

# HR Strategy in Improving the Organizational Performance of Small Company

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*Abstract*–Human resource management (HRM) practices in small businesses are often perceived as informal and less in line with normative HRM standards developed in the context of large organizations. This study aims to analyze how HRM practices are implemented in small businesses and to understand their role in addressing resource limitations and uncertain business environments. This study uses a qualitative approach with a case study design, collecting data through in-depth interviews and observations of business owners and employees. Data analysis was conducted thematically to identify patterns of HRM practices, including recruitment and selection, training and development, compensation, performance appraisal, and employment relations. The results of this study indicate that all HRM practices are carried out informally, flexibly, and highly dependent on business owner policies and daily operational needs. This finding strengthens the contingency and institutional perspectives in HRM by emphasizing the importance of organizational context in assessing the effectiveness of HRM practices. This study contributes to the HRM literature by redefining informality not as a deviation from ideal practices, but as a functional strategy relevant to small businesses, and provides practical implications for the development of more contextual and sustainable HRM.

*Keywords:* Human resource management; small enterprises; qualitative studies; organizational strategy

## I. INTRODUCTION

The phenomenon of human resource management in small and medium-sized organizations still shows a gap between empirical practice and the ideal concept of human resource management proposed in the international literature. Various studies have shown that the systematic implementation of HRM practices contributes significantly to improved organizational performance, business sustainability, and employee job satisfaction [1], [2]. However, in practice, many organizations have not yet fully implemented HRM principles in a structured manner, particularly in the areas of recruitment, training, compensation, performance appraisal, and employment relations.

The gap between the normative concept of HRM and its implementation at the organizational level is the research gap in this study. Previous research has focused more on quantitative causal relationships between variables, while a deeper understanding of how HRM practices are implemented, perceived, and verified by internal organizational actors remains relatively limited. Therefore, a qualitative approach is needed to explore empirical realities contextually. Small businesses play a strategic role in economic development through their contribution to job creation, operational flexibility, and resilience to market dynamics [3], [4]. In many developing and developed countries, small businesses are the

backbone of the economy due to their ability to absorb labor and adapt to changes in the business environment. However, various studies in reputable journals indicate that the sustainability and competitiveness of small businesses often face significant internal constraints, particularly in human resource (HR) management.

Human resource management (HRM) practices in small companies are generally informal, poorly documented, and heavily dependent on the policies of the owner or manager. This contrasts with larger companies, which have formal HRM systems, written procedures, and structurally separate HR functions. This reliance on individual decision-making makes HRM practices in small companies situational and reactive, potentially leading to inconsistencies in employee management.

From a strategic HRM perspective, human resources are viewed as a key asset that directly contributes to organizational effectiveness and performance. International journal literature indicates that appropriate recruitment and selection practices, continuous training and development, and a clear performance appraisal system have a positive relationship with employee productivity, commitment, and retention [5], [6]. However, small companies often face limitations in financial resources, time, and managerial capabilities, making



it difficult to adopt formal HRM practices comprehensively.

Due to these limitations, small companies tend to rely on short-term flexibility and adaptation rather than long-term HR development planning [7], [8]. This approach allows companies to survive in dynamic operational conditions, but also poses challenges in building a consistent and sustainable HRM system. Therefore, it is important to understand how informal HRM practices are implemented and how they function to support organizational stability.

Although HRM studies have grown rapidly, most empirical research still focuses on large companies and uses quantitative approaches. Qualitative research examining HRM practices in small companies, particularly those that highlight decision-making processes and day-to-day organizational dynamics, remains relatively limited [9]. This limitation leads to a lack of contextual understanding of how HRM is actually implemented in practice. Therefore, this study aims to analyze HRM practices in small companies through a qualitative case study approach to provide a deeper understanding of the role of informal HRM practices in supporting operational stability and achieving targets. This study goes beyond identifying the presence of informal HRM practices by explaining how such practices function as adaptive mechanisms that reconcile resource constraints with performance demands in small firms.

## II. LITERATURE REVIEW

HRM is understood as an integrated system of policies and practices designed to manage employment relationships and direct employee contributions toward organizational goals [10], [11]. The strategic HRM perspective emphasizes the importance of vertical alignment between organizational strategy and HRM practices, as well as horizontal alignment between HRM practices. Its' key functions such as recruitment, training, performance management, and compensation [12], [13], [14]. Research from reputable journals indicates that organizations that build coherent HRM systems tend to have higher levels of employee performance and commitment than those that implement HRM practices partially or ad hoc [15], [16], [17].

The contingency approach to HRM explains that the design and implementation of HRM practices are strongly influenced by the organizational context, such as company size, organizational structure, and

resource availability [18], [19]. Small companies are characterized by simpler organizational structures, more personal work relationships, and limited administrative resources. These conditions encourage the emergence of informal and flexible HRM practices. International literature indicates that informalization of HRM practices offers the advantages of speedy decision-making and close working relationships, but also limits consistency, transparency, and the ability to evaluate long-term [20], [21], [22].

In the context of recruitment and selection, HRM theory emphasizes the importance of person-job fit and alignment with organizational values. Research on small companies shows that recruitment processes often involve social networks, personal recommendations, and the subjective judgment of employers [23]. While this approach is considered efficient and cost-effective, reputable journal literature warns of the risk of competency mismatch and limited objectivity in the selection process [24].

Human capital theory views training and development as a strategic investment that enhances employee skills, knowledge, and productivity [25]. In small companies, training and development are generally conducted informally through on-the-job learning and direct supervision. The literature indicates that experiential learning is effective in supporting short-term performance, but inadequate for building long-term competencies without systematic planning and evaluation.

Performance management is a crucial component of HRM, aiming to ensure alignment between individual contributions and organizational goals [26], [27]. Performance management theory emphasizes the importance of clear goals, ongoing feedback, and fair performance evaluation [26], [27]. In small companies, performance appraisals are often conducted informally through direct observation and verbal communication. While this practice offers flexibility, it can potentially lead to perceptions of subjectivity if performance standards are not explicitly communicated. Furthermore, institutional theory asserts that compliance with labor regulations is a crucial component of HRM, contributing to organizational legitimacy and the sustainability of employment relationships.



In addition, modern HRM highlights the importance of talent management as a strategic approach to optimizing employee potential and organizational performance [28]. Furthermore, the lack of structured HRM systems may also affect employee well-being, particularly in terms of work pressure and limited recovery opportunities [29]. In long term, such conditions may contribute to burnout and decreased psychological well-being among employees [30].

### III. RESEARCH METHODS

This study uses a qualitative approach with a descriptive design to understand human resource management practices in depth. The research indicators are derived directly from HRM theory discussed in the literature review, ensuring that the data collection and analysis process is theory-driven.

The research informants consisted of key informants and principal informants, selected purposively based on their relevant roles and direct involvement in HRM.

This research uses a qualitative approach with a case study design to gain an in-depth understanding of human resource management practices in small companies. This approach was chosen because it allows researchers to explore the processes, meanings, and dynamics of HRM practices in the everyday organizational context.

Table 1. Research Informant Profile

| Informant Code | Informant Type | Position       | Role in Research                          |
|----------------|----------------|----------------|---|
| IK             | Key Informant  | Business Owner | Determinant of HR policies and strategies |
| IU1            | Main informant | Employee       | Operational executive                     |
| IU2            | Main informant | Employee       | Operational executive                     |
| IU3            | Main informant | Employee       | Operational executive                     |

Source: Processing by researchers

Informants in this study (see table 1) were selected purposively, considering their roles, experience, and direct involvement in the company's human resource management practices [31]. Informants were divided into two groups: key informants and principal informants to gain a comprehensive understanding of decision-making and policy implementation [31].

The key informant consisted of one business owner. IK were selected because they have authority in policy formulation, strategic decision-making, and direct oversight of HRM practices in the company.

The main informants were all existing employees, consisting of three employees with at least one year of service, each holding a different operational position within the company. These employees were selected because they were directly involved in the implementation of HRM policies and had empirical experience related to recruitment, training, compensation, and performance appraisal processes.

Therefore, the total number of informants in this study was four individuals, consisting of one key informant and three main informants. This composition allowed the researcher to obtain a balance of managerial and employee perspectives, thereby increasing the depth of analysis and the validity of the research findings [31].

### IV. RESULT AND DISCUSSION

#### Results

This section presents the research findings and discussion in an integrated manner to ensure a coherent narrative flow between empirical evidence and theoretical interpretation. The presentation begins with empirical findings derived from interviews with informants, followed by analytical interpretation using the HRM framework.

#### 1. Recruitment and selection

The findings indicate that recruitment and selection practices in the company are predominantly informal and based on trust. Informants explained that the recruitment process generally does not involve formal written selection procedures, but instead relies on recommendations from personal networks. One informant stated, *"I think it's important to select various types of employees who will work in a new place. Having lots of tests helps new workers understand the work environment, but here, it's usually from people they already know"* (IU1). This was reinforced by another informant, who noted that *"there are no specific tests; the important thing is a willingness to work and being able to adapt to the job"* (IU2).

This perspective was confirmed by a key informant, who explained that limitations in business scale and operational needs were the main reasons for not implementing formal recruitment procedures. A



key informant stated, "*There is a simple interview process, but it's not like in large companies, because we adapt to business conditions*" (IK).

These findings indicate that recruitment practices prioritize trust and person-organization fit rather than formal competency-based mechanisms. While HRM theory emphasizes systematic and objective recruitment processes to ensure alignment between individuals and job requirements, the practices observed in this study reflect adaptive strategies commonly found in small firms facing resource constraints [10], [23].

## 2. Training and development

The findings show that training and development activities are conducted informally through on-the-job learning. Employees acquire skills through direct guidance from supervisors or more experienced coworkers. One informant stated, "*When there's a new job, we usually teach them on the spot, as we go along*" (IU3).

The key informant confirmed the absence of structured training programs due to time and cost limitations, stating, "*We've never held formal training because of time and cost constraints, so we learn on the job*" (IK).

From human capital perspective, training and development are considered long-term strategic investments aimed at enhancing employee competencies [11], [12]. However, the findings suggest that training is primarily oriented toward short-term operational need. The lack of structured development systems may also affect employee well-being due to continuous work demands and limited recovery opportunities [29]. Over time, such conditions may increase the risk of burnout [30].

## 3. Compensation and rewards

The findings indicate that the compensation system is primarily based on fixed monthly salaries without formal incentive mechanisms. Informants perceived the compensation as relatively fair despite the absence of bonuses or additional rewards. One informant stated, "*Salaries are paid on time, but there are no bonuses or special awards yet*" (IU1).

The key informant explained that compensation policies are adjusted to the company's financial capacity, stating, "*We adjust compensation to the company's financial condition, as long as employees can continue to work comfortably*" (IK).

Theoretically, compensation functions not only as a means of fulfilling basic needs but also as strategic tool for motivating employee performance. The findings indicate that the current system is still oriented toward basic financial stability and has not yet incorporated performance-based incentives as suggested in HRM literature [15], [16].

## 4. Performance appraisal

The findings reveal that performance evaluation is conducted informally through direct observation of employee behavior and work outcomes. Feedback is typically delivered verbally without formal documentation. One informant stated, "*If there's a mistake, we usually get a warning right away, but there's no written evaluation*" (IU2).

The key informant emphasized that performance assessments focuses on discipline and daily work outcomes, stating, "*We assess performance based on discipline and daily work results*" (IK).

From a performance management perspective, effective evaluation systems require clear indicators and structure processes. The absence of such mechanisms indicates a gap between practice and formal performance management principles, particularly in terms of objectivity and consistency [26], [27].

## 5. Employment relations

The findings indicate that employment relationships within the organization are characterized by a familial atmosphere and informal communication. Informants described relationship between employees and management as close and harmonious. One informant stated, "*The working relationship is quite close and major conflicts rarely occur*" (IU3).

The key informants confirmed that direct communication is prioritized to maintain stability, stating, "*We prioritize direct communication so that problems can be resolved quickly*" (IK).

While this relational approach supports short-term harmony and flexibility, employment relations literature highlights the importance of formal mechanisms to ensure long-term sustainability and organizational legitimacy [22], [24].

Overall, the findings demonstrate that HRM practices in small firms are predominantly informal, flexible, and highly dependent on managerial discretion. These practices should not be viewed



solely as deviations from ideal HRM standards, but rather as adaptive mechanisms shaped by organizational context and resource limitations [18], [19].

## Discussion

The finding of this study reveal that HRM practices in small firms are predominantly informal, flexible, and highly dependent on managerial discretion. This pattern support the contingency perspective, which emphasizes that HRM practices are shaped by organizational context, including firm size, resources availability, and managerial capacity [18], [19]. In this study, the absence of formalized HR system is not merely a limitation, but rather reflects an adaptive response to operational constraints.

In the context of recruitment and selection, the reliance on trust and personal network indicates a shift from competency-based mechanisms toward relational approaches. While such practices enhance efficiency and reduce administrative burden, they also limit objectivity and increase the risk of mismatch between employee competencies and job requirements, as highlighted in prior studies on small firms [23], [24]. This suggests that informal recruitment practices, although functional, may constrain long-term organizational capability development.

Similarly, training and development practices are primarily operational and experience-based, rather than strategically designed. This finding aligns with human capital theory, which positions training as a long-term investment in employee capabilities [11], [12]. However, the absence of structured development systems in this study indicates that learning processes are largely reactive and short-term oriented. Such conditions may contribute to increased work pressure and limited recovery opportunities, which can negatively affect employee well-being [29]. Over time, this may lead to burnout, particularly when job demands are not balanced with adequate support mechanisms [30].

The compensation system observed in this study is mainly focused on providing financial stability rather than serving as a strategic performance management tool. While this approach ensures fairness from the employees' perspective, it does not fully utilize compensation as a mechanism to enhance

motivation and productivity, as emphasized in strategic HRM literature [15], [16]. This indicates a gap between operational practices and performance-oriented compensation systems.

Furthermore, performance appraisal practices are conducted informally without clear indicators or structured documentation. Although this approach allows flexibility and immediate feedback, it may reduce transparency and create perceptions of subjectivity. This finding contrasts with performance management theory, which highlights the importance of systematic evaluation processes to ensure fairness and accountability [26], [27].

In terms of employment relations, the study reveals that interpersonal relationships are characterized by a familial and informal atmosphere. While such conditions support harmony and effective communication in the short term, they lack formal institutional mechanisms necessary for long-term sustainability and organizational legitimacy [22], [24]. This suggests that relational approaches alone may not be sufficient to support organizational growth and complexity.

Overall, this study demonstrates that HRM informality in small firms should not be interpreted solely as a deviation from ideal practices, but rather as a context-driven strategy that enables organizational survival under resource constraints [32]. At the same time, the findings highlight the importance of gradually integrating simple and structured HRM mechanisms to enhance consistency, transparency, and long-term effectiveness.

These findings contribute to the HRM literature by reinforcing the need for a contextualized understanding of HR practices in small firms, while also integrating perspectives on employee well-being and sustainability. In particular, this study extends prior research by linking informal HRM practices with potential implications for work pressure, recovery, and burnout, thereby providing a more comprehensive view of HRM outcomes in small business settings.

## V. CONCLUSION AND SUGGESTION

This study concludes that informal and flexible HRM practices can support operational stability and target achievement in small businesses. These practices enable organizations to respond quickly to



operational needs even when not yet supported by a structured formal system. However, the literature suggests that gradually strengthening formal HRM elements is necessary to support organizational sustainability and development.

The novelty of this study lies in the presentation of qualitative empirical evidence on how informal HRM practices are implemented adaptively in the daily operational context of small businesses, and how these practices function as a balancing mechanism between resource constraints and performance demands. Unlike previous research, which has been dominated by quantitative approaches and focused on large companies, this study provides a deeper processual and contextual understanding.

Further research is recommended to conduct comparative studies across small businesses or employ a longitudinal design to understand the dynamics of changes in HRM practices over time.

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