

**HUMAN RESOURCE MANAGEMENT STRATEGY IN SUPPORTING THE  
FINANCIAL STABILITY OF MEDAN CITY MSMEs****<sup>1</sup>Siti Normi Sinurat**

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**ABSTRACT**

This study aims to analyze the effect of human resource management (HRM) strategies on the financial stability of micro, small, and medium enterprises (MSMEs) in Medan City. Using a quantitative approach with a survey method, data were collected from 215 MSMEs registered at the Cooperative and MSME Office of Medan City during the 2021–2024 period. HRM strategy was measured through a composite index encompassing recruitment and selection, training and development, compensation systems, and employee performance evaluation. Financial stability was measured using liquidity, profitability, solvency, and operating cash flow indicators. Data analysis employed Structural Equation Modeling–Partial Least Squares (SEM-PLS) and multiple regression. The results indicate that HRM strategies have a significant and positive effect on MSME financial stability ( $\beta = 0.347$ ;  $p < 0.001$ ). Training and development and fair compensation systems proved to be the most influential HRM strategies. Business scale significantly moderates the relationship between HRM strategy and financial stability. This study contributes by integrating the competency-based HRM perspective into the financial stability framework of MSMEs in the local economic context of Medan City, offering an adaptive HRM strategy model for micro and small business actors in urban areas.

*Keywords: Human Resource Management, Financial Stability, MSMEs, Medan City, Employee Competency, Business Strategy*

**ABSTRAK**

Penelitian ini bertujuan untuk menganalisis pengaruh strategi manajemen sumber daya manusia (SDM) terhadap stabilitas keuangan usaha mikro, kecil, dan menengah (UMKM) di Kota Medan. Menggunakan pendekatan kuantitatif dengan metode survei, data dikumpulkan dari 215 UMKM yang terdaftar di Dinas Koperasi dan UMKM Kota Medan selama periode 2021–2024. Strategi Manajemen SDM diukur melalui indeks komposit yang mencakup dimensi rekrutmen dan seleksi, pelatihan dan pengembangan, sistem kompensasi, serta evaluasi kinerja karyawan. Stabilitas keuangan diukur menggunakan indikator likuiditas, profitabilitas, solvabilitas, dan arus kas operasional. Analisis data menggunakan Structural Equation Modeling–Partial Least Squares (SEM-PLS) dan regresi berganda. Hasil penelitian menunjukkan bahwa strategi manajemen SDM berpengaruh signifikan dan positif terhadap stabilitas keuangan UMKM ( $\beta = 0,347$ ;  $p < 0,001$ ). Pelatihan dan pengembangan SDM serta sistem kompensasi yang adil terbukti menjadi strategi SDM yang paling berpengaruh. Skala usaha terbukti memoderasi hubungan antara strategi SDM dan stabilitas keuangan. Penelitian ini memberikan kontribusi baru dengan mengintegrasikan perspektif manajemen SDM berbasis kompetensi ke dalam kerangka stabilitas

keuangan UMKM dalam konteks ekonomi lokal Kota Medan, serta menawarkan model strategi SDM yang adaptif untuk pelaku usaha skala mikro dan kecil di kawasan perkotaan.

**Kata Kunci: Manajemen SDM, Stabilitas Keuangan, UMKM, Kota Medan, Kompetensi Karyawan, Strategi Bisnis**

## I. INTRODUCTION

Micro, small, and medium enterprises (MSMEs) are the backbone of Indonesia's national economy. Based on data from the Ministry of Cooperatives and SMEs (2023), MSMEs contribute more than 61% to the national Gross Domestic Product (GDP) and absorb around 97% of the total workforce in Indonesia. In the city of Medan as the capital of North Sumatra Province, the contribution of MSMEs to the regional economy is very significant, with the number of business actors reaching more than 120,000 units in 2023 according to data from the Medan City Cooperatives and MSMEs Office.

Nevertheless, MSMEs in Medan City face various structural challenges that hinder business growth and sustainability. One of the main challenges is financial instability stemming from weak human resource governance. Many MSMEs have not implemented a structured HR management strategy, resulting in low employee productivity, high turnover, and operational cost inefficiencies, which ultimately erode business financial stability (Hasibuan & Sirait, 2022).

Human resource management in the context of MSMEs is often seen as a secondary function that receives less attention than marketing or production aspects. In fact, contemporary research shows that the right HR strategy including competency-based recruitment, ongoing training, a fair compensation system, and structured performance evaluation has a direct impact on operational efficiency and business financial stability (Ariani & Nugroho, 2019; Rachmawati, 2020).

In Medan City, the distinctive socio-economic dynamics, including ethnic diversity in the business world, fierce competition in the trade and service sectors, and limited access to trained resources, create unique challenges in implementing HR management strategies for MSME actors. Tambunan's research (2023) in North Sumatra indicates that MSMEs that adopt competency-based HR strategies show a higher level of competitiveness and business sustainability than MSMEs that do not have a clear HR strategy.

From a theoretical perspective, the Resource-Based View (RBV) put forward by Barney (1991) emphasizes that the sustainable competitive advantage of an organization is sourced from internal resources that are valuable, scarce, difficult to replicate, and irreplaceable. In the context of MSMEs, skilled and motivated human resources are strategic assets that cannot be easily replicated by competitors. Therefore, investment in HR strategies is not only an operational cost, but a long-term investment that contributes to the stability and financial growth of the business.

Existing studies on the relationship between HR management and the financial performance of MSMEs in Indonesia are still limited, especially those that focus on urban contexts outside Java. Most of the previous research focused on MSMEs in Central Java, East Java, and Greater Jakarta, so there is a gap in the literature on the dynamics of MSMEs in major cities in Sumatra, including Medan City. This research is here to fill this gap by empirically testing the influence of HR management strategies on the financial stability of MSMEs in Medan City.

**Table 1**

**Summary of Previous Research on HR Management and Financial Performance of MSMEs**

Researcher	Context/Variables	Method	Key Findings	Relevance to this research
Ariani & Nugroho (2019)	HR Management / MSME Performance (Central Java)	Quantitative Regression	HR training & development has a positive effect on the productivity of MSMEs	Becoming the basis of human resource variables in the context of Indonesian MSMEs

Researcher	Context/Variables	Method	Key Findings	Relevance to this research
Rachmawati (2020)	Human Resources Competencies / MSME Financial Stability	Survey & Regresi Berganda	Human resource competence significantly improves MSME financial management	Relevant as a reference for the relationship between human resources and MSME finance
Susilo & Handayani (2021)	MSME Recruitment & Selection / Financial Performance	Qualitative Case Studies	Proper recruitment minimizes turnover and reduces operational costs	Supporting recruitment variables in financial stability
Hasibuan & Sirait (2022)	Human Resources Compensation / Business Stability (Medan City)	Multiple Regression	Fair compensation improves employee retention and HR cost efficiency	Directly relevant to the context of the City of Medan
Tambunan (2023)	HR Strategy / Competitiveness of MSMEs in North Sumatra	SEM-PLS	Competency-based HR strategy to increase the competitiveness and stability of MSME businesses	Providing a strategic framework for MSME human resources in North Sumatra

Source: Compiled by researchers, 2025

## II. LITERATURE REVIEW

### Resource-Based View (RBV) and HR Management

The Resource-Based View (RBV) introduced by Barney (1991) and further developed by Penrose (1959) states that a company's competitive advantage comes from its ability to manage valuable, rare, inimitable, and non-substitutable (VRIN) resources. In the context of MSMEs, competent and committed human resources are the source of competitive advantage that is most difficult for competitors to imitate. Effective HR strategies including competency-based recruitment, training investments, and the right reward system create organizational capabilities that support operational efficiency and ultimately contribute to the financial stability of the business (Susilo & Handayani, 2021).

In the context of Medan City MSMEs, the application of the RBV principle is relevant because business actors operate in a highly competitive environment with limited access to capital and technology. HR-based differentiation through skilled, loyal, and productive employees is one of the main sources of competitive advantage that can support business financial stability in the long term (Tambunan, 2023)

### Agency Theory and MSME Human Resources Governance

Agency Theory (Jensen & Meckling, 1976) describes the relationship between principals (business owners) and agents (employees) in the context of information and interest asymmetry. In MSMEs, agency problems often arise when business owners cannot optimally monitor all employee activities, which has the potential to cause moral hazard and adverse selection. The implementation of a structured HR management system including transparent performance evaluations, performance-based compensation systems, and clear accountability mechanisms is a governance mechanism that can mitigate agency problems and improve the operational efficiency and financial stability of MSMEs (Rachmawati, 2020)

### Human Capital Theory and Human Resources Investment

The Human Capital Theory developed by Becker (1964) asserts that investments in employee education, training, and skill development result in increased productivity that ultimately benefits both individuals and organizations. For MSMEs, investment in HR training is not just an expense, but an

intangible asset that increases production capacity, service quality, and business process efficiency. Ariani & Nugroho (2019) found that MSMEs that consistently invested resources in employee training recorded an average productivity increase of 23% higher than MSMEs that did not, which had a direct impact on increased profit margins and cash flow stability.

### **Hypothesis Development**

#### **HR Recruitment and Selection Strategy for Financial Stability**

Competency-based recruitment and selection are the foundation of all HR management functions. MSMEs that successfully recruit employees with qualifications that suit business needs can minimize initial training costs, reduce operational errors, and increase the speed of employee adaptation to the company's work standards. Susilo & Handayani (2021) show that MSMEs with structured recruitment procedures have a 31% lower employee turnover rate, which directly reduces the cost of re-recruitment and training of new employees, thereby contributing to cost efficiency and financial stability.

In the context of the city of Medan with a diverse labor market, the ability of MSMEs to identify and attract the right candidates from various ethnic and educational backgrounds is a critical factor that affects the quality of human resources and long-term operational cost efficiency.

**H1:** The recruitment and selection strategy of human resources has a significant positive effect on the financial stability of MSMEs in Medan City.

#### **Training and Human Resource Development for Financial Stability**

Employee training and development is consistently proven in the HR literature as an investment that produces measurable returns in the form of increased productivity, output quality, and innovation capabilities. For MSMEs operating with thin profit margins, increasing HR productivity through targeted training can have a significant financial impact. Rachmawati (2020) found that MSMEs that allocated at least 2-5% of operational costs for training programs recorded an average increase in net profit margin of 18.4% in the following two years.

**H2:** The training and human resource development program has a significant positive effect on the financial stability of MSMEs in Medan City.

#### **HR Compensation System for Financial Stability**

A fair and competitive compensation system plays a dual role in MSME HR management: on the one hand as a motivational instrument that increases employee productivity and loyalty, on the other hand as a cost component that needs to be managed efficiently so as not to erode profit margins. Hasibuan & Sirait (2022) in their study of MSMEs in Medan City found that the implementation of a performance-based compensation system where some incentives are directly linked to productivity and customer satisfaction targets resulted in a 14.7% decrease in HR costs per unit of output while increasing key employee retention.

**H3:** The HR compensation system has a significant positive effect on the financial stability of MSMEs in Medan City.

#### **The Role of Employee Performance Mediation**

The influence of HR strategies on the financial stability of MSMEs is not entirely direct, but is mediated by employee performance as an intermediate variable. An effective HR strategy proper recruitment, quality training, and fair compensation creates a competent, motivated, and productive workforce. High employee performance then has an impact on increasing output, reducing production errors, improving service quality, and ultimately contributing to increased revenue and cost efficiency that supports the financial stability of MSMEs (Tambunan, 2023).

**H4:** Employee performance mediates the relationship between HR management strategy and the financial stability of Medan City MSMEs.

#### **The Role of Scale Moderation**

The effectiveness of HR management strategies in supporting financial stability is likely to be not uniform among MSMEs of different scales. Small businesses with 5-19 employees have a greater capacity to implement a structured HR system than micro-businesses with 1-4 employees. However, micro businesses that successfully implement the basic elements of HR management consistently show

a relatively greater impact on financial stability because any increase in HR efficiency is directly felt on a smaller business scale (Susilo & Handayani, 2021).

**H5:** The scale of the business moderates the relationship between HR management strategy and the financial stability of MSMEs in Medan City.

### III. RESEARCH METHODOLOGY

This study uses a quantitative research design with a cross-sectional survey method which is strengthened with secondary data from MSME financial statements. The quantitative approach was chosen because it allows hypothesis testing statistically using representative sample sizes and producing findings that can be generalized to the MSME population of Medan City.

The research population includes all MSMEs officially registered with the Medan City Cooperatives and MSMEs Office as of January 2024, with a total of 120,847 business units. The sampling technique uses stratified random sampling based on the classification of business scale (micro, small, medium) and business sector (trade, services, manufacturing, culinary). By using the Slovin formula at a 95% confidence level and a margin of error of 5%, a minimum sample of 200 business units was obtained. After the screening and validation process, a final sample of 215 MSMEs was obtained.

The research instrument is in the form of a structured questionnaire consisting of four parts: (1) respondent profile and business characteristics; (2) the HR management strategy measurement scale uses 24 question items based on a 5-point Likert Scale that includes the dimensions of recruitment & selection, training & development, compensation system, and performance evaluation; (3) measuring employee performance as a mediation variable; and (4) business financial data to calculate financial stability indicators. The validity of the construct was tested using confirmatory factor analysis (CFA), while the reliability of the instrument was measured by Cronbach's alpha and composite reliability.

The financial stability variables of MSMEs are measured using a composite index that includes four dimensions: (1) liquidity, measured by current ratio and ability to pay short-term liabilities; (2) profitability, measured by return on equity (ROE) and net profit margin; (3) solvency, measured by debt-to-equity ratio and ability to repay long-term debt; and (4) cash flow stability, measured by the consistency of positive operating cash flows in the last 12 months.

The control variables included in the model included business age (in years), number of employees (natural logarithm), business sector, and owner/manager education level. Data was collected through direct interviews with MSME owners or managers in 5 main sub-districts of Medan City (Medan Kota, Medan Baru, Medan Petisah, Medan Sunggal, and Medan Helvetia). Data processing used SmartPLS 4.0 for SEM-PLS and SPSS 26 analysis for multiple regression analysis and moderation test.

### IV. RESULTS AND DISCUSSION

#### Results

#### Statistics Descriptive

Table 2 presents descriptive statistics of the main variables of the study from 215 respondents of MSMEs in Medan City. The average HR Strategy Index of 56.8 (SD = 14.3) shows that most of the sample MSMEs have implemented HR strategies at a moderate level, with considerable variation between business units. This average value indicates that there is still significant room for improvement in the implementation of HR strategies, especially in the dimensions of performance evaluation and performance-based compensation systems which tend to be informal.

The financial stability index with an average value of 61.2 (SD = 13.7) indicates a moderate level of financial stability among the sample MSMEs. The average current ratio of 1.94 is still above the minimum threshold of 1.0, indicating adequate liquidity capacity on average. However, a large variation (SD = 0.67) indicates that there are a number of MSMEs that are experiencing liquidity pressure.

**Table 2. Descriptive Statistics of Research Variables (N = 215 MSMEs)**

Variable	Min	Max	Mean	Std. Dev.	Remarks
HR Strategy Index (0–100)	18,4	92,7	56,8	14,3	The higher the better



Financial Stability (Composite Score)	22,1	89,5	61,2	13,7	The higher the more stable it is
Likuiditas (Current Ratio)	0,82	4,61	1,94	0,67	Control
Profitability (ROE%)	-8,3	34,6	12,7	7,2	Control
Number of Employees (Ln)	0,69	3,91	2,14	0,81	Variable Control
Age of Business (Years)	1	22	8,4	4,6	Variable Control

Source: Processed by researcher, 2025

### Hypothesis Testing Results

Table 3 presents the results of the estimated coefficient of the SEM-PLS pathway for testing the research hypothesis. All hypotheses submitted received empirical support at a significance level of 5%.

**Table 3. SEM-PLS Hypothesis Testing Results**

Hypothesis / Path	Koef. $\beta$	T-Statistic	p-value	R <sup>2</sup>	Result
H1: HR Strategy → Financial Stability	0,347	8,213	0,000	0,401	Supported
H2: HR Training → Financial Stability	0,289	6,874	0,000	0,362	Supported
H3: Human Resource Compensation → Financial Stability	0,214	5,107	0,001	0,298	Supported
H4: HR Strategy → Financial Performance (mediation)	0,176	4,392	0,002	-	Supported (partial)
H5: Scale of Business × HR → Financial Stability	0,131	3,218	0,003	0,419	Supported

Source: Processed by researcher, 2025

This study provides comprehensive empirical evidence on the role of HR management strategies in supporting the financial stability of MSMEs in Medan City. Based on 215 observations of MSMEs, the findings show that the average HR Strategy Index reflects a moderate to relatively good level of implementation of HR management. This indicates that although MSME actors in Medan City have begun to realize the importance of HR management, the implementation still varies greatly from one business to another, especially between micro and small businesses.

From a financial perspective, the results of the study prove that HR strategies have a positive and significant effect on the financial stability of MSMEs. These findings are consistent with the Resource-Based View prediction that quality HR is a source of sustainable competitive advantage. MSMEs that successfully recruit the right employees, train them on an ongoing basis, and provide fair compensation tend to have higher productivity levels, lower operational error rates, and stronger customer loyalty all of which contribute to increased revenue and cost efficiency that support financial stability.

### Discussion

The results of this study provide strong empirical support for all the hypotheses proposed, showing that HR management strategies are a significant determinant of the financial stability of Medan City MSMEs. The positive and significant path coefficient for H1 ( $\beta = 0.347$ ;  $p < 0.001$ ) is consistent with the findings of Tambunan (2023) in North Sumatra and Ariani & Nugroho (2019) in Central Java, confirming that the relationship between HR strategy and financial performance applies across geographical contexts in Indonesia.

The significant influence of HR training and development on financial stability ( $\beta = 0.289$ ;  $p < 0.001$ ) is in line with the predictions of Human Capital Theory. MSMEs that consistently invest resources in employee competency development have succeeded in creating a more adaptive, innovative, and productive workforce. In the context of the City of Medan which has a highly competitive trade and service sector, skilled and knowledgeable employees are the main differentiators that enable MSMEs to retain customers and optimize revenue.

The findings on the effect of the compensation system on financial stability ( $\beta = 0.214$ ;  $p < 0.001$ ) are in line with the research of Hasibuan & Sirait (2022) which found that MSMEs in Medan City with a fair and transparent compensation system experience lower turnover rates. The high cost of employee turnover which includes recruitment, onboarding, and loss of productivity during the transition period is a significant factor that disrupts the financial stability of MSMEs. Thus, investing in a good compensation system is actually a long-term cost-saving strategy that supports financial stability.

The mediating role of employee performance found in this study (H4 supported by partial mediation) underscores the importance of understanding the transmission mechanism of HR's influence on MSME finances. HR strategies do not directly change financial figures, but rather work through improved employee performance and productivity which in turn creates value for customers and efficiency in business processes. These findings have important practical implications: MSME owners not only need to adopt the right HR strategy, but also build an employee performance measurement system that allows them to monitor and optimize the effectiveness of their HR investments.

The significant business scale moderation effect (H5 supported) indicates that the impact of HR strategies on financial stability differs between micro and small businesses. Small businesses with more employees benefit more from structured HR systems because the higher complexity of coordination requires more formal management mechanisms. Meanwhile, micro-enterprises that successfully implement basic elements of HR such as setting clear work standards and providing regular performance feedback also show significant improvements in financial stability even on a smaller scale.

## V. CONCLUSIONS AND SUGGESTIONS

### Conclusion

This study provides strong empirical evidence regarding the positive and significant influence of human resource management (HR) strategies on the financial stability of micro, small, and medium enterprises (MSMEs) in Medan City. The results of hypothesis testing consistently confirm that MSME actors who implement HR strategies in a structured and sustainable manner tend to have more stable financial conditions compared to those who manage human resources in an ad hoc and unplanned manner. These findings are in line with the *resource-based view* (RBV) perspective which confirms that quality human resources are one of the main foundations of sustainable competitive advantage for a business organization.

Of all the dimensions of HR strategies tested in this study, two dimensions were proven to have the most dominant influence on the financial stability of MSMEs, namely HR training and development strategies and fair compensation systems. HR training and development strategies play a role in improving employees' technical and managerial competencies on an ongoing basis, so that employees are able to carry out operational tasks more efficiently, minimize work errors, and adapt to changing market needs. In the context of MSMEs that generally operate with limited resources, improving employee competencies directly translates into increased productivity and output quality, which ultimately impacts business revenue and profitability.

Meanwhile, a fair compensation system has been shown to play an equally important role. Compensation that is designed in a transparent, competitive manner, and directly linked to the performance achievements of individuals and teams has been shown to drive both intrinsic and extrinsic employee motivation simultaneously. Employees who feel treated fairly in terms of financial rewards tend to exhibit higher levels of organizational commitment, lower turnover rates, and a more results-oriented work orientation. For MSMEs, the stability of the work team resulting from a good compensation system also contributes to savings in the cost of recruiting and training new employees, which indirectly strengthens the financial resilience of the business.

Another important finding produced by this study is the empirical confirmation of the mediating role of employee performance in the relationship between HR strategy and financial stability. Employee performance has been shown to significantly mediate this relationship, which has important conceptual implications: investment in HR strategies does not work directly and instantly on the financial condition of the business, but rather first creates value through the path of increasing workforce capabilities and

motivation. In other words, an effective HR strategy will improve employee performance, and it is the improved employee performance that then consistently contributes to the financial stability and growth of MSMEs. These findings reinforce the argument that HR management is not just an administrative function, but rather a process of strategic value creation that runs gradually and measurably.

This study also reveals that business scale moderates the strength of the relationship between HR strategy and financial stability. Specifically, it was found that small businesses show stronger effects than micro businesses. This moderation pattern can be understood through several interrelated explanations. First, small businesses generally have a more formal organizational structure and better managerial capacity, so they are better able to design, implement, and evaluate HR programs systematically. Second, the relatively larger financial capacity of small businesses allows for a more substantial budget allocation for training, development, and compensation activities. Third, micro businesses often still depend on family labor and do not have a clear division of roles, so the impact of formalizing HR strategies cannot be fully felt in a short period of time.

The practical implications of this study are diverse and relevant. For MSME owners and managers, these findings strongly confirm the importance of changing the way we look at HR: from just an operational expense post to a strategic investment that provides real returns in the form of improved performance and financial stability. At the operational level, the development of a more structured recruitment procedure is the first step that determines the quality of human resource input. Selective and competency-based recruitment will ensure that MSMEs get employees who are not only capable, but also have the potential to grow and contribute in the long term. Furthermore, training programs that are regularly designed and relevant to real business needs will ensure that employee competencies are constantly evolving in line with market and technological dynamics.

Furthermore, designing a transparent and performance-based compensation system is a concrete step that can be implemented immediately by MSME actors without the need for complicated infrastructure. A simple but consistent performance evaluation system, which is openly communicated to all employees, will build trust and create a results-oriented work culture. The combination of selective recruitment, ongoing training, and fair compensation is a triad of HR strategies that synergistically drive employee performance to optimal levels, which in turn will be reflected in the overall stability and financial growth of MSMEs.

From a public policy perspective, the findings of this study provide a solid empirical justification for the Medan City Government and the Cooperatives and SMEs Office to strengthen and expand HR management assistance programs for MSME actors. The most needed government intervention covers three main areas. First, the provision of quality, affordable, and relevant vocational training programs to the needs of the leading MSME sector in Medan City, both through Job Training Centers (BLK), vocational education institutions, and partnerships with the private sector. Second, the provision of technical assistance in the form of consultation and assistance for MSME actors who want to design a performance evaluation system and performance-based compensation, considering that many micro and small business actors do not have technical knowledge and capacity in this field. Third, facilitating access to skilled human resources through the development of an employment ecosystem that connects MSMEs with graduates of vocational institutions and universities.

In terms of theoretical contribution, this study enriches the literature on strategic HR management in the context of MSMEs in developing countries, especially Indonesia. Most of the previous research on the influence of HR strategy on organizational performance focused on large companies with established formal structures. This study proves that the principles of strategic HR management remain relevant and have a significant impact even in the context of smaller-scale MSMEs operating in a more informal ecosystem. Thus, this research contributes to the expansion of the application of strategic HR theory to the realm of micro and small enterprises that have received relatively little attention in the international and national academic literature.

However, this study is inseparable from a number of limitations that need to be considered in the interpretation and utilization of the results. The limited geographical scope of the city of Medan limits the generalization of the findings to other regions that may have different characteristics of the

MSME ecosystem, work culture, and levels of economic development. In addition, the *cross-sectional* design of the research has not been able to capture the temporal dynamics of the influence of HR strategies on financial stability, which is actually a process that develops over time. Further research with a *longitudinal* approach that covers a wider geographical scope, as well as exploring additional HR dimensions such as industrial relations management, succession planning, and the use of digital technology in HR management, will further enrich our understanding of the strategic role of human resources in Indonesia's ever-growing MSME ecosystem.

### **Implications for Practice**

#### **For MSME Owners and Managers:**

Prioritize investment in employee training and competency development as a long-term strategy to improve productivity and financial stability of businesses. Develop a simple but measurable and consistently implemented employee performance evaluation system, including indicators of productivity, service quality, and contribution to business targets. Review and improve the compensation system to be more transparent and fair, linking some incentives to the achievement of measurable performance targets.

Standardize new employee recruitment and onboarding procedures to ensure that each employee who joins has the minimum required competencies and understands the expected standards of work. Build a work culture that encourages employee loyalty and commitment through open communication, recognition of achievements, and career development opportunities even on a small scale.

#### **For the Government and Policy Makers:**

Strengthen practice-based HR management training programs for MSME actors through the Medan City Cooperatives and MSMEs Office, focusing on topics that are directly relevant such as recruitment interview techniques, low-cost training program design, and the development of a simple performance appraisal system. Develop digital platforms to connect MSMEs with skilled workforce candidates and competency certification programs recognized at the local level. Facilitate the formation of inter-MSME learning communities at the sub-district level to encourage the exchange of HR management best practices

### **Suggestions for Future Research**

Future research is expected to expand the scope of the sample longitudinally to capture the long-term impact of HR strategy investments on the financial stability of MSMEs. A comparative study between MSMEs in Medan City and other major cities in Sumatra such as Palembang, Pekanbaru, and Padang can provide insight into whether the findings of this study are location-specific or can be generalized in the context of major cities outside Java.

Further research is also suggested to explore the role of HR digitalization including the use of digital recruitment platforms, application-based performance management systems, and e-learning for employee training in increasing the effectiveness of MSME HR strategies. Along with the acceleration of digital transformation post-COVID-19 pandemic, the digital dimension of HR management is likely to become more significant in determining the competitiveness and financial stability of MSMEs in the future.

Finally, qualitative research based on in-depth case studies on MSMEs that have succeeded in improving their financial stability through strategic investment in human resources can provide richer contextual insights into how HR strategies are implemented in real practices of micro and small scale businesses in the city of Medan

### **Limitations**

This study has several limitations that need to be considered in the interpretation of the findings. First, primary data was collected through a self-report questionnaire that had the potential to contain respondent bias, especially related to questions about the financial condition of the business that are sensitive. Although the respondents were guaranteed anonymity, the possibility of underreporting or overreporting of financial conditions could not be completely eliminated.

Second, the cross-sectional research design limits the ability to draw strong causality inferences between HR strategies and financial stability. The causal relationships found need to be confirmed

through longitudinal research with a minimum of 3-5 years observation period. Third, the research sample is limited to officially registered MSMEs, while most MSMEs in Medan City operate informally. This has implications for the possibility of selection bias towards more formal and structured MSMEs.

Fourth, this study does not take into account macroeconomic variables such as fluctuations in interest rates, inflation, and local market conditions that can also affect the financial stability of MSMEs independently of the HR strategies applied. These limitations do not diminish the validity of the main findings, but they provide an important direction for further research in this area.

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