appraisal. SMEs must be able to manage the function of human resources properly so that they can be assisted in achieving maximum business performance. That is the reason why special attention is needed for SMEs to be able to implement the recruitment and selection process properly. Business performance improvement is highly supported if employee performance is also optimal. Employee performance improvement can be done by providing training and development as well as compensation so that they have the enthusiasm to always give the best performance in the workplace (Bagis et al., 2020).

Staffing

(Dyck & Neubert, 2009) Staffing is a Human Resource Management process to identify, attract, hire and retain people with the knowledge, skills and abilities needed to fulfill current and future job responsibilities in the organization. SMEs must be able to implement three important functions in the staffing function, namely planning, recruitment and selection of human resources. The responsibility of the human resources department for manpower procurement is increasing so that the company has relevant resources and contributes to the company. The process of recruitment and selection of employees in SMEs must consider a workforce that has the required abilities and skills. Employees who are recruited and selected based on qualifications will place employees according to their expertise, so that SME business management will be guaranteed professionalism.

Training and development

Training and development relies on the training employees receive to develop their skills from the organization (Delery & Doty, 1996). According to training and development is a human resource management practice that helps organizations to gain a competitive advantage. According to (Forgacs, 2009) (Pare & Tremblay, 2007) training and development is one of the important components of HRM practices that affect employee levels of job satisfaction, which in turn, can affect employee performance improvement. Training in human resource management is conducted to gain skills, concepts or attitudes that can improve employee performance. While development is the process of increasing the ability of the workforce carried out in the work environment, for example by mentoring or coaching.

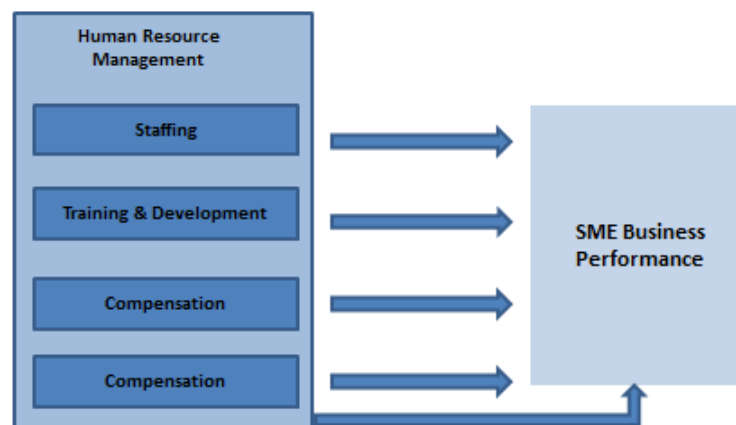
Compensation

Individual performance is basically influenced by rewards or compensation (Gibson et al., 1993). Compensation is given to workers in return for their contributions to the company. Compensation is not always in the form of money, but can also be in the form of goods. The principle of this compensation is fair and appropriate in accordance with the responsibilities of the workforce and their achievements. To provide a good level of compensation to employees, SMEs must have good financial management and planning.

Performance assessment

Performance appraisal is a key factor in developing employee potential effectively and efficiently due to better policies or programs for human resources within an organization. Individual performance appraisal is very beneficial for the growth of the organization as a whole. According to (Serdamayanti, 2011) performance appraisal is a formal system to periodically check/review and evaluate a person's performance. Performance appraisal of SME employees really needs to be done. Because it can be used as an evaluation of each employee as a follow-up process after knowing what the shortcomings and advantages of the performance of their subordinates are, SMEs can find out what actions must be taken to overcome these shortcomings and maintain these advantages.

The conceptual framework in this SME research is as follows :



Pictrure 1. Conceptual Framework

Hypothesis in this research:

1. Recruitment and selection affect business performance
2. Training and development affect business performance
3. Compensation affects business performance
4. Performance assessment affects business performance

3. Results and Discussion

3.1. Results

This research was conducted using a survey method, and the questionnaires were distributed openly. The questionnaire was given through the UKM association in Purwokerto. The SMEs studied are prioritized in group, so other than these criteria, they are not included in this study. The questionnaires that were filled in were 84 questionnaires, with details of 67% of SMEs engaged in the culinary field, 28% engaged in fashion and 5% engaged in other fields.

From the data collected then analyzed using Partial Least Square (PLS) analysis. The analysis was carried out through 4 rounds because for 3 rounds they still did not meet the requirements, and only in the fourth round obtained valid and reliable data for further analysis. All indicators have a loading factor value of more than 0.50 so that they meet the convergent validity requirements. The data also meet the reliability criteria because the composite reliability value exceeds 0.70.

The contribution of human resource management to the business performance of SMEs, in this case the functions of staffing, training and development, compensation and performance appraisal is shown by the PLS results where the R² value is 0.492. This value means that 49.2% of the variability in the construction of SME business performance is influenced by recruitment and selection factors, training and development, and performance appraisal.

The original sample value shows that the relationship can lead to positive or negative effects. The table below shows the effect of each variable, and the conditions for the hypothesis are accepted when the P Values < 0.05.

Table 1. Parameter Coefficient and Statistical Value

	Original Sample	Sample Mean	Standar Deviation	T Statistics	P Value
Recruitment & Selection => Business Performance	0.297	0.306	0.123	2.414	0.016
Training and Development => Business Performance	0.413	0.416	0.067	4.756	0.000
Compensation => Business Performance	0.124	0.120	0.120	1.036	(0.301)
Performance Appraisal => Business Performance	0.038	0.024	0.093	0.404.	(0.667)

The results of the path coefficient calculation show that recruitment and selection have a significant influence on business performance, thus supporting the acceptance of the first hypothesis. The second hypothesis is also supported by the results of the analysis which shows that there is a significant effect of training and development on SME business performance. Different results are found in the effect of compensation on business performance and the effect of performance appraisal on business performance. The third hypothesis and fourth hypothesis are not supported because the results of the analysis are not significant because the P value is > 0.05.

3.2. Discussion

This research was conducted by distributing questionnaires to SMEs who are members of associations of business actors in Purwokerto. It is not easy to get data from respondents, so the researcher uses several people in the process of filling out the questionnaire. Observations show that respondents value the importance of implementing the human resource management function in their SME activities. The effectiveness of SMEs is felt more when they carry out the function of human resource management. SMEs have been participating in training through seminars and workshops in order to improve their ability to improve their business performance. And with this research, respondents understand the important point of knowing how the role of recruiting employees is good and right, as well as the selection process that is tailored to their needs.

Respondents also understand the importance of training for their employees and developing employee skills so that they can work more effectively. It is not easy to implement the HR function, especially in a family company, because they do not implement the HR function as it should. Because family businesses are indeed

established, implemented and evaluated around their family environment, although in this study the results show that the role of HR has a significant influence.

The first hypothesis is supported based on the analysis in this study. Recruitment and selection affect business performance. This means that if the staffing process is implemented properly, it can improve the business performance of SMEs in Purwokerto. HR planning will not succeed if it is not followed by recruitment and selection activities that are guided by the required HR qualifications. The required qualifications consist of general and special qualifications.

General qualifications, namely the need for human resources that can be used in general for all types of business activities, including SMEs such as general knowledge, health, good personality, intelligence, seriousness and commitment. Special qualifications, namely the need for human resources that are only needed for certain types of work or not everyone can do it. The recruitment and selection of SMEs must take into account the skilled workforce. However, skills alone are not enough, you must also have a match with the job and the desire to always provide the best performance. The workforce recruited based on general and specific qualifications will place employees according to their areas of expertise and support the achievement of the most optimal SME business performance. The results of this study support previous research from (Ekwoaba et al., 2015), (Saifalislam et al., 2014), and (Afriyie et al., 2013)

Employee training and development is proven to contribute to business performance. Supporting the second hypothesis shows that training and development plays a very important role in improving the business performance of SMEs in Purwokerto. Entrepreneurs must be aware that investment in quality human resources is very important for business performance. The training program must be well designed and implemented according to the needs of the employees. Employee development must also be carried out to find out how employees have been doing their jobs so far and used as improvements to be able to work more productively. This study supports the results of previous research by (Raza, 2014).

The research gives the result that the third hypothesis is not supported. Compensation has no significant effect on business performance. This means that compensation has no role in improving organizational performance. Although some argue that the provision of compensation is very useful for fostering loyalty, job satisfaction, motivation, and discipline. For SMEs in Purwokerto this is not the case. This could be an indication that the current SME employees already have loyalty and comfort in their work so they do not really consider the amount they receive each month. This research supports research from (Bagis et al., 2020) but contrary to research conducted (Septiningtyas & Nurwanti, 2017).

Performance appraisal is very important in every organization, especially SMEs. This is because SMEs must know the results of their employees' work, by comparing the expected work results with the work that has been done by current employees. In this study, the performance assessment did not support improving the business performance of SMEs in Purwokerto. Although this study considers a range of HR practices, it confirms that training and performance appraisal have the most positive and strongest relationship with firm and perceived business performance. The results of the study contradict previous research (Saunila, 2014) (Stanciu, 2014), which determined that performance management results in greater financial performance, innovation ability, increased employee productivity and more motivated employees in entrepreneurial ventures.

4. Conclusion

SMEs in Purwokerto must pay attention to the implementation of the human resource management function effectively, so that business performance can be achieved optimally. An HR planning strategy is required including the recruitment process, selection process, training and development, compensation strategy and periodic employee appraisal. SMEs must ensure that all these strategies work to support business performance. Although only two hypotheses were accepted in this study, it does not mean that the role of compensation and performance appraisal is not important in the HR planning part of an organization.

SMEs currently play an important role in the economy, the development of SMEs in Indonesia provides career opportunities for those who have not found work. The success of an SME also motivates those who want to have their own business with the passion and resources they have that will spur the growth of other SMEs and reduce unemployment. This research is likely to give different results if there are additional respondents being studied. This research is still limited to small businesses and some are family businesses. This research is expected to be input for SMEs in Purwokerto to be able to provide a positive perception of the contribution of HRM in improving their business performance.

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