

# THE EFFECT OF HUMAN RESOURCE COMPETENCE, ENTREPRENEURSHIP CHARACTERISTICS, AND INNOVATION ON SMALL AND MEDIUM ENTERPRISE PERFORMANCE

Isnah Karimah<sup>1</sup>, Meliza<sup>2</sup>

Faculty Economics and Business, Universitas Pekalongan, Indonesia

Email: [isnakarimah.27@gmail.com](mailto:isnakarimah.27@gmail.com), [meliza\\_zafirizal@yahoo.com](mailto:meliza_zafirizal@yahoo.com)

## Abstract

This study aims to determine the effects of human resource competence, entrepreneurship characteristics, and innovation on small and medium enterprise performance. This type of research is explanatory and uses a quantitative approach. The sample consists of 42 SMEs in Pekalongan, Indonesia. Data collection techniques used the survey method to distribute the questionnaires. Data analysis was performed using multiple linear regressions. The results show that human resource competence has a significant positive effect on SMEs performance. Entrepreneurship characteristics have a significantly positive effect on SMEs performance. Innovation has no significant positive effect on SMEs performance. Human resource competence, entrepreneurship characteristics, and innovation have significant positive effects on SMEs performance. The adjusted R square value is 0.698, showing that human resource competence, entrepreneurship characteristics, and innovation have an effect of 69.8% on SMEs performance, and the remaining 30.2% is influenced by other variables not included in this study. Other variables that can be added for future research are technology capability, entrepreneurial commitment, competitive advantage, and digital marketing.

**Keywords:** Human resource competence, entrepreneurship characteristics, Innovation, SMEs performance

## INTRODUCTION

The existence of SMEs in Indonesia has important role in economic development. SMEs must be developed so that they are more professional and resilient in facing various challenges, such as the Covid-19 pandemic (Purwati, 2021). SMEs face many problems in conducting business activities, resulting in low performance. Some of the problems of SMEs related to human resources include low mastery of management and technology by the business owner, less professional business owner culture, and the low educational background of the business owner. Low quality of human resources is an obstacle for SMEs; thus, they face difficulties in mastering ways to improve product quality, expand access to financing, strengthen access to technology, develop access to promotions abroad, and build global business networks (Dhamayantie & Fauzan, 2017).

Based on data from the Office of Cooperatives and SMEs in the Pekalongan

Regency, the number of SMEs in the Pekalongan regency in 2022 is 44,166, spread across 19 districts (Mila, 2022). SMEs have problems and obstacles in creating innovation and developing their businesses due to the low competence of human resources owned by the SMEs related to knowledge, skills, and abilities in management and technology.

The results of research conducted by Nurcahyanti and Ruscitasari (2022), Prastiwi and Ningsih (2021), and Ardiana et al. (2010) show that HR competence has a positive and significant effect on SMEs performance. However, Claudia and Sangen (2022) find that HR competence has a negative and insignificant effect on SMEs performance.

Entrepreneurial characteristics are the key to maximizing the efficiency of managing factors for developing economic competitiveness, developing a positive mindset, building sensitivity to the market, and creating creative thinking (Sari et al., 2016). The results of Sari et al. (2016) and

Prastiwi and Ningsih (2021) reveal that entrepreneurial characteristics have a positive and significant influence on SMEs performance. However, Dhamayantie and Fauzan (2017) conclude that entrepreneurial characteristics do not have a significant effect on SMEs performance.

SMEs need innovation to win market competition and survive environmental change. Nurcahyanti and Ruscitasari (2022), Nguyen et al. (2021), Purwati (2021), and Valdez-Juárez and Castillo-Vergara (2021) prove that innovation has a positive and significant impact on business performance. However, Anggriani and Kistyanto (2021) show that innovation does not significantly affect SMEs performance.

Based on the description of the problem above and the existence of research gaps in previous studies, further research is needed to test and analyze the influence of HR competence, entrepreneurial characteristics, and innovation on the performance of SMEs in the Pekalongan Regency.

The research objective of this study are

1. Analyze the effect of HR competence on SMEs performance
2. Analyze the effect of entrepreneurial characteristic on SMEs performance
3. Analyze the effect of innovation on SMEs performance

## LITERATURE REVIEW

### Human Capital Theory

The human capital theory reveals that entrepreneurship is closely related to the quality of human resources (human capital). Schultz (1961) explains that human capital are investments in education, training, and work experience that enhance the quality of the workforce.

### HR Competence

Competence is the basic characteristic of a person related to effectively and successfully carrying out a job (Mitriani, 1995). The success of a business can be

determined by HR competencies because organizations with high-quality HR competencies can improve business performance. The results of research conducted by (Nurcahyanti & Ruscitasari, 2022), (Prastiwi & Ningsih, 2021) and (Ardiana et al., 2010) show that HR competence has a positive and significant effect on SME performance.

**H1 : HR competence has positive significant on SMEs performance**

### Entrepreneurial Characteristics

Entrepreneurial characteristics describe a person's personal and psychological uniqueness, which consists of the dimensions of values, attitudes, and needs (Mubarak et al., 2020). Research conducted by (Prastiwi & Ningsih, 2021) and (Sari et al., 2016) states that entrepreneurial characteristics have a positive and significant effect on the performance of SMEs.

**H2 : Entrepreneurial characteristics have positive significant effect on SMEs performance.**

### Innovation

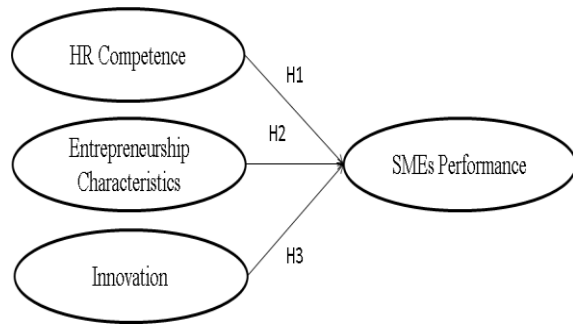
Manual (2005) explains that innovation is the application of a new product, process, marketing method, or organizational method in business practices, workplaces, or relations with external parties. Nurcahyanti and Ruscitasari (2022), Nguyen et al. (2021), Purwati (2021) and (Valdez-Juárez and Castillo-Vergara (2021) prove that innovation has a positive and significant impact on business performance.

**H3 : Innovation has positive significant effect on SMEs performance.**

### SMEs Performance

Performance is a measure of a company's success in achieving its goals (Ambarwati, 2021).

## RESEARCH FRAMEWORK



*Figure 1 Research Framework*

## RESEARCH METHOD

The data used in this study were primary data. Primary data are obtained directly by researchers from the first data source at the research location (Sugiyono, 2016:137). Data collection techniques were carried out using the survey method by distributing questionnaires to the research object directly. Questionnaires were distributed to respondents in the form of statements that were measured using a Likert scale with measurements of agreement ranging from numbers 1 to 5. Data analysis used multiple linear regressions.

The sample used in this study consisted of 42 SMEs in Pekalongan. The sampling method was performed using nonprobability sampling with convenience sampling. The significance level used in this study was 5%.

HR competency variables based on Ardiana et al. (2010) use the following indicators: (1) knowledge, (2) skills, and (3) capabilities. Entrepreneurial characteristic variables using indicators: (1) Workers hard, (2) Confident, (3) Dare to take risks, (4) Leadership, (5) Responsible, (6) Future orientation, (7) Motivation (Dhamayantie & Fauzan, 2017) and (Prastiwi & Ningsih, 2021). The innovation variable uses indicators from Nguyen et al, (2021), Hartini (2012) and Saputri (2020), including product innovation, process innovation, and service innovation. SMEs performance uses

indicators such as sales, profits, marketing, and customers (Dhamayantie and Fauzan, 2017); (Fitria and Ariva, 2018) (Jaya and Sumarni, 2020).

## FINDING(S) AND DISCUSSION

### Profile of Respondents

The respondents were 42 SMEs in Pekalongan. The general description of respondents was categorized based on gender, age, education, business scope, and firm age. The respondents in this study were women (81%) with productive ages ranging from 20-30 years (41%) and 31-40 years (33%); the most recent education of SMEs actors is senior high school (62%), the most dominant business scope is culinary (72%), and the majority of firm age is more than five years (31%).

**Table 1. Profile of respondents**

Characteristics	Percentage
<b>Gender</b>	
Male	19%
Female	81%
<b>Age</b>	
Less than 20 years	2%
20 – 30 years	41%
31 – 40 years	33%
More than 40 years	24%
<b>Education background</b>	
Elementary School	5%
Junior High School	12%
Senior High School	62%
Diploma	2%
Bachelor Degree	17%
Master Degree	2%
<b>Business scope</b>	
Culinary	72%
Fashion	2%
Craft	2%
Services	17%
Others	7%
<b>Firm age</b>	
Less than 2 years	26%
2 – 3 years	19%
3 – 4 years	24%
More than 4 years	31%

### Construct validity and reliability

All questions in this study have a Sig (2\_tailed) value of less than 0.05 so that all questions in this study which total 42 question items are valid. The Cronbach's alpha value of all variables in this study is 0.947, which is greater than 0.60, indicating that the respondent's answer is reliable for all question items.

### F test

Based on the results of the F test, it is known that the calculated F value is 32,647 > F Table 2.85, and a significance value of 0.000 < 0.05, the model in this study is feasible for use. This also shows that HR competence, entrepreneurial characteristics, and innovation have a positive and significant impact on SMEs performance in the Pekalongan Regency.

### MULTIPLE LINEAR REGRESSION

Model	Coefficients <sup>a</sup>			T	Sig.
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta		
(Constant)	-8.381	4.189		-2.001	.063
Kompetensi SDM	.328	.086	.450	3.796	.001
Karakteristik Kewirausahaan	.276	.089	.363	3.103	.004
Inovasi	.188	.115	.170	1.628	.112

a. Dependent Variable: Kinerja UMKM

The multiple linear regression equation used in this study is as follows:

$$Y = -8.381 + 0.328X_1 + 0.276X_2 + 0.188X_3 + e$$

- Constant value (a) = -8.381, if there are no HR competencies, entrepreneurial characteristics, or innovation, then the performance of SMEs is negative.
- The coefficient value of the HR competency variable is positive, so it can be concluded that if HR competence is further enhanced, SMEs performance will increase.
- The coefficient value of the entrepreneurial characteristic variable is positive, so it can be concluded that if the entrepreneurial characteristics increase,

the performance of SMEs will also increase.

HR competence has a t count value of 3,796 > t table of 2,024 and a significant value of 0.001 < 0.05, so the decision taken is H0 rejected and H1 accepted. Thus, the HR competency variable has a positive and significant effect on SMEs performance in the Pekalongan Regency.

Entrepreneurial characteristics have a t-value of 3.103 > t-table of 2.024 and a significant value of 0.004 < 0.05, so that the decision taken is H0 rejected and H2 accepted. Thus, the entrepreneurial characteristic variables have a positive and significant effect on SMEs performance in the Pekalongan Regency.

Innovation has a t-count value of 1.628 < t table 2.042 and a significant value is 0.112 > 0.05, so that the decision taken is H0 accepted and H3 rejected. Thus it can be concluded that innovation has no significant positive effect on the performance of SMEs actors in Pekalongan Regency.

### COEFFICIENT DETERMINATION

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.849 <sup>a</sup>	.720	.698	2.486

a. Predictors: (Constant), Inovasi, Karakteristik Kewirausahaan, Kompetensi SDM

b. Dependent Variable: Kinerja UMKM

The adjusted R square value is 0.698 which means The influence of HR competence, entrepreneurial characteristics, and innovation on the performance of SMEs is 69.8%, and the remaining 30.2% are influenced by other variables not included in this study. Other variables that can be added to future research include technological capabilities, entrepreneurial commitment, competitive advantage, and digital marketing.

### CONCLUSIONS

- HR competence has a positive and significant effect on the performance of

SMEs in the Pekalongan Regency. The results of this study are in line with research that has been conducted by (Nurcahyanti & Ruscitasari, 2022), (Prastiwi & Ningsih, 2021) and (Ardiana et al., 2010). Business owner who have knowledge of business management, knowledge of consumer behavior and marketing strategies, communication skills, able to work with others, and able to adapt to change will be able to develop their business well so that SMEs performance can be increase.

2. Entrepreneurial characteristics have a partially positive effect on the SMEs performance. The results of this study are consistent with those of (Prastiwi and Ningsih, 2021) and (Sari et al., 2016). If business owner have characters such as hard work, self-confidence, dare to take risks, have a leadership spirit, are responsible, have great enthusiasm and confidence that the business being run can be successful in the future, so they will have creative ideas and positive thinking, and always try to give the best for their business every day so that they can improve the performance of the business they are running.
3. Innovation has no significant positive effect on SMEs performance. The results of this study differ from studies (Nurcahyanti & Ruscitasari, 2022), (Nguyen et al., 2021), (Purwati, 2021) and (Valdez-Juárez & Castillo-Vergara, 2021) which reveal that innovation has a positive and significant effect on business performance. However, the results of this study are in line with research (Anggriani & Kistyanto, 2021) that innovation does not have a significant effect on SMEs performance. If the innovations developed within the company are not accompanied by technological capabilities, capital, resources and marketing strategy, these innovations cannot have a significant

effect on the performance of SMEs. Therefore, innovations developed by SMEs must be supported by the existence of appropriate capital, technology, resources and marketing strategies so that the innovations developed can provide significant influence on the SMEs performance.

4. HR competence, entrepreneurial characteristics, and innovation have a positive and significant impact on SMEs performance in the Pekalongan Regency. The influence of HR competence, entrepreneurial characteristics and innovation on the performance of SMEs in Pekalongan Regency is as big as 69.8% and the remaining 30.2% is influenced by other variables not included in this study.

## RECOMMENDATION

1. Recommendations for further research are to be able to add other variables that have not been included in this study and conduct research on SMEs with more specific types of business and increase the number of samples. Other independent variables that can be added in further research include technological capabilities, entrepreneurial commitment, competitive advantage and digital marketing.
2. Recommendations for SMEs in Pekalongan Regency are that business owner must have knowledge, skills and abilities related to business management, have entrepreneurial characteristics such as hardworking, confident, dare to take risks, have a spirit of leadership, responsibility, future orientation and high enthusiasm so that they are able to face all challenges and changes so that the business being carried out does not collapse due to competition and changing times. Business owner can improve HR competence and entrepreneurial characteristics by frequently participating in entrepreneurship training activities,



workshop, business conference and entrepreneurship mentoring activities. In addition, SMEs players also need to develop innovation in their business, develop product innovation, process innovation or service innovation to creating unique products, effective and efficient production processes and providing services that can satisfy customers accompanied by well-targeted marketing strategies so that SMEs performance can increase and win market competition.

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