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HUMAN CAPITAL DEVELOPMENT STRATEGY IN THE COVID-19 PANDEMIC ERA OF MSMEs IN PANGKALPINANG CITY

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Abstract

Human Capital is an essential factor in dealing with crises, where the Human Capital strategy consists of Knowledge, Competence, and Expertise. Therefore, this study aims to determine and analyze (1) the effect of Knowledge on Innovation, (2) the influence of Competencies on Innovation, (3) the influence of Innovation on Business Performance, and (4) the influence of Expertise on Business Performance, (5) the indirect effect of Knowledge on Business Performance through Innovation. The sample in this study amounted to 101 SMEs in Pangkalpinang City. The data is processed using the Partial Least Squares analysis tool. The results of the analysis found that the Knowledge and Competencies variables have a significant influence on innovation. The innovation variable has no significant effect on Business Performance. Innovation has not significantly affected business performance because the innovations carried out are still partial and not digital-based because digital literacy is still low. On the other hand, expertise has a significant effect on Business Performance. Thus, it shows that there is a need to increase the knowledge and competence of MSME actors to become innovative. Metacognitive skills, learning skills, thinking skills, knowledge, and motivation.

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1. Introduction

In this era of globalization, it is undeniable that competition in the industry is getting more demanding and higher. Not only competing with local competitors but also having to compete with foreign competitors who have entered the industry in this country. The development of sophisticated technology allows every human being to carry out interaction activities such as collecting information and doing their work easily and quickly. The changing lifestyle of consumers now places more emphasis on product quality and forces companies to be more innovative in creating products. and services (Kurniawan et al., 2015). The development of information technology is not only used as a means to process data but also supports developments that occur in the era of globalization, including trading activities, namely as a transaction medium. Using the internet for companies as a transaction medium will bring support for market expansion while increasing sales (Indrawati, 2013). Entrepreneurs are said to be people who generate new ideas and creations different from before. Entrepreneurs are promoters of introducing new products and techniques, the market situation and procurement sources, and improving management areas and new distribution methods. Entrepreneurs will carry out a dynamic on production, processes, results, sources of supply, and reliable organizational systems (Ludiya & Mulyana, 2020). Small and Medium Enterprises (SMEs) are a form of business that contribute to regional income and help improve the economy in Indonesia. SMEs help improves the quality of working individuals to compete and survive in the business world, as well as develop the ability to be more innovative and skilled so that they have an essential role in the environment as a channel of creativity (Sari, 2020). A company is said to be able to apply an entrepreneurial orientation if the company has the first nature in product market innovation. Market orientation requires research to understand norms and values to achieve organizational learning that views from various organizational design perspectives and market information perspectives; in analyzing business performance, a micro, small and medium enterprise must be able to create superior value so that it can improve business performance (Yuliana & Pujiastuti, 2018). On the other hand, modern business management's influence is more significant than society's values and culture (Reniati et al., 2019). The primary data was collected using a questionnaire and observation tools secondary data collection through a literature study (Bidayani & Reniati, 2021).

2. Literature Review

According to Gaol (2015), Human Capital consists of knowledge, expertise, abilities, and skills that can turn humans into assets or capital for a company. The following term will be discussed gradually.

The Knowledge Concept

Knowledge (knowledge competence) is the ability of an employee in the form of the ability to recognize, understand, appreciate and understand a job (Paraswati & Laily, 2018). *Knowledge* generally includes two things, namely facts that a person learns and strategies for using these facts (Fitri et al., 2020). Knowledge management also involves all activities related to an organization's acquisition, use, and sharing of knowledge (Winarto, 2020). The research conducted by Rasula and Stemberger (2018) presents three main components that are important for

knowledge management; (1) information technology, (2) organizational elements, and (3) knowledge. The knowledge management component has a positive effect on organizational performance. Knowledge management consists of two types of knowledge: explicit knowledge, the knowledge that can be learned in written and oral form, such as procedures, regulations, and policies, and tacit knowledge, which is inherent in each individual, such as values, employee beliefs, experience and know-how knowledge (Mardlillah & Rahardjo, 2017). Also, the knowledge that a person has is part of HR competencies which can be grouped into 3 (three) categories, Blanchard (2006); Karmilati dan Purbasari (2012), namely: a). Declarative knowledge, factual information about a subject that is stored in memory, b). Procedural knowledge, namely one's understanding of how and when fatal information is used, and c). Strategic knowledge is understanding the facts and procedures used to plan, monitor, and revise the direction of activity goals.

Model *Knowledge*

According to Nonaka dan Takeuchi (1995), knowledge is created through the interaction between tacit and explicit knowledge. These interactions are expressed in four phases of knowledge conversion, which are illustrated in Figure 1 below:

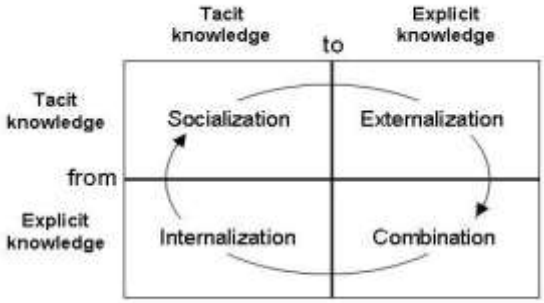

Figure 1. Nonaka & Takeuchi KM model SOURCE: Nonaka I, Takeuchi H., "The *knowledge*-creating company", Oxford, UK: University Press, 1995

a. Socialization, in the socialization process, social interaction occurs between individuals so that there is an interaction between tacit knowledge. Generally, the form of the socialization process is discussion, stories, or sharing experiences.
b. Externalization is converting or translating knowledge in tacit form into explicit knowledge (natural), generally in the form of writing or pictures.
c. Combination of Dissemination and, or development of existing explicit knowledge.
d. Documented knowledge can be disseminated through a meeting as a document or through an education or training process.
e. Internalization (internalization) Changes in explicit knowledge into tacit knowledge are generally carried out through the learning process, research, or experiences each individual goes through.

Concept Competence

According to Gemina dan Ginanjar (2019) competence is an ability to carry out or perform a job or task based on skills and knowledge supported by work attitudes. Competence is also defined as the fundamental characteristics of a person in the form of basic knowledge, abilities, and experience that can affect his/her performance (Purnamasari et al., 2019). Competence is a deep and inherent part of a person's personality with predictable behavior in various situations and work tasks by referring to the characteristics that underlie behavior that describes motives, personal characteristics (characteristics), self-concept, values, knowledge, or skills brought by someone who performs superior performance in the workplace (Widiawati, 2018). An individual's competence is something inherent in him that can be used to predict his level of performance. Something in question can involve motives, self-concept, nature, knowledge, and abilities/skills. Individual competencies in abilities and knowledge can be developed through education and training. At the same time, the competence motive can be obtained during the selection process (Ardiana & Brahmayanti, 2003). Moreover, there are five characteristics or components of competence, such as:

1. Motive is something that people consistently think about or want that causes specific actions.
2. Traits are characteristics and consistent responses to situations and information.
3. Self-concept is a person's attitudes, values , or self-image. Self-confidence is a person's belief that they can be effective in almost every situation and is part of everyone's self-concept.
4. Knowledge is information that people have in a specific field, knowledge is a complex competency, and scores on knowledge tests often fail to predict job performance because they fail to measure knowledge and skills in a way that is used in the job.
5. Skill is the ability to do specific physical or mental tasks, mental competence, or cognitive skills, including analytical and conceptual thinking.

Competencies Model

Figure 2 shows the iceberg's competency model, which is one of the competency models based on three main aspects: knowledge, attitudes, and skills. It is also one of the models often adapted and modified in organizations to build competency models.

Figure 2. Iceberg competency model (MIT Careers, 2005)

According to Salleh et al., (2015) the iceberg model for competence requires the help of an iceberg to explain the concept of competence. Similarly, competence has

some visible components such as knowledge and skills, but other behavioral components such as attitudes, traits, thinking styles, and self-image are also called soft skills. In other words, it is helpful to think about competence in terms of the iceberg. Technical competence is at the end - the part above the waterline that is clearly visible (and therefore easier to assess). Soft skills are below the waterline - they are more challenging to assess and often more difficult to develop. Behavioral competence can be understood as a manifestation of how a person perceives himself (self-image), how he usually behaves (nature), or his motives (motive).

The Concept of Innovation

Innovation is to create something new or an improvement from an existing one, and the difference is in emphasis (Hamali, 2012). Innovation has existed before and added value (Satwika & Dewi, 2018). Innovation manifests an entrepreneur's idea (Ludiya & Mulyana, 2020). Innovation is also critical in creating and maintaining a competitive advantage, which will improve business performance. Being innovative is necessary to create a more flexible company structure. Based on this flexibility, companies can quickly adapt to their business environment, making it possible to take advantage of better opportunities than their competitors and their dimensions, for instance; New Process Development, New Product Development, and Marketing Development (Andiyanto & Sufian, 2017). Innovation has an important influence on companies in making breakthroughs to improve their business performance, the higher the level of company innovation, the higher the organizational or business performance (Hadi & Purwati, 2020).

Innovation Model

Figure 3 shows the iceberg's innovation model, one of the innovation models proposed by Oliver Gassmann in 2014. It is also one of the models often adapted and modified in organizations to build innovation models.

Figure 3. The Business Model Navigator, Oliver Gassmann, 2014

Business Innovation Model integrates various dimensions of excellence variables within a company. Advantage variables such as product quality, speed of service, well-known brands, etc., can no longer be offered to customers. These dimensions need to be packaged in an integrated manner to produce tremendous business

results. This business model innovation consists of 4 main dimensions that we need to find in each of our companies they are:

1. Who are our real customers (customer focus),
2. What added value do we offer to the customer (value proposition),
3. How to create unique added value (value chain), what is
4. The profit model or revenue model for the products we offer earlier.

The Concept of Expertise

Yixiang et al., (2009) state that expertise is expertise to build good communication. Expertise requires expertise from the company's human resources in communication and other supports such as techniques and selection of communication media. Training on the ability for good communication should be carried out by company management in order to be able to achieve expertise. (Indrawati, 2013) states that expertise in communication will be achieved when able to create effective communication, which can be achieved by: 1. Ability to identify target audience 2. Ability to determine communication goals 3. Ability to design good messages 4. Ability to choose information channels 5 Determine the amount of the marketing communications budget.

Expertise Model

One of the expertise models proposed by Stemberg in 1999 is a model that is often adapted and modified in organizations to build innovation models. Skills development models have five key elements (although they are not an exhaustive list of skills development): metacognitive skills, learning skills, thinking skills, knowledge, and motivation. While it is easy to separate these five elements, they are fully interactive, as shown in the figure. They affect each other, either directly or indirectly. For example, learning leads to knowledge, but knowledge facilitates further learning. These elements are, for the most part, domain-specific. Expertise development does not necessarily lead to another development, although there may be some transfer, depending on regional relations, the point that others have made concerning intelligence.

Concept Business

According to (Andiyanto & Sufian, 2017) business performance results from the organization's operations, including the achievement of the company's internal and external goals. Business performance is the achievement of the organization's growth goals in sales, profitability, and market share. According to Ferdinand (2004), business performance is a factor commonly used to measure the impact of a company's strategy in facing competition. Business performance is a series of activities starting from performance planning. The performance of a business is needed and essential in business competition (Yuliana & Pujiastuti, 2018) business performance directs people to run their businesses better by implementing a structured management system to achieve company goals (Zuliyanti & Delima, 2017). Business performance is identified as the achievements achieved in running the business. The business performance measurement tool used is based on the theory of Kaplan and Norton in 1996, namely the Balanced Scorecard. This measurement is measured by looking at four perspectives: finance, customers, internal business, and growth and learning (Sari, 2020). The dimensions of business

performance are Sales Growth, Asset Growth, Profit Growth, and Customer Growth.

Business Performance Model

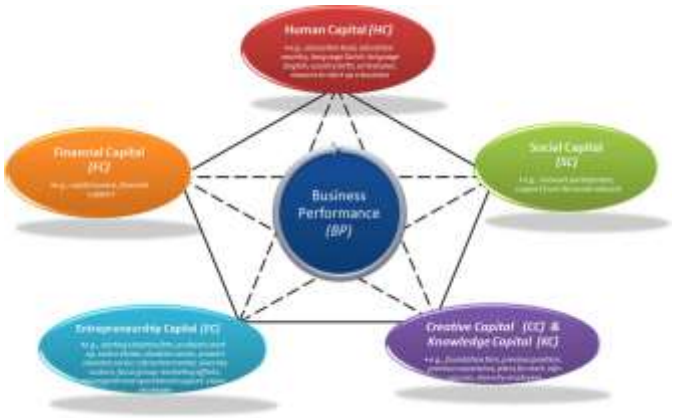

Figure 4. Model of the Complex Field of Force of Business Performance Kouritt, et al (2016)

The five main constituents of the model in Figure 4 should not be seen in isolation but form a set of interconnected inputs in a system show where the company's development strategy, skills to make sound strategic decisions, and integration of available inputs into daily strategy are essential for future strategic planning. The imbalance in the pentagonal prism in Figure 1 can mean a threat and may harm the performance of all the activities involved. The profit motive drives the success of any business in a competitive economic system, but the underlying constituents must be in balance with each other because they are also interconnected. Linking together the five areas in an interactive chain is a fundamental challenge for any company and will positively impact its performance, especially as this brings the potential benefits of efficiency and competitiveness. Moreover, the positive performance of a company (business) will lead to positive socio-economic outcomes for the city and region. Figure 4, in order to offer a comprehensive quantitative estimate of high-performing companies, so-called 'entrepreneurial heroes' or 'business champions', we first present a new approach to assessing business performance based on data envelopment analysis (DEA) to assess in an appropriate way the achievements comparison of ethnic firms. The goal of DEA is to gain comparative insight into the relative efficiency of a company compared to other companies.

3. Research Methods

Materials

This research uses primary data collected from MSME actors in Pangkalpinang City. Primary data was collected through a monthly survey from August to September 2021. The total number of respondents surveyed is 101 units of MSMEs. There are four variables studied in this study, namely (1) Knowledge, (2) Competencies, (3) Expertise, (4) and Business Performance.

Method

Descriptive and verification research methods are the most appropriate research methods with research objectives. The method used to provide an overview of the condition of MSMEs in Pangkalpinang City is related to the measured variables and provides an overview of the influence of each variable following the research hypothesis. The analysis used in this research includes descriptive and inferential analysis. Descriptive analysis is carried out by presenting the frequency distribution of each respondent's answer equipped with the average statistic and standard deviation.

Furthermore, for the analysis of the effect, the Variance Based Structural Equation Modeling (VBSEM) technique or better known as Partial Least Square-Path Modeling (PLS-PM), is used (Hair, Hult, Ringle, & Sarstedt, 2017). PLS-PM is an analytical technique that combines Path analysis with confirmatory factor analysis. The advantage of this analysis is that it can perform modeling by paying attention to the structure of complex relationships and, at the same time, evaluating the research instrument. The partial least square modeling consists of two components: the measurement model and the structural model. The structural model is a model that reflects the research hypothesis.

H1: There is an effect of Knowledge on Innovation
H2: There is an influence of Competencies on Innovation
H3: There is an effect of Innovation on Business Performance
H4: There is an influence of Expertise on Business Performance
H5: There is an indirect effect of knowledge on business performance through innovation.
H6: There is an indirect effect of Knowledge on Business Performance through Innovation

More clearly, this research hypothesis can be described in the path diagram as follows:

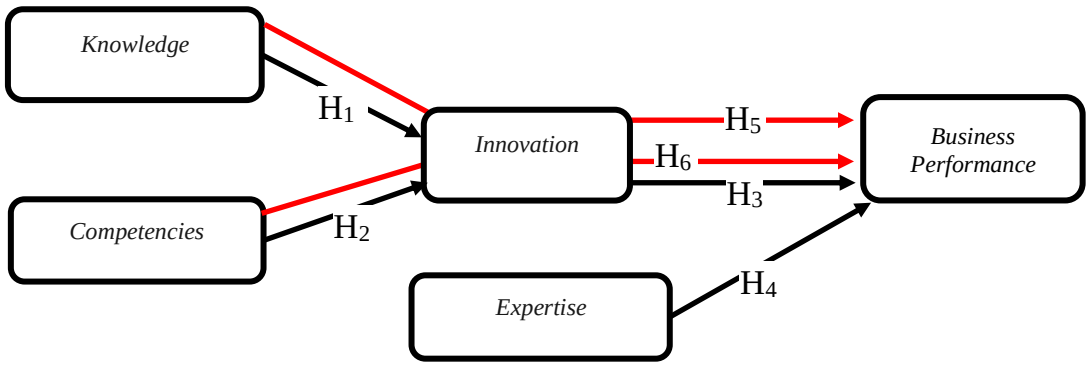

Figure 5. Thinking Framework and Hypothesis Direction

Furthermore, the measurement model is related to the indicators used to measure each variable. The measurement model also reflects the validity and reliability of each instrument used.

This model is written in a linear equation as follows:

$$\eta_1 = \gamma_{11}\xi_1 + \gamma_{12}\xi_2 + \zeta_1 \quad (3)$$
$$\eta_3 = \beta_1\eta_1 + \beta_2\eta_2 + \zeta_1$$

with
ξ_1: declaring the latent variable Knowledge
ξ_2: declaring the latent variable Competencies
η_1: declaring the latent variable Innovation
η_2: declare the latent variable Expertise
η_3 : declare the latent variable Busniness Performance

With γ_{11}, and γ_{12}states the coefficient of influence of the Knowledge and Competencies variables on Innovation and β_1 states the influence of the Innovation variable on Business Performance and β_2 states the influence of Expertise on Business Performance.

Then the measurement model is written as follows:

$$X_{1.k} = \lambda_{1.k}\xi_1 + \varepsilon_k; k = 1,..,12 \quad (4)$$
$$X_{2.k} = \lambda_{2.k}\xi_2 + \varepsilon_k; k = 1,..,14$$
$$Y_{1.k} = \lambda_{1.k}\eta_1 + \varepsilon_k; k = 1,..,14$$
$$Y_{2.k} = \lambda_{2.k}\eta_1 + \varepsilon_k; k = 1,..,6$$
$$Z_k = \lambda_k\eta_2 + \varepsilon_k; k = 1,..,8$$

The structural model is estimated using a partial least square approach with the formulation:

$$(:\beta) = \left((:\eta)(:\eta)'\right)^{-1}(:\eta)'\eta \quad (5)$$

The same method is also used to estimate factor loading parameters or coefficients validity λ. There are several measures of model goodness in the measurement model, they are;
Compositive Reliability (CR)

$$CR = \frac{(\sum_{k=1}^{K} \lambda_k)^2}{(\sum_{k=1}^{K} \lambda_k)^2 + \sum_{k=1}^{K} \sigma_{\varepsilon_k}^2} \quad (6)$$

Average extracted Variance (AVE)

$$AVE = \frac{\sum_{k=1}^{K} \lambda_k^2}{K} \quad (7)$$

The value of loading factor, Alpha Cronbach, Compositive Reliability, and Average extracted variance is expected to be greater than 0.50 for the questionnaire to be declared valid and reliable. The calculation process is carried out using the R application with the pls pm package (Sanchez, 2013).

4. Results

This study was conducted using an online survey method and has succeeded in collecting as many as 101 respondents with the following demographics:

Table 1. Business

Sector	Frequency	Percentage (%)	Sector	Frequency	Percentage (%)
Culinary	59	58.42	Cosmetics, Tupperware	1	0.99
Crafts	6	5.94	Counter	1	0.99
Fashion	5	4.95	Counter	1	0.99
Service	3	2.97	Laundry	1	0.99
Retail	3	2.97	Fishing Equipment	1	0.99
Photocopy	2	1.98	Street Vendor	1	0.99
Livestock	2	1.98	Manufacturing	1	0.99
Photography	2	1.98	Rent car	1	0.99
NewStart	1	0.99	Motorcycle spare	1	0.99
Tralis Welding Workshop	1	0.99	Online Bookstores	1	0.99
Men's Clothing	1	0.99	Agricultural Business Stores	1	0.99
NA				**5**	**4.95**
Total				**101**	**100.00**

Based on the survey results, information obtained by the majority of businesses is culinary.

Table 2. Age

Age	Frequency	Percentage (%)	Age	Frequency	Percentage (%)
15 – 20	21	20.8	36 - 40	10	9.9
21 – 25	19	18.8	41 - 45	11	10.9
26 – 30	15	14.9	> 45	6	5.9
31 – 35	17	16.8	-	-	-
NA				**1**	**1.0**
Total				**101**	**100.0**

Results ta found that respondents' ages ranged from 15-20 years

Table 3. Gender

Gender	Frequency	Percentage (%)
1	37	36.6
2	64	63.4
Total	**101**	**100.0**

Gender majority 2 with a percentage of 63.4%

Table 4. Education

Education	Frequency	Percentage (%)	Education	Frequency	Percentage (%)
0	1	1.0	3	70	69.3
1	3	3.0	4	20	19.8
2	3	3.0	7	3	3.0
NA				**1**	**1.0**
Total				**101**	**100.0**

The majority of respondents' education is 3 with a percentage of 69.3%

The Effect of Knowledge, Competencies on Innovation and the Impact of Expertise on Business Performance.

Analysis of Measurement Models

The initial stage in modeling the influence of Knowledge, Competencies, and Expertise on Innovation and their impact on Business Performance is to evaluate the research instrument. The main requirements that the research instrument must meet are valid and reliable. Validity seen from the lowest loading factor must be 0.50, and reliability seen from the combined reliability of Cronbach's alpha (alpha), composite reliability (CR), and also average variance extracted (AVE). Cronbach's alpha and composite reliability values must be greater than 0.700 and the AVE is expected to be greater than 0.50 (Hair, Ringle, & Sarstedt, 2011)

The results of the analysis are presented in the following figures and tables:

Table 5. Analysis of Knowledge Variable Measurement Model

Indicator	Loading Factor	R2	Variance error	Indicator	Loading Factor	R2	Variance error
X1	0.697	0.486	0.514	X8	0.793	0.629	0.371
X2	0.742	0.551	0.449	X9	0.816	0.666	0.334
X3	0.632	0.400	0.600	X10	0.752	0.566	0.435
X4	0.519	0.270	0.730	X11	0.712	0.506	0.494
X5	0.336	0.113	0.887	X12	0.739	0.547	0.453
X6	0.671	0.450	0.550	X13	0.837	0.700	0.300
X7	0.708	0.501	0.499	X14	0.526	0.277	0.723
Composite	**0.925**						
AVE	**0.476**						

The validity and reliability variables analysis found that all items valid for the value of the loading factor are more significant than 0.50, all items are reliable with composite reliability greater than 0.700, and AVE is more significant than 0.50.

Table 6. Analysis of Competencies Variable Measurement Model

Indicator	Loading Factor	R2	Variance error	indicator	Loading Factor	R2	Variance error
X15	0.719	0.517	0.483	X18	0.425	0.180	0.820
X16	0.781	0.609	0.391	X19	0.827	0.684	0. 316
X17	0.776	0.602	0.398	X20	0.824	0.680	0.321
Composite	**0.940**						
AVE	**0.530**						

The results of the validity and reliability analysis for the Competencies found all valid items with loading factor values greater than 0.50 and all items reliable with composite reliability greater than 0.700 and AVE greater than 0.50.

Table 7. Analysis of Variable Measurement Model Innovation

Indicator	Loading Factor	R2	Variance error	indicator	Loading Factor	R2	Variance error
Y1.1	0.515	0.266	0.734	Y1.7	0.649	0.421	0.579
Y1.2	0.146	0.021	0.979	Y1.8	0.577	0.333	0.667
Y1.3	0.600	0.360	0.640	Y1.9	Y1.4	0.367	0.633
0.606	0.722	0.521	0.479	Y1.10	0.436	0.190	0.810
Y1.5	0.635	0.404	0.596	Y1.11	0.733	0.537	0.463
Y1.6	0.679	0.460	0.540	Y1.12	0.703	0.494	0.506
Composite	**0.865**						
AVE	**0.364**						

Validity and reliability analysis results for variables innovation found all valid items with loading factor values greater than 0.50 and all items reliable with composite reliability greater than 0.700

Table 8. Analysis of Measurement Model Expertise

Indicator	Loading Factor	R2	Variance error	Indicator	Loading Factor	R2	Variance error
Y2.1	0.700	0.491	0.510	Y2.5	0.849	0.722	0.278
Y2.2	0.697	0.486	0.514	Y2.6	0.642	0.412	0.588
Y2.3	0.831	0.690	0.310	Y2 .7	0.928	0.861	0.139
Y2.4	0.879	0.773	0.227	Y2.8 0.928	0.861	0.139	Composite
0.962	**AVE**						
0.664	**The**						

Results of the validity and reliability analysis for the variable to expertise found that all items were valid with a loading factor value greater than 0.50 and all items were reliable with composite reliability greater than 0.700, and AVE is more significant than 0.50

Table 9. Analysis of Business Performance Variable Measurement Model

Indicator	Loading Factor	R2	Variance error				
Z1	0.750	0.563	0.437	Z8	0.762	0.581	0.419
Z2	0.809	0.655	0.345	Z9	0.730	0.533	0.468
Z3	0.861	0.741	0.259	Z10	0.828	0.685	0.315
Z4	0.610	0.804	0.628	Z11	0.804	0.646	0.354
Z5	0.819	0.670	0.330	Z12	0.856	0.733	0.267
Z6	0.576	0.331	0.669	Z13	0.795	0.632	0.368
Z7	0.839	0.705	0.295	Z14	0.753	0.5 68	0.432
Composite	**0.954**						
AVE	**0.601**						

The results of the validity and reliability analysis for the Business Performance found that all items were valid with a loading factor value greater than 0.50, and all items were reliable with composite reliability greater than 0.700 and AVE greater than 0.50

Effect Analysis of Knowledge, Competencies, and Expertise on Innovation and its impact on Business Performance.

The results of the research on the effect of Knowledge, Competencies, and Expertise on Innovation and their impact on Business Performance can be illustrated in the following figure:

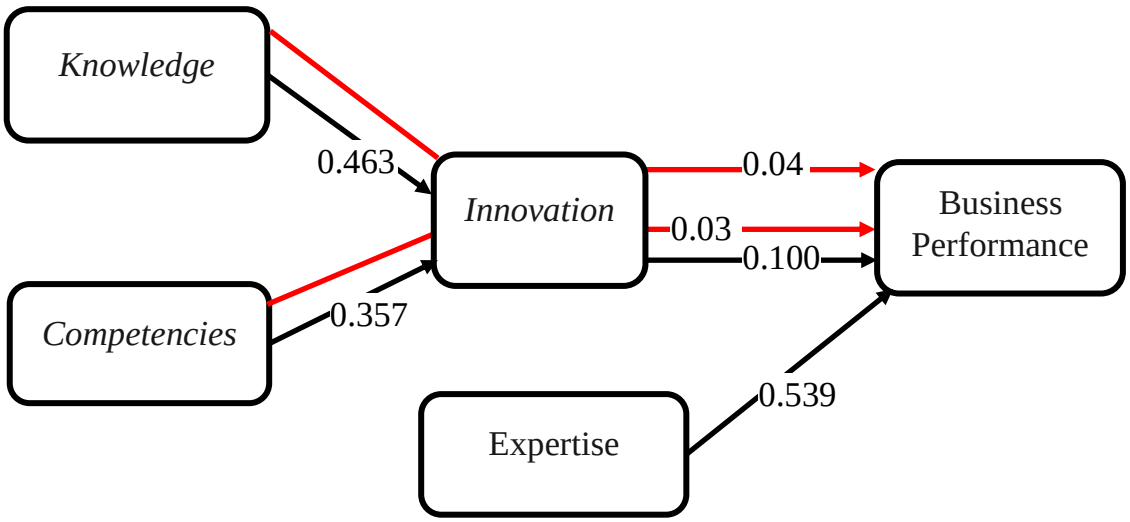

Figure 6. Path Diagram of the Effect of Knowledge and Competencies on innovation and their impact on Business Performance and the influence of Expertise on Business Performance

Table 10. Direct Effect of Knowledge and Competencies on Innovation and Effect of Innovation and Expertise on Business Performance Direct

Effect	Estimate	Std. Error	t value	p.value
Knowledge → Innovation	0.462	0.095	4.890	0.000
Competencies → Innovation	0.357	0.095	3.770	0.000
Innovation → Business Performance	0.100	0.085	1.180	0.242
Expertise→ Business Performance	0.539	0.085	6.330	0.000

The results of hypothesis testing found that Knowledge and Competency variables had a significant effect on innovation with a p.value < 0.05. The calculation of the direct influence found that the variable with the most significant influence on Innovation was Knowledge, with a coefficient of influence of 0.462 standard deviations. In the second position is Competencies with a significant influence of 0.357. The calculation of the influence of Innovation on Business Performance found that the effect was 0.100 and insignificant. At the same time, the Expertise variable strongly influences Business Performance with a large and significant effect of 0.539.

Table 11. Indirect Effects of Knowledge and Competencies on Business Performance through Innovation

Indirect Consequences	Estimate	Std. Error	t value	p.value
Knowledge → Innovation → Business Performance	0.046	0.040	1.144	0.128
Competencies → Innovation → Business Performance	0.036	0.032	1.123	0.132

The indirect effect of the Knowledge and Competencies variable on Business Performance through Innovation found no effect of the indirect variable on Business Performance with a p-value > 0.050.

5. Conclusion and Suggestion

The analysis found that the Knowledge and Competencies variables have a significant influence on innovation. The innovation variable has no significant effect on Business Performance. Innovation has not significantly affected business performance because the innovations carried out are still partial and not digital-based because digital literacy is still low. On the other hand, expertise has a significant effect on Business Performance. Thus, it shows that there is a need to increase the knowledge and competence of MSME actors to become innovative.

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