
Analysis of Financial Capital, Human Capital, Capability Innovation on MSME Performance

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Abstract

The MSME sector has shown increasing development and has even been able to support national economic growth. The Sidoarjo region in particular has considerable potential in an effort to maximize fishery products, especially marine fisheries through capture fisheries and brackish water fish cultivation. The abundance of milkfish with relatively cheap prices is the background for the emergence of a home industry (Home Industry) engaged in milkfish processing, with the aim that milkfish has a higher economic value. The number of MSMEs in Kalanganyar Village that is engaged in processing milkfish-based ingredients continues to increase. MSME business performance is influenced by several aspects, including finance, human resources, and innovation capabilities. The purpose of this study was to analyze the effect of the variables Financial Capital, Human Capital and Capability Innovation on the performance of MSMEs. This research was conducted on 30 SMEs processing milkfish in Kalanganyar, Kec. Sedati Kab. Sidoarjo. The results of this study show that financial capital, human capital and capability innovation affect the performance of MSMEs.

Keywords: Financial Capital, Human Capital, Capability Innovation, performance

1. Introduction

The phenomenon of free trade that creates a global economic structure causes the flow of goods, services, capital, and labor to move from one country to another without any limitations and obstacles, thus causing a paradigm shift from the emphasis on the physical capital paradigm to a new paradigm that focuses on intellectual capital (Suhendah, 2012). Intellectual capital which consists of human resources (human capital), and the ability to innovate (innovation capital) as an intangible asset is one of the determining factors in a business success. The limited capabilities and skills of human resources in creating ideas by looking at opportunities and challenges are an obstacle for MSMEs in developing businesses. Competence or knowledge of MSME workers in operational activities is an intangible asset that needs to be developed because it can encourage the ability to innovate. Innovative businesses have the ability to improve the innovation performance of both individuals and organizations, in order to be able to solve problems in the company. In addition, other problems in the production process carried out by SMEs at this time, are still using traditional methods. This is because knowledge about technology is still low and lack of initiative to develop business using new

technology. The increasingly fierce competition requires each MSME to do their best in every activity, including in terms of the quality of the products produced. Product improvement can be achieved by means of innovation. Another factor faced by other MSMEs is the issue of financial aspects (Financial). Constraints in the financial aspect that occur in MSMEs in Indonesia today are generally limited in capital and difficulties in accessing loan capital from financial institutions. The high interest rates on loans and the difficulty of fulfilling the administrative requirements for credit applications are the main reasons for MSMEs not to make loans to banking institutions.

The marine and fisheries sector in East Java is considered to have tremendous potential. Fish production from the fisheries sector in East Java has now reached 13,442,332,231 tons sourced from marine aquaculture, ponds, cages, ponds, and japung. One of the biggest contributors of fish in East Java is none other than the results of pond cultivation which reached 6,709,305,464 tons. The results of the Sidoarjo Regency ponds in 2020 include milkfish, tilapia, seaweed and shrimp. The fishery product that ranks first is milkfish with 34,339,500/kg. The businesses that are occupied by the residents of Sedati District are based on milkfish commodities, including processing otak-otak, crispy milkfish, and smoked milkfish. The Milkfish Industry Center, Sedati District, is located in the village of Kalanganyar. Kalanganyar is a village in Sedati District which covers 2/3 of the area consisting of ponds. This village produces milkfish, tiger prawns and trasi, crackers and processed milkfish as commodities. Although the income of small industries in general is still relatively low, their existence cannot be ignored in the economic downturn. The Manufacturing Industry Sector has a fairly large sector contribution to the GRDP of Sidoarjo Regency, which is 44.16%. In this manufacturing sector, the biggest potential is in the Micro Business sector. The development of MSMEs is still constrained by traditional business management, inadequate quality of human resources, production scale and techniques, low innovation capability, and limited access to financial institutions, particularly banks.

Resource Based Theory (RBT)

Resource Based Theory (RBT) discusses the resources owned by the company and how the company can process and utilize its resources. The company's ability to manage its resources well can increase competitive advantage, so it is expected to create value for the company (Barney, 1991 in Madhani 2009). The resources owned by the company are heterogeneous and have special and unique characteristics in each company. These resources determine the company's competitive advantage if the company has the strategic ability to acquire and maintain resources (Wernerfelt, 1984 in Suhendah, 2012).

Financial Capital

According to Riyanto (2008) capital structure is a balance or comparison between the amount of long-term debt with own capital. Capital structure decisions related to the selection of sources of funds both from within and from outside, greatly affect the value of the company. Internal funding sources come from retained earnings and depreciation. Funds obtained from external sources are funds that come from creditors and company owners. Meeting the need for funds from creditors is a debt for the company. According to Brealey, Myers and Marcus

(2008) define capital structure as raising funds needed by a company for investment and company operational activities.

Human Capital

Human capital is defined as the product of employee capability and employee commitment, thus if you want to double the performance of human resources, it is necessary to improve the quality of the two components of human capital (Mulyadi, 2001). Human capital will increase if the company is able to use the knowledge possessed by its employees. (Brinker, 2000) provides some basic characteristics that can be measured from this capital, namely training programs, experience, competence, recruitment, mentoring, learning programs, individual potential and personality. Several aspects contained in the concept of competence are as follows (Gordon in Sutrisno, 2010): a. Knowledge, awareness in the cognitive field; b. Understanding (understanding), namely the cognitive, and affective depth possessed by the individual; c. Value, is a standard of behavior that has been believed and psychologically has been integrated in a person; d. Skill, is something that is owned by an individual to carry out the tasks or work assigned to employees; e. Attitude (attitude), namely feelings (happy-not happy, like-dislike) or reaction to a stimulus that comes from outside; f. Interest is a person's tendency to do an action.

Capability Innovation

The ability to innovate is the degree to which individual/user units adopt new ideas earlier than other system members (Sumarwan, 2010). Product improvement can be achieved by innovating. Verhess and Meulenberg (2004) found that innovation has a strong influence in improving the performance of SMEs. Companies that have innovation capital can boost the company's performance to be better than before. Badwin et al., (2000) found that there are differences in innovative capabilities in large and small companies. The size of this company affects the company's policies related to its innovation.

2. Research Methods

The type of research used in this research is explanation. The level of explanation is the level of explanation, which explains the position of the variables studied and the relationship between one variable and another. This study uses a quantitative approach, where the data used are quantitative data and analysis using statistics. The population in this study is the perpetrators of Micro, Small and Medium Enterprises (MSMEs) in the Kalanganyar Village area. The sample in this study is MSMEs located in the Kalanganyar district, Kec. Sedati Kab. Sidoarjo. The number of samples in this study were 30 SMEs. The method used for sampling is the purposive random sampling method with the following criteria: a. MSMEs located in the Kalanganyar district, Kec. Sedati Kab. Sidoarjo; b. The business is engaged in milkfish processing; c. The business has been established for at least one year

3. Results and Discussion

Based on data on MSMEs in Kalanganyar Village which are engaged in the milkfish processing sector, 67% are dominated by women. Japhta, et al., (2016) in their research suggest that almost 50% of MSMEs are owned by women. MSMEs owned by women also showed good

performance compared to MSMEs owned by men. They also want to borrow capital to invest in their business. In terms of default on the debts they borrow, it turns out that women have a lower failure rate than loans made by men. MSMEs in Kalanganyar Village are based on the results of research on moving averages on processed milkfish, both fresh and ripe. Some of the processed milk products include pepes milkfish, presto milkfish, milkfish brains, milkfish beef, milkfish satay, thornless milkfish, fresh milkfish and various other processed milkfish. The results of the study 67% of the owners of this business are women. This is also supported by demographic data which shows that 50% of the population of Kalanganyar Village are women. So it is not surprising that the development of MSMEs in the milkfish processed sector is also colored by this phenomenon. One of the things that makes women dominate the creative sector, especially food or culinary, is because of the dynamic and flexible nature of this business. It still allows women to continue to work and produce works in the midst of their busy lives, both as workers and housewives. With the development of Micro, Small and Medium Enterprises in Kalanganyar Village, economically it supports the development of creative industries and also supports the empowerment of women in the village.

The dominance of the working age of the milkfish processing UMKM in Kalanganyar Village is dominated by the productive age with an age range of around 24-40 years. This is enough to cause the growth of MSMEs to be quite rapid. Many studies on age on labor productivity have also been carried out. According to Mahendra and Woyanti (2014) one of the factors that affect employee productivity is the age factor. Ages that are still in their productive period usually have a higher level of productivity than workers who are old so that their physical possessions become weak and limited. Every business or business certainly aims to be able to increase sales turnover so that the business being run can continue to grow. Based on the results of this study, the average turnover of MSMEs in Kalanganyar Village is around Rp. 10,000,000 to Rp. 180,000,000 per month. Based on this, it is known that 80% of MSMEs in Kalanganyar Village or approximately fall into the category of Micro Enterprises with a turnover range of around Rp. 10,000,000 to Rp. 25,000,000. Meanwhile, 20% of them fall into the Small Business category with a turnover of IDR 40,000,000 to IDR 180,000,000. This shows that the MSMEs that have developed in Kalanganyar Village are mostly at the micro-enterprise level. Based on the partial test of the variables of Financial Capital, Human Capital, Capability Innovation on MSME Performance, they are as follows.

Table 1 Partial Test Results (t)

Variable	Uji t	
	T	Sig.
(Constant)	1.923	0.065
<i>Financial Capital</i>	2.310	0.029
<i>Human Capital</i>	2.885	0.008
<i>Innovation Capability</i>	4.918	0.000
a. Dependent Variable: MSME Performance		

Source: Primary Data Processed by the Author, 2022

1. The influence of the financial capital variable (X1) on the MSME performance variable (Y) obtained a t-count value of 2.310 > t table 2.05553 and a significance level of 0.029 < 0.05. From these results, it is stated that the financial capital variable has a partial and significant effect on the MSME performance variable.
2. The influence of the human capital variable (X2) on the MSME performance variable (Y) obtained a t-count value of 2.885 > t table 2.05553 and a significance level of 0.008 < 0.05. From these results, it is stated that the human capital variable has a partial and significant effect on the MSME performance variable.
3. The effect of the innovation capability variable (X3) on the MSME performance variable (Y) obtained a t-count value of 4.918 > t table 2.05553 and a significance level of 0.000 < 0.05. From these results, it is stated that the innovation capability variable has a partial and significant effect on the MSME performance variable.

The results of the partial test of the Financial Capital variable show that financial capital has a positive and significant effect on the performance of MSMEs in Kalanganyar Village. Financial capital can be said as expertise regarding the financial resources used by the owner in starting and managing a business. Generally, the owner builds a business with personal capital. But as the business progresses, business owners usually take loan funds to increase personal capital in business expansion. The positive influence of financial capital on the performance of MSMEs in Kalanganyar Village is influenced by the availability of sufficient capital as a source of business capital, making it easier to run a business. Based on the data obtained, MSMEs access more sources of capital from external sources compared to using internal capital in operating their businesses. External sources of MSMEs in Kalanganyar Village come from banking and non-banking. Sources from banks based on the results of the study show that KUR loans from banks are widely accessed. Meanwhile, access to funding for non-banking SMEs in Kalanganyar chooses cooperatives as a source of external capital outside of banking. Based on the results of the study, it was shown that MSMEs in Kalanganyar Village had not optimally managed their finances, it was proven that many MSMEs had not recorded the level of profit and capital accumulation and had not differentiated personal expenditure and business expenditure. Government support, especially in terms of capital, really helps MSMEs in maintaining and developing their business.

Based on the results of the partial test of the Human Capital variable (X2), it shows that human capital affects the performance of MSMEs in Kalanganyar Village. The performance of MSMEs is also greatly influenced by the quality of their human resources. Several research results related to human capital and the performance of SMEs stated that increasing human resources in organizations can foster innovation so that business performance increases, and human capital as an asset is needed to manage business finances. Human capital as a characteristic of human resources which is influenced by the ownership of knowledge abilities obtained from education to manage the organization of a business (Collin and Clark). Human capital is capital in an invisible form because it is in the form of ideas, knowledge, creativity, skills, and being able to have productivity which is emphasized not in material form but rather leads to immaterial or intangible assets. Including individual commitment to strive to increase knowledge and insight into human capital is very important and needs to be considered. Based on the results of the study, it is known that the human resources owned by MSMEs in

Kalanganyar Village have technical skills in processing milkfish as the main product. And the existing workforce has experience and knowledge of the product manufacturing process quite well. Nikolic, et al., (2019) in their research suggests that there are several factors that affect the performance of MSMEs, including: individual characteristics of MSME owners, which are related to demographic aspects, one of which is related to the ability to manage a business. Then the non-individual internal characteristics, one of which is related to the age of the MSME. Personal characteristics of SMEs also influence the success of their business, including those related to age, gender, education level, and marital status. The Human Capital variable that has an influence on the performance of MSMEs in Kalanganyar Village is also influenced by demographic factors, namely the age of the workforce in the productive age range (24-44 years) and the length of time the business has been established. The average business has been established for more than 1 year, which means that it can adapt to environmental characteristics and personal characteristics.

The results of the partial test on the Capability Innovation (X3) variable show the results that Capability Innovation or the ability to innovate has an effect on MSME performance. Larsen, P and Lewis, A, (2007) stated that one of the most important characteristics of entrepreneurs is their ability to innovate. Without innovation the company will not be able to last long. This is due to the changing needs, wants, and demands of customers. Customers will not always consume the same product. Customers will look for other products from other companies that are felt to satisfy their needs. For this reason, continuous innovation is needed if the company will continue and continue to stand with its business. Innovation is something related to goods, services or ideas that are perceived as new by someone. Although the idea has been around for a long time but this can be said to be an innovation for people who have just seen or felt it. In research, Psomas (2015) found that the ability of innovation has a significant effect on product quality and company operational performance. Although it does not directly affect the financial performance of manufacturing companies, the ability to innovate has a direct effect on operational performance. Thus, the ability to innovate is an opportunity for manufacturing companies to improve their performance. Based on the results of research conducted, it is known that MSMEs in Kalanganyar Village have made innovations. Their innovation ability is more about transforming new ideas in business management. Regarding techniques in production, they try to innovate using certain techniques in carrying out the production process. The innovation ability of MSMEs in Kalanganyar Village comes from their business partners and the biggest influence comes from competitors. This is in line with Quinn's research in Hendro (2011) explaining the supporting factors for the successful implementation of innovative capabilities, the first is to be market-oriented. The innovation ability of MSMEs in Kalanganyar Village is influenced by business partners because the shape of the products produced by MSMEs is an ordered product. On average, business partners provide product directions they need. The results from the requests of business partners are finally produced regularly by MSMEs and often show good results. So that orders or orders from business partners are also the originator of innovation capabilities. In addition, the innovation ability of SMEs in Kalanganyar Village is also heavily influenced by competitors. Based on the answers from MSMEs, the largest percentage of the drivers of innovation ability is from competitors. If competitors have issued new processed products, other MSMEs are encouraged to also make

modifications to their products. The form of innovation they do can be the creation of new processed forms or new looks and techniques.

Table 2. Simultaneous Test Results (F)

Model	ANOVA	
	F	Sig.
Regression	12.915	0.000 ^b
a. Dependent Variable : Kinerja UMKM		
b. Predictors : (Constant), Financial Capital, Human Capital, Innovation Capability		

Source: Primary Data Processed by the Author, 2022

Based on the table of F test results above, it is known that the calculated F value is 12.195 and the F table is 2.96 which is in accordance with the above calculation, then F count is $12.195 > F \text{ table } 2.96$ and the F significance value is 0.000 which means the significance level ($0.000 < 0.05$). It can be concluded that the results of the F test the independent variables including financial capital, human capital, and innovation capability together have a simultaneous effect on the MSME performance variable. Simultaneous test results on the variables Financial Capital (X1), Human Capital (X2), Innovation Capability (X3) have a positive and significant effect on MSME Performance (Y). The performance of MSMEs often experiences obstacles, such as the ability to survive, grow and develop. Some of the causes include problems with human resource capabilities, product ownership, financing, marketing and other problems that make MSMEs unable to compete, especially with large companies. Successful performance is closely related to how capable the business owner is in managing his business, this can be seen from the profits obtained by the owner in the form of financial and non-financial. The success of this performance is influenced by the owner's ability to manage the business related to the determination of Financial capital (financial capital), Human Capital (human capital / HR) and Capability Innovation (innovation ability). Financial capital is related to the initial capital planning used by the owner, whether it comes from personal capital or well-managed loans will determine business performance (Rahmadani, 2019).

In addition to the proper use of financial capital, financial literacy knowledge can also affect business performance (Setiawan et al., (2018). With high financial literacy knowledge, business owners have knowledge of how to manage finances well in operational activities so that the resulting performance will continue to work). Based on the research results, MSMEs in Kalanganyar village already have financial literacy from various sources, one of which is training carried out by the Ministry and CSR from various large SOEs. Human capital is related to how human resources manage business / business. HR who have high creativity in implementing business management will also affect performance. Moore, et al., (2019) said that it takes a younger generation to run a business to be more productive and produce new breakthroughs. The younger generation is certainly expected to be closer to technology and rich in resources and new ideas. The results of this study are SMEs in Kalanganyar Village in the category of productive age so that it can affect business performance. In addition to financial and human capital, the influence of capability innovation on MSME performance is also colored in this study. Whether or not innovation activities are running is largely determined

by the ability of human resources and innovations in the company to implement them, such as process innovation, product innovation, marketing innovation and organizational innovation. The results of the study indicate that the innovations carried out by MSMEs in Kalanganyar Village are still in product and marketing innovation. In the company's innovating activities to achieve these goals, it is inseparable from operational performance, where operational performance is a resource activity that has an influence on the company in achieving company achievements and performance. The company's achievements and performance can be measured through financial performance and operational performance, financial performance can be measured through the company's financial condition from year to year. Meanwhile, operational performance can be measured through the conditions of achievement in operating the company. The achievement of good operational performance requires support from organizational performance, where organizational performance is a competitive advantage which is not the end goal, but a tool to achieve organizational goals, namely organizational performance that produces relatively high profits.

4. Conclusion

Based on the results of the research conclusions in this study it is known that the variables of Financial Capability, Human Capability and Capability Innovation affect the performance of SMEs. The variable that has the most influence on the performance of MSMEs is capability innovation. This is because the ability to innovate greatly affects the sales and marketing of products. The innovation capabilities of MSMEs in Kalanganyar Village are triggered by external factors, namely business partners and business competitors.

The suggestions given in this study are as follows: a. It is necessary to increase the ability of innovation that is not only based on products but also innovation in the field of marketing; b. It is necessary to increase the capacity of human resources because human resources are the key to management; c. It is necessary to increase financial literacy skills in managing businesses so that the performance of MSMEs increases

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