

Human Resource Management In A Coffee Beverage Sme To Gain Competitive Advantage In Indonesia

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Abstract

As a developing country, SMEs play an important role in Indonesia's economy development. The prevalence of food and beverages SMEs in Indonesia is on the rise and on a tight competition, specifically coffee business. Inevitably, for the last couple of years, the number of new SMEs focusing on coffee beverage business is on the rise. Gaining a competitive advantage is essential for SMEs to achieve sustainability and profitability. There has been a dearth of studies on researching the importance of strategic human resource management to gain competitive advantage specifically for SMEs. Thus, this study aims to fill the gap in the literature on the topic and aims to assist entrepreneurs and SME founders in gaining competitive advantage through strategic human resource management. This study explores Kopi Soe, one of the most successful and leading coffee beverage SME in Indonesia on how Kopi Soe has been strategically manage its human resource to gain competitive advantage among its competitors. This study utilizes in-depth interview to collect data as qualitative method with Kopi Soe's founders and employees to capture the human resource experience and how effective human resource management has been successfully putting them as the top coffee beverage SME in Indonesia in two years. The study found that Kopi Soe's high involvement of human resource management positively increases competitive advantage through both innovative performance and entrepreneurial performance. Moreover, since most of the employees are millennials, this study also includes managerial implications on how to manage millennials in SMEs.

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INTRODUCTION

Human resource (HR) management is one of the most important factors to an organization's performance (Darwish, Singh, and Mohamed, 2013; Hayton, 2003). The focus on HR management is essential in gaining competitive advantage and enhancing the performance of an organization (Darwish et al., 2013). However, out of all departments in a business organization, human resource department is often overlooked, especially in small medium enterprises (SMEs) (Hayton, 2003). Due to scarcity of resource, SMEs' early goals are usually focused in increasing revenue and optimizing operations in the expense of other departments. This paper aims to explore how human resource management can largely impact SMEs in gaining competitive advantage.

The topic exploring the correlation between HR management and gaining competitive advantage

has been explored mostly in North America and UK (Moideenkutty, Al-Lamki and Murthy, 2011). However, only a few studies have been done outside those regions, especially focusing only on SMEs. This study attempts to fill the gap in the literature by testing the relationship between HR management and gaining competitive advantages in a coffee beverage SME in Indonesia. The result of this study may be useful for coffee beverage SMEs continuous improvement in HR management to gain competitive advantage.

Indonesia is the fourth largest producer and one of the largest consumers of coffee in the world (Ratnambiasih & Roma, 2019; Taib, 2019), Indonesia's domestic coffee consumption has almost quadrupled since 1990 with the consumption for 2018 is increased to 4.7 million 60kg coffee bags (Hirschmann, 2019). Fueled by the popularity and abundant supply, the demand and supply for coffee beverages rises, creating a huge opportunity for business. Inevitably, several entrepreneurs have started coffee beverage business across Indonesia. As the number of SMEs grow, the market competitiveness grows alongside. Gaining any slight competitive advantage is crucial to be ahead in the market.

This paper aims to study one of the leading SMEs of coffee beverage in Indonesia, Kopi Soe, on whether human resource management has been a big part of their success by gaining competitive advantage. Kopi Soe is currently one of the top coffee beverages SMEs currently operating across Indonesia (Ariyanti, 2019). While it is rapidly growing, Kopi Soe is constantly faced with challenges of trying new ideas, concepts, and hypotheses that are untested and unexplored. Consecutively, Kopi Soe needs to keep its operation effective and in capacity for the tremendous growth it is experiencing, with limited human resources.

LITERATURE REVIEW

The topic of correlation between HR management and gaining competitive advantage has been explored by past studies but yielded different results. In the previous studies, several research have confirmed positive correlation between HR management and gaining competitive advantage (Moideenkutty et al., 2011; Razouk, 2011), but some of the previous studies found that the correlation to be ambiguous and not encouraging (Darwish et al., 2013). Moreover, human resource management has only received little attention from researchers (Hayton, 2003). Combining the dearth of study and previous inconclusive findings on the topic, this study aims to fill the gap in the literature. By conducting an in-depth study on a leading coffee beverage SME in Indonesia, Kopi Soe, this study aims to provide insights on how Kopi Soe has gained competitive advantage through human resource practices over the years and how the study's findings can be useful for entrepreneurs or other SMEs.

According to previous literatures, competitive advantage can be gained from different factors, such as product-innovation, financial prowess, marketing strategy, HR management, HR turnover rate, employees' performance, etc (Lee & Zhang, 2011; Moideenkutty et al., 2011). As this study focuses on the HR management factor; Moideenkutty et al. (2011) argued that high involvement of HR management affects an SMEs gain in competitive advantage through increasing organizational performance. Human capital can be derived into employees' knowledge, skills, innovativeness, and the

ability to perform tasks (Halim, Ahmad, Ramayah, and Hanifah, 2014). High involvement of HR management is defined as high involvement in actions such as selection of employee, determining employees' skills and motivations, and most importantly, involvement in the opportunities and incentives that encourages employees to perform and innovate better ways of doing their jobs (Moideenkutty et al., 2011). Organizational performance can be increased through high involvement of HR management which affects other factors like innovation, efficiency, productivity, and employee's development and behavior (Halim et al., 2014).

For SMEs, innovation is essential in gaining and securing sustainable competitive advantage in the highly volatile market, "as well as to increase creativity and innovation in product lines, management practices and production processes" (Halim et al., 2014). The organizational culture is created based on the presence or absence of involvement of HR management. It may either kill or nurture employees' ideas, creativities, and innovation. It is essential for SMEs to explore, try, test, and innovate to produce creative products and deliver excellent service to the stakeholders (Halim et al., 2014).

Innovative performance encompasses employees' knowledge and abilities on things and how to perform the tasks related excellently, which based on individual learning, team communication, leadership abilities, and teamwork (Martin-de-Castro et al., 2011). Previous studies have proven that high involvement of HR can effectively induce innovation and competitiveness – but applicable to every employee (Halim et al., 2014). Moreover, innovative performance can be frequently and easily found on employees that are unique, valuable, organized, and rare, providing the SME a competitive advantage; meanwhile it is difficult to induce innovative performance on employees who perform repeated, secondary tasks (Halim et al., 2014). A competitive advantage can be gained through innovative performance by achievements of innovations and ideas that are produced on a good quality and quantity and can be implemented effectively and efficiently (Halim et al., 2014).

Therefore, the first hypothesis is:

H1: High involvement of HR management positively affect competitive advantage through innovation performance.

A high involvement of HR Management also plays as an integral tool for SMEs to boost their human capital to perform better and enhance their entrepreneurial performance, hence increasing the SME's overall organizational performance (Hayton, 2003). In SMEs, every dollar matters and to induce employees' entrepreneurial performance and sense of ownership, a high involvement of HR is essential.

Entrepreneurial performance encompasses employees' ownership level towards the business, which can be measured in different forms: employees' turnover, employee's contribution, employees' development & behavior, and employees' risk-taking capabilities (Halim et al., 2014). However, most of the times, to induce above-mentioned factors among employees, employer must first invest in employees in the form of coaching and training. Human resource department KPI is measured by their capability of human resource management and optimization, i.e., employs or develops skilled labor at minimal cost. With cost comes into mind, any investments or costs spent on employee matter. Actions

such as hiring, training, firing, retaining became critical as it counts as the return of investment on HR's every action, especially on SMEs where relatively on scale, cost matters more (Hayton, 2003). Thus, human resource department may often come into a dilemma of whether they should risk investing in employees first or risk of delay training the employees in case of resignation intent and to save cost and delay nurturing their entrepreneurial performance.

Therefore, the second hypothesis is:

H2: High involvement of HR management positively affect competitive advantage through entrepreneurship performance.

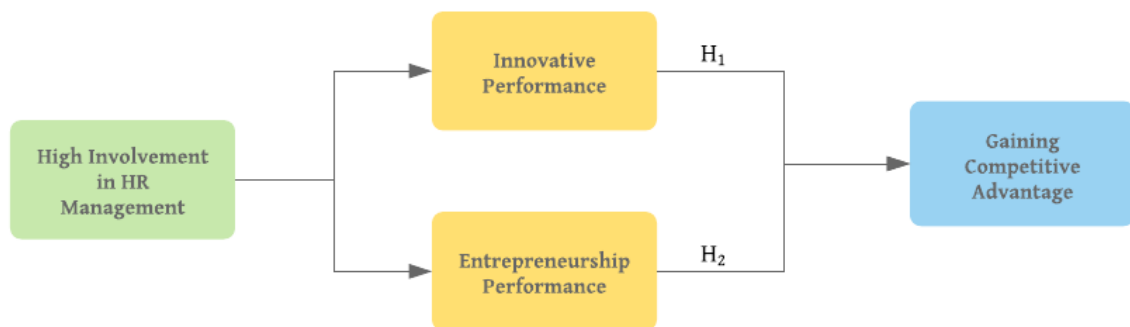


Figure 1 - Theoretical Framework

METHODOLOGY

To test this study's hypotheses, this study utilized qualitative method as its research methodology using interview to capture in-depth phenomenon within the SME. The interview will be conducted towards the key individuals of one of the current market leaders of coffee beverage SMEs in Indonesia, Kopi Soe. A one-to-one interview consisting open-ended questions with the board of directors and employees will be conducted and recorded. After summarizing the data, a conclusion will be drawn, verified, and analyzed. This study chose qualitative as its research methodology because of the complexity of human capital management topic which requires careful research and discipline (Hayton, 2003). As such, an in-depth interview is essential to capture the phenomenon.

Referring to the book by Creswell (2007), a qualitative study needs to make sure that the research conducted can be considered valid and reliable. This research uses several methods for the validity measurement and multiple coders for the reliability measurement.

The validity methods that are used by this research are engagement and observation, triangulation, and member checking. In the engagement and observation method, the researcher learned the culture and other information regarding the SME aside from the interview. The research also observed the SME's business model and learned the human capital management through the interviews. In the triangulation method, the research will use multiple and different sources to provide corroborating

evidence between the result of the interview and the existing studies available. And the member checking method is returning the transcript to the respondents to make sure that the interpretation of the interview is correct and therefore valid.

This research uses verbatim accounts such as interview transcript as the reliability tools. From those tools, the research creates a series of codes using content analysis method. The research will create a codebook of codes and its categorization through distributing them to multiple coders. Through this method, the research wants to make sure the credibility and consistency of the research that can be replicated by other study.

The interview was conducted towards Kopi Soe's two of three founders: Ferrianto Surya and Sylvia Surya, and one employee, Cindy Cantika (Cantika, 2020; Surya & Surya, 2020). The reason for the choice of interviewees is to capture the phenomenon from both perspectives of employers and employees towards the performance of the SME in terms of innovative and entrepreneurial performance and how the SME gains competitive advantage among other competitors. After the interview was conducted, the verbatim transcript data was reduced using coding and categorization. The compact reduced data then was displayed utilizing silver lining summary. From the analyzed summary, a conclusion was drawn.

The interview questions will investigate: Kopi Soe's methods and plans in managing its human resource, the importance of innovation and entrepreneurship performance among Kopi Soe's human resource, how Kopi Soe has been implementing strategies to boost innovative and entrepreneurship performance within its SME, and how has those strategies contributed to help Kopi Soe became one of the market leaders in two years of its history.

RESULTS AND DISCUSSION

Started in 2018, Kopi Soe was one of the rising coffee beverage chains with the goals to present refreshing products to every corner of Indonesia. Kopi Soe's beverage products are focused on innovation of mixture between modern style ingredients and authentic memorable Indonesian taste. Kopi Soe's holistic business model of partnerships and collaborations allow Kopi Soe to reach remote areas of Indonesia and consistently deliver the products fresh and equally priced. Today, Kopi Soe is one of the top coffee beverages SME in Indonesia, with vast network of availability in 82 cities, 24 provinces, 200+ outlets across Indonesia and Kopi Soe aims to reach every province in Indonesia by 2021. Through constant research and development and quarterly product launch, Kopi Soe always brings the newest and latest product and trend in the market. Kopi Soe's vision is to expand and promote Indonesian coffee across Southeast Asia. Kopi Soe's mission is to boost Indonesia's economy by increasing local product consumption as their main ingredients.

In its starting year, Kopi Soe's two of three founders: Ferrianto Surya and Sylvia Surya, started Kopi Soe with limited knowledge of the workarounds of starting a business in Indonesia. However, with a passion for coffee, promising market, and big goal of reaching every corner of Indonesia; they

chose to persevere through and learn along the way. Ranked top 5 most important aspects they focused on during the early years of Kopi Soe were: (1) Supply chain, (2) Marketing to both potential partners and customers, (3) New outlet opening, (4) Human resource to assist the overload amount of work or to delegate, (5) Optimizing system to automate processes, record data, and cutting process.

Their human resource management strategy in the early days was simply finding and hiring passionate people who were committed and wanted to help, as job and work were not perfectly defined. Trust, commitment, and relationship were the biggest factors for the founders to consider. Being a self-funded SME with its limitation of equity, they could not hire top management from top corporates who has accrued high salary over time. Millennials family members were the first circle they brought into their human resource. Once the “engine” has started running, they begun to hire to fill in the blanks for departments in need and they also begun to train and develop all employees. Nowadays, the founders invite employees to business seminars, talk-shows, workshops, and many other informal trainings as their development program in the company.

The founders stated that they are highly involved in every human resource aspect and their jobs. They have a firm grasp of the whole operation and know what their employees’ jobs thoroughly. They have also been monitoring employees’ KPI closely and a firm knowledge of the “engine” enables them to be quick to rectify any problems or bottlenecks. As a developing F&B SME, it is imperative for them to be agile and adapt quickly to the market. This phenomenon aligned with a theory from the past literature by Moideenkutty et al. (2011), who argued that high involvement of HR management affects an SMEs gain in competitive advantage through increasing organizational performance.

Inevitably, Kopi Soe with the majority of employees being family members created a family-like culture for everyone within the company. They have a strong culture of cooperation and togetherness in achieving the company’s goals. Kopi Soe’s strong family culture induce innovation and innovative human capital within the company. One of Kopi Soe’s biggest success milestone was the invention of a milk with biscuit mixed with non-alcoholic rum beverage drink called “Roegal”. It became so famous; people began to be familiar with Kopi Soe through “Roegal” (Suryadi, 2019). The human element innovated the product and the product elevated Kopi Soe in the market. This study finds a positive correlation between Kopi Soe’s strong family culture and innovative human capital which encourages and nurture innovative performance within Kopi Soe, aligned with Halim, et al. (2014)’s hypotheses on their study on innovative performance. Therefore, the first hypothesis, H1: High involvement of HR management positively affect competitive advantage through innovation performance is accepted.

Another strategy that the founders implemented on Kopi Soe was conducting all internal and external businesses in good faith and transparency. They conduct good practices such as punctual payments and reimbursements, and fair appraisals, incentives, and rewards. They are also transparent in regards of company’s information: the company’s numbers, financial stand, whether operations were efficient or not, constructive criticisms and feedbacks, etc. They listen closely to employees’ feedbacks

and information regarding internal and external events. As the employees are millennials themselves, they are familiar with the dynamic trend of the F&B business they are in and the founders listen to their inputs and feedbacks. Above actions and relationship creates trust within the employers and employees. According to past literature, good HR practices reduce employee turnover and resignation intent (Darwish et al., 2013) and in Kopi Soe, employees' turnover rate is low.

Organizational culture is what shapes employees' development, behavior, contribution, and capabilities (Halim et al., 2014). Nurtured company culture by effective human resource management can effectively boost the company's entrepreneurial performance (Halim et al., 2014). In Kopi Soe, from the interview with founders and employee, it is observed that the employees indicated high entrepreneurship performance. For instance, good entrepreneurial performance was observed from their readiness, willingness, and positive behavior to finish jobs need finishing without being calculative or sensitive towards reprisal in any kind. They are willing to go the extra mile for the company because they have a high sense of ownership and very well-maintained healthy relationship with the founders. Thus, Kopi Soe's operations are reliable due to healthy and nurtured human resource culture; and cost effective, due to low rate of turnover and low resignation intent. Both play a pivotal role in gaining a competitive advantage. In fact, entrepreneurial performance and innovative performance go hand in hand, as creativity, innovation, and risk-taking are at the heart of entrepreneurial performance (Hayton, 2003). Therefore, the second hypothesis, H2: High involvement of HR management positively affect competitive advantage through entrepreneurship performance is accepted.

The validity of the statements above was confirmed by an interview of a different point of view with Kopi Soe's employee, Cindy Cantika. She stated that because of the founders' on-hand and detail practices, Kopi Soe's operations run smoothly and do not frequently stumble to problems, and if it does, it gets solved quickly. Efficient operations enable Kopi Soe to achieve high customers' and partners' satisfaction, giving them a competitive advantage among other coffee beverage SMEs. In the future, Kopi Soe aims to further improve and excel on customer satisfaction factor of the business.

CONCLUSION

This study finds that Kopi Soe practices effective human resource management through a high involvement of HR. The founders are fond in nurturing their employees and open to transparent communication. These factors help develops Kopi Soe's healthy organizational culture, which in turn cultivates employees' performance in the innovative and entrepreneurial aspects. As Moideenkutty et al. (2011) argued that high involvement of HR management affects an SMEs gain in competitive advantage through increasing organizational performance. Accumulated factors and strategies that are mentioned above that Kopi Soe applies in their practices have helped them increase their competitive advantage over time through increased organizational performance. Thus, both hypotheses of this study

are accepted: High involvement of HR management positively affect an SME to gain competitive advantage through innovation performance and entrepreneurial performance.

Managerial Implication

Innovative performance was observed to be more impactful towards Kopi Soe in gaining competitive advantage than entrepreneurial performance. As an SME in developing country, innovation is essential in gaining and securing sustainable competitive advantage in the highly volatile market (Halim et al., 2014). The organizational culture is created based on the presence or absence of involvement of HR management. It may either kill or nurture employees' ideas, creativities, and innovation. Halim et al. (2014) also advice that the most important aspects of innovation are, "values, uniqueness, creativity, innovates, and proactiveness" (Halim et al., 2014, p. 115). "Innovativeness is required as an organization's tendency to support new ideas, novelty, experimentation, and creative processes that may result in new products, services or technological processes, as well as the pursuit of creative, unusual, or new solutions to problems." (Halim et al., 2014, p.111).

This study observed a positive and direct relationship between innovative and entrepreneurial performance among employees in Kopi Soe. It is observed that a rise in entrepreneurial performance, also enhances innovative performance in an employee; vice versa. This finding aligns with Hayton (2003)'s study finding that, "Entrepreneurial performance reflects the extent to which a firm is able to accept risk and be innovative or competitively aggressive" (Hayton, 2003, p, 376). Both performances are essential to be nurtured within employees as they directly impact the sustainability and profitability of an SME through gaining competitive advantage over competitors (Hayton, 2003).

It is also important to note that SMEs must consider the high prevalence of millennials in Indonesia in the workforce. As observed in Kopi Soe, all the employees, including the founders are the millennials generation. As millennials have different preferences, tendencies, and culture than the previous generation of workforce. After understanding millennials' preferences, corporates' human resource department can design job and process that synergizes with millennials' values. For instance, corporate works designed to be more collaborative, people-oriented, open-spaced, instead of cubical "pushing-paper" old style; as one of millennials' characteristics is interaction and connection (Yuniasanti, Abas, and Hamzah, 2019). They value collaboration and workplace civility, promote meetings and team projects would be a great start. Workplace civility and millennials' psychological well-being are two factors that have significant impact to millennials' turnover intention. Employees are less likely to quit their job if they feel good, appreciated, important in their workplace; vice versa, employees that experience workplace incivility has a high turnover intention (Yuniasanti et al., 2019).

Theoretical Implication

In identifying whether human research management helps an SME to gain competitive advantage, this study fills the gap on the less studied topic of the impact of HR management towards the

performance of an SME. The study was often done to big corporates, but less studies have been done focusing on SMEs. This study's findings of effective human resource management that gains an SME competitive advantage can be added to the literature and its implications can also be used on future studies.

LIMITATIONS & DIRECTIONS FOR FUTURE RESEARCH

In this study, the findings reflect only from one SME among countless SMEs in Indonesia or in the world to capture in-depth data on how an SME gains competitive advantage through strategic human resource management. The SME in research, Kopi Soe, is also an SME unique to Indonesia. It is suggested for future studies to expand the research to other SMEs in other countries to capture to generalize the findings of this study.

This study utilized an interview to collect data as a qualitative method to one SME. It is suggested for future studies to broaden the study and explore comparison of similar SMEs to test the hypotheses from this study or past literatures. To gain more broad and comparative data, it is suggested for future studies to use quantitative method.

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