

Analyzing Employee Retention in Growing Indonesian MSMEs: Factors such as Compensation, Career Opportunities, and Leadership Styles

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ABSTRACT

This study looks into the intricate connections between leadership style, pay, career possibilities, employee performance, staff retention, and the productivity of Micro, Small, and Medium-Sized Enterprises (MSMEs) in Indonesia. The study employed a quantitative research methodology using Structural Equation Modeling-Partial Least Squares (SEM-PLS) analysis to gather and examine data from 487 employees of MSMEs in Indonesia. Significant conclusions emerged from the data, including the following: high employee performance positively impacts employee retention and MSME performance, structured career opportunities enhance employee outcomes, remuneration impacts both employee performance and retention, and employee retention impacts MSME performance. These results highlight HRM strategies' role in motivating workers' productivity and retention, boosting MSMEs' overall success in the Indonesian market.

Keywords:

Compensation;
Career Opportunities;
Leadership Style;
Employee; Retention

INTRODUCTION

Effective human resource management (HRM) practices are critical to the success of micro, small, and medium enterprises (MSMEs) as they contribute to operational effectiveness, sustainability, and adaptability in a rapidly changing business environment (Hooi, 2014; Long et al., 2014; Mathis & Jackson, 2016). It involves forecasting an organization's future HR needs and developing strategies to meet them (Mustafa et al., 2018). Implementing an effective recruitment and selection process helps MSMEs attract and hire the right talent (Gulzar, 2017). Proper orientation helps new employees understand the organization's culture, values, and expectations, resulting in better integration and performance (Agbejule, 2011; Lalkaka, 2002). Providing employees with opportunities for skill development and growth improves their performance and contributes to the organization's success (Bibi et al., 2017; Khatun et al., 2023). Regular performance evaluations help identify areas for improvement and provide feedback to employees, resulting in better performance and growth (Ashraf & Siddiqui, 2020; Paulin & Griffin, 2016). Developing strategies to retain valuable employees can help MSMEs maintain a stable and experienced workforce, leading to better performance and growth (Daraba et al., 2021; Purnomo et al., 2020).

Employee retention is essential in Indonesia and globally (Ashraf & Siddiqui, 2020; Kurdi et al., 2020; Singh, 2019). High employee turnover can negatively impact an organization's productivity, sustainability, competitiveness, and profitability (Ratnasari & Lestari, 2020; I. Saeed et al., 2014). In the case of Indonesia, several factors have been identified as influencing employee retention. These factors include compensation, career opportunities, and leadership style (Christianto, 2021;

Murtiningsih, 2020; F. I. Prasetyo & Purba, 2020; I. Prasetyo et al., 2021; Supriadi et al., 2021).

Empirical studies confirm that factors influencing employee retention include career development, remuneration/compensation, positive recognition, staff engagement, and management (Andaryansu et al., 2022; Vizano et al., 2021). Another study on millennials in Indonesia found that rewards and recognition, work-life balance, and job satisfaction significantly positively affected employee retention (Tirta & Enrika, 2020). For education startup Vokraf in Indonesia, employee resignation significantly increased between 2022 and mid-2023 (Abbas & Arief, 2023). Organizations should adopt strategies catering to their employees' needs and preferences to address employee retention issues. These strategies may include offering competitive compensation packages, providing opportunities for career development, fostering a positive work environment, and ensuring effective communication between management and employees (Ashraf & Siddiqui, 2020; Mathis & Jackson, 2016; Paulin & Griffin, 2016).

As a result, it is crucial to comprehend the connection between pay, career prospects, leadership style, staff productivity, employee satisfaction, and overall MSME performance. The ability of these businesses to achieve a harmonious balance among these interrelated aspects will determine their level of success and longevity. The calls, as mentioned above, for a thorough comprehension of the distinct elements that influence MSME success while avoiding a universally applicable set of HR practices. It is ideal for every industry and company to create an HR strategy tailored to their needs (Kusluvan et al., 2010). However, there has not been much-focused investigation on how all the elements in this study were integrated.

The significance of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia's socio-economic structure makes this research urgent. These businesses act as catalysts for economic expansion and make substantial contributions to innovation, employment creation, and the reduction of poverty (Anatan, 2021). However, the MSME sector in Indonesia faces several difficulties, such as a volatile economy, shifting market dynamics, and escalating rivalry, all of which are made worse by outside influences (Khourouh et al., 2020). MSMEs in Indonesia frequently have resource shortages, which make it difficult for them to compete for top talent and adopt advanced human resource management techniques (Chillakuri, 2018; Shafeek, 2016). As a result, many businesses struggle to find, keep, and motivate talented workers, which might limit their ability to develop and compete (Tan et al., 2019).

Given the socio-economic significance of the MSME sector, it is crucial to provide practitioners, policymakers, and MSME owners with evidence-based insights to make wise decisions (Iskandar et al., 2022). This urgency results from the necessity to offer practical advice that Indonesian MSMEs can use to tackle performance-related HR difficulties. This study explores the complex interactions among pay, career possibilities, leadership style, employee performance, and employee retention in Indonesian MSMEs. We know the connections between these variables and how they may affect overall firm performance. We aim to gain practical knowledge from these dynamics that might guide efforts to enhance employee outcomes and MSME sustainability in the Indonesian environment.

Literature Review And Hypothesis Development

a. HRM Practices in Indonesian MSMEs

To succeed and endure, MSMEs must employ effective human resource management (HRM) procedures. However, the HRM environment in Indonesian MSMEs brings specific difficulties and chances: Indonesian MSMEs frequently face resource shortages, which restricts their ability to invest in thorough HRM initiatives (Long et al., 2014). Advanced HR practices may be challenging due to scarce financial resources and a lack of a specialized HR department (Gulzar, 2017). For MSMEs competing with larger organizations that provide better pay and benefits packages, attracting top people can be difficult (Flamini et al., 2022; Tzafrir, 2005). To hire qualified workers, creative strategies are needed. In MSMEs, employee turnover is a serious problem because the loss of qualified individuals can cause operations to be disrupted and institutional knowledge to be lost. To keep a steady and productive team, it is imperative to have a solid retention plan (Agyeman & Ponniah, 2014; Amah & Oyetuunde, 2020).

b. Compensation on Retention and Performance

Compensation has a significant impact on employee performance and retention. Competitive and fair compensation positively affects employee performance. According to Adams' Equity Theory (Adams & Freedman, 1976), individuals compare their inputs (effort, time, skills) and outputs (compensation, rewards) to those of others in their workplace. When perceived inequities exist, employees may become demotivated, and their performance can suffer (Efendi et al., 2020; Hameed et al., 2014; Ravikumar, 2013). Therefore, fair and competitive compensation packages are essential for encouraging high performance (Saman, 2020). Studies have shown that compensation, including fair rewards and benefits, directly affects employee performance and motivation (Aini et al., 2022; Khudhair et al., 2020; Yuswardi & Suryanto, 2021). Incentives and bonuses based on performance achievements also play a vital role in boosting employee motivation (Naidu & Satyanarayana, 2018).

In terms of employee retention, compensation plays a crucial role in retaining talent. Employees are more likely to stay with organizations that offer competitive salaries and benefits (Chiekezie et al., 2017; Khalid & Nawab, 2018; Lee et al., 2014; Mishra & Garg, 2016; Murtiningsih, 2020). A fair compensation culture, which values norms of fairness in the process and results of distributive managerial decisions, has a positive and significant impact on employer attractiveness, helping to attract and retain competent employees (Ashraf & Siddiqui, 2020; Mathis & Jackson, 2016; Nikolova et al., 2019). Adequate health benefits and service quality should also be included in a remuneration package that influences employee performance (Pittino et al., 2016; Walumbwa & Hartnell, 2011).

c. Career Opportunities and Employee

When employees perceive a clear pathway for career advancement, they tend to be more motivated and committed to their roles (Mathis & Jackson, 2016; Singh, 2019). This motivation stems from the belief that the effort invested in their current position will lead to future career growth. Structured career development programs can enhance employee skills and competencies, improving performance (Mazanec, 2022; Yuswardi & Suryanto, 2021). These programs contribute to a more skilled and adaptable workforce. For instance, training and development programs have improved

employee performance in public sector organizations (Pradhan & Shrestha, 2021; Yoopecth et al., 2021).

Additionally, human resource management practices, such as training, recruitment, career opportunities, and performance evaluation, can significantly impact organizational performance (Amah & Oyetuunde, 2020; Tzafrir, 2005). Non-monetary incentives, such as career advancement opportunities, can also positively influence employee commitment (Abolnasser et al., 2023). Furthermore, competency mapping, which focuses on improving efficiency, benefits employees and organizational growth (Amah & Oyetuunde, 2020; Armina & Etikariena, 2022).

d. Leadership Styles and Employee

Transformational leadership has positively impacted employee performance and satisfaction (Atatsi et al., 2019; Gula & Karabulutb, 2014; Katzlberger & Pfurtscheller, 2014). This leadership style inspires and empowers employees, fostering a sense of ownership and commitment, resulting in higher performance and satisfaction (Purnomo et al., 2020; Singh, 2019). Effective leadership is closely linked to employee retention, as leaders who create a positive work environment, provide support, and recognize employee contributions can reduce turnover rates (Nair & Malewar, 2013). Employees are likelier to stay with leaders who value their contributions and help them achieve work-life balance (Bellmann & Hübler, 2021; Hsu et al., 2019).

A study on employees across several industries found that transformational leadership significantly influences psychological well-being, job satisfaction, and employee engagement (Abolnasser et al., 2023). Another study on employees found that relational identification with superiors mediates the relationship between transformational leadership and self-efficacy, positively related to employee performance (Walumbwa & Hartnell, 2011).

In the context of green transformational leadership, green HRM, and green innovation, research has shown that these factors have a significant and direct relationship with the sustainable business performance of manufacturing organizations in China (Zhao & Huang, 2022). Organizational support was also found to significantly moderate the relationships between transformational leadership, green HRM, green innovation, and sustainable business performance (Mian, 2023).

e. Employee and MSMEs Performance

Employee performance is directly related to overall organizational productivity and efficiency. Research conducted on MSMEs in Indonesia found that the use of accounting information, incentives, technology utilization, and technology relevance significantly affect employee performance (Paais & Pattiruhu, 2020; Rohman et al., 2021; Sutanto & Kurniawan, 2016). Another study of organizational culture has a significant positive effect on employee performance, with creativity and motivation as mediating variables (Fidyah & Setiawati, 2020; Purnomo et al., 2020; Ratnasari & Sutjahjor, 2019; Setyaningsih & Nawangsari, 2021). Furthermore, several studies on MSMEs show that training practices positively impact employee performance, both directly and indirectly, by mediating team commitment (Aini et al., 2022; Ibrahim et al., 2017; Lumunon et al., 2021).

Employee retention is critical to maintaining a competitive advantage, especially in today's technologically advanced global marketplace. Retaining employees can lead to maximum performance and maximum return on assets (Kurdi et al., 2020; Nair & Malewar, 2013; Singh, 2019; Tirta & Enrika, 2020). Employee

training is considered a pivotal strategy to influence employee retention⁶. A study in the private sector in Egypt found that training and development and job performance positively impacted employee retention (Elsafty & Oraby, 2022).

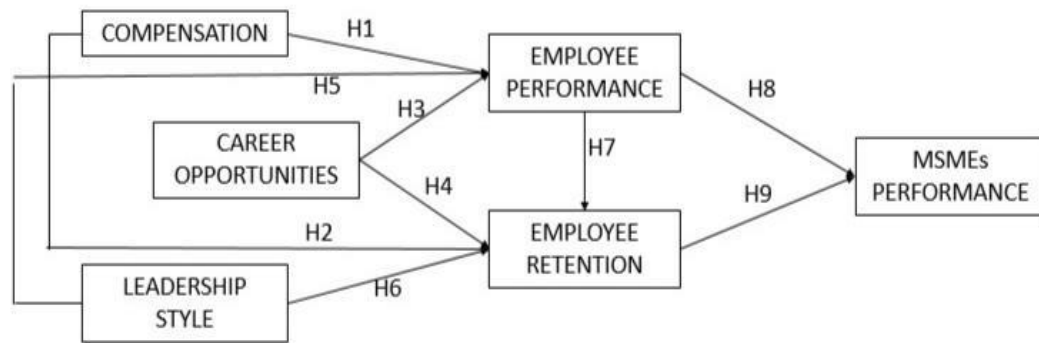


Figure 1. Model Conceptual Research

Source: Results Researcher Mapping Study Literature (2023)

METHOD

The significant data used in the research design to address the study's objectives was gathered using self-reported surveys and online and offline data search procedures. This study's online survey was implemented using the Google digital platform. To prevent bias or confusion among potential respondents when answering the questionnaire, the author and enumerators—students—are also assisted in going down to the object directly to find potential respondents to this research. However, the enumerators are given a briefing in advance through training to understand the purpose of this research. The study lasted about three months, from June 10 to September 5, 2023. Although the research instrument was developed in Indonesian, 487 data were collected from employees of MSMEs in Indonesia thanks to the diligent efforts of the authors and enumerators.

Purposive sampling is a nonprobability strategy used in this study to create and collect data. Certain people who can offer the information are the only ones who can be included in a purposeful sampling because they are the only ones who have it or because they match the researcher's criteria (Sekaran & Bougie, 2016). The selected sample consists of married workers employed by SMEs who have a supervisor and utilize an employee recruitment system.

The provinces of DKI Jakarta, Banten, West Java, East Java, South Sulawesi, and Bali, including their cities and regencies, accounted for most of the survey's offline respondents. Meanwhile, the author used the social media platforms now in use, such as Facebook, Instagram, LinkedIn, and WhatsApp, to respond to the online survey for this research. However, the demographics originating from the locations studied offline were left out. Ensuring the anonymity of possible respondents' identities, including pseudonyms and abbreviations, is crucial to upholding ethics in research. A summary of the study's respondents' demographics is given in Table 1:

Table 1. Demographic of Respondent

Gender	N	%
Male	317	64,02
Female	170	34,31
Age	N	%
16-25	112	22,63
26-35	146	29,48
36-45	121	24,43
46-55	85	17,16
>45	7	1,41
Period of Services	N	%
<1 year	143	28,85
1-2 years	187	37,77
2-5 years	92	18,57
5-10 years	40	8,08
>10 years	25	5,05
Children	N	%
5	2	0,40
4	7	1,41
3	159	32,07
2	171	34,54
1	148	29,88
Education Background	N	%
Primary School	10	2,02
Junior High School	49	9,89
Senior High School	221	44,63
Diploma	93	18,75
Bachelor's Degree	114	23,01

Source: Primary Data, 2023

Data Analysis

Partial least squares and structural equation modeling (PLS-SEM) were used to examine the research data. The SMARTPLS version 4 software was used to perform the PLS-SEM analysis. The Confirmatory Composite Analysis (CCA) methodology bolsters this study. This strategy builds upon a solid theoretical foundation established in earlier research to assure the robustness of the model architecture and latent variable indicators employed in this work. Examining the outer and inner models is part of the two-stage analysis procedure required by the PLS-SEM methodology. The outer model comprises several statistical studies designed to assess the validity and coherence of the constructs included in the survey tool's indicators.

Convergent and discriminant validity are the two distinct measures used to evaluate the instrument's validity. The measures of Composite Reliability (CR) and Cronbach's alpha (CA) are used to assess the instrument's reliability. Any latent variable that exhibits CR and CA values more than 0.70 is regarded as dependable in the CCA technique. Furthermore, as stated by (Hair et al., 2019), the Average Variance Extracted (AVE) measure must be used to evaluate convergent validity in the CCA Method and be more significant than 0.50.

The questionnaire was piloted and initially distributed to academics holding doctoral degrees in management, human resources, and entrepreneurship who had published high-caliber papers in Scopus before being finalized. Subsequently, thirty

provisional samples of the question items were selected. This study intends to investigate the relationship between the independent variables, namely compensation measured with four questions (Deb et al., 2023; Gallardo et al., 2010; Naidu & Satyanarayana, 2018), the variable career opportunity following with four questions just like the research (Amah & Oyetunde, 2020; Weng et al., 2010), finally the independent variable of leadership style is measured with four questions referring to (Budur, 2022; Oamen, 2023), then the dependent variable, employee performance (EFO), which is measured with six questions following research (Awolusi & Jayakody, 2021; Susanto et al., 2022), employee retention (ERT) measured by six questions following research (Basheer et al., 2022; S. Saeed et al., 2014), and MSME performance (PFO) measured by five questions following research (Ahmad & Raja, 2021; Dabke, 2016; Guy & Lee, 2015; Higgs & Dulewicz, 2014). Table 3 explains how these questionnaire items were deemed appropriate.

Table 2. Validity and Reliability of Questionnaires

Variabel	Code	Loading Factor	Cronbach Alpha	Composite Reliability	Average Variance Extracted
Compensation	CPS.1	0,793	0,846	0,896	0,684
	CPS.2	0,868			
	CPS.3	0,873			
	CPS.4	0,770			
Career Opportunity	CRR.1	0,843	0,842	0,894	0,678
	CRR.2	0,837			
	CRR.3	0,803			
	CRR.4	0,808			
Leadership Styles	LDS.1	0,851	0,882	0,919	0,740
	LDS.2	0,920			
	LDS.3	0,864			
	LDS.4	0,801			
Employee Performance	EFO.1	0,831	0,897	0,921	0,661
	EFO.2	0,833			
	EFO.3	0,732			
	EFO.4	0,863			
	EFO.5	0,828			
	EFO.6	0,783			
Employee Retention	ERT.1	0,852	0,885	0,913	0,636
	ERT.2	0,774			
	ERT.3	0,757			
	ERT.4	0,847			
	ERT.5	0,742			
	ERT.6	0,806			
MSMEs Performance	PFO.1	0,828	0,850	0,893	0,626
	PFO.2	0,773			
	PFO.3	0,750			
	PFO.4	0,808			
	PFO.5	0,793			

Resource: Data Analysis Result, 2023

Twenty-nine questionnaires were submitted for this study, as shown in Table 3 above, which outlines the validity and reliability requirements. The validity of the questionnaire was assessed using convergent validity, which was calculated using the partial least squares approach. A measure of convergent validity is how well an index for a dimension explains the dimension. Certification is granted for an assessment tool's convergent validity if its AVE (Average Variance Extracted) score exceeds 0.5

(Hair et al., 2019). The table displays the factor loadings for each item, all more than 0.70 (3). As expected, the constructions' composite reliabilities were higher than 0.70, and the AVE values were higher than 0.50.

Table 3. Discriminant Validity Research

	LSE	DFC	PFZ	EMS	BUF	SUB
Compensation						
Career Opportunities	0,414					
Leadership Style	0,282	0,613				
Employee Performance	0,602	0,244	0,193			
Employee Retention	0,782	0,376	0,298	0,721		
MSMEs Performance	0,176	0,553	0,332	0,733	0,782	

Source: Processing data analysis, 2023

A statistical tool for assessing the discriminant validity of research tools is the Heterotrait-Monotrait Coefficient (HTMT). Remember that (Ringle et al., 2012) proposed that a better way to evaluate discriminant validity in PLS-SEM analysis is by the HTMT ratio. To ascertain the legitimacy of the instrument, it is essential to ensure that the HTMT ratio does not surpass 0.90. As demonstrated in Table 4, the HTMT ratio value for each latent variable—compensation, career opportunities, leadership styles, employee performance, employee retention, and MSMEs performance—is less than 0.90, indicating the validity of the research tool used to assess the model it contains. The structural or internal assessment aims to ascertain how well the conceptual model predicts the independent variable variation. Figure 2 outlines the four measurement analyses carried out to create the internal model and how it was built.

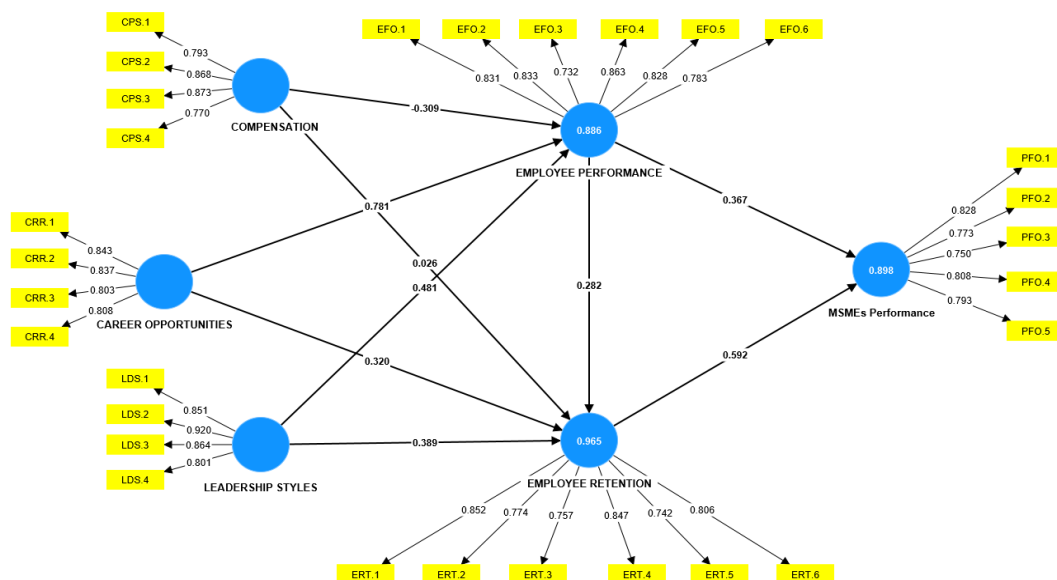


Figure 2. Model Internal Assessment

Determining how well the conceptual model predicts the variance of the independent variables is the goal of structural analysis. To this end, four measurement analyses are carried out. The significance of the impact of exogenous and endogenous components was evaluated by the coefficient of determination or R-square (R²) value. Furthermore, using the bootstrap technique, a subsample of 5000 people was employed to assess the statistical significance of the direct and indirect

path coefficients. The t-statistic, sometimes referred to as the p-value, is employed in this evaluation. To demonstrate a statistically significant link between latent variables, a value of less than 0.1 is needed. The research hypotheses are tested at this stage using the research techniques provided. A Goodness of Fit analysis is also carried out to evaluate the structural model's overall robustness and the efficacy of the measurements taken together with the model. The strength of the Chi-Square ratio, NFI, and SRMR values are assessed in this analysis. In addition to the previously mentioned methods, this study employed predictive relevance analysis, which is based on cross-validated redundancy and has been thoroughly explained by (Ringle et al., 2012). The primary goal of this paper is to review and analyze the application of partial least squares structural equation modeling (PLS-SEM) in structural equation modeling.

RESULTS AND DISCUSSION

SEM-PLS Approach Criteria

According to the originator, PLS-SEM research must meet several requirements (Hair et al., 2019). Sample: it is crucial to look more closely at the distribution of data that might be missing, as well as any other outliers that do not align with the initial goals of the study when using the SEM-PLS approach. According to the author's description (Table 2), the study's sample size is 487. The author gives an example of how the data was initially distributed in as many as 580 questionnaires, but there were 61 incomplete questionnaires for each question, and 32 questionnaires did not meet the research criteria because this is a purposive study. The author then elaborates on the pertinent data included in the study, resulting in 487 samples. In order to maintain the quality of research data and take into account the demographics of the Indonesian State, which is an archipelago, the data is distributed 580 based on multiplying by 29 indicators. The author's rationale for distributing 580 questionnaires is based on advice (Hair et al., 2019), where it is recommended to multiply 5 to 10 times greater than the entire research indicator. This study consists of four indicators of compensation, four indicators of career opportunities, four indicators of leadership styles, six indicators of employee performance, six indicators of employee retention, and five indicators of MSMEs' performance, for a total of 29 indicators.

Then, the following criterion is to ensure that each variable that builds constructs to avoid multicollinearity, the terms and conditions are if the VIF value is below 3,000. Following the advice (Hair et al., 2019), the multicollinearity assumption criteria in this study are qualified. Table 5 above shows that each built construct has an inner VIF value < 3.000.

In addition, the GoF in the research model is to be examined as the recommended criterion. Model fit evaluation is crucial in determining the overall efficacy of the structural, inner, and outer models. (Hair et al., 2017, 2019) state that the SMARTPLS website provides suitable criteria for evaluating model fit. This means that the NFI (Numerical Fit Index) value should be better than or close to 0.9, the Theta RMS (Root Mean Square) value should be less than 0.02, and the SRMR (Standardized Root Mean Square) value should be less than 0.02, 0.10, or 0.08.

Table 4. Model of Fit

	Saturated Model	Estimated Model
SRMR	0,061	0,069
d_ULS	0,920	0,980
d_G	0,402	0,403
Chi Square	1781,721	1780,701
NFI	0,850	0,820

Source: Data Analysis Result, 2023

The calculated model's NFI value, as shown in Table 6, is 0.820, indicating a high degree of fit, while its SRMR value is 0.069, less than the suggested threshold of 0.10. The study's model satisfies the Goodness of Fit assumptions in light of the research findings.

Structure Inner Model

The degree to which other factors impact the dependent variable is measured using the coefficient determination (R-square). According to (Chin, 1998; Hair et al., 2019), the structural model's dependent latent variable's R2 value of 0.67 and above indicates that the independent variable, which influences, positively impacts the dependent variable, which is affected. In the meantime, the result falls into the weak category if it is 0.19-0.33 and the medium category if it is 0.33-0.67. In the meantime, Hair stated that if the Q2 value is less than 0.05, it can be inferred that the model developed for the study is appropriate for understanding the phenomenon.

Table 5. R Square

	R Square	R Square Adjusted
Employee Performance	0,586	0,059
Employee Retention	0,665	0,061
MSMEs Performance	0,698	0,053

Source: Data Analysis Result, 2023

The R2 value for employee performance is 0.586, meaning it is in a moderate position, the same as the coefficient of employee retention, which is 0.665, while the R2 value for MSMEs performance is in a suitable category position. The three endogenous variables in this study, employee performance, employee retention, and MSMEs performance, have a Q2 value greater than 0.05 (0.059, 0.061, and 0.053), as shown in Table 7. Conclusions can be drawn regarding the adequacy of exogenous variables used to predict endogenous variables in this study.

Hypothesis Research

The last phase of the inner model analysis process is hypothesis verification using bootstrapping techniques. Experts used 5,000 subsamples to ensure data stability and evaluate the usefulness of the structural model (Hair et al., 2019). This represents the degree of importance generally acknowledged in economic and management research.

Table 6. Hypothesis Test

	Original Sample	Sample Mean	STD DEV	T Statistics	P Values	Result
CPS -> EFO	-0,309	-0,300	0,122	2,542	0,011	Support
CPS -> ERT	0,528	0,531	0,086	4,903	0,000	Support
CRR -> EFO	0,781	0,776	0,109	7,133	0,000	Support
CRR -> ERT	0,320	0,310	0,081	3,968	0,000	Support
LDS -> EFO	0,481	0,478	0,111	4,317	0,000	Support
LDS -> ERT	0,389	0,394	0,065	5,987	0,000	Support
EFO -> ERT	0,282	0,284	0,067	4,200	0,000	Support
EFO -> PFO	0,367	0,399	0,148	2,479	0,013	Support
ERT -> PFO	0,592	0,562	0,146	4,047	0,000	Support

Source: Data Analysis Result, 2023

The research has now completed the process of responding to the research objectives listed in Table 8. It has demonstrated the significance of factors such as remuneration, career prospects, leadership style, employee performance, and retention for MSME employees in Indonesia, all of which affect the sustainability of MSMEs. The foundation for this study's nine hypotheses is the statement (Hair et al., 2017) that the hypothesis test in SEM-PLS is conducted using the bootstrap method. This ensures that all hypotheses are demonstrated to have a positive and significant influence. The hypothesis is deemed significant when the t-statistic value is greater than the t-statistic at the 95% confidence level (>1.96). The SmartPLS bootstrap software was used to generate the findings described here.

According to H5: $t\ 4.317$, $p\ 0.000$ and H6: $t\ 5.987$, $p\ 0.000$, MSME owners in Indonesia utilize a transformational leadership style that improves staff performance and retention. It has been demonstrated that transformational leadership characteristics, like empowerment and inspiration, generate a favorable work atmosphere that encourages employee engagement and job satisfaction. Higher retention rates result from leaders who foster a favorable work environment and reward loyalty among their staff (Budur, 2022; Oamen, 2023). The notion that incentive and recognition programs for top performers can significantly impact retention rates is further confirmed by the supported H7, which emphasizes the beneficial relationship between employee performance and retention (H7: $t\ 4.200$, $p\ 0.000$). When their work is acknowledged, high-performing individuals are likelier to stick with their existing company (Awolusi & Jayakody, 2021).

The importance of human resources in promoting overall organizational success is demonstrated by employee performance's vivacious and significant impact on MSME performance (H8: $t\ 2.479$, $p\ 0.013$). Employers that have high-achieving personnel typically see improvements in performance and long-term effects. H9: $t\ 4.047$, $p\ 0.000$ highlights the significance of lowering staff turnover in light of the supported hypothesis about the beneficial effect of employee retention on MSME's performance. A dependable and dedicated team can make a big difference in MSMEs' overall success (Basheer et al., 2022; Dabke, 2016; Guy & Lee, 2015; Higgs & Dulewicz, 2014; I. Saeed et al., 2014; Susanto et al., 2022).

Discussion

The positive and noteworthy effects of remuneration on employee performance and retention highlight the relevance of competitive and equitable compensation packages for Indonesian MSMEs. These results are consistent with other research highlighting the importance of just compensation in encouraging workers to give their best efforts and lowering attrition rates (Efendi et al., 2020; Hameed et al., 2014; Ravikumar, 2013). While considering the financial limitations of smaller businesses, MSME owners and managers must prioritize creating remuneration structures that reflect market competitiveness (Agyeman & Ponniah, 2014; Aini et al., 2022; Campos, 2021). Pay has a significant role in increasing employee retention and performance. Providing a competitive benefits package can assist companies in attracting and keeping top talent, boosting job satisfaction, encouraging employee loyalty, and motivating and engaging their workforce (Akib et al., 2022; Hameed et al., 2014; Khudhair et al., 2020).

This study's support shows the value of organized career development programs in MSMEs for the positive and significant benefits of career opportunities on employee performance and retention. Career opportunities can have a significant impact on retention and success in a lot of different ways. Job happiness, commitment, and performance can all be raised by offering employees training and development opportunities, a friendly work environment, and other benefits (Mathis & Jackson, 2016; Mazanec, 2022; Singh, 2019; Yuswardi & Suryanto, 2021). Opportunities for career advancement are crucial for both employee retention and performance. Employers will be more likely to retain their staff and see a more excellent performance if they make training and development investments, offer clear career routes, uphold a positive work environment, provide competitive rewards and remuneration, and encourage work-life balance (Amah & Oyetunde, 2020; Supriadi et al., 2021; Tamsah et al., 2021; Yuswardi & Suryanto, 2021). MSMEs can gain from training and development opportunities that align with each employee's career goals and from investing in their staff's professional development.

A favorable work environment is primarily facilitated by transformational leadership, as shown by its cheerful and substantial effects on employee performance and retention in Indonesian MSMEs. It has been demonstrated to significantly affect job satisfaction, which affects employee retention and performance (Mathis & Jackson, 2016; Purnomo et al., 2020). Transformational leaders inspire and motivate employees, creating a good work atmosphere that rewards dedication and loyalty (Purnomo et al., 2020; Ratnasari & Lestari, 2020). Additionally, this leadership approach fosters innovation and creativity, which can advance the development and progress of the organization (Dabke, 2016; Nikolova et al., 2019). A transformational leadership style boosts job happiness, encourages innovation and creativity, and fosters a supportive work environment, positively impacting employee performance and retention. Compared to other leadership philosophies, toxic leadership has significantly influenced staff retention (Chen et al., 2023; Zhao & Huang, 2022).

The study's conclusions attest to worker performance's favorable and noteworthy impact on retention. Since high performers are likelier to stay with their current company, MSMEs must cultivate an excellent culture. Effective personnel management is crucial for businesses as it directly and indirectly improves employee performance and retention (Gulzar, 2017; Long et al., 2014). Moreover, employee interactions, skills, and rewards are related to employee retention (Ehnert et al., 2016;

Flamini et al., 2022; Presbitero et al., 2016). The retention and performance of employees are closely related and have a significant influence on MSME's performance. Focusing on talent management, employee engagement, and the efficient use of incentives and technology are essential for ensuring the success of MSMEs. By doing this, MSMEs can keep their workforces competent and driven, boosting their general success, productivity, and inventiveness (Agyeman & Ponniah, 2014).

The findings further support the notion that staff retention and performance have a favorable and significant impact on MSME performance. MSMEs that prioritize human resource management—which includes staff retention tactics and performance-based practices—generally see improvements in overall performance. This emphasizes how HR procedures and organizational success are related in the MSME sector. Excessive staff turnover can result in higher hiring expenses, a labor shortage, and lower-quality goods and services (Ashraf & Siddiqui, 2020; Kurdi et al., 2020; Singh, 2019). By implementing efficient employee retention techniques, employers can increase productivity, motivation, and job satisfaction while lowering labor disputes, absenteeism, and staff turnover (Mathis & Jackson, 2016; Singh, 2019; Yoopetch et al., 2021). An overview of several study perspectives revealed that employee retention plays a crucial role in MSMEs' performance since it can have a significant impact on profitability, productivity, and overall organizational success (Agarwal, 2018; Diah et al., 2020; Pittino et al., 2016; Presbitero et al., 2016). MSMEs can enhance performance and attain sustained success by concentrating on employee retention strategies and tackling elements that impact worker happiness and drive.

CONCLUSION

Comprehensive insights into the intricate dynamics of pay, career prospects, leadership philosophies, employee performance, staff retention, and MSMEs' performance in Indonesia have been made possible by this research. The study's conclusions significantly impact Indonesia's MSME industry and provide helpful advice for practitioners, policymakers, and MSME owners.

The study attests to the significance of pay in encouraging workers to give their all and lowering attrition rates. Transformational leadership philosophies and organized career development programs also facilitate improved employee performance and retention. Improved MSME performance results from high-performing workers staying with their companies longer. These findings highlight the relationship in the MSME sector between HR procedures and organizational effectiveness.

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