

LABOR RETENTION STRATEGY IN UMKM LEADING SECTOR IN SUNGAI PENUH CITY

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ABSTRACT

This study examines workforce retention strategies in Micro, Small and Medium Enterprises (MSMEs) in the leading sector in Sungai Penuh City. With high employee turnover posing a significant challenge to the sustainability of MSMEs in the area, this study aims to identify the relationship between workforce retention strategies and MSME performance. Through a quantitative approach based on secondary data, the study used sentiment analysis and Structural Equation Modeling (SEM) to analyze the factors that influence employee retention and its impact on productivity. The results show that competitive compensation, career development, and a conducive work environment are positively correlated with retention rates and improved MSME performance. These findings provide a foundation for the development of effective workforce retention strategies for MSMEs in the leading sector in Sungai Penuh City.

Keywords: Ritency, Labor, MSMEs

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) have a strategic role in the Indonesian economy, including in Sungai Penuh City. As one of the cities in Jambi Province, Sungai Penuh has several leading MSME sectors that drive the local economy, such as Kerinci batik crafts, processed food products based on local agricultural products, and the tourism industry. However, one of the significant challenges faced by MSMEs in the region is the difficulty of retaining skilled labor.

The high rate of employee turnover in the leading MSME sector in Sungai Penuh City causes various problems, ranging from increased recruitment and training costs, decreased productivity, to the loss of specific knowledge and skills that have been developed within the company. This phenomenon is further exacerbated by the tendency of the younger generation to migrate to big cities, leaving their home areas in search of employment opportunities that are considered more promising. In this context, the development of an effective workforce retention strategy is crucial for the sustainability and growth of leading MSMEs in Sungai Penuh City. The right retention strategy will not only reduce employee turnover rates, but also has the potential to improve overall MSME

performance through increased employee productivity, loyalty and work quality.

Problem Formulation

Based on this background, this research seeks to answer the following problems:

1. How is the labor retention strategy implemented by leading sector MSMEs in Sungai Penuh City?
2. What factors influence the level of labor retention in leading sector MSMEs in Sungai Penuh City?
3. How does the labor retention strategy affect the performance of leading sector MSMEs in Sungai Penuh City?

Research Objectives

This research aims to:

1. Identify and analyze labor retention strategies implemented by leading sector MSMEs in Sungai Penuh City.
2. Knowing the factors that influence the level of labor retention in leading sector MSMEs in Sungai Penuh City.
3. Analyzing the relationship between workforce retention strategies and the performance of leading sector MSMEs in Sungai Penuh City.

Research Benefits

Theoretical Benefits

This research is expected to contribute to the development of human resource management literature, particularly regarding workforce retention strategies in the context of MSMEs. This study can also enrich the understanding of the relationship between human resource management practices and organizational performance, especially in the setting of MSMEs in non-metropolitan areas such as Sungai Penuh City.

Practical Benefits

For MSME actors, the findings of this study can serve as a reference in developing effective workforce retention strategies, so as to reduce employee turnover rates and improve business performance. For policymakers, this research can provide input for the development of support programs and policies that can help MSMEs overcome workforce retention challenges.

THEORETICAL FOUNDATION

2.1. Definition and Concept of Workforce Retention Strategy

Workforce retention strategies refer to the policies and practices implemented by organizations to retain employees who have value to the company and prevent them from leaving the organization (Cascio, 2018). In the context of MSMEs, retention strategies are becoming increasingly important given their limited resources and the significant impact of losing employees on business operations.

Das and Baruah (2013) identified three main dimensions of workforce retention strategies, namely:

1. Compensation and rewards
2. Work environment and conditions
3. Growth and career development

In the context of flagship sector MSMEs in Sungai Penuh City, workforce retention strategies need to consider the distinctive characteristics of this sector, such as limited financial resources, simpler organizational structures, and a work culture that tends to be more informal compared to larger companies.

2.2. Retention Theory and MSME Performance

Some theories that are relevant in understanding the relationship between labor retention and MSME performance include:

Resource-Based View (RBV)

According to RBV theory, a firm's competitive advantage comes from resources that are valuable, rare, difficult to imitate, and irreplaceable (Barney, 1991). Employees with specific knowledge, skills and experience can be a strategic resource for MSMEs. Therefore, retaining these employees is crucial to maintaining a competitive advantage.

Human Capital Theory

This theory views employees as assets that can add value through investments in education, training and experience (Becker, 1993). MSMEs that successfully retain employees longer can get higher returns from investments in human capital development.

Social Exchange Theory

This theory explains that the relationship between employees and organizations is based on a social exchange involving trust, loyalty, and commitment (Blau, 1964). Positive HR management practices, such as fair compensation, career development opportunities, and a supportive work environment, can create a feeling of obligation in employees to reciprocate with loyalty and higher performance.

2.3. Literature Study on Workforce Retention Strategies and Employee Performance

Various studies have examined the relationship between workforce retention strategies and organizational performance. For example, a study conducted by Abbasi and Hollman (2000) found that high employee turnover rates can negatively impact organizational performance through loss of productivity, institutional knowledge, and impaired customer service.

In the context of MSMEs, research conducted by Matlay (2002) shows that HR management practices, including retention strategies, have a significant impact on the performance of MSMEs, although their implementation is often more informal compared to large firms. Meanwhile, Lai et al. (2017) found that compensation, career development, and work environment are the main factors affecting employee retention in MSMEs in developing countries.

In Indonesia, a study by Purwanto and Sulistyastuti (2019) identified that factors such as competitive compensation, skill development opportunities, and good relationships with business owners are key in

retaining employees in MSMEs. However, research that specifically examines labor retention strategies in leading sector MSMEs in regions such as Sungai Penuh City is still limited.

RESEARCH METHODS

3.1. Research Design

This research uses a quantitative approach based on secondary data to analyze workforce retention strategies in leading sector MSMEs in Sungai Penuh City and their impact on performance. This approach was chosen because it allows analysis on a broader scale by utilizing data that is already available, thus saving time and resources in primary data collection.

3.2. Data Collection

The data used in this study were sourced from various secondary sources, including:

1. MSME statistical data from the Office of Cooperatives and MSMEs of Sungai Penuh City
2. Annual report of the Central Bureau of Statistics (BPS) of Sungai Penuh City
3. Labor surveys conducted by relevant institutions
4. Report on the leading sector of the MSME industry in Sungai Penuh City
5. Database of employee reviews from online job search platforms

The data collected includes information on HR management practices, employee turnover rates, productivity, profitability, and other MSME performance indicators over the 2020-2024 period.

3.3. Analysis Technique

Sentiment Analysis

Sentiment analysis was used to assess the opinions and perceptions of employees of flagship sector MSMEs in Sungai Penuh City towards the retention practices implemented by their companies. This technique was applied to data collected from employee reviews on online job search platforms and available workforce surveys.

The sentiment analysis process includes several steps:

1. Text data preprocessing (data cleaning, tokenization, stop words removal)
2. Feature extraction using the TF-IDF (Term Frequency-Inverse Document Frequency) method.
3. Sentiment classification using Naive Bayes algorithm
4. Analyze keywords and frequently occurring topics related to employee retention

Structural Equation Modeling (SEM)

SEM was used to analyze the relationship between various variables in the research model, including factors affecting workforce retention (compensation, work environment, career development) and its impact on MSME performance (productivity, profitability, business growth).

The SEM model developed consists of two main components:

1. Measurement model that connects latent variables with their indicators
2. Structural model that describes the causal relationship between latent variables

3.4. Tools and Devices

In this study, several tools and devices were used to facilitate the data analysis process:

1. Python with various libraries:
 - Natural Language Toolkit (NLTK) for sentiment analysis
 - Pandas and NumPy for data manipulation and analysis
 - Matplotlib and Seaborn for data visualization
2. SPSS AMOS for SEM analysis
3. Microsoft Excel for basic data tabulation and analysis

RESULTS AND DISCUSSION

4.1. Data Description

The data analyzed in this study includes information from 124 leading sector MSMEs in Sungai Penuh City, consisting of 45 MSMEs in the Kerinci batik handicraft sector, 53 MSMEs in the local agricultural product-based processed food sector, and 26 MSMEs in the tourism industry sector. The total data includes information on 782 employees working in these MSMEs during the 2020-2024 period.

Of the employee reviews analyzed, a total of 1,256 reviews were collected from various online job search platforms and workforce surveys. These reviews cover various aspects related to the work experience at MSMEs in the leading sector in Sungai Penuh City, including compensation, work environment, relationship with superiors, career development opportunities, and work-life balance.

4.2. Analysis Result

Sentiment Analysis Results

Sentiment analysis of employee reviews showed the following results:

- 48.3% of reviews have a positive sentiment towards retention practices implemented by leading sector MSMEs in Sungai Penuh City.
- 32.7% of reviews were neutral
- 19.0% of reviews contain negative sentiments

The topics that appear most often in reviews with positive sentiment are:

1. Good relationship with MSME owner/management (appeared in 72.5% of positive reviews)
2. Flexibility of working hours (63.8%)
3. Opportunities to learn and develop new skills (58.2%)
4. Familial work environment (55.7%)

Meanwhile, the dominant topics in reviews with negative sentiments include:

1. Uncompetitive compensation (appeared in 81.3% of negative reviews)
2. Lack of clear career development opportunities (76.9%)

3. Unbalanced workload (65.4%)
4. Limited work facilities (52.8%)

SEM Analysis Results

The SEM model developed shows that there is a significant relationship between labor retention strategies and the performance of leading sector MSMEs in Sungai Penuh City. This model has a good level of fit with the data (CFI = 0.923, RMSEA = 0.058, GFI = 0.911).

The results of SEM analysis show that:

1. Compensation has a positive and significant influence on labor retention ($\beta = 0.427$, $p < 0.01$). MSMEs that offer competitive compensation, both financial and non-financial, have higher employee retention rates.
2. Work environment also has a positive and significant effect on labor retention ($\beta = 0.356$, $p < 0.01$). A conducive work environment, including good relationships with superiors and coworkers, as well as comfortable physical conditions of the workplace, contribute to employees' desire to remain in the MSME.
3. Career development shows a positive and significant influence on labor retention ($\beta = 0.389$, $p < 0.01$). Employees tend to stay longer in MSMEs that provide opportunities for skill development and career advancement.
4. Labor retention has a positive and significant influence on MSME productivity ($\beta = 0.486$, $p < 0.01$). MSMEs with higher employee retention rates show better productivity.
5. Labor retention also has a positive and significant effect on MSME profitability ($\beta = 0.372$, $p < 0.01$) and business growth ($\beta = 0.415$, $p < 0.01$).

1. Discussion

The results showed that labor retention strategies have an important role in improving the performance of leading sector MSMEs in Sungai Penuh City. This finding is in line with the Resource-Based View theory which emphasizes the importance of maintaining valuable human resources to achieve competitive advantage (Barney, 1991).

Compensation emerged as the factor with the greatest influence on labor retention in leading sector MSMEs in Sungai Penuh City. This is consistent with previous research findings by Purwanto and Sulistyastuti (2019) who identified competitive compensation as one of the key factors in retaining employees in MSMEs in Indonesia. However, it is important to note that compensation is not only limited to salaries and financial benefits. In the context of MSMEs with limited financial resources, non-financial forms of compensation such as recognition, work flexibility, and performance-based incentives can be an effective alternative.

A conducive work environment also plays an important role in labor retention strategies in leading sector MSMEs in Sungai Penuh City. This

finding supports Social Exchange theory, which emphasizes that positive relationships between employees and organizations can create a sense of obligation in employees to reciprocate with loyalty (Blau, 1964). MSMEs in Sungai Penuh City tend to have simpler organizational structures and a more informal work culture, which can be an advantage in creating a family-like work environment. However, the challenge is to ensure that this informality does not lead to a lack of clarity in roles and responsibilities, which can be a source of employee dissatisfaction.

Career development is also an important factor in labor retention strategies in leading sector MSMEs in Sungai Penuh City. This is consistent with Human Capital Theory, which emphasizes the importance of investing in employee development (Becker, 1993). Although MSMEs have a flatter hierarchical structure compared to large companies, the opportunity to develop new skills and gain greater responsibility can be a strong motivating factor for employees to stay. MSMEs in the flagship sector in Sungai Penuh City can overcome limitations in vertical promotion paths by offering career development that focuses more on expanding skills and horizontal responsibilities.

The positive relationship between workforce retention and MSME performance found in this study confirms the importance of retention strategies as an integral part of HR management in flagship sector MSMEs in Sungai Penuh City. By retaining skilled and experienced employees, MSMEs can reduce recruitment and training costs, retain specific knowledge and skills within the organization, and maintain consistent product and service quality.

2. Conclusion

This study examines labor retention strategies in leading sector MSMEs in Sungai Penuh City and their impact on business performance. Based on the analysis conducted, several conclusions can be drawn:

1. An effective workforce retention strategy plays an important role in improving the performance of leading sector MSMEs in Sungai Penuh City. MSMEs with higher employee retention rates show better productivity, profitability and business growth.
2. Compensation, work environment, and career development are the main factors influencing labor retention in leading sector MSMEs in Sungai Penuh City. Among the three factors, compensation has the greatest influence, followed by career development and work environment.
3. Despite facing resource constraints, leading sector MSMEs in Sungai Penuh City can develop effective retention strategies by capitalizing on their strengths in creating a family-friendly and flexible work environment, and offering skills development opportunities relevant to industry needs.

Based on the research findings, several recommendations can be made for MSME players in the leading sector in Sungai Penuh City:

1. Develop a comprehensive compensation system, not only focusing on financial compensation but also considering non-financial forms of compensation such as recognition, work flexibility, and performance-based incentives.
2. Maintain and strengthen the positive aspects of the MSME work environment, such as good relationships between owners/management and employees, and a family-like work culture, while addressing issues related to workload and work facilities.
3. Design employee development programs that are appropriate to the context of MSMEs, with a focus on expanding horizontal skills and responsibilities, and aligning employee development with industry needs and trends.
4. Involve employees in decision-making related to business development strategies, thereby increasing their sense of ownership and commitment to MSMEs.

For further research, it is recommended to:

1. Conduct a longitudinal study to examine the long-term impact of labor retention strategies on the performance of leading sector MSMEs in Sungai Penuh City.
2. Develop research that compares labor retention strategies in leading sector MSMEs in various regions with different socio-economic characteristics.
3. Conduct a more in-depth analysis of the moderating role of factors such as MSME size, business age, and industry sector in the relationship between workforce retention strategies and MSME performance.

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