

UNCOVERING THE DETERMINANTS OF MSME EMPLOYEE PERFORMANCE FROM THE PERSPECTIVE OF HUMAN RESOURCES, BUSINESS, AND ECONOMICS

Syaiful Amri¹, Topan Siswanto², Satriawan³, Rizka Oktaviana⁴

^{1,2,3}Program Studi Manajemen, Sekolah Tinggi Ilmu Ekonomi AMM, Jalan Pendidikan No.1, Mataram, 83126

⁴ Universitas Mataram, Jalan Pendidikan No.37, Mataram, 83126

Correspondence: syaifulamri5@gmail.com¹, topansiswanto45@gmail.com², satriawanamm@gmail.com³, rizkaoktaviana20@gmail.com⁴

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Abstract

This study intends to analyse the factors influencing employee performance in Micro, Small and Medium Enterprises (MSMEs) in the Province of West Nusa Tenggara (NTB) by integrating perspectives from Human Resource Management (HRM), business, economics, and entrepreneurship. The variables studied were Ability, Motivation, Opportunity, Human Capital and Business Strategy Alignment to Employee Performance. Multiple linear regression was utilised to assess the hypotheses in the quantitative survey design. Data has been obtained from 200 MSME employees using five point Likert scale questionnaire. Instrument validity was tested using Pearson Product-Moment correlation, while reliability was determined using Cronbach's Alpha coefficients greater than 0.70 for good internal consistency. The results demonstrate that all independent variables have a positive and substantial influence on employee performance partially and concurrently. Motivation appeared to be the most dominant determinant, followed by Ability, Human Capital, Business Strategy Alignment and Opportunity. The R² value suggests that the model accounts for a large amount of the variability in employee performance. This study makes a theoretical contribution by refining the Ability–Motivation–Opportunity (AMO) framework and integrating economic and entrepreneurial perspectives within the MSME context. Practically, the findings have strategic significance for MSME managers and governments seeking to enhance human resource development to improve productivity and competitiveness.

Keywords: Human Resource Management; Human Capital; Business Strategy Alignment; Employee Performance; MSMEs.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in promoting economic growth, creating employment, and improving people's welfare in many developing nations. The success of MSMEs is governed not only by capital and technical aspects but is also largely determined by the quality of the human resources involved. In this context, an important factor in the firm's sustainability and competitiveness is employee performance. The HRM literature maintains that employee performance results from the interplay of several HRM activities, planned systematically, to improve the performance of both individuals and organizations. Strategic human resource management is an approach to managing human resources that helps an organization achieve its strategic objectives and supports its overall effectiveness. Thus, understanding the drivers of employee performance in depth is a significant challenge in the study of Human Resource Management (MSDM), especially in the

context of MSMEs with limited resources. Furthermore, the combination of business and economic viewpoints provides deeper insight into how employee performance can drive productivity and business success. Thus, research on the drivers of MSME personnel performance is highly significant for sustainable economic growth.

West Nusa Tenggara Province (NTB) is one of the regions in Indonesia that plays a vital role in the development of the Micro, Small, and Medium Enterprises (MSMEs) sector, the main driver of the regional economy. Based on NTB Provincial Cooperatives and Small and Medium Enterprises Office data, the number of MSMEs in this region is in the hundreds of thousands of business units in the trade, handicraft, agricultural, and tourist sectors. The contribution of MSMEs to the Gross Regional Domestic Product (GDP) of NTB is also substantial, particularly in job creation and income growth. Similarly, the Central Statistics Agency (BPS) of NTB said the MSME sector is the backbone of the region's economic recovery following the COVID-19 epidemic, with an increase in the number of workers absorbed in the informal sector and local businesses.

Despite their promising economic potential, MSMEs in NTB nevertheless face various obstacles in human resource management. Several studies and reports by local governments have cited low levels of education and worker skills, limited access to training, and inadequate implementation of established HR practices as barriers to improving employee performance. Moreover, the majority of MSMEs still rely on informal managerial practices, resulting in low productivity and limited economic competitiveness. This position is corroborated by BPS NTB data, which suggests that labour productivity in the MSME sector remains below the national average. Adoption of innovation and technology in corporate processes remains low.

This phenomenon highlights the disparity between the economic potential of MSMEs in NTB and the quality of the human resources that support them. Economically, raising the quality of human capital through training, motivation, and the creation of a favourable work environment is essential to promoting productivity and regional economic growth. So, research on the drivers of employee performance in MSMEs in NTB, from the perspectives of MSDM, business, and the economy, is highly relevant and necessary. The results of this research are expected to contribute both theoretically to the advancement of science and, in practice, to suggestions for local governments and MSME operators in devising plans to improve the quality of human resources.

In the Human Resource Management literature, one of the most widely used theoretical frameworks to explain the relationship between HRM practices and employee performance is the Ability–Motivation–Opportunity (AMO) model. This model states that employee performance results from a combination of ability, motivation, and the opportunities provided by the organization. HRM practices such as training, selection, reward systems, and job design serve to improve these three components simultaneously. Several studies have shown that High-Performance Work Systems (HPWS) that are aligned with the AMO framework can improve task performance, organizational civic behavior, and employee engagement. (Díaz-Fernández et al., 2020; Guan & Frenkel, 2019; Khan et al., 2025; Malik & Lenka, 2019; Zhang et al., 2021). In addition, employees' perceptions of the power of HRM systems and positive attribution to organizational practices help strengthen the relationship between HRM practices and performance through social exchange mechanisms and increased trust in the organization. (Alshehri et al., 2024; Zografou & Galanaki, 2024). Thus, the AMO framework provides a strong conceptual foundation for understanding the determinants of employee performance in various organizational contexts.

In addition to internal organizational factors, the business and entrepreneurial dimensions play an important role in shaping MSME employees' performance. Research shows that

alignment between business strategy and HR practices can increase organizational effectiveness, especially in a dynamic and uncertain business environment. (Kandukuri, 2023; Usanova et al., 2023). Talent management, training, and entrepreneurial leadership have been shown to increase employee innovation and productivity, ultimately improving organizational performance. (Panya & Petchsawang, 2024; Pratama & Soetjipto, 2023). In addition, employee motivation and involvement often act as mediators in the relationship between HRM practices and performance, especially in the MSME sector, which is characterized by flexibility and limited resources. (Kyal et al., 2021; Trikurnian & Fridayani, 2024). Therefore, integrating business and entrepreneurial perspectives is important for providing a more comprehensive understanding of the determinants of employee performance.

From an economic perspective, employee performance is closely linked to labor productivity and economic growth. Human capital theory emphasizes that investments in education, training, and workforce health can increase organizational productivity and competitiveness. (Bachama et al., 2021; Dao & Khuc, 2023). Education and training not only improve individual skills but also accelerate the adoption of technology and innovation, which ultimately contributes to increased economic output. (Adhikari & Hamal, 2024; Li & Gao, 2025). In addition, demographic factors and government policies also affect the effectiveness of human resource investment in increasing labor productivity. (Adriani & Yustini, 2021; Yekimov et al., 2023). In the context of MSMEs, improving the quality of human resources is one of the main strategies to increase business competitiveness and sustainability. Thus, the economic perspective provides a strong theoretical basis for understanding the relationship between employee performance and organizational growth.

Although various studies have examined the relationship between HRM practices and employee performance, research gaps remain. Most previous studies have focused on large organizations or formal sectors, and thus have paid less attention to the unique characteristics of MSMEs, which often have more flexible organizational structures and informal HRM practices. (Pratama & Soetjipto, 2023; Usanova et al., 2023). In addition, research that simultaneously integrates the perspectives of MSDM, business, and economics remains relatively limited. Many studies focus on a single dimension, failing to consider the interactions among the factors that affect employee performance. This gap highlights the need for research that adopts a multidisciplinary approach to provide a more holistic understanding of the determinants of MSME employees' performance.

Besides the conceptual gaps, there are methodological constraints in past research. Some research has used qualitative methods or simple statistical analyses that have not been able to describe the simultaneous correlations among variables comprehensively. Multiple linear regression analysis helps researchers determine the relative influences of numerous factors on employee performance more accurately and objectively. This method is widely used in empirical research to investigate the relationship between independent and dependent variables and to provide robust quantitative evidence on the factors that impact employee performance. Thus, the use of multiple linear regression analysis in the present work is likely to make a substantial methodological addition to the study of MSDM and business economics.

This study advances the analysis of factors influencing MSME employee performance by integrating perspectives from MSDM, business, and economics. This method not only broadens the theoretical scope but also makes a practical contribution to MSME managers by helping them formulate more effective human resource management strategies. Additionally, this research highlights the need for synergy among HRM practices, business strategy, and human capital investment in enhancing organisational productivity and competitiveness. The novelty of this research lies in the empirical application of the Ability–Motivation–Opportunity

(AMO) paradigm, complemented by variables related to human capital and business strategy alignment, in the context of MSMEs.

This study applies multivariate linear regression analysis to provide quantitative evidence of the relative importance of various variables for employee performance. This research incorporates these constructs into a single analytical model to capture their combined effects in the MSMEs context (Guan & Frenkel, 2019; Panya & Petchsawang, 2024; Zhang et al., 2021), unlike past studies that often examine these constructs independently. This study, therefore, contributes to the literature by providing a more context-specific empirical assessment of HRM-performance correlations in MSMEs, as well as practical recommendations for enhancing employee performance in resource-constrained business situations.

In line with the highlighted background and research gaps, the primary purpose of this study is to analyse the drivers of MSME employee performance from the perspectives of MSDM, business, and economics using multiple linear regression analysis. This study aims to identify the key elements influencing employee performance and to explain how these factors interact to boost productivity in the firm. The study's conclusions are likely to have theoretical implications for developing the MSDM literature and practical consequences for policymakers and MSME players in increasing the quality of human resources. Based on these aims, the problem formulation in this study is: "What are the determinants of MSME employee performance from the perspective of MSDM, business and economics based on multiple linear regression analysis?"

METHODS

This study employs a quantitative explanatory approach to examine the determinants of employee performance in Micro, Small, and Medium Enterprises (MSMEs) in West Nusa Tenggara (NTB). The study focuses on employees working in MSMEs across several sectors, including trade, manufacturing, agriculture, services, and tourism. Due to accessibility limitations, purposive sampling was applied by selecting respondents who had worked for at least one year in MSMEs, were at least 18 years old, and were willing to participate voluntarily. The sample ranged from 150 to 250 respondents, which was considered adequate for multiple linear regression analysis, although the findings were interpreted within the context of the selected respondents rather than representing the entire MSME population (Kanini et al., 2022; Muthee & Rugami, 2023). Data were collected through structured questionnaires distributed both offline and online. All variables were measured using a five-point Likert scale. The Ability variable reflects employees' knowledge, skills, and competencies; Motivation captures intrinsic and extrinsic drivers; Opportunity represents participation and empowerment; Human Capital reflects accumulated knowledge and experience; while Business Strategy Alignment measures the degree of fit between HRM practices and organizational strategies (Bachama et al., 2021; Panya & Petchsawang, 2024). Employee Performance was measured using task and contextual performance dimensions (Zhang et al., 2021).

Before the full survey was conducted, a pilot test was administered to evaluate the clarity, validity, and reliability of the instrument. Validity testing employed Corrected Item-Total Correlation, while reliability was assessed using Cronbach's Alpha with a minimum threshold of 0.70. Data analysis was conducted using SPSS Statistics 26 through descriptive analysis, classical assumption testing, and multiple linear regression analysis. The classical assumption tests included normality, multicollinearity, and heteroscedasticity tests to ensure that the regression model met statistical requirements. Hypothesis testing was conducted using t-tests

and F-tests with a significance level of 0.05. The regression model used in this study is formulated as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon \tag{1}$$

where Y represents Employee Performance, X_1 = Ability, X_2 = Motivation, X_3 = Opportunity, X_4 = Human Capital, and X_5 = Business Strategy Alignment.

The conceptual framework of this study is based on the Ability–Motivation–Opportunity (AMO) framework, which explains employee performance through the interaction of employees’ abilities, motivation, and organizational opportunities (Guan & Frenkel, 2019; Zhang et al., 2021). This framework is complemented by Human Capital and Business Strategy Alignment variables to provide a broader explanation of employee performance in MSMEs. Human capital emphasizes the importance of education, training, and competencies in improving productivity and competitiveness (Bachama et al., 2021; Dao & Khuc, 2023), while business strategy alignment reflects the compatibility between HRM practices and organizational goals (Kandukuri, 2023; Usanova et al., 2023). Based on these theoretical perspectives, this study proposes the following hypotheses:

- H1: Ability positively influences employee performance.
- H2: Motivation positively influences employee performance.
- H3: Opportunity positively influences employee performance.
- H4: Human Capital positively influences employee performance.
- H5: Business Strategy Alignment positively influences employee performance.
- H6: Ability, Motivation, Opportunity, Human Capital, and Business Strategy Alignment simultaneously influence employee performance.

The integration of these variables provides a more comprehensive understanding of employee performance by linking HRM practices, organizational strategy, and human capital development within the MSME environment in West Nusa Tenggara Province (NTB). In this model:

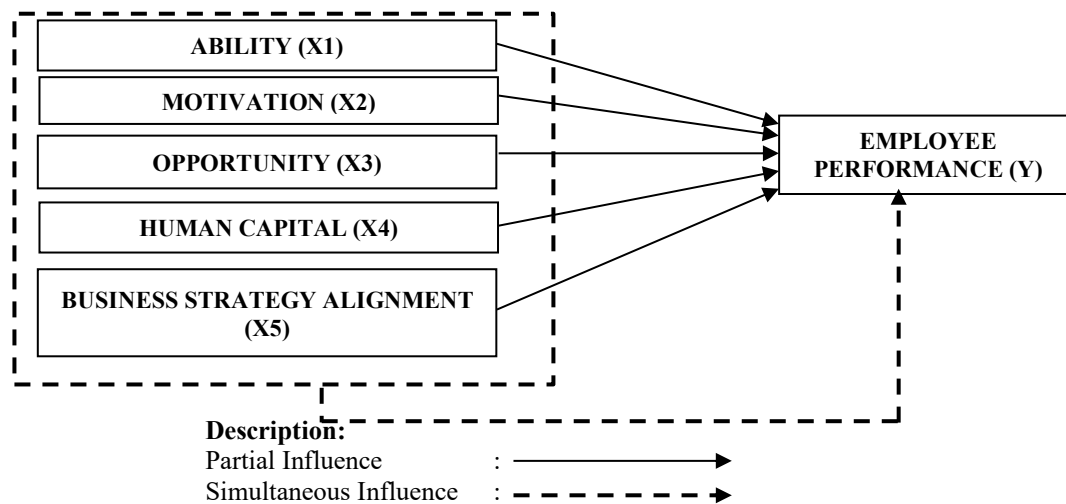


Figure 1. Conceptual Framework

RESEARCH RESULTS AND DISCUSSION

Respondent Characteristics

This study involved 200 respondents who were employees of Micro, Small, and Medium Enterprises (MSMEs) in West Nusa Tenggara Province (NTB). The characteristics of the

respondents were analyzed to provide an overview of the research participants' profile, including gender, education level, and business sector.

Table 1. Respondent Characteristics

| Characteristics | Categories | Frequency | Percentage |
|------------------|-------------------------------|-----------|------------|
| Gender | Male | 100 | 50% |
| | Women | 100 | 50% |
| Education | SD | 13 | 6.50% |
| | Junior High School | 28 | 14.00% |
| | High School/Vocational School | 75 | 37.50% |
| | Diploma | 29 | 14.50% |
| | Bachelor | 38 | 19.00% |
| | Postgraduate | 17 | 8.50% |
| | MSME Sector | Services | 61 |
| Manufacturing | | 31 | 15.50% |
| Tourism | | 19 | 9.50% |
| Trade | | 61 | 30.50% |
| Agriculture | | 28 | 14.00% |

Source: Processed Results Data

Results of Data Validity Tests

The validity test was conducted using the Corrected Item-Total Correlation to assess each indicator's ability to measure its concept. This approach measures the correlation between each item and the total score without that item, thereby removing the bias introduced by item overlap in the total score. The results of the test revealed that all indicators exceeded the minimum correlation threshold of 0.30, indicating that all items were valid and eligible for further research.

Table 2. Validity Test Results

| Variable | Indikator | R-calculated range | R Table | Remarks |
|---|-------------|--------------------|---------|---------|
| Ability (X1) | X1_1 – X1_5 | 0.780 – 0.844 | 0.30 | Valid |
| Motivation (X2) | X2-1 – X2_5 | 0.782 – 0.840 | 0.30 | Valid |
| Opportunity (X3) | X3_1 – X3_5 | 0.803 – 0.856 | 0.30 | Valid |
| Human Capital (X4) | X4_1 – X4_5 | 0.789 – 0.868 | 0.30 | Valid |
| Business Strategy Alignment (X5) | X5-1 – X5-5 | 0.801 – 0.835 | 0.30 | Valid |
| Employee Performance (Y) | Y_1 – Y_7 | 0.661 – 0.770 | 0.30 | Valid |

Source: SPSS 26 processed data

These results show that all indicators can represent the constructs of the variables studied.

Instrument Reliability Test

To measure the internal consistency of items within each variable, a reliability test is conducted using Cronbach's alpha. The study instrument was reliable, as all variables had Cronbach's alpha values exceeding the recommended threshold of 0.70.

Table 3. Reliability Test Results

| Variable | Cronbach's Alpha | Remarks |
|----------------------------------|------------------|---------------------------------|
| Ability (X1) | 0.873 | Reliable ($\alpha \geq 0.70$) |
| Motivation (X2) | 0.871 | Reliable |
| Opportunity (X3) | 0.888 | Reliable |
| Human Capital (X4) | 0.889 | Reliable |
| Business Strategy Alignment (X5) | 0.879 | Reliable |
| Employee Performance (Y) | 0.849 | Reliable |

Source: SPSS 26 processed data

Thus, all research variables met the criteria of good internal consistency.

Classic Assumption Test

Test of Normality

The normality test was performed on the non-standardized residuals using the one-sample Kolmogorov-Smirnov Test. The Asymp. Sig. (2-tailed) is 0.200, which is greater than the 0.05 significance level according to the result of the test. This means that the residuals of the regression model are regularly distributed.

Table 4. Normality Test Results
One-Sample Kolmogorov-Smirnov Test

| | | Unstandardized Residual |
|---|----------------|-------------------------|
| N | | 200 |
| Normal Parameters ^{a,b} | Red | 0.0000000 |
| | Std. Deviation | 0.28947558 |
| Most Extreme Differences | Absolute | 0.056 |
| | Positive | 0.052 |
| | Negative | -0.056 |
| Test Statistic | | 0.056 |
| Asymp. Sig. (2-tailed) | | .200 ^{c,d} |
| a. Test distribution is Normal. | | |
| b. Calculated from data. | | |
| c. Lilliefors Significance Correction. | | |
| d. This is a lower bound of the true significance. | | |

Source: SPSS 26 processed data

Multicollinearity Test

The multicollinearity test was conducted by examining the Tolerance and Variance Inflation Factor (VIF) values. All independent variables have Tolerance values > 0.10 and VIF < 10, indicating that the regression model is free of multicollinearity.

Table 5. Multicollinearity Test Results

| Variable | Tolerance | VIF |
|-------------------|-----------|-------|
| Ability | 0.991 | 1.009 |
| Motivation | 0.99 | 1.01 |
| Opportunity | 0.989 | 1.011 |
| Human Capital | 0.984 | 1.016 |
| Business Strategy | 0.998 | 1.002 |
| Alignment | | |

Source: SPSS 26 processed data

Heteroscedasticity Test

The heteroscedasticity test using the Glejser technique indicates that the p-values for all independent variables exceed the significance level. It means that none of the variables has a significant effect on the absolute residuals. The result reveals that the regression model is free from heteroscedasticity and satisfies the assumption of homoscedasticity. Thus, the model can be considered trustworthy for future studies.

Table 6. Heteroscedasticity Test (Glejser)

| Variable | t | Sig. |
|-------------------|--------|-------|
| Ability | -0.021 | 0.983 |
| Motivation | -1.168 | 0.244 |
| Opportunity | 1.628 | 0.105 |
| Human Capital | 0.813 | 0.417 |
| Business Strategy | 0.007 | 0.994 |
| Alignment | | |

Source: SPSS 26 processed data

Results of Multiple Linear Regression Analysis

The multiple linear regression analysis in this study is intended to examine the effects of Ability (X₁), Motivation (X₂), Opportunity (X₃), Human Capital (X₄), and Business Strategy Alignment (X₅) on Employee Performance (Y) in MSMEs in West Nusa Tenggara Province. Data were analysed with SPSS, $\alpha = 0.05$.

Table 7. Multiple Linear Regression Analysis Results

| Models | Coefficient | | | | |
|--------------|-----------------------------|------------|---------------------------|-------|-------|
| | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | B | Std. Error | Beta | | |
| 1 (Constant) | 0.401 | 0.302 | | 1.328 | 0.186 |
| Ability | 0.225 | 0.039 | 0.33 | 5.794 | 0.000 |
| Motivation | 0.271 | 0.04 | 0.388 | 6.817 | 0.000 |

| | | | | | |
|-----------------------------|-------|-------|-------|-------|-------|
| Opportunity | 0.12 | 0.038 | 0.181 | 3.185 | 0.002 |
| Human Capital | 0.146 | 0.041 | 0.203 | 3.551 | 0.000 |
| Business Strategy Alignment | 0.121 | 0.038 | 0.182 | 3.216 | 0.002 |

a. Dependent Variable: Employee Performance

Source: SPSS 26 processed data

Based on the results of the analysis, the multiple linear regression equation is obtained as follows:

$$Y = 0,401 + 0,225X_1 + 0,271X_2 + 0,120X_3 + 0,146X_4 + 0,121X_5 + \varepsilon \quad (2)$$

The constant value of 0.401 means that when all independent variables, i.e., Ability, Motivation, Opportunity, Human Capital, and Business Strategy Alignment, are equal to 0, the baseline value of Employee Performance is 0.401. While this condition is rarely met in social research, it indicates the level of employee performance expected when the model's independent variables have no effect.

The regression coefficient for Ability was 0.225, $p = 0.000$ ($p < 0.05$). This indicates that Ability has a favourable and significant effect on employee performance. Interpretively, an increase in all employee abilities, including knowledge, skills, and competencies, by one unit would raise employee performance by 0.225 units, all other factors held constant. The standardised beta coefficient of .330 shows that Ability is a substantial contributor to explaining variation in employee performance. The regression coefficient of the motivation variable was 0.271, and the significance value was 0.000 ($p < 0.05$). These results indicate that Motivation is the most dominant variable affecting employee performance compared with other independent factors. If job motivation increases by 1 unit, employee performance increases by 0.271 units, holding other factors constant. The standardised beta value of 0.388 indicates that motivation has the greatest relative impact on MSME employees' performance.

The regression coefficient for Opportunity was 0.120, and the threshold of significance was 0.002 ($p < 0.05$). This indicates that Opportunity has a positive and substantial effect on employee performance. This suggests that the more opportunities employees have to engage in decision-making, exercise job autonomy, and build self-potential, the more employee performance will increase by 0.120 units. Although the impact of Opportunity is not as high as that of the other variables, it still has a significant effect on improving performance.

The regression coefficient of the Human Capital variable was 0.146 with a significance level of 0.000 ($p < 0.05$). This means that Human Capital has a positive and significant effect on employee performance. Any increase in the quality of human resources, as expressed in education, experience, and professional competence, will raise employee performance by 0.146 units. The standardised beta value of 0.203 shows that Human Capital has a moderate contribution in the study model.

The regression coefficient for the Business Strategy Alignment variable was 0.121, with a significance level of 0.002 ($p < 0.05$). The results indicate that the fit between corporate strategy and HR policies has a favourable and significant impact on employee performance. Holding other variables constant, a 1-unit increase in business strategy alignment would lead to a 0.121-unit improvement in employee performance. The standardised beta value (0.182) shows that it makes a considerable contribution to explaining variation in employee performance.

Hypothesis Test

T-test (Partial)

Partial hypothesis testing using the t-test showed that all independent variables had p-values less than 0.05. This shows that each variable, namely Ability, Motivation, Opportunity, Human Capital, and Business Strategy Alignment, has a significant influence on employee performance.

F-Test (Simultaneous)

Simultaneous hypothesis testing using the F test showed an F-count value of 23.536 with a significance level of 0.000. This value is smaller than the set significance level ($\alpha = 0.05$), so it can be concluded that all independent variables together affect employee performance.

Table 8. Simultaneous Test (ANOVA)

| ANOVA | | | | | | |
|--------|------------|----------------|-----|-------------|--------|-------|
| Models | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 10.115 | 5 | 2.023 | 23.536 | .000b |
| | Residual | 16.675 | 194 | 0.086 | | |
| | Total | 26.791 | 199 | | | |

a. Dependent Variable: Employee Performance

b. Predictors: (Constant), Business Strategy Alignment, Ability, Motivation, Opportunity, Human Capital

Source: SPSS 26 processed data

The Coefficient of Determination (R^2)

The coefficient of determination shows the degree of variation in the dependent variable explained by the independent variables. The analysis results indicate R-Square values of 0.378 and 0.362, which means that Ability, Motivation, Opportunity, Human Capital, and Business Strategy Alignment collectively account for 37.8% of the variance in employee performance. The other 62.2% of the variation is due to additional factors not in this model.

These may include leadership style, organisational culture, job satisfaction, work environment, remuneration schemes, and external economic conditions. These are usually associated with employee performance but are not explored in this study. This implies that employee performance is a multifaceted construct influenced by both internal organisational characteristics and broader contextual factors, indicating the need for future research to integrate a more comprehensive set of determinants.

Table 9. Coefficient Determination Test Results (R^2)

| Model Summary ^b | | | | | | | | | | |
|----------------------------|-------|----------|-------------------|----------------------------|-------------------|-----------------|----------|-----|-------|---------------|
| Models | R | R Square | Adjusted R-Square | Std. Error of the Estimate | Change Statistics | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .614a | 0.378 | 0.362 | 0.29318 | 0.378 | 23.536 | 5 | 194 | 0.000 | |

a. Predictors: (Constant), Business Strategy Alignment, Ability, Motivation, Opportunity, Human Capital

b. Dependent Variable: Employee Performance

Source: SPSS 26 processed data

The Influence of Ability on Employee Performance

The positive and significant effect of ability on employee performance reinforces the central role of ability within the AMO framework, where it serves as a foundational driver of performance outcomes (Guan & Frenkel, 2019; Zhang et al., 2021). However, prior studies suggest that the effect of ability is not always dominant, as its contribution often depends on the presence of complementary factors such as motivation and opportunity (Hauff et al., 2019). This indicates that ability alone may not be sufficient to generate optimal performance unless supported by organizational systems that enable its utilization.

From a theoretical perspective, this finding supports the argument that ability contributes to performance through the development of human capital, yet its effectiveness is contingent upon contextual conditions. Thus, this study extends prior research by showing that, in MSMEs, ability remains a significant predictor even in resource-constrained environments. However, its impact should be understood as part of a broader AMO configuration rather than an isolated factor.

The Influence of Motivation on Employee Performance

Motivation emerges as the dominant variable influencing employee performance, consistent with prior research emphasizing its mediating and amplifying role in the HRM–performance relationship (Díaz-Fernández et al., 2020; Song et al., 2019). Nevertheless, some studies indicate that motivation does not always exert a direct effect but may operate through mediating variables such as engagement or organizational support (Malik & Lenka, 2019).

This suggests that the strong direct effect observed in this study may reflect the specific characteristics of MSMEs, in which informal management practices and closer interpersonal relationships enhance the direct link between motivation and performance. Theoretically, this finding strengthens the AMO framework by highlighting that motivation is not only a complementary factor but can also become the primary driver of performance in certain organizational contexts, particularly in small and flexible business environments.

The Influence of Opportunity on Employee Performance

The positive influence of opportunity supports the AMO proposition that performance is enhanced when employees are provided with adequate participation, autonomy, and organizational support (Bolong et al., 2023; Hauff et al., 2019). However, previous studies also indicate that opportunity-enhancing practices may have varying effects depending on organizational structure and leadership configurations (Bolong et al., 2023). In some cases, opportunity does not directly improve performance unless combined with strong leadership or supportive HR systems.

In this study, the significant effect of opportunity suggests that MSMEs, with their relatively flexible structures, are more conducive to participatory practices. Theoretically, this finding highlights the importance of contextual fit in the AMO framework, where opportunity becomes more effective in less formalized organizational settings. It also implies that opportunity functions as an enabling mechanism rather than a direct driver, reinforcing the need for alignment with other AMO components.

The Influence of Human Capital on Employee Performance

The findings confirm that human capital significantly influences employee performance, aligning with the broader literature that positions human capital as a key determinant of productivity and organizational outcomes (Bachama et al., 2021; Liu, 2024). However, prior studies suggest that the impact of human capital is often indirect and mediated by innovation capability or organizational learning (Panya & Petchsawang, 2024).

This indicates that while human capital contributes to performance, its effect may depend on how effectively it is leveraged within organizational processes. The current study contributes theoretically by demonstrating that, in MSMEs, human capital can exert a direct effect on performance, likely due to the immediate application of skills and knowledge in operational activities. This finding refines the understanding of human capital by emphasizing its dual role as both a direct and indirect driver of performance.

The Effect of Business Strategy Alignment on Employee Performance

The positive effect of business strategy alignment supports the argument that HRM practices must be aligned with organizational goals to enhance performance (Panya & Petchsawang, 2024; Pratama & Soetjipto, 2023). However, previous studies indicate that the effect of strategic alignment may vary depending on the level of formalization in MSMEs, where informal practices sometimes substitute for formal strategic alignment (Usanova et al., 2023).

This suggests that while alignment is important, its form and implementation may differ across organizational contexts. Theoretically, this study contributes by demonstrating that even in relatively informal MSMEs, strategic alignment plays a significant role, indicating that alignment need not rely on formal systems and can emerge through shared understanding and managerial direction.

The Simultaneous Influence of Independent Variables on Employee Performance

The simultaneous significance of all variables confirms that employee performance is best explained through an integrated model rather than isolated factors, supporting the configurational perspective of the AMO framework (Guan & Frenkel, 2019; Zhang et al., 2021). However, the coefficient of determination indicates that a substantial portion of performance variation remains unexplained, suggesting the influence of additional factors such as leadership, organizational culture, and external environmental conditions.

This finding aligns with previous research emphasizing that HRM-performance relationships are inherently complex and context-dependent (Díaz-Fernández et al., 2020; Khan et al., 2025). Theoretically, this study contributes by reinforcing the view that AMO should be understood as part of a broader multilevel system in which individual, organizational, and environmental factors interact to shape performance outcomes.

This study contributes to the literature by refining the application of the AMO framework in the MSME context. First, it demonstrates that the relative importance of AMO components is context-dependent, with motivation emerging as the dominant factor. Second, it clarifies the distinction between ability and human capital by positioning them at different analytical levels. Third, it extends the framework by incorporating business strategy alignment as a complementary factor, thereby providing a more integrated understanding of the determinants of performance in MSMEs.

From a practical perspective, the findings suggest that MSME managers should adopt a balanced approach that simultaneously develops employee capabilities, strengthens motivation, and provides opportunities for participation. However, given the dominant role of motivation, interventions aimed at enhancing employee engagement and recognition may yield the most immediate performance improvements. Additionally, aligning HR practices with business strategies remains essential, even in less formal organizational settings.

Overall, this study moves beyond a purely descriptive account of the results by situating the findings within the existing literature, highlighting both consistencies and variations, and providing deeper theoretical insights into the determinants of employee performance in MSMEs.

CONCLUSION

This study examines the determinants of employee performance in MSMEs in West Nusa Tenggara (NTB) using a regression-based approach grounded in the AMO framework, complemented by variables on human capital and business strategy alignment. The findings indicate that Ability, Motivation, Opportunity, Human Capital, and Business Strategy Alignment all have positive and significant effects on employee performance, with Motivation emerging as the most influential factor. These results highlight that employee performance is shaped by the interaction between individual capabilities, motivational drivers, enabling work conditions, and organizational alignment. The study contributes to the literature by providing empirical evidence on the applicability of the AMO framework to MSMEs in a developing-region context. However, because a substantial portion of performance variation remains unexplained, future research is recommended to incorporate additional variables, such as leadership style, organizational culture, and external environmental factors, and to employ more diverse methodological approaches or broader samples to enhance generalizability. From a practical perspective, MSME managers are encouraged to prioritize employee motivation, strengthen capability development, and ensure alignment between HR practices and business strategies to improve performance outcomes.

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