

## THE INFLUENCE OF BUSINESS CAPITAL AND THE QUALITY OF HUMAN RESOURCES (HR) ON THE PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN KARANG ANYAR VILLAGE

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### Abstract

Evaluation of the results or achievements of a business in achieving its goals and targets is called business performance. During the operation process, MSMEs face obstacles such as limited low human resources and business capital. This study aims to examine how the performance of MSMEs in Karanganyar Village is influenced by the quality of human resources that can be found in business. This study uses a quantitative approach, the main data obtained from a questionnaire that will be distributed to 30 respondents and the classical assumption test of multiple linear analysis is aimed at analyzing the data and the results of this study prove that the existence of working capital (X1) does not affect business performance (Y), where the significant value of  $0.156 > 0.05$ , and the quality of human resources (X2) affects the business performance of MSMEs in Karang Anyar Village (Y), where significant values are  $0.042 < 0.05$ .

**Keywords:** Business Capital, Quality Human Resources, Business Performance

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### 1. Introduction

MSMEs are crucial for economic growth and job creation in many developing countries in the current era of trade globalization. (Richardson, Howarth, and Finnegan, 2004).

Capital is the most important component when starting a business. If starting a business is the same as building a foundation, capital is an important part of the foundation. A sturdier foundation makes it more solid. In the same way, the impact of capital on a business is also crucial in creating the initial foundation for the business to be created. MSMEs most often face the problem of limited working capital.

MSMEs usually have small personal capital, where capital that has restrictions causes low production of raw materials that produce little product sales and little profit where these profits influence the absorbed workforce. In addition, owners of small and medium enterprises or MSMEs face difficulties in obtaining institutions that can lend funds for additional business capital.

Human resources who have physical and intellectual abilities are quality human resources. Those who do can certainly manage their business well as a result of their business experiencing rapid development, but there are various MSME owners who cannot prioritize quality HR indicators when choosing members or employees, usually recruiting employees from family, neighbors, or friends, without them first assessing HR. It is possible that the quality of good human resources in an organization will affect the development of a company's business activities. Developing business activities means making efforts to contribute better transformation to the business being carried out (Basuki, 2013).

Nafinoor and Alam (2022) said that all companies must strive to optimize employee performance so that their goals can be achieved. In order for the company to achieve it, it needs employees who have good performance. As stated by Karyono and Gunawan (2021) that performance can be measured and compared to previous or ordinary performance, is the result of the work of a worker or the entire organizational or management process. Every business or organization needs human resources. Employee ability is positively correlated with organizational performance, but lower employee ability is negatively correlated with organizational performance.

Many internal and external factors influence the decline in performance. Human resources, finance, governance, social policy, culture, economy, market and marketing, production and operational technology, and the role of related institutions are some of the factors that affect the performance of MSMEs. Performance will be better if your employees are motivated, creative, and able to develop smart innovations. Therefore, it is very necessary to carry out HR performance improvement activities. There is no doubt where the importance of MSMEs is, but MSMEs also deal with problems such as lack of capital or poor human resources and bad marketing techniques resulting from intense competition where every business actor needs to deal with obstacles through improving aspects that greatly affect the Republic of Indonesia, such as increasing capital and quality of human resources and carrying out effective promotions and expanding their business. This is done to encourage the growth of MSMEs (Suci, 2017).

In Pesawaran Regency, Karang Anyar Village is the center of MSMEs that produce snack products. One of the problems handled by MSMEs in Karanganyar Village is unstable performance because MSME owners sometimes lack funds so they only increase the money they have, the number of sales goes down and also business owners never know the total growth of their business. MSME owners in Karang Anyar Village also said that they rarely promote or sell their products directly or through the media. This is another matter for them. For Karang Anyar MSMEs to operate well, they certainly need a qualified workforce. However, many MSME employees do not have the right competencies, which hinders the production process. This research was conducted based on the situation and problems of MSMEs mentioned earlier.

## **2. Theoretical Background**

Based on Law No. 20 of 2008, MSMEs are productive businesses owned by individual business entities or individuals as stated in the Law. According to Mutegi et al (2015), MSME performance is defined as the result of a person's work in accordance with their duties or roles in a company in a certain period and is correlated to certain standards or values in the company.

The ability of MSMEs to improve business capabilities includes a variety of interconnected indicators, including lack of capital (both in quantity and resources), lack of management capabilities and operating skills in organizing marketing operations. In addition, there are economic factors and unfair competition. As a result, the scope of business becomes narrow and limited. The large role of MSMEs shows that MSMEs can still be improved. If MSMEs can implement management well, they will be able to survive and compete.

To conduct business activities, business capital is absolutely necessary. Business capital can be achieved by yourself, assistance, or other funds, governments, financial institutions, both banks and non-banks. Abel G and Barata Alex (2015) found that capital partly has a significant and positive impact on the growth of MSMEs. Therefore, this

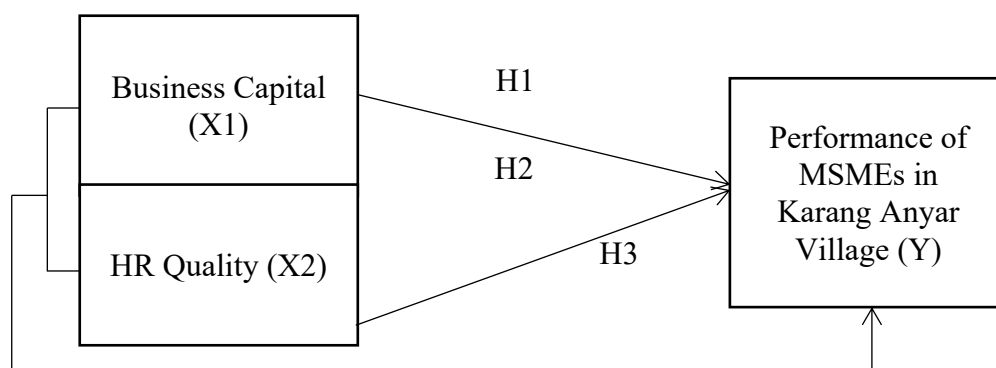
study proves that there is an important influence of capital in order to support the growth of MSMEs, which includes businesses in Karanganyar Village.

Dunan and Sari (2023) explain that an organization is unable to carry out a business mission without obtaining benefits from the availability of human resources, technological developments and detailed information flows as well as the use of extensive data and other indicators.

According to Widyanti R., et al (2021), the quality of human resources is crucial to the development of the overall business which is also considered as a component that affects the performance of MSMEs, human resources to improve the professionalism of MSMEs of everyone involved in a business unit managing it. Human resource development is needed in many sectors to support the performance of MSMEs. High-quality talents are mainly sought after in areas of competence such as knowledge, skills and entrepreneurship.

MSME performance, according to Dinar (2017), is defined as the achievement of work results that are comprehensive and compared to work results, targets, targets, and conditions that have been previously applied and approved in an asset or business entity or a determined turnover. Performance is the result of work in terms of quantity and quality achieved by a person when he has completed a task in line with the responsibilities given where every company must strive to optimize employee work actions so that they can achieve goals. Business performance, on the other hand, is all actions or activities carried out by an organization during a period of time in achieving the goals, objectives, and mission of the organization. The performance of this business is regulated in the strategic planning of the organization.

This study uses variables tied to MSME performance (Y) and independent variables, namely working capital (X1), quality of human resources (X2). The paradigm is:



**Figure 1.** Research Framework

### 3. Methods

This comparative causal research applies quantitative information where 30 MSMEs in Karanganyar Village are examined and the data collection technique applied is a questionnaire with the intention of providing or disseminating a list of questions according to the needs of respondents to provide details of their questions. In order to measure the perception of respondents, the questionnaire is distributed through a Likert scale which includes 5 research numbers where classical assumptions and multiple linear regressions are used to analyze the data.

#### 4. Results and Discussion

Data analysis was performed with the Statistical Package for the Social Science (SPSS) for Windows Version 25.0, with the following steps:

##### 4.1 Test Validity and Reliability

##### 4.1.1 Validity Test

Tests were conducted using the SPSS 25 program. This test is used to evaluate the credibility of each detail of the questions submitted to correspondents and research here uses the total item correlation method in other words the various scores on the items are compared to the number, as for the results of the validity test, namely:

**Table 1.** Results of the Business Capital Variable Validity Test

Variable	No Item	R Calculate	R Table	Information
Business Capital (X1)	Item 1	0,685	0,361	Valid
	Item 2	0,672	0,361	Valid
	Item 3	0,664	0,361	Valid
	Item 4	0,698	0,361	Valid
	Item 5	0,666	0,361	Valid
	Item 6	0,653	0,361	Valid
	Item 7	0,695	0,361	Valid
	Item 8	0,639	0,361	Valid
	Item 9	0,658	0,361	Valid
	Item 10	0,653	0,361	Valid
Quality of Human Resources (X2)	Item 1	0,670	0,361	Valid
	Item 2	0,675	0,361	Valid
	Item 3	0,700	0,361	Valid
	Item 4	0,697	0,361	Valid
	Item 5	0,677	0,361	Valid
	Item 6	0,669	0,361	Valid
	Item 7	0,675	0,361	Valid
	Item 8	0,695	0,361	Valid
	Item 9	0,647	0,361	Valid
	Item 10	0,671	0,361	Valid
Business Performance (Y)	Item 1i	0,693	0,361	Valid
	Item 2i	0,701	0,361	Valid
	Item 3i	0,668	0,361	Valid
	Item 4i	0,646	0,361	Valid
	Item 5	0,662	0,361	Valid
	Item 6	0,664	0,361	Valid
	Item 7	0,692	0,361	Valid
	Item 8	0,683	0,361	Valid
	Item 9	0,678	0,361	Valid
	Item 10	0,693	0,361	Valid

Source: Data processed with IBM SPSS 25 (2023)

The table shows where all question items from variables X1, X2 and Y are valid, because the total sample (n) is 30 data, the calculated R value exceeds the table R which is 0.361, so each question item from these variables can be used for research.

#### 4.1.2 Reliability Test

The value of the reliability coefficient against the standard exceeding 0.70 is the way to see from this test. The table is

**Table 2.** Reliability Test Results

Variable	Cronbach's alpha	Description
Business Capital (X1)	0,778	Reliable
HR Quality (X2)	0,764	Reliable
Business Performance (Y)	0,763	Reliable

Source: Data processed with IBM SPSS 25 (2023)

A variable is considered reliable if the alpha value exceeds 0.70 where the results of this test that can be reviewed in the table above prove that all three variables are variables.

#### 4.2 Multiple Linear Regression Test

Statistical analysis is applied in order to determine the amount of impact of the independent variable to be bound. The regression results produced in the SPSS test are:

**Table 3.** Multiple Regression Test

Coefficients <sup>a</sup>						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	24.084	6.335		3.802	.001
	Business Capital (X1)	.135	.092	.256	1.461	.156
	Work Environment (X2)	.338	.158	.375	2.137	.042

a. Dependent Variable: Y

Source: data processed with IBM SPSS 25 (2023)

Based on Table 3, the equation obtained:

$$Y = a + b_1X_1 + b_2X_2 + e$$

$$Y = 24.084 + 0.135 X_1 + 0.338 X_2 + 6.335$$

Where:

Y' = Business Performance

a = Constant

B1, B2 = Regression coefficient

X1 = Business Capital

X2 = Quality of Human Resources

e = Standard Error

From these equations, several things can be found:

- 1) A constant value of 24.084 indicates that the average business performance (Y) is 24.084 if the independent variable is considered constant.
- 2) The value of the regression coefficient of the independent variable is considered constant. Second, the value of the coefficient of this test on the variable X1 worth 0.135 proves where business performance will increase by 135 with an increase in capital of 1000.
- 3) As shown by this coefficient of 0.338 where the entire improvement of the quality of human resources is 1000 which can optimize business performance worth 338.

#### 4.3 F Test or Simultaneous Test

This test is intended to determine whether the variable Y in the model structure is influenced by the independent variable or X as a whole and the test criterion states that the acceptance of  $H_0$  occurs when F counts exceed F of the table and the rejection of  $H_0$  occurs when F counts less than F of the table. The calculation results are:

**Table 4.** F Test

ANOVA <sup>a</sup>						
Type	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	27.234	2	13.617	5.125	.013b
	Residuals	71.732	27	2.657		
	Total	98.967	29			
a. Dependent Variable: Kinerja Usaha						
b. Predictors: (Constant), Kualitas SDM, Modal Usaha						

Source: Data processed with IBM SPSS 25 (2023)

$H_0$ : There is no significant relationship between the three variables simultaneously.

$H_a$ : There is a significant relationship between all three variables simultaneously.

The table above then f sig is 0.013 less than 0.05 and F is calculated to be 5.125 exceeds F table which is 2.960 until it is obtained that there is  $H_a$  revenue which proves there is a significant relationship between business performance and working capital.

#### 4.4 T Test or Partial Test

Basically, this test proves how much impact an independent variable has on the variation of the dependent variable where the purpose of this test is to determine whether the independent variable has an impact forcibly or alone on the dependent variable

**Table 5.** T Test

Coefficients <sup>a</sup>						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	24.084	6.335		3.802	.001
	Business Capital (X1)	.135	.092	.256	1.461	.156
	Work Environment (X2)	.338	.158	.375	2.137	.042
a. Dependent Variable: Y						

Source: data processed with IBM SPSS 25 (2023)

1) Hypothesis 1. The effect of working capital (X1) on business performance (Y)

Table 5 above shows information about the variable working capital (X1), namely the value of t is 1.461 with a standard duty coefficient of 0.256, and a significant value exceeding alpha of 5% or 0.05 of (0.156 > 0.05). That is, the variable working capital (X1) does not significantly affect business performance (Y) because  $H_a$  is rejected and  $H_0$  is accepted.

2) Hypothesis 2. The effect of human resource quality (X2) on business performance (Y).

Table 5 proves the value of t calculated for the HR quality variable or X2 which is 2.137 with a standard beta coefficient of 0.960. Meanwhile, the significant value is

lower than alpha 5% (0.05) and by  $0.042 > 0.05$ . Because  $H_a$  is accepted and  $H_o$  is rejected, the HR quality variable (X2) has a significant impact on the Y variable.

#### 4.5 Test R2 or Coefficient of Determination

This test is used to calculate how much the model is able to explain the bound variables. The measurement result of the coefficient of determination of bias looks as below:

**Table 6.** Coefficient of Determination

Model Summary				
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.525a	.275	.221	1.630

a. Predictors: (Constant), Kualitas SDM, Modal Usaha

Source: Data processed with IBM SPSS 25 (2023)

The results of data processing prove the existence of an R2 value of 0.525 which proves the amount of contribution between variables of 52.5%. In contrast, the remaining share of 47.5% is given to other factors.

#### 4.6 Discussion

##### 1) Effect of Working Capital (X1) on Business Performance (Y)

The results of the study prove where business performance is not significantly affected by working capital (X1). According to the regression coefficient, the calculated t value is 1.461, with a standard beta coefficient of 0.256, and a significant value exceeding 5% (0.05) of ( $0.156 > 0.05$ ). This means that business capital does not affect the performance of MSMEs in Karanganyar Village in line with research conducted by Nabawi (2021) which found that there are business model variables that do not have a significant impact on the development of Banjarmasin MSMEs. Overall, it can be concluded that business capital is not a very important component for business people in developing their business. Since they can now conduct transactions through the partnership system, this becomes possible. In fact, many manufacturers are willing to pay upfront after the product is sold.

##### 2) The Effect of Human Resource Quality (X2) on Business Performance (Y)

The results of data analysis conducted with SPSS show that the variable quality of human resources has a significant partial and positive impact on the performance of MSMEs in Karanganyar Village. The value of 0.042 which is less than 0.05 then the quality of human resources has a positive influence on business performance. This is relevant to research by Dewi (2014) which revealed that human resources have a significant effect on the growth of the food snack merchant business in her area and the results of the research are also relevant to research by Savitri where business actors need development and training. In addition, there are many training options and counseling programs that can be followed to improve the quality of business actors.

##### 3) The Effect of Operating Capital (X1) and Human Resource Quality (X2) on Business Performance (Y).

Based on the result of an F score of 5.125 which is greater than the F value of the table worth 2.960, it can be concluded that the alternative hypothesis ( $H_a$ ) is acceptable. In addition, a significant value of 0.0000 ( $p < \alpha$ ) indicates that there is a significant relationship between each independent variable simultaneously to the dependent.

Therefore, the results prove that the independent variable simultaneously has a significant influence on the dependent variable.

## 5. Conclusion

The results of the study, involving 30 respondents, concluded as follows: The effect of business capital and the quality of human resources on the performance of MSMEs in Karanganyar Village:

- 1) Business capital does not have a positive and significant effect on MSME business performance because there are still business actors who are limited to using their own capital rather than getting loans from banks or other institutions. In addition, many MSME players send their products first and only pay after the product has been sold.
- 2) The quality of human resources has a positive and significant impact on the performance of MSMEs in Karanganyar Village where when the quality of human resources is getting higher, it also hugs the business performance in Karanganyar Village which is improving, and vice versa, the lower the quality of human resources, the worse the business performance of MSMEs in Karang Anyar Village.
- 3) Suggestion, this research may produce the following recommendations based on the findings outlined above:
  - a. It is expected that future research will investigate additional factors such as government policies, operations, marketing, and social, cultural, and economic elements that may significantly affect the performance of small and medium enterprises (MSMEs).
  - b. To help develop and improve human resources, the government must participate by providing training and counseling to MSMEs so that their products are superior to others.

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