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## The Influence of Human Capital, Service Leadership on MSME Performance

Adriana Madya Marampa<sup>1</sup>, Dian Intan Tangkeallo<sup>2</sup>

<sup>1</sup> Universitas Kristen Indonesia Toraja, Toraja, Indonesia, [ana.marampa@yahoo.com](mailto:ana.marampa@yahoo.com)

<sup>2</sup> Universitas Kristen Indonesia Toraja, Toraja, Indonesia, [dian.tangkeallo@gmail.com](mailto:dian.tangkeallo@gmail.com)

\*Corresponding Author: [ana.marampa@yahoo.com](mailto:ana.marampa@yahoo.com)

**Abstract:** Micro, Small, and Medium Enterprises (MSMEs) are one of the productive businesses that are developing and have an important role in improving the economy both at the regional level and the economy of a country. This research method uses qualitative methods. The population in this research is Toraja MSMEs. The sample in this study was 144. The method of collecting data was by using a questionnaire using purposive random sampling. The research results show that there is a positive relationship between Human Capital and MSME Performance and Service Leadership on MSME Performance. The novelty in this research is by adding dimensions to servant leadership that are relevant to MSMEs, especially in Tana Toraja. In this case, the nature of the family culture experienced by workers can be considered in improving the performance of MSMEs, the nature of family will be measured by indicators of close relationships, trust and support, and communication. openness, a sense of shared ownership, healthy conflict resolution.

**Keyword:** Human Capital, Servant Leadership, MSME Performance.

### INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are one of the productive businesses that are developing and have an important role in improving the economy both at the regional level and the economy of a country. MSMEs are business units that are more numerous than large-scale industrial businesses. The problem faced by MSMEs is that many competitors sell products at cheaper prices and quality goods. With so many competitors, MSMEs are required to be able to compete. Based on this, one of the things that can be done to increase competitiveness is to improve the performance of MSMEs. With good performance, it is hoped that MSMEs will become increasingly stronger as the backbone of the economy and will play an increasingly important role in the national economy. In the context of sustainable development, MSME performance also needs to be maintained so that it remains sustainable, thus, sustainable MSME performance can have a greater impact on economic growth.

To create MSME performance, it is necessary to pay attention to the management and development of human resources as key capital to drive business. HR as capital is called human capital. Human capital in the context of MSMEs refers to the collection of skills,

knowledge, experience and capacity of individuals involved in the operation and management of MSMEs. Human Capital is one of the most important assets in the success of MSMEs because it can influence productivity, innovation and business growth. Human capital is quite an interesting asset because every company has human capital which has a direct impact on performance. This is supported by research which shows that human capital can improve the performance of MSMEs .[1] ;[2]

Apart from that, the performance of MSMEs can also be created by the ability of their leaders to guide other people. An activity or art of influencing other people to want to work together based on the ability that person has to guide other people in an effort to achieve various goals that the group wants to achieve is called leadership. To improve the performance of MSMEs, a leader is needed who has a humble attitude and is full of patience in leading. This attitude is possessed by leaders who have a servant leadership attitude. Servant leadership is a type of leadership that prioritizes public interests over personal interests based on an attitude that is full of patience and humility. [3] suggested that servant leadership shows promising signs of becoming a best practice for organizations in the future. In the context of MSME businesses, owners play an integral role in the company by being more closely involved in working relationships with their employees. Leadership has been proven to be a key element in the success of MSME businesses, however the use of inadequate and weak leadership approaches can result in business failure [4] ; [3]] MSMEs in Tana Toraja have extraordinary potential to be developed because the Tana Toraja area is a tourism area. It is known that there are as many as 1500 MSMEs in Tana Toraja based on data from the TanaToraja Cooperatives and MSMEs Service (2023). For the purposes of this research, the research object will only be the MSMEs in the restaurant sector in Tana Toraja district.

This is because TanaToraja is a tourism area that attracts a lot of attention from local and foreign tourists and one of the things that attracts tourists when visiting the area is tasting the typical regional food. Restaurants in Tana Toraja are required to be able to compete with restaurants and cafes around the Tana Toraja area both in improving the quality of menus and services provided in order to improve the performance of MSMEs.

Good performance in all sectors, including finance, production, distribution and marketing, is an absolute requirement for MSMEs to continue to survive. According to Aribawa (2016:2) MSME performance is the result of work achieved by an individual and can be completed with that individual's tasks within the MSME in a certain period, and will be linked to the value measure or standard of the MSME where the individual works.

The concept of human resources originates from the field of economics and was put forward by Gary Becker (1964). Human capital is assumed to be an important element in the theory of economic growth which emphasizes knowledge as an important source for increasing returns to scale and as a result can create long-term growth. Human capital is a combination of expertise, competence, skills and professional knowledge of a company's employees. [3]

Proponents of human capital theory assume that the value of an individual's learning capacity is the same as that of other resources.[4] Human capital is defined as the accumulation of competencies, knowledge, and skills to carry out work that can produce economic value. [5] Human capital has emerged as a theoretical lens that is greatly utilized by scholars to better understand entrepreneurship. [6] . [7] says that human capital as an individual asset is formed by a combination of ability, awareness, education, knowledge, skills and intangible resources owned by citizens to achieve economic prosperity, as well as individual and societal welfare. The importance of human capital is first, to find and create entrepreneurial opportunities.

Second, human capital helps in the exploitation of opportunities, defining the use of available resources, and thus the entire process of starting a new venture. Third, human resources help accumulate new knowledge and achieve competitive advantage [8] shows that servant leadership is possessed by leaders who are honest, prioritize the needs of followers, promote assistance in the larger community and have technical skills in the workplace. necessary to provide meaningful assistance to followers. Servant leadership is a holistic leadership approach that involves followers in various dimensions (for example relational, ethical, emotional, spiritual), so that followers can be empowered to grow into who they are [9]. According to [10] [13] the 6 characteristics of servant leaders are: (a) voluntary, trying to work with a willing heart and abandoning one's rights and trying to serve others; (b) authentic, a leader must be honest and transparent; (c) Covenantal Relationship, the leader accepts and treats all people equally; (d) The morality of a leader must have high moral values so that his followers can follow him; (e) Transcendental Spirituality, a leader must have firm faith; (f) Transforming influence, a leader must be able to transmit good things or someone must have an influence in the organization. MSME performance.

Good performance in all sectors, including finance, production, distribution and marketing, is an absolute requirement for MSMEs to continue to survive. MSME performance is the result of work achieved by an individual and can be completed with that individual's tasks within the MSME in a certain period, and will be linked to the value measure or standard of the MSME where the individual works.

Servant leadership was first created in 1970 (Spears, 1996).[10] say that servant leaders develop and reward employees so that they are well positioned to achieve organizational goals and realize their individual goals. [11] shows that servant leadership is possessed by leaders who are honest, prioritize the needs of followers, promote assistance in the larger community and have technical skills in the workplace. necessary to provide meaningful assistance to followers.

Servant leadership is a holistic leadership approach that involves followers in various dimensions (for example relational, ethical, emotional, spiritual), so that followers can be empowered to grow into who they are [10]. According to [11] 6 characteristics of servant leaders are: (a) voluntary, trying to work with a willing heart and abandoning one's rights and trying to serve others; (b) authentic, a leader must be honest and transparent; (c) Covenantal Relationship, the leader accepts and treats all people equally; (d) The morality of a leader must have high moral values so that his followers can follow him; (e) Transcendental Spirituality, a leader must have firm faith; (f) Transforming influence, a leader must be able to transmit good things or someone must have an influence in the organization.

## **METHOD**

This research was conducted on MSMEs in Tana Toraja. There were 144 MSMEs studied. The research results show that human capital influences organizational performance and servant leadership influences organizational performance. The results of this research show the need for human capital in improving the performance of MSMEs, and the importance of leadership in improving the performance of MSMEs. The novelty of this research is adding dimensions to servant leadership that are relevant to MSMEs, especially in Tana Toraja. It cannot be denied that when hiring an employee, they sometimes look for a family they can employ. In this case, the nature of the family culture experienced by workers can be considered in improving the performance of MSMEs, the nature of the family will be measured by indicators of close relationships, trust and support, open communication, a sense of shared ownership, healthy conflict resolution This research uses quantitative research methodology. The method for collecting data uses a questionnaire. The method for

distributing the questionnaire is using simple random sampling. The population in this study were MSME actors in Tana Toraja. The sample in this study was 144 MSME actors.

**Hypothesis**

[12] The research results show that Human Capital influences the performance of MSMEs. [13] shows that there is a relationship between Human Capital and MSME Performance. (14) The research results also show that there is a relationship between Human Capital and MSME Performance

Based on the hypothesis above, the first hypothesis in this research is: H1: There is a relationship between Human Capital and MSME Performance (15) Shows that servant leadership influences the performance of MSMEs. Likewise, research results (16) show that servant leadership influences the performance of MSMEs.

Based on the literature review above, the second hypothesis in this research is H1: There is a relationship between servant leadership and the performance of MSME

**RESULTS AND DISCUSSION**

**Analysis Results via SEM-PLS**

Presentation of analysis output using SEM-PLS can be done in several parts, namely measurement model analysis, structure model and hypothesis.

Outer Model Analysis (Measurement Model)

Convergent validity has the function of testing the validity of the indicators used to measure variables. An indicator is said to be valid if the outer loading value is above 0.70 . Outer loading or loading factor values can still be tolerated up to 0.50, while loading factor values below 0.50 can be dropped or eliminated as measurement indicators (Field, 2013) as in the following table:

**Table 1. Outer loading**

	Loading Factor
HCKet1	0.696
HCKet2	0.743
HCKom1	0.857
HCKom2	0.840
HCKom3	0.809
HCKom4	0.783
HCKom5	0.550
HCKom6	0.798
HCPeg1	0.794
HCPeg2	0.800
HCPeg3	0.766
HCPel1	0.634
HCPel2	0.604
HCPen1	0.629
HCPen2	0.697
HCPen3	0.656
HCPengal1	0.721
HCPengal2	0.748
HCPengal3	0.721
KM1	0.864
KM2	0.904
KM3	0.874
KM4	0.798
KM5	0.876
KM6	0.888

KM7	0.867
Kinerja1	0.960
Kinerja2	0.961
Kinerja3	0.955

Source: Primary data processed, 2022

The table above shows that all indicators have a loading factor > 0.5 except for the KM8, KM9, and Performance4 indicators because they have a loading value < 0.5. Next, the convergent validity value can be seen based on the Average variance extracted (AVE) value where each construct must be above > 0.5. According to Fornell and Larcker (1981) explain that the AVE value is allowed to be <0.5 as long as the Composite Reliability value is >0.6. However, the AVE value in this study was > 0.5 and CR > 0.6 as in table 2

**Table 2. Average Variance Extracted (AVE)**

	Composite Reliability	Average Variance Extracted (AVE)
Human Capital	0.956	0.538
MSME Performance	0.972	0.920
Servant Leadership	0.955	0.753

Source: Primary data processed, 2022

### Discriminant Validity

Discriminant validity is used to test that each concept of each latent variable is different from other variables. A model has good discriminant validity if the correlation value of the construct with the measurement items is greater than the correlation value with other constructs (Ghozali and Latan, 2015). This research uses HTMT to test discriminant validity. Heterotrait Monotrait Ratio of Correlation (HTMT) which was tested using HTMT with a criterion of less than 0.90. The results of the HTMT test are as follows The next analysis to ensure there are no reliability measurement problems is by looking at the Cronbach alpha value. This is aimed at evaluating the outer model or unidimensionality test. The cut off value used in this measurement is Cronbach alpha > 0.5 as in output table 3 below.

**Table 3. Cronbach Alpha**

	Cronbach's Alpha
Human Capital	0.951
MSME Performance	0.956
Servant Leadership	0.945

Source: Primary data processed, 2022

### Analysis Model Formatif

Collinearity Test according to Ghozali and Latan (2015) for formative constructs is absolutely necessary to calculate the Variance Inflation Factor (VIF). The cut-off value for the VIF value must be <10. The results of the collinearity test are as in table 4 below.

**Table 4. Kolinieritas Test**

	VIF
HCKet1	4.549
HCKet2	5.624
HCKom2	5.161
HCKom3	3.792
HCKom4	3.976
HCKom5	1.595
HCKom6	3.250
HC Peg1	4.638
HC Peg2	4.915
HC Peg3	3.240

HCPe11	6.656
HCPe12	5.304
HCPen1	5.242
HCPen2	6.540
HCPen3	5.113
HCPengal1	3.584
HCPengal2	5.905
HCPengal3	6.003
KM1	3.045
KM2	6.840
KM3	5.910
KM4	2.310
KM5	4.631
KM6	7.221
KM7	4.865
Performance1	5.754
Perforamnce 2	6.042
Performance 3	5.293
HCKom1	4.519

Source: Primary data processed, 2022

**Structural Model Analysis (Inner model)**

Inner model or model structure analysis is used to ensure that the model is accurate or robust. The inner model value can be seen through the R square, F Square values which are then processed to see their predictive relevance

**Table 5. R Square Value**

	R Square
MSME Performance	0.606

Source: Primary data processed, 2022

R square is indicated as low if < 0.5 and high if > 0.5 (Hair et al., 2017). This research has a fairly high R value.

**Tabel 6. Square**

	MSME Performance UMKM
Human Capital	0.135
Servant Leadership	0.106
Rata-rata	0.121

F-Square is the change in R-Square when exogenous variables are removed from the model. The cut off F square is the effect size ( $\geq 0.02$  small;  $\geq 0.15$  medium;  $\geq 0.35$  large) (Cohen, 1988). This research has a small F square value. Below, testing the inner model can be done by looking at the Q2 value (predictive relevance).

**Tabel 7.**

	SSO	SSE	Q <sup>2</sup> (=1-SSE/SSO)
Human Capital	2717.000	2717.000	
MSME Performance	429.000	193.341	0.549
Servant Leadership	1001.000	1001.000	

Prediction relevance (Q square) or known as Stone-Geisser's. This test was carried out to determine the prediction capability using the blindfolding procedure. If the values obtained are 0.02 (small), 0.15 (medium) and 0.35 (large) .

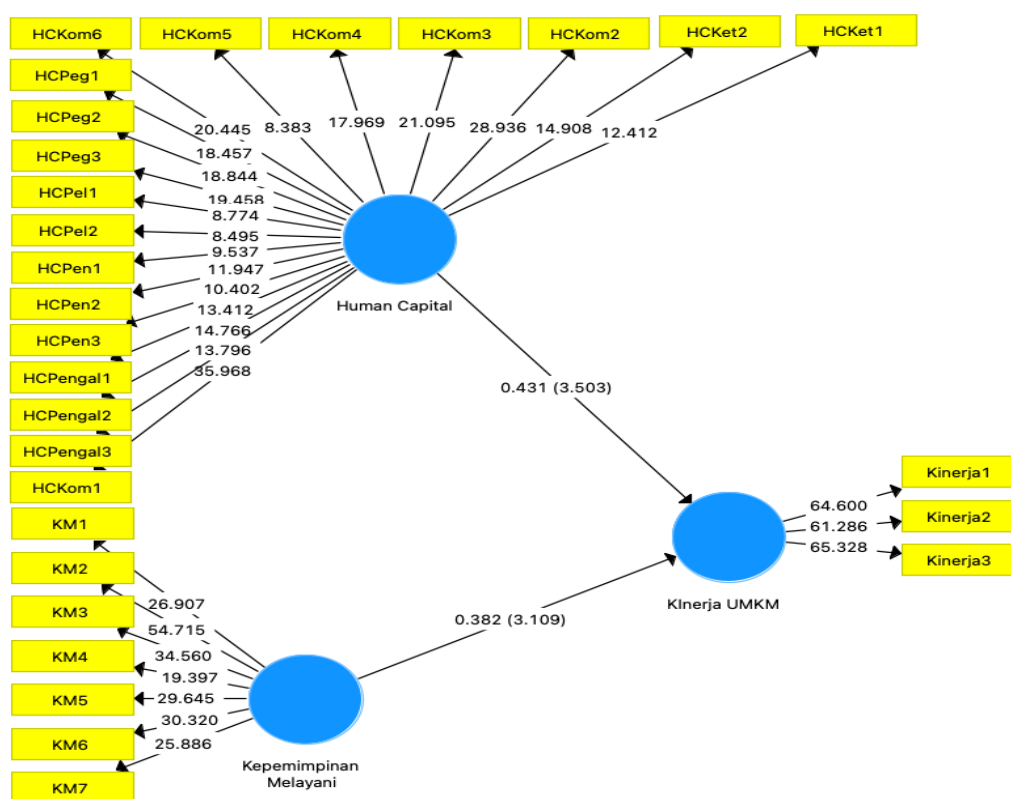


**Tabel 8**

	Value	Cut off Value	Result
R Square	0.606	0 - 1	Big
F Square	0.121	≥0,02 kecil; ≥0,15 sedang; ≥ 0,35 besar	Small
Q Square	0.549	≥0,02 kecil; ≥0,15 sedang; ≥ 0,35 besar	Small
Kesimpulan	Mayoritas Indikator menunjukkan bahwa nilai kesesuaian model yang diteliti adalah Besar.		Small

Source: Primary data processed, 2022

Hypothesis Analysis If the entire series of outer and inner model analyzes are no longer problematic then the next stage is hypothesis analysis or the influence of the independent variable on the dependent variable. This research model consists of direct and mediation models as in the following figure.



**Tabel 9. Ringkasan Hipotesis**

	Original Sample (O)	T Statistics ( O/STDEV )	P Values
Human Capital -> MSME Performance	0.431	3.503	0.001
Servant Leadership-> MSME Performance	0.382	3.109	0.002

Source: Primary data processed, 2022

The test results are said to be significant if the p value <0.05. Then, if the effect is significant, to see the magnitude of the effect, you can look at the questionnaire score. Positive or negative values do not have big or small values, but rather indicate the direction of the influence, namely positive or negative. Therefore, based on the test results, it is known that all hypotheses can be accepted

The novelty of this research is adding dimensions to servant leadership that are relevant to MSMEs, especially in Tana Toraja. It cannot be denied that when hiring an employee, they

sometimes look for a family they can employ. In this case, the nature of the family culture experienced by workers can be considered in improving the performance of MSMEs, the nature of the family will be measured by indicators of close relationships, trust and support, open communication, a sense of shared ownership, healthy conflict resolution

## CONCLUSION

Based on the results of data analysis, it can be concluded that

### 1. Human Capital is very important in developing MSME businesses

The dimension used in this research is Competence. The competencies of each MSME actor must be developed properly in order to improve the performance of MSMEs. Education also needs to be considered in improving the performance of MSMEs. If the education of all MSME actors is good, it will be able to improve the performance of MSMEs. The experience of an MSME actor is certainly very influential in improving the performance of MSMEs. MSME actors who have experience in business are of course very different from MSME actors who have no experience. The experience here is meant for example in dealing with customers, experience in dealing with competitors.

To improve the performance of MSMEs, of course there is also a need for training for MSME players. The training referred to here is in marketing their products, training in managing products so that they can produce quality products.

### 2. Servant Leadership influences MSME Performance, MSME performance means increasing sales, increasing MSME income. The dimensions used in servant leadership are close relationships, trust, support, open communication, a sense of shared ownership, resolution of serious confl.

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