

# HUMAN RESOURCE MANAGEMENT PRACTICES AND CHALLENGES IN RURAL MSMEs: A CASE STUDY IN SAKTI VILLAGE, SOUTH BOLAANG MONGONDOW

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## ABSTRACT

This study aims to analyze the implementation of Human Resource Management (HRM) practices in developing the potential of Micro, Small, and Medium Enterprises (MSMEs) in Sakti Village, Posigadan District, South Bolaang Mongondow Regency, North Sulawesi Province. The study employed a qualitative descriptive approach using in-depth interviews, observations, and documentation techniques. Informants consisted of village government representatives and MSME owners selected through purposive sampling. Data were analyzed using the interactive model of Miles, Huberman, and Saldaña, which includes data condensation, data display, and conclusion drawing. The findings reveal that HRM practices among MSMEs in Sakti Village remain predominantly informal and unstructured. Human resource planning is conducted based on immediate operational needs without systematic workforce forecasting. Recruitment and selection rely heavily on family networks and personal trust rather than competency-based criteria. Human resource development is limited to informal learning through direct guidance and work experience, with minimal access to formal training programs. Compensation and incentives are adjusted according to business financial capacity and are not supported by structured reward systems. Performance evaluation is conducted subjectively through direct observation without standardized indicators or formal assessment mechanisms. These findings indicate that HRM functions have not yet been implemented strategically, which may limit productivity, workforce development, and business competitiveness. The study concludes that strengthening HRM practices through more systematic planning, competency-based recruitment, continuous employee development, structured compensation systems, and objective performance evaluation is essential to support the sustainability and growth of MSMEs in Sakti Village.

**Keywords :** *Human Resource Management, MSMEs, Human Resource Planning, Employee Development, Rural Entrepreneurship.*

## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are widely recognized as one of the most important drivers of economic growth, employment generation, and sustainable development worldwide. MSMEs account for more than 90% of all businesses globally, contribute significantly to national income, and provide employment opportunities for approximately 70% of the global workforce [1][2]. In developing countries, MSMEs play an even more strategic role by promoting entrepreneurship, reducing poverty, supporting local economic resilience, and

fostering inclusive economic growth [3][4]. Their contribution extends beyond economic performance, as they also strengthen local supply chains, encourage innovation, and improve community welfare [2].

In Indonesia, MSMEs represent the backbone of the national economy. According to the Ministry of Cooperatives and SMEs, MSMEs contribute more than 60% of the national Gross Domestic Product (GDP) and absorb approximately 97% of the workforce. Despite their significant contribution, many MSMEs continue to face various challenges that hinder their growth and competitiveness.

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Among these challenges, ineffective Human Resource Management (HRM) remains one of the most critical factors limiting business sustainability and organizational performance. Previous studies have emphasized that inadequate human resource practices often result in low productivity, limited innovation, weak organizational capability, and reduced competitiveness in increasingly dynamic market environments [5][4].

Human Resource Management is a strategic function that enables organizations to effectively plan, organize, develop, motivate, and evaluate their workforce to achieve organizational objectives. Effective HRM practices can improve employee performance, increase operational efficiency, and support long-term business sustainability. However, HRM challenges are particularly prevalent among rural MSMEs, where business operations are commonly characterized by informal management systems, limited financial resources, and inadequate access to training and development opportunities [6][7].

Several studies have identified key HRM challenges faced by MSMEs in rural areas. Workforce planning is often conducted informally without systematic assessment of labor requirements, resulting in inefficient allocation of human resources [7]. Recruitment and selection processes frequently rely on family networks and personal relationships rather than competency-based criteria, limiting the ability of businesses to attract qualified workers [8]. Furthermore, employee training and development activities are often absent or implemented inconsistently due to limited

financial capacity and restricted access to professional training providers [6]. Compensation systems also tend to be unstructured and highly dependent on the immediate financial condition of the business, while formal performance evaluation mechanisms are rarely implemented [8]. Consequently, many rural MSMEs experience difficulties in improving productivity, maintaining employee motivation, and achieving sustainable business growth.

These challenges become increasingly significant in rural communities where MSMEs serve as the primary source of income and employment. Research conducted in various developing countries has shown that the absence of structured HRM practices can significantly hinder business expansion and reduce organizational adaptability in response to market changes [9][10]. Therefore, strengthening HRM practices has become a strategic priority for improving the competitiveness and sustainability of rural MSMEs.

Sakti Village, located in Posigadan District, South Bolaang Mongondow Regency, North Sulawesi Province, possesses considerable economic potential through various MSME activities, particularly in agriculture, food processing, and traditional culinary products. As part of local economic development initiatives, MSMEs in Sakti Village have become important contributors to community income and employment opportunities. However, preliminary observations and previous studies indicate that many MSME actors in the village continue to face challenges related to product

development, packaging, marketing, and human resource management [11]. Although several empowerment programs and training initiatives have been introduced, substantial gaps remain in workforce planning, employee development, compensation management, and performance evaluation practices.

A review of the existing literature reveals that previous studies have predominantly focused on the general role of HRM in MSME performance or examined specific HRM functions independently. Limited attention has been given to developing an integrated HRM model specifically tailored to the characteristics and constraints of rural MSMEs. Furthermore, empirical evidence regarding HRM practices among MSMEs in rural Indonesian contexts, particularly in Sakti Village, remains scarce. This indicates a significant research gap concerning how a comprehensive HRM model can be designed and implemented to optimize the potential of rural MSMEs.

Addressing this gap is important because rural MSMEs operate under unique socio-economic conditions that differ substantially from those of urban enterprises. The development of a context-specific HRM model can provide practical guidance for MSME owners, policymakers, and local governments in strengthening workforce management practices and enhancing business sustainability. Therefore, this study aims to analyze existing human resource management practices and develop a comprehensive Human Resource Management Model for enhancing the potential of MSMEs in Sakti Village. The proposed model is expected to

contribute to improving workforce quality, increasing business competitiveness, and supporting sustainable rural economic development.

Despite the important role of human resource management in enhancing MSME competitiveness and sustainability, empirical evidence regarding HRM practices among rural MSMEs remains limited, particularly in Sakti Village, Posigadan District, South Bolaang Mongondow Regency. Existing studies have generally focused on specific HRM functions or urban business environments, while comprehensive investigations of HRM implementation in rural MSMEs are still scarce. Therefore, this study seeks to explore the implementation of human resource management practices among MSMEs in Sakti Village. Specifically, this study addresses the following research questions:

RQ1. How is human resource planning implemented in MSMEs in Sakti Village, Posigadan District, South Bolaang Mongondow Regency?

RQ2. How are recruitment and selection processes implemented in MSMEs in Sakti Village, Posigadan District, South Bolaang Mongondow Regency?

RQ3. How is human resource development implemented in MSMEs in Sakti Village, Posigadan District, South Bolaang Mongondow Regency?

RQ4. How are compensation and incentive systems implemented in MSMEs in Sakti Village, Posigadan District, South Bolaang Mongondow Regency?

RQ5. How is employee performance evaluation implemented in MSMEs in Sakti Village, Posigadan District, South Bolaang Mongondow Regency?

## RESEARCH METHODS

### Research Design

This study employed a qualitative descriptive research design to explore and analyze Human Resource Management (HRM) practices in developing the potential of Micro, Small, and Medium Enterprises (MSMEs) in Sakti Village, Posigadan District, South Bolaang Mongondow Regency, North Sulawesi Province. Qualitative research is appropriate for exploring and understanding the meanings that individuals or groups ascribe to social phenomena and human problems [12]. This approach was selected because the study sought to obtain an in-depth understanding of HRM practices, challenges, and opportunities experienced by MSME actors in a rural setting.

### Research Site and Informants

The research was conducted in Sakti Village, Posigadan District, South Bolaang Mongondow Regency, North Sulawesi Province. The location was selected purposively because the village possesses significant MSME potential, particularly in agriculture, food processing, and traditional culinary businesses, while simultaneously facing challenges related to human resource management.

Informants were selected using purposive sampling based on their knowledge, experience, and involvement in MSME activities. A total of seven informants

participated in this study, consisting of village government representatives and MSME owners. These informants were considered capable of providing comprehensive information regarding HRM practices and MSME development in Sakti Village.

**Table 1. Research Informants**

No.	Informant Code	Position/Role	Number
1	I-1	Village Government Representative	1
2	I-2	MSME Owner (Agricultural Product Processing)	1
3	I-3	MSME Owner (Traditional Culinary Business)	1
4	I-4	MSME Owner (Food Processing Business)	1
5	I-5	MSME Owner (Retail Business)	1
6	I-6	MSME Owner (Home Industry Business)	1
7	I-7	MSME Owner (Micro Enterprise)	1
Total			

### Data Sources and Data Collection

This study utilized both primary and secondary data sources. Primary data were obtained directly from informants through in-depth interviews and field observations. The interviews focused on five dimensions of human resource management, namely human resource planning, recruitment and selection, human resource development, compensation and incentives, and performance evaluation.

Secondary data were obtained from village documents, government reports, academic journals, books, and other relevant literature related to MSME development and

human resource management. These data were used to support and validate the findings obtained from primary sources.

Data collection was conducted through the following techniques:

1. In-depth Interviews

Semi-structured interviews were conducted with selected informants to obtain detailed information regarding HRM practices and challenges faced by MSMEs in Sakti Village.

2. Observation

Direct observations were carried out to examine business activities, workforce management practices, and working conditions within MSMEs.

3. Documentation

Documentation was collected from official records, photographs, reports, and other relevant materials to support and complement the interview and observation data.

**Data Analysis**

Data were analyzed using the interactive model developed by Miles, Huberman, and Saldaña, which consists of three interconnected stages [13]:

1. Data Condensation

Data condensation refers to the process of selecting, focusing, simplifying, coding, and transforming raw data collected from interviews, observations, and documentation. This stage aimed to identify information relevant to the research objectives while eliminating unnecessary data.

2. Data Display

The condensed data were organized and presented in the form of descriptive narratives, matrices, and thematic categories based on the dimensions of human resource management. Data display facilitated the identification of patterns, relationships, and emerging themes from the collected information.

3. Conclusion Drawing and Verification

The final stage involved drawing conclusions and verifying findings through continuous interpretation and comparison of data. Verification was conducted throughout the research process to ensure consistency between the findings and the empirical evidence. The analysis process was carried out iteratively until data saturation was achieved and meaningful conclusions could be established.

**Trustworthiness of Data**

To ensure the trustworthiness and rigor of the findings, this study adopted the criteria proposed by Lincoln and Guba (1985), consisting of credibility, transferability, dependability, and confirmability [14].

1. Credibility

Credibility was achieved through source triangulation, prolonged engagement in the field, and member checking with selected informants to verify the accuracy of the collected information.

2. Transferability

Transferability was ensured by providing detailed descriptions of the research setting, participants, and findings,

allowing readers to determine the applicability of the results to similar contexts.

### 3. Dependability

Dependability was maintained through systematic documentation of research procedures, data collection activities, and data analysis processes to ensure consistency and transparency.

### 4. Confirmability

Confirmability was established by ensuring that the findings were derived from empirical evidence rather than researcher bias. Interview transcripts, observation notes, and supporting documents were used to substantiate the research findings.

## RESEARCH RESULTS

### Human Resource Planning

The findings indicate that human resource planning among MSMEs in Sakti Village remains largely informal and unstructured. Based on interviews with all informants, workforce planning is generally conducted according to immediate operational needs rather than through formal planning mechanisms. MSME owners determine labor requirements based on daily production activities, customer demand, and the volume of orders received.

Several informants explained that they do not prepare written workforce plans or conduct formal analyses of labor requirements. Instead, additional workers are involved only when production activities increase, while labor utilization is reduced during periods of lower demand. Most

MSMEs rely on family members and individuals from the surrounding community to support business operations. This practice reflects the tendency of MSME owners to prioritize flexibility and practical considerations over formal human resource planning.

The findings suggest that human resource planning has not yet been viewed as a strategic managerial function. Consequently, MSMEs may experience difficulties in responding effectively to business expansion opportunities and fluctuations in market demand.

### Human Resource Recruitment and Selection

The recruitment and selection process among MSMEs in Sakti Village is predominantly informal and relationship-based. Interview results revealed that business owners generally recruit workers through family networks, relatives, neighbors, and personal acquaintances.

Informants consistently emphasized the importance of trustworthiness, responsibility, and willingness to work when selecting employees. Formal recruitment procedures such as vacancy announcements, structured interviews, competency assessments, and written tests were not found among the participating MSMEs.

Most business owners stated that recruiting individuals who are already known personally is considered safer and more practical than hiring external applicants. While this approach helps reduce recruitment costs and risks, it also limits opportunities to

acquire workers with specialized competencies and professional experience.

These findings indicate that recruitment and selection practices among MSMEs remain strongly influenced by social relationships and local cultural values rather than professional human resource management principles.

### **Human Resource Development**

Human resource development remains one of the weakest aspects of HRM implementation among MSMEs in Sakti Village. Interviews revealed that employee skills are primarily developed through practical experience and direct instruction from business owners.

Informants explained that workers generally learn by observing daily operations and performing tasks repeatedly until they become proficient. No structured training curriculum, formal learning materials, or competency development programs were identified during the study.

Furthermore, the majority of informants reported limited participation in training activities organized by government agencies, educational institutions, or MSME support organizations. Financial limitations, lack of information, and time constraints were frequently mentioned as barriers preventing participation in training programs.

As a result, employee competencies, innovation capacity, and productivity improvements occur gradually and largely depend on individual experience. These findings demonstrate that human resource development has not yet been integrated into long-term business development strategies.

### **Compensation and Incentives**

The study found that compensation systems among MSMEs in Sakti Village remain highly flexible and dependent upon the financial capacity of individual businesses. Based on interviews, employee wages are generally provided on a daily, weekly, or piece-rate basis depending on the nature of the work and production output.

Several informants indicated that additional incentives are occasionally provided during periods of increased demand or higher sales. These incentives commonly take the form of meal allowances, transportation support, or small bonuses. However, no formal compensation policies or performance-based reward systems were identified.

Business owners acknowledged that compensation decisions are primarily determined by business income and operational conditions. Consequently, wage structures vary considerably among MSMEs and are rarely documented formally.

These findings indicate that compensation management remains operational rather than strategic, reflecting the limited financial resources available to many rural MSMEs.

### **Performance Evaluation**

Performance evaluation practices among MSMEs in Sakti Village are generally informal and conducted through direct observation by business owners. Interviews revealed that employee performance is assessed based on work behavior, punctuality, responsibility, cleanliness, and product quality.

Informants explained that formal evaluation tools, performance indicators, and written assessment reports are not utilized. Instead, business owners monitor employee performance during daily operations and provide feedback whenever problems arise.

Several MSMEs do not conduct performance evaluations at all because business activities are managed exclusively by family members. For MSMEs employing workers, evaluations remain subjective and rely heavily on the owner's personal judgment.

Although this approach enables immediate supervision and rapid feedback, it does not provide objective performance measurements or systematic employee development opportunities. Therefore, the potential contribution of performance evaluation to improving productivity and workforce quality remains largely underutilized.

## **DISCUSSION**

### **Human Resource Planning in MSMEs**

The findings indicate that human resource planning among MSMEs in Sakti Village remains largely informal and reactive. Workforce requirements are determined based on immediate production needs, customer demand, and daily operational activities rather than through systematic forecasting or workforce analysis. Most MSME owners do not maintain formal records regarding labor requirements, resulting in limited preparedness for business expansion or fluctuations in market demand.

This finding is consistent with the study of Novo de Melo and Machado, which

reported that HR planning in SMEs is commonly characterized by informal practices and weak integration with long-term business strategies [15]. Small business owners often focus on short-term operational concerns and rarely develop structured workforce plans. As a result, human resource decisions are frequently made based on intuition and immediate business conditions rather than strategic considerations.

Furthermore, recent studies emphasize the importance of technology-based HR planning systems for MSMEs. Wu and Baswardono et al. highlighted that Human Resource Information Systems (HRIS) and cloud-based HR management platforms can improve workforce planning efficiency, optimize resource allocation, and support business growth [16][17]. The absence of such systems among MSMEs in Sakti Village indicates a substantial gap between current practices and modern HRM approaches that could enhance organizational sustainability and competitiveness.

### **Human Resource Recruitment and Selection in MSMEs**

The study found that recruitment and selection processes among MSMEs in Sakti Village are predominantly conducted through family networks, neighbors, and close social relationships. Trustworthiness, willingness to work, and personal familiarity are prioritized over formal qualifications or technical competencies. Formal recruitment procedures, skills assessments, and structured interviews are generally absent.

These findings align with Novo de Melo and Machado, who observed that SMEs

frequently employ informal recruitment mechanisms due to limited financial and managerial resources [15]. Informal recruitment is often perceived as a practical solution because it reduces hiring costs and minimizes uncertainty. However, such practices may limit access to qualified candidates and reduce workforce diversity.

Recent developments in HRM emphasize the importance of competency-based recruitment systems. Li et al. demonstrated that data-driven recruitment methods and matching algorithms can improve employee-job fit, reduce recruitment errors, and enhance workforce productivity [18]. Similarly, green recruitment practices proposed by Ahmad et al. and Yoo suggest that recruitment strategies should not only focus on technical competence but also align with organizational values and sustainability objectives [19][20]. The absence of structured recruitment procedures in Sakti Village MSMEs may therefore hinder efforts to improve workforce quality and business performance.

### **Human Resource Development in MSMEs**

The findings reveal that human resource development activities among MSMEs in Sakti Village remain minimal and largely informal. Employees acquire skills primarily through direct instruction from business owners and practical experience in daily operations. Formal training programs, competency development initiatives, and collaboration with external training institutions were not identified during the study.

This condition reflects the findings of Novo de Melo and Machado, who noted that training and development are often neglected in SMEs because of financial constraints, limited time, and a lack of awareness regarding the strategic value of employee development [15]. Consequently, workforce capabilities tend to develop slowly and inconsistently.

The literature strongly emphasizes that continuous employee development contributes significantly to organizational performance and employee commitment. Bashir and Venkatakrishnan found that career development opportunities positively influence employee commitment and retention within MSMEs [21]. Additionally, Wu and Ma argued that cloud-based learning systems and big data technologies can support more efficient training processes and improve employee competencies [16][22]. The lack of structured training programs in Sakti Village suggests that MSMEs may face difficulties in enhancing productivity, innovation, and long-term competitiveness.

### **Compensation and Incentive Systems in MSMEs**

The results indicate that compensation systems among MSMEs in Sakti Village are flexible and heavily dependent on business financial capacity. Employees are generally compensated through daily wages, weekly payments, or piece-rate systems. Incentives are occasionally provided during periods of high demand; however, no formal compensation framework or performance-based reward system exists.

These findings support previous studies showing that compensation management remains one of the most challenging aspects of HRM within MSMEs. Due to limited financial resources, many small businesses are unable to implement standardized salary structures or comprehensive employee benefit programs. Consequently, compensation decisions are often based on short-term financial conditions rather than strategic workforce management considerations.

According to Wu, modern HRM systems can improve compensation transparency and employee satisfaction through digital payroll management and performance-linked reward mechanisms [16]. Furthermore, Ahmad et al. and Yoo proposed that compensation systems should increasingly incorporate incentive structures that encourage desirable employee behaviors and organizational performance [19][20]. The absence of structured compensation practices among MSMEs in Sakti Village may therefore reduce employee motivation and limit workforce retention in the long term.

#### **Performance Evaluation in MSMEs**

The findings demonstrate that performance evaluation among MSMEs in Sakti Village is conducted informally through direct observation by business owners. Assessment criteria generally include punctuality, cleanliness, work quality, and responsibility. However, no standardized performance indicators, evaluation forms, or formal review procedures are employed.

This situation is similar to the findings of Ilias et al., who reported that many SMEs

continue to rely on informal performance assessments due to limited managerial capacity and the absence of formal HR systems [23]. Although informal evaluation allows for immediate feedback, it often lacks objectivity and consistency, making it difficult to measure employee performance accurately.

Recent HRM literature highlights the growing role of digital technologies in performance management. Kakade and Vispute emphasized that artificial intelligence can support real-time performance monitoring, objective assessment, and continuous employee feedback [24]. Likewise, Yin and Wang demonstrated that data-driven HR analytics can improve workforce management decisions and identify performance-related issues more effectively [25]. The lack of systematic performance evaluation mechanisms among MSMEs in Sakti Village indicates a significant opportunity for improvement through the adoption of more structured and evidence-based HRM practices.

#### **CONCLUSION**

Based on the findings and discussion, it can be concluded that the implementation of Human Resource Management (HRM) among MSMEs in Sakti Village remains largely informal and has not yet adopted a comprehensive managerial approach.

First, human resource planning is conducted reactively based on operational needs, production activities, and customer demand without systematic workforce forecasting or long-term planning. Second, recruitment and selection practices rely

primarily on family relationships, personal networks, and trustworthiness rather than competency-based assessment procedures. Third, human resource development activities are still limited, with employee skills acquired mainly through direct instruction and practical experience, while formal training programs remain largely absent.

Fourth, compensation and incentive systems are highly dependent on the financial capacity of individual businesses and are generally implemented through daily wages, piece-rate payments, or simple incentives without structured performance-based reward mechanisms. Fifth, employee performance evaluation is conducted informally through direct observation by business owners and is not supported by standardized indicators or formal assessment tools.

Overall, the study demonstrates that HRM practices in MSMEs in Sakti Village are characterized by flexibility and simplicity but remain insufficient to support long-term organizational development and competitiveness. Therefore, strengthening HRM functions through structured workforce planning, competency-based recruitment, continuous employee development, transparent compensation systems, and objective performance evaluation is necessary to enhance productivity, improve workforce quality, and support the sustainable growth of MSMEs in Sakti Village.

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