



Human Capital and Growth Mindset Influence the Performance of MSMEs through Psychological Capital as a Moderator Variable

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ABSTRACT

This study was conducted to examine how Human Capital and Growth Mindset influence the performance of MSMEs in Enriching Regency through Psychological Capital. The purpose of this research is to improve MSME performance by developing human capital and a growth mindset, as well as enhancing the quality of psychological capital among MSME actors. The study used a sample of 100 MSME actors in Enriching Regency, selected using purposive sampling techniques. Data were collected through questionnaires and analyzed. The analytical method employed is Partial Least-Square Structural Equation Modeling (PLS-SEM). The results of the study show that human capital and growth mindset have a positive and significant effect on MSME performance. Additionally, psychological capital is proven to moderate the relationship between human capital and MSME performance, as well as between growth mindset and MSME performance

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a vital part of the economy in many countries, as evidenced by their contribution to economic growth and national economic development (AlKahtani et al., 2021). Research by Gumel and Bardai (2023) also highlights the role of MSMEs not only as contributors to GDP but also as crucial players in Indonesia's economic recovery. This has led the government to highly prioritize the development of MSMEs, recognizing their vast potential in advancing the economy and society.

According to Kale (2015), as one of the key pillars supporting a country's economy, MSMEs have proven capable of surviving and competing even during economic crises. The success and growth of MSMEs have implications for increasing the number of products produced and expanding markets, both domestically and internationally. However, despite the positive potential shown by MSME development, many MSMEs still face challenges in achieving optimal business performance. One of the reasons for the suboptimal performance of MSMEs is that many business owners do not have the right mindset in running their businesses, and the quality of human resources among MSME actors remains low (Mukhlis et al., 2022). MSME actors need to understand the importance of having high-quality human capital and a strong growth mindset, which have a significant impact on improving business performance.

"Human capital" etymologically consists of two words: "Human" and "Capital." This term encompasses knowledge, expertise, skills, and creativity embodied in work abilities that can be used to create professional services and economic value. According to Gaol (2014), human capital refers to the knowledge, competencies, abilities, and skills that make individuals or employees valuable assets to a business. Human capital is crucial in supporting business actors' ability to improve business productivity. Not only is human capital important in enhancing business performance, but having the right mindset is also essential for running a business, as it enables MSME actors to make better decisions, leading to more optimal performance.

According to Carol Dweck (2015), a growth mindset is a way of thinking that believes potential can develop through increasingly difficult obstacles. MSME actors with a strong growth mindset believe that personal potential can grow by facing greater challenges. They believe that anything can be achieved through continuous learning. The learning process often involves challenges and obstacles, but they believe that with effort and perseverance, these can be overcome and will yield results. When facing failure, they seek new strategies, alternative solutions, and are not hesitant to ask for help when necessary (Bakirli S, 2020). This shows that with the right mindset, MSME actors can effectively grow their businesses. However, it is not just a growth mindset that helps; positive psychological capital also aids MSME actors in optimizing their business performance.

Psychological capital refers to a positive psychological state that business actors must possess, serving as a strength in facing business challenges. Knowledge and skills combined with positive psychological capital will enhance confidence, hope, optimism, and resilience, thereby improving individual and

organizational performance. Having a high level of positive psychological capital will shape stronger characters among MSME actors. They will have the ability and skills to be more confident when running their businesses, which in turn will positively impact their business performance.

LITERATURE REVIEW

MSMEs play an important role in the Indonesian economy. The performance of MSMEs is strongly influenced by internal factors such as the growth mindset of MSME actors and the human capital owned by these MSME actors. Knowing how important these two factors contribute to the performance of MSMEs can help in formulating effective strategies to improve business productivity and competitiveness.

Micro, Small and Medium Enterprises (MSMEs) as the backbone of the Indonesian economy must have good performance in order to continue to live and develop. The performance of MSMEs can increase with good management of MSME actors and employees. Therefore, it is very important to improve the quality of human resources who will later run a business (Bryant, Scott & Aytes, 2019). To be able to achieve good performance at work, qualified human resources are needed and have a good growth mindset (Claro et al., 2016).

Growth mindset is the belief that one's abilities can be developed through practice and effort (You, 2016). An entrepreneur with a growth mindset will be willing to accept challenges. Faced with difficult work will be an opportunity to develop themselves so that they can be maximally honed when facing more difficult problems.

In a study conducted by (Giorgi et al., 2020) showed that MSME owners who adopt a growth mindset are more likely to continue learning and innovating, which ultimately increases the productivity and performance of MSMEs. They tend to adopt a flexible, innovative and risk-taking managerial approach, which is crucial in the development of small and medium enterprises.

Several previous studies have shown that MSME owners who have a growth mindset tend to be more open to change, take measured risks, and are more ready to innovate. Individuals with a growth mindset are better able to cope with failure and see it as an opportunity to teach (Kamriana et al., 2022).

MSME leaders who have a growth mindset have a positive impact on organizational performance because they tend to motivate employees, create an inclusive work culture, and encourage skills development (Aleea Dian Putri Reskido, 2023).

Human capital refers to the skills, knowledge and experience that individuals have that contribute to economic productivity. In the context of MSMEs, human capital owned by owners, managers and employees greatly affects business performance. Human capital theory emphasizes the importance of education, training and work experience in improving productivity. Investments in human capital development (skills training, business knowledge enhancement) can help MSMEs adapt to market and technological changes.

Investment in human capital such as education and training can significantly improve the performance of MSMEs (Adam & Negara, 2015). With

better human capital, MSMEs are able to manage resources more efficiently, increase innovation, and face tougher market competition.

METHODOLOGY

This study employs a quantitative descriptive research approach. A Likert scale is used for all variables. On the Likert scale, each item in the statement represents a range of growth from very positive to very negative. The standard response for each statement is rated on a 5, 4, 3, 2, 1 scale. The variables include (1) growth mindset (independent variable), (2) human capital (independent variable), (3) MSME performance (dependent variable), and psychological capital (moderating variable). The sampling method used in this study is purposive sampling. The characteristics that determine the sample in this study are: (1) MSME actors in Enrekang Regency, (2) Have been running their business for one year, and (3) MSME actors are still developing their business to this day.

The data analysis method in this study requires Structural Equation Modeling (SEM) using SmartPLS 4 software to test the relationship between one or more endogenous variables and one or more exogenous variables, according to Kurtaliqui et al. (2024). The SEM method is considered effective in evaluating the magnitude of latent variables and the strength of the relationships between latent variables. According to commonly use rules (Ghozali, 2021), they are as follows: a loading factor > 0.70 is considered sufficient to meet the convergent validity of the Average Variance Extracted (AVE). For discriminant validity, the value should be > 0.50 . Discriminant validity refers to the principle that different constructs should not correlate highly. Discriminant validity of reflective indicators, based on the cross-loading of each variable, must be > 0.70 (Ghozali, 2021).

RESULT

Profil Demografis

This study was conducted by distributing a questionnaire to 100 MSME respondents in Enrekang Regency. The characteristics of the respondents are intended to describe personal data included in respondent identification. Personal data to be outlined include gender, age, and domicile. The following table of respondent data is presented to clarify the characteristics of the respondents, specifically gender. Among the 100 MSME respondents, 53% were female and 47% were male. In terms of age range, the oldest group is 36-40 years old with 29 respondents, while the youngest group is 21-25 years old with 19 respondents. Regarding domicile, the highest number of respondents is from Enrekang District, with 27 respondents, while the lowest number is from Cendana District, with 11 respondents.

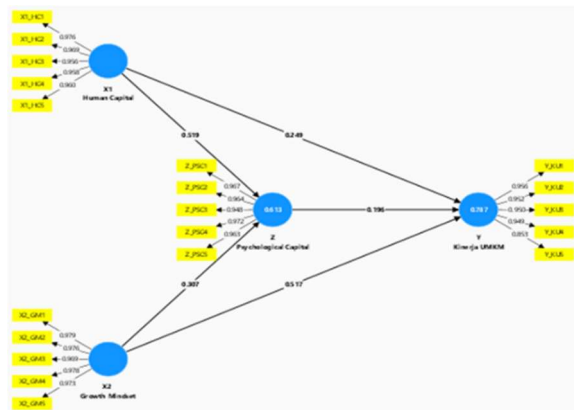
Table 1. Demographic Profile

Description	Values	Sum	Percentage (%)
Gender	Woman	53	53%
	Man	47	47%
Age	21-25	19	19%
	26-30	27	27%
	31-35	25	25%
	36-40	29	29%
	Enekang	27	27%
Domicile	Anggeraja	16	16%
	Alla'	21	21%
	Cendana	11	11%
	Baraka	25	25%

Source: Processed by the Researcher, 2024

Measurement Model

The evaluation of an external model in a study aims to understand the validity and reliability of the indicators forming a variable (Ghozali, 2021). In SmartPLS 4.0, to assess the validity and reliability, one can use the PLS-SEM algorithm and examine external loadings, cross-loadings, and Average Variance Extracted (AVE). These three values serve as parameters for indicator and variable validity, while composite reliability and Cronbach's Alpha are used to test the reliability of a structure. In this study, the researcher tested the measurement model with 100 primary respondent data that passed the screening and profiling stages. The results of the measurement model test in this study are shown in the figure below



Source: Processed Data from Smart PLS, 2024

Figure 1. Measurement Model Test Results

The calculation results are presented in Table 2.

Table 2. Validation and Reliability Configuration

Items	Convergent Validity		Reability		
	Loading Factor	AVE	Cronbach'a Alpha	Rho_C	Rho_A
X1_HC1	0.976	00.929	0.981	0.985	0.981
X1_HC2	0.969				
X1_HC3	0.956				
X1_HC4	0.958				
X1_HC5	0.960				
X2_GM1	0.979	00.950	0.987	0.990	0.987
X2_GM2	0.976				
X2_GM3	0.969				
X2_GM4	0.978				
X2_GM5	0.973				
Y_KU1	0.959	00.910	0.975	0.981	0.976
Y_KU2	0.955				
Y_KU3	0.956				
Y_KU4	0.952				
Y_KU5	0.949				
Z_PSC1	0.967	00.927	0.980	0.985	0.982
Z_PSC2	0.964				
Z_PSC3	0.948				
Z_PSC4	0.972				
Z_PSC5	0.963				

Source: Processed data from Smart PLS, 2024

DISCUSSION

The results of this study find that human capital affects the psychological capital of MSME actors in Enrekang Regency. This finding is supported by evidence that human capital has a positive effect on positive psychological capital. High human capital among MSME actors enhances their confidence to overcome challenges and achieve goals. MSME actors with high skills are more efficient in performing their tasks, which in turn affects their self-confidence, making them more optimistic in their work (Ranft & Lord, 2020). By continuously developing their skills, MSME actors can improve their efficiency, self-confidence, and optimism, leading to greater success (You, 2016).

The results of this study indicate that a growth mindset affects the positive psychological capital of MSME actors in Enrekang Regency. A high growth mindset enhances the quality of psychological capital among MSME actors, which assists them in making decisions and developing resilience against potential failures. It helps MSME actors endure competition and prepare for any changes that may occur in their business environment. A growth mindset supports MSME actors in implementing business ideas, making decisions, developing marketing strategies, and improving their potential and business sustainability (Afifah et al., 2018).

The results of this study are supported by Puente-Díaz & Cavazos-Arroyo (2017), who state that a high growth mindset fosters motivation, hope, resilience, and self-efficacy among MSME actors. The right mindset positively influences the psychological quality of MSME actors, which in turn impacts their performance quality. When an individual has a deep understanding of a growth mindset, it can enhance their knowledge and skills in developing a larger business (Sahagun et al., 2021).

This study's results indicate that there is a positive and significant effect of human capital on MSME performance in Enrekang Regency. MSME actors with high-quality human capital will benefit and contribute to improving their business performance. This finding supports previous research, such as the study by Ula et al. (2023), which showed a significant impact of human capital on MSME performance. Human capital affects the productivity of MSME actors in Enrekang Regency and can enhance evaluation and decision-making, which in turn influences the sustainability of their businesses.

This study shows that a growth mindset has a positive and significant impact on MSME performance in Enrekang Regency. These results are consistent with previous research, which also found that a growth mindset positively affects MSME performance (Limeri et al., 2020). MSME actors with a high growth mindset are more likely to adapt to changes across various sectors and view these changes as challenges and opportunities for continuous learning and development. Another study by Abdissa et al. (2021) also reveals that MSME actors with a growth mindset who are committed to continuous learning and effort achieve better performance.

The results of this study indicate that psychological capital affects MSME performance in Enrekang Regency. MSME actors with favorable psychological conditions tend to have better performance. The positive and significant effect of

psychological capital on MSME performance shows that higher psychological capital leads to higher MSME performance (Fey & Denison, 2020). This aligns with previous research by Wu et al. (2022), which states that MSME actors with high motivation, hope, optimism, and self-efficacy positively influence the improvement of MSME performance.

The results of this study indicate that psychological capital strengthens the effect of a growth mindset on MSME performance in Enrekang Regency. This is consistent with previous research by Kusa et al. (2021), which revealed that business actors with the right mindset combined with high positive psychological conditions are more effective in achieving optimal performance. In this context, the role of psychological capital as a moderating variable is crucial in moderating the relationship between growth mindset and MSME performance. High-quality psychological capital enables MSME actors to more easily develop their businesses through new and creative ideas, and to be resilient in facing problems and more confident in handling business challenges (Mkuna, 2024).

The results of this study show that psychological capital enhances the effect of human capital on MSME performance in Enrekang Regency. MSME actors with adequate human capital provide a crucial foundation for achieving good performance, while psychological capital also plays a significant role in improving MSME performance (Ranft & Lord, 2020). This finding is consistent with research by Esubalew & Raghurama (2020), which found that human capital positively contributes to increased work motivation, subsequently impacting MSME performance. Psychological capital can strengthen the effect of human capital on improving MSME performance by providing MSME actors with greater ability and flexibility to develop creative and innovative business ideas based on high levels of knowledge and expertise (Srimulyani et al., 2023).

CONCLUSION AND RECOMMENDATIONS

Based on the research findings, it can be concluded that human capital, growth mindset, and psychological capital can create a strong synergy and have a positive and significant impact on improving MSME performance. Additionally, psychological capital significantly influences MSME performance in Enrekang Regency and is capable of moderating the relationship between human capital and growth mindset with MSME performance in the region.

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