

An Analysis of Human Resource Competencies and the Implications for MSMe Performance

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Abstract

To build and improve the economy of a region or country, the existence of MSMe has a big role and should be taken into account. Behind the success of MSMe is inseparable from the role of HR as business people who are directly involved in planning, developing, and implementing business strategies to improve organizational performance. HR competence is an important thing to be considered by the organization. It covers aspects of knowledge, skills, and abilities. This research focused on analyzing HR competencies and the implications for the performance of Micro, Small, and Medium Enterprises. The research was conducted by collecting several scientific journals, both international journals and national journals that are relevant to the selection of HR competency topics in MSMe. In the initial search, there were 4,546 journals observed, then 6 journals that were considered the most relevant to this topic were selected for review. The results of the research from the six reviewed journals show that HR competence has a positive influence on the performance of MSMe.

Keywords

human resources competence;
business strategies; MSMe
performance



I. Introduction

MSMe is obtained by the lower middle class that have a strategic role in overcoming labor problems and can contribute to driving the regional economy. To maintain MSMe competes competitively with the growth of new MSMEs (Prasanna et al., 2019), business people continue to improve the guidance and development of human resources assisted by the local government in the District/City Cooperative Service case, both through training and socialization activities.

With the rapid growth of MSMEs in recent years through the superior products sale, is possible that one day they will experience a saturation point, where consumer needs will experience changes, such as the transition of similar products, designs, benefits, and so on. To anticipate the problem of decreasing people's purchasing power, MSME people continue to innovate and set strategies to create products according to community needs and continue to develop Human Resources through training, it will help all workers have good competencies.

This study used the library study method through a theoretical study that underlies the implications of HR competence on MSME performance and identifies several international journals and national journals that are relevant to the selection of topics. The research aims to find out how far the competence of HR in SMe affects business performance.

The competencies of human resources in this study focused on knowledge, skills, and abilities (Wright, Dunford, & Snell, 2001). The knowledge is related to science and

technology that is mastered by an expert through a continuous learning process and also comes from experience (Sessa & London, 2015). The skills related to specific abilities to do a job physically, such as skills to operate machine tools, and communication skills (Devine, 2002). The ability is a person's competence in doing and completing several different jobs, such as being able to lead, manage, and control a business (Starbuck, 1992).

Performance is the result of work shown by a person or group of people in an organization and becomes a determining factor in the process of achieving organizational goals. The performance of MSMEs should be measurable, either in time units or in certain measures that are used as performance standards. The performance of MSMEs can be seen from the indicators, namely financial health, marketing of products that can compete in the market, and customer satisfaction.

Based on the understanding and correlation between HR competencies and MSME performance, the research design is described in the following scheme:

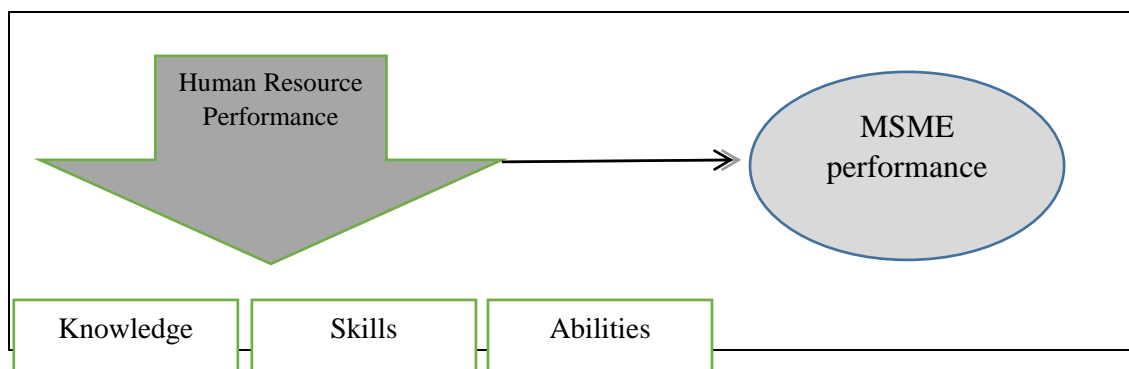


Figure 1. The framework of the correlation between HR Competence and MSME performance

II. Review of Literature

2.1 Competency

Competence is defined as a person's ability to do a job or task based on skills and knowledge that are supported by a work attitude in managing his work. Competent human resources have good knowledge, skills, and abilities to do things efficiently and effectively. Thus competence is a person's ability to do something successfully. Success shows the expected results (goals) without wasting resources such as time, effort, and so on.

According to (Clark, Lusardi, & Mitchell, 2017) “*Competency is a knowledge or know-how for doing an effective job.*” Competence is defined as knowledge about how to do work effectively. Davis and Newstrom, stated that “*Competency is a capability perspective and people knowledge, especially to impact an ability for need in business via minimizes cost and optimization services to the customer more for less.*” Competence is the perspective of human abilities and knowledge, especially abilities in several business needs by minimizing costs as small as possible maximizing customer service.

(Soejono, Mendari, & Rinamurti, 2015) explained in the online business dictionary, competence is defined as a cluster related to knowledge, skills, abilities, commitment, enabling a person to act effectively at work or in a situation. Competence indicates the availability of knowledge, skills that enable a person to make decisions in various situations.

According to (Ardiana, Brahmayanti, & Subaedi, 2010), Knowledge is a science or technology that is controlled by a person, obtained through a learning process and life experience. Indicators of knowledge possessed by a person can be seen in several ways, such as knowledge of business management, knowledge of goods, services, knowledge of consumers, and so on. Skills are special abilities to physically manipulate objects. A person's skills can be seen as skills using equipment, communication skills, collaboration, supervision, managing administration, and finance.

Capability is defined as the capacity that individuals have in carrying out some work. Capability indicators include the ability to manage finances, administration, decision-making ability, leadership ability, ability to control, innovate, and ability to change the business environment for the better.

According to (Kotler & Amstrong, 2012), competence relates to the characteristics that underlie a person that results in effective performance. From several definitions of competence put forward by experts, it can be concluded that competence includes various aspects of performance at an acceptable skill level, organizing tasks, responding and reacting adequately when faced with errors, fulfilling roles in work plans, and transferring skills and knowledge to new situations

2.2 Human Resources

The success of MSMe is not solely determined by natural resources but is much influenced by the competence of human resources who play a role in making and regulating planning, implementing, and controlling the organization. The continuity of MSME development in our country, however, can only be maintained if the quality of existing human resources gets serious attention from both the government and the private sector. Therefore, human resource development needs to be a serious concern. Human resources are the best and most important asset of any business enterprise.

(Jyoti, Chahal, & Rani, 2017), stated that to realize good performance in MSMEs, skilled, efficient, and experienced employees are needed by the owner so that organizational policies to run a certain type of business can be implemented effectively, and business goals can be achieved. Employee performance is critical to the overall success of a business enterprise. The companies were where employees actively carry out their business duties and functions, high operational performance, which leads to high productivity, high marketing, and high financial performance. At the same time, the company places employees.

Human Resources (HR) is the most important component in a company or organization to run the business it does. Organization must have a goal to be achieved by the organizational members (Niati et al., 2021). Development is a change towards improvement. Changes towards improvement require the mobilization of all human resources and reason to realize what is aspired (Shah et al, 2020). The development of human resources is a process of changing the human resources who belong to an organization, from one situation to another, which is better to prepare a future responsibility in achieving organizational goals (Werdhiastutie et al, 2020).

According to (Yahya, Hasibuan, Torong, & Muda, 2018), human resources are the integrated capabilities of the individual's mind and physical power. Human resources are seen as the capabilities possessed by humans to be utilized to run an organization or business so that it is efficient or effective. This means that humans have the capabilities that need to be developed to achieve the goals and objectives that have been planned. Aspects in human resources cover several things that are quite broad in the organization.

Of the many aspects of human resources and seeing their development, knowledge, attitudes, and behavior and abilities are one aspect that occupies an important position.

According to Armstrong, HR activities can be divided into two broad categories: 1) transformational (strategic) activities related to developing organizational effectiveness and aligning and implementing HR and business strategies; 2) transactional activities, covering the main areas of HR service delivery - resources, learning and development, rewards and employee relations.

HR contributes to improving organizational performance by providing insight into performance issues affecting the organization and its employees. This means identifying the reasons for the problem, exploring the implications for business and people management, and conveying this message to management. The goal is to find new ways to meet performance challenges

HR will also be involved in producing and managing implementation program projects. Where necessary, learning and development activities and events will be conducted to ensure that line managers and employees have the required skills.

The basic key in maintaining a business is how people in the organization can work. Human resources have characteristics that are different from other resources, have unique characteristics, namely human nature that is different from one another, has a mindset that is not an inanimate object. This specificity causes the need for specific attention to this resource. Human resources are an integrated ability of the thinking power and physical power of the individual, the behavior and nature of which is determined by heredity and the environment, while his work performance is motivated by the desire to fulfill his satisfaction. Human resources are assets in all aspects of management, especially those concerning the existence of the organization. Human resources are the potential contained in humans to realize their role as adaptive and transformative social beings who can manage themselves and all the potential contained in nature towards the achievement of welfare in a balanced and sustainable order.

2.3 MSMe Performance

(Jeffrey & Soleman, 2017) explained that work performance is an important part of human resource management and is an important criterion for the results and success of an organization (Jeffrey & Soleman, 2017). Competence is closely related to performance, both individual performance and organizational (company) performance. According to Armstrong (1994), a person's performance is based on an understanding of the knowledge, skills, expertise, and behavior needed to do a good job. While the performance of the organization (company) is based on how the company's management responds to external and internal conditions, which with certain benchmarks will be able to know the level of turbulence and what level of ability to anticipate it.

The performance of MSMEs can be seen from several things, namely the creation of job opportunities, which is very important in seeing the success or failure of a business. Thus, the greater the number of workers absorbed, the greater the role of MSMEs in tackling the problem of unemployment. Likewise with productivity, by increasing the workforce used, it means that productivity is also increased, the contribution to Gross Domestic Product (GDP), can occur if MSMEs can provide income for the state, in this case, both from domestic and foreign sales (exports). MSMEs are said to be successful if they have income that continues to increase, this is influenced by increased sales. With an increase in sales, it will also directly affect the performance of MSMEs.

Companies that can produce high performance usually have reliable human resources with strong work motivation and have a high commitment to achieving company goals and missions. Each company will produce different performance if managed by different people, meaning that different human resources in managing the same company assets will produce different added value. So it can be concluded that the tangible assets owned by the company are passive without human resources who can manage them and create value for the company (Endri, 2010).

The indicators used to measure the performance of MSMEs are sales growth, capital growth, additional workforce every year, market and marketing growth, and profit/profit growth.

2.4 Micro, Small and Medium Enterprises (MSMEs)

The definition of Micro, Small, and Medium Enterprises (MSMEs) according to Jamkrindo (2015) is as follows:

- a. Micro-enterprises are productive businesses owned by individuals and/or individual business entities that meet the criteria for micro-enterprises;
- b. Small business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become a part either directly or indirectly of a medium or large business that meets the criteria small business;
- c. Medium-sized businesses are productive economic businesses that stand-alone, which are carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become part of either directly or indirectly with small businesses or large businesses with total net assets or the results of this annual sale.

Meanwhile, the Central Statistics Agency (BPS) defines MSMEs based on the number of workers, which consist of Micro-enterprises, with a workforce of 1-4 people including unpaid workers; Small businesses, with a workforce of 5-19 people; Medium enterprises, with a workforce of 20-99 people; large businesses, with a workforce of 100 people or more.

III. Results and Discussion

In this study, the author searches for scientific journals that are relevant to the topic selection, both international journals and national journals using the keywords competence, human resource competence, human resources competence, performance of SMEs.

In the initial search using the competency keyword, 15,505 journals were obtained, including 8,036 accessible journals. To narrow the search, the researcher tried to use the keyword "Human resource competence" which was obtained from 1,197 journals.

To view English journals, the researcher conducted a search using the keyword "human resources competence", obtained 3,349 journals, 1,579 of which were accessible.

To narrow the search to obtain journals relevant to the topic selection, the researcher searched with a combination of the keywords "HR competence", "SME performance" and "human resources competence", "SMEs performance" so that 9 journals were obtained in Indonesian text and 17 English journals.

Of the 26 search results journals, the author sorts/selects and determines 6 (six) journals that are very relevant to the selection of the topic "Analysis of Human Resources competencies and their implications for the performance of Micro, Small and Medium Enterprises" as shown in the following table:

Table 1. List of selected journals related to HR competencies and MSME Performance

| No | Title / Researcher / Year | Variable | Research Methods and samples | Methods, Samples, and Research Results |
|----|--|---|---|---|
| 1 | The impact of human resource management for micro, small and medium enterprises in terms of competence on the performance of UMKM_Study of the Cirebon UMKM case) (Wenty Febrianti and Budiman Abdullah) | 1. HR Competence, 2. MSME Performance | Qualitative, descriptive analysis approach Sample: 64 SMEs | shows that there is a positive and significant influence between human resource competence and MSME performance. |
| 2 | Human Resource Management Practices and Organizational Performance: The Mediating Role of Team Competence (Salman M., Ganie S., Ganaie M., Saleem I., Khan S) | 1. HR Management, Team Competence. 2. Organizational performance | Sample: 238 | employee competence partially mediates the relationship between HRM practices and organizational performance. |
| 3 | SME HR Competence and Its Influence on SME Performance in Surabaya (I.D.K.R. Ardiana, I.A. Brahmayanti, Subaedi) | 1. Competence: Knowledge, Skills, and Ability 2. MSME Performance | Sample: 150 | HR competencies affect the performance of SMEs. Skills have a significant influence on the performance of SMEs, however, knowledge does not affect the performance of Batik SMEs. |
| 4 | Human resource management (HRM) practices and organizational performance: The mediating role of employee competencies (Frank Nana Kweku Otoo) | 1. HR 2. Employee Competence 3. Organizational Performance | Sample: 600 | HRM practices have an impact on organizational performance through their influence on employee competencies. Further studies reveal that employee competence mediates the relationship between HRM practices and organizational performance. |
| 5 | Financial management, Human Resources competence, and marketing strategy in measuring the performance of Micro, Small, and Medium Enterprises (MSMEs) (Ni Made Suindari* and Ni Made Rai Juniariani) | 1. Financial management, 2. HR Competence, 3. Marketing Strategy 4. MSME Performance | Quantitative Sample: 99 | financial management, human resource competencies, and marketing strategies have a positive effect on MSME performance. |
| 6 | Analysis of the Effect of Competence on Human Resources, Social Capital and Financial Capital on the Performance of SMEs in the Garment Sector in Klaten Regency (Martono T, Rianto G) | 1. HR Competence, 2. Social capital, 3. Financial 4. MSME Performance | quantitative Sample: 160 | Human Resources competence has a significant positive effect on the performance of SMEs, social capital has a significant positive effect on the performance of SMEs, financial capital has a significant positive effect on the performance of SMEs. |

In journal 1, the impact of human resource management on micro, small and medium enterprises in terms of competence on the performance of MSMEs_Study in the case of MSMEs in Cirebon, the research focuses on MSMEs in Trusmi Village, Plered District,

Cirebon with a total sample of 64 respondents registered with the Cooperatives and MSMEs Office of Cirebon City and located in Trusmi Village.

This study aims to determine the impact of human resource management on Micro, Small, and Medium Enterprises in terms of competence on MSME performance.

This study uses a survey method with a descriptive analysis approach. Data processing techniques are used to determine the relationship or correlation between variables using linear regression. In this study, the research variables observed were independent variables or independent variables consisting of competence and the dependent variable or dependent variable, namely the performance of SMEs. Competence includes 3 (three) aspects, namely knowledge, expertise, and motivation. MSME performance includes finance, customers, and business processes. Based on the results of research through validity and reliability tests as well as regression analysis showed a positive and significant influence between competence and performance of MSMEs.

Journal 2, *Human Resource Management Practices and Organizational Performance: The Mediating Role of Team Competence*, The research was conducted on banking companies in India by selecting a sample of 238 respondents, both manager and non-manager levels who have a working period of more than 3 (three) years. This study was conducted to determine the relationship between human resource management practices and organizational performance through competence as a mediator. Based on the results of the study, it shows that the practice of Human Resource Management in banking partially affects organizational performance which is mediated by the competence of employees (teams), except that the training variable is not significant.

Journal 3, *SME HR Competence and Its Influence on SME Performance in Surabaya*, aims to find out how the competence of Small-Medium scale HR entrepreneurs in Surabaya and how their competence affects their business performance partially or simultaneously. The research variables are HR competencies (Knowledge, Skills, Ability) as independent variables and MSME performance as the dependent variable. The research was conducted on 150 MSMEs from 755 business units engaged in manufacturing in the city of Surabaya. The results of the research through correlation analysis, determination analysis and regression analysis using SPSS version 12 show that the skill and ability variables have a significant influence on the performance of MSMEs, while the knowledge variable has an insignificant effect on the performance of MSMEs.

Journal 4, *Human resource management (HRM) practices and organizational performance: The mediating role of employee competencies*, the research was conducted on hotel companies in Ghana by selecting a sample of 600 hotels. The study aimed to examine the mediating role of employee competence in the relationship between human resource management (HRM) practices and organizational performance. The results of the study found that several human resource management practices have an impact on organizational performance through their effect on employee competence. The study revealed that employee competence mediates the relationship between Human Resource Management practices and hospitality performance in Ghana.

Journal 5, *Financial management, Human Resources competence and marketing strategy in measuring the performance of Micro, Small and Medium Enterprises*, the research was conducted in Denpasar-Bali by taking a sample of 99 MSMEs in the trading business sector assisted by the Denpasar Cooperative. The research is intended to explore the influence of financial management, human resource competence, and marketing strategy on the performance of MSMEs. The results of quantitative research using multiple linear regression show that financial management, human resource competencies, and marketing strategies have a positive effect on the performance of MSMEs

Journal 6, Analysis of the Effect of Competence on Human Resources, Social Capital and Financial Capital on the Performance of SMEs in the Garment Sector in Klaten Regency, the focus of research is on the garment business sector by selecting a sample of 160 SMEs in Klaten Regency. The purpose of the study was to analyze and determine the influence of HR competencies other than social capital, financial capital, on the performance of SMEs in the garment sector in Klaten district. With quantitative research methods using structural equation modeling (SEM), it was found that the competence of Human Resources has a significant positive effect on the performance variables of SMEs.

IV. Conclusion

Based on the analysis of several journals that the authors have reviewed, it can be concluded that:

- a. Human resource competence has a positive and significant impact on the performance of Micro, Small and Medium Enterprises.
- b. Regarding the focus of research on HR competencies, both aspects of knowledge, skills, and abilities, aspects of skills and abilities have a positive and significant impact on the performance of Micro, Small and Medium Enterprises, however, the results of research conducted by Sulistyandari S, Widiastuti E and Martini at UMK Batik Banyumas, the aspect of knowledge has no significant effect on the performance of MSME Batik Banyumas. In this journal, there was no review of why knowledge had no significant effect on the performance of MSMEs. This requires a special study in subsequent research, whether age, education, background, environment or other factors cause knowledge to have no significant effect on the performance of Micro, Small and Medium Enterprises.
- c. The performance of Micro, Small, and Medium Enterprises that is influenced by the competence of human resources includes aspects of finance, marketing, and customers. The competence of human resources in managing financial administration makes it easy for business actors to know financial health so that they can more easily arrange business plans and strategies to increase competitiveness in the market. Likewise, the competencies possessed in marketing and service activities to consumers affect business performance. On the other hand, the low competence of human resources has an impact on the poor performance of MSMEs.
- d. Therefore, improving the competence of human resources, especially in the aspect of skills and abilities, needs serious attention by MSME actors in improving their business. The improvement of science and technology needs to be continuously carried out both through learning processes and life experiences, especially business management knowledge, product or service knowledge, consumer knowledge, promotions, and marketing strategies. It is important to improve skills aspects such as production, communication, collaboration, and organizational skills, supervision, finance, administration, and accounting through training, both internal and external. Likewise, individual abilities, both at the manager and employee level, need to be continuously improved to be able to perform various tasks in a job, such as the ability to manage a business, make decisions, lead, control, innovate, adapt to situations, and change the business environment.

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