

CHAPTER I

INTRODUCTION

1.1 Research Background

Small and Medium Enterprises (SMEs) in Indonesia has an important roles in the movement of the economy. When the economy crisis occurred in Indonesia in 1998, SMEs proved more resilient and capable of being a buffer of the nation's economy. One of the reason why SMEs resilient in facing the crisis is due to the structure source of funds about 73 Percent of SMEs from themselves (self-funding), 4 percent (Of Private Banks), 11 percent (Bank Government) and the last is 3 percent from (supplier) (Timberg,1999).

The development of SMEs in Indonesia is very important to do by looking at its strategic socio-economics and political functions. The proportion of SMEs in Indonesia based on the result of Economic Census (CE) 2006 was about 99.8 percent of which 99.0 percent are micro and small businesses. Therefore, SMEs is absorbent a large workforce. Based on CE, 2006, the amount of power employed in SME sector recorded about 44,706,205 people. In addition, the contribution of SMEs to GDP in the same year was also quite large at 53.3 percent (CE, 2006).

Focusing on the Yogyakarta as the research topic, Yogyakarta Province precisely in Special region of Yogyakarta has a variety of types of businesses included in the category of economy creative and manufacturing. The development of SMEs in Yogyakarta is increasing frequently in this last period. The data that recorded from the head of Bank Indonesia DIY, Hartono, said that the contribution of SMEs to the economy of Yogyakarta has reached at 94.6 percent.

Meanwhile SMEs are able to absorb 79 percent from the employment. In the past five years, the economic growth in Yogyakarta has been above the average level. Over the past five years, the labor absorption has grown above five percent with exports increasing above 20 percent. This is supported by Central Bank of Indonesia (BI) that tries to control inflation. BI tries to control the inflation in Yogyakarta to be 3.11 percent which is below of the national target of 3.41 percent. At the end of this Years, the economic growth of Yogyakarta will be targeted at 5.2 -5.6 percent. This target is above the national level which settled at 5.4 percent in the State Budget and Expenditure Budget (RAPBN).

From the data above, the large number of units of economic actors and ability in employment makes SMEs are worthy of attention. The development of SMEs will strengthen the structure of domestic economy because of absorption in the labor force enlarge the level of demand and a high demand encourage investment growth.

Although it has a strategic role, developing SMEs is not that easy. SMEs have a fairly complex issue among others such as the ability of capital minimal, low level technology, weak in organization management, lack of capital resources and also the low quality of human resources. Focusing on the low level technology, human resources and lack of capital resources, there are three competencies described to encourage of SMEs to develop rapidly, called as digitalization, the practice of human resources and corporate entrepreneurship.

From the issues of the low tech issues, a way to increase the low level technology is digitalization. Digitalization is meant to encourage SMEs to use technology as a way to market products or what is called the digital economy while E-commerce is a place or platform where the producers or the company can advertise their products in order to maximize their sales, for examples like social media such as Instagram, Facebook, Kaskus, or maybe advertising in pop message. Our government will provide assistance and training in information and communication technology. E-commerce will affect to the marketing process which will lead to an increase in production capacity and income.

From the Human Resource, developing Human resources have an important role in the development of SMEs. Developing Human Resources can be the key to a company's success. Human Resources (HR) have an important role in determining the success or the development of the organization. Human Resources are not only as a production places or tool but it also as a driver and the determinant role of the

production process and all of the organization activities (Subowo and Setiawan 2015). HRM practices have an important position in order to deciding whether its emphasize more or extending their capacity in an organization. Therefore, the progress of an organization is determined by how the quality and capability of the human resources run in that organization. Thus the human resources are the most important assets in organization or company, large and small (Muhid, 2015).

However, in practice is not easy for an organization or company to make Human Resources as a useful asset. In fact there are many organizations or companies that consider Human Resources only as means of production alone. Now days there are still many companies that run their company as conventional management practices, which creating a conflict between management and employees, and give a negative impact on the organization or company. Given the important of Human Resources within the organization, the competence is one aspect that can determine the success of an organization or company (Suprianto, 2015).

With the high competence owned by Human Resources in an organization or company would also determine the quality of Human Resources and will ultimately determine the competitive of the company itself. Effective Human Resources includes activities, functions, and processes that are directed at attracting, developing and maintaining a firm's human resources (Lado and Wilson, 1994).

Beside of one of the alternative success, SMEs also play a role in encouraging the economic growth after the financial crisis (1998) when large companies have difficulty in developing their plant. In order to prevent this situation, three elements can be used as a strategy. Those are innovative, proactive and risk taking that Covin and Miles (1999) called as corporate entrepreneurship.

Covin and miles (1999) describe Corporate Entrepreneurship as the presences of innovation plus the presence of the objective of rejuvenating or purposefully redefining organizations, markets, or industries in order to create or sustain competitive superiority. Zahra (1995) describes corporate entrepreneurship as the sum of a company's innovation, venturing and renewal efforts. Many researchers supposed that corporate entrepreneurship (hear after, CE) improved organizational results (e.g. Naman and Slevin, 1993; Zahra, 1991, 1993; Zahra and Covin, 1995). In addition, Covin and Slevin (1991) advocated the facilitator for management practices.

In Yogyakarta, there are only 8 percent of SMEs that empower their employees according to the government standards(Mulyono,2018). The other make their own rules, and directly applied to their employees. Small companies always use their own rules, whereas in reality the human resources management practice is very important in employee welfare. They protect the rights and obligations of employees and prevent slavery or the forced labor. Corporate Entrepreneurship (CE) is also seems to be intangible in business situation. Many organizations do not see that the

existing of corporate entrepreneurship will help them to identify the firm's orientation, how to be more proactive, innovative and risk taking.

They only use the current situation that they appear without expecting what's coming behind. That's very dangerous to start or run the business if they do not aware enough about their competitors at all. This three elements of Corporate Entrepreneurship will help the company define their strategy, from the innovative itself its support a new ideas and introduce a new products, proactive can be seen as the process which have two stages which anticipating changes in environment and how we should act according to the changes and future needs, and the last about risk tasking known as the company's willingness to engage a risky projects. Therefore, encouraging the opportunities by developing an innovative and proactive ideas, the company are "welcomed" to take a risks as the entrepreneurs.

One of the examples of SMEs that run well now in industry is Bakpia Pathok 25. Bakpia Pathok 25 is one of the SMEs that engaged in business cake and souvenirs. Bakpia originally named Tou Luk Pia, the name that comes from China. Tou Luk Pia means pia (cake) green beans. Upon entry Indonesia, Bakpia began to be produced in the village Pathok Yogyakarta, around 1948. At that time Bakpia are produced and wrapped with baskets without label and sold it at retail shop.

In 1980, the changing of new packaging of bakpia with the brands house numbers made a trend for bakpia producers. The changing label and brand are

followed by other bakpia producers and it's emerged with trademark bakpia-bakpia different numbers. Cake souvenir (Bakpia) was growing very well until booming around 1992.

The Production of Bakpia pathok 25 was started and initiated by parents of Mr Arlen Sanjaya, that Mrs Tan Aris Nio, which started from trial and error process with only an employee and assisted by five people which is one of his children is Mr Arlen Sanjaya. This business started as the only small home industry. The Sales Center of Bakpia Pathok 25 is located in Toko Pabrik Jaya Jl. Sanggrahan (AIP II KS) Pathok 3 NG 1/504 and other stores in Toko Kembang Jaya Jl Adisucipto km 9; Toko Ongko Joyo Jl. AIP II KS Tubun 65 Yogyakarta; Toko Pasar Pathok (Kios Pasar Pathok) 14-18 Yogyakarta; Toko Bandara Jaya Jl. Adisucipto Yogyakarta and other small shop.

Look at the existing data, productivity and the number of assets (store branch) owned by Bakpia Pathok 25. It can be said that Bakpia Pathok 25 is successfully running their business in the market.

This research is conducted to test the relation among HRM practices, Corporate Entrepreneurship and Firm Performance. How the HRM practices take a role in the organization, and how Corporate Entrepreneurship help the HRM practice to maximize their performance or business. Thus, it will help the company determine

the management process in HRM and organizational culture and strategy in Corporate Entrepreneurship on the firm performance.

The objectives of this study are also to contribute on the growing research by analyzing the roles of Corporate Entrepreneurship and the Human Resources Management Practices in achieving the high performance on organization. It is important to know the role of this study because the majority of the organizational ability is determined by the compatibility of its cultural factors and the process factors. The set of antecedents that affects corporate entrepreneurship is HRM practices (i.e. staffing, rewarding, and training) and organizational values and beliefs (Antonic and Hisrich, 2001).

Considering some previous research and the important of Human Resources Management Practice and Corporate Entrepreneurship on firm performance, this research will take firm performance as dependent variable and the Human Resources Management Practices and corporate entrepreneurship as the independent variable. This research will be done under the title **“The Impact of Human Resources Management Practices and Corporate Entrepreneurship on Firm performance: A Case Of Small Business In Yogyakarta”**

1.2 Research Problem

The problem that appears in the researchers of SMEs above, about how Human Resources Management Practices and Corporate Entrepreneurship influences the Firm Performance and their correlation one to each other. this research problems are formulated as follows :

- 1) Do selected HRM practices affect firm performance?
- 2) Does the firm's corporate entrepreneurship role influences it is performance?

1.3 Research Objectives

According to the research problem formulated above about the relationship between human resources management practices, corporate entrepreneurship and firm performance, and how those three affects one to each other, we formulated the research objectives as follows :

- 1) To identify the impact of Human Resources Management Practice on the Firm Performance
- 2) To Analyze the effect of Corporate Entrepreneurship on the Firm Performance.

1.4 Research Contribution

This research conducted with the expectation to contribute in some aspects based on the problem and objectives, there are :

1. For the Business, as the information on how to analyze the benefit of using human resources management practices on the firm performance, maximize the employees effectiveness in the workplace and also understand how to change attitudes and motivate employees.
2. For the Readers, as the provider of idea about how is the role of human resources management practices, corporate entrepreneurship in an organization, how it is effective toward firm performance, how they relate one to each other to run the business and hopefully this research can be used as a reference and comparison material for related research.
3. For the Researcher, as a knowledge boarder about human resources management, corporate entrepreneurship and how the reality of the practices in an organization.

1.5 Limitation

Limitation of this study will provide new ideas for future research. The variables were selected to explain the different aspects of the theoretical relations. There are some limitations to be taken into consideration, therefore the author pointed out the limit:

1. This study focuses on the SMEs sector, especially in which perhaps different from others.
2. This study is limited because it contains small set of HRM practices. The variable that used in this study contains employment security, selective hiring, extensive training, interaction facilities, team activities, sharing information-feedback, performance review, incentives to meet objectives , written policies and communication strategies which selected by Ahmad and Schroeder (2003).
3. This study is only for a company who owned by Indonesian Citizen.
4. This study is conducted only in Yogyakarta region, therefore it may not reflect the views and practices of SMEs in other regions of Yogyakarta

1.6 Outline of the Study

The research is going to be written with the systematic order as follows :

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| Chapter 1 | Introduction |
| | Consists of background of the research, the research problems, the research objectives, the research contribution and the outline of the research. |
| Chapter 2 | Literature Review |

Consists of the basic theory, the related previous research and study, definition and explanation of terms, the research framework and the hypothesis development.

Chapter 3 Research Design

Consists of the method explanation, the research sampling, the data sources, the variable, the data collection and the analysis method.

Chapter 4 Data Analysis & Discussion

Consists of the explanation of data analysis and the discussion of the research result.

Chapter 5 Conclusion and Suggestion

Consists of the conclusion, the limitation and the suggestion.