

The Effect of SHRM on Firm Performance Mediated by Operating Strategy and Entrepreneurial Orientation

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Abstract

SHRM is the result of management's inclination toward strategic organization when all business functions try to link their work methods and practices with corporate strategy in order to achieve optimal organizational performance. This study aims at the effects of SHRM on Firm Performance mediated by operation strategy and entrepreneurial orientation. The study approach was carried out by collecting data through questionnaires through surveys. The respondents in this research were employees of UMKM in the fields of handicraft, totaling 60 respondents. The data analysis technique uses Partial Least Square (PLS). The results of this study indicate that SHRM has a positive and significant effect on firm performance, entrepreneurial orientation, and firm performance through operation strategy, operation strategy has a positive effect on firm performance, SHRM has a negative and insignificant on firm performance, entrepreneurial orientation. The result of this study have a theoretical contribution for future research and a practical contribution for business people, especially UMKM in order to improve their operational performance orientation has a negative and insignificant effect on firm performance, and SHRM has a negative and insignificant of firm performance through entrepreneurial orientation.

Keywords : SHRM, Firm Performance, Operation Strategy, Entrepreneurial Orientation

1. Introduction

Based on data from the Ministry of Cooperatives and SMEs, the number of SMEs currently reaches 64.2 million with a contribution to GDP of 61.07% or IDR 8,573.89 trillion. The contribution of MSMEs to GDP at constant prices was IDR 7,034.1 trillion in 2021. Along with the proliferation of SMEs in Indonesia, not many SME activists understand how to maximize firm performance.

The contribution of SMEs to the Indonesian economy includes the ability to absorb 97% of the total workforce and can raise up to 60.4% of total investment. Firm performance is considered an important thing that must be achieved by every company, because firm performance is a reflection of the company's ability to manage its resources (Cornelius, 2007). The results of research by Dhany Iskandar (2018) provide evidence that human resource management has a positive effect on firm performance based on testing and Critical Ratio (CR) values.

SHRM is considered to be able to improve the quality of firm performance. Regarding the intervening factors and causal relationships, there is a positive influence between the implementation of SHRM on firm performance (Nurjaman, 2020). SHRM is also a technique used by companies to maintain superior human resources, in addition to helping companies

maintain efficient operational levels, maintain sustainable organizational development, and maintain competitive advantage (Battour Mohamed, et al., 2021).

2. Literature Review

Zehir, Cemal et al (2016) conducted research on the effect of SHRM on firm performance with entrepreneurial orientation as the mediator. The results of the study indicate that entrepreneurial orientation has a full role between strategic human resources and firm performance. If the company is oriented towards entrepreneurship, it is necessary to be more proactive, innovative, risk-taking, and compete more aggressively. Human resources that have these qualities will automatically benefit the company to achieve long-term goals and strategies Covin and Slevin (1991). Several previous researchers said that the higher the application of SHRM, the higher the company's performance (Sedyoningsih et.al 2022). Human resources provide a sustainable competitive advantage for the company through core competencies. Jackson et.al (2014) found positive behavior between SHRM and employee performance. However, many empirical studies are applied in the field of SHRM, and these studies show that there are various mediating variables, which play a role in the relationship between SHRM and company performance.

Muhammad Anik (2015) found research results that company performance will be achieved if there is a competitive advantage, where this competitive advantage is influenced by the operating strategy. Slack and Lewis, (2008) suggest that the operations strategy is an integrated plan formulation in the formation of the long-term operating capabilities of each type of operation (for example shipyard companies) and its contribution to the entire existing strategy through a process of reconciliation between market needs and operating resources. Several studies have also found the effect of entrepreneurial orientation on firm performance. Based on research conducted by Ni Made Vera Pramesti and I Gusti Ayu Ketut Giantari (2016) in Ende SMEs in Klungkung Regency, it shows that entrepreneurial orientation has a positive and significant effect on company performance. Robbins (2016) defines company performance in 5 indicators; quality of work, quantity, timeliness, effectiveness, and independence. The concept of entrepreneurial orientation emerged in the 1970s (Edmond and Wiklund, 2010) and has since generated a large amount of research (Wales, 2016). Entrepreneurial orientation is found to closely reflect the behavior of actual entrepreneurial firms (Stambaugh et al., 2017) and is generally found to be positively related to firm performance (Wang, 2008).

Theoretically, this research is important to carry out. There are several reasons why this research is worth doing. First, Bantul has enormous potential for innovative products. SMEs in Sleman Regency have been affected by COVID-19, therefore it is important to revive the SME economy in Bantul Regency. Second, the research model for SME SHRM to firm performance through operation strategy and entrepreneurial orientation as a mediator must be reviewed considering that conflicting results have been found in several previous researchers.

SHRM is the result of management's strategic inclination towards the organization. Today, all business functions try to link their work methods and practices with the company's strategy in order to achieve optimal organizational performance. SHRM emerges when human resource departments try to align their strategies, processes, and practices with corporate strategies

(Zehir, Cemal et al. 2016). The existence of SHRM practices is in line with the company's strategy to achieve better company performance (Wright and McMahan, 1992; Jackson and Schuler, 1995). According to Schuler (1992), SHRM is concerned with the effective use of the company's human resources to achieve the strategic needs of the organization. According to Wright and McMahan (1992: 298), Human Resource Management is "the planned pattern of deployment of human resources and the activities intended to enable an organization to achieve its goals." As stated by many researchers, Human Resource Management vertically tries to link the practice and art of human resource management using the organization's strategic management strategies and processes

Company performance is an important thing that must be achieved by every company, since performance is a reflection of the company's ability to manage and allocate its resources (Cornelius, 2007). Company performance becomes a symbol of the company's image. The results and achievements come from the influence of the company's operational activities in optimizing its resources. Muhammad (2008) explains that company performance can provide an overview of how far a company has achieved predetermined targets after comparing it with previous performance and the performance of other organizations benchmarking, as well as how far to achieve the goals and targets that have been set. Robbins (2016) defines company performance in 5 indicators; quality of work, quantity, timeliness, effectiveness, and independence.

Operations strategy is a functional vision that sets the overall goal or driving force for a company to make decisions (Schroder, 1989). Haming and Mahfud (2011) describe that operation strategy is a tool to realize the company's vision and mission through production-operation activities. Operations strategy can also be used as a measuring tool for formulating decisions such as product design selection, selection of technology to carry out production, determination of production scale, stock planning, and selection of production locations. Hayes and Wheelwright (1984) define operations strategy as a consistent pattern in corporate decision making.

The concept of entrepreneurial orientation emerged in the 1970s (Edmond and Wiklund, 2010) and since then there has been a lot of research on entrepreneurial orientation. Entrepreneurial orientation as a company benefit strategy to be able to compete more effectively in the same marketplace (Wardoyo et al., 2018: 4). The concept of entrepreneurial orientation emerged in the 1970s (Edmond and Wiklund, 2010) and since then there has been a lot of research on entrepreneurial orientation. Entrepreneurial orientation as a company's benefit strategy to compete more effectively in the same marketplace (Wardoyo et al., 2018: 4). Furthermore, Sinarasri (2013: 44) mentions that entrepreneurial orientation refers to processes, practices, and decision-making that encourage new directions and have three aspects of entrepreneurship, namely always being innovative, acting proactively and taking risks.

This research refers to research that has been conducted by several previous researchers. By combining several models and hypotheses in previous research, the conceptual model proposed in this research is shown in Figure 1. Based on the conceptual framework seen in Figure 1, the

hypotheses in this research are as follows:

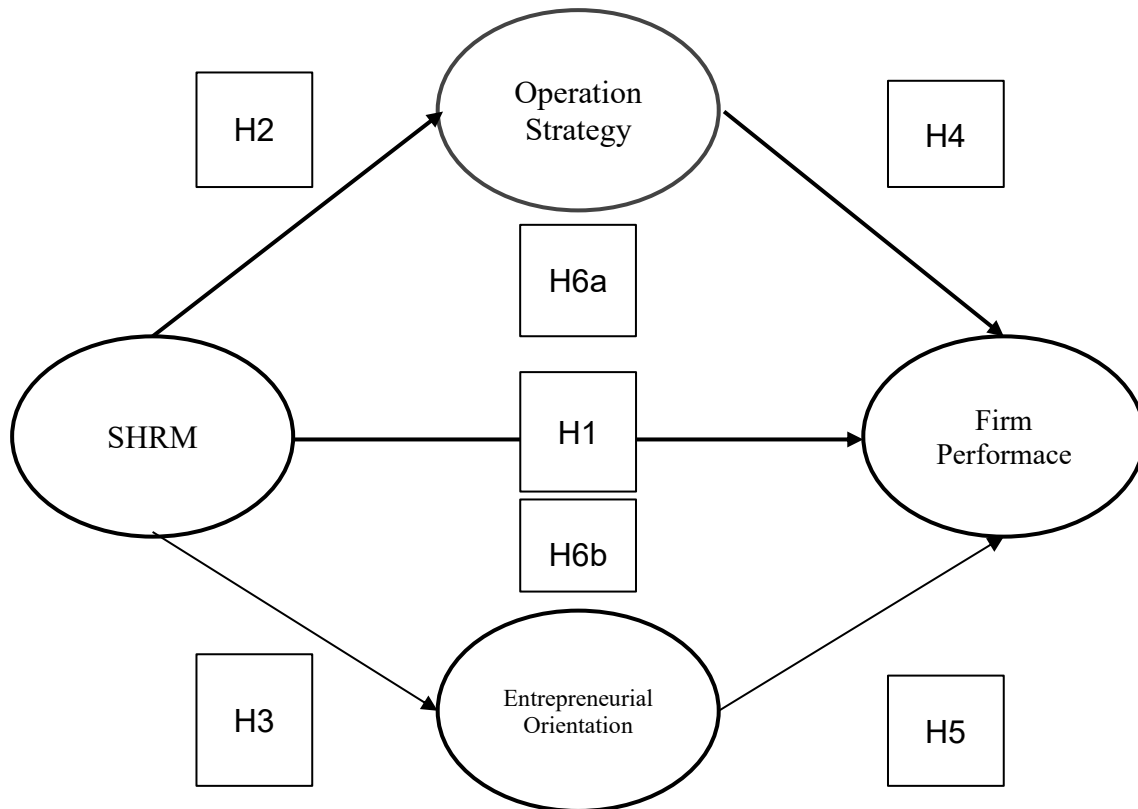


Figure 1. Research Design

3. Research Method

According to the research objectives, this research is research for hypothesis experiments. According to Sekaran and Bougie (2016), a hypothesis experiment is research that describes the relationship between dependent and independent variables, or other variables that impact one variable on another variable. However, based on time horizon, these studies are grouped together. This research was conducted using quantitative data. The survey approach is carried out by obtaining information by distributing forms or interviews so that later it can produce various aspects of the population (Fraenkel and Wallen, 1990). The population in this study were all recycling-based SMEs in Bantul, Yogyakarta, Indonesia. The total sample in this study was 60 SMEs as respondents. In this research, data was obtained directly through questionnaires regarding SHRM, firm Performance, operation strategy, and entrepreneurial orientation.

4. Finding and Discussion

The analysis technique obtained in this research is Partial Least Square (PLS). According to Hair et al. (2017), PLS is a Structural Equation Modeling (SEM) technique that is sufficient to analyze latent variables, indicator variables and assessment errors directly. PLS can be applied with small sample sizes and can be used on all data scales. The form or test of reflective

indicators is obtained through discriminant validity and AVE. The total sample in this study was 60 SMEs as respondents. Table 3 showed the characteristics of SMEs in this research.

In this research, an analysis of the validity and reliability of four main variables was carried out, namely SHRM, firm performance, operation strategy, and entrepreneurial orientation. This analysis aims to ensure that the variables used in the research have an adequate level of validity and reliability, so that the research results can be reliable and accurate.

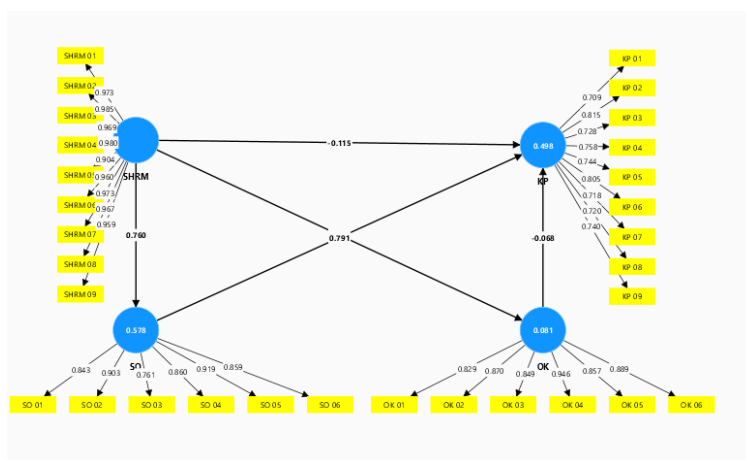


Figure 2. Outer Model Test Results

The outer test results used for validity and reliability testing, all indicators on each variable have been valid because they have been greater than 0.7. All variables have also been reliably compromised because they have met the cut offs used in this study.

The model is acceptable because the entire endogenous variable has an R square value greater than 0.2. The endogenous variable of firm performance has an R square value of 0.498, entrepreneurial orientation has a R square value of 0.081, and operating strategy has an R square value of 0.578. Table 1 shows the flow of influence between variables in the model. SHRM directly affects firm perform, operating strategy, and entrepreneurial orientation. Operating strategy directly affects firm performance. SHRM indirectly affects firm performance through operating strategy and entrepreneurial orientation.

Table 1. Direct and Indirect Impact Testing

Flow	Kind	Std. Estimates	P-Value	Conclusion
SHRM => Firm Performance	Direct	-0.115	0,478	Not Sign
SHRM => Operating Strategy	Direct	0.760	0,000	Sign

SHRM Orientation	=> Entrepreneurial	Direct	0,285	0,035	Sign
Operating Performance	Strategy => Firm	Direct	0,791	0,000	Sign
Operating Performance	Strategy => Firm	Direct	-0.068	0,520	Not Sgn
SHRM => Operating Strategy □=>Firm Performance		Indirect	-0.019	0.590	Not Sign
SHRM Orientation =>Firm Performance		Indirect	0.601	0.000	Sign

The Effect of SHRM On Firm Performance. Cemal et al., (2016) state that SHRM indicators include the suitability of HR practices to be consistent with each other, the suitability of SHRM with organizational strategy, the suitability of manager characteristics with strategic plans, the criteria for managers needed for the long term, the availability of human resources to set strategies, program planning to support strategic changes, compensation systems to encourage manager performance, evaluation of core managers based on the potential of each member, and job suitability with long-term market demand. Based on the research on variables, SHRM practices in handicraft MSMEs in Bantul Regency are still not seen as an important factor to support company performance. The manager's lack of knowledge and access to information, as well as background and cultural conditions are one of the factors for the hypothesis to be rejected. These results are not in line with the research of Cemal et al., (2016) which says that human resources have a positive effect on company performance but SHRM affects company performance through several other mechanisms in this study also proved not so strong.

The Effect of SHRM on Operating Strategy. The test results show a significant positive effect of SHRM variables on the operating strategy. This means that if SHRM in handicraft MSMEs in Bantul Regency increases, the operating strategy will also increase. For handicraft SMEs in Bantul Regency, SHRM plays an important role in developing an operations strategy. Haming and Mahfud (2011) mention the dimensions of operations strategy including quality, cost, speed, reliability, flexibility and differentiation. The application of each dimension certainly plays an important role in creating a good operations strategy. Continuous improvement of product quality in handicraft MSMEs in Bantul Regency, cost strategies to adjust to market purchasing power, speed in making products and small and large scale orders, reliability in responding to market interest, flexibility in running MSME operations and continuing to adjust to sometimes unstable conditions, and creating product differentiation to compete with others. The results of this study are in line with the research of Battour Mohamed, et al., (2021) which states that SHRM is also a technique used by companies to maintain superior human resources, as well as to help companies maintain efficient operational levels, maintain sustainable organizational development, and maintain competitive advantage.

The Effect of SHRM on Entrepreneurial Orientation. With the post-pandemic situation and

conditions that have more or less impacted handicraft MSMEs in Bantul Regency, MSME managers must organize ways to get up and re-plan strategies to increase public awareness of their products. Cemal Zahir, et al (2016) define indicators of entrepreneurial orientation including continuous innovation, the level of creativity in running operations, innovating and developing businesses, taking risks and new ideas, taking risks is positive for other managers, and focusing on exploration and experimentation when opportunities exist. The application of each indicator is very influential on company orientation. Handicraft MSMEs in Bantul Regency consistently innovate their products, are creative in creating opportunities and sensitive to market demand. Dare to take risks for the sustainability of MSMEs and dare to explore and experiment when there are opportunities. The results of this study are quite relevant to the research of Cemal et al., (2016) which states that the application of SHRM can have a positive and significant effect on entrepreneurial orientation. The post-pandemic situation allows companies to make massive innovations and improvements.

The Effect of Operating Strategy on Entrepreneurial Orientation. The test results show a positive and significant effect of operating strategy variables on company performance. This means that if the company's operating strategy is good, the company's performance will increase. With a strategic plan owned by a company, the company's performance will also be good. MSMEs in the craft sector in Bantul Regency apply operating strategies to improve company performance. There are product quality standards set, cost strategies so that they can adjust to market purchasing power, speed in making small and large scale order products, MSME reliability in responding to market interest, flexibility in running MSME operations and continuing to adjust to unstable conditions, and creating product differentiation to compete with others. This is done to create good company performance. Rising raw material prices, constraints in product manufacturing that are out of control, as well as unpredictable market purchasing power conditions are obstacles for handicraft MSMEs in Bantul Regency. This can be overcome by strategizing operations ranging from quality strategy, cost strategy, speed, reliability, flexibility, and differentiation. The results of this study are not in line with the results of research by Kusmantini et al. (2018) which states that not all types of strategies have strategic alignment. The higher the level of strategic relationship alignment, the better performance it can create.

The Effect of SHRM on Entrepreneurial Orientation. The test results show that there is no positive and insignificant effect of entrepreneurial orientation variables on firm performance. This means that entrepreneurial orientation in handicraft MSMEs in Bantul Regency has no effect on company performance. Cemal Zahir, et al (2016) state that indicators of entrepreneurial orientation include the company's success in terms of financial management, financial success generated by new products, comparison of equity with average net profit, comparison of available SDA with net profit before tax, net income achieved from basic operations, average annual sales increase, employee satisfaction level, employee absenteeism rate, and employee behavior. Post-pandemic conditions are one of the obstacles faced by handicraft MSME players in Bantul Regency. The tourism sector has not fully recovered, and people's purchasing power is a factor in the poor performance of companies in handicraft

MSMEs in Bantul Regency. Not a few MSMEs have been affected and are still trying to recover from this condition. The results of this study are not in line with the research of Wardoyo et al, (2018) which explains that by applying entrepreneurial orientation as a benefit strategy, companies can compete more effectively in the same marketplace. This is certainly closely related to company performance which can be measured periodically with predetermined methods, targets, or strategies.

The Effect of Entrepreneurial Orientation on Firm Performance through Operating Strategy. The results showed a positive and significant effect on the SHRM variable on company performance through the operating strategy. This means that if SHRM is applied through the operating strategy as mediation, the company's performance will increase. The important role of the operations function is to be able to produce satisfactory products and services for customers. For MSME players in the handicraft sector in Bantul Regency, strategies in improving product quality, cost strategies so that they can adjust to market purchasing power, speed in making small and large scale order products, MSME reliability in responding to market interest, flexibility in running MSME operations and continuing to adjust to unstable conditions, and creating product differentiation to compete with others are able to mediate the relationship between SHRM and company performance. With a quality strategy that is reliable and able to encourage the performance of MSME companies, one of them is by creating and adopting the latest designs that can reach a wider range of consumers. The increasing price of raw materials is also dealt with by reducing production prices so that the selling price does not stay too high and can reach more markets. The speed of delivery and manufacturing has also not escaped the focus of handicraft MSMEs in Bantul Regency. One of the strategies implemented is to process shipments directly on that day so that products arrive faster. Meanwhile, the strategy to process orders, especially on a large scale, is to add employees as needed so that orders can be processed more quickly and consumers can be satisfied with the results. The flexibility strategy implemented by MSMEs in the handicraft sector in Bantul Regency is by adjusting their production capacity according to consumer needs and orders. Not a few MSMEs are able to produce their products according to customer requests or custom so that they can adjust to consumer demand. The results of this study are relevant to research (Kusmantini et al, 2018) which states that it is important to investigate the role of operating strategy as a mediating influence of the SHRM relationship on company performance. The higher the level of strategic relationship alignment, the better performance it can create.

The Effect of Entrepreneurial Orientation on Firm Performance through Entrepreneurial Orientation. The important role of the entrepreneurial orientation function is to be able to renew products and services that are satisfying for customers. Cemal Zahir, et al (2016) defines indicators of entrepreneurial orientation including continuous innovation, the level of creativity in running operations, innovating and developing businesses, taking risks and new ideas, taking risks is positive for other managers, and focusing on exploration and experimentation when opportunities exist. The application of each indicator greatly affects the orientation of the company. Lack of access to information, limited ability to innovate, and lack of exploration are obstacles faced by many handicraft MSME players in Bantul Regency. The age of MSME

players who are no longer young is one of the factors for this to happen. Difficulties in following trends, innovating, and limited references that can be applied to the production process are also obstacles caused by the age factor. The results of this study are not relevant to the research of Cemal et al., (2016) which shows that entrepreneurial orientation mediates the relationship between human resource management or strategic human resource management (SHRM).

5. Conclusion

SHRM has no positive and insignificant effect on firm performance in handicraft SMEs in Bantul Regency, SHRM has a positive and significant effect on operating strategies in handicraft SMEs in Bantul Regency, SHRM has a direct and significant effect on entrepreneurial orientation in handicraft SMEs in Bantul Regency, Operating strategy has a positive and significant effect on firm performance in handicraft SMEs in Bantul Regency, Entrepreneurial orientation has no positive and insignificant effect on firm performance in handicraft SMEs in Bantul Regency, Operating strategy is able to mediate the relationship between SHRM and firm performance, Entrepreneurial orientation is not able to mediate the relationship between human resource management and firm performance.

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