

Human resource management and its impact on employee performance in MSMEs—SLR - Frontiers

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Executive Summary

This systematic literature review examines the relationship between Human Resource Management (HRM) practices and employee performance in Micro, Small, and Medium Enterprises (MSMEs), with particular focus on Indonesia. The authors argue that effective HRM practices are crucial for MSME competitiveness and sustainability, despite resource constraints these organizations typically face. Using PRISMA methodology, they analyzed 15 Scopus-indexed studies published between 2020-2025. Key evidence shows that structured recruitment, continuous training, employee recognition, and technology integration significantly enhance employee motivation, satisfaction, and productivity in MSMEs. The study finds that sustainable HRM approaches focusing on employee welfare reduce turnover rates and improve organizational commitment. The authors conclude that MSMEs can increase competitiveness by adopting adaptive HRM practices that respond to technological advancements and industrial changes, particularly in the context of Industry 4.0.

Key Insights

1. MSMEs contribute over 60% of Indonesia's GDP and represent 99% of business units, making HR quality critical for economic sustainability
2. Effective HRM practices including recruitment, training, and recognition significantly enhance employee motivation and productivity in resource-constrained environments
3. Sustainable HRM approaches focusing on long-term employee development reduce turnover rates and improve organizational commitment in MSMEs

Practical Takeaways

- MSMEs can improve performance through structured recruitment processes, continuous training programs, and employee recognition systems despite budget constraints
- Technology integration in HRM, even simple employee management software, can improve operational efficiency in small organizations

Frameworks Mentioned

PRISMA — Systematic review methodology used for identifying and analyzing literature

Systematic Literature Review (SLR) — Research methodology for comprehensively examining existing literature on a topic

Critical Analysis

Strengths include rigorous PRISMA methodology and focus on understudied MSME sector. The systematic approach with clear inclusion/exclusion criteria enhances reliability. However, limitations include small sample size (15 studies), geographic concentration on Indonesia limiting global applicability, and potential publication bias toward positive HRM outcomes. The review period (2020-2025) may miss foundational research, and the focus on Scopus-indexed journals may exclude relevant practitioner insights.

Organizational Practice

The article describes HRM practices in MSMEs including informal HR functions due to resource constraints, high turnover rates due to inability to compete on salaries with larger companies, limited access to formal training programs, lack of structured performance evaluation systems, and challenges in adopting digital technologies for HR management

Strategic Implications

The findings suggest MSMEs face unique HRM challenges due to resource constraints but can still achieve performance improvements through tailored approaches. The emphasis on sustainable HRM and technology adoption indicates a shift toward more sophisticated HR practices even in smaller organizations, potentially driven by Industry 4.0 pressures.

Validation Status: passed