# Human Resource Competence And Innovation Of Small And Medium Micro Enterprises (UMKM) Tangerang Regency

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## *Abstract*

*This research looks at the influence of human resource competence and innovation on small and medium-sized micro-enterprises. The study uses a quantitative approach by testing hypotheses using statistics. Calculations are done based on statistical formulas with the help of the Smart PLS 2.0M3 application. The study uses a survey method, i.e., collects data from specific natural locations, but the researchers implement treatments in data collection by distributing tables, questions, structured tests, and interviews. The sample for the study was 65 respondents. The results of this study are: (1) The influence of market orientation on human resource competence has a positive and significant value. It is seen from the relationship between variables of 63,534 > 1.96. (2) There is a positive and significant influence between market orientation towards MSME innovation, it is seen from the relationship between variables 4,145 > 1.96. (3) There is a positive and significant influence between human resource competencies on MSME innovation. This is evident from the relationship results between variables 15,149 > 1.96. (4) There is a positive and significant influence between market orientation and human resource competence on MSME innovation. This is seen from the relationship results between variables of 78,683 > 1.96.*

*Keywords: Competence, HR, Innovation, MSME*

## 1. Introduction

An increasingly globalized world economy and free trade will involve more players. Micro, small and medium enterprises (MSMEs) should be one of the leading players. Especially in developing countries such as Indonesia, the MSME sector is the primary driver of economic growth. Indeed, the existence of MSMEs has brought many business resources and employment opportunities for the community.[1] To fulfill this role, Indonesian MSMEs must continue to improve by creating global competitiveness. However, MSMEs in their development still face various problems that need special attention. Therefore, MSMEs need to continue to be developed, especially internally. The first two internal factors are the quality of human resources (HR), work ethic, entrepreneurship, and commercial instincts. Second, management aspects include planning, organizing, implementation, and control skills.[2]

Human resources are a means of production and the driving force and determining force of the production process and all organizational activities.[3] Human resources have a

significant role in determining the progress or development of an organization. Therefore, an organization's progress is also determined by the quality and capacity of its human resources. Therefore, human resources are the most critical asset in an organization or business, large or small.[4] However, it is not easy for organizations and businesses to turn human resources into valuable assets. There are still many organizations or companies that only consider human resources as a means of production. To date, there are still many companies that apply conventional human resource management methods, so conflicts between management levels and employees occur, negatively impacting the continuity of the organization or d' company. Given the importance of human resources in an organization, competence is an aspect that can determine the success of an organization or business.[5] With the large human resource capacity of an organization, a business will certainly determine the quality of human resources it has and ultimately determine the competitiveness of the business itself. Likewise, in micro, small and medium enterprises (MSMEs), human capacity also plays a vital role in developing MSMEs.

Paul Almeida, a professor at Georgetown University, said that the existence of MSMEs plays a unique, positive, and vital role in the innovation process through its ability to discover new technologies and develop computers. This statement is supported by the results of 10 years of research that shows that the competence of MSMEs, both formal and informal, is an essential tool for the MSME innovation process. On the other hand, the power of creativity becomes the basis of the success and survival of MSMEs.[6] This is evidenced by the fact that most MSMEs survived Indonesia's economic crisis in 1997. This is explained by their capital structure which is more dependent on their capital (73%).

To fulfill this role, Indonesian MSMEs must continue to improve by creating global competitiveness. However, MSMEs in their development still face various problems that need special attention. Therefore, MSMEs need to continue to be developed, especially internally. The first two internal factors are the quality of human resources (HR), work ethic, entrepreneurship, and commercial instincts. Second, management aspects include planning, organizing, implementation, and control skills.

Developing economic development based on the participation of the broader community as a commercial actor is the government's commitment to economic development today.[7] Economic growth in Indonesia is driven by several sectors, one of which is very strategic, namely the micro, small and medium enterprises or MSMEs.[8] Several factors support the importance of the role of MSMEs in the national economy, one of which is Indonesia's demographic trends, where based on BPS data, the proportion of manufacturing age groups in Indonesia is expected to continue to increase from 67.4 percent. in 2010 (total population 237.6 million) to 69.7% by 2025. As Helianthin explained,[9] Indonesia is currently entering a demographic bonus phase where the young population is now over 25% of Indonesia's approximately 270 million population, including 59.2 million super enterprises. Small, medium, and small (MSMEs) contribute greatly to the country's gross domestic product (GDP).

Samuel, the increasing demographic trend will, of course, lead to an increase in the development of economic sectors such as technology, entertainment, education, consumption, trade, and finance that are proliferating. The growth of these sectors of the economy can reduce the problem of unemployment and possibly increase labor absorption in some industrial sectors. The Central Statistics Agency put the number of unemployed in Indonesia in February 2016 at 7.02 million people, down 536,000 people. 7.56 million people compared to August 2015.

## 2. Literature Review
*Human Resources*
Competence underlies a person's character, leading to a reciprocal relationship between criteria for effective behavior and superior performance in certain occupations or situations.[10] The HR skills needed to meet new challenges and types of organizations in the workplace can be acquired by understanding the characteristics we look for in the people who work in those organizations. MSMEs need to have reliable human resources to innovate and create a competitive advantage over other MSMEs. The human resource capacity of MSMEs can be seen in individuals who work and contribute to MSMEs. As Armstrong said in Kurniawan,[11] personal capacity consists of the knowledge, skills, and personal qualities necessary to succeed in the workplace.

Mathis and Jackson, as Ardiana,[12] describe that some capacities are visible and others are hidden. Knowledge is more visible to businesses, more recognizable to match people to jobs. Skills though some are visible, some are identified. However, skills can be more valuable, which can improve performance. Leifer,[13] quoted by Suliyanto,[14] states that innovation involves the development of products and services and the development of the skills of companies, including those of companies. Resources. The skills built by the company through such human resources will eventually find the company's competitive advantage. Therefore, MSMEs need to improve the working capabilities of their personnel and contribute to MSMEs to develop MSME innovation to create a competitive advantage.

*Small and Medium Micro Enterprises (UMKM*)

The implementation of micro, small and medium enterprises is regulated by Law No. 20 of 2008 on Micro, Small, and Medium Enterprises (MSME). There are several definitions and criteria for micro, small and medium enterprises. MSMEs have the following criteria: (1) Micro enterprises, especially individual-owned manufacturing enterprises or individual-owned commercial legal entities. (2) Small enterprise is an independent production economic enterprise operated by a natural or legal person and is not a subsidiary or branch of an enterprise owned or controlled by medium-sized enterprises or large companies. Alternatively, formed, directly or indirectly. (3) A medium-sized enterprise is an autonomous production economic enterprise managed by a natural or legal person and is not a subsidiary or branch of an enterprise owned, controlled, or directly controlled by this enterprise or indirectly. Furthermore, based on the explanation of MSME criteria in Law No. 20 of 2008, it can be concluded that the criteria to be classified as micro, small and medium enterprises are based on net worth, excluding land, commercial buildings, and sales within one year.[15]

## 2.1 Research Methodology

The study uses a quantitative approach by testing hypotheses using statistics. Calculations are done based on statistical formulas with the help of the Smart PLS 2.0M3 application. Research methods can be grouped into experimental, investigative, and naturalistic.[16] In this study, researchers used survey methods data collection from specific natural locations, but researchers performed processing steps in data collection by distributing questionnaires, tests, structured interviews. The sample for the study was 65 respondents. This research is usually done to find out the influence of market orientation (X1) human resource competence (X2) on MSME innovation (Y). The schematic model of the research to be developed in this study can be described as follows:
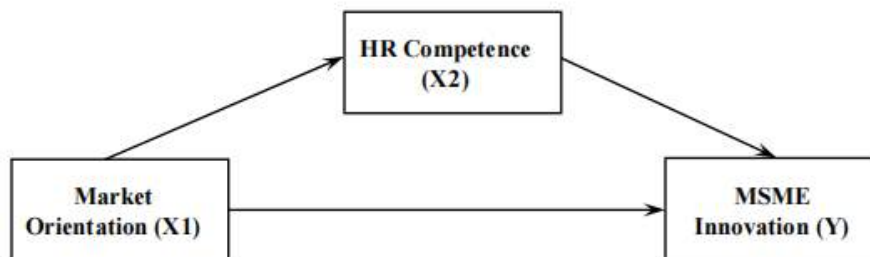


**Figure 1. Research Paradigm**

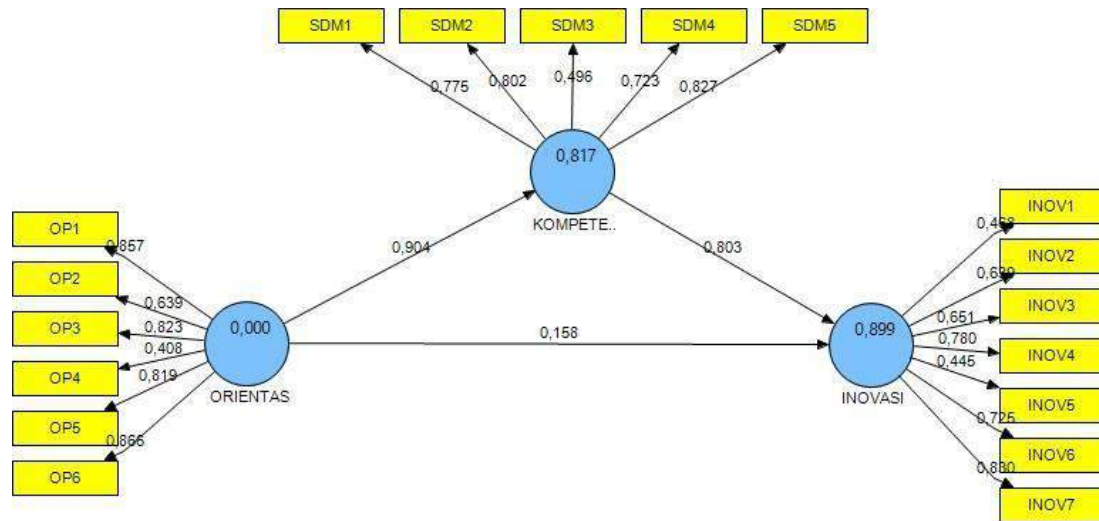## 2.2 Results And Discussions
*Structure Model Design*



**Figure 2. PLS Algorithm Results**

From figure 2 above, it can be explained that the results of the questionnaire processed to 65 respondents there are several invalid indicators (below the standard value set), including OP4, SDM3, INOV1, and INOV5 indicators. The decision taken by researchers on some indicators that do not reach the standard value is to remove the indicator directly and recalculate the questionnaire data without involving previously deleted indicators.
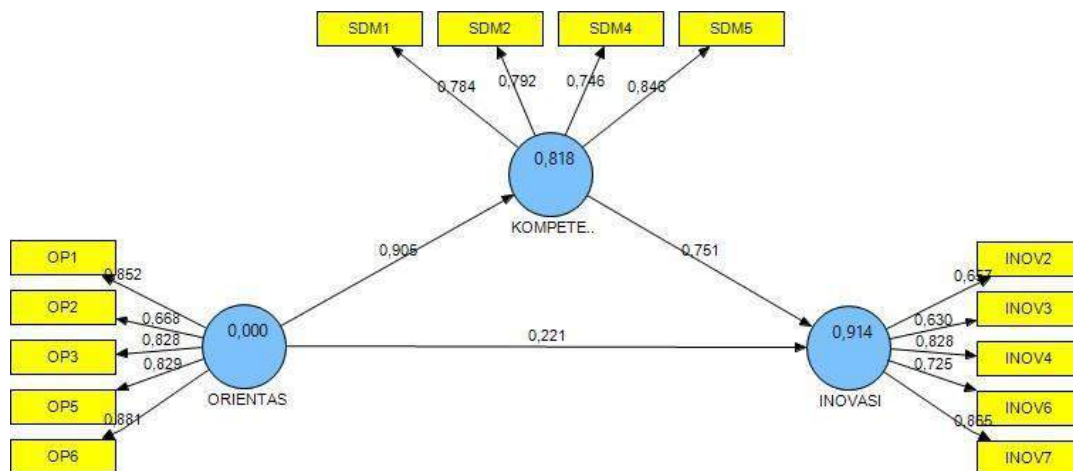


**Figure 3. PLS Algorithm**

Figure 3 above explains that the result displayed is after removing indicators that do not reach the specified standard. The above results state that every indicator involved in the research has met the established validity standards.

*Evaluation of Measurement Model (Outer model) Convergent Validity Test*

The validation of the reflection indices can be performed using the correlation between the index score and its composition score. Measurements with reflection indicators show an indicator change within a building if other indicators on the exact building change. Here are the results of the calculations using the Smart PLS 2.0M3 program:

|  | Innovation | Competence | Orientation |
|---|---|---|---|
| INOV2 | 0,656749 |  |  |
| INOV3 | 0,629585 |  |  |
| INOV4 | 0,828128 |  |  |
| INOV6 | 0,724935 |  |  |
| INOV7 | 0,864708 |  |  |
| OP1 |  |  | 0,852308 |
| OP2 |  |  | 0,668103 |
| OP3 |  |  | 0,827613 |
| OP5 |  |  | 0,828869 |
| OP6 |  |  | 0,881095 |
| SDM1 |  | 0,784446 |  |
| SDM2 |  | 0,792043 |  |
| SDM4 |  | 0,745774 |  |
| SDM5 |  | 0,845540 |  |

**Table 1. Outer Loadings output results**

*Discriminant Validity Test*

It is necessary to test discriminant validity on reflective indicators by comparing the values on the cross-loading table.

|  | Innovation | Competence | Orientation |
|---|---|---|---|
| INOV2 | 0,656749 | 0,583994 | 0,566023 |
| INOV3 | 0,629585 | 0,585691 | 0,570277 |
| INOV4 | 0,828128 | 0,824886 | 0,812106 |
| INOV6 | 0,724935 | 0,723117 | 0,623002 |
| INOV7 | 0,864708 | 0,793823 | 0,752831 |
| OP1 | 0,734000 | 0,758714 | 0,852308 |
| OP2 | 0,534766 | 0,533818 | 0,668103 |
| OP3 | 0,826251 | 0,793512 | 0,827613 |
| OP5 | 0,775418 | 0,767648 | 0,828869 |
| OP6 | 0,759261 | 0,792653 | 0,881095 |
| SDM1 | 0,772465 | 0,784446 | 0,696434 |
| SDM2 | 0,812809 | 0,792043 | 0,813697 |
| SDM4 | 0,649792 | 0,745774 | 0,702772 |
| SDM5 | 0,765704 | 0,845540 | 0,639149 |

**Table 2. Cross Loadings Output Results**

*Reliability Test*

| Construct | Composite Reliability | Cronbach Alpha | Notes |
|---|---|---|---|
| Inovasi | 0,861095 | 0,796099 | reliable |
| Kompetensi | 0,871003 | 0,802446 | reliable |
| Orientasi | 0,907478 | 0,871631 | reliable |

**Table 3. Reliability Test Results Vatiabel Latent**

Table 3 above shows that all latent variables measured in this study have Composite Reliability values above 0.7, which means showing good values, and the suggested Cronbach Alpha value is a value above 0.6, so it can be said that all latent variables are reliable.[17]

*Evaluation Structural Model (Inner model)*

Significance tests in SEM models with PLS aim to determine the effect of exogenous variables on endogenous variables.
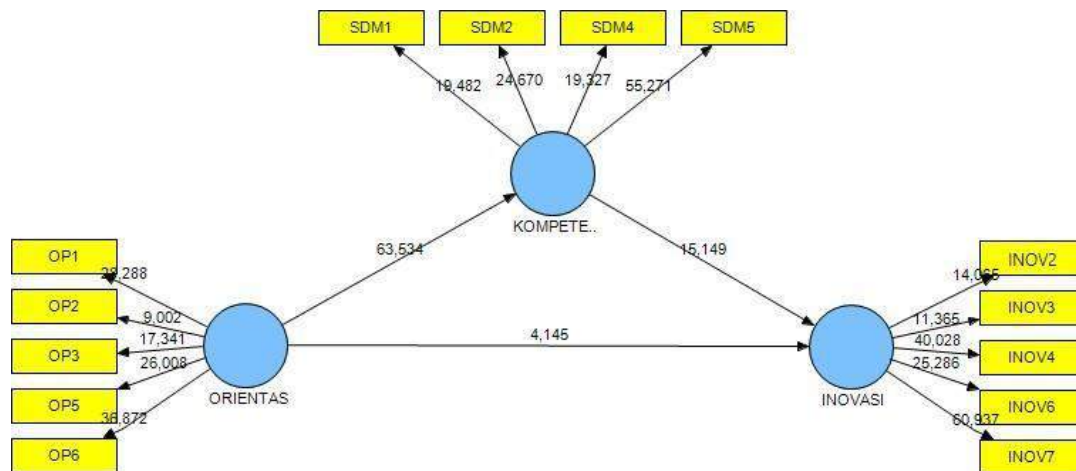


**Figure 4. Bootstrapping Results**

Figure 4 above describes the results of bootstrapping output in this study. The result of the relationship between the above variables shows a significant relationship value between variables with the standard value of t values used is 1.96

| Hypotheses | Variables | | Direct Effect | Indirect Effect | Total Effect | t - Values (>1.96) | Notes |
|---|---|---|---|---|---|---|---|
| | Exogenous | Endogenous | | | | | |
| 1 | Orientation | Competence | 0,905 | - | 0,905 | 63,534 | (+) Significant |
| 2 | Orientation | Innovation | 0,221 | - | 0,221 | 4,145 | (+) Significant |
| 3 | Competence | Innovation | 0,751 | - | 0,751 | 15,149 | (+) Significant |
| 4. | Orientation ⟶ Competence | Innovation | 0,905 | 0,751 | 1,656 | 78,683 | (+) Significant |

**Table 4. Results of Research**

## 3. Discussion

*Market Orientation towards HR Competencies*

The influence of orientation on competence has a positive and significant value. It is seen from the relationships between variables of 63,534 > 1.96. Current marketing developments are based on assumptions of sensitivity to competitors. With increasing global competition and changing customer needs, every entrepreneur should realize that they must be close to their market.[18] The company will devise a marketing strategy to compete in the market. To face competition, MSMEs must prioritize competence and innovation. Market orientation is also one way to survive in the market. When a business is market-oriented, it shows that it cares about its customers.

*Market Orientation to MSME Innovation*

This study shows that there is a positive and significant influence between market orientation to MSME innovation. This is seen from the relationship results between variables 4.145 > 1.96. It can be stated that the ability to read market demand also needs to be studied. Creativity and innovation through research and development support become very important to note. The

development of MSME innovation capacity is based on the assumption that business units from their business environment absorb a learning process about information as part of knowledge management. Innovation is not a simple event but rather a planned and systematic activity related to adapting systems to environmental changes.

*HR Competence towards MSME Innovation*
This study shows that there is a positive and significant influence between human resource competencies on MSME innovation. This is evident from the relationship results between variables 15,149 > 1.96. There is a need to improve the quality of human resources, especially in human resource skills such as entrepreneurship knowledge, skills, abilities, and attitudes. Human resource development must be done not only for MSMEs but also for their workers. Entrepreneurship and increased productivity supported by technological developments are becoming essential in improving human capital. The results support previous research by Kamya and Shu Hui.[19]

*Market Orientation and HR Competence towards MSME Innovation*
This study shows that there is a positive and significant influence between market orientation and human resource competence on MSME innovation. This is seen from the relationship results between variables of 78,683 > 1.96. Market orientation is essential for a business or organization because, with increasing global competition and changing consumer needs, businesses must organize their activities in their market-focused way to survive.[20] The competitive advantage of products is one factor that determines the success of new products,[21] so improved products must have advantages over similar products. It is also in keeping with the view that the benefits of new products are essential in a highly competitive global market circle.[22] These advantages are inseparable from the development of product innovation so that it has an edge in the market, which will then outperform the competition. The greater the company's customer orientation, the more likely it is to develop a competitive advantage based on innovation.[23]

One of the weak points in the growth of the micro, small and medium enterprise sectors is the lack of innovation in their products. This makes the resulting product less competitive advantage.[24] The micro, small and medium enterprises sector can adapt to the global market environment to survive the onslaught of imported products. Products produced by the micro, small, and medium enterprise sectors must be products that can compete with similar foreign products.[25]

## 4. Conclusion

The influence of market orientation on competence has positive and significant value. Current marketing developments are based on assumptions of sensitivity to competitors. With increasing global competition and changing customer needs, every entrepreneur should realize that they must stay close to their market. MSMEs need to develop marketing strategies to compete in the market. To face competition, MSMEs must prioritize competence and innovation. Market orientation is also a way to survive in the market. When a business is market-oriented, it shows that it cares about its customers.

This study shows that there is a positive and significant influence between market orientation to MSME innovation. Creativity and innovation through research and development support become very important to note. The results of subsequent research showed a positive and significant influence between human resource competencies on MSME innovation. Improving the quality of human resources is needed, especially in human resource competencies such as knowledge, skills and ability, and attitude in entrepreneurship. Human resource development must be done not only to MSMEs but also to their workers.

This study shows that there is a positive and significant influence between market orientation and human resource competence on MSME innovation.

Market orientation is essential not only for companies or organizations but also for MSMEs because, with increasing global competition and changing consumer needs, companies must organize their activities focusing on their markets to survive. The benefits of new products are essential in a highly competitive global market circle. These advantages are inseparable from the development of product innovation so that it has an edge in the market, which will then outperform the competition. One of the weak points in the growth of the micro, small and medium enterprise sectors is the lack of innovation in their products. This makes the resulting product less competitive advantage.

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