The Role Entrepreneur Competence as Mediation Human Capital on Business Performance

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Abstract: Human capital and entrepreneur competence are two important factors needed by Small and Medium Enterprises (SMEs) to face environmental challenges in a dynamic and competitive business world. achieve business performance. This study aims to examine the effect of human capital and entrepreneur competence on business performance. The research sample of 108 culinary SMEs. Data was collected through a survey by distributing questionnaires. Data analysis techniques using structural equation modeling with the Partial Least Square (PLS) approach. The results showed that human capital had a significant positive effect on entrepreneur competence, human capital had a significant effect on business performance and entrepreneur competence as mediator had a significant positive effect on business performance.

Keywords: Human Capital, Entrepreneur Competence, Business Performance.

I. INTRODUCTION

Small and Medium Enterprises (SMEs) are the businesses that are in demand for pioneered by most entrepreneurs in Indonesia. SMEs are considered easy to start by new entrepreneurs because it doesn't require a lot of capital big. UKM in Indonesia itself is also proven to support growth The country's economy, so that SMEs are expected to continue to improve from number and success rate. Ahmad & Pi-Sheen (2009) easy, SMEs that issue common problems their level of survival. Many related factors can influence the success entrepreneurship in running a business. Some of these factors among them is the role of government in creating existing environments conducive to small business, social and cultural values, infrastructure. Another factor which is considered to affect Entrepreneur Success comes from oneself the business people themselves include social capital and human capital owned by business people as well as Entrepreneur competence.

Palopo City is known as a city that is friendly to SMEs. In Palopo City, the role of the government is very large in discussing an environment conducive to the development and presence of SMEs by providing training, SME exhibits about trimming business licenses in the hope that SMEs can continue to develop in achieving success and maintaining for a long time. Business success and failure can also be done by the owner as a superior business manager in SMEs. Business people are considered to have an important role in this success process because there are businesses that represent the brain.

The several factors that can influence Entrepreneur success, researchers are interested in three factors that originate from the business actors themselves. These factors are human capital and entrepreneur competence. High human capital is considered to be able to support businesses to achieve success. The knowledge gained from education and experience as an entrepreneur owned by business actors is expected to be useful and used in increasing business productivity in improving business performance. Business actors must be competent in managing their business to achieve success entrepreneur. High entrepreneur competence means that the businessmen have good competence to run efficient business in improving performance that can support his efforts to achieve success. Human capital and Entrepreneur competence continue to increase, then entrepreneur success can continue to increase keep going for a long time.

Corporate human resources are important for sustainable competitive advantage sources (Hitt et al., 2001). It helps individuals develop knowledge, skills and competencies to increase their human capital. People are more willing to do their jobs and this is generally valuable to organizations (Cunningham, 2002). Resource-based theorists argue that company performance is a function of how well a manager builds his organization around valuable, rare, and unmatched resources (Barney, 1991). Human capital resources meet these criteria, so companies must maintain and protect resources that have these characteristics because they can improve organizational performance (Crook, Ketchen, Combs, and Todd, 2008).

Asmawiyah (2018) human resources in the company should be managed professionally in order to create a balance between the needs of employees with the demands and capabilities of the organization, this balance is the company's main key to developing productively. Therefore, one of the main areas of concern for companies is investment in human resources. Human capital investment is basically the process of developing employees by giving them education or training. Education usually includes formal education to pay university and college employees. Education is used to develop employee skills in areas such as finance, accounting, or production.
However, training is carried out by supervisors who work in the workplace with workers by teaching them specific functions and giving them the knowledge to complete certain tasks more effectively and efficiently. Stockely (2003) human capital is the term Human capital is the recognition that people in organizations and businesses are important and valuable assets that contribute to development and growth, in a manner similar to assets such as machinery and money. People's collective attitudes, skills and abilities contribute to the organization's performance and productivity. All costs for training, development, health, and support are investments, not just costs.

Why is it important to invest in human resources? In the most basic terms, all businesses must have the capital to maintain their company. Bank accounts, shares, assets, etc. are considered as capital but among them, all of them are also human resources. Humans use all of the capital mentioned above and run company operations so the importance of human capital investment can be seen from these factors that companies that have more trained and skilled employees can perform better and produce more results than from companies that have human capital less compared. In other words, human capital is a major role player in a company's performance.

The association of human capital with performance was founded on two theoretical foundations. The first is based on the view of resources and the second is a motivational theory of expectations that represents three elements: (1) the value associated with gifts, (2) the belief that employees will be valued after reaching a certain level of performance and (3) the belief that employees can achieve a certain level of performance in fact. The effect of an individual on human capital investment can be evaluated as an increase in individual returns. From the perspective of the organization, an increase in returns from the market and from one country, developments in the economy.

This study refers to research that tries to find the relationship between human capital and organizational performance through competence. The question is whether education, training and skills affect company performance in any way. Concentration is on consecutive work training that takes place within the company and is usually valued by employers. Companies that encourage high-level skills and abilities tend to invest in human capital which can help better understand the relationship between human capital and performance. An attractive potential vision, a set of priorities held with high quality training and timely support must be carried out by companies with high levels of key performance.

Organizations operate with the help of individuals who contribute to their own success and productivity. Employees spend most of their day in the office and strive to achieve the goals and objectives of the organization. Employees must be motivated from time to time so that they develop a sense of attachment to their organization and also give their best. Marimuthu et al (2009), Human capital means an important aspect in reducing company ownership and employees to increase productivity and maintain competitive benefits. To continue competitiveness in organizations, human capital a key additional output.

Human capital is related to procedures that include training, education, and other professional initiatives so that the level of knowledge, skills, abilities, and social value of employees increases. This will relate to employee satisfaction and performance and ultimately company performance. Marimuthu et al (2009) define that human capital as an important key for organizations especially for the continuous improvement of employees in terms of knowledge, skills, and abilities. Individuals and organizations are the two main components of human resources. According to Garavan et al., (2001) human capital has four characteristics namely, flexibility and adaptability, improvement of individual competencies, development of organizational competencies, and individual work abilities. Every employee in his job gains a number of skills through experience, exposure, training, and so on which further increases his productivity which ultimately benefits the organization.

The knowledge and expertise in which employees develop in time to further enhance organizational productivity refer to human resources. Each employee tries his level to sharpen his skills while working with the organization. Human capital defined as the stock of skills, knowledge, and expertise of employees who subsequently play an integral role in increasing organizational productivity. Each organization invests part of its money and resources in training its employees. Employees in turn work hard, increase their existing knowledge, and contribute in their own ways to increase the productivity of their organizations. The trend has increased potential that requires qualified staff.

II. LITERATURE REVIEW

- **Human Capital**

One of the factors considered can influence the successful entrepreneurship is human capital. Unger et al. (2011) definition human capital as individual expertise and knowledge Obtained through investment in school education, training, and various kinds of experiences. A human capital investment like education taken and experience must be issued will lead to knowledge and skills if not. Nakhata (2007) understands human capital as knowledge and the expertise needed to improve performance and Successes that are accumulated by individuals during success include years of formal education and years of entrepreneur experience.

According to Marshall & Samal (2006), formal education becomes An important component in human capital that can help to gather explicit knowledge and expertise that is beneficial to entrepreneurs. A higher level of education hopes to become an entrepreneur (successful). Cor and Sundaramurthy (2008) state that human capital considers the experience now and the initial experience of
an entrepreneur allows them about the work is done. Based on the above theory explanation, it can be concluded that human capital is knowledge and individual expertise needed and obtained through investment in education and experience that is useful to improve performance and success.

Several studies that discuss the role of human capital entrepreneurs find businesses that start from scratch asking business owners and the resources they have (Unger et al., 2011). Education, knowledge, and experience of the owner will be bigger with companies with larger organizations (Baum and Locke, 2004). They found that level of education could be increase productivity from entrepreneurs and experience as entrepreneurs can increase opportunities and choice of opportunities who participated in business continuity.

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Human capital is defined as units of the level of knowledge, skills, and abilities that are used to produce a series of results given (Hitt et al., 2001). Human capital refers to the collective knowledge, skills, and abilities of individuals who work in an organization (Snell and Dean, 1992). From an organizational perspective, human capital is the result of a company’s deliberate investment through selective recruitment of employees with high general skills (or formal education) plus company investment in more specific skills training through “in-house” training activities. And Snell, 1999, 2002; Skaggs and Youndt, 2004). Companies can thus increase their human resource levels through human resource management practices related to employee selection and training.

The human element has a potential effect on organizational success, in fact, now organizations that want to survive must consider human capital as a driver of competitive advantage in business. The ability of human capital to apply knowledge and knowledge to their work that makes companies have an advantage in competing. Human capital has been defined as key elements in increasing company and employee assets to increase productivity and maintain a competitive advantage (Schultz, 1993). To maintain competitiveness in organizations, human capital becomes instruments used to increase productivity. Human capital refers to processes related to training, education, and other professional initiatives to increase the level of knowledge, skills, abilities, values, and social assets of an employee which will lead to employee satisfaction and performance, and ultimately on business performance. The indicators used in this study are knowledge, skills, experience, and ability (Hashima, Osmanb, & Alhabschic, 2015)

Based on some of the definitions above, it can be concluded that human capital is the integration of knowledge, learning, experience, core competencies, skills, abilities that must be possessed by every employee in an organization or company. Thus, the most skilled human capital theory focuses on investment in certain types of education and the return on investment of intangible assets in human capital.

- **Entrepreneur Competence**

  Entrepreneur competence can be defined briefly as competencies possessed by entrepreneurs. Bird (1995) defines entrepreneur competence as such fundamental characteristics general and special knowledge, motivation, traits, self-image, and expertise that results in the creation of a new endeavor, continuity business, and/or business growth. Some competencies are owned by an entrepreneur can be innate and there are also competencies obtained through the process of learning, training, and individual development.

  Man, Lau & Chan (2002) define entrepreneur competence as the total ability of an entrepreneur to carry out an entrepreneur role successfully. Entrepreneurship is a job that is required to always adapt to a dynamic environment that is always changing based on technology trends and progress. So entrepreneurs must competent in interacting in that environment. Based on the above definitions can be concluded that entrepreneur competence is a combination of characteristics and abilities owned by entrepreneurs where entrepreneurs can carry out their role towards success.

  Competence in relation to the performance can be classified into two groups: the threshold competencies are the minimum criteria that must be met office holders in order to work effectively and differentiating competencies are the criteria that distinguish people who achieve superior performance and individuals with individuals who produce an average performance (Ruky, 2006). Competency is a basic characteristic of a person consisting of knowledge,
skills, and attitudes that are related to one's performance (Spenser & Spenser (1993). The competence aspect starts to gain a strong position as a factor that must be considered by the company to achieve effective performance. The limitation is depended on the type of competence of each organization in accordance with needs and interests in performance achievement (Gupta, 2012).

The concept covers the element of responsibility, competence, skill, interdependence, education, training, and learning. Boyatzis (2008) argued that individual competence is one of the performance predictor that is effective, which then explain individual competence shown by vision, value, and philosophy in their work, knowledge, and skill, as well their career life and interests. Wood, Wallace, and Zeffane (2001), Robbins (2007) conceive competence as a combination of talent (aptitude) and competence (ability). The competences, as a measurement tool, identify behavioral factors relevant to performance in the job and viewed as how the job is carried out. Hence, many organizations use the competency models as a part of their employee development program to appraise behavioral performance indicators together with objectives (Ozcelik and Ferman, in Zaim et al., 2013 ). The indicators used in this study are strategic competence, commitment competence, opportunity competence, and conceptual competence, Ahmad (2007).

- Business Performance

Business performance is the achievement (achievement) produced by the impact of various roles (Ferdinand, 2004). Performance measurement provides feedback (feedback) that helps managers to solve problems and helps solve them. The role of Performance measurement itself is generally to monitor, as a communication tool, and as a basis for reward systems (Ostrenga & Harwood, 1992). Bonoma and Clark (1998), say that Measurement of business performance is a related matter with satisfaction (satisfaction) and hope (hope).

Performance is a picture of the results that have been achieved in carrying out activities that have been previously planned. According to Snell and Kenneth (2002) performance has three interrelated elements including the skills, efforts, and nature of external conditions. Skills are likened such as raw materials brought to work. The effort described as motivation shown in completing work. External conditions that support productivity also affect performance. Despite having a good level of skill, a good effort however not supported by good external conditions, the performance is not it will be good.

Performance is the work of individuals and companies in order to achieve goals, namely in the form of profitability or profitability and well-being (Boston and Dess 1996). Business Performance in question can be interpreted as a picture of the results of achieving business activities in realizing the goals, objectives, vision, and mission of the organization outlined through strategic planning (Moheeriono 2009).

In the research of Chai and Lisa (2016) Performance is determined by entrepreneur strategies that are out of orientation entrepreneurship, added value in entrepreneurship and the process of creating knowledge. According to Jauch and Glueck (1998) business performance can be measured through sales level, profit rate, return on capital, and market share. Business performance can also be measured based on the existence of sustainability and business growth, the addition of the workforce, increased profits, and income (Praag 2005). Performance can be measured by revenue, sales, output, productivity, costs, service acceptance, and customer reaction (Armstrong 2004). From some of the similarities of the literature, it can be concluded that business performance SMEs are measured by revenue, profits, and sales volume (Kuratko and Hodgers 2007).

Business performance is defined as “economic outcomes resulting from interactions between attributes, actions, and organizational environments” (Combs et al., 2005). Lynn and Cox (1997) observed that improvement in individual, group or organizational performance cannot occur unless there are several ways to get performance feedback. Feedback is the result of work that is communicated to employees, workgroups, or companies. For the organization or performance measurement of work, units are the relationship between decisions and organizational goals. Before you can improve, you must be able to measure it, which implies that what you want to improve can somehow be quantified. In addition, it is also said that performance improvement can be generated only by measuring it.

One key to the success of a company depends on the performance of human capital that contributes directly or indirectly to the company, which includes external stakeholders and internal goals (employees) owned by the company. Gie (1995) believes performance is how far a task or job is carried out by a person or organization. Performance is measured based on how much a person or organization contributes. Irawan (2000) states that performance is work that is concrete, observable, and measurable. Performance is the result of work achieved by an employee in carrying out tasks based on the specified size and time.

According Mangkunegara (2000) performance is commensurate with actual performance; this is the result of the quality and quantity of work an employee has done in accordance with his responsibilities. Rue and Byars (1980) define performance as the level of achievement or “level of achievement”. Performance shows the level of achievement of organizational goals. Through performance, the level of achievement can be measured and known. The indicators used in this study are sales growth, profit growth, market growth, and asset growth, (covin dan slevin, 1991)
III. METHODOLOGY

The research approach uses research quantitatively by doing causal research to examine the linkage of human capital to business performance through entrepreneur competence. All research variables are measured using a five-point Likert scale with a scale of 1 = strongly disagree and 5 = strongly agree. The study was conducted on culinary small and medium businesses in Palopo City, South Sulawesi. Sample size recommended based on Ghozali's opinion & Latan (2015) in the use of partial methods least square (PLS) of at least 30-100 samples, then the sample of research as many as 108 businessmen. Data collection techniques through questionnaires. The relationship between independent and dependent variables in this study is explained in the following framework:

![Fig 1: Conceptual Framework](image)

IV. RESULT AND DISCUSSION

Analysis of the equation model is done with partial least square (PLS) approach through SmartPLS software. PLS is used for confirm the theory and explain the presence or absence of relationships between latent variables. PLS includes a model measurement and structural models. Analysis of the measurement model is carried out through three stages. There are three criteria used in conducting analysis techniques use SmartPLS to measure the outer model, which is discriminant the validity, convergent validity, and composite reliability.

- **Validity Test**
  
  The output results show that the loading factor for each construct above the required 0.50 to 0.60 is considered sufficient (Chin, 1998). The complete results of outer loading can be seen in the following table:

<table>
<thead>
<tr>
<th>Business Performance</th>
<th>Entrepreneur Competence</th>
<th>Human Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>HC1</td>
<td></td>
<td>0,819</td>
</tr>
<tr>
<td>HC2</td>
<td></td>
<td>0,662</td>
</tr>
<tr>
<td>HC3</td>
<td></td>
<td>0,927</td>
</tr>
<tr>
<td>HC4</td>
<td></td>
<td>0,911</td>
</tr>
<tr>
<td>KU1</td>
<td>0,897</td>
<td></td>
</tr>
<tr>
<td>KU2</td>
<td>0,867</td>
<td></td>
</tr>
<tr>
<td>KU3</td>
<td>0,866</td>
<td></td>
</tr>
<tr>
<td>KU4</td>
<td>0,911</td>
<td></td>
</tr>
<tr>
<td>KW1</td>
<td></td>
<td>0,893</td>
</tr>
<tr>
<td>KW2</td>
<td></td>
<td>0,943</td>
</tr>
<tr>
<td>KW3</td>
<td></td>
<td>0,920</td>
</tr>
<tr>
<td>KW4</td>
<td></td>
<td>0,960</td>
</tr>
</tbody>
</table>

Table 1: Outer Loading

From the table above we can get all the indicators used to measure all the loading factor variables above 0.50 Test the validity of the indicator using the correlation between the indicator score and the construct score. The results show the smallest value is 0.662, which is an indicator of HC2 even though it is still above requirement of 0.5. Thus the indicators used in this study are valid.

Measurement models with indicator replicas are assessed based on cross-loading measurements with constructs. If the correlation of constructs with measurement items is greater than the size of other constructs, then this shows that the construct is latent predict the size of their block better than the size of the other block. The way to do this is by comparing the square
root of the average variance extracted (AVE) values of each construct with the correlation between constructs and other constructs in the model.

<table>
<thead>
<tr>
<th></th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Performance</td>
<td>0.784</td>
</tr>
<tr>
<td>Entrepreneur Competence</td>
<td>0.864</td>
</tr>
<tr>
<td>Human Capital</td>
<td>0.700</td>
</tr>
</tbody>
</table>

Table 2: Average Variance Extracted (AVE)

Assessing the validity of the construct by looking at the AVE value, a good model is required if the AVE of each construct is greater than 0.50. AVE output results indicate that the AVE value is good for the construct of Entrepreneurship Orientation, business strategy and business performance has an AVE value greater than 0.50.

> Reliability Test

The construct reliability test is measured by the composite reliability criteria of the indicator block that measures the construct. The construct is declared reliable if the composite reliability value is above 0.70. The following output results:

<table>
<thead>
<tr>
<th></th>
<th>Composite Reliability</th>
<th>Cronbachs Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Performance</td>
<td>0.935767</td>
<td>0.908861</td>
</tr>
<tr>
<td>Entrepreneurial Competence</td>
<td>0.962259</td>
<td>0.947801</td>
</tr>
<tr>
<td>Human Capital</td>
<td>0.902074</td>
<td>0.853901</td>
</tr>
</tbody>
</table>

Table 3: Composite Reliability and Cronbachs Alpha

The composite output reliability results for the human capital construct (0.935), entrepreneur competence (0.962), and business performance (0.902) are all above 0.70. So it can be concluded that the construct has good reliability.

> Structural Model Testing (Inner Model)

Testing of structural models is done by looking at the R-Square value which is a Goodness-fit test of the model. The influence model of human capital on entrepreneur competence gives an R Square value of 0.372 which can be interpreted that the constructability variability of entrepreneur competence can be explained by the human capital variability of 37.2% while 62.8% is explained by other variables outside the research.

The effect of human capital and entrepreneur competence on business performance gives an R Square value of 0.511 which can be interpreted that the constructability variability of business performance can be explained by the human capital and entrepreneur competence variability of 51.1% while 48.9% is explained by other variables outside the study.

<table>
<thead>
<tr>
<th></th>
<th>RSquare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Performance</td>
<td>0.511</td>
</tr>
<tr>
<td>Entrepreneurial Competence</td>
<td>0.372</td>
</tr>
<tr>
<td>Human Capital</td>
<td></td>
</tr>
</tbody>
</table>

Table 4: R Square

The second test is to see the significance of the influence of human capital on entrepreneur competence, entrepreneur competence on business performance, and human capital on business performance, by looking at the value of the parameter coefficient and the t statistical significance.

The relationship or influence of human capital on entrepreneur competence and human capital on business performance is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Original Sample (O)</th>
<th>Sample Mean (M)</th>
<th>Standard Deviation (STDEV)</th>
<th>T Statistics ([O/STERR])</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Competence - &gt; Business Performance</td>
<td>0,169</td>
<td>0,169</td>
<td>0,084</td>
<td>1,999</td>
</tr>
<tr>
<td>Human Capital - &gt; Business Performance</td>
<td>0,702</td>
<td>0,707</td>
<td>0,062</td>
<td>11,212</td>
</tr>
<tr>
<td>Human Capital - &gt; Entrepreneurial Competence</td>
<td>0,610</td>
<td>0,608</td>
<td>0,072</td>
<td>8,385</td>
</tr>
</tbody>
</table>

Table 5: Results For Inner Weights
From the table above it appears that there is a positive and significant effect seen from the T statistic of 8.385> 1.96 between human capital towards entrepreneur competence, there is a positive and significant effect between entrepreneur competence on business performance seen from T statistic 1.999> from 1.96 and positive and significant influence is seen from the T statistic11.212 > of 1.96 between human capital on business performance.

**Path Analysis**

Based on the results of the above analysis, it can be calculated the amount of direct and indirect influence from Entrepreneurship Orientation to Business Performance. The results of these calculations appear as follows:

Direct influence (human capital to entrepreneur competence) = 0.599, indirect effect (human capital to business performance through entrepreneur competence) = 0.610 x 0, 170 = 0.104 and total effect = 0.703

Based on the discussion above, high human capital is considered to be able to increase business performance. This is supported by research conducted by Nakhta (2007) which proves that human capital has a significant positive effect on entrepreneur success. Another research by Moog (2002) conducted a research of 1,000 entrepreneurs in Germany and found that businesses owned by businesses with higher human capital resulted in higher sales and income growth than those who had more human capital lower.

Other research conducted by Man (2001) shows that entrepreneur competence has an influence on performance in the small and medium service sector in Hong Kong. Mukhtar (2018) that competence has a significant positive effect on performance. The coefficient of positive influence implies that good competence will improve the work result or performance. The meaning that the competence of intellectual, appearance, exploration and spiritual give significant influence to the improvement of employee performance. Nakhta (2007) states that Human Capital and entrepreneur competence influence entrepreneur success to improve business performance, and by Majola (2017) which states that entrepreneur capital consisting of financial capital, social capital and human capital has a positive effect on business performance.

**V. CONCLUSION**

Based on the results of research and discussion, then some conclusions can be drawn. First, human capital has a positive effect significant towards entrepreneur competence, meaning good human capital will improve entrepreneur competence required by SMEs culinary. Second, entrepreneur competence significant positive effect on the business performance, meaning that the better the entrepreneur competencies they have will affect the level of business performance. Third, entrepreneur competence as a mediating variable also has a positive effect significant between human capital on business performance, meaning high entrepreneur competence owned by the actors SMEs will improve business performance.

**REFERENCES**


