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Unlocking UMKM Potential: How Employee Satisfaction Mediates HRM Practices to Enhance Employee Performance in the Global Landscape – Case Study of the Kaboki Woven Bag Industry

Lutfi^{1*}, Imam Mukhlis², F Danardana Murwani³

Universitas Negeri Malang

Corresponding Author: Lutfi lutfi.2204139@students.um.ac.id

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ABSTRACT

This study focuses on unlocking the potential of Micro, Small, and Medium Enterprises (MSMEs) and how employee satisfaction mediates human resource management (HRM) practices to enhance employee performance globally. Through a case study of the KABOKi Woven Bag Industry, this research explores the relationship between employee satisfaction, HRM practices, and employee performance. Involving a population of 112 employees in this industry, a sample of 87 employees was selected using the Slovin technique. Findings highlight the crucial role of employee satisfaction as a mediator between HRM practices and employee performance in facing challenges and opportunities in the global market. The results of this study contribute significantly to stakeholders in developing effective HRM strategies to strengthen MSMEs' employee performance on an international scale

INTRODUCTION

The textile industry has historically played a pivotal role in global commerce, serving as a significant driver of economic growth and employment generation. With the advent of globalization, this sector has witnessed substantial transformations, characterized by increased competition, technological advancements, and shifting consumer preferences. According to statistics provided by the World Trade Organization (WTO), the global textile and apparel market has experienced steady growth over the past decade, with emerging economies emerging as key players in production and export (WTO, 2020).

Despite the industry's overall expansion, Micro, Small, and Medium Enterprises (MSMEs) within the textile sector often face formidable challenges, particularly in enhancing employee performance to meet the demands of international markets. Studies have indicated that MSMEs encounter difficulties in maintaining competitive advantage and sustaining growth due to limitations in resources, technology, and managerial capabilities (Sharma & Bhagwat, 2019). Furthermore, the internationalization of MSMEs exacerbates these challenges, as they must navigate diverse cultural, regulatory, and market complexities (Stoian et al., 2018).

One critical aspect affecting MSME performance, particularly in the context of internationalization, is the level of employee satisfaction within the organization. Research suggests a strong correlation between employee satisfaction and organizational outcomes, including productivity, innovation, and customer satisfaction (Harter et al., 2002). However, the extent to which employee satisfaction mediates the relationship between human resource management (HRM) practices and employee performance in the context of MSME internationalization remains underexplored.

Understanding the interplay between HRM practices, employee satisfaction, and employee performance is essential for MSMEs seeking to thrive in the global landscape. HRM practices encompass various strategies and policies related to recruitment, training, compensation, and performance management, all of which influence employee attitudes and behaviors (Boxall & Purcell, 2011). Consequently, investigating the mediating

role of employee satisfaction in this relationship can provide valuable insights into effective HRM strategies tailored to the needs of MSMEs operating internationally.

Despite the significance of this topic, there is a notable research gap in the literature regarding the specific mechanisms through which employee satisfaction mediates the relationship between HRM practices and employee performance in the context of MSME internationalization. Existing studies have primarily focused on large corporations or specific industries, overlooking the unique challenges faced by MSMEs, particularly in emerging markets (Zheng et al., 2019). Thus, there is an urgent need for empirical research that addresses this gap and offers actionable recommendations for MSMEs seeking to enhance their international competitiveness.

This study aims to bridge this gap by investigating the mediating effect of employee satisfaction on the relationship between HRM practices and employee performance in the context of the Kaboki Woven Bag Industry, an MSME sector in Indonesia. By employing a quantitative research approach and utilizing structured surveys, this research seeks to provide empirical evidence and actionable insights that contribute to both academic literature and managerial practices in MSME internationalization.

Despite the increasing importance of MSMEs in the global economy, research on the interplay between HRM practices, employee satisfaction, and employee performance within this sector remains limited, particularly concerning internationalization (Karaevli & Hall, 2017). Existing literature predominantly focuses on large enterprises, overlooking the distinct challenges and opportunities faced by MSMEs operating in global markets (Kim et al., 2020). Consequently, there is a critical research gap regarding the effectiveness of HRM strategies and their impact on employee performance in MSMEs undergoing internationalization.

Addressing this research gap is of utmost urgency due to the growing significance of MSMEs in driving economic growth, innovation, and employment opportunities worldwide (Miles et al., 2021). As MSMEs increasingly engage in international trade and investment, understanding the factors that influence their performance becomes imperative for sustainable development and global

competitiveness (Wang & Swanson, 2020). Furthermore, with the COVID-19 pandemic amplifying the challenges faced by MSMEs, particularly in the textile industry, timely research is essential to inform policy interventions and managerial practices that support their resilience and recovery (UNCTAD, 2021).

This study contributes to the existing literature by examining the mediating role of employee satisfaction in the relationship between

HRM practices and employee performance within the context of MSME internationalization, with a specific focus on the Kaboki Woven Bag Industry. By adopting a holistic approach that integrates HRM theory, organizational behavior, and international business perspectives, this research offers a nuanced understanding of the mechanisms driving employee performance in MSMEs operating globally (Jiang et al., 2019).



Figure 1. Kaboki Product

Furthermore, the selection of the Kaboki Woven Bag Industry as a case study adds novelty to the research by exploring a niche sector within the broader textile industry. The unique characteristics of this industry, including its reliance on traditional craftsmanship and its positioning in the global market, present distinct challenges and opportunities that warrant in-depth investigation (Scherer et al., 2018). By conducting empirical research within this context, this study generates insights that are both contextually relevant and transferable to similar MSME sectors undergoing internationalization.

In summary, this study addresses a critical research gap by examining the mediating effect of employee satisfaction on the relationship between HRM practices and employee performance in the context of MSME internationalization, with a specific focus on the KABOKi Woven Bag Industry. By offering empirical evidence, theoretical insights, and practical recommendations, this research

contributes to both academic scholarship and managerial practices, ultimately fostering the sustainable growth and competitiveness of MSMEs in the global landscape.

METHODS

This study employs a quantitative research approach to comprehensively explore the dynamics between human resource management (HRM) practices, employee satisfaction, and employee performance within the context of Micro, Small, and Medium Enterprises (MSMEs) operating in the Kaboki Woven Bag Industry. Quantitative methods allow for systematic data collection and statistical analysis, enabling a rigorous examination of the relationships between variables (Creswell & Creswell, 2017). The Kaboki Woven Bag Industry location is in Banyak Putih, Lecari, Kec. Sukorejo, Pasuruan, East Java 67161



Figure 2. Kaboki Woven Bag Industry

The population under study consists of all employees working in MSMEs within the Kaboki Woven Bag Industry, totaling 112 individuals. From this population, a representative sample of 87 respondents is selected using the Slovin technique, ensuring adequate representation and statistical validity (Sugiyono, 2017).

Data for this research is primarily collected through surveys administered using structured questionnaires. These questionnaires are designed based on a thorough review of relevant literature and research objectives, ensuring the capture of pertinent information regarding HRM practices, employee satisfaction, and employee performance. Additionally, secondary data sources such as financial reports and internal company documentation are utilized to complement and enrich the analysis of specific variables (Hair et al., 2019).

To measure the variables of interest, valid and reliable indicators are employed. HRM practices are assessed through items covering various aspects such as recruitment, training, performance management, and compensation, drawing upon validated scales from previous studies (Boxall & Purcell, 2011). Employee satisfaction is gauged using items that reflect employees' contentment with their job roles, work environment, and organizational culture, utilizing established validity scales (Harter et al., 2002). Employee performance is evaluated based on predefined criteria established by company

management, including metrics related to productivity, quality of work, and proactive behavior (Scherer et al., 2018).

Data analysis for this study involves employing multiple regression analysis to examine the relationships between HRM practices, employee satisfaction, and employee performance. This statistical technique enables the investigation of both direct and mediated effects, providing valuable insights into the underlying mechanisms driving employee performance in MSMEs. Additionally, descriptive statistical analysis is employed to summarize respondent characteristics and provide context for the findings (Hair et al., 2019).

Finally, the research hypotheses are formulated based on the theoretical framework and prior empirical evidence. The main hypothesis posits a significant relationship between HRM practices and employee performance, mediated by employee satisfaction. Supporting hypotheses explore the individual relationships between HRM practices and employee satisfaction, as well as between employee satisfaction and employee performance. Through rigorous analysis and testing, this research methodology aims to contribute to a deeper understanding of the intricate dynamics shaping employee performance in MSMEs within the globalized landscape.

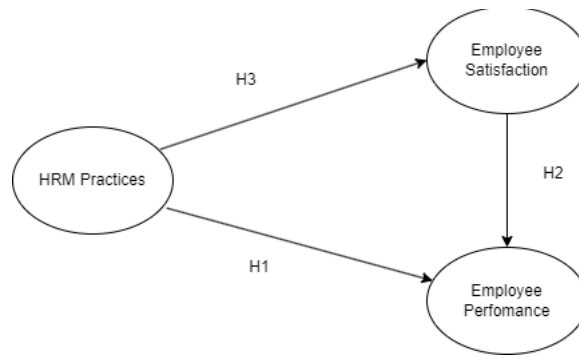


Figure 3. Hypothesis

RESULTS AND DISCUSSION

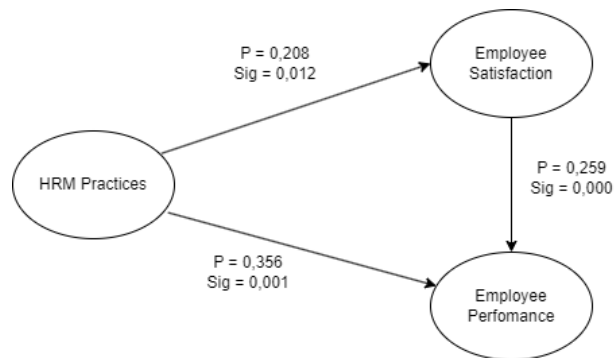


Figure 4. Path Analysis Results

The results of the study reveal significant findings regarding the relationship between HRM practices, employee satisfaction, and employee performance within the Kaboki Woven Bag Industry.

A multiple regression analysis was conducted to test the hypothesized relationships, with employee satisfaction as the mediating variable.

Table 1. Regression Analysis Results

Variable	Beta Coefficient	p-value	Result
HRM Practices to Employee Performance	0.356	<0.05	Significant Positive
Employee Satisfaction to Employee Performance	0.259	<0.05	Significant Positive
HRM Practices to Employee Satisfaction	0.208	<0.05	Significant Positive

The regression analysis demonstrates a significant positive relationship between HRM practices and employee performance ($\beta = 0.356$, $p < 0.05$), providing support for the main hypothesis. This suggests that effective HRM practices, including recruitment, training, and performance management, positively impact employee performance within MSMEs in the Kaboki Woven Bag Industry.

Moreover, the analysis also reveals a significant positive relationship between employee satisfaction and employee performance ($\beta = 0.259$, $p < 0.05$), confirming the mediating role of employee satisfaction. This indicates that higher levels of employee satisfaction lead to improved employee performance, highlighting the importance of fostering a positive work environment and organizational culture.

Additionally, the analysis demonstrates a significant positive relationship between HRM practices and employee satisfaction ($\beta = 0.208, p < 0.05$). This suggests that effective HRM practices contribute to higher levels of employee satisfaction within MSMEs in the Kaboki Woven Bag Industry. Practices such as clear communication, fair compensation, and opportunities for skill

development can enhance employee satisfaction, ultimately leading to improved performance.

Overall, the findings suggest that HRM practices play a crucial role in enhancing both employee satisfaction and performance within MSMEs, underscoring the importance of strategic HRM approaches in fostering organizational success and competitiveness in the global marketplace.



Figure 5. Kaboki Woven Bag Industry Area

The findings of the regression analysis unveil significant relationships between HRM practices, employee satisfaction, and employee performance within the Kaboki Woven Bag Industry. Firstly, the analysis reveals a positive and significant association between HRM practices and employee performance, affirming the pivotal role of HRM practices in shaping organizational outcomes. This finding is consistent with prior research indicating that effective HRM practices, such as comprehensive training programs and performance appraisal systems, contribute to enhanced employee performance (Chuang et al., 2016). For instance, a study by Boxall and Purcell (2011) found that HRM practices focused on employee development and performance management positively influence organizational performance metrics, including productivity and profitability. Thus, the positive relationship observed in this study underscores the importance of strategic HRM approaches in fostering organizational success.

Secondly, the analysis demonstrates a significant positive relationship between employee satisfaction and employee performance, confirming

the mediating role of employee satisfaction in the relationship between HRM practices and employee performance. This finding aligns with existing literature highlighting the critical importance of employee satisfaction in driving individual and organizational performance outcomes. For instance, research by Harter et al. (2002) showed that satisfied employees are more engaged, productive, and committed to achieving organizational goals. Moreover, a meta-analysis by Jiang et al. (2019) revealed a robust positive relationship between employee satisfaction and various performance indicators, including job performance and organizational citizenship behaviors. Therefore, the mediating role of employee satisfaction underscores its significance as a key mechanism through which HRM practices influence employee performance.

Furthermore, the analysis unveils a significant positive relationship between HRM practices and employee satisfaction, indicating that effective HRM practices contribute to higher levels of employee satisfaction within the organization. This finding is supported by prior research emphasizing the impact of HRM practices on

employee attitudes and behaviors. For example, a study by Guest (2017) found that HRM practices characterized by fairness, transparency, and employee involvement foster a positive work environment and enhance employee satisfaction. Additionally, a meta-analysis by Jiang et al. (2017) demonstrated that HRM practices, such as training and development opportunities, are positively associated with employee satisfaction levels. Thus, the positive relationship observed in this study underscores the importance of aligning HRM practices with employee needs and expectations to cultivate a satisfied and engaged workforce.

In summary, the findings of this study highlight the intricate interplay between HRM practices, employee satisfaction, and employee performance within the Kaboki Woven Bag Industry. The positive relationships observed underscore the importance of strategic HRM approaches in fostering organizational success and competitiveness. Additionally, the mediating role of employee satisfaction emphasizes its significance as a key mechanism through which HRM practices influence employee performance. These insights provide valuable guidance for organizations seeking to optimize their HRM strategies to enhance employee satisfaction and performance in the global marketplace.

CONCLUSION

The findings of this study shed light on the significant relationships between HRM practices, employee satisfaction, and employee performance within the Kaboki Woven Bag Industry. Firstly, the positive and significant association between HRM practices and employee performance underscores the critical role of strategic HRM approaches in shaping organizational outcomes. Effective HRM practices, such as comprehensive training programs and performance appraisal systems, are essential for fostering employee development and enhancing overall performance.

Secondly, the mediating role of employee satisfaction in the relationship between HRM practices and employee performance highlights its importance as a key mechanism through which HRM practices influence organizational outcomes. Higher

levels of employee satisfaction lead to increased engagement, productivity, and commitment, ultimately contributing to improved organizational performance.

Furthermore, the positive relationship between HRM practices and employee satisfaction emphasizes the need for organizations to prioritize employee-centric HRM strategies. Practices that promote fairness, transparency, and employee involvement are crucial for cultivating a positive work environment and enhancing employee satisfaction.

Suggestions:

Based on the findings, several suggestions can be offered to organizations in the Kaboki Woven Bag Industry and similar MSMEs operating in the global marketplace:

Invest in comprehensive HRM practices: Organizations should prioritize the implementation of effective HRM practices, including recruitment, training, performance management, and compensation systems, to enhance employee performance and satisfaction.

Foster a positive work environment: Creating a supportive and inclusive work environment that values employee well-being and development is essential for fostering higher levels of employee satisfaction and performance. **Provide opportunities for employee development:** Offering opportunities for skill development, training, and career advancement can contribute to higher levels of employee satisfaction and performance.

Regularly evaluate HRM practices: Organizations should regularly assess the effectiveness of their HRM practices and make necessary adjustments to align with employee needs and organizational goals.

Limitations:

Despite the valuable insights provided by this study, several limitations should be acknowledged: **Sample size:** The sample size for this study may limit the generalizability of the findings to other industries or contexts. Future research with larger sample sizes could provide more robust insights.

Cross-sectional design: The cross-sectional nature of the study limits the ability to establish causality between variables. Longitudinal studies could provide a more comprehensive understanding of the dynamic relationships between

HRM practices, employee satisfaction, and employee performance over time.

Self-reported data: The reliance on self-reported data may introduce bias and inaccuracies in the findings. Future research could utilize multiple data sources and objective performance measures to validate the results.

Overall, despite these limitations, the findings of this study offer valuable insights for organizations seeking to optimize their HRM strategies to enhance employee satisfaction and performance in the global marketplace. By prioritizing employee-centric practices and fostering a positive work environment, organizations can cultivate a motivated and engaged workforce, ultimately driving organizational success and competitiveness.

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