HRM, SMEs’ INNOVATION AND GROWTH: EXPLORATORY STUDY
OF HUMAN RESOURCE MANAGEMENT PRACTICES IN SMEs’
CREATIVE INDUSTRY IN MALANG CITY

LOHANA JUARIYAH
Universitas Negeri Malang, Management Department, Faculty of Economics
Jl. Semarang 5 Malang, 65145, Indonesia
E-mail: lohana@um.ac.id

ABSTRACT
SMEs are often omitted from HR literature, although it is found play as the engine of economy, especially them which are in creative industry. It is also related with entrepreneurship and innovation, because of people management process inside. SMEs in creative industry also found to be more survive and successful in today’s world competition. However, the study of HRM practices in this industry is rarely being explored, especially in Indonesia, so we have limited knowledge of how this industry grow and innovate? Is there any special people management (HRM practices) applied in this industry in order to innovate and grow well? This study is trying to answer all of those questions. By using qualitative approach trough field observations and depth interview from owners, managers, supervisors, and workers, data were collected from six leaders of food and beverages SMEs in Malang and four fast growing SMES in Distro and Clothing Company (fashion industry). The results show that in both industry, SMEs applied specific recruitment channels and selection steps. Training and development are directly through Jobs. No specific attempt for career development in restaurant and café business different from distro and clothing companies which has it. Career development in the latest business is clear. It has specific effort for maintaining its staff creativity through training, empowerment, and promotion. Lastly, both industries relied on more incentive-based compensation. Overall, HRM practices in restaurant and café SMEs support Miles and Snow’s Model. While, SMEs HRM practices in distro and clothing companies are in line with Schuler and Jackson’s Model.

1. INTRODUCTION

The organization and management aspects of creative industries is the focus of a new, interdisciplinary research agenda (Lampel, Land, and Shamsie, 2000). The creative industries
have become the subject of an increasing amount of research and theoretical development (Robinson in Matheson, 2006), since Western nations move away from the production of goods and services and concentrate instead on the production of ideas and knowledge as source of innovation (Hadjimanol, 1999; Keizer et al., 2002; Edwards et al., 2005). According to the explanation of Indonesian Ministry of Trade (Departemen Perdagangan Republik Indonesia, 2008), creative industries generate creative economy as a manifestation of attempts to develop sustainable development via creativity that has competitive advantage from undefined renewable resources: ideas, talents, and creativities that only have by creative talents (Creative Economy Development Plan 2009-2015, p.1)

Creative industries have attracted growing attentions from researchers and policy makers in recent years because of their evident importance to economic growth (Indonesian Ministry of Trade, 2008). The Government of Indonesia realizes potentials for job creation, poverty eradication, increasing of national income, and nurturing of nationalism from creative industries. In Indonesian context, the average GDP contribution of Creative Industries for year 2002-2006 is 6.3% of total GDP with a value of IDR 104.6 trillion (approximately USD 7.4 billion), in 2006 employing an average of 5.4 million workers (equal to 5.8 per cent of the total workforce). Creative Industries export value reached IDR 81.4 trillion (approximately USD 5.8 billion) and account for 9.13% of total national export value. Nationally, the contribution to GDP from Creative Industries ranked 7th, which is dominated by fashion, crafts, advertising, and design sectors.

Most research findings indicated that majority play makers in creative industries are in small to medium-sized enterprises which although characterize with rapidly changing technology (Hotho and Champion, 2011), and market conditions (Jung, 2010), they are vulnerable to being sold, their business survival rates beyond the critical five-year period continue to be low (McGregor and Solek, dePeuter and Dyer-Witheford in Hotho and Champion, 2011).
Small firms have been described as the ‘fruit flies of management because they live and die quickly’ (Katz et al., 2000, p. 8). They also found to have less formal HRM practices or even lack of that (Rachmi, 2013) and reluctant to scale up (Hoito and Champion, 2011). Shortages of key staff and essential skills can also contribute to firm failure and. “But sadly it seems by not investigating the association of HRM and its potential impact and influence on these ventures, then as researchers we are missing an opportunity” said Jack, et.al. (2006). Therefore, it is important to investigate people management in SMEs especially in creative industries context.

There are very few previous studies on the HR practices of SMEs in Indonesia. De Kok and Uhlaner (2001) claim that small firms usually face impediments to structuring HRM because they lack the time, money and employees to formalize their HR practices. They might lack HR expertise, and are often badly informed about the possible impact of HR practices, because they lack professional HR staff. Further, there is evidence that the ownership structures of SMEs determine the nature of HRM practices and policy implementation and HRM outcomes (Mazzarol, 2003).

General observation suggests that some SMEs do attempt to make their HR practices more professional, however, they still have to adjust to their limitations and culture. It appears culture still influences the HRM practices of Indonesian companies (Habir & Larasati, 1999). According to the divergence theory of HRM, the need for firms to standardise practices and policies as well as take culture into consideration will lead to different implementation of HRM practices (Nankervis & Chatterjee, 2006). Moreover, Habir and Larasati (1999) argue that applying HRM practices in Indonesian organizations requires great effort since Indonesian cultural characteristics do not easily accommodate such a change. Given these facts, Indonesian HRM practices appeared to be more divergent than those in Western countries, especially in creative industries that require innovative capabilities.
Several studies present empirical evidence on the relationship between HRM practices and organisational performance (Delaney & Huselid, 1996; Wright et al., 2003). Recent study in Indonesia conducted by Rachmi (2013) found that four predictor variables (recruitment and selection, training and development, performance appraisal and industrial relations) significantly contributed to perception of company performance while the other two predictors (remuneration and rewards; and culture) did not. This study investigated SMEs in Indonesian batik industries. However, there is a little evidence that similar research have been conducted in other Indonesian creative industries that characterize by rapid changing technology and market conditions, and highly competitive product.

Based on above discussion, this study attempts to explore human resource management practices in food and beverages industry together with distro and clothing companies, since both industries seem to grow faster than others and more dominant in Malang City. This study will enrich empirical findings in SMEs HR practices literature, especially in Indonesia.

2. RESEARCH METHOD

By using qualitative approach trough phenomenology, this research explores the pattern of HR practices of six leaders of restaurant and café business (food and beverages industry) and four biggest distro and clothing companies (fashion industry) in Malang city. Phenomenology study focuses on describing what all participants have in common, as they experience a phenomenon. In phenomenology, individual experiences with a phenomenon is reduced to have a description of the universal essence (Creswell, 2007: 58).

Respondents of this research are all supervisors, managers, owners, designers, and employees who work in both business (ten companies) that listed in Dinas Perijinan Kota Malang. It means, only those business which are formally and legally admitted by government to
operate. This is related with tax payment for local government. All of the participants are chose because of their leadership in market more than three years to show their growth in industry. Participants in this study and its location is showed in Table 1 below:

Table 1
Name and Location of Participants

<table>
<thead>
<tr>
<th>Name Of Business</th>
<th>Business Address</th>
<th>Telephone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amsterdam Kitchen and Bar</td>
<td>Jl.Pahlawan Trip 25 Malang</td>
<td>0341-556273</td>
</tr>
<tr>
<td>Busker Beans</td>
<td>Jl. Kalpataru Kav. 112 Malang</td>
<td>0341-7844778</td>
</tr>
<tr>
<td>Java Dancer Café</td>
<td>Jalan Kahuripan No. 12 Malang</td>
<td>0341-8199899</td>
</tr>
<tr>
<td>Re &amp; Fort Garden Café</td>
<td>Jalan Terusan Kawi No. 4 Malang</td>
<td>0341-497172</td>
</tr>
<tr>
<td>Ria Djenaka</td>
<td>Jalan Bandung No. 5 Malang</td>
<td>0341-551003</td>
</tr>
<tr>
<td>Vosco Coffe</td>
<td>Jalan Borobudur No. 27A Malang</td>
<td>08563136778</td>
</tr>
<tr>
<td>Distortion</td>
<td>Griya Shanta K-407 Malang</td>
<td></td>
</tr>
<tr>
<td>Heroin</td>
<td>Jl. Semeru 70 Malang</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jl. Cengkeh 20 Kav 1 Malang</td>
<td></td>
</tr>
<tr>
<td>Inspired27</td>
<td>Jl. Soekarno Hatta D-551 Malang</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jl. Kendalsari No.6 Malang</td>
<td></td>
</tr>
<tr>
<td>Soak Ngalam</td>
<td>Jl. Kawi Atas no.24 Malang</td>
<td></td>
</tr>
</tbody>
</table>

By using in-depth interview using semi-structured interview guidance (tape recorder, pencil and pen), observation and documentation, data are obtained. After applied data reduction,
data are presented in narration and verified by checking its validity findings through triangulation (to get credible data), transferability, and dependability.

3. RESULTS AND DISCUSSION

Object Description

Description of object research includes information about the year it is founded, type of business, market segment, number of employees and its status, which will describe in Table 2 below:

<table>
<thead>
<tr>
<th>Name of Business</th>
<th>Year it is founded</th>
<th>Market Segment</th>
<th>∑ Employees &amp; its Status</th>
<th>Type of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amsterdam Kitchen</td>
<td>1989</td>
<td>Middle&amp;Upper Segments for Family</td>
<td>33 permanent employees</td>
<td>Casual Dining Restaurant</td>
</tr>
<tr>
<td>and Bar</td>
<td></td>
<td>and Young People</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Busker Beans</td>
<td>2012</td>
<td>Middle down income; Young students</td>
<td>15 permanent employees</td>
<td>Bistro (simple menu of food and beverages)</td>
</tr>
<tr>
<td>Java Dancer Café</td>
<td>2008</td>
<td>Youngsters and Foreigners (Tourists)</td>
<td>27 permanent workers</td>
<td>Cafe House with Javanese Ethnic ambience</td>
</tr>
<tr>
<td>Re &amp; Fort Garden Café</td>
<td>2013</td>
<td>Youngsters; students workers</td>
<td>17 permanent workers</td>
<td>Bistro</td>
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<td></td>
<td></td>
<td></td>
<td>8 contract workers</td>
<td></td>
</tr>
<tr>
<td>Name of Business</td>
<td>Year it is founded</td>
<td>Market Segment</td>
<td>Σ Employees &amp; its Status</td>
<td>Type of Business</td>
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</tr>
<tr>
<td>Ria Djenaka</td>
<td>2010</td>
<td>Family; middle&amp;upper segments</td>
<td>35 permanent workers; 7 contract workers</td>
<td>Casual Dining with Family Style</td>
</tr>
<tr>
<td>Vosco Coffe</td>
<td>2013</td>
<td>Youngsters; Students</td>
<td>14 permanent workers; 10 contract workers</td>
<td>Café House</td>
</tr>
<tr>
<td>Distortion</td>
<td>2009</td>
<td>Indie Rock Music Community</td>
<td>3 permanent workers; 6 contract workers</td>
<td>Distro (distribution outlet) and Clothing Company (produce its own product and label)</td>
</tr>
<tr>
<td>Heroin</td>
<td>2003</td>
<td>All segments and genders</td>
<td>20 permanent workers</td>
<td>Distro and Clothing Company</td>
</tr>
<tr>
<td>Inspired27</td>
<td>2003</td>
<td>All segments and genders</td>
<td>33 permanent workers</td>
<td>Distro and Clothing Company</td>
</tr>
<tr>
<td>Soak Ngalam</td>
<td>2008</td>
<td>Youngsters especially visitors</td>
<td>11 permanent workers</td>
<td>Clothing Company with specific Malang culture identity on all its product. Only sell its own product</td>
</tr>
</tbody>
</table>
Managerial Positions and Its Duties

In restaurant and café business, each company has similar managerial position consist of Owner, Manager, Head of Kitchen (Chef), Head of Bar (Barista), Cook Helper (Assistant Chef), Pantry (Assistant Barista), Server (Waitress and Billing people). An owner is responsible for all the things that are in Resto & Café, which include operational funding and the salaries of employees. Owner also has absolute authorities, such as replacing the concept Resto&cafe, raise/lower the price of the product, and hiring new employees, decide compensation package, training and development concept, promotion, and firing workers.

While in Distro and Clothing Company, it has Owner, Manager, Store supervisor, Warehouse Supervisor, Senior Staff, Shopkeeper, Warehouse, Cashiers. Owner in this business has similar duties with owner and manager in restaurant and café business. Usually the owner decide the product design together with their designers. However, for recruitment and selection process, they tend to delegate it to their manager and supervisor.

Managers in restaurant and café business are coordinating and overseeing all operational activities if the owner was absent in place. They report all proceeds from the sale and checking inventory in the kitchen and bar every day to the owner, coordinates all employees to do the operational activities and maintain the Resto&Café atmosphere to remain conducive. While managers in Distro and Clothing Company have greater responsibilities and more flexible in managing the store and warehouse. They just look like owner’s representative. Many decisions about inventory, store concepts, events, price decision are managers’ responsibility.

Chef and Barista have to present any food and drinks menu and cake ordered by customers. They have responsibility to coordinate each employee in the kitchen&bar and check the inventory of materials and equipment used and needed every day which will then be reported
to the Manager. This responsibilities also similar to Store Supervisor and Warehouse Supervisors in distro and clothing companies. Although they report the store conditions and inventory conditions to manager, they can also directly decided store concept and involved in recruitment and selection of the staff.

From the discussion above it is clear that owner has privilege to decide anything including budget, concept, design, manpower planning, training and development, compensation and firing decision, especially in food and beverage industry, owner privilege is absolute. However, in Distro and Clothing Company, it seems that owner is more flexible and more delegate some duties to their managers and supervisors.

**Human Resource Management Practices in Both Industries**

From field observation and semi in-depth interviews, study found that both industries have several HR practices in their business such as: recruitment and selection process (informal), training and development process (on the job training), promotion and development (partially, only in Distro and Clothing Company), empowerment effort (through inventing/creating new recipe and appreciate it as on the list menu in resto and café business; through allowing staff create new design for products in distro and clothing company, then they can put their name on this design and get payment for the design), and retain activity.

The resume of the findings in both business show in Table 3, Table 4 below:
## Table 3

### Recruitment and Selection Process

<table>
<thead>
<tr>
<th>Criteria/Steps</th>
<th>Amsterdam</th>
<th>Busker</th>
<th>Java</th>
<th>Re&amp;Fort</th>
<th>Ria Djenaka</th>
<th>Vosco</th>
<th>Distortion</th>
<th>Heroin</th>
<th>Inspired</th>
<th>Soak Ngalam</th>
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<tbody>
<tr>
<td>Name</td>
<td>Owner and Manager</td>
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<td>Media</td>
<td>Social Media: Twitter, BBM</td>
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</tbody>
</table>
Data shows that owner and manager in resto and café industry in Malang city have absolute authority to recruit, hire, and decide to employ needed staff. On the other hands, owner in distro and clothing companies did not involve much in this process. They delegated these duties to their manager or even store supervisor. From this fact, it can be said that there is a clear responsibilities between owner, manager, and supervisor in resto and café SMEs. In other words, job description in restaurant and café business is more clear and definite compare to distro and clothing SMEs.

Generally said all of industries here are using media social through internet to recruit their new members. Although there are many channels to advertise job vacancies such as job advertisement, paper-based and internet recruitment and word-of-mouth recruitment are the most popular channels to advertise job vacancies (Searle in Collings and Wood, 2009: 155). Therefore, social media especially Black Berry Massanger (BBM) and Twitter which are more likely word-of-mouth type through internet broadcast, are frequently chose as their recruitment channels.

The evident show that internet especially social media is the most favorite tools to inform and advertise job vacancies. Not only because of it is free, but also to make sure that the applicants are well known about the organization and the position they apply for.

These findings also supported the recent trends in a decade that the use of the Internet has increased 60 per cent through the application of corporate web sites for recruitment purposes, with 91 per cent of Global 500firms web sites featuring vacancies. It provides organizations with a highly cost effective and efficient means of reaching applicants on a global basis (Searle in Collings and Wood, 2009: 154). The growth of the Internet has influenced organization attract and select candidate (Beardwell and Claydon, 2007: 191)
Next finding will discuss about promotion and development, empowerment, retention mechanism within SMEs in restaurant and café business and also fashion industry. Table 4 shows the result of research as follow:

**Table 4**

**Promotion & Career Development, Empowerment, and Retention**

<table>
<thead>
<tr>
<th>Name of Business</th>
<th>Promotion &amp; Career Development</th>
<th>Empowerment</th>
<th>Retention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amsterdam Kitchen&amp;Bar</td>
<td>Relatively no promotion and career development. Chef, Barista, and Manager are taken from external recruitment</td>
<td>Yes</td>
<td>Wage, Incentives, Overtime bonus, work leave, family gathering</td>
</tr>
<tr>
<td>Busker Beans</td>
<td>Relatively no action. Employees only increase their work status from contract workers to permanent workers after 1 year of working.</td>
<td>No</td>
<td>Wage, Incentives, Overtime bonus, work leave</td>
</tr>
<tr>
<td>Java Dancer</td>
<td>Relatively no promotion and career development. Chef, Barista, and Manager are taken from external recruitment</td>
<td>Yes</td>
<td>Wage, Incentives, Overtime bonus, work leave, family gathering</td>
</tr>
<tr>
<td>Re&amp;Fort Garden House</td>
<td>Relatively no action. Employees only increase their work status from contract workers to permanent workers after 1 year of working.</td>
<td>No</td>
<td>Wage, Incentives, Overtime bonus, work leave, family gathering</td>
</tr>
<tr>
<td>Ria Djenaka</td>
<td>Relatively no promotion and career development. Chef, Barista, and Manager are taken from external recruitment. Only for talented worker will be a Chef and Barista (promotion from within)</td>
<td>Yes</td>
<td>Wage, Incentives, Overtime bonus, work leave, family gathering</td>
</tr>
<tr>
<td>Vosco Coffee</td>
<td>Relatively no action. Employees only increase their work status from contract</td>
<td>No</td>
<td>Wage, Incentives, Overtime bonus, work leave</td>
</tr>
</tbody>
</table>
workers to permanent workers after 1 year of working

<table>
<thead>
<tr>
<th>Distortion</th>
<th>Every workers has similar opportunity to be a store supervisor and warehouse supervisor or even manager</th>
<th>Store supervisor has higher responsibility to manage events and store theme. Worker are allowed to design new product, and give their ideas. Appreciation of employee of the month.</th>
<th>Wage, Incentives, Overtime bonus, work leave, family gathering (holiday), payment for design and special mark (creator initial) on the product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heroin Exp</td>
<td>Every workers has similar opportunity to be a store supervisor and warehouse supervisor or even manager</td>
<td>Appreciation of employee of the month. Store supervisor has higher responsibility to manage events and store theme.</td>
<td>Wage, Incentives, Overtime bonus, work leave, family gathering (holiday). Free access wifi and TV, Air conditioning working place.</td>
</tr>
<tr>
<td>Inspired27</td>
<td>Every workers has similar opportunity to be a store supervisor and warehouse supervisor or even manager</td>
<td>Flexible working arrangements. Workers involved in designing store theme and event theme. Employee of the month</td>
<td>Wage, Incentives, Overtime bonus, work leave, family gathering (holiday). Free access wifi and LED TV</td>
</tr>
<tr>
<td>Soak Ngalam</td>
<td>Every workers has similar opportunity to be a store supervisor and warehouse supervisor or even manager, especially them who perform best.</td>
<td>Workers involved in designing store theme and event theme.</td>
<td>Wage, Incentives, Overtime bonus, work leave, family gathering (holiday)</td>
</tr>
</tbody>
</table>

Data from Table 4 indicates that SMEs in food and beverage industry and fashion applied some HRM practices such as promotion and career development, empowerment, and retain effort, with their own specific ways based on their capacities and resources they have. Restaurant and Café business seem to have no specific attempt to promote their workers from within to fulfill position of manager, chef, and barista (professional positions). When the
business need this professional worker they usually recruit directly from external pool. External recruitment is their priority when they need new worker, especially the professionals. However, some business such as Amsterdam Kitchen&Bar and Vosco Coffee considered internal recruitment when it is really urgent needed. Meanwhile in Distro and Clothing Company, generally speaking they have promotion and career development practices. They promote internally the potential workers who have good performance and achievements to have better position. This opportunity offers to all employees.

In terms of employee empowerment practices through job involvement and appreciation, some SMEs in Resto and Café industry such as Amsterdam Kitchen and Bar, Ria Djenaka, and Java Dancer support and appreciate their employees to create new menu of food, cake, and beverage. When the owner agree, then the new menu will publish in menu list. From this fact, it can be said that business in casual dining category have more attention and employees’ empowerment practices compared to them in café house and bistro categories. In line with casual dining resto and café, SMEs in distro and clothing (fashion industry) also involve their workers in their jobs. The empowerment practices in this industry is better than in resto and café business.

Retention activity is the next HR practices found in both industry. This activity is intentionally done in order to motivate employees, maintain their performance, and support employees with conducive working environment. In resto and café SMEs, they try to retain their employees with basic payment: wage. Incentives and overtime are given only when workers spent their time extra in job and achieved additional job results. Employees are allowed to have work leave and join in company’s family gathering. The similar practices also happened in fashion business. Not only that, but also other mechanisms seems to be offered in this industry to retain their employees. SMEs in this business offer some unique non-financial reward mechanism such as flexible working arrangement, comfortable working
zone, appreciation toward initiatives and effort, and also extra financial reward for contribution in designing new product.

The SMEs HR practices above especially in resto and café industry support Miles and Snow’s model (Dalota, 2012) which proposed that “firms following an innovation strategy will be characterised by the use of external sources of recruitment, low employment security, narrow application of training, very little use of internal career paths, the use of performance appraisal systems, incentive-based compensation and low employee participation” (p.207).

However, HR practices in fashion industry support Schuler and Jackson model that proposed by Dalota (2012, p.207) “Firms following an innovation strategy will be characterised by the use of external sources of recruitment, high employment security, broad application of training, the use of internal career paths, the use of performance appraisal systems, incentive-based compensation and high employee participation”

4. CONCLUSION

From study’s findings and discussion, it can be concluded that SMEs in food and beverage industry and fashion apply some HR practices as follow:

(1) External sources recruitment using social media
(2) Multi stages selection process
(3) Apply some application of training
(4) Conducted promotion and career development
(5) Apply some techniques of employee empowerment
(6) Using more incentive-based compensation
The most interesting finding is that SMEs HR practices in resto and café business support Miles and Snow’s model of HRM practices for innovation. While HR practices in distro and clothing company is more describing Schuler and Jackson’s Model.

REFERENCES


