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**EMPLOYEE RETENTION IN SMALL AND MEDIUM ENTERPRISES
EXPORT POTENTIAL**

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Abstract. *This study aims to determine the relationship between MSMEs and their employees, including employee retention and intention to stay in MSMEs that have export potential. Companies that have an export orientation will always try to increase human resource capacity. Meanwhile, the capacity of MSMEs human resources is very minimal. This study uses a qualitative approach. This research examines UD Arif Jaya in Gresik Regency. Data collection uses in-depth interviews with owners and employees as well as triangulation between the two for the validity of the data. The results of this study indicate that geographical proximity makes emotional connection a consideration for companies in recruiting employees to ensure trust. Compensation-based retention patterns are still the main factor with various models; reciprocity, this is also a consideration for employees to stay. In addition to retention, employees consider family factors, time flexibility, and efficiency as the basis for survival. The pattern of employee recruitment and retention makes the company sustainable, especially in its production cycle. However, problems often arise in developing human resources to maintain the quality of export products. Opportunities to develop studies are still open to identify the existence of social capital as a background for relations in MSMEs.*

Keywords: *MSMEs, Employee, Retention, Export, Human Resources.*

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Introduction

Small and medium enterprises (MSMEs) are recognized as having significantly contributed to a country's economy (Daszkiewicz & Wach, 2012). MSMEs in Indonesia has contributed to the absorption of the workforce and achieving the Gross Domestic Product (GDP) (Wibawa & Anggitaria, 2020). However, the existence of MSMEs has not contributed much to Indonesia's total exports. Data released by the Ministry of Trade shows that in 2021 MSMEs exports will only be 5% of Indonesia's total exports.

MSMEs have many obstacles and problems when it comes to exporting. Some of these obstacles include lack of financial capital, limited technology, lack of innovation in product development, limited international market access, lack of government facilitation, and low human resource capabilities (Onugu B.A.N, 2005); (Vachani, 2005); (Stefanović et al., 2009). Of course,

this problem differs from the problems faced by large-scale businesses that have been established in their management and capital.

Various studies on the internationalization process for MSMEs have been carried out and given birth to various theories. Uppsala's theory describes the learning stages experienced by MSMEs in their internationalization stage. The learning stages experienced by MSMEs include starting from the indirect export stage to establishing a company abroad (Inês et al., 2021). Another theory is Transaction Cost Economics which is the basis for the economic cost component in bargaining when a company enters a foreign market. The determination of the low-cost component will impact the product's competitiveness when it enters the international market. In their research, it was identified by Chu et al. (2018) found that there are differences in determining the components of transaction costs between large and small companies. Networking theory is the basis of research conducted by Aureli & Del Baldo (2013) who concluded that collaboration could be a capital for the internationalization of MSMEs. However, this study also found that the networking program initiated by the government failed in its implementation. The research of Morais & Franco (2018) found that most of the internationalization processes in Portugal were initiated by MSMEs themselves and not by the existence of networks.

Resource Based View (RBV) is a theory that states that the competitive advantage achieved by a company comes from the existence of superior resources. In this theory, the company must determine its competitive position based on its internal resources (Hooley et al., 2010), including specific ones, and become its comparative advantage (Makadok, 2001). In the end, the comparative advantage will be the capital of the company's competitive advantage (Hunt & Morgan, 2018). One of the potential resources that can become a comparative and competitive advantage in an organization is human resources.

However, awareness of the importance of human resources in organizations has not yet become mainstream in managing small and medium enterprises. Although the dynamics of business competition in MSMEs are very tight and competitive, it is not uncommon for MSMEs to be in an open competitive market (Cahyadin et al., 2017). Research conducted by Abraham et al. (2015) in Malaysia shows that the HRM function is secondary, routine, and unimportant. While (Sels et al., 2006) stated that the key to the success of MSMEs is the knowledge, skills, and abilities of human resources. This is one of the main capital for MSMEs when they enter the export market.

Employees are essential in building a company's competitive advantage (Walker & MacDonald, 2001). In line with this, Mathis & Jackson (2010) states that company leaders should link their HR management policies with company strategy. This linkage will encourage improved performance and organizational culture that encourages innovation in achieving business goals. The importance of the strategic role of humans in the organization encourages a new paradigm in HR management in organizations. As a new concept, human capital illustrates that humans are valuable capital in organizations. The paradigm of human capital guides managers in setting the focus of human development in improving the quality of the organization (Sukoco & Prameswari, 2017).

Micro, Small, and Medium Enterprises have limited resources to get potential employees and develop and retain them for the long term. The binding employee is a complex problem for MSMEs (Park et al., 2019). Employee turnover in MSMEs is very high because their ability to bind and retain employees is low, especially related to compensation (Sarah bt Omar et al., 2009). The ability of MSMEs to pay low compensation has an impact on the ability of MSMEs to attract potential employees. Job seekers will tend to choose companies that can provide proper compensation. At the same time, there is empirical evidence that there is a solid relationship between the recruitment process and business performance in the context of MSMEs (Gamage, 2014).

The framework for achieving organizational goals encourages the development of human resource management practices. Good human resource management practices will encourage job satisfaction, where employees will work harder to satisfy customers (Stewart & Brown, 2019). The framework for achieving organizational goals encourages the development of human resource management practices. Good human resource management practices will encourage employee job

satisfaction, where employees will work harder to deliver. Referring to this concept, it can be interpreted that the ultimate goal of human resource management or management is employee satisfaction and performance. Human Resource Management practices are also crucial in developing a sustainable competitive advantage. Customer satisfaction (Shahnawaz & Juyal, 2006). Thus, efforts to maintain and build employee commitment are essential for every company.

Retaining employees is an important for every organization (Marfo Agyeman & Ponniah, 2014). Terera & Ngirande (2014) states that retaining employees will have an impact on organizational effectiveness. The low level of retention carried out by the organization will reduce the level of job satisfaction (Fukofuka et al., 2014), and is closely related to organizational commitment (Anis et al., 2011); (Anitha, 2016); (Hennig-Thurau, 2004) and intention to leave the organization (Modau & Lugisani, 2018). Mathis & Jackson (2010) identify factors that build employee retention, including career opportunities, reward systems, task and job design, and employee relations.

Serda et al. (2010) identify some of the weaknesses of working in the micro, small, and medium business sector, among others, are 1). The ability to compensate MSMEs is minimal, with limited variations and allowances. 2). MSME employees have limited opportunities to participate in various training programs compared to employees at large companies. 3). Career opportunities are also limited because most MSMEs have a flat organizational structure. Meanwhile, working in MSMEs, on the one hand, also provides advantages compared to working in large companies. Wilkinson (1999) states that the work environment in small businesses is more egalitarian, where the relationship between the owner and employees and fellow employees is equal. This causes the communication patterns within MSMEs to become more open and informal. Labor relations or interactions in MSMEs are more flexible. This flexibility can be related to how to carry out work and the flexibility of working time (Gialuisi & Coetzer, 2014).

The descriptions of the various perspectives and empirical facts above show that the HRM function has not been fully implemented. They are mainly related to employee retention programs. Limited resources owned by SMEs make this sector not have a strong bargaining position in managing its human resources. Their business continuity is not guaranteed, and their financial capacity is limited, making MSMEs not the right choice for job seekers to stay in MSMEs for a long time. However, empirical facts in 2018 show that Indonesia's MSME sector can absorb more than 90% of the total workforce. On a macro basis, these facts indicate that the availability of employment in this sector is greater than that of the large business sector.

Some of the previous studies described above identify the description of employee retention in MSMEs and how the retention programs carried out by MSMEs are perceived by employees. Several terms will be related to retention, such as commitment, turnover, intention to leave, and intention to stay. Many researchers identify that the ability of MSMEs to retain their employees is meager. This study wants to take an in-depth look at the relationship between companies and employees, how companies retain and vice versa, and why employees decide to stay long at MSMEs and contribute to MSME performance, especially to be able to enter the export market.

Intention to stay is defined as an employee's intention to maintain the current employment relationship, working with the same employer long-term (Johari et al., 2012). Several studies have shown that employees' intention to stay in the company is mainly caused by extrinsic factors, such as compensation, benefits, career opportunities, and supervisor support (Johari et al., 2012), (Chew & Chan, 2008), (Sanjeevkumar, 2012). While several other studies have linked the intention to stay with job satisfaction (Benevene et al., 2018), (Karlsson et al., 2019), (Bloxsome et al., 2019). Other studies identify retention intentions with employee internal factors such as work life balance and commitment (Uraon, 2017); (Redditt et al., 2017); (Lindfelt et al., 2018), (Thakur & Bhatnagar, 2017). However, it is still interesting to explore the intention of surviving MSMEs employees to work for a long time. Thus, this study was conducted in order to determine the intention of employees to continue working in MSMEs.

This study uses the background of the songkok industrial center in Gresik Regency. This industry is mainly carried out by businesses with the scale of MSMEs and is more of a home

industry. Songkok, often called skullcap in Gresik, is a head covering and developed into a national identity. In the XVIII century, under Sunan Giri, skullcaps became a means of exchange for spices with traders from Ternate. Songkok or skullcaps have been used as a complement to Indonesian national clothing since the Sukarno era until today (Aris, 2017).

The Songkok industrial center in Gresik Regency is located in several sub-districts. Gresik Regency Diskoperindag data shows that in 2016 the number of Songkok artisans amounted to 82 (Usman, 2016). The problems faced so far by the songkok craft center in Gresik Regency are the actors of raw materials, labor, and marketing. So far, raw material still relies on imported raw materials, namely velvet. Meanwhile, the problem of labor is the limited workforce with expertise in making skullcaps. The older generation still dominates the workforce, which has become less productive and innovative (Zulaichah, 2017).

Literature Review

Employee maintenance or retention is one of HRM's functions, namely, the operational function. Whereas the operational maintenance function includes the maintenance of the workforce so that they feel at home working at the institution (Mathis & Jackson, 2010). Maintenance always presents employees with proper respect, so rewards for bridging the gap between institutional goals and individual expectations and aspirations need to be provided. An institutional reward system provides three things to be effective: a level of reward that is sufficient to meet basic needs, fairness with the external job market, and fairness within the institution in relation to their needs (Gamble et al., 2004).

It is known that there are many human resource problems in MSMEs. One of them is Turnover Intention which is a challenge for MSMEs that really need Human Resources. Therefore, retention is an important thing to study to treat MSMEs human resources to be more productive for the progress of export-oriented MSMEs.

Methods

This study uses a qualitative approach, which will be oriented to reveal the meaning of a natural setting as a direct data source, where the researcher is the main instrument (Rukajat, 2018). While the method chosen is a case study. Case studies have a narrow scope and examine the behavior of individuals and groups so that they cannot be generalized (Rahardjo, 2017).

As the scope is narrow, the object of this research was conducted at one of the Songkok SMEs in Gresik Regency, namely UD Arif Jaya, which is located at Bungah Village, Manyar District, Gresik Regency. UD Arif Jaya was chosen because it is one of the Songkok MSMEs that has been around for more than 20 years but still maintains the small and traditional industry pattern by using the pattern of kinship with its employees. UD Arif's business location in Manyar District is an industrial area, where job opportunities in the large industrial sector are more promising for the workforce than working in the Small-scale Industrial sector. This condition is interesting to study regarding the motivation of employees to stay in the Small Industry.

Data were collected by conducting in-depth interviews with informants who owned UD Arif Jaya. In contrast, informants from selected employees were based on their length of service at UD Arif Jaya. Meanwhile, to ensure the data's validity, triangulation of sources was carried out by interviewing the informant owner of UD Arif Jaya and, conversely, interviewing employees. The analysis was carried out according to the method proposed by Miles and Huberman, which included data reduction, data display, and conclusion.

Results

Business Profile

UD. Arif Jaya was established in 1990 with the address at Jalan Masjid Kyai Gede RT 15 RW 06, Bungah, Kec. Manyar, Gresik Regency. The owner of the business, H. Arif, stated that at the beginning he only produced materials for making skullcaps to meet the needs of other songkok

companies. In subsequent developments, UD Arif Jaya also produces its songkok with the trademark Pondok Indah and has now changed it to Tiga Terbang. H. Arif's songkok products have spread in several cities both in East Java and outside East Java, including Surabaya, Tripe, Lamongan, Tuban, Nganjuk, Kediri, Rembang, Magelang, Yogyakarta. As for outside the island, H. Arif's songkok products have arrived in Lombok and Kalimantan. The marketing system developed is by direct distribution to shops, through resellers, and also some are orders.

Business development

Initially, H Arif worked in another Songkok business; After some time, H Arif tried to set up his own business. At the beginning of its establishment, it was still a home industry, where H Arif was assisted by his brothers in running the business. For the production process, H Arif invited his neighbors who are experts at sewing Songkok. The materials and patterns were prepared by the H Arif family. Meanwhile, his neighbors carried out the tailoring process, then the related packaging and marketing matters were carried out by H Arif and his brother.

The business developed by UD Arif Jaya is still a small industry. According to the owner of UD Arif Jaya, there are 17 employees involved in the business who come from the environment around the place of business, some even have family relations with each other. The 2009 Indonesian Business Field Standard Classification (KBLI) states that industries with a workforce of between 5-19 people are categorized as Small Industries. Small industry employees usually come from the surrounding environment and still have a kinship relationship with each other (Kadafi, 2013).

H Arif explained that the production process for songkok includes four stages, namely cutting patterns and materials, sewing, embroidery, and packaging. Cutting patterns and materials is carried out by the owner, including sorting materials to ensure they are in good condition, thereby reducing the risk of materials being wasted or damaged during the sewing process. The sewing process was carried out by 17 people referred to as employees by H Arif. The process of embroidering and packing labor requirements will adjust to the number of finished sewing products. Usually it involves several members of the tailor's family, said H Arif. This means that most of the sewing and packing division staff involve members of the sewing family and do it in their respective homes. After the packaging is complete, it is returned to H Arif as the business owner.

Discussion

Relationship between employees and business owners

As the characteristics of small industries explain, employees usually come from the closest environment to the place of business, such as neighbors and close relatives. This can be seen in the findings of this study at UD. Arif Jaya, in the employee recruitment process, the first thing a business owner does is to use the proximity model. Potential employees are found in the company's immediate environment that has been identified and recognized by employers. In the early stages of establishment, entrepreneurs will look for resources closest to themselves, including labor. This could be due to the consideration of business risks that were still very large at the beginning, so entrepreneurs needed people who could be trusted.

The next recruitment pattern uses a chain network by first utilizing recommendations from employees who have joined the company. The recruitment model based on internal employee recommendations (employee referral) has several advantages based on the results of several studies. A study by Brown et al. (2016) concluded that the employee referral recruitment process could be done quickly; prospective employees already have sufficient information about the company and are likely to be hired for an extended period. Other research conducted by (Friebel et al., 2019) mentioned that the employee referral model would contribute to cost efficiency and avoid conflicts in the workplace.

The payroll system carried out by UD Arif Jaya is a wholesale system for all workers involved in the production process, which includes tailors, embroiders, and packaging. The wage unit used as the basis is the Kodi, of which one is 20 pieces of songkok. Information from H. Arif the wages paid to the tailors are per 5 Kodi skullcaps that are sewn; the wages earned by the tailors

are Rp. 200,000,-. As for the embroiderer, Rp. 50.000,- and the packaging part Rp. 25.000,-. Based on this information, it appears that workers are paid based on their performance. With such a wage model, the workforce's income will significantly depend on its performance.

The relationship between the workforce and H. Arif as the owner of UD. Arif Jaya is not based on a formal work agreement. In the earliest stage, namely recruitment, there is no recruitment process, such as selection or interviews. UD Arif Jaya only wants to know the motives of prospective employees to work, whether employees have an orientation to fill time because they do not have jobs, to increase income, or motives just to add experience are also welcome to work at UD. Arif Jaya, this kind of recruitment pattern approach is based on the arguments from UD. Arif Jaya related to the craft industry does not need to complicate and lengthen the recruitment process because there are rarely people who want to apply.

From the beginning of the recruitment process, the owner did not emphasize binding employees to stay with the company forever at UD. Arif Jaya, In this research also found that business owners do not have a problem with their employees if they want to set up their businesses, even though they have learned a lot from the company. UD. Arif Jaya only considers the employee's intention to work. The availability of labor in this sector leaves owners with no choice in the employee recruitment process, including retaining them for an extended period. This is in line with other studies which discuss the availability of labor and the process of recruitment to employee retention (Sarah bt Omar et al., 2009); (Gamage, 2014) and (Park et al., 2019). The challenge faced by UD Arif Jaya is retaining existing employees, considering that employees are an essential resource for the organization.

On the one hand, UD Arif Jaya is interested in retaining employees because work in the skullcap industry requires special skills, while the employee turnover rate is also high. Some leave with the excuse of getting another job or changing their domicile. Employees leave for other jobs here because there are better jobs (wages, career certainty) than working in a skullcap company. So it can be concluded that if employees last a long time in the company, it is undoubtedly caused by factors outside of compensation or other job development opportunities.

Between Company Retention and Employee Retention

UD Arif Jaya has limitations in the ability to bind or retain employees. The challenge faced is the attractiveness of similar companies that provide higher wages and the orientation of increasing employees' income by working in other industrial sectors.

In order to face the challenges of employees who have the potential to move to other companies, UD Arif Jaya also provides proper employee rights, including providing additional facilities to employees related to urgent needs. UD Arif Jaya has made efforts to retain employees through compensation. Thus, with its style and pattern, compensation is also a critical variable in the strategy to retain employees in MSMEs. This is in line with data obtained from interviews with UD Arif Jaya employees who have worked for 20 years.

Employees stay in the company not solely because of the company's retention program. Employees also have several reasons why they choose to stay and stay at the company. For example, UD Arif Jaya provides employees with compensation, facilities, and loans. This study found that employees were given clothes, skullcaps, and daily necessities for money. This also determines the loyalty of employees to keep working at the company.

Then after further investigation, it turns out that other factors make employees choose and stay at the company. The family factor is the first consideration, especially for women who prefer to work at home or close to home so that they can still take care of some of their domestic affairs, such as taking care of their children. The second consideration is the flexibility of time or working hours. In businesses whose performance targets and compensation systems are based on quantity, employees will have the flexibility of time in carrying out their work. The third consideration is that they will choose a place of work that happens to be near their home to avoid the consequences of transportation costs to their place of work. This finding is in line with previous research linking retention intentions with job satisfaction (Benevene et al., 2018); (Karlsson et al., 2019); (Bloxsome

et al., 2019). Other studies identify retention intentions with employee internal factors such as work-life balance and commitment (Uraon, 2017); (Redditt et al., 2017); (Lindfelt et al., 2018); (Thakur & Bhatnagar, 2017)

Conclusion

The geographical proximity between the location of the owner of the company and where the employees live makes the relationship between them even closer and more emotional. This is one of the considerations for small business owners to recruit people in their immediate environment. This closeness has relational power beyond the formal contractual ties in the employment relationship. This relationship pattern will also cover the company's limited ability to carry out retention.

The retention pattern using compensation variables is still very important, including for MSMEs. Enrichment of patterns and variations of compensation will strengthen the retention capabilities of each MSMEs. The effectiveness of the retention pattern implemented by the company must also be reciprocally supported by the employee's intention to remain in the company. Employee satisfaction variable on retention patterns, especially compensation, is still the main consideration for employees to survive. In addition, time flexibility, family factor considerations, and other efficiency factors were also found because geographical considerations are still the motive of employees. This research still leaves an open space to explore the pattern of the relationship between retention and the intention to stay working at the company, especially in the MSMEs setting which is sociologically and anthropologically different from large businesses, including the potential for social capital to become a foothold in this relationship.

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