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Do Human Resource Management Practices Improve Employee Performance? The Mediation Role of Job Satisfaction in Indonesian MSMEs

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Abstract

Research aims: This study aims to investigate the influence of Human Resource Management (HRM) practices on employee performance, with job satisfaction serving as a mediating variable, within the context of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia.

Design/Methodology/Approach: Data were collected using structured questionnaires distributed to owners and employees of MSMEs in Indonesia. The sampling technique used was purposive sampling, resulting in a total of 130 valid responses. Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with the assistance of SmartPLS 4 software.

Research findings: The results of the study indicate that HRM practices have a positive and significant effect on employee performance. Furthermore, job satisfaction significantly mediates the relationship between HRM practices and employee performance. These findings suggest that enhancing HRM practices can increase employee job satisfaction, which in turn leads to improved performance.

Theoretical Contribution/Originality: The findings of this study can serve as a valuable reference for policymakers in designing programs and policies that support the enhancement of HRM practices within the MSME sector. Strengthening HRM practices can contribute to increased employee satisfaction and performance, which in turn promotes the overall growth and competitiveness of MSMEs in Indonesia.

Practitioners/Policy Implications: The practical implication of this study highlights the importance for MSME managers to implement effective HR strategies aimed at enhancing employee job satisfaction. By prioritizing well-structured HR practices, MSME managers can foster a more motivated and productive workforce, thereby improving overall organizational outcomes.

Research Limitations/Implications: This study focuses primarily on HRM practices and job satisfaction as the main variables influencing employee performance. However, it acknowledges that employee performance is also affected by other important factors, which were not examined in this research. Future studies are encouraged to explore these additional variables to provide a more comprehensive understanding of the determinants of employee performance within the MSME sector.

Keywords: Human Resource Management Practices; Employee Performance; Job Satisfaction

Introduction

In today's highly competitive global environment, the strength and effectiveness of human resources (HR) are key to driving organizational success. This principle holds true not only for large-scale enterprises but also for Micro, Small, and Medium Enterprises (MSMEs), which serve as essential pillars of economic growth at both national and regional levels. In West Sumatra, Indonesia, for instance, MSMEs play a crucial role in generating employment and contributing to the local economy. By 2024, the province recorded a total of 296,052 MSMEs, making it the eighth-largest contributor nationwide (BPS Sumbar, 2024). However, despite this impressive presence, many of these enterprises continue to struggle with improving employee performance. These challenges are often rooted in constrained HR capabilities and the prevalent use of informal and unstructured human resource management (HRM) approaches.

A growing body of research highlights the potential of HRM practices to enhance organizational performance. Yet, the conclusions drawn from these studies remain varied and, at times, contradictory—often shaped by contextual factors such as leadership approaches, industry characteristics, and organizational scale (Aslam et al., 2023; Au et al., 2024). These disparities point to a lack of clarity regarding the specific pathways through which HRM practices affect employee outcomes. This uncertainty is particularly pronounced in the case of MSMEs, especially in regions that have received limited scholarly attention, like West Sumatra, Indonesia. In response to this gap, the current study aims to investigate the relationship between HRM practices and employee performance, focusing on the mediating role of job satisfaction within the MSME landscape of West Sumatra.

Job satisfaction is often seen as a key mechanism through which HRM practices can affect employee performance, serving as a mediating factor across various organizational settings (Keltu, 2024). Despite this, most existing research has concentrated on large corporations or institutions based in developed countries, offering limited insight into how this dynamic unfolds within MSMEs operating in emerging economies. Additionally, the literature frequently treats job satisfaction as a direct outcome of HRM, overlooking its potential role as a process that explains how these practices translate into improved performance. This narrow perspective leaves an important gap—particularly in the context of MSMEs—which the present study aims to explore in greater depth.

This study draws its theoretical foundation from Social Exchange Theory and the Job Characteristics Model. Both perspectives emphasize that when organizations actively support their employees through well-implemented HRM practices, employees are likely to respond with greater job satisfaction and improved performance outcomes. In the context of MSMEs—where formal structures and standardized processes are often lacking—understanding this mediating relationship becomes particularly relevant. Job satisfaction, in such environments, functions as a key psychological asset that can offset organizational limitations by fostering stronger motivation, greater employee retention, and increased discretionary effort. With this in mind, the study investigates how HRM practices impact employee performance, positioning job satisfaction as a mediating factor

within MSMEs in West Sumatra, Indonesia. By drawing on context-specific data from a relatively underexplored setting, this research not only addresses a gap in the existing HRM literature but also offers practical guidance tailored to the distinct operational realities of MSMEs in Indonesia and other comparable developing regions.

Literature Review and Hypotheses Development

Employee performance

Employee performance remains a central factor in achieving organizational effectiveness. According to Wahyudi (2021), employee performance is significantly shaped by factors such as a positive work climate, transformative leadership style, and ongoing skills development. Expanding on this, Jerónimo et al. (2020) observed that sustainable HRM strategies enhance employee performance by shaping how employees perceive the organization's commitment to sustainability and by strengthening their sense of belonging. These insights collectively emphasize the importance of aligning HRM initiatives not just with immediate operational objectives, but also with the organization's core values and cultural identity to foster meaningful and lasting improvements in employee performance.

Offering a different perspective, Cahyadi et al. (2022) identified HRM as a mediating link between leadership practices and organizational performance, highlighting the strategic significance of HRM beyond its routine administrative role. Similarly, Alsafadi and Altahat (2021) emphasized the importance of job satisfaction as a mediating factor in the connection between HRM practices and employee outcomes. Their research suggests that elements such as employee training, performance evaluation, and compensation systems must be intentionally developed to enhance employee well-being, which in turn drives higher levels of performance.

Human Resource Management Practices

Human resource management (HRM) refers to the comprehensive set of organizational practices and policies governing areas such as recruitment, employee selection, compensation, development, and performance assessment (Dessler, 2020). These functions go beyond day-to-day operations and hold strategic importance in influencing key employee outcomes, especially job satisfaction and performance levels. In line with this view, Jasim (2020) highlighted that effective training and development initiatives—central elements within HRM—significantly enhance employee satisfaction, which subsequently contributes to stronger organizational performance.

According to Singla and Garga (2021), factors such as a positive work environment, fair financial compensation, and employee recognition play a crucial role in shaping job satisfaction. Their findings highlight the need for HRM practices that address both the psychological and emotional well-being of employees. This approach is particularly applicable to labor-intensive industries and to organizations with less formalized HR

systems, such as MSMEs. Complementing this view, Mahfouz et al. (2021) found that key HRM components—especially those related to compensation and performance appraisal—exert a direct influence on employee performance. Notably, job satisfaction often functions as the underlying mechanism that channels the impact of these HR practices into measurable performance outcomes.

Job satisfaction

Job satisfaction is commonly viewed as a central outcome of strategically implemented HRM practices. Memon et al. (2021) observed that initiatives such as employee training, involvement in decision-making, and structured career development contribute significantly to job satisfaction—especially when employees are actively engaged in their work. Their research implies that HRM systems serve not only as organizational frameworks but also as motivational and psychological instruments that influence how employees interpret and connect with their professional roles.

Jolović and Berber (2021) found that HRM practices play a significant role in enhancing job satisfaction within public sector institutions, with organizational commitment partially mediating this effect. In a similar vein, Dubisetty and Reddy (2022) reported that fundamental HRM elements—such as compensation, a supportive work environment, and efforts to promote work-life balance—serve as strong predictors of both job satisfaction and employee performance, particularly in the Indian IT industry. These studies underscore the importance of designing HRM strategies that integrate both extrinsic factors (like pay and workplace conditions) and intrinsic drivers (such as employee autonomy and work-life harmony) to effectively improve workforce outcomes.

In the context of Saudi Arabia's banking industry, Cherif (2020) found that effective HRM practices significantly bolster both job satisfaction and organizational commitment. Likewise, Subedi and Bajracharya (2024) identified similar trends within Nepal's technology sector. Despite differences in industry and geography, these studies reveal a common pattern: thoughtfully implemented HRM initiatives play a vital role in cultivating workplace environments that promote employee satisfaction, strengthen commitment to the organization, and encourage active engagement.

HRM Practices and Job Satisfaction

Employees represent a vital resource in the business landscape, especially within MSMEs, where human capital is often the key driver of innovation, growth, and sustainability. Taru and Gupta (2021) emphasized that for SMEs aiming to remain competitive and achieve sustained development, employee performance must be prioritized. In the face of global economic pressures, these enterprises increasingly depend on their internal capabilities—most notably, their people—to maintain resilience and progress. As highlighted by Qalati et al. (2022), fostering employee engagement and retention is essential, as these factors have a direct impact on both individual output and overall organizational effectiveness. Within this framework, human resource development (HRD) emerges as a critical

function, encompassing systematic efforts to build and enhance workforce competencies in alignment with the organization's strategic goals (Nur et al., 2021).

As outlined by Dessler (2020), HRM practices comprise a broad array of functions, including recruitment, selection, performance management, training and development, compensation, and employee relations. These components are strategically implemented to maximize employee potential and drive organizational effectiveness. Empirical evidence lends support to this theoretical foundation. For example, Cherif (2020) identified a strong link between HRM practices, job satisfaction, and organizational commitment. In a different approach, Silic et al. (2020) demonstrated that the integration of gamification into HRM systems can enhance employee satisfaction. Further reinforcing these findings, Pradhan et al. (2019) observed that HRM practices positively affect job satisfaction, with employee engagement acting as a crucial mediator. However, Hauret et al. (2021) contended that the mere presence of HRM practices does not automatically translate into higher job satisfaction—employee perceptions of those practices are equally important. Their study highlights the need for management to empower staff and adapt HRM initiatives to align with individual expectations, job roles, and workplace dynamics. In line with this perspective, Alsafadi and Altahat (2021) also found that effective HRM contributes positively to various dimensions of job satisfaction, including job security and enrichment. Collectively, these studies emphasize the complex and influential role HRM plays not only in shaping employee experiences but also in reinforcing overall organizational success—particularly when HR practices are perceived as supportive, meaningful, and responsive to employee needs.

H₁: HRM practices have a positive and significant effect on job satisfaction.

Job Satisfaction and Employee Performance

Recent studies continue to highlight the pivotal role of job satisfaction in shaping employee performance. Arifin (2024) found that greater employee engagement contributes to higher job satisfaction, which subsequently leads to enhanced performance—positioning job satisfaction as a key mediating factor in this dynamic. Similarly, Ma et al. (2024) reported that both job satisfaction and organizational commitment independently and jointly strengthen employee performance, with their interplay producing more robust outcomes. In support of these findings, Adiyono et al. (2023) observed that job satisfaction and commitment not only foster improved performance but also play a critical role in lowering employee turnover, thus promoting workforce stability and long-term productivity. Adding another layer to this discussion, Bagis et al. (2021) demonstrated that job satisfaction acts as a bridge between organizational culture, commitment, and performance. Their research highlights how a cohesive workplace culture and strong employee commitment contribute to satisfaction, which in turn enhances overall performance.

H₂: Job satisfaction has a positive and significant effect on employee performance.

HRM Practices and Employee Performance

An expanding body of literature affirms the beneficial effects of HRM practices on employee performance across a range of organizational settings. Memon et al. (2021), for instance, reported that initiatives such as employee training, performance appraisal, and compensation positively influenced productivity at Vivid Technologies. In a related study, Rodjam et al. (2020) found that core HRM functions were significantly associated with employee performance, with job satisfaction serving as a mediating factor in this linkage. Mahfouz et al. (2021) further supported this view by demonstrating that while HRM practices enhance performance outcomes, employee commitment serves as a partial mediator. Complementing these findings, Ali (2022), in his examination of Bangladesh's ready-to-wear garment industry, confirmed that strategically implemented HRM practices are instrumental in driving improvements in workforce performance.

H₃: HRM practices have a positive and significant effect on employee performance.

HRM Practices, Job Satisfaction and Employee Performance

The mediating role of job satisfaction—particularly in terms of enrichment and stability—has been widely supported in recent studies. Additionally, employee engagement has emerged as a potential moderating variable in the relationship between HRM practices and employee performance, highlighting the complex interplay of psychological and organizational factors in achieving HR outcomes. These findings underscore the critical role of both job satisfaction and engagement in enhancing employee performance. This is further supported by Herzberg's Two-Factor Theory (Herzberg and Mausner, 1959), which differentiates between motivator factors (e.g., achievement, recognition, responsibility, and personal growth) that increase job satisfaction, and hygiene factors (e.g., company policies, supervision, salary, and working conditions) that prevent dissatisfaction.

Indrayani et al. (2024) found that millennial employees demonstrate higher performance when job satisfaction is achieved. Hendri (2019) concluded that both job satisfaction and organizational commitment significantly influence employee performance. Shamaileh et al. (2023) identified Smart HR 4.0 practices as significant predictors of job satisfaction and employee effectiveness, with job satisfaction playing a mediating role. Similarly, Rodrigo et al. (2022) demonstrated a statistically significant positive relationship between job satisfaction and employee performance, confirmed through regression analysis. Together, these findings support the positioning of job satisfaction as a central variable in the HRM–performance linkage, while also highlighting the value of engagement and technological adaptation in modern HR systems.

H₄: Job satisfaction mediates the positive and significant effect of HRM practices on employee performance.

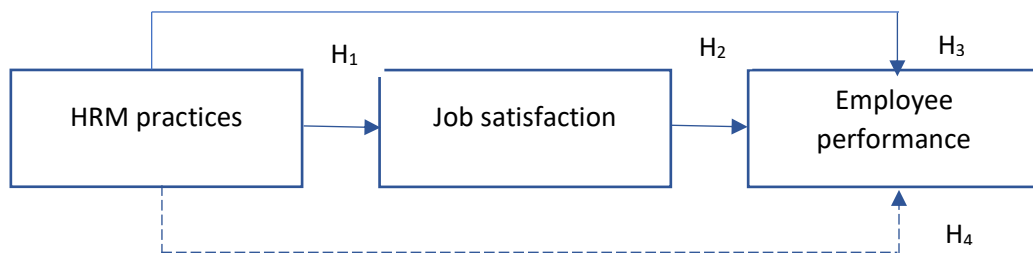


Figure 1 Conceptual framework

Research Methods

This study adopted a quantitative research design, following the framework proposed by Bougie and Sekaran (2020), and was supplemented with qualitative insights to enrich contextual understanding. The analysis focused on individual employees employed within MSMEs operating in West Sumatra Province, Indonesia.

The target population for this study consisted of employees working within MSMEs across diverse sectors in West Sumatra Province. Based on the most recent data from the Central Bureau of Statistics in West Sumatra (2024), the region is home to approximately 296,052 MSMEs. However, due to the lack of detailed data regarding the total number of employees, a non-probability purposive sampling method was employed. Participants were selected according to specific inclusion criteria: they must have at least one year of experience in the MSME sector and be actively engaged in either operational or managerial functions.

Following the guideline proposed by Hair (2020), the determination of sample size adhered to the rule of thumb for Partial Least Squares Structural Equation Modeling (PLS-SEM), which suggests a minimum of five to ten times the number of measurement indicators included in the model. Given that this study incorporated 13 indicators, a minimum of 130 respondents was deemed adequate. Accordingly, 130 questionnaires were distributed and successfully collected, thereby fulfilling the minimum threshold required for robust model estimation.

Quantitative data were obtained using a structured questionnaire that employed a five-point Likert scale, with response options ranging from 1 (strongly disagree) to 5 (strongly agree). To enhance the depth of analysis and provide contextual insight, qualitative data were also collected through interviews conducted with MSME owners and employees across West Sumatra.

The measurement of HRM practices in this study was based on a modified instrument adapted from Subramaniam et al. (2011) and Cherif (2020). The instrument comprised 12 items reflecting core dimensions of HRM, such as compensation policies, job security, training and development opportunities, and information dissemination.

Employee performance was assessed using the Individual Work Performance Questionnaire (IWPQ), developed by Koopmans et al. (2012). This instrument includes 12 items designed to evaluate four major dimensions of work performance: task performance, contextual performance, adaptive performance, and counterproductive work behavior.

Job satisfaction in relation to HR practices was measured using five items adapted from the works of Kinnie et al. (2005) and Stirpe et al. (2022). These items assessed employees' satisfaction with several key aspects of HR management, including compensation, career advancement opportunities, workplace conditions, training programs, and leadership quality.

Data analysis in this study was conducted using PLS-SEM via the SmartPLS software. This method was chosen due to its suitability for exploratory research models, the presence of mediating variables, and its robustness in handling data that may not meet the assumption of normality—a frequent occurrence in social science research. Furthermore, PLS-SEM is well-suited for studies involving relatively small to medium sample sizes and complex models with multiple latent constructs (Hair et al., 2020).

Results and Discussion

MSMEs form the foundation of Indonesia's economic structure. As reported by the Ministry of Cooperatives and Small and Medium Enterprises, these enterprises account for over 60% of the country's Gross Domestic Product (GDP) and employ around 97% of the national workforce. Given their substantial economic footprint, MSMEs serve as a critical engine for economic development, job creation, and poverty reduction throughout Indonesia.

MSMEs in Indonesia span a diverse array of sectors—including trade, manufacturing, agriculture, and services—and are widely distributed across both urban and rural regions. Despite their vital role in the national economy, these enterprises continue to encounter a range of structural and operational challenges. Key issues include limited access to financing, outdated technology, restricted market access, and the ongoing need to navigate shifting regulatory frameworks and economic conditions. This study involved 130 MSME participants from various cities and regencies within West Sumatra Province, offering a localized lens through which to examine the broader issues confronting MSMEs across the country.

HRM practices within Indonesian MSMEs are frequently characterized by informality and a lack of systematic structure. In many cases, these enterprises do not have dedicated HR departments, with HR-related tasks instead handled on an ad-hoc basis by business owners or general managers. Such informal arrangements can contribute to a range of organizational issues, including diminished job satisfaction, reduced employee productivity, and elevated turnover rates. Nonetheless, MSMEs also possess significant potential for advancement. Strengthening managerial capabilities, adopting digital

solutions, and expanding access to financing are key strategies that can enhance operational performance and competitiveness. Additionally, support from government bodies, financial institutions, and non-governmental organizations—through training, mentoring, and capacity-building programs—plays an increasingly important role in developing the institutional and human capital of MSMEs.

An overview of Indonesia's MSME landscape indicates that the trade sector holds a dominant position, representing roughly 45% of the total MSME population. Businesses in this sector typically focus on the distribution and sale of goods, ranging from traditional small-scale stalls to larger operations such as wholesale distributors and modern retail outlets. The sector's prominence is largely due to its relatively low barriers to entry—characterized by minimal capital investment and limited technical expertise. Moreover, the consistent demand for basic consumer products within local communities contributes to the sector's sustained growth and widespread appeal.

Approximately 30% of MSMEs in Indonesia operate within the manufacturing sector. This sector encompasses a wide range of production activities, including food and beverage processing, handicrafts, textiles, and household appliances. MSMEs in the manufacturing sector play a vital role in generating added value and supporting the national industrial supply chain. In addition to enhancing domestic production capabilities, these enterprises significantly contribute to job creation and the strengthening of local economies.

Although the agricultural sector's relative contribution has declined due to the economy's gradual shift toward industrial and service-based activities, approximately 15% of MSMEs in Indonesia remain active in the agricultural and agro-industrial sectors. These include businesses engaged in farming, livestock, fisheries, and agricultural product processing. Predominantly located in rural areas, agricultural MSMEs serve as the backbone of local village economies. However, they often encounter persistent challenges, including limited access to capital, technology, and broader markets. Meanwhile, the service sector has experienced rapid growth and now accounts for roughly 10% of total MSMEs. This sector encompasses a diverse range of businesses, including beauty salons, electronic repair services, consultancy firms, transportation services, and tourism-related enterprises. The expansion of the service sector is driven by changing consumer lifestyles, increased urbanization, and the proliferation of digital technologies that enable the emergence of online and tech-enabled service delivery models.

Among MSMEs in Indonesia, the trade sector emerges as the most prevalent, comprising approximately 45% of all enterprises. Businesses operating in this sector are primarily involved in the purchase and sale of goods, encompassing a range of formats from traditional kiosks and market stalls to more established retail establishments. This sector's widespread presence can be attributed to its relatively low entry barriers, modest capital requirements, and the steady demand for everyday consumer goods. Consequently, trade-oriented MSMEs play a crucial role in supporting local economies by ensuring the continuous flow of goods and services within communities.

Roughly 30% of Indonesia's MSMEs operate within the manufacturing sector, producing a diverse array of goods ranging from fast-moving consumer items—such as food, beverages, and apparel—to more durable products like furniture, household equipment, and building materials. Manufacturing-based MSMEs play a pivotal role in the national economy by generating employment, adding value through production, and contributing to broader industrial growth. Many also function as vital components within supply chains, either by supplying goods to larger firms or by exporting specialized, locally crafted products, thus reinforcing both domestic economic integration and international trade participation.

Although its relative share has declined over time due to increasing urbanization and industrial expansion, the agricultural sector still comprises around 15% of all MSMEs in Indonesia. These businesses are primarily involved in activities such as crop cultivation, livestock farming, fisheries, and agro-processing. Largely concentrated in rural regions, agricultural MSMEs play a vital role in promoting food security, maintaining rural livelihoods, and safeguarding traditional agricultural practices. Nevertheless, they continue to encounter significant obstacles, including limited access to financial resources, outdated farming technologies, and weak integration with formal markets.

The services sector has seen substantial growth in recent years, now accounting for approximately 10% of all MSMEs in Indonesia. This diverse sector includes a broad range of service-based enterprises, such as beauty and wellness centers, repair and maintenance shops, IT support services, educational institutions, transport providers, hospitality businesses, and digital platforms. The sector's expansion is largely fueled by shifting consumer demands, accelerating urbanization, and the increasing penetration of digital technologies. Service-oriented MSMEs are typically agile and innovation-driven, positioning them as key actors in the ongoing digital transformation of the MSME landscape.

Limited access to capital and technology remains one of the most significant challenges confronting MSMEs in Indonesia. According to a survey by the Indonesian MSME Association, nearly 70% of MSMEs struggle to obtain formal financing, such as loans from commercial banks. This funding gap is commonly linked to several underlying issues, including insufficient collateral, poor financial record-keeping, and limited financial literacy among business owners. These constraints often lead financial institutions to view MSMEs as high-risk borrowers, thereby restricting their access to much-needed credit for growth and innovation.

At the same time, the level of technological adoption among MSMEs in Indonesia remains relatively low. Current estimates indicate that only around 10% have incorporated digital solutions aimed at improving efficiency and expanding market access. These technologies include e-commerce platforms, digital payment systems, online promotional tools, and automated production processes. The limited uptake of such innovations hampers MSMEs' capacity to compete, adapt, and scale in an increasingly digital and interconnected global marketplace. Without targeted support and strategic

interventions, many of these enterprises risk stagnation, unable to transition beyond subsistence operations or build long-term resilience.

HRM remains a significant challenge for a large proportion of MSMEs in Indonesia. It is estimated that around 60% of these enterprises operate without a dedicated HR unit. In such cases, key HR responsibilities—including hiring, payroll administration, performance appraisal, and staff development—are typically handled informally by the business owner or manager, who often serves as the primary decision-maker. The absence of structured HR systems can limit organizational scalability, constrain employee growth, and diminish overall efficiency in business operations.

Employee dissatisfaction is another critical issue facing MSMEs. Survey data suggest that approximately 40% of workers in this sector express dissatisfaction with their employment conditions. Common concerns include inadequate wages, insufficient opportunities for training and skills enhancement, and the absence of clear career advancement pathways. These challenges often result in elevated turnover rates, which in turn hinder MSMEs' ability to retain qualified personnel and maintain a consistent, high-performing workforce.

Despite ongoing challenges, Indonesian MSMEs are gradually leveraging new opportunities, especially in the areas of digital transformation and alternative financing. According to a study by the Ministry of Communication and Information, more than 30% of MSMEs have begun utilizing e-commerce platforms to market and distribute their products online. This digital shift enables businesses to expand their customer base, enhance operational efficiency through digital payment systems, and optimize processes such as inventory control and online promotion.

At the same time, over half of MSMEs are increasingly accessing capital through microfinance institutions and fintech platforms, which tend to provide more adaptable financing terms compared to conventional banks. However, limited financial literacy remains a significant obstacle. Many MSME owners lack the competencies required to manage credit responsibly, evaluate funding alternatives, and create reliable financial forecasts—factors that constrain their ability to fully leverage these emerging financial solutions.

The age distribution of respondents, as presented in Table 1, illustrates a broad spectrum of career stages among MSME participants. Individuals aged 20–30 represent a relatively small segment of the sample, suggesting that only a limited number are in the early stages of their professional or entrepreneurial journeys. The 31–40 age group, which constitutes the second-largest cohort, reflects a significant proportion of respondents in a mid-career phase—typically marked by increased responsibility and active business development. The largest share of respondents falls within the 41–50 age bracket, indicating that many are in a mature career stage, likely with substantial experience and possibly in leadership or managerial roles. Meanwhile, the 51–60 age group accounts for a smaller portion, implying that fewer individuals are in the later stages of their careers. Respondents aged

61 and above form the smallest group, suggesting that only a minimal number remain involved in active business or employment beyond retirement age.

Table 1 Respondent Characteristics

Respondent characteristics (N=130)	Frequency	Percent
Age of respondents		
21-30 years	20	15.38%
31-40 years	44	33.84%
41-50 years	57	43.84%
51-60 years	8	6.15%
61 years <	1	0.76%
Gender		
Man	87	66.92%
Woman	43	33.07%
Status in the company		
Employee	86	66.15%
Owner	44	33.84%
Backround expertise		
Management	10	7.69%
Finance	3	2.3%
Operational	7	5.38%
Business development	8	6.15%
Marketing	12	9.23%
Other	90	69.23%
Number of employees		
1-5 Employee	60	46.15%
6-10 Employee	53	40.76%
11 < Employee	17	13.07%

The gender distribution of respondents reveals that males constituted approximately two-thirds of the sample, indicating a predominant male presence in MSME activities within the study area. This reflects a gendered pattern in business participation, where men appear to play a more prominent role in operational leadership and decision-making processes. Nonetheless, women accounted for roughly one-third of the respondents, highlighting their active engagement and significant contribution to the MSME sector. Although their representation was lower, the inclusion of female participants emphasizes the vital role women continue to hold in entrepreneurship and the broader labor market.

The majority of respondents in this survey were employees, accounting for more than two-thirds of the total sample. This indicates that most individuals involved in this study are engaged in the workforce of MSMEs in Indonesia. Their responses offer valuable insights into workplace dynamics, job satisfaction, and perceptions of HRM practices from the employee perspective. Approximately one-third of respondents were business owners, reflecting a substantial representation of individuals responsible for managing MSME operations. The inclusion of business owners enriches the dataset by providing complementary perspectives on strategic decision-making, leadership, and the practical challenges of managing human resources within the MSME context.

The respondents in this study held various functional roles within MSMEs, with the majority classified under the “Other” category. This group includes a broad mix of responsibilities such as customer service, administrative support, IT assistance, and general operational tasks—roles that are often interwoven in the context of small enterprises. The dominance of this category underscores the versatile and multitasking nature of work environments within MSMEs, where employees frequently juggle multiple duties across functional areas. A smaller subset of respondents reported holding managerial positions, which involve oversight responsibilities, strategic decision-making, and human resource functions. Their perspectives shed light on organizational leadership and coordination practices. Another minor portion of participants were engaged in finance-related roles, encompassing activities such as bookkeeping, budgeting, and financial planning. The limited representation in this domain may reflect the informal or externally managed financial practices typical of many MSMEs. Similarly, a small number of respondents worked in operational roles, focusing on daily business execution, process efficiency, and logistics—core functions for sustaining business continuity. A few participants were involved in business development, contributing to strategic growth, partnership building, and innovation initiatives. Additionally, respondents in marketing roles—though limited in number—provided insights into branding, promotions, customer outreach, and market positioning, highlighting the increasing relevance of marketing in driving MSME competitiveness.

Nearly half of the respondents reported working in enterprises with 1 to 5 employees, indicating that many are employed in micro-scale businesses. These organizations typically feature simpler operational structures, closer interpersonal relationships, and greater flexibility, but may also face limitations in resources and formalized procedures. The remaining majority of respondents worked in businesses with 6 to 10 employees, representing small enterprises with slightly more structured operations and resource capacity. These businesses are better positioned to handle broader project scopes, delegate tasks, and establish more defined roles within their teams. Only a small minority of respondents were employed in organizations with more than 11 employees. This reflects a limited representation of larger MSMEs within the sample. These enterprises likely have more complex organizational structures, possibly involving distinct functional divisions and more formalized managerial systems.

This study involved 130 respondents with diverse characteristics in terms of age, gender, employment status, professional background, and company size. While the sample shows demographic variety, it is notably concentrated around certain dominant profiles. In terms of age, the majority of respondents were in the 41–50 age group, accounting for 43.84% of the total. This was followed by those aged 31–40 years (33.84%) and 21–30 years (15.38%). Only 6.15% of respondents fell within the 51–60 age range, while those aged 61 and above constituted just 0.76%. These figures suggest that most respondents are in the mature, productive age category, likely possessing substantial work experience and professional stability. With respect to gender, male respondents made up the majority at 66.92% (87 individuals), while females accounted for 33.07% (43 individuals). This gender distribution highlights the predominance of men in the MSME activities covered by this research, although women also represent a significant and active segment

of the workforce. Regarding employment status within the company, employees formed the majority with 66.15% (86 respondents), while business owners comprised 33.84% (44 respondents). This indicates that most of the respondents represent the perspective of operational-level personnel actively engaged in daily business functions, with a substantial proportion also providing insights from a managerial or ownership viewpoint.

Based on the number of employees in the companies where respondents work, the majority are engaged in micro and small-scale enterprises. Specifically, 46.15% of respondents (60 individuals) work in businesses with 1–5 employees, while 40.76% (53 individuals) are employed in companies with 6–10 employees. Only 13.07% (17 individuals) reported working in enterprises with more than 11 employees, indicating limited representation from medium-sized businesses. Overall, the respondent profile reflects a predominance of individuals employed in small-scale businesses characterized by relatively simple organizational structures. These businesses are primarily staffed by male employees of productive age, with a variety of professional backgrounds. Such characteristics are representative of the broader MSME sector in Indonesia, where operational flexibility, informality in management practices, and close interpersonal work environments are common.

Table 2 Factor Loading

Variable	Statement	Loading value
Employee Performance	I am aware of the results I need to achieve in my work	0.634
	I work to achieve meaningful outcomes	0.816
	I sometimes struggle with setting clear priorities at work	0.696
	I am able to fulfill my responsibilities	0.608
	Collaboration with other parties is going well	0.805
	Other people understand me well, when I tell them something	0.790
	I am able to handle difficult situations and setbacks at work well	0.633
HRM practices	I made the problem bigger than the problem at work	0.705
	We reward personnel to reduce employee turnover	0.695
	We use incentives to improve individual performance	0.667
	We select and pay employees based on their contributions	0.693
	Employees who care about the company's goals are rewarded	0.793
	Our employees know our goals and strategies well	0.788
	We inform personnel about their performance	0.631
	We focus on job security	0.814
	Employees with low performance will not be fired	0.716
	Training is a motive for employees to achieve better performance	0.866
	We train and develop our personnel systematically	0.766
	We provide training in one core skill	0.793
Job Satisfaction	I am satisfied with the degree of independence I have in planning and executing my work	0.778
	I am satisfied with the compensation I receive	0.806
	I am satisfied with my performance	0.817
	I am satisfied with the opportunities available to me for participating in training and educational activities beyond my job requirements	0.829
	I am satisfied with the amount of training I have received in my current role	0.859

Based on Table 2, it can be observed that most indicators of the research variables have outer loading values greater than 0.6 (Ghozali, 2018). This indicates that the indicators are valid and appropriate for use in the study, and thus can be utilized for further analysis.

Table 3 Cross loading

Items	Job satisfaction	Employee performance	HRM practices	Average variance extracted (AVE)
x1	0.624	0.581	0.695	0.563
x2	0.472	0.562	0.667	
x3	0.518	0.595	0.693	
x4	0.632	0.691	0.793	
x5	0.643	0.729	0.788	
x6	0.529	0.538	0.631	
x7	0.683	0.734	0.814	
x8	0.520	0.605	0.716	
x9	0.705	0.799	0.866	
x10	0.664	0.693	0.766	
x11	0.679	0.724	0.793	
y 1	0.508	0.634	0.504	0.512
y 2	0.703	0.816	0.764	
y 3	0.547	0.696	0.600	
y4	0.530	0.608	0.538	
y5	0.667	0.805	0.740	
y6	0.644	0.790	0.699	
y7	0.498	0.633	0.539	
y8	0.611	0.705	0.626	
z1	0.778	0.632	0.640	0.670
z2	0.806	0.660	0.672	
z3	0.817	0.685	0.633	
z4	0.829	0.637	0.628	
z5	0.859	0.766	0.748	

Based on Table 3, the cross-loading results show that the correlation values between each construct and its respective indicators are higher than the correlations with other constructs. This indicates that all constructs or latent variables demonstrate good discriminant validity in measuring their respective variables.

The validity of a construct or variable can also be assessed through the Average Variance Extracted (AVE) value for each construct. Table 3 presents the AVE values for all constructs. As shown in the table, all constructs meet the criteria for good convergent validity, as indicated by AVE values exceeding the recommended threshold of 0.50.

Based on the data analysis conducted, the SmartPLS output shows that the Cronbach's Alpha values for each construct are as follows: Job Satisfaction = 0.887, Employee Performance = 0.861, and Human Resource Management = 0.921 — all exceeding the threshold of 0.70. Furthermore, both the Composite Reliability and Cronbach's Alpha values for each construct are greater than 0.70, indicating good internal consistency. Therefore, it can be concluded that the data demonstrate a high level of reliability, with values falling within the reliable range of 0.8 to 1.0.

Table 4 R-Square Value

	R-squared	Adjusted R-squared
Job Satisfaction	0.663	0.661
Employee Performance	0.819	0.816

Based on Table 4, the R-square value for the employee performance variable is 0.819, indicating that 81.9% of the variance in employee performance can be explained by the human resource management variable, mediated by the job satisfaction variable. The remaining 18.1% is attributed to other variables not included in this study. Additionally, the R-square value for the job satisfaction variable is 0.663, meaning that 66.3% of the variance in job satisfaction is explained by the human resource management variable.

The findings of this study indicate that employee performance can be enhanced through effective human resource management, particularly by increasing job satisfaction, which serves as a mediating variable. The remaining 18.1% of the variance in employee performance and 33.7% in job satisfaction may be attributed to other factors not examined in this study, such as organizational culture, leadership style, or the work environment. These aspects could serve as avenues for future research. The results support the theory that human resource management significantly influences both job satisfaction and employee performance, aligning with Maslow's hierarchy of needs, which highlights the role of individual satisfaction in achieving optimal work outcomes. Given the high R-square values, the model demonstrates strong predictive power; however, validation across diverse organizational contexts is necessary to ensure the generalizability of these findings.

Based on the analysis presented in Table 5, Human Resource Management significantly influences Employee Performance, as indicated by a p-value of 0.000, which is less than the threshold of 0.05. Similarly, Human Resource Management has a significant effect on Job Satisfaction ($p = 0.000 < 0.05$). Furthermore, Job Satisfaction also significantly affects Employee Performance, with a p-value of 0.000. These results confirm the existence of statistically significant relationships among the variables examined in this study.

Table 5 Path Coefficients

	Original sample	Sample mean	Standard deviation	T Statistics	P Value
Job Satisfaction → Employee Performance	0.321	0.326	0.077	4.151	0.000
HRM Practices → Job Satisfaction	0.815	0.811	0.057	14.364	0.000
HRM Practices → Employee Performance	0.624	0.617	0.079	7.875	0.000
HRM Practices → Job Satisfaction → Employee Performance	0.261	0.266	0.073	3.580	0.000

The Influence of HRM Practices on Job Satisfaction

The impact of HRM practices on job satisfaction reveals that well-implemented HRM strategies substantially contribute to increased employee satisfaction within Indonesian

MSMEs. This result is consistent with prior studies by Pradhan et al. (2019) and Tafese (2024), which identified a positive relationship between key HRM elements—such as employee training, remuneration, and performance evaluation—and levels of job satisfaction.

Core HRM practices—such as employee training, career advancement opportunities, and robust welfare initiatives—are instrumental in cultivating a supportive and positive workplace atmosphere. When employees perceive that their organization is fair and supportive, their levels of motivation and commitment tend to rise, which in turn contributes to greater productivity and enhanced overall organizational performance.

Improved job satisfaction fosters a more positive organizational culture, enhances employee loyalty, and lowers turnover rates—elements that are critical for ensuring long-term business sustainability. Considering the pivotal role of MSMEs in supporting Indonesia's economic foundation, the integration of strategic HRM practices can significantly boost their competitiveness and attractiveness in an evolving market environment. As such, MSME leaders are advised to adopt structured employee development initiatives, offer regular and constructive performance evaluations, and implement inclusive welfare programs aimed at promoting employee well-being and optimizing workforce performance.

This study affirms that HRM practices exert a significant and direct influence on job satisfaction among employees in the MSME sector. These findings align with those of Memon et al. (2021), who highlighted the importance of strategic HRM—particularly in areas such as training and career development—as key contributors to employee satisfaction, especially when mediated by work engagement. However, the present study indicates that, within the MSME context, HRM practices alone can meaningfully enhance job satisfaction, suggesting that engagement may not always be a necessary mediating factor. The results also corroborate the work of Cherif (2020) and Subedi and Bajracharya (2024), who identified compensation, employee development, and performance evaluation as core elements influencing satisfaction. In contrast to much of the existing literature, which centers on large, formal organizations, this study demonstrates that these HRM dimensions are equally applicable and impactful within the more informal and flexible structures characteristic of MSMEs in developing economies.

Notably, while Jolović and Berber (2021) reported that organizational commitment mediates the relationship between HRM practices and job satisfaction in public sector institutions, the findings of this study indicate that, within MSMEs, HRM practices can have a direct impact on employee satisfaction without the necessity of strong institutional commitment. This distinction may stem from the inherently relational and adaptable environment of MSMEs, where individualized treatment and perceptions of fairness often play a more influential role than formalized organizational structures.

The Influence of Job Satisfaction on Employee Performance

Job satisfaction exerts a significant and positive influence on employee performance, suggesting that increased satisfaction correlates with better work outcomes among MSME employees in Indonesia. This result aligns with the findings of Rodrigo et al. (2022), who emphasized that satisfied employees are generally more motivated, engaged, and committed—factors that contribute directly to higher productivity, improved work quality, and overall performance. These performance gains are especially critical for the long-term viability and competitiveness of MSMEs.

Improved employee performance driven by job satisfaction enables MSMEs to achieve organizational objectives, enhance operational effectiveness, and increase their competitive advantage. In the context of Indonesian MSMEs—many of which function under resource constraints—prioritizing employee satisfaction serves as a strategic approach to maximizing human capital. Accordingly, MSME leaders are advised to adopt supportive measures such as recognizing employee contributions, fostering an inclusive organizational culture, and promoting open, transparent communication between management and staff.

The present study confirms that job satisfaction significantly influences employee performance in MSMEs in West Sumatra, supporting previous research by Dubisetty and Reddy (2022), who found a similar relationship in the Indian IT sector. These findings suggest that, across industries and national contexts, satisfied employees consistently contribute more effectively to organizational success.

This conclusion is also aligned with Cherif (2020) and Subedi & Bajracharya (2024), who emphasized the role of fair compensation, recognition, and supportive HR practices in enhancing employee commitment and performance. However, while prior studies primarily focused on larger or more formal organizational settings, the current research shows that this satisfaction–performance relationship holds strong in smaller, resource-constrained environments like MSMEs, where interpersonal relationships and non-financial motivators may have even greater influence.

From a theoretical standpoint, these findings support the Job Characteristics Model and Expectancy Theory, both of which propose that job satisfaction—when derived from meaningful, rewarding, and growth-oriented work—drives intrinsic motivation and improved performance. Interestingly, while Memon et al. (2021) noted that job satisfaction's effect on performance is often mediated by employee engagement, this study demonstrates that even without explicitly measuring engagement, satisfaction alone can produce strong performance outcomes. This may reflect the more direct, relational management approaches commonly found in MSMEs.

The Influence of HRM Practices on Employee Performance

HRM practices has a significant and positive impact on employee performance, indicating that high-quality HRM practices are closely linked to improved individual outcomes. This

finding aligns with Tafese (2024), who reported that various Human Resource Development (HRD) components—such as training, performance appraisal, and employee involvement—are positively associated with enhanced performance. Effective HRM creates a supportive and motivating work environment that enables employees to perform optimally and contribute more meaningfully to organizational objectives.

Fundamental HRM practices—including targeted recruitment, ongoing training initiatives, career advancement opportunities, and fair compensation systems—contribute significantly to enhancing employee skills, motivation, and commitment to the organization. These enhancements lead to increased productivity, improved operational efficiency, and higher standards of work quality, collectively elevating organizational performance. Thus, HRM should be viewed not simply as an administrative task but as a strategic mechanism for achieving long-term business sustainability and success.

In addition, HRM fosters innovation, strengthens employee loyalty, and cultivates a positive work culture—factors that are especially vital for long-term success. For MSMEs in Indonesia, where challenges like limited human capital and resource constraints are prevalent, the adoption of strategic HRM offers a practical and high-impact solution. MSME leaders are therefore encouraged to invest in employee training, enhance performance appraisal systems, and promote continuous career development as core elements of their HR strategies.

This study confirms that HRM significantly influences employee performance in MSMEs in West Sumatra. The findings are consistent with research by Alsafadi & Altahat (2021) and Dwikat et al. (2023), who found that practices like training, compensation, and performance evaluations are most effective when tailored to employee needs and organizational objectives. Similarly, Cahyadi et al. (2022) emphasized that strong HRM systems can amplify the positive effects of leadership on performance, underscoring HRM's role as a strategic enabler of results.

Theoretically, these results support the Resource-Based View (RBV), which highlights human resources as valuable, inimitable, rare, and non-substitutable assets capable of delivering sustainable competitive advantage when managed strategically. In resource-constrained MSMEs, this perspective makes strategic HRM even more critical for boosting employee productivity and business resilience. Importantly, this study adds nuance by emphasizing the relevance of contextual adaptation. Unlike larger firms with formalized HR departments, MSMEs often adopt informal and flexible HR practices. Nevertheless, the findings show that even within these less formal structures, structured and equitable HRM systems can meaningfully enhance employee performance.

The Influence of HRM Practices on Employee Performance Mediated by Job Satisfaction

HRM practices significantly influence employee performance, with job satisfaction serving as a crucial mediating variable. This relationship suggests that effective HRM practices—such as training and development, fair compensation, and supportive workplace policies—not only have a direct impact on performance but also enhance job

satisfaction, which in turn drives higher productivity, efficiency, and commitment. In this context, job satisfaction explains how well-implemented HRM strategies translate into improved employee outcomes.

In MSMEs across Indonesia, the mediating role of job satisfaction highlights the importance of employee-centered HRM practices. Strategies like effective recruitment, continuous development, and equitable reward systems increase job satisfaction, which then leads to consistent and elevated employee performance. Without this mediating effect, the influence of HRM on performance may be less substantial. Therefore, enhancing job satisfaction is a vital pathway through which HRM contributes to organizational effectiveness.

For MSMEs—often operating with limited resources—fostering job satisfaction can be achieved through fair incentive systems, a supportive work culture, and transparent career development pathways. These efforts amplify the impact of HRM and present a strategic opportunity to strengthen competitiveness. As such, MSME leaders are encouraged to adopt a structured HRM approach, including relevant training programs and open communication channels, to ensure employees feel valued and supported.

This study confirms that HRM has a positive and significant impact on employee performance in West Sumatra's MSMEs, with job satisfaction acting as a key mediator. These findings are in line with prior studies by Alsafadi & Altahat (2021) and Dwikat et al. (2023), which demonstrate that HR practices influence performance both directly and indirectly through satisfaction. Similarly, Memon et al. (2021) emphasized that strategic HRM fosters satisfaction, particularly when engagement is also present as a mediator.

From a theoretical perspective, these results align with Social Exchange Theory (Mahfouz et al., 2021), which posits that when organizations invest in their employees through fair and supportive HR practices, employees reciprocate with positive attitudes—like job satisfaction—and improved performance. Job satisfaction thus acts as a psychological mechanism that transforms organizational support into tangible behavioral outcomes. This mediating role is further supported by empirical evidence from Singla & Garga (2021) and Cherif (2020), who found that job satisfaction is significantly influenced by factors such as recognition, training, compensation, and a positive work environment—all core components of effective HRM.

Conclusion

This study successfully reveals the relationship between HRM, job satisfaction, and employee performance within MSMEs in West Sumatra. The data analysis results indicate that effective HRM practices—such as training and development, fair performance appraisal systems, and equitable compensation—positively and significantly influence employee performance. The implementation of these practices enhances employee potential and productivity, thereby contributing to the overall improvement of organizational performance in MSMEs.

In addition, the study demonstrates that job satisfaction serves as a partial mediator in the relationship between HRM and employee performance. This implies that while HRM practices have a direct impact on performance, their influence becomes more substantial when employees experience high levels of job satisfaction. Satisfied employees tend to exhibit greater motivation, engagement, and commitment to their work, which in turn enhances both individual and organizational performance.

From a theoretical perspective, this study contributes to the advancement of Social Exchange Theory by providing empirical evidence on the mechanism through which HRM influences employee performance via job satisfaction. From a practical standpoint, the findings underscore the importance for MSME practitioners to adopt employee-centered HRM strategies. Initiatives such as fostering a supportive work environment, ensuring transparent communication, implementing fair reward systems, and offering career development opportunities are concrete measures that can enhance job satisfaction. In turn, these efforts positively influence employee productivity and contribute to the long-term sustainability of MSME organizations.

This study has several limitations. First, the research sample is limited to MSMEs in the West Sumatra region, which restricts the generalizability of the findings to other geographical contexts. Second, the use of a cross-sectional research design limits the ability to capture causal relationships over time. Additionally, the study focuses solely on three core variables—HRM, job satisfaction, and employee performance—without considering other potentially influential factors such as leadership style, organizational culture, or employee engagement.

For future research, it is recommended to adopt a longitudinal design to better understand how HRM practices and job satisfaction evolve and influence performance over time. Expanding the study to other regions and across various industry sectors is also essential to test the robustness and generalizability of the findings. Furthermore, incorporating additional variables such as leadership, organizational climate, and technological innovation could offer a more comprehensive perspective on the determinants of employee performance within the MSME context.

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