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# Improvement of HR Competency toward Performance and Sustainability Achievement

Ekaningtyas Widiastuti<sup>1</sup>, Sulistyandari<sup>2</sup>, Retno Widuri<sup>3</sup>, Suci Indriati<sup>4</sup>

<sup>1,2,3,4</sup> Faculty Economic and Business, Jendral Soedirman University, Indonesia

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## Abstract

This research is focused on Batik businessmen or craftsmen in Banyumas Regency, to examine the improvement of HR competency towards performance and sustainability achievement. This study uses purposive sampling technique and there are 52 samples collected. The data analysis tool used is multiple linear regressions. The results of this study indicate that partially knowledge has a significant effect on Performance and Sustainability, skills does not affect Performance, but affect Sustainability. Ability has a significant effect on Performance and Sustainability. The variables of knowledge, skills, and abilities have 43,4 % effect on performance and have 48,2 % effect on sustainability. The results of the study indicate that batik business and craftsmen have the potential to develop and to manage HR competencies in a more directed and more optimal manner. HR competency has a strategic role in creating performance which will ultimately be a sustainable competitive advantage

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## Keywords

Knowledge, Skill, Ability, Performance, Sustainability

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## INTRODUCTION

The globalization era requires every company to compete globally. Companies are competing to be able to produce high quality products, be able to compete in the market, and be able to develop sustainably. Micro, Small and Medium Enterprises (MSMEs) are business sectors that continue to develop their performances in competing with other business industry sectors. The strategic role of MSMEs is to make a major contribution to the economic growth and welfare of a country.

The number of MSMEs industry entrepreneurs will continue to increase so it is estimated that by the end of 2017 the number of MSMEs entrepreneurs in Indonesia will continue to grow. The contribution of the MSME sector to Gross Domestic Product (GDP) increased from 57.84% to 60.34% in the last 5 years. Employment absorption in this sector also increased from 96.99% to 97.22% in the same period (in *Tissor Indonesia*, 2017).

A significant increase in the number of MSMEs year after year shows that the MSME sector has considerable potential to be developed. One of the MSME sectors that is developing rapidly

and has the potential to be developed in Indonesia, including in Banyumas Regency especially, is the batik industry MSMEs. Batik is a high-value work of art and Indonesian cultural characteristics as well as traditional crafts that require special ability, skill, and creativity in the production process. Not everyone has the ability in making batik so that the products produced have high selling points.

The development of the batik industry and the ever-increasing production demand cause entrepreneurs and craftsmen to produce high quality batik products, to have a competitive advantage in the global market, to improve company performance, and to sustain the business. However, Secretary of the *Banyumas Dinperindagkop*, Wahyu Dewanto said Batik MSMEs batik still encountered obstacles, one of which was related to the lack of human resources qualities (HR competencies) both for business people and batik craftsmen (rhm). These obstacles will have an impact on the performance of MSMEs which tend to stagnate their development. Whereas HR competencies that are managed and developed optimally will

achieve high performance and long-term sustainability of MSMEs.

Research related to the development of HR competencies had been done by Marlina (2011) who examined the effect of entrepreneurial competence and market orientation on doll center MSME in Bandung. This research proved that increasing entrepreneurial competencies and focusing on market orientation can improve company performance. A similar study had also been conducted by Widiastuti and Sulistyandari (2016) with the results showing that HR competencies (knowledge, skills, and abilities) simultaneously influence company performance. But partially, only skills which have a significant effect on company performance. Aribawa's (2016) research results at MSMEs in Central Java show that Knowledge (financial literacy) has a significant influence on business performance and sustainability.

Considering the importance of increasing MSMEs HR competencies in order to create high quality HR for the achievement of company goals, this research is focused on examining the impact of increasing HR competencies on business performance and sustainability achievement at Batik MSMEs in Banyumas Regency.

Targeted findings are as follows:

HR competencies (knowledge, skills, and abilities) affect the company's performance in Batik MSMEs in Banyumas Regency. The higher the HR competency, the higher the performance achieved.

HR competencies (knowledge, skills, and abilities) affect business sustainability at Batik MSMEs in Banyumas Regency. The higher the HR competency, the higher the effect on the sustainability.

HR competencies (knowledge, skills, and abilities) have greater effect on sustainability than on performance.

The knowledge and technology transfer program, mentoring, and training are strategic efforts that can be done by Batik MSMEs to improve the competencies of their human resources in order to achieve high performance and sustainability.

## LITERATURE REVIEW

### **Competence**

Competence is a set of knowledge, skills and behaviors that a person has in doing tasks effectively. Competence includes knowledge, skills, and attitudes possessed by someone in a particular field or standard, and this will be reflected in the work context that is influenced by organizational culture and work environment. Competence, according to

Spencer and Spencer (1993) is a part of and always exists in one's personality and can predict behavior and performance widely in all situations and job tasks.

Competencies are divided into two categories, namely: Treshold competencies and Differentiating competencies. Treshold competencies are the main characteristics that a person must have in order to do his work. However, it is not used to distinguish someone high-performance or average. Whereas differentiating competencies are factors that differentiate high and low-performing individuals (Spencer and Spencer, 1993). The practice of Batik MSMEs, it can be exemplified by a batik craftsman who must have treshold competencies, such as the ability to use *canting* and to make batik patterns. Then, in differentiating competencies, if the batik craftsman can design the right pattern, produce a good mixture of colors, and produce high selling and comparable products.

### **Knowledge**

Knowledge is the foundation that will build skills and abilities. Knowledge is organized from information, facts in which if it is applied, it will make adequate work performance. According to Blanchard & Thacker (2004), knowledge is categorized as follows: (1) Information obtained and placed in our memories (declarative). (2) How information is collected and used to something we already know (procedural). (3) Understanding in how, when, and why the information is useful and can be used (strategic).

Knowledge reflects an employee's cognitive abilities in the form of the ability to recognize, understand, realize, and really feel a task / job. Therefore, an employee's knowledge can be developed through education, not only both formal and informal, but also experience. Education equips a person with the basics of knowledge, theory, logic, general knowledge, analytical skills, as well as character and personality development (Robins and Judge, 2009).

### **Skill**

Skill means being proficient in manuals, verbals, and ideas. Skills are real and imply a person's level of ability or expertise in a particular job or task that is done. Skills are the capacity needed to do a series of tasks that develop from the results of training and experience. Someone's expertise is reflected by how well a person is doing a specific activity, such as operating an equipment, communicating effectively, or implementing a business strategy (Blanchard & Thacker, 2004).

Skill means the ability to operate a job easily and carefully that requires basic skills.

### **Ability**

Ability is a trait that is natural born or carried from birth or studied that enables a person to complete his task (Gibson et al, 2009). Ability shows the potential of people to carry out tasks / jobs. The ability of employees to do their duties is a manifestation of their knowledge and skills. Not all employees have the ability to work well although being well motivated.

According to Robbins and Judge (2008) in Widiastuti E and Sulistyandari (2016), ability is the capacity of individuals to do various tasks in certain jobs. All abilities of an individual are basically composed of two sets of abilities, namely intellectual ability and physical ability.

### **Performance**

According to Suyudi (1999) performance is the work results that can be achieved by a person or group of people in an organization in line with their respective authorities and responsibilities in order to achieve organizational goals. Performance is basically determined by three things: ability, desire, and environment. To perform well, a person must have a high desire to do and know the work. Performance satisfaction can be achieved if there is a sense of satisfaction in doing the work and the results of his work, also how well they are able to meet their needs.

Specifically for SMEs, according to Baswir (1995), there are four factors causing the low performance of Small and Medium Enterprises in Indonesia, including: 1) almost 60% of small and medium enterprises in Indonesia use traditional technology 2) market share which tends to decrease due to lack of capital, weak technology, and low managerial 3) most of the small and medium enterprises are not able to meet administrative requirements to get help from banks 4) the level of dependence on government facilities is still very high.

### **Sustainability**

Business sustainability is a measure of the success of a business or company in the long period, how a business can continue to survive, develop, experience growth from the results achieved in doing the activities (operations and production) of its business. Fatoki (2014) in Rahayu and Musdhalifah (2017) in their research said that business growth and how to measure it are usually defined and measured using absolute or relative, changes in sales, assets, work, productivity, and profit.

Business sustainability can be seen from the company's success in innovating, managing employees and customers, and returning the initial capital. Where this shows that the company has an orientation to develop and see opportunities for innovation on an on-going basis (Hudson, Smart and Bourne, 2001 in Aribawa, 2016). Management of employees (HR) in terms of skills, knowledge and abilities that are less than optimal and inadequate can be a factor that inhibits the sustainability of a business.

## **RESEARCH METHOD**

### **Population and Data Collection Technique**

The population of this research is all Micro, Small and Medium Enterprises (MSMEs) of Batik in the Banyumas Regency. Sampling in this study was done using convenience sampling technique, which is an easy sampling technique. This technique is done by selecting samples freely according to the ease and access to data.

### **Operational Definition Variables**

#### **Independent Variable (X)**

Knowledge (X1) is measured by indicators in the form of business management knowledge, product knowledge, consumer knowledge, promotional knowledge, and marketing strategies. Variables are measured using a Likert Scale 1 (strongly disagree) - 5 (strongly agree).

Skills (X2) are measured by several indicators such as production, communication, collaboration, organization, supervision, finance, administration, and accounting skills. Variables are measured using a Likert Scale 1 (strongly disagree) - 5 (strongly agree).

Ability (X3) is measured by indicators of the ability to manage a business, to take decisions, to lead, to control, to innovate, and to manage changes in the business environment. Variables are measured using a Likert Scale 1 (strongly disagree) - 5 (strongly agree).

#### **Dependent Variable (Y)**

Performance (Y1) is measured by indicators of work plan, work error, sales growth, reduction in fixed costs, and anticipation of production. Variables are measured using a Likert Scale 1 (strongly disagree) - 5 (strongly agree).

Sustainability (Y2) is measured by indicators in the form of innovation capability, management of employees and customers, return on initial capital.

## Data Analysis Technique

### Multiple Linear Regression Analysis

This multiple linear regression analysis is used to see the effect of several independent variables (X1, X2, and X3) on the dependent variable (Y), or in the sense that there are variables that affect and there are variables that are affected. This analysis is to determine the direction of the relationship between the independent variable and the dependent variable whether positive or negative and to predict the value of the dependent variable, whether the value of the independent variable has increased or decreased.

The regression equation is as follows (Sugiyono, 2007):

$$Y1 = a + b1X1 + b2X2 + b3X3 + e$$

$$Y2 = a + b1X1 + b2X2 + b3X3 + e$$

Information:

Y1: Performance

Y2: Sustainability

a: constants of a regression equation

b1, b2, b3: regression coefficients of the variables X1, X2, and X3

X1: Knowledge

X2: Skill

X3: Ability

### Hypotesis Test

#### Test of Significance of Partial Effect (t Test)

This t test is used to determine the effect of the independent variables on the dependent variable partially

$$t_0 = \frac{b_j}{Sb_j}$$

Information:

t0 = The amount of t count

bj = Regression coefficient

Sbj = Standard error of regression

By using 95% confidence or  $\alpha = 0.05$  and with degrees of freedom (n-k) then the formula H0 and Ha are arranged as follows:

H01:  $b1 = 0$ , meaning: knowledge has no effect on performance

Ha1:  $b1 \neq 0$ , meaning: knowledge affects performance

H02:  $b2 = 0$ , meaning: skill has no effect on performance

Ha2:  $b2 \neq 0$ , meaning: skills affect performance

H03:  $b3 = 0$ , meaning: ability has no effect on performance

Ha3:  $b3 \neq 0$ , meaning: ability affects performance

H04:  $b1 = 0$ , meaning: knowledge has no effect on sustainability

Ha4:  $b1 \neq 0$ , meaning: knowledge affects sustainability

H05:  $b2 = 0$ , meaning: skill has no effect on sustainability

Ha5:  $b2 \neq 0$ , meaning: skill affects sustainability

H06:  $b3 = 0$ , meaning: ability has no effect on sustainability

Ha6:  $b3 \neq 0$ , meaning: ability affects sustainability.

Testing Criteria:

level of significance of 95%

( $\alpha$ ) = 0.05

H0 is accepted if  $-t_{table} \leq t_{count} \leq t_{table}$

H0 is rejected if  $t_{count} > t_{table}$  atau  $t_{count} < -t_{table}$

### Coefficient of Determination

The coefficient of determination is part of the total variation in the dependent variable that is explained by variations in the independent variable. Also called R-squared and denoted R2. If the determination coefficient  $r^2 = 0$ , it means that the independent variable has no effect at all (= 0%) on the dependent variable under study. Conversely, if the coefficient of determination  $r^2 = 1$ , means that the dependent variable is 100% effected by the independent variable under study because it is located in the interval between 0 and 1, algebraically expressed as  $0 \leq r^2 \leq 1$ .

Test of Significance of Simultaneous Influence (F Test)

This F test is used to test the accuracy of the research model, whether the predicted value is able to describe the actual conditions.

$$F = \frac{R^2 / (K - 1)}{(1 - R^2) / (n - k)}$$

Information:

F = F value calculated

R2 = coefficient of multiple determination

r = Number of respondents

k = Number of variables observed

If F arithmetic > F table, then the regression equation is expressed as good (goodness of fit), and the variables of knowledge, skills and abilities simultaneously influence both the variables of business performance and sustainability.

## RESULT AND DISCUSSION

### Overview of Respondents

Based on the length of business established

**Table 1. Overview of respondents based on duration of establishment**

Length	Respondents	Percentage (%)
0-10 years	24	46,15
11-20 years	14	26,92
21-30 years	7	13,46
31-40 years	3	5,77
>40 years	4	7,70
<b>Total</b>	<b>52</b>	<b>100</b>

Based on table 1, it shows that the majority of respondents in this study were relatively Batik businessmen and craftsmen who recently have started their businesses. This is a proof that the batik business still has great potential to be developed.

Based on the age of the respondent

**Table 2. Description of respondents based on Number of Employees**

Age	Respondents	Percentage (%)
< 30	2	3,85
31-40	15	28,85
41-50	19	36,54
> 50	16	30,76
<b>Total</b>	<b>52</b>	<b>100</b>

While it is viewed from the majority of the respondents' age, it shows that those who are involved in the batik MSMEs are in the settled ages (over 30 years old) or who are already married, both mothers and fathers. The interviews also concluded that generally these Batik MSMEs are still done either at home or in a group, and has not yet established.

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### Result of Data Analysis

#### Multiple Linear Regression Test Model Performance

**Table 3. Results of Multiple Linear Regression Processing**

Variable	B	t count	Sig.
Constant	6,773	4,478	0,000
Knowledge (X <sub>1</sub> )	0,206	2,460	0,018
Skill (X <sub>2</sub> )	-0,133	-,926	0,359
Ability (X <sub>3</sub> )	0,366	3,885	0,000
R <sup>2</sup>	0,434		
F count	12,290		
Sig. F	0,000		

Based on the tests, it is obtained the following equation:

$$Y_1 = 6,773 + 0,206X_1 - 0,133X_2 + 0,366X_3$$

#### Sustainability

**Table 4. Results of Multiple Linear Regression Processing**

Variable	B	t count	Sig.
Constant	-4,815	-1,857	0,069
Knowledge (X <sub>1</sub> )	0,375	2,612	0,012
Skill (X <sub>2</sub> )	0,587	2,383	0,021
Ability (X <sub>3</sub> )	-0,492	-3,041	0,004
R <sup>2</sup>	0,482		
F count	14,871		
Sig. F	0,000		

Based on the tests, it is obtained the following equation:

$$Y_2 = -4,815 + 0,375X_1 + 0,587X_2 - 0,492X_3$$

#### Coefficient of Determination (R<sup>2</sup>)

Based on table 3 it can be seen that the coefficient of determination (R<sup>2</sup>) is 0.434 and shows the suitability of the model (goodness of fit). A value of 43.4% indicates that the regression equation model in this study is able to explain the relationship of the dependent variable (performance) and the independent variable (knowledge, skills and abilities) of 43.4%; which means that business performance can be explained by knowledge, skills and abilities. While the remaining 56.6% is influenced and explained by other factors outside the model not mentioned or tested in this study.

Based on table 4 it can be seen that the coefficient of determination (R<sup>2</sup>) is 0.482 and shows the suitability of the model (goodness of fit). A value of 48.2% indicates that the regression equation model in this study is able to explain the relationship of the dependent variable (sustainability) and the independent variable (knowledge, skills and abilities) of

48.2%; which means that sustainability can be explained by knowledge, skills and abilities. While the remaining 51.8% is influenced and explained by other factors outside the model not mentioned or tested in this study.

#### **Simultaneous Testing (F Test)**

Based on table 3 it is known that the calculated F value (10.651) with a significance value  $(0.000) \leq \alpha (0.05)$ , which means that the regression equation model formed has the accuracy of the model (goodness of fit) or it can be said that the independent variable (knowledge, skills, and abilities) simultaneously affect performance.

Based on table 4, it is known that the calculated F value (14,871) with a significance value  $(0,000) \leq \alpha (0.05)$ , which means that the regression equation model formed has the accuracy of the model (goodness of fit) or it can be said that the independent variable (knowledge, skills and abilities) simultaneously affect sustainability.

#### **Partial Testing (t Test)**

Based on the partial test results shown in table 3, the significance value of the skill variable is 0.359 greater than 0.05, it means it has no partial effect on performance. While the significance value of the knowledge variable is 0.018 and the ability variable is 0,000, both values are smaller than 0.05 means that the knowledge and ability variables partially affect performance.

Based on the partial test results shown in table 4, the significance value of the knowledge variable is 0.012, skill is 0.021, and ability is 0.004. The three significance values of variables are less than 0.05. It means the variables of knowledge, skills, and abilities partially have a significant effect on sustainability.

### **Discussion of Hypothesis Test Results**

#### **Effect of Knowledge on Performance and Sustainability**

Partial test results show that knowledge influences performance and sustainability, so the hypothesis about knowledge affects performance and sustainability is accepted. Knowledge is someone's mastery of science and technology, knowledge can be obtained through a process of learning and experience during someone's life.

At MSMEs, Batik businessmen and craftsmen already have sufficient knowledge about various matters related to their businesses. Their knowledge is in the form of production knowledge, business management to marketing strategies. They have been able to produce with the knowledge they have gained. They master the knowledge of producing batik,

from choosing materials, making patterns, motifs, using *canthing*, mixing colors, dyeing, drying, until producing batik both *Batik Tulis* (Written batik) and *Non-Tulis* (stamped). Furthermore, they also master the knowledge in managing their business, utilising time in batik, collaborating with colleagues, and managing each order well. The knowledge they have about marketing is used to be able to promote their products widely and expand networking. The higher the knowledge they have, the better the business performance they produce, the more potential for sustainability. The results of this study are not in line with research conducted by Ardiana (2010) which stated that knowledge has no effect on the performance of MSMEs in Surabaya.

#### **Effect of Skills on Performance and Sustainability**

Partial test results show that skills do not affect performance, so the hypothesis which states that skills affect performance is rejected. While the hypothesis which states that skills affect business continuity is accepted. Skills are proficiency or expertise in manuals, verbals, and ideas related to a particular job or task that is done. In the case of creating batik, the craftsmen need to have skills in producing batik. Skills are demanded in terms of creating batik, because creating batik is related to one's creativity in producing high quality products and high selling products. The more proficient the craftsmen in creating batik, the better the performance, also the higher the target achievement. However, this research cannot prove this hypothesis.

The results of this study are supported by the condition of batik MSMEs in Banyumas Regency which is still very limited in terms of their skills. Skills do not affect performance, because in creating batik, it is enough that the batik craftsmen know the knowledge and have the abilities to produce the expected performance in a short term. They have not known about terms of communication, cooperation, management, and financial administration yet. However, in the long period, the skills possessed and continuously honed through various research and batik learning processes greatly affect the sustainability of the business, because in creating batik, it requires creativity, innovation, and skills that are continuously improved to be able to produce better patterns, motives, and quality products. It also will maintain the existence of the company and be able to sustain the competition.

#### **Effect of Ability on Performance and Sustainability**

Partial test results show that ability affects performance and sustainability, so the

hypothesis which states the ability affect performance and sustainability is accepted. Ability is the capacity of an individual in doing various tasks in one job. Most of batik businessman and craftsmen in Banyumas Regency already have the ability to create batik and to manage their businesses even though they are not yet categorized as proficient. They have been able to create batik patterns, to use *canthing*, to mix colors to produce batik that interests consumers, and to sell them well in the market. The higher the capabilities, the higher the business performance it produces. The results of this study are in line with research Ardiana (2010) which stated that the ability affect the performance of MSMEs in Surabaya. Knowledge, skills and abilities are elements of competency that is owned by a person or employee who works at the company. Competence is human capital and intangible company assets, which are not easily imitated and have a competitive advantage for the company if it can be utilized and managed optimally. Competence plays a strategic role in improving company performance and long-term business sustainability. Competence can be increased by conducting training, learning process, and paying more attention to the employee from the company in terms of appreciation or compensation. As a result, the company will achieve high performance and will be able to compete sustainably.

## **CONCLUSION**

Knowledge has a significant effect on performance and sustainability. This means that the higher the knowledge, the further enhance the company's performance and the higher the knowledge, the more the sustainability.

Skill has no effect on performance but skill affects sustainability. This means that the higher or lower skills do not affect performance

and the higher the skill, the more the sustainability.

Ability significantly affects performance and sustainability. This means that the higher the ability, the further performance improvement and the higher or lower knowledge can also affect sustainability.

However, when those three variables are examined further, skill variable has a significant effect on the performance of Batik MSMEs in the Banyumas Regency. The higher the skills, the higher the performance of MSMEs.

HR competencies; knowledge, skills, and abilities of businessmen and batik craftsmen are proven to have a greater effect on sustainability than on performance. The transfer of knowledge and technology program, mentoring, and training are strategic efforts that can be done by Batik MSMEs to improve the competence of its human resources in order to achieve high performance and sustainability.

From the results of the study, the researchers suggest that batik industry has to pay attention to the importance of HR competencies which are human capital as strategic tools, which are not easily imitated and have a competitive advantage for companies if they can be utilized and managed optimally. Competence plays a strategic role in improving company performance and long-term business sustainability.

Researchers also realize that this research has not been able to provide truly accurate results. There are many limitations in this study, including: researchers only take the object of research in Banyumas Regency, so they have limitations to generalize the results of the research. Data collection has a little difficulty so that the data obtained is not fully in line with what is needed in this study. Future studies are expected to be refined by considering the limitations in this study.

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