THE ROLE OF HUMAN RESOURCES COMPETENCY ON SMEs PERFORMANCE IN TIMOR–LESTE

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ABSTRACT
Small and medium enterprises (SMEs) play a large role in the economic development of each country. This can be seen from their contribution to the gross domestic product (GDP). Furthermore, the existence of impacts on the development of a number of countries, particularly small and developing countries. This study was conducted with the aim of exploring the influence of skills, knowledge, and abilities on the performance of SMEs with a quantitative approach. The population in this study was SMEs domiciled in Dili, Timor-Leste, and the sampling method was simple random sampling. The data collection was conducted by distributing questionnaires to 250 SMEs and their owners and managers. The measurement scale used was a Likert scale. SPSS version 23 was used to analyze the data, which included multiple regression analysis. The results of the F test (simultaneous) analysis show that the skills (X1), knowledge (X2), and ability (X3) have positive and significant effects on SMEs’ performance (Y). While t-test (partial) results show skills are positive but do not significantly influence SMEs’ performance, knowledge and abilities show positive and significant effects on SMEs’ performance.

KEYWORDS
Human Resources Competency, Performance, Role, SMEs

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INTRODUCTION

Small and medium-sized enterprises (SMEs) are businesses that play an important role in their ability to ensure economic stability (Bagwell et al., 1998) and as sources of job creation. The performance of small and medium-sized enterprises (SMEs) has a direct impact on the economic development of developed and developing countries. As a result, government assistance such as capital, capital access, infrastructure, information, marketing, licensing, regulation, and the associated training and capacity-building program are valuable in improving the performance of SMEs.

Pramashella (2017) stated that, in terms of characteristics, small and medium-sized enterprises (SMEs) have a higher survival rate than large enterprises, although most of them are small and medium-sized enterprises that operate without the use of machines and mostly rely only on human resources. As it is known, the position of HR in today’s organizations is not only a means of production but also a tool and a determining factor for the development of the activities of the organization because the higher the quality of the resources, the better the performance will be produced by HR at work.

The development of human resources skills is one of the factors that affects the performance of SMEs because each business unit is determined by how the people involved manage the business (Wahyudiati & Isroah, 2018) but limited human resources are accompanied by limited capital and technology. This is considered one of the main causes of the low competitiveness of SME products compared to large industrial products (Tambunan, 2004) and these difficulties have an impact on SME owners not being able to manage the business properly and negatively impacting business performance.

As human resources with a high level of knowledge, skills, and abilities, they are able to support the improvement of employee performance and also contribute to the performance of the company (Robbins & Judge, 2008). The results of the SMEs’ performance are visible through the return on investment (ROI) (Kotler, 1997), Balanced Score Card (BSC), (Wibowo and Utami, 2018). In addition, most companies also measure performance by sales volume, earnings over a period of time, and an increase in the number of employees (Munizu, 2010).

The performance of SMEs often faces many obstacles. Some of the causes are problems in human resources, such as knowledge, skills, and capacity (Ardiana et al. 2010), product ownership, financing, marketing, and other problems that lead SMEs to compete over large companies (Aribawa, 2016). Therefore, improving the quality of human resources is essential, and human resource development should be achieved not only for SMEs’ owners but also for their employees.

Small and medium-sized enterprises (SMEs) may also have serious problems due to things like a lack of skills, poor market access and development, a weak capital structure, poor organization and management, a small business network, and a lack of cooperation with other economic actors.

Empirical research shows that the majority of SMEs’ owners have a lack of vision and knowledge, making them short-term oriented, and efforts to improve performance tend to be more conventional due to a lack of knowledge of management, which ultimately turns out to have a negative affect on business performance (Wahyudiati & Isroah, 2018). So, it’s important for the owners of small and medium-sized businesses (SMEs) to have the skills they need to reduce these barriers, keep growing, and gain a competitive edge.

Timor-Leste is one of the countries that continues to grow, and the development of SMEs in the country has occurred quite rapidly in recent years. However, according to the results of a preliminary survey, many SMEs in Timor-Leste generally ignore the
competence of human resources (HR), such as skills, knowledge, and abilities. It seems that the main issues affecting the performance and competitiveness of SME are as assumed. Furthermore, the quality of human resource competencies, as well as the delivery of products and services, still needs to be improved. Not only that, but there has been no empirical research done on this topic in Timor-Leste. This is the main reason why researchers are doing this research: to find out how skills, knowledge, and abilities affect the performance of small and medium-sized enterprises (SMEs).

Competence is closely related to performance, both individual and organizational (corporate). According to (Armstrong (1994) and Ardiana et al. (2010), a person's success can be seen in his or her knowledge, skills, experience, and behavior to complete the task. Kaur & Bains (2013) conclude that competence is a set of experiences, knowledge, skills, and attitudes necessary for effective performance in a task or job. Purnomo and Lestari, (2010) agree with this point of view. They say that there are many ways to measure how well an organization is doing, including human resource management, which is related to human behavior and human resource competencies.

In (Zhaviery et al. 2018) the research of Hamzani (2014) confirms that the competence of human resources has a big effect on the performance of SMEs. Theo (2012) n the other hand, finds that business performance is mostly a reflection of how productive employees are.

The results of Anoraga (1997) study demonstrate that HR competence is significantly correlated with the performance of SMEs. Based on the results of the data analysis, it is also proven that competencies consisting of knowledge, skills, and abilities have a significant effect, unlike the knowledge variable. On the other hand, in this study, the researchers found that the government training program is one of the factors that has not been maximized and really needs extra attention.

While the research by Lowe et al (2010) examined the variables, skills, knowledge, and behavior of the hostager (Mulyaningsih, 2008) on the company's performance, which was shown quantitatively (financially) and qualitatively (not financially), Sirupolis (in Mulyaningsih, 2008) found a positive relationship. The results of this study indicate that business managers have a good understanding of the environment when doing business, which in turn can increase the average income of SMEs. Ziana Asyifa et al. (2010) found the same results in their survey, but researchers expect SME operators to pay more attention to service and quality.

Munizu (2010) research shows that internal factors like the competence of human resources (owners, managers, and employees) have a significant and positive effect on the performance of micro and small businesses. This means that both external and internal roles can affect the performance of SMEs. And SMEs that have positive relationships with internal and external parties are likely to achieve these improvements in governance and practical skills. After looking at and analyzing the effects of HR competencies (knowledge, skills, and abilities) on SMEs, it was decided that HR competencies have a big effect on performance, which is the best thing for the company.

(Demirbag et al. 2006). explores the role of HR competencies in improving the performance of SMEs using qualitative methods. The results of this study confirm that the role of human resource (HR) competence is a determining factor for an organization or company, and competence is an aspect that determines the success of MSME. This study again summarizes that the high competence of an organization's HR will ultimately determine the quality of its competitiveness.

The research results of (Murtadlo, 2018) on SMEs' performance based on competence, commitment, and motivation indicate that engagement, competence, and business motivation simultaneously have a positive and significant effect on SMEs'
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Performance. Not only that, research results by Ismail and Abidin (2010) show that employee competence has a significant effect on SMEs. In the service sector, employees' performance is also based on their capital and personal traits.

Sitharam and Hoque (2016) argue that external factors, government factors, factors of macroeconomic conditions, competition, globalization, criminal acts, and corrupt practices are the main challenges for SMEs. This survey was conducted in South Africa, and the results of the survey show that there is a significant relationship between MSMEs' performance compared to last year's performance and competition. Therefore, it is concluded that skill has a great influence on performance; the more skill the entrepreneur has, the higher the business's performance. On the other hand, as an entrepreneur with low skill, it will also lead to low performance. Therefore, the skill will have an impact on improving performance to generate business profit.

RESEARCH METHOD

This study involved a total of 250 small and medium-sized enterprises (SMEs) located in Dili, Timor-Leste. The sampling method is random sampling. The types of data in this study are divided into two categories: Primary data and secondary data. Primary data obtained directly from respondents and secondary data obtained from the literature search, including literature or reviews. The data sources for this study are the respondents, namely the owners of small and medium-sized enterprises (SMEs). This study uses a questionnaire with a Likert scale of 1 to 5.

The data analysis method used in this study uses multiple linear regression analysis with SPSS 23. The variables in this study are composed of independent variables such as skills (X1), knowledge (X2), and ability (X3), while the dependent variable is the performance of the students (Y). The hypothesis test in this study used simultaneous and partial methods. The simultaneous test (F test) is used to determine if all independent variables have the same effect on the dependent variable, while the partial test (T test) is the test used to test the significance of the partial regression/coefficient. This partial test is used to determine the partial effect between the independent variable and the dependent variable by looking at the t value at a significance level of 5%. Furthermore, this study also used the determinant (R2), which is basically used to measure how well the model can explain the variability of the dependent variable.

RESULT AND DISCUSSION

Performance is the result of work done by an individual or a group of individuals in an organization in accordance with the authority and responsibility assigned to each employee in achieving organizational goals. This idea is reinforced by the conclusion. According to Aribawa (2016) SME performance is the result of work done by an individual in the company within a specific time frame and will be associated with a measure of the value or standard of the company where the individual works. Another opinion was expressed by Theo (2012) who stated that the company's performance refers to the achievement of the necessary actions and execution of work. According to Nugrathayu and Retnani (2015), "company performance" is the overall success of the company in achieving the strategic goals that have been set through selected strategic initiatives. As a result, the performance of a business or company is essentially determined by the productivity of its employees.
From the different interpretations found by different researchers, it is understood that the performance of SMEs requires a measure to determine the level of success or achievement of the company's performance. If the individual's performance is good, surely the company's and the organization's performance will be better. A variety of indicators can be used to analyze and measure the company's performance and determine how the company achieves its strategies through its employees.

Gitosudarmo (2001) revealed several indicators used to measure the performance of a business unit, including the amount of revenue earned, growth rate, competitive advantage, company independence, and corporate image. Munizu (2010) also suggests a few ways to measure the performance of a small or medium-sized enterprise (SME). These are: capital sales growth, labor force growth, market growth, and profit growth. Zaenal In Rusdi (2016) further stated that several indicators that can be used to measure the performance of an SME, namely: profit growth, number of customers growth, sales growth, and assets growth.

A similar idea has also been added by Soleh (2008) who says that the growth rate of firms is measured by examining the increase in income, labor force, and consumers using their products. Hadjimanolis (2000) also mentions a number of indicators to see and measure the growth rate of a business, especially small businesses, such as an increase in employees, profit, and the ratio of return on assets. From the number of indicators above showing performance, it can also be seen that there are a number of factors that can affect the performance of small and medium enterprises.

According to Minuzu (2010), there are two types of factors that affect the performance of SMEs, namely internal and external factors. Internal factors consist of aspects related to human resources, financial aspects, production aspects, operational techniques, and marketing aspects. External factors also consist of government policies, socio-cultural, and economic aspects, as well as the roles of relevant agencies. Anggadwita and Mustafid (2014) found that the performance of small and medium-sized businesses is also affected by a number of factors, including entrepreneurship, human resource competence, innovation, and sustainability.

A. **Human Resources Competence**

Competency is defined as the ability to perform tasks in the workplace, including the application of skills supported by knowledge (cognitive) and ability in accordance with the required conditions. Thus, standards of competence can be seen as formulating skills and talents that human resources (HR) must possess to perform a function in accordance with the requirements that are defined or agreed upon. That competence is part of a deep personality and is associated with a person with predictable behavior in various jobs and tasks. Meanwhile, according to Utami et al. (2017), the concept of competence is the main determinant for a person to achieve outstanding performance. Dessler (2009) also found that competence is an individual trait that can be considered, including knowledge, skills, and behaviors that can lead to performance and success. The same statement was also put forward by Mondi (2008), which states that competence is a set of technical knowledge, quality, and behavior related to human skills or understanding of company policies. Sutrisno (2009) adds that competence is an ability based on skills and knowledge that is supported by work attitudes and their application in carrying out tasks and working in certain workplaces. The indicators of HR competence in this study were obtained based on research by Ardiana et al. (2010), namely skills, knowledge and abilities. Furthermore, the components of competence can be understood from various aspects, including skills, knowledge and behavior (Dessler, 2009). As indicators of competence according to Fadillah et al. (2017) namely nature, self-concept, knowledge, skills, and motivation.
To increase the success of a company, it must have good and balanced competencies such as knowledge, skills, ability, and behavior. Micro, small, and medium-sized enterprises (MSMEs) are a group of enterprises that are able to advance the economy. However, this company still seems to be underperforming due to the lack of knowledge, skills, and empowerment opportunities in the business. There is no denying that HR competency is one of the determinants of a company's success, especially for SMEs. Having the right skills means possessing peak performance for small and medium businesses. Len (2017) in her research, found that there was a positive influence of skills on the performance of small and medium enterprises; Amelia and Hendra (2016) also found the same results as previous studies that skills had a significant effect and still have a significant effect on the performance of SMES. The same study was conducted by Megantoro (2015) and stated that there was a positive effect of skills on the performance of small and medium enterprises. However, Viviani et al. (2020) found that the skill variable had no positive or significant effect on the performance of SMEs. This insignificant result means that skills affect performance, but the effect is small and does not have much impact on performance. Hence, it is assumed that;

**H1: The Labour Skill is Positively Affected on SME’s Performance.**

Comptence is needed to help the organization, create a high work culture of organizational performance (Wibowo, 2012), who argue that entrepreneurial knowledge has a positive but not significant effect on the performance of smes (Echdar, 2016). Research of Trihudiyatmanto and Purwanto (2018) showed the same result, that knowledge had a negative and insignificant effect on the performance of smes. However Rahman et al. (2015) in their study found that there was a positive influence between knowledge and performance of small and medium enterprises, small and medium enterprises (SMEs). Hence it is assumed that;

**H2: The Labour Knowledge is Positively Affected on SME’s Performance.**

The performance of SMEs is determined by the performance of their human resources and its result Mostly lies in the production scale. Putri Andam at, el (2015) in their research found that the ability factor has a significant influence on the performance of small and medium enterprises. Ardiana at el (2010) in their research also found that there is an effect variable of ability on performance. Hence it is assumed that;

**H3: The Labour Ability is Positively Affect on SME’s Performance**

Every entrepreneur aims to maximize the business (Idris, 2015) Which is indicated by sales growth, company asset growth and profit growth (Lee & Tsang, 2001), HR competence is closely related to knowledge, skills, abilities and personality characteristics that directly
affect SMEs performance (Mangkunegara, 2012). Previous research by Primadanti and RAHARDJA (2017) also shows that simultaneously and partially competence have a positive and significant effect on the performance of SMEs relevant research also found by (Viviani et al., 2020) where the result support and accept the hypothesis, that HR skills, knowledge and ability have a positive effect on SMEs performance. Therefore it can be hypothesized that:

**H4: Skill and Knowledge, Ability Are Simultaneously positive and significant Affected on SMEs Performance**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (constant)</td>
<td>6.135</td>
<td>1.848</td>
<td>3.320</td>
<td>.001</td>
</tr>
<tr>
<td>Skills(x1)</td>
<td>.023</td>
<td>.098</td>
<td>.015</td>
<td>.235</td>
</tr>
<tr>
<td>Knowledge(x2)</td>
<td>.313</td>
<td>.086</td>
<td>.286</td>
<td>3.646</td>
</tr>
<tr>
<td>Ability(x3)</td>
<td>.393</td>
<td>.066</td>
<td>.428</td>
<td>5.943</td>
</tr>
</tbody>
</table>

A. Dependent variable: SMEs performance(y)

Source: Data processing result of SPSS 23, the t test using HR competency (skills, knowledge, ability) as independent variable and SMEs performance as dependent variable, primary data, 2021.

Referring to the result of the regression in table 1, it shows that the significance value of skills is 0.814 > 0.05. It can be concluded that there is no significant effect, but there is a positive effect of skills on the performance of the SMEs and the significance value of knowledge is 0.000 <0.05 meaning there is positive and significant effect of knowledge on SME performance while the significance value of ability is 0.000 < 0.05. Thus there is a positive and significant effect of capacity on SME’s performance.

Based on the above output, the significance value for the effect of skills (X1), knowledge (X2), ability (X3) on SMEs performance (y) simultaneously is known to be 0.000, therefore it can be concluded that H4 is accepted.

**Table 3 Coefficient of Determination (R²)**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R square</th>
<th>Adjusted r square</th>
<th>Std. Error of the estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.680*</td>
<td>.463</td>
<td>.456</td>
<td>5.26831</td>
</tr>
</tbody>
</table>

A. Predictors: (constant), ability(x3), skills(x1), knowledge(x2).

Source: Data processing result of SPSS 23, coefficient determinat (R²) result, 2021
Based on the output model summary table above, it is known that the value of the coefficient of determination or \( r^2 \) is 0.463. The value of \( r^2 \) is derived from the square of the value of the correlation coefficient \( r \), which is 0.680 * 0.680 = 0.463. The level of the coefficient of determination \( (R^2) \) is 0.643 or equal to 64.3%. This number means that the variables \( x_1, x_2, x_3 \) affect \( y \). By 64.3% while the rest (100% - 64.3% = 35.7%) is influenced by other variables outside the regression or variables that are not examined.

**B. The Impact of Skills on SMEs’ Performance (H1)**

The results of the study do not support the first hypothesis that competence is positively and significantly on the performance of smes. This is illustrated by the significant probability value of 0.814, which indicates a value greater than the predetermined significant value of 0.05 (0.814 > 0.05), indicating that skills are positive but not significant on the performance of smes. The results of this study are inconsistent with research conducted by (Zhaviery et al., 2018) stated that human resource competence such as skills, knowledge and ability are able to improve the performance of their smes at some point.

**C. The Impact of Knowledge on SMEs’ Performance (H2)**

Based on the data processing results, it is clear that knowledge has a positive and significant impact on the performance of SMEs. This is due to employees who have knowledge of their roles and responsibilities in carrying out their duties and are able to see existing business opportunities as ways to increase the company's capital. However, the results of this study are not in line with research conducted by Fahmi et al (2020) which found that the knowledge variable shows an insignificant and positive effect on performance while other variables have a significant and positive effect on the performance of SME. Furthermore, Sulistyandar et al. (2017) found in their research that skills have a significant effect on the performance of SME. However, knowledge and ability do not affect the performance of SMES.

**D. The Impact of Ability on SMEs’ Performance (H3)**

Based on the results of this hypothesis, it was determined that the ability has a positive and significant effect on the company's performance. The results are also reinforced by the research conducted by Ardiana et al (2010) the relevant analysis results show that HR competency is closely linked to the performance of SME. The results of the analysis also showed that the influence of the knowledge variables is negative and insignificant, but the other two variables, such as skills and abilities, have significant effects on the performance of small and medium-sized enterprises. This research result was also supported by Ekaningtyas Widiastuti Sri Martini (2016), who found that ability had no effect on company performance and that it was very hard to meet various indicators, such as the ability to manage business, make decisions, lead, control, innovate, and manage the business environment.

**E. The Impact of HR Competency (Skill, Knowledge, Ability) on SME’s Performance (H4)**

Human resource competencies consisting of skills, knowledge, and skills, according to the findings of the fourth hypothesis, are those that have an impact on the performance of SMEs in terms of customer satisfaction, increased sales volume, and workforce. The results of this study are in line with the research of Ardiana (2010), who confirms that the competence of human resources among small and medium-sized entrepreneurs is significantly affected by business performance, partially and simultaneously, meaning that an increase in human resource competence will improve business performance

This study develops and empirically validates the hypothesized model of skills, knowledge, ability, and performance of SMEs, and conclusions can be drawn from the findings and rejections above. First, the skill variable has an insignificant but positive effect
on the performance of SMEs; the second variable, knowledge, has a positive and significant effect on SMEs; and the third variable, ability, has a positive and significant impact on the performance of SMEs. Fourth, when the independent variables are simultaneously tested on the dependent variable, they have a positive and significant effect. This means that if the level of skills, knowledge, and ability of SME owners increases, the performance of SME will increase significantly, and vice versa.

CONCLUSION

Based on the conclusions from the results of the research above, companies must actively provide training programs and employee development in the production process to improve the performance of SMEs. Further research can examine the use of variables other than those studied in this study to obtain more varied results and enrich the existing theory, and different research objects and fields will produce different research results. So, more research should broaden the study’s focus or look into other topics with bigger populations and bigger samples to get more accurate results.

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