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University of Barisal, Bangladesh
Nasser Al Harrasi,
Higher College of Technology, Oman

*CORRESPONDENCE

Rahman Hasibuan
✉ rahmanhasibuan65@gmail.com

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Human resource management and its impact on employee performance in MSMEs—SLR

Rahman Hasibuan^{1*}, Arnesih¹, Dini Anggraini¹, Mira Yona¹,
Magneta Hisyam¹ and Ulfi Sartika Lubis²

¹Universitas Riau Kepulauan, Batam, Indonesia, ²Universitas Negeri Malang, Malang, Indonesia

Small and Medium Enterprises (UMKM) play a pivotal role in Indonesia's economy, contributing significantly to the Gross Domestic Product (GDP) and providing employment opportunities. However, the productivity and sustainability of UMKM are highly influenced by the quality of Human Resources (HR) management. This research systematically reviews existing literature on Human Resource Management (HRM) practices and their impact on employee performance within UMKM, focusing on the period between 2020 and 2025. The study aims to explore how HRM practices, such as recruitment, training, employee recognition, and the adoption of innovative management strategies affect employee performance and, consequently, the overall performance of UMKM. The research questions address the effects of sustainable HRM practices, the responsiveness of HRM to industrial changes, and the role of innovation-oriented HRM in enhancing employee performance. Using a systematic literature review (SLR) methodology, the study aggregates findings from various articles indexed in Scopus, MDPI, and other reputable databases. The findings indicate that effective HRM practices, including structured recruitment, continuous training, employee engagement, and the integration of technology, significantly enhance employee motivation, satisfaction, and productivity. Moreover, sustainable HRM approaches that focus on employee welfare and long-term development are found to reduce turnover rates and improve organizational commitment. The study concludes that UMKM can increase their competitiveness and ensure long-term sustainability by adopting HRM practices that are adaptive to technological advancements and industry changes, particularly in the context of the fourth industrial revolution.

KEYWORDS

develop, employee performance, human resources, management, MSMEs

1 Introduction

Micro, Small and Medium Enterprises (MSMEs) are the backbone of the economy due to their dominant numbers, significant contribution to GDP, and very high employment rate, making the quality of human resources within them a direct determinant of business performance and sustainability. Competent human resources make MSMEs more productive, innovative, and adaptive to change, enabling them to compete and survive in the long term (Vuong and Nguyen, 2022; Shet, 2025; Nechita et al., 2025; Tripathi et al., 2025).

MSMEs contribute more than 60% of Indonesia's Gross Domestic Product (GDP) and represent around 99% of business units, making them the main driver of national economic growth. This sector also absorbs around 97% of the workforce and accounts for more than half of total investment, indicating that the economic sustainability of many households and regions is highly dependent on the strength of MSMEs (Munandar et al., 2025; Achmad and Wiratmadja, 2025; Alexandro, 2025).

Various studies show that the quality of human resources has a positive and significant influence on the growth, productivity, and competitiveness of MSMEs in various regions in Indonesia. Human resources with adequate business knowledge, technical skills, and managerial abilities are able to manage finances, production, marketing, and services more effectively, so that businesses can grow, not just survive (Ángeles López-Cabarcos et al., 2022; Engidaw et al., 2025; Hafeez et al., 2025).

Competent human resources play a role in product innovation, service quality improvement, the utilization of digital technologies (including the internet), and operational efficiency, all of which enhance the competitiveness of MSMEs in an increasingly competitive market. Human resources with an adaptive attitude, discipline, and high commitment also help MSMEs respond to changes in the business environment, crises, and new opportunities, thereby ensuring business sustainability (Jabbour Al Maalouf et al., 2025; Larios-Francia and Ferasso, 2023).

Empirical research shows that improving human resource quality significantly contributes to SME performance, as seen in productivity, increased sales, and business growth. Through good human resource management proper recruitment, continuous training, soft skills development, and the creation of a collaborative work culture at MSMEs can build more professional and sustainable organizations (Lo et al., 2024; Lukito et al., 2025; Menzies et al., 2025).

MSMEs face various challenges in managing their human resources, including budget constraints, limited training and development, and the absence of a structured performance management system. These challenges often result in suboptimal productivity, service quality, and competitiveness for MSMEs (Meurs et al., 2025; Ndiaye et al., 2018; Phan Thi Hang, 2024).

Due to resource constraints, many MSMEs have limited capital, making it difficult to offer competitive salaries, facilities, and adequate HR programs. Business owners' limited time and energy also mean that HR functions are performed informally, without precise workforce planning, organisational structures, or work regulations (Probohudono et al., 2025; Ridwan Maksum et al., 2020).

In employee recruitment and retention, MSMEs often struggle to attract and retain qualified talent because they cannot compete with larger companies on salaries, career paths, and benefits. As a result, turnover rates are relatively high, and key positions are often filled by people who are not fully competent, disrupting operational stability (Siraj and Hågen, 2023; Surya et al., 2021).

Beyond internal training, MSMEs also have limited access to formal training, particularly in modern technology and management, due to costs, distance, and limited information. Existing training is often not sustainable, not tailored to specific business needs, and rarely includes mentoring or coaching, thereby impacting human resource competency less than optimally (Yahaya and Nadarajah, 2023; Zare et al., 2025; Garengo et al., 2022).

This lack of training results in many MSMEs lacking performance evaluation systems, performance indicators (KPIs), or precise feedback mechanisms for employees. Unstructured task allocation, unwritten work rules, and weak work discipline make it difficult to measure performance and link it to rewards or development (Medina et al., 2023; Nayem and Uddin, 2024).

Among the most significant challenges are managerial competency, financial literacy, and digital literacy among MSME owners and employees, which hinder technology adoption and business innovation. Resistance to change and the adoption of new

technologies also often emerge, slowing digital transformation and performance improvement through modern HR systems (Ammirato et al., 2023; Hulu and Fahmi, 2025; Ammirato et al., 2023).

High employee performance is crucial because it directly determines the achievement of MSME goals (sales, profits, customer satisfaction) and serves as a key source of competitiveness that competitors are hard-pressed to imitate. The better the individual and team performance, the greater the MSME's ability to survive, grow, and win market competition. Several relationships exist between employee performance and the achievement of MSME goals and competitiveness, including the relationship between employee performance and MSME goals, employee performance as a driver of competitiveness, the role of competence and motivation, work relationships, productivity, and the sustainability of MSMEs themselves (Christina et al., 2025; Deepa et al., 2024).

Employee performance is a tangible, measurable result of work that directly contributes to MSME productivity, quality, and service targets. Research on various MSMEs shows that improved human resource performance correlates with increased sales, cost efficiency, and more consistent achievement of organisational goals. Therefore, MSME competitiveness is primarily determined by employees' ability to produce high-quality products, provide satisfactory service, and foster continuous innovation. A high-performing workforce makes processes more efficient, responds more quickly to market needs, and creates added value that differentiates MSMEs from competitors (Deepa et al., 2024; Aslam et al., 2023; Omid and Dal Zotto, 2022).

Various studies show that competence (knowledge, skills, and attitudes) and high work motivation improve employee performance, thereby strengthening MSME competitiveness. Training, development, good leadership, and a fair reward system have been shown to help employees work more effectively in supporting the business vision and strategy. Optimal employee performance drives productivity, reduces errors and waste, and increases customer satisfaction. This not only helps achieve short-term goals but also strengthens the reputation and long-term sustainability of MSMEs amidst intense competition (Akdeniz, 2023; Hendri, 2025).

The general objective of this study is to systematically examine how HR management practices in MSMEs relate to employee performance, based on previous research. This study aims to provide a comprehensive overview of HR management as an internal factor influencing employee performance in MSMEs. The systematic objective is to answer the research questions raised in this study. The research question is: 1. How do human resource management (HRM) practices influence employee performance in MSMEs? 2. How does the implementation of sustainable HRM affect employee performance in the context of MSMEs? 3. How does responsive HRM management to industrial changes (including the fourth industrial revolution) influence employee productivity in MSMEs? 4. What is the impact of the implementation of innovation-focused HRM on employee performance in MSMEs?

The SLR research "Human Resource Management and Its Impact on Employee Performance in MSMEs" has strong theoretical and practical significance, as it specifically examines the relationship between HR practices and performance in MSMEs, which remain relatively under-researched compared to large companies. The results serve as a reference for developing conceptual models and practical guidelines for HR management that are more suited to the characteristics of MSMEs in Indonesia and other developing countries.

2 Method

This research uses a systematic literature review and PRISMA meta-analysis method to examine digital marketing strategies for expanding the market for creative products from MSMEs in Indonesia. The PRISMA method is a comprehensive, structured paper-review method for identifying the scientific position of the research being conducted. The PRISMA method is used in four stages: (1) identifying the research question (RQ), (2) identifying paper sources, (3) searching for papers that align with the RQ, and (4) analysing the search results.

2.1 Identification of research questions

A systematic literature review was conducted to answer the research question: Human Resource Management and Its Impact on Employee Performance in MSMEs. The research questions focused on are:

- 1 How do human resource (HRM) management practices influence employee performance in MSMEs?
- 2 How does the implementation of sustainable HRM impact employee performance in the context of MSMEs?
- 3 How does HRM's responsiveness to industrial changes (including the fourth industrial revolution) influence employee productivity in MSMEs?
- 4 What is the impact of implementing innovation-focused HRM on employee performance in MSMEs?

2.2 Collecting relevant articles

Research on human resource management and its impact on employee performance in MSMEs has been widely published, but this literature review focuses on the most relevant studies. This research is drawn from papers or proceedings indexed by MDPI, IEEE, Taylor and Francis, and Elsevier, all of which are registered in Scopus. This study uses the period 2019–2025 to ensure the research remains relevant to the current era.

Research papers must be written in English and must use the keywords “human resources,” “employee performance,” and “MSMEs.” Table 1 describes the selected papers, detailing the authors, references, publishers, and year of publication, providing a comprehensive overview of the papers reviewed.

2.3 Selecting papers that meet the research questions (RQ)

The research questions were based on the keywords “human resources,” “employee performance,” and “MSMEs,” with the criteria being English-language papers with full text published between 2019 and 2025. The selection of papers that met these criteria used the inclusion and exclusion methods described in Table 2.

Through specific categories and keyword searches, researchers identified 104 papers listed in Scopus (MDPI, Sage, ScienceDirect). They then applied publication-year criteria for 2020–2025, resulting

TABLE 1 Research consisting of authors, publishers, year of publication, and citation.

Source (authors, year)	Publisher	Publish year	Citation
Wuen et al. (2020)	International Journal of Asian Business and Information Management	2020	190
Egbuta (2022)	Journal of Strategic Management	2022	12
Omidi and Dal Zotto (2022)	MDPI	2022	91
Jotaba et al. (2022)	European Journal of Innovation Management	2022	9
Ammirato et al. (2023)	ScienceDirect	2023	190
Aslam et al. (2023)	MDPI	2023	46
Akdeniz (2023)	Sage	2023	17
Ammirato et al. (2023)	Journal of Innovation & Knowledge	2023	190
Deepa et al. (2024)	ScienceDirect	2024	121
Ilic et al. (2024)	E3S Web of Conferences	2024	1
Christina et al. (2025)	Springer	2025	10
Hendri (2025)	ScienceDirect	2025	9
Raja et al. (2025)	Cogent Business & Management	2025	13
Yassin and Beckmann (2025)	Springer	2025	53

in 15 articles that met those criteria and were written in English (see Figure 1).

Using the PRISMA framework, this review systematically identified and refined literature addressing Human Resource Management and Its Impact on Employee Performance in MSMEs. From the initial search results, 15 studies were retained after applying predefined keyword human resource, human resource management, Employee performance, MSMEs.

15 selected articles based on Scopus-indexed journals and proceedings from 2020 to 2025. Research on human resources and employee performance in MSMEs, based on publication year from 2020 to 2025, is as follows: 2020 (7%), 2022 (20%), 2023 (27%), 2024 (20%), and 2025 (27%). Figure 2 shows the publication year of the 15 selected journals from 2020 to 2025.

2.4 Analyzing selected articles

This research on Human Resource Management (HRM) and its Impact on Employee Performance in MSMEs is based on selected articles. HRM management is crucial to addressing the challenges of the Industrial Revolution 4.0, which brings significant changes in how

TABLE 2 Inclusion and exclusion criteria.

Inclusion	Exclusion
Papers or proceeding published in Scopus Indexed (MDPI, Wiley, Science Direct, Sage, IEEE Xplore, Chemical Science, Springer dan Elsevier) Scopus journals indexed Q1–Q4 Published between 1 January 2011 and 1 January 2025	Books, reviews, short articles, magazine articles, paper or proceeding not published in Scopus Indexed Articles not indexed in Scopus Q1–Q4 journals or journals without assigned quartile Published outside 1 January 2011 and 1 January 2025
Full text paper	Paper does not provide full paper
Paper written in English	Paper written in other than English
Paper contains keywords Human Resources, Employee Performance, SMES	Paper does not contain Human Resources, Employee Performance, SMES

organizations manage employees. In MSMEs, despite their smaller scale, the application of technology and innovation in HRM management remains relevant. The use of technology to improve employee efficiency and optimize their performance is a topic applicable to MSMEs seeking to increase market competitiveness and thus support company sustainability. AI technology impacts the social and technical competencies of HR managers. For MSMEs, while the application of AI may be limited by resource constraints, using simple HRM technologies, such as employee management software or automated systems for attendance and performance appraisals, can improve operational efficiency. Implementing HRM in MSMEs can involve more efficient training and employee development processes, as well as ways to minimize wasted time and resources. This can result in increased productivity and better performance, which are crucial for MSMEs seeking to thrive in a competitive market. Focusing on innovative human resources not only improves technical skills but also supports the development of new and creative ideas within the team. Innovations in human resource management, such as technology-based training programs or a company culture that supports creativity, will positively impact MSME performance.

3 Results and discussion

Research on human resource (HRM) management and its impact on employee performance in MSMEs (Micro, Small, and Medium Enterprises) using a Systematic Literature Review (SLR) approach provides important insights into the relationship between HRM and employee performance. The results of this study, based on the research questions, provide insights into the influence of HRM practices on employee performance in MSMEs, the implementation of sustainable HRM and its impact on employee performance, the influence of HRM responsive to industry changes on employee productivity, and the impact of HRM focused on innovation on employee performance in MSMEs. The results and discussion of this study are presented in response to several research questions (RQs).

RQ1: How do human resource management (HRM) practices influence employee performance in MSMEs?

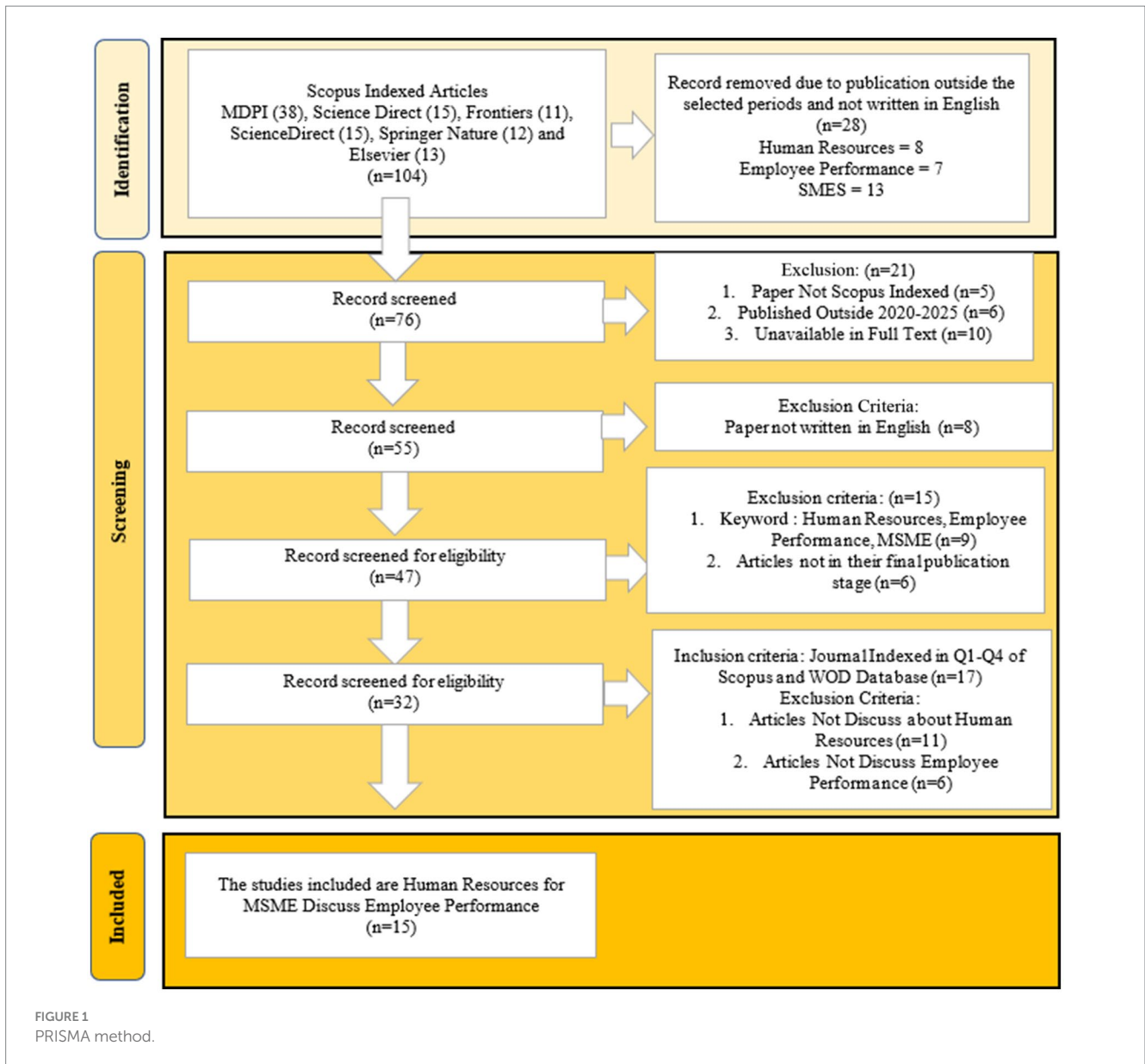
According to Egbuta (2022) and Aslam et al. (2023), HRM practices such as recruitment, training, and performance management can influence employee motivation and job satisfaction, thereby improving performance. If HRM aligns individual goals with organisational goals, employees are more engaged, which can increase productivity. Research (Ammirato et al., 2023; Yassin and Beckmann, 2025) highlights the importance of continuous employee development and recognition for their achievements in MSMEs. MSMEs rarely have the same structured systems as larger companies. However, if recognition and development opportunities are tailored to MSMEs, it will foster an environment of trust and mutual respect, increasing employee commitment and, in turn, their performance. Human resource management focuses on flexibility, skills development, and innovation management to achieve greater productivity and effectiveness at work. The impact of human resource management initiatives, such as work-life balance initiatives and ethical leadership, has the potential to increase job satisfaction, reduce stress, and improve employee performance, particularly in MSME environments with limited resources (Wuen et al., 2020; Deepa et al., 2024; Omidi and Dal Zotto, 2022).

Good human resource management practices significantly impact employee performance in MSMEs. Practices such as effective recruitment, ongoing training, recognition for achievement, and employee empowerment can increase motivation and job satisfaction, ultimately improving productivity and performance (Ammirato et al., 2023; Wuen et al., 2020; Deepa et al., 2024) (see Table 3).

RQ2: How does the implementation of sustainable human resource management affect employee performance in the MSME context?

Sustainable HR management is not just about employee administration; it also considers economic, social, and long-term sustainability. HR management not only provides a workforce but also maintains it as a strategic asset. Therefore, it requires care and treatment in the form of training, competency development, welfare, decent working conditions, supportive working conditions, and empowerment (Christina et al., 2025; Akdeniz, 2023; Omidi and Dal Zotto, 2022).

How does sustainable HR management affect employee performance? Several mechanisms by which HR management improves performance include increasing employee involvement and commitment. Sustainable HR management can increase employee engagement. When employees feel their well-being is taken care of and are treated fairly and humanely, they become motivated, loyal, and contribute to MSMEs. With good HR, employees feel cared for and appreciated, reducing the likelihood of resignation or burnout. This is especially important in MSMEs to prevent the loss of knowledge and competencies. Strategic HR management (training, development, performance management, HR planning) can strengthen the “dynamic capabilities” of MSMEs, which means MSMEs can be more agile, innovative, and competitive. A sustainable approach to HR instills social & ethical values—this not only builds internal loyalty, but also the long-term reputational value of MSMEs (Christina et al., 2025; Akdeniz, 2023; Omidi and Dal Zotto, 2022; Raja et al., 2025; Ilic et al., 2024) (see Table 4).



RQ3: How does responsive HR management to industry changes impact employee productivity in MSMEs?

Responsiveness to industry changes in MSMEs means that MSMEs are not static but actively adapt their HR practices/principles to suit changes in the external environment, such as new technologies, market demands, competition, regulatory changes, consumer dynamics, and even crises. In preparing responsive MSMEs, several aspects must be considered: adjusting recruitment and selection strategies to recruit employees with relevant competencies (including digital, adaptive, and flexible), providing training/development of technical and non-technical skills so that employees can respond to new technologies, new procedures, and market demands, implementing adaptive performance management and reward/incentive systems to support innovation, flexibility, and efficiency, creating an organizational culture that is flexible, open to change, learning-oriented, and adaptive to external factors, and integrating HR practices with business

strategy and the external environment (Ammirato et al., 2023; Deepa et al., 2024; Hendri, 2025).

How HR responsiveness affects employee productivity can be demonstrated by bridging HR responsiveness with productivity in MSMEs through skills improvement and adaptability, the organization's ability to reconfigure work according to market needs, increasing employee motivation, engagement, and commitment, adapting to the market through innovation and rapid response to change, as well as HR retention and consistent performance (Deepa et al., 2024; Hendri, 2025).

Skills improvement and adaptability are achieved through training and development relevant to technology and industry demands. Employees acquire modern skills, enabling them to work more efficiently, quickly, and accurately. Studies show that HR training and development have a significant positive relationship with employee productivity. The organization's ability to reconfigure work to meet market needs can be achieved through dynamic HR management, which enables it to adjust work structures, roles, and procedures to new demands, increasing flexibility and competitiveness while supporting

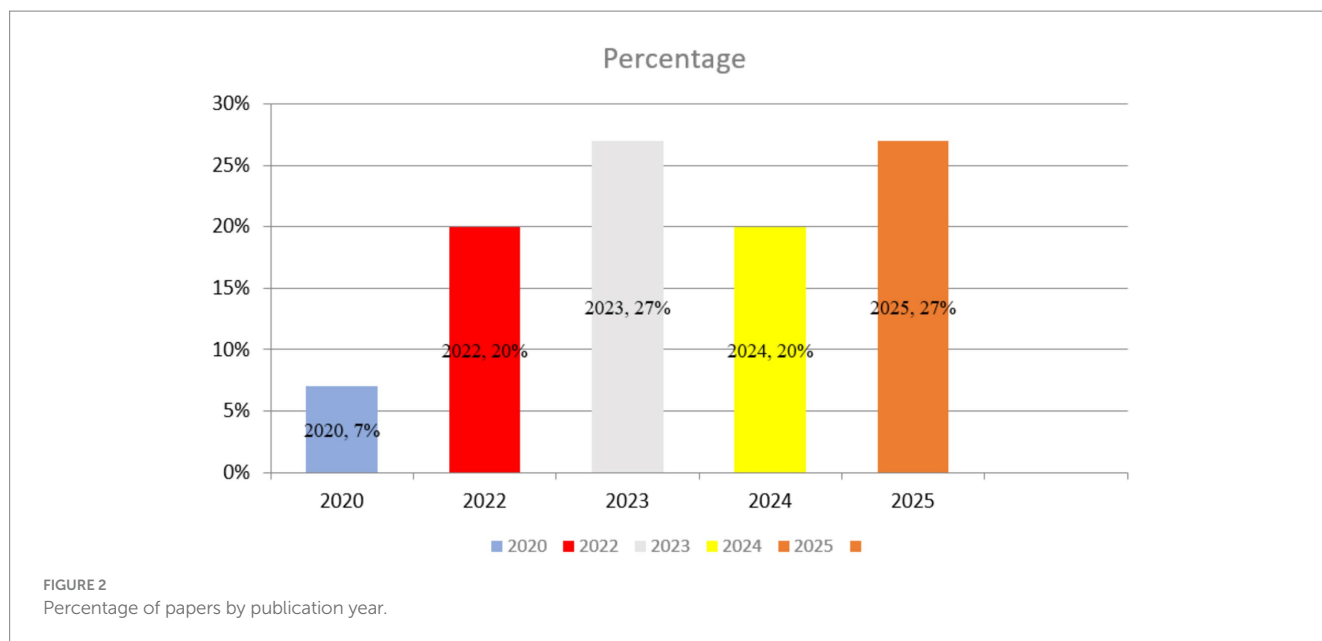


TABLE 3 Finding how do human resource management (HRM) practices influence employee performance in MSMEs?

Source (authors, year)	HRM practices/ initiatives discussed	Key findings (main argument)	Mechanism (why it impacts)	Impact on MSMEs (output)
Egbuta (2022) and Aslam et al. (2023)	Recruitment, training, performance management	HRM practices influence employee motivation and job satisfaction, thereby improving performance	Effective HRM practices enhance motivation and satisfaction, which in turn improves performance	Employee performance improves, leading to higher productivity
Ammirato et al. (2023) and Yassin and Beckmann (2025)	Continuous development; recognition for achievements	Continuous development and recognition for achievements are crucial for increasing commitment and performance in MSMEs	Recognition and development opportunities create a sense of value → increased employee commitment	Employee commitment and performance increase even without structured systems like larger firms
Ammirato et al. (2023) and Yassin and Beckmann (2025)	HRM systems tailored for MSMEs	Despite MSMEs lacking structured systems, tailored HRM practices are still effective	Contextualized HRM practices foster trust and mutual respect	Healthier work environment, increased employee retention and performance
Wuen et al. (2020), Omid and Dal Zotto (2022), and Deepa et al. (2024)	Work-life balance initiatives; ethical leadership	Work-life balance initiatives and ethical leadership can increase job satisfaction, reduce stress, and improve performance	Higher job satisfaction, reduced stress → more emotionally stable and productive employees	Positive impact on MSMEs with limited resources, improved job satisfaction and performance
Ammirato et al. (2023), Wuen et al. (2020), and Deepa et al. (2024)	Effective recruitment, continuous training, recognition for achievements, empowerment	Consistent HRM practices significantly impact employee performance in MSMEs	Empowerment and recognition enhance motivation and job satisfaction	Employee productivity and performance significantly improve in MSMEs

productivity. Employee motivation, engagement, and commitment increase when employees feel they are given opportunities to develop, are valued, and are included in change, leading to greater motivation, loyalty, and discretionary effort and contributing to high productivity. Innovation and rapid response to change contribute to greater market adaptability. When human resources are managed to be innovative, flexible, and adaptive, MSMEs can adapt products/services and work methods to market changes, resulting in process efficiency, reduced waste, and optimal performance. Human resource retention and consistent performance are achieved by better managing human resources and responding to change, resulting in greater retention and

reduced turnover (Ammirato et al., 2023; Deepa et al., 2024; Hendri, 2025; Yassin and Beckmann, 2025) (see Table 5).

RQ4: What is the impact of implementing innovation-focused human resource management on employee performance in MSMEs?

Innovation-focused HR management means HR management practices are designed not only to hire and retain employees, but also to encourage creativity, innovation (both processes and products/services), learning, flexibility, and adaptation. Therefore, HR management is not merely administrative but an active strategy for

TABLE 4 Finding how does the implementation of sustainable human resource management affect employee performance in the MSME context?

Source (authors, year)	HRM practices/ initiatives discussed	Key findings (main argument)	Mechanism (why it impacts)	Impact on MSMEs (output)
Christina et al. (2025), Akdeniz (2023), and Omid and Dal Zotto (2022)	Sustainable HR management	Sustainable HR management considers economic, social, and long-term sustainability	It not only manages the workforce but treats it as a strategic asset, requiring care in the form of training, competency development, welfare, and empowerment	Employees feel valued and empowered, increasing engagement and loyalty
Christina et al. (2025), Akdeniz (2023), and Omid and Dal Zotto (2022)	Increasing employee engagement	Sustainable HR management increases employee engagement	When employees feel their well-being is taken care of and are treated fairly, they become motivated, loyal, and contribute to MSMEs	Increases employee loyalty and reduces the likelihood of resignation or burnout
Christina et al. (2025), Raja et al. (2025), and Ilic et al. (2024)	Social and ethical values in HRM	Sustainable HR approaches instill social and ethical values	Social and ethical values strengthen internal loyalty and enhance long-term reputational value	MSMEs gain stronger long-term reputational value and higher internal loyalty

developing innovative HR that becomes a competitive advantage, especially in MSMEs (Jotaba et al., 2022; Aslam et al., 2023).

HR management has a positive impact on employee performance in MSMEs in the form of increased productivity and efficiency, adaptability and continuous innovation, increased employee engagement, motivation, and commitment, better HR retention and stability, and a balance between efficiency and well-being (work-life balance, work flexibility) (Hendri, 2025; Yassin and Beckmann, 2025).

How innovation-oriented HR management changes employee behavior and output is carried out through several mechanisms: innovative HR practices, skills, and adaptability; opportunities and motivation can make employees more creative and effective. Innovative HR with high commitment and involvement have the potential to become deeply attached to the company, not just employees who come and go. Innovative HR who retain and stabilise the workforce are usually employees who have knowledge and skills that remain within the organisation so that quality and productivity are consistent (Jotaba et al., 2022; Aslam et al., 2023; Hendri, 2025; Yassin and Beckmann, 2025; Egbuta, 2022; Wuen et al., 2020) (see Table 6).

4 Implications, limitations, and future work in human resource management for SMES employee performance

4.1 Implications

The implications of human resource management in MSMEs must align with MSME objectives, as it can lead to improvements in employee recruitment, training, and development, ultimately enhancing organisational performance and effectiveness. Priorising employee engagement and well-being in MSMEs results in higher motivation, greater job satisfaction, and, in turn, better performance, thereby contributing to organisational success. The role of technology in HR management is to help MSMEs integrate HR management software, employee management systems, and other technological tools to streamline HR processes and improve employee performance. This can help MSMEs overcome resource constraints and increase operational efficiency. The implementation of sustainable HR management practices, such as Green HRM, not only reduces an organisation's environmental footprint but also attracts consumers

who increasingly demand socially responsible companies, providing a competitive advantage for MSMEs, especially in industries sensitive to environmental issues.

4.2 Limitations

This SLR may be limited to the geographic region or industry of MSMEs, potentially limiting its ability to capture the diversity of HR practices across sectors or cultural contexts. For example, effective HR practices in developed countries may not be directly applicable to MSMEs in developing countries. Regarding methodological limitations, this study is limited by the quality and scope of the included studies. This may be influenced by the availability and selection of literature, potentially overlooking valuable studies that are not indexed or published in readily accessible journals. Furthermore, although this review synthesises existing literature, it does not provide primary data or field-based evidence to offer a richer, more contextualised understanding of how HR practices affect employee performance in MSMEs.

4.3 Future work

Future research could involve empirical research within MSMEs to validate the findings of this SLR. By conducting surveys, interviews, or case studies with MSMEs, researchers can gather real-world insights into how specific HR practices (e.g., employee engagement initiatives, performance appraisals, training programs) affect employee performance across MSME environments. Future research could explore sector-specific HR practices, as the needs and challenges faced by MSMEs in manufacturing differ from those in service or technology sectors. Understanding these sectoral differences can lead to more targeted HR practices tailored to specific industries. Given the growing importance of digital technology in HR management, future research should explore how the adoption of HR technologies, such as AI-based tools, cloud-based platforms, and data analytics, impacts employee performance in MSMEs. This is relevant given that many MSMEs are now integrating digital tools to improve their HR processes, potentially disrupting traditional practices.

TABLE 5 Finding how does responsive HR management to industry changes impact employee productivity in MSMEs?

Source (authors, year)	HRM practices/ initiatives discussed	Key findings (main argument)	Mechanism (why it impacts)	Impact on MSMEs (output)
Ammirato et al. (2023), Deepa et al. (2024), and Hendri (2025)	Responsiveness to industry changes	MSMEs actively adapt HR practices to align with external changes like technology, market demands, and competition	Adaptation involves recruiting employees with relevant competencies, providing training, and creating a flexible, adaptive culture	MSMEs become more agile, responsive, and competitive in the market
Deepa et al. (2024) and Hendri (2025)	Bridging HR responsiveness with productivity	HR responsiveness positively impacts employee productivity through skills improvement and adaptability	Skills improvement through training and development enables employees to work more efficiently, and the organization adjusts to market needs	Increased employee productivity, enhanced market adaptability, and improved organizational efficiency
Deepa et al. (2024) and Hendri (2025)	Skills improvement and adaptability	HR training and development have a significant positive relationship with employee productivity	Employees gain modern skills, enabling them to respond quickly and accurately to industry demands	Increased work efficiency, faster adaptation to technological advancements, and improved performance
Ammirato et al. (2023), Deepa et al. (2024), and Hendri (2025)	Dynamic HR management and adaptability	Dynamic HR management helps organizations reconfigure work structures and roles to meet market demands	HR management adjusts procedures and roles to new requirements, supporting flexibility and competitiveness	Increased organizational flexibility, higher competitiveness, and enhanced productivity
Ammirato et al. (2023), Deepa et al. (2024), Hendri (2025), and Yassin and Beckmann (2025)	Employee motivation, engagement, and commitment	Motivated, engaged employees contribute to higher productivity when they feel valued and included in changes	Opportunities for development and inclusion in change processes lead to greater motivation and discretionary effort	Increased employee loyalty, motivation, and productivity, contributing to high overall performance
Ammirato et al. (2023), Deepa et al. (2024), and Hendri (2025)	Innovation and rapid response to change	Innovation and adaptability to market changes result in better performance and reduced waste	Innovative HR practices lead to more adaptive products/services and work methods, improving efficiency	Enhanced market adaptability, optimized performance, and minimized waste
Ammirato et al. (2023), Deepa et al. (2024), Hendri (2025), and Yassin and Beckmann (2025)	HR retention and consistent performance	Effective HR management and responsiveness lead to higher employee retention and consistent performance	By responding effectively to change, MSMEs retain talent and reduce turnover, ensuring stable performance	Higher employee retention, reduced turnover, and consistent performance

TABLE 6 Finding of what is the impact of implementing innovation-focused human resource management on employee performance in MSMEs?

Source (authors, year)	HRM practices/ initiatives discussed	Key findings (main argument)	Mechanism (why it impacts)	Impact on MSMEs (output)
Jotaba et al. (2022) and Aslam et al. (2023)	Innovation-focused HR management	HR management should encourage creativity, innovation, learning, and adaptation, becoming a competitive advantage in MSMEs	Innovation-focused HR practices are not just administrative but strategic for fostering creativity and adaptability	MSMEs gain a competitive edge through an innovative workforce, driving growth and differentiation
Hendri (2025) and Yassin and Beckmann (2025)	HR management impact on employee performance	HR management positively impacts employee performance, increasing productivity, adaptability, and innovation	HR management drives productivity through engagement, motivation, and work-life balance, enhancing efficiency	Increased productivity, efficiency, and overall performance in MSMEs
Jotaba et al. (2022), Aslam et al. (2023), Hendri (2025), and Yassin and Beckmann (2025)	Employee commitment and retention	Innovation-oriented HR with high commitment fosters deep attachment, leading to retention and workforce stability	Employees with high commitment and involvement stay longer, bringing valuable knowledge and skills to the organization	Higher employee retention, stable workforce, and consistent quality and productivity
Egbuta (2022) and Wuen et al. (2020)	Knowledge and skill retention	Retained innovative HR maintains knowledge and skills within the organization, ensuring quality and consistency	Knowledge and skills retention through stable, long-term employees ensures consistent performance	Consistent quality, stable productivity, and reduced turnover in MSMEs

5 Conclusion

This study systematically examines human resource management (HRM) and its impact on employee performance in MSMEs, leading to several conclusions: effective HRM practices, sustainable HRM, responsiveness to industry changes, and a focus on innovation.

Sound HRM practices, such as effective recruitment, ongoing training, recognition for achievement, and employee empowerment, significantly influence motivation and job satisfaction, ultimately improving employee performance. Employees who feel valued and given development opportunities tend to be more productive and contribute to the success of MSMEs.

The implementation of sustainable HRM, which encompasses skills development, well-being, and a supportive work environment, plays a crucial role in increasing employee engagement and commitment. Sustainable HRM helps retain competent employees and reduce turnover, both of which are crucial for maintaining knowledge and skills in MSMEs.

MSMEs that are responsive to industry changes, such as the adoption of new technologies and market shifts, tend to be more adaptive and innovative. HRM that adapts recruitment, training, and development strategies to changing industry demands increases employee productivity and MSME competitiveness.

Human resource management that focuses on innovation, both in products and processes, encourages employee creativity and adaptability to change. MSMEs that support the development of new ideas and provide opportunities for innovation not only improve short-term performance but also build sustainable competitive advantage.

Overall, this study shows that effective human resource management has a significant impact on employee performance in MSMEs. Good, sustainable, responsive, and innovation-focused HR practices can increase MSME productivity, job satisfaction, and competitiveness in a competitive marketplace.

Data availability statement

The datasets presented in this study can be found in online repositories. The names of the repository/repository and accession number(s) can be found in the article/supplementary material.

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Author contributions

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