

Human Resource Management Practices Incorporating Local Wisdom: Evidence from Service Sector MSME's in Manado

Meiske W. Manopo^{1*}, Alfian R. Poluan², Kevin K. Pangemanan³

^{1,2,3} Business Administration Department, Manado State Polytechnic, Manado, Indonesia

**Corresponding Author: manopomeiske21@gmail.com*

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Abstract: This study examines how local wisdom-based human resource management (HRM) practices shape the competitiveness of service-sector micro, small, and medium enterprises (MSMEs) in Manado City, Indonesia. Although SHRM and RBV emphasize contextual alignment and strategic resources, how local wisdom is transformed through everyday HRM practices into employee capabilities and competitive value remains underexplored in locally embedded MSMEs. Using a qualitative case study design, this research explores the relationships among local cultural values, HRM practices, employee capabilities, and organizational outcomes. The findings show that kinship, trust, and social cohesion underpin relationship-based recruitment, learning by doing, and participatory leadership. These practices contribute to service competence, loyalty, and work commitment, which support service quality, customer relationships, and perceived competitiveness. Theoretically, the study extends SHRM and RBV by demonstrating that local wisdom can function not merely as contextual influence but as a strategic organizational resource when embedded in HRM routines and translated into difficult-to-imitate capabilities. Practically, the findings support gradual hybridization of culturally embedded and structured HRM practices.

Keywords: *human resource management, local wisdom, MSMEs, service sector, competitiveness*

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) in the service sector play a vital role in Indonesia's local economy by creating jobs, sustaining community livelihoods, and contributing to regional income (Sinha et al., 2024). In Manado City, where the economic base is strongly supported by tourism and related service industries, service-sector MSMEs (including culinary businesses, homestays, travel agencies, and tourism service providers) function as the backbone of local economic activity and as key providers of service experiences for both domestic and international tourists (Naibaho et al., 2025). However, rising competitive pressures, service digitalization, and shifting consumer preferences have compelled MSMEs to build internal capabilities that sustain service quality and long-term competitiveness (Alexandro, 2025).

Within the context of human resource management (HRM), the practices adopted by MSMEs are often informal, context-specific, and shaped by social norms and local wisdom—such as kinship-based employment relationships, recruitment mechanisms relying on personal networks, and on-the-job learning processes transmitted across generations (Kutieshat & Farmanesh, 2022; Qomariah et al., 2022). International literature on Strategic Human Resource Management emphasizes that adapting HRM

practices to local contexts can create competitive advantage when these practices foster valuable, hard-to-imitate organizational capabilities (Easa & Orra, 2021; Minbaeva, 2021; Stahl et al., 2020). Nevertheless, most SHRM models have been developed for medium- to large-scale firms operating in formal labor markets, offering limited insight into the cultural dimensions and local wisdom embedded in MSMEs in developing regions (Dabić et al., 2023; Van Lancker et al., 2022).

This empirical gap becomes more pronounced when considering the service sector's specific characteristics. Service quality depends heavily on human interactions and locally embedded ways of managing employment relationships, consistent with the service-dominant logic perspective. Consequently, HRM practices grounded in local wisdom may function differently from "standardized" HR practices commonly advocated in mainstream management models (Burhanuddin, 2025; Jeaneta et al., 2025). Several empirical studies in Indonesia indicate that local wisdom-based HR practices can enhance employee loyalty and commitment; however, they may also impede processes of professionalization and innovation if not accompanied by mechanisms for formal competence development (Nawangsari et al., 2023). Therefore, research is needed to examine how local wisdom-based HRM practices are designed, interpreted by MSME actors, and translated into implications for service quality and business competitiveness at the city level, such as in Manado.

Beyond theoretical and empirical considerations, this issue's policy relevance is increasingly urgent. Local governments and MSME support institutions are actively seeking contextualized intervention approaches (rather than "one-size-fits-all" solutions) that respect local values while simultaneously strengthening the technical and digital capabilities of MSME actors (Adobas et al., 2024). A qualitative study on local wisdom-based HRM practices in Manado City will address this gap by providing context-rich evidence, identifying best-practice models, and offering realistic policy recommendations for human resource development in service-sector MSMEs.

From a state-of-the-art perspective, recent SHRM research increasingly emphasizes contextualization and institutional embeddedness, recognizing that HRM practices must align with national culture, local institutions, and industry characteristics to generate competitive advantage (Dabić et al., 2023). In parallel, RBV research has highlighted intangible resources such as social capital, relational trust, and tacit knowledge as potential sources of sustained competitive advantage. However, the mechanisms by which everyday HRM practices cultivate such resources in small, locally embedded firms remain insufficiently explained. Similarly, service-dominant logic emphasizes employees as operant resources in value co-creation, yet its integration with HRM and local cultural values in MSMEs remains fragmented (Qamar & Ali, 2025). Within Indonesia, existing studies also show that local wisdom-based practices can foster loyalty, social cohesion, and resilience while potentially constraining innovation, merit-based evaluation, and skill diversification if left unstructured (Nawangsari et al., 2023).

Taken together, three gaps remain. First, limited research explains how culturally embedded HRM practices operate in service-sector MSMEs within emerging local economies. Second, although RBV recognizes relational and intangible resources, how local wisdom is translated into organizational capabilities through everyday HRM practices remains underexplored. Third, the relationship between culturally embedded HRM, employee capabilities, service outcomes, and competitiveness has not been sufficiently integrated across SHRM, RBV, and service-dominant logic perspectives. These

gaps are particularly relevant in Manado, where service-sector MSMEs face simultaneous demands for cultural embeddedness, professionalization, and digital adaptation.

Based on these gaps, this study aims to: (1) explicate the characteristics and mechanisms of HRM practices rooted in local wisdom among service-sector MSMEs in Manado; (2) explore how these practices are associated with employee capabilities, service quality, and business competitiveness; and (3) develop an integrative framework for culturally sensitive HRM development in MSMEs. Theoretically, this study contributes by integrating SHRM, RBV, and service-dominant logic to explain how local wisdom-based HRM practices may function as organizational mechanisms that connect culturally embedded resources with employee- and service-related outcomes. Practically, it provides a basis for MSME owners and policymakers to strengthen HRM while retaining locally embedded practices and selectively supporting professionalization, competence development, and digital adaptation (Adobas et al., 2024).

Figure 1 presents the conceptual framework guiding the qualitative inquiry. The framework is not intended to represent a causal model. However, it serves as an analytical framework for organizing the exploration of relationships among local wisdom, HRM practices, employee capabilities, and organizational outcomes.

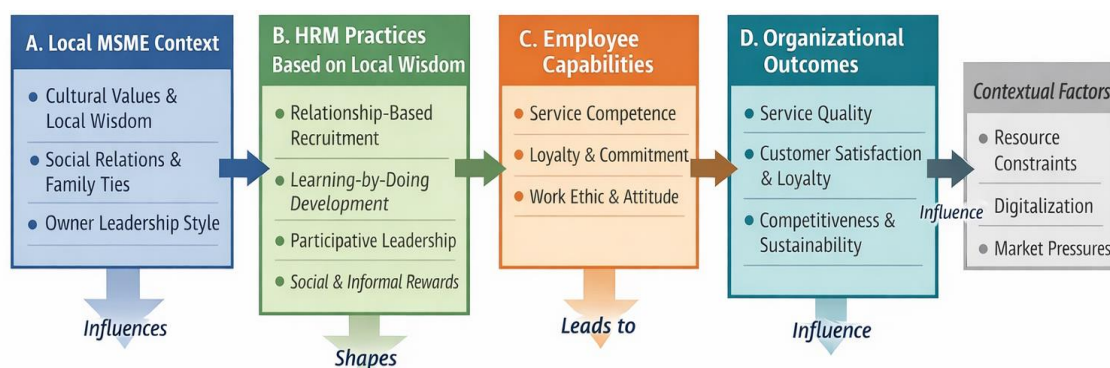


Figure 1. Research Model

The framework positions local wisdom (particularly kinship, trust, community solidarity, and service ethics) as the contextual foundation shaping HRM practices such as relationship-based recruitment, learning-by-doing, participatory leadership, and informal rewards. These practices guide the analysis of employee capabilities, including service competence, loyalty, commitment, and work ethic, and their connections with service quality, customer satisfaction and loyalty, competitiveness, and sustainability. The framework also recognizes contextual factors, including resource constraints, professionalization, digitalization, and market pressures, which may influence how these relationships are expressed. Thus, Figure 1 functions as an analytical guide for interpreting qualitative evidence and identifying patterns and connections emerging from the data, rather than as a set of predetermined causal relationships.

RESEARCH METHODS

Research Approach and Design

This study adopts a qualitative approach with a case study design. The qualitative approach is used because the study's primary objective is to gain an in-depth understanding of local wisdom-based human resource management (HRM) practices, the

meanings MSME actors attribute to these practices, and the dynamics of their implementation within the local social and cultural context. The case study design enables the researcher to explore HRM phenomena in a contextualized and holistic manner within service-sector MSMEs in Manado City, which exhibit distinctive social, cultural, and structural characteristics.

The study is conducted among service-sector MSMEs in Manado City, North Sulawesi, Indonesia. This site was selected because Manado City is a strategic hub for service activities and tourism in Eastern Indonesia. Service-sector MSMEs in this city operate within a strong local cultural context, where social and kinship relations shape business management and human resource practices, rendering the site particularly relevant for examining HRM from a local wisdom perspective.

Research Informants

The researchers selected informants using purposive sampling, deliberately choosing participants based on criteria aligned with the research objectives. The informant criteria included:

1. Service-sector MSME actors (owners, operators, or business managers) directly involved in human resource management.
2. Employees of service-sector MSMEs with a minimum of one year of work experience.
3. MSME support actors (e.g., MSME facilitators or business community leaders) with contextual knowledge of MSME human resource management.

The study involved 15–18 informants, comprising business owners, managers, and senior employees. The researcher recruited informants iteratively as data collection progressed. The researcher continuously compared information emerging from successive interviews with previously identified codes and themes. Data collection was considered saturated when successive interviews primarily confirmed existing information and no substantively new themes relevant to the research questions emerged. Thus, the final number of informants was determined by the adequacy and saturation of the information rather than by a predetermined sample size.

Data Collection Techniques

Multiple data collection techniques were employed to obtain rich and in-depth data, including:

1. In-Depth Interviews. The researcher conducted semi-structured interviews using an interview guide. This technique allowed the researcher to explore informants' experiences, perspectives, and interpretations of local wisdom-based HRM practices, such as relationship-based recruitment, workplace learning, owner leadership, and non-formal reward systems.
2. Non-Participant Observation. The researcher conducted non-participant observations of work activities, interactions between business owners and employees, and the overall work environment within MSMEs to capture HRM practices in their natural and contextualized settings.
3. Documentation. Documentation served as supporting data and included simple organizational structures, task allocations, informal work rules, and available records or archives related to human resource development activities within MSMEs.

Interviews, observations, and documentation enabled the researcher to compare information from different data sources and collection techniques. This process supported methodological triangulation by examining whether emerging interpretations were consistently reflected across the available sources of evidence.

Data Analysis Techniques

This study used thematic analysis, following the stages proposed by Braun and Clarke. The analytical process was conducted systematically through the following steps:

1. Verbatim transcription of interview data.
2. Repeated reading of the data to develop a comprehensive understanding
3. Initial coding of meaningful data segments.
4. Organization of codes into themes and sub-themes.
5. Reviewing and refining themes to ensure alignment with the research focus.
6. Interpretation of themes to address the research questions and develop conceptual

The analysis was conducted iteratively throughout the data collection process. Emerging codes and themes were continuously compared with subsequent interview, observation, and documentation data to identify similarities, differences, and patterns. This iterative process also supported assessment of data saturation and ensured the final themes were grounded in empirical evidence.

Trustworthiness and Ethical Considerations

The trustworthiness of the findings was strengthened through triangulation of data collection techniques, comparing interview information with observations and available documentation. The researcher also maintained an audit trail by systematically recording the interview process, observation notes, coding decisions, theme development, and analytical interpretations. Where applicable, the researcher clarified preliminary interpretations with informants to reduce the risk of misrepresenting their intended meanings. The researcher also discussed emerging interpretations with peers or academic colleagues to obtain critical feedback and reduce potential researcher bias.

The researcher addressed ethical considerations throughout the research process. Before data collection, informants were informed about the study's purpose, the voluntary nature of their participation, and their right to withdraw. The researchers obtained informed consent from participants before conducting interviews and observations. To protect participants and their businesses, the researchers kept personal identities and identifiable organizational information confidential and did not disclose them in the findings. The collected data were used solely for research purposes and handled in ways that maintained informants' privacy and confidentiality.

RESULTS AND DISCUSSION

Theme 1. The Local Context of MSMEs as the Foundation of HRM Practices

The first theme indicates that HRM practices in service-sector MSMEs in Manado City are inseparable from the local social and cultural context. Values of kinship, trust, and togetherness constitute core principles governing employment relationships between business owners and employees. This pattern was evident from both owner and employee perspectives.

One owner of a culinary service MSME stated:

“Here, we consider employees as part of the family. So work is not only about targets, but also about mutual trust and maintaining relationships.” (MSME Owner 1)

From the employee perspective, this relational orientation was similarly reflected in the following statement:

"When you are treated like family, you feel a greater sense of responsibility. It is not just about working for wages, but also about maintaining the good name of the business." (Senior Employee 3)

The consistency between owner and employee accounts indicates that kinship and trust are not merely values expressed by business owners but are also experienced by employees in their daily work relationships. The initial interpretation is that local wisdom provides a relational foundation for HRM in which employment relationships extend beyond formal work obligations and involve mutual responsibility and social connectedness.

Theme 2. Local Wisdom-Based HRM Practices

The second theme concerns the concrete HRM practices through which local wisdom is enacted in daily MSME operations. Three interrelated practices emerged from the data: relationship- and trust-based recruitment, learning-by-doing, and participatory leadership.

Sub-theme 2.1 Relationship- and Trust-Based Recruitment

The findings reveal that most MSMEs recruit employees through social networks, such as family members, friends, or community recommendations. Trustworthiness and work attitude matter more than formal qualifications.

One MSME owner explained:

"Usually we look for employees from people we already know. What matters most is honesty and willingness to learn; skills can be taught later." (MSME Owner 2)

A business manager expressed a similar consideration:

"When we know their background, we feel more at ease. The risk of conflict is also lower." (MSME Manager 1)

Both accounts emphasize familiarity, trust, and perceived social compatibility as important recruitment considerations. The findings also indicate that this approach does not mean competency is entirely disregarded; rather, owners appear to prioritize personal characteristics and willingness to learn while expecting technical skills to develop after recruitment. The initial interpretation is that relationship-based recruitment reduces perceived interpersonal risk and facilitates workplace compatibility while placing greater reliance on subsequent learning and development.

Sub-theme 2.2 Human Resource Development through Learning-by-Doing

Employee competency development in service-sector MSMEs occurs mainly through direct workplace learning. Formal training programs are rarely implemented due to time and cost constraints.

An MSME owner stated:

"There is no formal training, but new employees are taught directly on the job by more experienced workers." (MSME Owner 3)

This practice was also reflected in the employee experience:

"At first it was difficult, but over time you get used to it because you learn directly through practice." (Employee 2)

These two perspectives suggest that workplace learning happens through direct practice and interaction with more experienced workers. Rather than following a formal training structure, competency develops incrementally as employees adapt to actual

service tasks. The initial interpretation is that learning-by-doing represents an adaptive form of HR development that fits the resource and operational conditions of MSMEs, while also making employee capability development highly dependent on workplace experience and internal knowledge transfer.

Sub-theme 2.3 Participatory Leadership of Business Owners

MSME owners are generally directly involved in daily operations and maintain open communication with employees. This leadership pattern fosters an informal and participatory work environment.

One MSME owner stated:

"I work alongside the employees so they feel close to me and are not hesitant to speak up." (MSME Owner 4)

An employee similarly described the relationship:

"If there is a problem, we can talk directly to the owner. There is no distance."
(Senior Employee 1)

Accounts from both owner and employee perspectives indicate that direct interaction and limited hierarchical distance characterize the leadership relationship. Employees perceive access to owners as an opportunity to communicate problems directly, while owners intentionally maintain proximity to employees. The initial interpretation is that participatory leadership reinforces the relational characteristics of local wisdom-based HRM by facilitating direct communication, accessibility, and interpersonal trust.

Theme 3. Employee Capabilities as Outcomes of HRM Practices

The third theme indicates that local wisdom-based HRM practices are associated with developing employee capabilities, particularly service competence, loyalty, and work attitudes. These capabilities were reflected in both owner assessments of employee performance and employees' accounts of their work experiences.

An MSME owner explained:

"Employees here already know how to serve customers well because they have worked here for a long time and are accustomed to it." (MSME Owner 5)

From the employee perspective, relational factors were associated with continued employment:

"I have stayed for a long time because I feel appreciated, even though the salary is not high." (Senior Employee 4)

Taken together, the accounts suggest that service competence develops through accumulated experience, while loyalty is associated with employees' perceptions of appreciation and relational treatment. The initial interpretation is that employee capabilities in these MSMEs are not formed solely through formal training but emerge from the interaction between workplace experience, relational treatment, and sustained involvement in the organization.

Theme 4. Implications for Service Quality and MSME Competitiveness

The final theme concerns how employee capabilities are reflected in service quality, customer relationships, and perceived competitiveness—informants linked consistent service and employee-customer familiarity to customer retention.

An MSME owner stated:

"If the service is good, customers will definitely come back. That is our strength compared to other businesses." (MSME Owner 6).

A business manager also reflected this perspective:

"Customers often return because they already know the employees and feel comfortable." (MSME Manager 2).

The findings therefore indicate that service quality is perceived not only in terms of service performance but also through the familiarity and comfort developed between employees and customers. At the same time, informants acknowledged constraints affecting further business development:

"We want to grow further, but limited capital and training opportunities are still major obstacles." (MSME Owner 1).

This account indicates that the positive contribution of relational HRM practices does not eliminate structural constraints faced by MSMEs. The initial interpretation is that employee capabilities and relational service practices support customer retention and perceived competitiveness. However, their contribution to longer-term business development remains conditioned by access to capital, training, and other organizational resources.

Overall, the findings indicate that local wisdom-based HRM in service-sector MSMEs in Manado City is contextual, adaptive, and relational. The findings show a pattern in which local values shape HRM practices; these practices are associated with developing employee capabilities, which are reflected in service quality and customer relationships. At the same time, the findings indicate that this pattern operates within resource and development constraints, particularly regarding formal training and business growth. This overall pattern provides the empirical basis for the subsequent discussion of how local wisdom-based HRM can function as a strategic organizational resource while also creating potential challenges for professionalization and organizational development.

Discussion

Local Wisdom-Based HRM as a Contextually Embedded Strategic Resource

The findings demonstrate that HRM practices in service-sector MSMEs in Manado City are strongly shaped by local wisdom values, particularly kinship, trust, and social closeness. This finding is consistent with the SHRM perspective that HRM effectiveness depends on alignment between organizational practices and their internal and external context (Parajuli et al., 2023). In the present study, this alignment is reflected in relationship-based recruitment, participatory leadership, and learning-by-doing, which fit the close social relations and resource conditions of small service enterprises.

The findings further indicate that local wisdom should not be understood merely as a cultural background to HRM. Instead, trust, kinship, and social cohesion translate into organizational resources through repeated HRM practices. Trust facilitates recruitment and direct communication; kinship strengthens relational commitment; and social cohesion supports knowledge sharing and willingness to assist one another. Over time, these interactions accumulate into relational stability, employee loyalty, and tacit knowledge that support consistent service delivery. This process explains how cultural values become organizational capabilities rather than remaining external contextual characteristics.

From an RBV perspective, these resources can become valuable, rare, and difficult to imitate because they are developed through prolonged social interaction, shared experience, and organizational history (Dhrubo, 2025; Sun et al., 2024). Their strategic value therefore comes not from the cultural values themselves, but from the

organizational routines through which those values are enacted and accumulated. The path dependency and causal ambiguity associated with such routines further make them difficult for competitors to reproduce, even when similar cultural values exist in the wider community (Sun et al., 2024). In this sense, the findings extend the RBV by showing how local wisdom can be converted into strategic organizational resources through everyday HRM practices.

At the same time, the findings show that the strategic value of local wisdom is conditional. Resource constraints, digitalization, market pressures, and increasing professionalization may reduce the effectiveness of purely informal arrangements. Thus, local wisdom provides the relational foundation of HRM, but its contribution to sustained competitiveness depends on the organization's ability to renew and complement these practices as conditions change.

Relationship-Based Recruitment: Stability as a Strategic Trade-Off

The study finds that employee recruitment in service-sector MSMEs in Manado is predominantly conducted through social networks and kinship ties. This finding aligns with prior studies showing that Indonesian MSMEs tend to prioritize trust and social compatibility over formal qualifications (Nam & Luu, 2022; Nawangsari et al., 2023). In this context, such recruitment reduces uncertainty about employee character and facilitates rapid social integration, which is particularly valuable in small businesses where owners and employees interact closely.

However, the findings also reveal a strategic trade-off. The same relational mechanism that supports stability can reduce exposure to diverse capabilities and perspectives. International literature similarly cautions that relationship-based recruitment may constrain the inflow of new capabilities required for innovation and service quality enhancement (Van Lancker et al., 2022). Homogeneity in employee backgrounds and skills may further restrict organizational learning and adaptive capacity (Wicaksono & Handayani, 2025).

Therefore, relationship-based recruitment should not be interpreted as either inherently advantageous or problematic. Its effectiveness depends on organizational conditions. It is particularly useful when trust, social compatibility, and rapid socialization are critical. However, MSMEs need greater openness to external recruitment and basic competency assessment when they seek expansion, new skills, innovation, or greater service differentiation. The strategic implication is a selective rather than complete formalization of recruitment: social trust can remain a primary consideration. At the same time, minimum competency criteria can prevent relational fit from substituting for capability.

Learning-by-Doing and Participatory Leadership as Relational Capability-Building Mechanisms

Empirical findings indicate that human resource development in service-sector MSMEs in Manado is primarily conducted through learning-by-doing. This finding aligns with previous studies emphasizing experiential learning as a dominant HRD strategy in resource-constrained MSMEs (Fatmawati et al., 2025; Ivaldi et al., 2022). In the present study, however, learning-by-doing is not simply a response to the absence of formal training. It functions as an embedded process through which employees acquire service knowledge directly from workplace experience and interaction with more experienced workers.

From an SHRM perspective, such learning represents an informal investment in human capital because it directly develops competencies relevant to service delivery (Changar & Sesen, 2025; Nyiawung et al., 2025). Its limitation emerges when knowledge remains highly individual and undocumented. Without mechanisms for reflection, mentoring, or knowledge transfer, experiential knowledge may be difficult to retain and reproduce (Slusser, 2024). The findings therefore suggest that informal learning effectively develops immediate operational competence, but its long-term value depends on whether employees can transfer accumulated knowledge beyond themselves.

The dynamic capabilities perspective reinforces this interpretation. Repeated workplace learning enables employees to adjust their actions to changing customer needs and operational problems, while accumulated experience contributes to tacit knowledge and problem-solving capability (Jiang et al., 2022). Simple mechanisms such as mentoring, peer feedback, and documentation can therefore strengthen MSMEs' ability to retain and renew these capabilities (Sutrisno et al., 2023).

A similar pattern appears in participatory leadership. The findings show that owner involvement and limited hierarchical distance facilitate direct communication and strengthen employees' sense of belonging. This is consistent with research emphasizing the central role of owner leadership in shaping MSME work culture (Nawang Sari et al., 2023; Qomariah et al., 2022). However, the present findings suggest that participatory leadership is strategically important not merely because it is "informal," but because it connects leadership, trust, learning, and employee commitment within the same relational system.

At the same time, strong familial relationships may make objective performance evaluation more difficult (Dabić et al., 2023). Thus, participatory leadership remains valuable for maintaining trust and communication, but it should increasingly be accompanied by clear roles and regular performance feedback as organizational complexity increases.

Employee Capabilities as an Integrated Mechanism of Competitive Advantage

The study demonstrates that local wisdom-based HRM practices are associated with employee service competence, loyalty, and work attitudes. This finding supports previous research identifying employee capabilities as an important mechanism linking HRM practices with service performance (Sasmita et al., 2025). However, the findings suggest that these dimensions should not be viewed as separate or sequential outcomes.

In the context of Manado's service-sector MSMEs, service competence, commitment, loyalty, and customer experience appear to reinforce one another. Learning-by-doing develops service competence; relational treatment strengthens commitment and loyalty; loyal employees provide more consistent service; repeated positive interactions strengthen customer familiarity and trust; and these interactions provide employees with further experience through which service competence is refined. Thus, employee capability operates as a mutually reinforcing system rather than a one-directional pathway.

This interpretation is consistent with SHRM and RBV perspectives, which view human capital and organizational capabilities as important sources of performance when they are valuable and difficult to imitate (Bilgin et al., 2024). It also corresponds with the service-dominant logic perspective, in which employees function as operant resources through which value is co-created with customers. Service competence and positive work attitudes enable employees to respond to customer needs and personalize service

interactions (Kim, 2023). In the present study, loyalty and commitment further support the continuity of these interactions, allowing service competence to be repeatedly enacted and refined.

Consequently, the competitive advantage identified in this study does not originate from employee competence alone. It emerges from the interaction between competence, relational commitment, continuity of employment, and customer experience. This also explains the capability's path-dependent character: repeated social interaction and experiential learning gradually become embedded in organizational routines and are difficult for competitors to reproduce. Nevertheless, this advantage remains vulnerable if MSMEs fail to renew their capabilities as customer expectations, technology, and market conditions change.

Toward a Context-Contingent Hybrid HRM Strategy

The findings suggest that informal HRM should not be positioned as an inferior alternative to formal HR systems. Rather, its effectiveness depends on MSME characteristics, particularly their small scale, close owner–employee relationships, limited resources, and reliance on interpersonal service interactions. This interpretation aligns with the argument that HRM practices must be understood within their organizational and institutional contexts (Van Lancker et al., 2022).

However, the findings also indicate that informality has boundaries. When MSMEs experience business growth, workforce expansion, increasing skill requirements, digital transformation, or stronger competitive pressures, purely informal arrangements may become insufficient. The issue is therefore not whether informal or formal HRM is superior, but which HR functions require cultural embeddedness and which require greater formalization.

The findings support a gradual hybridization of HRM. In recruitment, relationship-based selection can remain culturally embedded through trust and social compatibility, while basic competency criteria can be introduced to increase capability diversity. In learning and development, learning-by-doing can remain the dominant approach, complemented by mentoring, peer feedback, and simple documentation. In leadership, participatory and relational practices can be retained while introducing clearer roles and structured feedback. Performance management is the area where greater formalization is most necessary, particularly through transparent, simple performance indicators that reduce the risk of subjective or relationship-based evaluation. In rewards, relational recognition can remain important, but basic principles of transparency and consistency can be gradually introduced.

This hybrid approach preserves social cohesion as an important organizational resource while reducing the risks of excessive informality. It also provides a more operational interpretation of professionalization: formalization does not require replacing local wisdom, but selectively strengthening those HR functions where informality may constrain capability development, accountability, and organizational renewal.

Revisiting the Conceptual Framework and Theoretical Implications

The pattern emerging from the findings aligns with the conceptual relationships presented in Figure 1, but the qualitative evidence also offers a more nuanced interpretation of those relationships. Local context does not simply "influence" HRM practices in a linear manner. Instead, local wisdom is enacted through relationship-based

recruitment, learning-by-doing, participatory leadership, and relational rewards, which together shape employee capabilities. These capabilities are subsequently expressed through service quality, customer relationships, competitiveness, and sustainability, while resource constraints, professionalization, digitalization, and market pressures condition how the process develops.

Accordingly, the study extends the conceptual framework by positioning local wisdom as a resource-generating mechanism rather than merely a contextual factor. Trust, kinship, and social cohesion become strategic when HRM practices repeatedly enact them and accumulate them into relational stability, tacit knowledge, employee commitment, and service capability. This interpretation strengthens the integration of SHRM and RBV by explaining not only that HRM is context-dependent, but also how contextual values can be transformed into organizational resources.

The findings also refine the service-dominant logic perspective. Employee capabilities do not operate independently from customer experience; rather, they are continuously developed through service interactions. Service delivery therefore becomes both an outcome of employee capabilities and a context in which those capabilities are further developed. This reciprocal process helps explain why relationally embedded HRM can be particularly consequential in service-sector MSMEs.

From a theoretical standpoint, the study therefore contributes by connecting three levels of analysis: local cultural values, organizational HRM practices, and employee–customer interactions. This connection extends the discussion of strategic HRM beyond formal HR systems. It shows how culturally embedded practices can generate strategic value while simultaneously creating trade-offs that require organizational renewal.

Implications for Theory and Practice

Theoretically, this study extends SHRM and RBV literature by demonstrating that informal, local wisdom–based HRM practices can function as strategic mechanisms within service-sector MSMEs. Empirically, the findings highlight the importance of qualitative approaches for understanding how and why HRM practices operate within specific local contexts, as Van Lancker et al. (2022) recommend. Rather than treating local wisdom–based HRM as an inferior alternative to formal systems, the findings position it as a context-dependent source of relational and organizational capability.

In relation to RBV, the contribution lies specifically in explaining the mechanism through which local wisdom becomes strategic: cultural values are enacted through repeated HRM practices, accumulated as social capital and tacit knowledge, translated into employee capabilities, and ultimately reflected in service value and competitiveness. The strategic value of these resources is therefore embedded in their social history and organizational routines rather than in the cultural values themselves.

From a practical perspective, the findings support gradual hybridization rather than wholesale formalization. MSMEs can preserve culturally embedded practices that strengthen trust, social cohesion, and employee loyalty while selectively formalizing recruitment criteria, learning systems, performance evaluation, and reward structures. This approach allows professionalization to strengthen, rather than replace, the relational resources already embedded in MSME operations.

Finally, the findings indicate that local wisdom–based HRM should be viewed as a dynamic capability rather than a static tradition. As service-sector MSMEs face digitalization, market competition, and changing workforce expectations, the sustainability of their competitive advantage depends on their ability to preserve valuable

relational resources while continuously renewing employee capabilities. Figure 1 therefore implies not a fixed causal sequence. Instead, it suggests a context-sensitive process in which local wisdom shapes HRM, HRM develops interconnected employee capabilities, and those capabilities generate service and competitive value under changing environmental conditions.

CONCLUSION AND RECOMMENDATIONS

This study concludes that local wisdom-based human resource management (HRM) practices play a strategic role in shaping the competitiveness of service-sector MSMEs in Manado City. The findings indicate that local values such as kinship, trust, and social relationships not only structure employment relations but also form the primary foundation for implementing HRM practices, including relationship-based recruitment, human resource development through learning-by-doing, and participatory leadership exercised by business owners. Although these practices are informal and relatively simple, they have proven effective in fostering workforce stability and strengthening employees' attachment to the enterprise.

Furthermore, the study finds that local wisdom-based HRM practices contribute to the development of employee capabilities in the form of service competencies, loyalty, and work commitment. These capabilities mediate how HRM practices influence service quality and customer satisfaction, ultimately enhancing the competitiveness and sustainability of service-sector MSMEs. These findings support the Resource-Based View and Strategic Human Resource Management perspectives, which position human resources as strategic assets, while also extending these frameworks by demonstrating that informal, locally embedded HRM practices can serve as valuable and difficult-to-imitate sources of competitive advantage.

Nevertheless, this study also identifies several limitations in implementing HRM practices within service-sector MSMEs, particularly regarding resource constraints, limited access to formal training, and challenges related to professionalization amid increasing digitalization demands. Accordingly, while local wisdom-based HRM practices contribute positively, their effectiveness depends heavily on MSMEs' ability to balance local values with the need for more systematic and sustainable capability development.

This study reinforces the argument that local wisdom-based human resource management (HRM) practices constitute a strategically significant approach for enhancing the competitiveness of service-sector MSMEs in Manado City. By embedding HRM practices in culturally grounded values such as kinship, trust, and social cohesion, MSMEs can cultivate stable employment relationships and strong employee attachment despite limited formal structures. This finding confirms that informality in HRM should not be equated with strategic weakness, particularly in small service-oriented enterprises operating within strong communal cultures.

The study highlights employee capabilities as the key link between HRM practices and MSME competitiveness. Service competencies, loyalty, and work commitment emerge as key outcomes of local wisdom-based HRM practices and directly influence service quality and customer satisfaction. From both SHRM and Resource-Based View perspectives, these employee capabilities represent valuable, hard-to-imitate human capital assets that contribute to sustained competitive advantage. This conclusion underscores the importance of capability-focused HRM interventions rather than an exclusive emphasis on formal HR structures.

Despite their strategic value, local wisdom-based HRM practices have limitations. The findings indicate that overreliance on informal recruitment, experiential learning, and familial leadership may constrain skill diversification, knowledge formalization, and organizational scalability. Therefore, this study recommends a hybrid HRM approach in which locally embedded practices are gradually complemented by simple and cost-effective professionalization mechanisms, such as basic competency standards, informal performance feedback systems, and structured on-the-job learning guidelines.

The practical implications for MSME owners emphasize the need to balance relational values and managerial effectiveness consciously. MSME owners are encouraged to retain trust-based relationships and participatory leadership while introducing minimal HRM tools that enhance transparency, accountability, and skill development. Such tools may include short internal training sessions, mentoring arrangements, and documenting service procedures, all of which can be implemented without undermining the enterprise's cultural foundations.

Finally, this study offers implications for policymakers and support institutions involved in MSME development. Public policy interventions should respect local wisdom while building capabilities through context-sensitive training programs, mentoring schemes, and digital literacy initiatives. Collaboration between local governments, vocational institutions, and MSME associations may help reduce resource constraints and support gradual professionalization. In conclusion, the sustainability of service-sector MSME competitiveness depends not on replacing local wisdom-based HRM practices, but on strengthening and evolving them through adaptive and culturally aligned human resource development strategies.

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