Factors Affecting The Performance of MSMEs in Demak Regency with HR Competence as a Moderating Variable

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Abstract

MSMEs have a very important role to support the national economy. It is very important to try to maximize the performance of SMEs. The better performance of MSMEs is expected to be able to survive in the midst of less strategic conditions. This study used a quantitative method by distributing questionnaires to SMEs in Demak City, Central Java. The results of this study indicate that business strategy can influence the performance of MSMEs in a positive direction. Likewise with the influence of HR competence on MSME performance. However, HR competence is not able to moderate the effect of business strategy on MSME performance.  

Keywords: Business Strategy, HR Competence, MSME Performance

INTRODUCTION

MSMEs (Micro, Small and Medium Enterprises) in Indonesia have a very large position. This is evident from the role of MSMEs as a buffer for the economy during a decline in economic growth during the Covid 19 pandemic (Nurinda & Sinuraya, 2020). These MSMEs have indeed been tested to be able to deal with any situation including when a financial crisis occurs and are proven to be able to improve the welfare and equal distribution of people's income (Salim et al., 2020; Srijani, 2020). The number of MSMEs in 2021 as stated in data from the Ministry of Cooperatives and SMEs, is close to 64.2 million, or 61.07% of Indonesia’s GDP (Limanseto, 2021). So it has been proven that MSMEs are the most important economic supporting factor in Indonesia.  

MSMEs as a booster for the Indonesian economy, it is fitting for the government to also contribute to supporting the growth and increase in the performance of the MSMEs themselves. For the city of Demak itself the number of MSMEs has increased significantly between 2019 to 2020. In 2020 there has been an increase in MSMEs by 13% from the previous year (Laraspati, 2021). Unfortunately, the performance of MSMEs in the city of Demak itself has not shown
optimal results. Even though the number of MSMEs has increased in 2020, the turnover of these MSMEs has tended to decrease (Demak, 2020).

The good performance of MSMEs will certainly reflect the performance in good financial reports as well. Automatic increase in sales turnover from MSMEs is also in line with the increased performance of the MSMEs themselves. This is indeed proven that the performance of MSME owners will be more effective if there are good financial reports (Prapanca et al., 2022). The increased performance of MSMEs will be seen from the increased turnover and profits in the financial statements and will have an impact on improving their welfare (Alansori & Listyaningsih, 2022). Apart from financial measures, the performance of MSMEs can also be measured from non-financial performance as well (Mahmudova & Kovács, 2018).

The several factors that support the increasing performance of MSMEs include business strategy. A business strategy that continues to improve will certainly result in an increase in the performance of the MSMEs themselves (Abdillah et al., 2019; Ariawan et al., 2016; Armiani et al., 2021; Fatchuroji et al., 2020; Subayo & Samari, 2022; Suriyanti & Binangkit, 2019). During the pandemic, MSMEs had several appropriate business strategies so that they were able to survive amidst uncertain conditions, including increasing product quality, digital utilization, promotions or discounts (Ichsan & Yusuf, 2021; Nawawi et al., 2021; Safrifudin & Ekasari, 2021). But on the other hand, there is also research attempted by Anditya et al., (2021); Ghofar & Sunaryo, (2013); Zakiyah & Sudjatno, (2019) which shows that business strategy does not affect MSME performance.

Another factor that contributes to improving the performance of MSMEs is the competence of HR (Human Resources). Improved HR competence will have an impact on improving the performance of MSMEs as well (Adhari Nugraha et al., 2022; Al Qifari, 2022; Chalimah, 2021; Dewi, 2022; Harahap & Ainsyah, 2017; Paraswati & Laily, 2018; Sari & Sijabat, 2022; Sima et al., 2021; Sufyati H.S & Savitri, 2021). However, on the other hand, there are still inconsistent research results regarding HR competencies. HR competence is not able to influence the good or bad performance of an MSME (Claudia & Sangen, 2022; Kristanto et al., 2021; Pramaishella et al., 2018). Human resource competence itself as a moderating variable on the performance of MSMEs is still inconsistent with research results. HR competence is not able to moderate the influence on MSME performance (Kurniawati, 2022; Pakpahan & Gaol, 2020; Winarto, 2020). But research conducted by Diwanti & Sarifudin, (2021); Wahyudi, (2021) has contradictory results.

THEORITICAL FRAMEWORK AND HYPOTHESIS

Theory of Planned Behaviour

An individual will do something according to what is the purpose of what he wants (Ajzen, 1991). As for what underlies a person's goal or desire so that it is realized in an action is an attitude towards behavior, subjective norms, perceived behavioral control. The central factor of individual behavior is based on individual intentions (behavioral intention) in relation to certain behaviors or attitudes. These factors include information, personal, and social. Individual factors are a person's attitude in dealing with something such as personality, intelligence, life values, and emotions (Kumalasari & Asandimitra, 2019). Social factors include age, religion, gender, income, ethnicity, and education. Knowledge and exposure to experience in the media is an information factor. So this theory of planned behavior explains that the desire to achieve a
certain goal will be based on the existence of previous factors from the individual, which can be in the form of the methods used to shape a behavior, or those that are more personal from within the individual himself.

To be able to survive in the midst of intense business competition, it is definitely necessary to have the right business strategy. An improved business strategy will definitely result in an increase in the performance of the MSMEs themselves (Abdillah et al., 2019; Ariawan et al., 2016; Armiani et al., 2021; Fatchuroji et al., 2020; Nursetiana et al., 2022; Subayo & Samari, 2022; Suriyanti & Binangkit, 2019).

**H1:** Business strategy has a positive effect on MSME performance.

This study uses attribution theory. Attribution theory explains that someone will interpret, judge something based on their thoughts and behavior (Muthoharoh, 2021). The thoughts and behavior of a person are certainly inseparable from how the process is in the human being himself. HR competencies that a person acquires from his life process will have a positive effect on the performance of MSMEs. This is in accordance with research conducted by Adhari Nugraha et al., (2022); Al Qifari, (2022); Dewi, (2022).

**H2:** HR competence has a positive effect on MSME performance.

Good HR competence is expected to be able to encourage MSME owners to apply the right business strategy so that MSME performance also increases. The results of research (Wahyudi, 2021) state that HR competence is able to moderate the performance of MSMEs. Apart from that, there is also research by Diwanti & Sarifudin, (2021); Ratnawati, (2019) which reinforces that HR competence is able to moderate and strengthen the relationship to performance.

**H3:** HR competence is able to strengthen the influence of business strategy on MSME performance.

The framework of thinking this research can be seen carefully in the image below:

![Figure 1. Framework of Thinking](image-url)
RESEARCH METHOD

The population of this research is SMEs in Demak City, Central Java Province. The total MSME population in Demak, Central Java, is 13,024. The method for determining the minimum number of samples in this study uses the Slovin formula:

\[
n = \frac{N}{1 + N.e^2}
\]

\[n = \frac{13024}{1 + 13024 (0.1)^2}\]

\[n = 99.24\]

For sampling in this research using accidental sampling, the research sample is MSME executors in Demak. Data collection in this study used a method of distributing questionnaires which were given directly to the respondents. The data analysis procedure used is Smart PLS.

There are also operational definitions and variable measurements in this research which can be seen in this table:

<table>
<thead>
<tr>
<th>No</th>
<th>Variables and Operational Definitions</th>
<th>Indicator</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2. Defender</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Analyzer</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Reactor</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sumber: (Indriani, 2019)</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>HR Competence</td>
<td>1. Good Job Completion</td>
<td>Skala Likert</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Ownership of knowledge according to the field being worked on</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Lack of protest from consumers</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sumber: (Sudarta, 2022)</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>MSME Performance</td>
<td>1. Increase in sales</td>
<td>Skala Likert</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Increase in Turnover</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Employee Increase</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Marketing Growth</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Profit Increase</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sumber: (Yasrawan &amp; Herawati, 2022, Akhiar, 2021)</td>
<td></td>
</tr>
</tbody>
</table>
RESULT AND DISCUSSION

The summary of the questionnaire data in this study is presented as in the following table:

<table>
<thead>
<tr>
<th>Information</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributed questionnaires</td>
<td>110</td>
<td>100</td>
</tr>
<tr>
<td>Incomplete questionnaire</td>
<td>13</td>
<td>11.8</td>
</tr>
<tr>
<td>Questionnaire that meets the criteria</td>
<td>97</td>
<td>88.2</td>
</tr>
</tbody>
</table>

In this study, 110 questionnaires were distributed to MSME owners in Demak Regency. However, of the 110 questionnaires, 13 of them were incomplete so that 97 of the data were successfully processed in this study. To prove whether the data obtained in distributing the questionnaires in this study is valid or not, it is necessary to test the validity. The results of the validity test conducted in this study were shown in the Average Variance Extracted (AVE) assessment in the Smart PLS test. This AVE value is said to be valid if the value is more than 0.05. The AVE values for this research variable are all valid, this can be seen from table 3 below:

<table>
<thead>
<tr>
<th>Variabel</th>
<th>AVE</th>
<th>Keterangan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moderating</td>
<td>1.000</td>
<td>Valid</td>
</tr>
<tr>
<td>X</td>
<td>0.617</td>
<td>Valid</td>
</tr>
<tr>
<td>Y</td>
<td>0.515</td>
<td>Valid</td>
</tr>
<tr>
<td>Z</td>
<td>0.555</td>
<td>Valid</td>
</tr>
</tbody>
</table>

The results of the reliability test can be seen in the table below. Reliability test aims to determine the reliability and consistency of data. The results of the reliability test in this study have succeeded in fulfilling the reliable category. This is evident from the Inner VIF Value, all of which are above 0.7.

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Inner VIF Value</th>
<th>Keterangan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moderating Effect 1</td>
<td>1.015</td>
<td>Reliabel</td>
</tr>
<tr>
<td>X</td>
<td>1.365</td>
<td>Reliabel</td>
</tr>
<tr>
<td>Z</td>
<td>1.380</td>
<td>Reliabel</td>
</tr>
</tbody>
</table>

Source: Primary data processed (2023)
The results of the analysis in this study can be described as follows:

![Figure 2 Analysis Results](image)

From Figure 2 above we can note that the Competence of Human Resources in this study serves as a moderating variable in relation to the influence of business strategy on the performance of MSMEs. Each of the influences between business strategy and Human Resource competency on MSME performance were also tested in this study.

The hypothesis testing in this research can be seen in the following table:

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Regresi</th>
<th>Original Sample</th>
<th>P Values</th>
<th>Keterangan</th>
</tr>
</thead>
<tbody>
<tr>
<td>H&lt;sub&gt;1&lt;/sub&gt;</td>
<td>X → Y</td>
<td>0.277</td>
<td>0.001</td>
<td>Accepted</td>
</tr>
<tr>
<td>H&lt;sub&gt;2&lt;/sub&gt;</td>
<td>Z → Y</td>
<td>0.490</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>H&lt;sub&gt;3&lt;/sub&gt;</td>
<td>Moderating</td>
<td>-0.070</td>
<td>0.392</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

Source: Primary data processed (2023)

Based on the results of testing the first hypothesis, it was found that business strategy has a positive effect on MSME performance. This proves that Hypothesis 1 in this study is accepted. The direction of significance is also positive. This can be seen from the positive value of the original sample. A better business strategy will have an impact on improving the performance of the MSMEs themselves. So it is very important to note, that in order to achieve better MSME performance, an implementation of an increasingly good business strategy is also needed.

This is also in accordance with the results of research conducted by Abdillah et al., (2019); Ariawan et al., (2016); Armiani et al., (2021); Fatchuroji et al., (2020); Subayo & Samari, (2022); Suriyanti & Binangkit, (2019). The second hypothesis in this study was also successfully accepted. This is proven by the P value of 0.000. The results also show a positive directional influence which is strengthened by the original sample value of 0.490 which is also positive. The higher the competence of human resources owned by MSME owners will also be able to improve the performance of their UMKM. From the results of this study it is known that MSME owners need
to know that it is very important to improve the competence of Human Resources in order to achieve a better MSME performance as well. So the performance of these MSMEs will develop along with the development of HR competencies (Adhari Nugraha et al., 2022; Al Qifari, 2022; Chalimah, 2021; Dewi, 2022; Paraswati & Laily, 2018; Sari & Sijabat, 2022; Sima et al., 2021; Sufyati H.S & Savitri, 2021).

The third hypothesis has been tested and rejected. Based on the results of the analysis, the P value is 0.392. HR competence is not proven to strengthen the influence of business strategy on MSME performance. HR competence cannot moderate MSME performance, according to research by Pakpahan & Gaol, (2020); Winarto, (2020). This competence is not able to moderate the influence of business strategy on the performance of MSMEs, considering that MSMEs themselves have not set competency standards for their business. This is also in line with research conducted by (Winarto, 2020).

CONCLUSIONS

The conclusion from this study is that business strategy and HR competence have a significant positive effect on the performance of SMEs. From the results of this study it is known that in order to achieve a better MSME performance, it is very important to pay attention to the business strategy, both short and long term, of course. It is hoped that a better business strategy will certainly have an impact on significantly increasing the performance of MSMEs. Likewise with the competence of Human Resources it is also known from this study that it has a positive effect on increasing the performance of the MSMEs themselves. From this it is known that it is necessary to invest, allocate funds, capital in the MSMEs themselves to be allocated in order to improve the performance of their MSMEs. HR competence is not able to strengthen the influence of business strategy on MSME performance. From this study it can also be concluded that in fact the role of competence in Human Resources is not able to strengthen the influence caused by the implementation of a good business strategy on the performance of the MSME itself. Future researchers are expected to: 1) replace or expand the sample of MSME actors in Demak City, Central Java 2) add or replace other variables such as accountability.

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