

Testing the Relationships between Human Resource Competence, Financial Aspect and SMEs Performance

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Abstract

Small and medium enterprises (SMEs) provide the basic foundation for Indonesian economic and social development. SMEs employ a large number of human capital and foster the entrepreneurial side of individuals. Based on the opportunity approach, SMEs can create a high level of human resources competencies and financial aspects. This study aimed to explain the relationship between human resource competence, financial aspect and SMEs performance. The study was conducted on SMEs in Central Java, Indonesia. Based on the quantitative approach, this research used a survey instrument by delivering questionnaires. The Statistical Package for Social Science (SPSS) was utilized to analyze the data. The sample respondent used in this research was 150 respondents, who came from Small-Medium Scale Entrepreneurs, which were clustered by Dinas Koperasi Semarang, Central Java, and it was chosen through purposive sampling based on some criteria. The result showed the significant relationship between human resource competence, financial aspect and SMEs performance. It suggests that SME entrepreneurs should pay attention to learning activities. This findings contribute to SMEs literature and human resources theory.

Keywords: *Human Resource Competence, Financial Aspect, SMEs Performance*

1. INTRODUCTION

Small and Medium Enterprises (SMEs) have an important role in the economy of Indonesia (Safriansyah, Udin, & Adnan, 2019; Sulistiyani, Udin, & Rahardja, 2018). The existence of SMEs in Indonesia is essential and considered by the government because SMEs can accommodate many laborers and become sources of income for the middle and lower class communities. SMEs productivity in an area will undoubtedly have an impact on the availability of work, and of course, it will reduce the number of unemployed. SMEs are businesses that can survive from shocks, proven in times of economic crisis where many large-scale businesses experienced destruction, but SMEs are able to survive and can even be said as rescue belts from the effects of the crisis (Ratnawati & Hikmah, 2013).

Most SMEs' owners do not have broad views and knowledge, so they are less long-term oriented. Efforts to improve performance tend to be conventional due to a lack of knowledge in the field of management. In determining the price of a product, it is often only oriented to the general conditions in the industrial environment, and the labor is rarely taken into account. As such, they are often mistaken in measuring business productivity, which

ultimately leads to business performance (Yusni et al., 2009). Problems that are often faced by SMEs include the marketing of products, technology, financial management, quality of human resources, and capital (Dharma, 2010). Some of these problems, if not addressed, will have an impact on the performance of SMEs.

The occurrence of poor performance is influenced by many internal and external factors. According to Minuzu (2010), the factors affecting SMEs' performance are HR aspects, three financial aspects, technical aspects of production and operations, market and marketing aspects, government policy aspects, social, cultural, and economic aspects, and aspects of the role of related institutions. It is also supported by research conducted by Damai (2012), which showed that the financial aspects and HR aspects significantly influenced the performance of SMEs. Another study conducted by Suparwati (2013) said that a significant factor affecting SMEs performance was the HR aspect. The financial aspect is an aspect that aims to determine the estimated funding and cash flow so that it can be known whether or not a business is feasible. From a financial perspective, good financial management is very much needed, from how a business unit looks for sources of funds and how to allocate these funds, which in turn can increase the value of its business and can prosper the owner. A business needs good financial management to create a good performance as well. HR competency is one factor that also affects the performance of SMEs. HR factors become the main capital to make SMEs grow more professional. It is because a business unit is determined by how the individuals involved in managing the business. SMEs' performance must be accompanied by business development; however, SMEs development must be accompanied by HR development in various aspects. The quality of human resources is needed, especially in the areas of HR competencies, such as knowledge, skills, and abilities in entrepreneurship (Ardiana et al., 2010).

The problem that occurs at SMEs in Central Java is the unstable performance. It can be seen from the data in the Central Java SMEs Office that the amount of revenue from sales has fluctuated every year ((2016 9.9 billion), (2017 5.94 5 billion), (2018 11.55 billion), (2019 10.7 billion)). The number of sales goes up and down because SMEs are unable to produce in large quantities. After all, sometimes, the owners of SMEs lack funds so that they only utilize the available budget. According to the results of interviews conducted by the author, SMEs owners stated that they did not pay attention to the management of business finances to add more varied production and often lack of operational costs. It caused SMEs owners to incur production costs from private money, borrow money from financial institutions, or chose not to add the production of goods, and SMEs owners never knew the amount of capital growth or the amount of operating profit obtained. Another thing that has become a problem for SMEs in Central Java is the number of consumers that have not increased. The owners of SMEs in Central Java said that they rarely promoted or advertised the products directly or through the media. To overcome the performance of SMEs, of course, they need high-quality human resources. Human resources in question are all employees who work at SMEs in Central Java. However, in reality, many employees who work at SMEs are not in accordance with their competencies, thus hampering the production process. HR competency fields are such as knowledge, skills, and abilities in entrepreneurship (Ardiana et al., 2010).

2. LITERATURE REVIEW

2.1 Small-Medium Enterprises

The difference between SMEs and large companies is apparent, concerning the knowledge of management. Still, a study of Knowledge Management (KM) practices in SMEs shows that the SMEs group is not a monolith that stands firm but as a broad variant of a business. It is evidenced by the formality of knowledge management in SMEs that are lacking in the absence of explicit policies related to knowledge management (Marzo & Scarpino, 2016).

2.2 Human Resources Competence

Competence is defined by Ardiana et al. (2010) as "an underlying characteristic of an individual which is causally related to criterion-referenced effective or superior performance in a job or situation." It means the underlying characteristics of a person and related to the effectiveness of individual performance in their work. Departing from this understanding, an individual's competence is something inherent in him that can be used to predict the level of performance. Something in question can involve motives, self-concept, nature, knowledge, or ability or expertise. HR competencies in the form of abilities and knowledge can be developed through education and training, while competency motives can be obtained during the selection process.

2.3 Financial Aspect

Understanding finance, according to Lawrence J. Gitman in his book *Principles of Managerial Finance*, is that: "finance can be defined as the art and science of managing money. Virtually, all individuals and organizations earn or raise money and spend or invest money. Finance is concerned with the processes, institutions, markets, and instruments involved in the transfer of money among individuals, businesses, and government." The purpose of the above statement is that finance can be defined as an art and science of money management. In fact, every individual and organization makes money and spends or invests money. Finance relates to processes, market institutions, and instruments involved in the transfer of money between individuals, businesses, and governments.

3. HYPOTHESES DEVELOPMENT

3.1 The Impact of Financial Aspect on SMEs Performance

Financial aspects are one of the critical factors in business management to achieve effective and efficient money businesses. Financial aspects are related to business financial management. Capital management, the separation of business, and personal expenses, as well as the level of profit and capital accumulation, are essential in managing the financial aspects of SMEs.

The development of SMEs is currently receiving serious attention from various groups. One problem that is often overlooked by MSME actors is financial management. The financial

aspect is one of the indicators of MSME performance. The information provided by accounting records is useful for decision-making to improve company management. The information allows SMEs to identify and predict problem areas that may arise, then take corrective actions in a timely manner. It is in line with the research of Ediraras (2010), which states that SMEs factors are aware and put the responsibility on the importance of accounting implementation on their business performance so that they begin and continue to apply accounting to improve SMEs' performance. To produce excellent performance, SMEs must know how to manage business finance. Their limited knowledge about accounting causes them unable to manage finances well, and it will affect the performance of their efforts.

Anggraeni (2015) states that professionalism in financial management will help business actors related to business management starting from the budget, planning savings, operating funds, and basic knowledge of finance to achieve business financial goals. In managing, a business needs good financial management to produce a performance, which is good too. If financial aspects are increasingly good, the performance of MSMEs will increase further (Hardiningsih, Januarti, Yuyetta, Srimindarti, & Udin, 2020; Wahyudiati & Isroah, 2018). Therefore, it can be concluded that there is a positive influence on the financial aspects of the performance of SMEs.

H1: There is a positive influence of financial aspect on SMEs performance in Central Java

3.2 The Impact of Human Resource Competence on SMEs Performance

Human resources (HR) have a major role in every activity. Although supported by facilities and infrastructure as well as excessive sources of funds, without the support of reliable human resources, the implementation of activities will not be completed properly. HR is the most crucial asset in a company or organization. HR can be potential if appropriately and correctly managed, but it will become a burden if mismanaged. With the competence of human resources that includes knowledge, skills, and abilities, it will make individuals who have analytical skills can see every opportunity that exists. With the analytical ability to see every opportunity that exists, individuals will be able to identify and improve well (Hardiningsih, Udin, Masdjojo, & Srimindarti, 2020), so that individuals will have the ability to make the right decisions, which in turn, decisions made will be better and more relevant and can improve the performance of MSMEs. Other research that supports this is the research of Ardiana et al. (2010), which states that HR competence positively and significantly influenced SME performance, meaning that increasing HR competence would improve SMEs performance. Then, it can be concluded that there is a positive effect of HR competence on the performance of MSMEs.

H2: There is a positive effect of HR competence on SMEs performance in Central Java

3.3 The Impact of Financial Aspect and Human Resource Competence on SMEs Performance

The financial aspect is very important in improving the performance of SMEs because good financial management will be useful for decision making. Without effective financial management, businesses that have bright prospects can become bankrupt. Through good financial management, it is expected that an MSME can find out how far the development and health of the business is, and how much profit the business will get in a certain period. It

is essential so that SMEs can assess with certainty the performance of their businesses. For MSMEs to be able to manage finances properly in improving performance, it requires competent human resources. HR competency is no less important in improving MSME performance because HR competency is the main value that will help MSME to operate successfully and get good performance. Thus, it can be concluded that there is a positive influence of financial aspects and HR competencies together on the performance of MSMEs.

H3: There is a positive influence of financial aspect and HR competence together on SMEs performance in Central Java

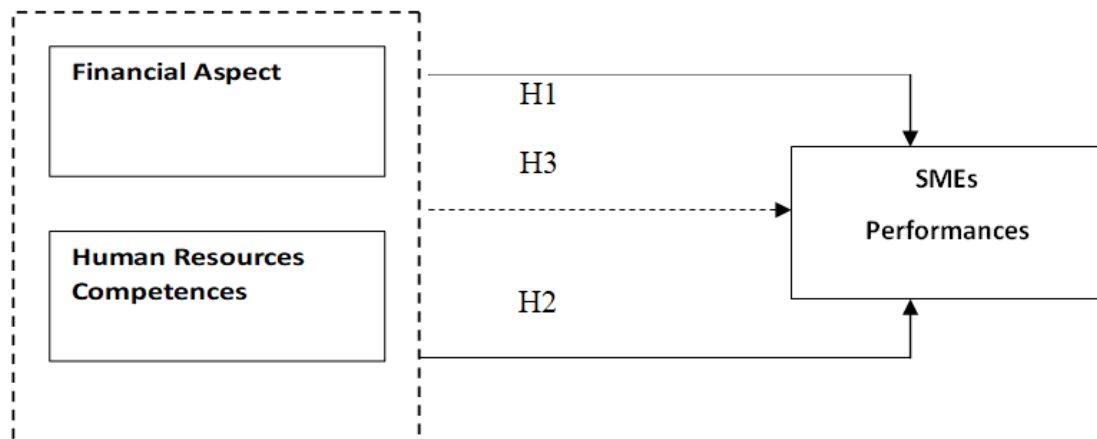


Figure 1. Research Framework

4. RESEARCH METHODS

4.1 Type of Research

This study used quantitative data types because the data presented was related to numbers or scoring. The data were then analyzed and processed into statistical analysis to test the hypotheses that explained the relationship between the variables used. The data source used in this study was the primary data. According to (Hair et al. 1995; Norusis, 1994; Tabacnick and Fidel, 1996 in Ferdinand, 2002), research variables are anything in the form of what is determined by researchers to be studied so that information is obtained about it, then conclusions are drawn.

4.2 Measures

The variables of this study were divided into two, namely:

Dependent Variable (Y) is a variable that is affected or which is due to the independent variables (Hair et al. 1995; Norusis, 1994; Tabacnick and Fidel, 1996 in Ferdinand, 2002). The related variable in this study was the performance of SMEs. Performance is the work that can be achieved by someone or a group of people in a business and is a determining tool in a process to achieve business goals. Business performance can be measured based on a specific size and in the unity of time. SME's performance variables in this study were measured using a modification of instruments developed by Minuzu (2010). The measurement employed five

indicators, namely: sales growth, capital growth, the addition of human resources every year, market growth and marketing, and profit growth/operating profit.

Independent Variable (X) is a variable that will affect the dependent variable, or in other words, the independent variable is the cause of the formation of the dependent variable. The independent variables used in this study were financial aspects and HR competencies. Financial aspects are aspects that are contained in money management, which include the use of money, where the money is obtained, and the management of assets according to business objectives. Variable of finance aspect in this research used a modification of indicators developed by Minuzu (2010). These measurements utilized four indicators, namely: owner's equity, loan capital, the level of profit and capital accumulation, and distinguish personal or family expenses.

Human Resources competency is a fundamental characteristic of someone related to work that can be developed through education and training. HR competence in this research focused on three main things, namely, knowledge, skills, and abilities. The indicator of competence was taken based on research by Ardiana (2010).

4.3 Respondents

The sample used was SMEs in Semarang with a minimum of five years of establishment. The number of SMEs was 150, which was clustered by Dinas Koperasi Semarang, Central Java, and it was chosen by purposive sampling.

5. RESULT AND DISCUSSION

Based on data collected during the study (refers Table 1), a questionnaire distributed to respondents was 150 copies. All questionnaires were returned, so 150 questionnaires were tested. From the results of data processing, most of the respondents are male, as many as 80 people, respondents with ages 31-40 were the most dominant as many as 60 people, and the most dominant type of business was handicraft as many as 85 respondents. The table below shows a summary of the results of the analysis of existing data.

Table1. Sample Characteristics

Demographics Characteristics	Number of Response	Percentage	
Age	< 30	40	0,27
	31-40	60	0,40
	41-50	20	0,13
	>51	30	0,20
Gender	Male	80	0,53
	Female	70	0,47
Type of Business	Craft	85	0,57
	Service	40	0,27
	Retail	25	0,16

Validity testing was done to determine the validity of an instrument. A questionnaire is said to be valid if the questions or statements in the questionnaire can measure what the

questionnaire wants to measure and can measure what the questionnaire seeks to measure (Ghazali, 2011). To measure reliability, this study did it utilizing one shoot or one-time measurement using the Cronbach Alpha statistical test. According to Nunnally (1978), a construct, or variable is said to be reliable if the value of Cronbach Alpha > 0.70 .

Table 2. Validity d Reliability Test

Construct	Alpha Coefficient	Indicators	Corrected Item-Total Correlation
Financial Aspect	0,714	Private Capital	0,602
		Loan Capital	0,629
		Profit Rate	0,576
		Distinguish Personal or Family Expenses	0,543
Human Resource Competence	0,730	Knowledge	0,637
		Skill	0,646
		Ability	0,605
SMEs Performance	0,705	Sales Growth	0,598
		Capital Growth	0,583
		The addition of Labor	0,446
		Market Growth	0,564
		Profit Growth	0,611

Based on Table 2, it can be concluded that the variables in this research questionnaire showed the results of the validity test on the variable instruments of Financial Assets, Human Resources Competence, and SME's Performance that out of a total of 12 questions, each item could be declared valid and reliable. It is evidenced by the size of Cronbach's Alpha of each variable that had a significance value higher than 0.70.

Table 3. Hypothesis Testing

Construct	β	Sig.	Result
Financial Aspect \rightarrow SMEs Performance	0,553	0,000	Accepted
Human Resource Competence \rightarrow SMEs Performance	0,765	0,000	Accepted
Financial Aspect and Human Resource Competence \rightarrow SMEs Performance	0,697	0,000	Accepted

From the test results in Table 3, it showed that the human resources competence was the most significant influence on SMEs performance. From the analysis of hypothesis 1 data, the alleged financial aspect had a significant effect on SMEs performance. However, the results were declining. Meanwhile, hypothesis 2 of human resources competencies on SMEs performance showed a significant increase, and the hypothesis was accepted. In contrast, hypothesis 3 between the financial aspect and human resources competencies in SMEs performance showed the results of the allegations received with a fairly good value.

The ability of an entrepreneur is vital for running every business because of the existing skills in each individual must be further improved by attending HR competency training in

managing a business. HR competence is very much needed considering that this variable has the highest value so that it can be a determining factor in profit increase. An entrepreneur in running his business also will not be separated from the existing capital; in this study, the capital owned by the business actor was as loan capital. The components above can be in the form of collaborations that must be considered by businesses because these three things can improve the performance of businesses that are currently managed by business actors.

6. CONCLUSION

This study aimed to examine the effect of financial aspects and human resources competencies on the success of improving the business performance of SMEs. The dimensions of the financial aspect consisted of Private Capital, Loan Capital, Profit Rate, and Distinguish Personal or Family Expenses, and the dimensions related to human resources competencies consisted of Knowledge, Skills, and Ability. The financial aspect is financial management in a business. SMEs that manage finances well can have a good SMEs' performance. It can be concluded that the higher the Financial Aspects at SMEs, the higher the SMEs Performance will be. HR competency is the primary value that will help SMEs to operate successfully and get excellent performance. When an SME has a good HR competence, it will be easier for SMEs to achieve the goals. Therefore, the higher the HR Competency possessed by SMEs, the higher the SMEs Performance will be.

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