



## The Contribution of Strategic HRM and Islamic HRM Practices

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### Abstract

This study aims to understand the contribution of Strategic HRM and Islamic HRM practices in the improvement of organizational performance of Batik MSMEs in Pekalongan, Central Java. Organizational performance is emphasized on sales, social, religiosity, and environmental performance. The type of this study is qualitative research with the participant from 4 Batik MSMEs owner and leader of the Batik Group. The results show that Batik MSMEs in Pekalongan have implemented some Strategic HRM and Islamic HRM practices although it is still not optimal enough and kaffah. The novelties of this study is it is able to add some research reference about Strategic HRM and Islamic HRM practices in the improvement of organizational performance in Batik MSMEs using qualitative research approach.

### Key words

Islamic HRM Practices, Strategic HRM Practices, Organizational Performance

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### 1. Introduction

Since the mid-1980s, the concept of human resource management (HRM) has attracted much attentions between academicians and practitioners. At that time, they did not tend to care whether they had adopted the HRM approach or not. Practitioners generally refer themselves as managers, HR consultants, and even Directors. Their efforts continue to experience several developments and change, along with the dynamics of their lives as a practitioners and academicians. The change from the word 'personnel management' to 'human resource management' is not only about the name, but also the entire contents, activities, and responsibilities. The old term such as 'personnel management', 'employee management', 'staffing administration', and other terms are no longer needed. The concept of strategic HRM boils down to an important part of the HRM philosophy, which emphasizes the strategic nature of HRM and the need for users to integrate the HR strategy with its business strategy. However, Islamic HRM considers HR should not be seen as a servant or laborer, but the strategic asset of the company. Both of these have the same point of view. In facing the uncertain business environment, currently HR in organizations really need organizational learning. This paper wants to examine the contribution of Strategic HRM and Islamic HRM practices toward the organizational performance of Batik MSMEs in Pekalongan, Central Java. This is considered to be very important since Batik MSMEs in Pekalongan are faced with a very high level of competition. The invasion of batik products both from abroad and within the country is very intense, therefore it needs to be anticipated by implementing the strategic and Islamic HRM practices in total (*kaffah*).

## 2. Literature review

### 2.1. Strategic and Islamic HRM

The business issue that comes up in the last few years is the existence of a number of important developments in the literature related to the issues concerning Human Resource Management (HRM), especially strategic HRM. Some academicians and practitioners focus their attention on HRM strategic approach. This means that approaches in HRM are not only limited to the personnel function, but are also extended to the involvement of all the strategic management process. Armstrong (2003) added that the main business issues that might influence HR strategies include:

- Company goals that are related to growth or decline, acquisition, merger, divestment, diversification, market/product development;
- Increased competitive advantage through innovation that leads to product/service differentiation, increased productivity, improved quality/customer service, and cost reduction (employee reduction);
- The feelings of the need to develop a more positive, performance-oriented culture;
- Management of any culture that is related to changes in organizational philosophy in certain fields such as increasing commitment, mutuality, communication, involvement, decentralization, and teamwork.

The strategic HRM concept boils down to an important part of the HRM philosophy, which emphasizes the strategic nature of HRM and the need for users to do an integration process between the HR strategy with its business strategy. The hard version of HRM is more about the strategic aspects of business to manage important resources rationally, as well as when managing other economic factors. They consider that people are managed to produce added value to achieve competitive advantage. In fact, many people assume employees as a capital to get results, so it needs to become an investment that continues to be developed. The existence of this capitalism means that employees are considered as 'commodities' so they tend to favor management. This is being too biased in favor of management's interests, so that there will often be conflicts of interest between management and employees who are considered as commodities. This hard version of HRM boils down to strategic approach that is highly integrated with business strategies, while emphasizing a strong corporate culture expressed in mission, vision, and value statements. On the contrary, the soft version of HRM is more about the view that employees are valuable assets and a source of competitive advantage when it is seen from commitment, adaptation, skills, and performance. High commitment can be obtained from active participation, motivation, leadership, and communication. There must be a balance between the interests of management and the interests of employees. Both must go hand in hand and have an equal position (Armstrong, 2003).

In the point of view of Islamic HRM, researchers actually combine Islamic values, so that the term Islamic has been added in every HRM practice to avoid confusion. Rana and Malik (2016) stated that HRM that is related to Islamic management theory is derived from several principles, namely; (1) the basic idea of Islam is to provide guidance in every aspects of life; (2) Islamic principles are based on the Qur'an and Hadith; (3) HRM should be based on religious guidelines; and (4) effectiveness depends on the suitability of the principles with theory.

Some important aspects that have been summarized from various sources are:

1. Human resources in the organization should not actually be considered as workers or servants, but it should be considered as strategic assets that need to be valued (Razimi *et al.*, 2014; Muafi dan Uyun, 2018; Beekun, 1997; Ab. Rahman *et al.*, 2013).

2. There must be no difference, and companies must apply the principle of justice to all employees regardless of skin color, religion, gender, and ethnicity (Rana and Malik, 2016). Islam must be fair and give *rahmatanlilalaminto* fellow human beings.

3. Ab. Rahman *et al.* (2013) divided Islamic HRM practices into: (1) Understanding of Islamic knowledge and principles; (2) Training and development; (3) Performance evaluation; (4) Rewarding and compensation; (5) Recruitment and selection

4. Rana and Malik (2016) divided Islamic HRM practices into: (1) Selection; (2) Training and development; (3) Compensation; (4) Performance evaluation; (5) Employee involvement.

It is also added by Rana and Malik (2016) that communication and work relations should contain the element of religiosity and family, not only based on transactional relationships between superiors and subordinates.

5. Islamic HRM practices can also be examined from these following aspects: motivation, wage suitability, religious tourism, and suitability of overall business practices with Islamic teachings (Ali, 2010; Azmi, 2010; Ab Rahman et al., 2013).

## **2.2. Strategic HRM and Islamic HRM Practices: A Strategic Issue**

Business strategy in organizations will be able to be influenced by human resource factors, although it is not so strong. Human resource strategy is expected to be able to help making business strategies work. Business strategy must consider the opportunities and constraints of human resources. Human resource strategy is a sequence used by human resource to help companies to achieve their strategic goals (Dessler, 2004; Conner and Ulrich, 1996; Ulrich, 1997; Wright and Snell, 1998). The fact that today's employees are the centre in achieving competitive advantage has led to the emergence of a field known as strategic human resource management (HRM). Some strategic HRM experts defined strategic HRM differently. The point of strategic HRM is: "A planned process of development and activities of human resources that seeks to link the functions of HRM with the strategic objectives of the organization in order to improve organizational performance and build organizational culture that encourages organizational innovation and flexibility".

The concept of strategic HRM was first formulated by Fombrun *et al.* (1984) who wrote three core elements that are important for companies to function effectively:

1. Mission and strategy
2. Organizational structure
3. Human Resource Management (HRM).

Some strategic HRM academicians define strategy as a process in which the basic mission and goals of the organization are determined, and a process in which the organization uses resources to achieve its objective. They also make a difference between three levels in managerial organizations:

- Strategic level – policy formulation and overall goal setting;
- Managerial level – regarding resource availability and allocation to carry out strategic plans;
- Operational level – daily management

In another study, Anthony *et al.* (1999) explained that there are six elements in the HRM strategic approach. The six elements include: (a) Understand the impact of the external environment; (b) Understand the competition and dynamics of the labor market; (c) Long-term focus (3-5 years ahead); (d) Focus on choices and decision making; (e) Consider all personnel; and (f) Integration with corporate strategy. The organization should carry out activities to coordinate all company resources, including HR and every component that contributes in implementing the strategy. If everything is integrated, each individual will be able to work in a clear synergistic direction, and it will have additional benefits or value when resources are coordinated and combined effectively, or more precisely, have a better economic of scale. The strategic approach in HR and the traditional approach are very different in several ways. As stated by Leonard Schleginger, HRM is needed to align people and turn them into business people. In other words, HR managers and other HR professionals are needed to be players in a strong management team. The strategic HRM approach views all managers as HR managers. HRM problems are not as simple as the HR unit. All managers must take responsibility for the efficient utilization and effectiveness of their subordinates. Likewise, HR managers should also do the same thing since they are in the staff position. They must view their role as the main operational supporting element (line) of managers. They should see their role in advising, assisting, and providing guidance to line managers in solving HR issues. HR professionals should view the people they advise as customers and themselves as service representatives (Anthony *et al.*, 1999; Husehild, 1995; Husehild *et al.*, 1997).

Environmental changes faced by organizations increase along with human problem that is getting more complex, and it can affect the level of subordinates, profits, or survival of the organization. These problems require a greater understanding of HRM and a higher commitment to the line manager of the business functions. Therefore, the HR department has a 'free view' to deal directly with other units that have relationships with human and business problems; and work with other departments to address these problems (Anthony *et al.*, 1999). Although relationships can lead to conflicts between staff, conflict is not necessarily bad as long as the conflict can be discussed from key HR issues and then clarify the part of the

conflict. The most important conclusion is that the HR system and other internal capabilities of the organization must be managed in the same way as the organizational strategy. In other words, they emphasize the use of strategic conformity. Mathis and Jackson (2001) argued that the role of HR as a strategic partner has three views, namely: (1) HR activities are not seen as strategic activities. This is because HR activities are only operational, and according to this view, the actual HR activities are "...ensuring that people are paid properly, job advertisements that do not cross deadline, suitable supervisors are recruited for shifts in the previous time..."; (2) HR's strategic role is to adjust individual HR practices (recruitment, rewards, etc.) to match company strategy and competitive strategy. According to this view, top management should strive for a strategy, and subsequently HR is asked to create HR programs that are required to successfully implement the company's strategy (Dessler, 2004).

Regarding the Islamic HRM practices, the researchers underlined that from a number of literature reviews, it was found that several researchers who focused on Islamic HRM practices included Islamic values in each questionnaire item or the indicators of regular HRM practices (Razimi *et al.*, 2014; Uyun, 2018; Beekun, 1997; Ab. Rahman *et al.*, 2013; Rana and Malik, 2016; Ali, 2010; Azmi, 2010; Ab Rahman *et al.*, 2013). Therefore, based on the existing studies, this study uses strategic HRM indicators from six dimensions according to Anthony *et al.* (1999) namely; planning and strategy formulation, authority, scope, decision making, integration, and coordination. These six indicators will also be linked to existing Islamic values that have been implemented in organizations and society.

### 3. Methodology of research

This study was conducted in Pekalongan City with the sample of Batik MSMEs in Pekalongan City. Batik in Pekalongan City has been known to be an icon of the city that can last from one generation to the next. This city is also known for having a high level of religiosity. The majority of population is Muslim, and they live in harmony by helping one another. Although Pekalongan City also has Chinese and Arabic ethnic residents, they can live side by side and conduct business transactions in harmony. The type of this study is qualitative descriptive, by using primary and secondary data. The primary data is obtained from four owners/managers of Batik MSMEs who manage the business, so that they understand the practice of strategy and Islamic values that they have lived for years. Thus, they can understand the organizational planning and development that will be carried out in accordance with the needs and desires of the MSMEs (Whyte, 1991). This makes it easier for researchers to be more adaptive and accommodating to give their answers as key participants. Validity checking is based on these following criteria: credibility, dependability, and confirmation (Guba and Lincoln, 1994). The researchers conducted an open and unstructured interview that has been directed in accordance with current research topic under study, namely Strategic HRM Practices and Islamic HRM Practices that have been implemented. This study uses validity test with the triangulation method: looking for reference materials, checking with participants, and consulting with experts. Furthermore, the researchers carried out the reliability test with diligent and in-depth observation.

### 4. Results and discussions

Based on the results of the study, it can be concluded that there is a relationship between strategic HRM and Islamic HRM practices in Batik MSMEs in Pekalongan. When planning and formulating strategies, authority, scope, decision making, integration, and coordination, these six indicators are always associated with Islamic values. All of this are necessary, so that there will be an increase in the organizational performance including business, environmental, social, and religious performance. Islamic HRM practices are carried out by: (1) involving all of the organizational strategy planning and linking HR function with company strategy with consideration of *rahmatanlil 'alamin*; (2) employees have feelings of respect, and considered as company assets; (3) employees are not laborers because they are considered as family; (4) employees are sometimes invited to deliberations to make decisions, for example about batik design and coloring; (5) involved in the process of integration with other organizational functions, for example in marketing, finance, and production; (6) all HR activities (training, recruitment, staffing, opportunities to get work fairly) are carried out fairly and responsibly; and (7) dispatching employees whose performance is good for religious tourism (guardian pilgrimage). Furthermore, the researchers identify the results of the SWOT analysis from the participants as shown in Table 1.

Table 1. SWOT Analysis

S	W	O	T
Products have high artistic value	Often imitates the batik motifs of other cities	Local wisdom that is still maintained	Raw materials supply is controlled by China
Broad market	Tight competition between MSMEs	Business opportunities are always open	The number of foreign product that began to enter with lower price
Good quality	High lifestyle of the entrepreneur	High demand	Batik craftsmen as regional characteristic began to run out
High creativity		Batik as a typical Indonesian clothing will always be needed by the community	The market is more dominated by printed batik that does not show the superiority of culture and art
Relationships are many	Limited capital	Government support to preserve and develop batik culture	
Lower price	The implementation of Work Safety and Security that is not optimal	Academicians support in preserving batik culture	
Having a lot of HR with high work ethic			

The results of the study explain that almost all of the key participants concluded the need for a relationship between strategic HRM and Islamic HRM practices. Organizational strategy needs to be implemented to that the MSMEs that are managed are able to compete with other competitors, both batik products outside Pekalongan region and imitation batik from overseas/China.

The results for the interview with key participants are shown below:

*X (Participant 3)*

“The majority of Batik MSMEs in Pekalongan are located in the region of Buaran, Kedungwuni, Karangdadap, and Wiradesa, while it is located in Pesindon, Kauman in the city. We used to have economic orientation purely, but now we also oriented in arts, economics, and religion. For example, our previous scholars did not allow images, like real images. In batik, this would be like there is a bird on the head, but with different type of feet. It is different for now; it is not normally a bird....

There are also economic aspects, Sir. Printed batik is pursuing more demand, which actually damaging the original product, but it is still done due to economic demands and high yields. So that is why we are now also considering social and religious considerations. There are four batik strata; the highest is written (handmade) batik, the second is printed batik, the third is screen printing clay batik, and the fourth is printing batik. The screen printing batik can directly produce around 500 pieces of pack in a day, Sir.”

“For the environmental aspects, we have not thought much about that, but there are some of us who have also made a simple IPAL, though the cost is expensive...”

*XX (Participant 1)*

“There is the Rifaiyah batik in here. It is derived from the religious teachings *rifaiah*, by incorporating religious elements in batik (*Usul, Fiqh, and Sufism*) such as not using living things for batik motifs. One of the examples is 3 countries batik (colors taken from 3 regions), originated from Kedungwuni, but popularized in Batang region.”

“The *jamplang* motif is a mystical motif, which is also believed to be used by the Queen of South Ocean (a mystical creature who guards the south ocean, believed by Javanese), so it should not be used. The original batik craftsmen are almost extinct, because of the displacement of the times. It is also caused by printing and stamp batik that are more profitable and can attract a lot of market demand. The complete collection is in Afif Gallery Jogja...”

*XXX (Participant 4)*

“In our community that is called GS, we have shared work. Besides being divided into batik work process, there are people who create the patterns, as well as the designer who make clothing models. The profit obtained by GS community will be distributed to the members of cooperative in the form of the

remaining business results, while the rest will become the cooperative's cash. We have not used natural dyes because of lack of color types and it takes longer time. The process of creating handmade batik requires 5-8 people. We are like a family. If it is the time of prayer for Muslims, we will remind one another to immediately do it."

"In our community, *InsyAllah* we will eliminate the term 'skipper' or 'owner of the enterprise'. We want to empower all of our friends here. Then, we also change the payment system, which was previously done through demand deposits, now we change it into check payment. It is done immediately, Sir. As soon as the batik is sold in exhibitions, we will calculate the payment and the craftsmen will be given a check to be disbursed on its own. We used to delay and give the payment for 3 months."

"For sales, it depends on whether we want to use the offline or online system. If we want to use the online, we will go with digital marketing. In offline system, we usually enter the exhibition in our market share, such as INACRAFT in Senayan. It is the biggest exhibition in Indonesia, Sir. We also go to Pondok Indah Mall, IKF, Jakarta Fair, and so on. We set the profit from the sales aside for cooperatives, for the welfare of the members. We basically pay attention to that, Sir..."

XXX (Participant 2)

"The religiosity of Pekalongan residents is high, Sir. Every MSMEs owner has a spiritual teacher. We have high confidence and *tawakal*, we do not keep any secrets from our partners or subordinates... we are not afraid to be rivaled, because we believe that fortune is already given to each person from Allah."

## 5. Conclusions, limitations and implications

Based on the results of the study, it can be concluded that Strategic HRM and Islamic HRM practices have a contribution in improving organizational performance, especially sales performance (Purwaningsih, and Budyastuti, 2019). However, other aspects of social and religious performance indicators are very much considered. The social and religious performance is more dominance to be achieved because it is also influenced by religious belief that is adopted, namely Islam. This supports the results of the study from Yusof et al. (2018) who stated that Workplace Spirituality has a very important role in increasing employee involvement in the workplace, so it is expected that organizational performance will also be increased. Unfortunately, in the improvement of environmental performance, only some of the MSMEs pay attention to environmental problems. However, the result from Budiharjo (2019) shows that environmental performance can have an impact on financial performance.

The limitation of this study is that the participants involved only included 4 participants with a very extensive research object in Pekalongan City. Therefore, it is feared that this study would not be able to generalize other areas in other regencies. The implication of this study is the importance of the efforts to implement Islamic and Strategic HRM practices thoroughly and not half-heartedly. It is expected to have an impact on improving MSMEs performance, individual performance, and ultimately can have an impact on improving the regional performance. Batik industry area in Pekalongan can be directed as a competitive area while also paying attention to the environmental aspect. The strategic role of HR emphasizes that people in the organization are important resources, and also a large corporate investment. HR must focus on problems and its long-term implications in order to be able to play a strategic role.

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