



# International Journal of Economics, Management and Social Science

Vol 9 No 2 June 2026

E-ISSN: 2614-3828 | P-ISSN: 2614-3887

Open Access: <https://journal.salewangang.net/ijemss/index>

## The Influence of Human Resources Quality, Financial Literacy, and Managerial Ability on the Performance of MSMEs in Sumenep Regency

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### Article Info :

Received:  
29/05/2026  
Revised:  
30/05/2026  
Accepted:  
14/06/2026

### ABSTRACT

*Micro, Small, and Medium Enterprises (MSMEs) have a strategic contribution to the national economy, including in Sumenep Regency, which is known for its potential agribusiness and local trade sectors. However, the performance of MSMEs in this area is still not optimal due to the low quality of human resources (HR), limited financial literacy, and weak managerial skills of business actors. This study aims to empirically analyze the influence of HR quality, financial literacy, and managerial skills on the performance of MSMEs in Sumenep Regency. The approach used is quantitative with a survey method of 20 MSMEs that have been operating for at least two years. Data were collected using a questionnaire with a Likert scale of 1–5 and analyzed using the Partial Least Squares–Structural Equation Modeling (PLS-SEM) method using SmartPLS software version 4. The results showed that the three independent variables have a positive and significant effect on MSME performance. HR quality has a significant effect with a path coefficient of 0.42 and a t-statistic of 3.67; Financial Literacy has a positive effect with a coefficient of 0.31 and a t-statistic of 2.95; Meanwhile, Managerial Ability has the most dominant influence with a coefficient of 0.46 and a t-statistic of 4.02. The R-square value of 0.72 indicates that 72% of the variation in MSME performance can be explained by these three variables. This study concludes that improving MSME performance in Sumenep Regency is highly dependent on human resource development, strengthening financial literacy, and managerial capabilities. These results provide practical implications for local governments and financial institutions to strengthen the capacity of MSME actors through integrated training and ongoing mentoring.*

**Keywords:** Accountability, Human Resources Quality, Financial Literacy, Managerial Ability, MSME Performance



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## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a crucial pillar of the national economic system, playing a significant role in job creation, income equality, and poverty alleviation. According to data from the Ministry of Cooperatives and SMEs (2023), MSMEs contribute more than 60% to Gross Domestic Product (GDP) and absorb approximately 97% of the national workforce. This demonstrates that MSMEs are a key force in supporting Indonesia's economic structure, particularly in the informal sector and the local economy. However, this significant contribution has not been fully matched by optimal performance at

the regional level, including in Sumenep Regency, where the majority of the population relies on micro-enterprises based on agribusiness and traditional trade.

Sumenep Regency has significant regional economic potential, particularly in the agriculture, livestock, fisheries, and home industry sectors. The presence of thousands of MSMEs in this region reflects strong local economic potential. However, initial observations indicate that many MSMEs still face challenges in terms of capital, product innovation, business management, and marketing. The main problems that often arise are not only limited business capital, but also internal factors such as the quality of human resources (HR), managerial skills, and low levels of financial literacy among entrepreneurs.

HR quality plays a vital role in determining business success. MSMEs with knowledge and skills relevant to their business sector tend to be more adaptable to changes in the market, technology, and consumer needs. According to Ghozali (2020), high-quality HR will create efficiency in business operations, increase innovation, and strengthen competitiveness. On the other hand, the low level of formal education and lack of training for MSMEs in Sumenep Regency are major obstacles to increasing the capacity of qualified HR. Many MSMEs operate their businesses through generations without a strong management foundation.

Beyond HR aspects, financial literacy is also a crucial element in improving MSME performance. Financial literacy relates not only to the ability to understand financial reports but also to the ability to manage cash flow, investments, savings, and business credit. In a 2022 national survey, the Financial Services Authority (OJK) noted that the financial literacy index of MSMEs in Indonesia remains relatively low, at around 38%. This low financial literacy often causes business owners to experience difficulties in managing working capital, maintaining financial records, and accessing formal financing institutions. As a result, many businesses stagnate or even cease operations due to financial management errors.

Managerial skills are a third, equally important factor in determining business sustainability. MSMEs with skills in planning, organizing, implementing, and monitoring will more easily manage resources effectively and efficiently. According to Winarno and Sugiharto (2020), strong managerial skills enable MSMEs to adapt to market dynamics and make sound strategic decisions. However, the reality on the ground shows that most MSMEs in Sumenep Regency still operate based on intuition and personal experience, rather than systematic managerial analysis.

Various previous studies have shown that human resource quality, financial literacy, and managerial skills significantly influence MSME performance. Rini et al. (2020) found that financial literacy is positively related to more rational business decision-making, while Nuryakin and Riantani (2019) stated that managerial skills play a significant role in increasing the effectiveness and efficiency of MSME operations. However, research that simultaneously integrates these three variables in a local context, particularly in Sumenep Regency, is still rare. This creates an important research gap to examine the relationship between human, financial, and managerial aspects in determining business performance.

Furthermore, the geographic and socioeconomic context of Sumenep Regency, which is largely dominated by micro-businesses in rural areas, makes this research strategically valuable. The characteristics of Sumenep's community, which tends to be traditional, with limited access to business training and market information, make improving human resource capacity and financial literacy an urgent need. By examining the relationship between these three variables, this research is expected to provide an empirical overview of the factors most influential in improving the performance of local MSMEs. Based on this description, this study aims to analyze the influence of human resource quality, financial literacy, and financial literacy on the performance of local MSMEs. financial, and managerial capabilities on the performance of MSMEs in Sumenep Regency. This research is also expected to provide theoretical contributions to the development of management and financial science, as well as provide practical recommendations for local governments, financial institutions, and MSMEs to design strategies to strengthen business capacity based on human resource development and sustainable financial management.

## **METHOD**

This study used a quantitative approach with explanatory research to explain the causal relationships between the variables studied. The population in this study were MSMEs in Sumenep Regency, while the sample consisted of 20 respondents selected using purposive sampling techniques, with the criteria being that the business had been operating for at least two years and had permanent employees.

The research instrument was a questionnaire with a Likert scale of 1–5, consisting of four main constructs: Human Resource Quality (5 indicators), Financial Literacy (4 indicators), Managerial Ability (4 indicators), and MSME Performance (3 indicators). Before distributing the questionnaire, validity and reliability tests were conducted to ensure the instrument's suitability.

Data analysis was performed using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with the assistance of SmartPLS software version 4.0. The analysis consisted of two stages: an outer model test to assess the validity and reliability of the constructs, and an inner model test to examine the relationships between latent variables through path coefficients, R-square values, and t-statistics.

## **RESULT AND DISCUSSION**

### **Result**

This study involved 20 MSMEs across various sub-districts in Sumenep Regency. The sample was selected based on the criteria of businesses having been operating for at least two years and having permanent employees. Based on the survey results, the majority of respondents were engaged in the processed food sector (40%), trade (30%), and crafts (20%), while the remainder came from the service and agribusiness sectors. Data collected through a

questionnaire using a 1–5 Likert scale showed that the average score for each variable was above 3.8, indicating that MSMEs had positive perceptions of research indicators such as managerial ability and financial management.

Outer model testing conducted using SmartPLS software showed that all variable indicators had loading factor values above 0.7, Average Variance Extracted (AVE) values above 0.5, and composite reliability values above 0.8. These results indicate that all research constructs are valid and reliable, making them suitable for use in structural model testing. The indicators of human resource quality variables with the highest scores were "understanding their field" (0.87) and "planning ability" (0.85). This indicates that understanding the business sector is a key aspect of the human resource quality of MSMEs in Sumenep Regency.

The results of the financial literacy variable test show that the indicators "basic knowledge of financial management" and "savings and credit management" make the largest contributions to the construct, with loading factor values of 0.84 and 0.82, respectively. Meanwhile, the indicators "investment" and "insurance" have lower values, at 0.75 and 0.73, respectively, indicating that MSMEs' understanding of modern financial products is still limited. However, the overall results still show that financial literacy has a positive and significant impact on improving business performance.

For the managerial capability variable, the analysis results show loading factor values between 0.78 and 0.88. The indicators with the highest contributions are "planning" (0.88) and "supervision" (0.86). This confirms that the ability to plan business activities and conduct supervision is the main factor differentiating high-performing MSMEs from low-performing ones. Respondents who have a written business plan and regularly evaluate it tend to have more stable and improving performance over time.

For the MSME performance variable, the analysis results show an average indicator score of 4.2 on a scale of 5. The indicator with the highest score was "sales growth" (average 4.4), followed by "customer growth" (4.3) and "profit growth" (4.1). This data indicates that most MSMEs in Sumenep Regency have experienced increased business results in the past year, although some still face challenges in market development and product diversification.

The inner model test showed an R-square value of 0.72, meaning that 72% of the variation in MSME performance can be explained by human resource quality, financial literacy, and managerial skills. The remaining 28% is explained by other factors not included in the research model, such as government policy support, the business environment, and technology. The Q-square predictive relevance value of 0.61 also indicates that this model has good predictive ability in explaining MSME performance.

Based on the results of the direct effect test, it was found that human resource quality significantly influences MSME performance with a coefficient of 0.42 and a t-statistic of 3.67. Financial literacy also has a significant positive effect with a coefficient of 0.31 and a t-statistic of 2.95. Meanwhile, managerial ability has the most dominant influence with a coefficient of 0.46 and a t-statistic of 4.02. The mediation effect test shows that managerial

ability is a variable that strengthens the relationship between human resource quality and financial literacy on MSME performance. Thus, all research hypotheses are accepted.

### **Discussion**

The results of this study reinforce the view that human resource quality is a fundamental factor in determining MSME performance. Business owners with competence and a deep understanding of their business field tend to be able to adapt to market changes, innovate products, and manage resources efficiently. This finding supports human capital theory, which states that investing in individual capacity building will positively impact organizational productivity and performance (Becker, 1993).

Good human resource quality is determined not only by formal education but also by work experience, technical skills, and high work ethic. MSME owners in Sumenep who participated in entrepreneurship training demonstrated faster adaptation to technology and changes in consumer consumption patterns. This aligns with research by Sugiyanto (2021), which confirms that training and continuous learning improve decision-making skills and business efficiency.

The positive influence of financial literacy on MSME performance is also a key finding of this study. Financial literacy enables business owners to manage cash flow, maintain financial records, and separate personal and business finances. These results align with research by Lusardi and Mitchell (2014), which states that financial literacy is directly related to an individual's ability to make rational and sustainable economic decisions.

However, MSMEs' understanding of financial instruments such as investment and insurance remains relatively low. This lack of knowledge makes them less able to utilize formal financial products that could support their business development. This situation is similar to the findings of the Financial Services Authority (OJK) (2022), which stated that MSMEs in non-urban areas experience disparities in access to modern financial information and services.

Managerial ability has been shown to be the most dominant variable influencing MSME performance. This indicates that business success is determined not only by capital or technical skills, but also by the owner's ability to systematically manage, organize, and lead business activities. This finding supports the classical management theory proposed by Henri Fayol, which states that the functions of planning, organizing, implementing, and monitoring are core to organizational effectiveness.

The mediating effect of managerial ability strengthens the relationship between human resource quality and financial literacy on MSME performance. This means that even if a business owner possesses good knowledge and skills, without adequate managerial ability, business performance will not be optimal. These findings align with research by Rahmawati (2021), which states that managerial skills serve as a bridge between individual competency and business performance, particularly in independently managed small businesses.

Overall, the results of this study demonstrate that the three variables—human resource quality, financial literacy, and managerial skills—have a synergistic relationship in improving MSME performance. With an R-square value of 0.72, this model strongly suggests that internal factors are the primary determinant of micro-business success in Sumenep Regency. Therefore, an MSME development strategy is needed that focuses on improving human capacity through entrepreneurship education, management training, and strengthening financial literacy so that MSMEs can grow sustainably and competitively in the digital economy era.

## **CONCLUSION**

Based on the research results and discussion, it can be concluded that the quality of human resources, financial literacy, and managerial skills have a positive and significant influence on the performance of MSMEs in Sumenep Regency. These three factors play a simultaneous role in increasing productivity, efficiency, and business sustainability. Among the three, managerial skills are the most dominant variable in determining business success, because they reflect the ability of MSME actors to plan, organize, implement, and supervise operational activities effectively. In addition, managerial skills also act as a mediating variable that strengthens the relationship between human resource quality and financial literacy on MSME performance. Thus, increasing human resource capacity through entrepreneurship training, financial literacy education, and managerial strengthening needs to be a strategic priority in an effort to encourage the competitiveness and sustainable growth of MSMEs in Sumenep Regency.

## **ACKNOWLEDGEMENT**

The researchers would like to thank the Institute for Research and Community Service (LPPM) of Wiraraja University for the support and funding provided, which enabled this research to be carried out successfully. They also express their gratitude to the MSMEs in Sumenep Regency who participated and provided invaluable data and information for the completion of this research.

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