

THE ROLE OF HUMAN CAPITAL IN SMES PERFORMANCE THROUGH INNOVATION CAPABILITIES

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ABSTRACT

This study aims to analyze the impact of innovation capability on MSME performance by considering human capital. This study applies a quantitative approach using primary data samples from 62 respondents to MSME actors spread across Ponorogo Regency. The sampling technique in this study was non-probability sampling using the purposive sampling method. The study's results indicate that human capital and innovation capability positively and significantly impact improving SMEs' performance. Likewise, human capital has a significant positive effect on improving innovation capability. Furthermore, innovation capability can mediate the influence of human capital on SMEs' performance. This is supported by the knowledge and skills possessed by business actors who can easily carry out business innovations.

ABSTRAK

Penelitian ini bertujuan untuk menganalisis dampak kapabilitas inovasi terhadap kinerja UMKM dengan mempertimbangkan sumber daya manusia. Penelitian ini memiliki tiga variabel yaitu modal manusia, kapabilitas inovasi, dan kinerja UMKM. Penelitian ini menerapkan pendekatan kuantitatif dengan menggunakan sampel data primer dari 62 responden pelaku UMKM yang tersebar di Kabupaten Ponorogo. Teknik pengambilan sampel pada penelitian ini adalah non-probability sampling dengan menggunakan metode purposive sampling. Hasil penelitian menunjukkan bahwa sumber daya manusia dan kemampuan inovasi berpengaruh positif dan signifikan terhadap peningkatan kinerja UKM. Begitu pula dengan human capital berpengaruh positif signifikan terhadap peningkatan kapabilitas inovasi. Lebih lanjut, kapabilitas inovasi dapat memediasi pengaruh sumber daya manusia terhadap kinerja UKM. Penelitian ini menunjukkan bahwa kapabilitas inovasi berdampak pada peningkatan kinerja UMKM dengan mempertimbangkan sumber daya manusia. Hal ini didukung dengan pengetahuan dan keterampilan yang dimiliki pelaku usaha yang dapat dengan mudah melakukan inovasi usaha.



INTRODUCTION

Every business actor tries to maintain and improve performance by using strategies to achieve good performance. For this reason, sustainable strategy practices must be the actions of every business actor, especially in the MSME sector. However, problems or issues in the MSME sector still exist. Especially in the issue of limited access to capital and restricted access to technology and innovation, this can cause MSME actors to need help in carrying out business transformation and impact the sustainability of the business being run. The same thing was conveyed by (Icon et al., 2012) stating that one of the factors that hinders the sustainability of the MSME sector is not having high innovation power, so it is difficult to carry out the business adaptation process. Therefore, it is necessary to formulate a strategy for the business's sustainability by increasing the business's innovation capacity. There is a need for innovation capacity as one solution to overcome problems that occur in the MSME sector. Innovation capacity is considered necessary in the business world to increase business productivity and improve performance.

Innovation capability is one of the most efficient and effective business strategies for creating new products, establishing new or better production processes, modifying management and marketing systems that facilitate the acquisition of more and better competitive advantages, and increasing business performance levels (Bogetoft et al., 2024). Maldonado-Guzmán et al. (2019) stated that product, process, and commercialization innovation and management systems are the most commonly discussed strategies in several literature studies because these innovations can enable organizations to achieve better business performance. Therefore, the innovation capabilities of MSME business actors are needed to create MSMEs that can grow and survive for a long time. However, innovation capabilities can be increased when supported by adequate human capital in terms of support with human capital readiness.

Human capital is essential to improve business performance in certain sectors. The purpose of human capital, such as skills, knowledge, and experience possessed by employees, is to improve the performance of the employees themselves so that it will impact their ability to innovate (Ployhart & Moliterno, 2011). Human capital is an intangible asset that is an important element in profit generation (Harrison & Sullivan, 2000). Improving human resource capabilities can improve innovation performance and stimulate individuals to adapt to every change in a business (Huang et al., 2023). Thus, human capital, such as knowledge, skills, and experience, encourages companies or businesses to improve their innovation capabilities so that they can survive and maximize their profits. Marchiori et al., (2022) Their research found that human resources have a positive impact on individuals' ability to innovate. Furthermore, Ni et al. (2023) found that human capital has a positive impact on a business's sustainability. So, he argues that human resources are a company's main focus in improving its performance.

Apart from the problems that occur in MSMEs, researchers also refer to previous authors' inconsistencies regarding the influence of human capital on MSME performance. Marchiori et al., (2022) found that human capital has a significant positive effect on MSME performance. However, this is different from the findings of Aman-Ullah et al., (2022a) and AlQershi et al., (2022) that human capital does not have a significant effect on MSME performance. Furthermore, this may indicate that human capital is not the main factor in improving performance (Iqbal et al., 2023a). In addition to the research's inconsistency, researchers also modeled innovation capability as a mediating variable between human capital and MSME performance, which previous researchers with research objects in the MSME sector have rarely studied.

Based on the background of the problem, namely between the research gap and the phenomenon of business actors in the MSME sector, the formulation of the problem in this study is "How can the innovation capability development model by considering human capital improve MSME performance? This study aims to explore the concept of innovation capability to fill the gap and inconsistency of previous research between human capital and MSME performance that focuses on innovation capability. Through innovation capability, it is expected to realize increased MSME performance.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

SME performance

Micro, Small, and Medium Enterprises Performance is a measure to assess how well an MSME organization carries out its business activities (Makhija & Goel, 2019). Furthermore, the definition of MSME performance is the ability of MSMEs to manage the resources they have to achieve their business goals effectively and efficiently (Rana & Choudhary, 2019). From the definition above, it can be concluded that MSME performance is a work result achieved by a micro, small, and medium enterprise in carrying out its business activities to achieve its goals. Factors that influence MSME performance include managerial ability, access to financing, entrepreneurial characteristics, product innovation, and business networks (Fatimah et al., 2021). Good organizational ability, sufficient access to funding, superior entrepreneurship, ongoing product innovation, and extensive business networks can support improved MSME performance (Salim et al., 2022). MSME performance can be improved by increasing business management training activities through finance, marketing, and business strategy training (Kharub et al., 2024). From these activities, MSMEs are expected to manage their businesses better and increase their competitiveness (Asep Saeful & Ekhsan, 2024). Furthermore, product innovation develops by empowering technological resources, knowledge, and creativity to create new, better products to meet market needs. As well as increasing digital marketing capabilities by utilizing information and communication technology to increase the marketing reach of MSME products (Huu, 2023). This method is part of the innovation carried out by MSMEs to improve their performance. These efforts are expected to enhance MSME performance and support national economic growth (Huu, 2023).

Human Capital

Human capital is related to the knowledge and abilities a person develops through education, training, and discussions with colleagues (Ahmad, 2012). From an individual level, human capital includes education, skills, and knowledge (Gammelgaard et al., 2023). Human resources are the most valuable resource for the sustainability of a business (Zahra et al., 2006). The same thing was conveyed by (Aman-Ullah et al., 2022). Human resources are among the most important resources for organizations, especially those in the MSME sector. A business's operational activities depend on human resources, including their skills, knowledge, and abilities. Human resources are closely related to business development, so for MSME sector businesses, it is important to allocate resources efficiently to increase innovation capacity, ultimately ensuring their business's sustainability (Chiu & Lin, 2022). Human resources are an important factor in the needs of competitiveness and sustainability of a business (Sabadie, 2014). Human capital is the accumulation of competencies, knowledge, and skills needed to carry out business activities, especially for small business actors (Dzinkowski, 2000). Furthermore (Lufungula & Borromeo, 2019) describes human capital as a combination of skills, training, and employee attitudes. Research has explored the impact of human capital on MSME performance. By strengthening the workforce's skills, knowledge, and abilities, businesses can gain a competitive advantage and encourage sustainable growth of businesses in the MSME sector (Daniel, 2019). This is in line with research by (Tjahjadi et al., 2022), which found that human capital directly affects performance in Micro, Small, and Medium Enterprises. In addition to having a positive impact on MSME performance, human capital can also have an effect on innovation behavior in the MSME sector.

Human capital shown through knowledge and skills can encourage someone to always be productive in innovating in the micro, small, and medium business sectors (Singh, 2019a). This aligns with research from (Shahbaz et al., 2024), which states that human capital, indicated by skills in managing a business, can increase business innovation in the MSME sector. Human capital, which includes skills, knowledge, and abilities possessed by individuals, is widely recognized as an important driver of

innovation capabilities in businesses in the MSME sector. Thus, the hypothesis in this study can be formulated as follows.

H₁: Higher human capital can improve the performance of SMEs

H₂: Higher human capital can increase the ability to innovate

Innovation Capability

Innovation is an organization's ability to produce new, valuable products, processes, or services. Innovation capability in MSMEs involves the creativity, expertise, and resources needed to develop and implement new ideas (Simamora & Sulistianingsih, 2022). Innovation capability enables MSMEs to adapt to environmental changes and improve their performance. Various factors can influence MSME innovation capability, including human resource capabilities, access to financial resources, networks, and government policy support (Singh, 2019b). MSME innovation capability can significantly impact business performance (Pachava, 2018). Research shows that innovation capability can increase MSME productivity, efficiency, and competitiveness (Singh, 2019b). Innovation can help MSMEs develop new, better products or services to respond to market changes and consumer needs. Furthermore, innovation capability is also closely related to management skills and the ability to adopt new technologies (Handiwibowo et al., 2020). Innovation capability in MSMEs involves creativity, expertise, and resources needed to develop and implement new ideas. Innovation capability enables MSMEs to adapt to environmental changes and improve their performance (Pachava, 2018). Innovation capability is an important component in improving the performance of Micro, Small, and Medium Enterprises (Yuen & Ng, 2021). Innovation enables MSMEs to develop new products, processes, or services that can improve their productivity, efficiency, and competitiveness (Pachava, 2018). Innovation capability is also closely related to management skills and the adoption of new technologies, which can support the growth and success of MSMEs (Latifah et al., 2020). Therefore, building and supporting innovation capability within MSMEs is very important to improve their performance and competitiveness in the market (Hamsani et al., 2021). Thus, the following hypothesis can be formulated as follows.

H₃: The higher the innovation capability, the higher the performance of SMEs

RESEARCH METHOD

This research is explanatory, a form of research intended to explain the relationship between each variable, namely between the independent and dependent variables or the relationship between variables. The variables in this study include human capital, innovation capability, and MSME performance. This study uses primary data from respondents, namely business actors in the MSME sector in Ponorogo. The primary data in this study are respondents' responses to the variables of human capital, innovation capability, and MSME performance.

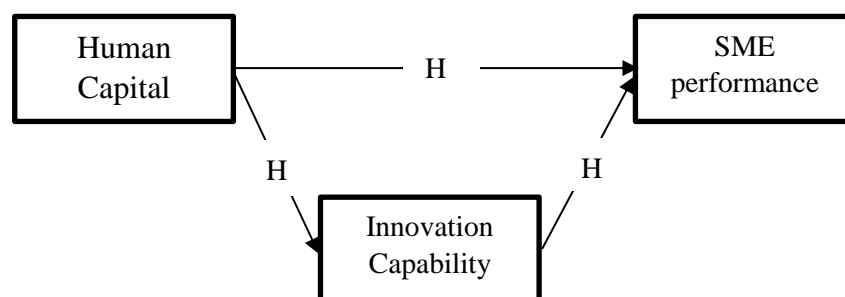


Figure 1. Conceptual Framework

The population used in this study comprises micro, small, and medium enterprises (MSMEs) in Ponorogo. The sample in this study is MSME actors who utilize external capital in developing the businesses they run. The sampling technique uses non-probability, namely purposive sampling, with the condition that business actors have run their companies or are over 5 years old. Then, the number of samples (sample size) refers to the opinion (Hair et al., 2006), which states that the number of samples is an indicator multiplied by 5 to 10 or a minimum of 100 respondents. Thus, the number of samples in this study is 12 indicators multiplied by 6, resulting in 72 respondents. After the questionnaires were collected, 72 responses were provided, an outlier test was conducted, and 62 questionnaires were suitable for use. Data was collected by distributing questionnaires directly and asking respondents a list of questions. The questionnaire was distributed via Google Forms and sent to the respondents. The results of the questionnaire filled out by the respondents were automatically stored and documented so that their confidentiality would be maintained. The questions asked were closed questions, namely questions whose answers were limited by the researcher, so this did not allow respondents to answer questions based on their opinions.

This study used human capital, innovation capability, and MSME performance. The measurement of the indicators for each variable is as follows. The human capital indicator consists of an understanding of the business being run, the ability to manage the business, an understanding of the service, and the ability to interact. The innovation capability indicator consists of being responsive to market needs, varying products in meeting needs, being skilled at managing the business, and having innovative behavior. MSME performance indicators include increasing sales, business capital, market expansion, and profits. Data analysis techniques are used to answer the problem formulation or test the formulated hypothesis. In the PLS (Partial Least Square) method, the analysis techniques are as follows: 1) Outer model analysis. 2) Inner Model Analysis. And 3) Hypothesis Testing

RESULT AND DISCUSSIONS

Variable Description

Respondents' perceptions regarding the variables studied: financial literacy, easy access to finance, innovation process, and SME growth. This study uses a range of criteria of 3 categories. Therefore, the interpretation of the value is as follows: (1) low if the value 14 – 42; (2) currently if the value 42,1 – 71; (3) high if the value 71,1 – 100. Table 1 shows that the overall average index of respondents' answers to each human capital indicator is 79.15%, with details as shown in Table 1 above. Providing good, friendly service to every customer who visits my place of business has an answer percentage of 81.80%, which is in the high category. This shows that business actors in the SME sector have provided excellent and friendly customer service. The ability to manage my business has an answer percentage of 77.42%, which is included in the high category. This shows that business actors in the SME sector can already manage their businesses. This proves they already have the literacy, knowledge, and skills to manage every business they own. Thus, it can be concluded that business actors in the SME sector, in terms of human capital, have met the criteria regarding the knowledge and skills they already possess.

Table 1 shows that the overall average index of respondents' answers to each innovation capability indicator is 78.29%, with details as shown in Table 2 above. Being able to manage my business well has an answer percentage of 80.65%, which is included in the high category. This shows that business actors in the SME sector have been able to manage their businesses well. I am responsive in meeting market demand and have an answer percentage of 75.81%, which is in the high category. This shows that business actors in the SME sector already have good responsiveness in meeting market needs or the needs of their customers. Thus, it can be concluded that business actors in the SME sector, in terms of innovation capability, have performed well if guided by the answers to each statement in the questionnaire.

Table 1. Variable Description

No	Variable Statement	Std. Deviation	Percentage	Category
Human Capital				
1	I can understand well the business that I run	1,078	79.95	high
2	I can manage the business that I run	1,017	77.42	high
3	Constantly interact well with my business partners and consumers	1,153	77.42	high
4	Providing good, friendly service to every customer who visits my place of business	1,119	81.80	high
Innovation Capability				
1	I am responsive in meeting market demand	1,018	75.81	high
2	Providing a variety of products to meet the needs of my consumers	1,078	77.19	high
3	I can manage my business well	0.870	80.65	high
4	My business implements innovative behavior to meet customer needs	0.898	79.49	high
SMEs Performance				
1	The business I run experienced a significant increase in sales compared to the previous year.	1,092	75.58	high
2	The business that I run gets capital income from business income	1,126	77.88	high
3	My business experienced market expansion due to additional customers	1,093	79.95	high
4	Profit achievement has increased compared to the previous year	1,170	78.57	high

Table 1 also shows that the overall average index of respondents' answers to each SME performance indicator is 77.99%, with details as shown in Table 3 above. My business experienced market expansion due to additional customers. The answer percentage was 79.95%, which is in the high category. This shows that the company they run has good performance, as shown in the increased number of customers they get. The business I run experienced a significant increase in sales compared to the previous year, with an answer percentage of 75.58%, which is in the high category. This indicator is the lowest percentage of all indicators in the SME performance variable but is still in the high category. This shows that the business being run has performed well due to a significant increase in sales.

Outer Model Result (Measurement Model)

Outer model analysis aims to assess the measurement construct of the latent variable and carry out validity and reliability tests. Validity tests measure the extent to which research indicators describe something to be measured (latent variables). The validity test can be seen at two points: outer loading and discriminant validity. The first validity test uses the outer loading table, as presented in Table 2. Based on the statistical tests carried out, it can be explained that all indicators of each variable are considered valid. This can be seen from the factor loading value for each indicator $>0,70$. For further analysis of each indicator, use a cross-loading table in Table 3.

Table 2. Outer Loading

	Human Capital	Innovation Capability	SMEs Performance
HC1	0.862		
HC2	0.874		
HC3	0.891		
HC4	0.913		
IC1		0.887	
IC2		0.884	
IC3		0.735	
IC4		0.895	
SP1			0.924
SP2			0.860
SP3			0.877
SP4			0.930

Table 3 shows that all indicator loadings on the construct are more significant than their cross-loadings. Therefore, this model meets the requirements for discriminant validity. Furthermore, the reliability test in Table 7 presents Cronbach's alpha and composite reliability values; it also shows the average variance extracted (AVE) value, which is used to demonstrate convergent validity. The data is valid if the AVE value exceeds 0.5. Based on Table 7, the constructs that make up the latent variables are valid so that the next analysis stage (reliability test) can be carried out. Meanwhile, test reliability can be seen in Cronbach's alpha and Composite Reliability columns. The data is reliable if the latent variables in these two categories exceed 0.7. The reliability test itself is carried out to measure whether the questionnaire or indicators used in research can provide consistent or stable results over time (Ghozali, 2016).

Table 3. Cross-Loadings

	Human Capital	Innovation Capability	SMEs Performance
HC1	0.862	0.815	0.683
HC2	0.874	0.797	0.752
HC3	0.891	0.770	0.704
HC4	0.913	0.784	0.717
IC1	0.796	0.887	0.661
IC2	0.823	0.884	0.700
IC3	0.631	0.735	0.622
IC4	0.787	0.895	0.758
SP1	0.758	0.761	0.924
SP2	0.652	0.725	0.860
SP3	0.761	0.728	0.877
SP4	0.723	0.675	0.930

Table 4. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Human Capital	0,908	0,908	0,935	0,783
Innovation Capability	0,873	0,882	0,914	0,727
SMEs Performance	0,920	0,922	0,943	0,807

Table 4 shows that the four latent variables used in this research have Cronbach's Alpha and Composite Reliability values greater than 0,7. Thus, based on the test results, it has met the requirements and can proceed to the next test stage, namely the inner model.

Inner Model (Structural Model) Result

From the Figure 1, the path coefficient value is determined using the following equation.

$$\eta_1 = a\epsilon_{HC} + e\eta_1$$

$$\eta_1 = 0.894 \text{ human capital} + e$$

$$\eta_2 = a\epsilon_{HC} + a\epsilon_{IC} + e\eta_2$$

$$\eta_2 = 0.436 \text{ human capital} + 0.415 \text{ innovation capability} + e$$

Square Value

Table 5 explains the contribution of exogenous variables to endogenous variables. From this table, it can be seen that the contribution of the human capital variable to innovation capability is 0,80 or 80%. This shows the powerful influence of human capital on innovation capability. And 20% was influenced by other variables that the researchers did not include in this research. Furthermore, the contribution of human capital and innovation capability to SME performance was 0.686 or 68.6%. This shows the strong influence of human capital and innovation capability on SMEs' performance. And 31.4% is influenced by other variables that researchers did not include in this research variable.

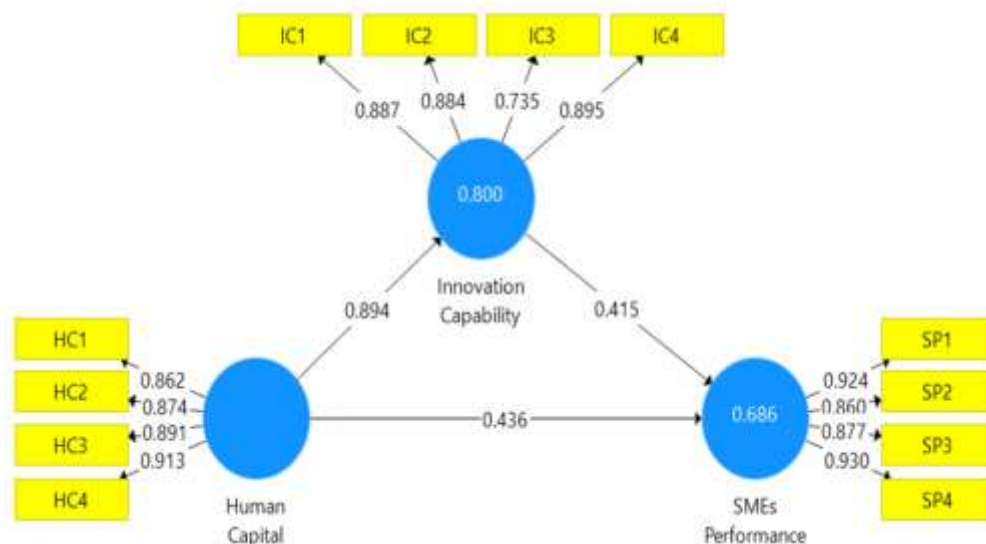

Figure 1. Path Coefficient

Table 5. R-Square

	R Square	R Square Adjusted
Innovation Capability	0,800	0,797
SMEs Performance	0,686	0,676

Q-Square Test (Q2)

Table 8 carries out a Q-Square test to predict whether the model is good. The Q-Square test can be carried out using the blindfolding procedure. The Q-Square test value states that $Q^2 > 0$, meaning that the variables and data can predict the model well. Meanwhile, $Q^2 < 0$ means that the variables and data cannot predict the model well. Relatively large. The test results show innovation capability with a value of 0.570 and SME performance with a value of 0.541. It can be concluded that these two variables can predict the model well.

Hypothesis Testing

Based on the results of testing hypothesis 1 (H1), the path coefficient value presented in Table 9 obtained a t-statistic value of $2.315 > t\text{-table}, 1.999$, while the probability value or P-value was $0.021 < 0.05$. So, the first hypothesis, namely that human capital has a significant positive effect on SME performance, is accepted. Based on the results of testing hypothesis 2 (H2), the path coefficient value presented in Table 9 obtained a t-statistic value of $30.555 > t\text{-table}, 1.999$, while the probability value or P-value was $0.000 < 0.05$. So, the second hypothesis, namely that human capital has a significant positive effect on innovation capability, is accepted. Based on the results of testing hypothesis 2 (H3), the path coefficient value presented in Table 9, we obtained a t-statistic value of $2.091 > t\text{-table}, 1.999$, while the probability value or P-value was $0.037 < 0.05$. So, the third hypothesis, namely innovation capability on SME performance, is accepted.

Discussion**Human Capital on SMEs Performance**

The first hypothesis proposed in this research is that higher human capital can encourage better performance of SMEs. Human capital built with indicators of knowledge, skills, social capital, and individual behavior can positively impact SMEs' performance through efficiency, effectiveness, improved operations, and increased income. The importance of human capital is demonstrated through individual knowledge when running a business. Business actors must master the field of business they run to make it easier to determine business strategies for short-term and long-term needs so that business stability is better. Thus, the benefits of knowledge in running a business are an indicator for creating SME businesses that grow well, resulting in better performance. Human capital can also be demonstrated through individual skills in running a business. The skills of business actors in running their business are characterized by the ability to manage their business well. The success of a business lies in the extent to which the business can be managed well. A well-managed business can impact effectiveness and even increase opinion on the business itself.

Table 6. Q-Square (Q2)

	SSO	SSE	$Q^2 (=1-SSE/SSO)$
Human Capital	248,000	248,000	
Innovation Capability	248,000	106,724	0,570
SMEs Performance	248,000	113,901	0,541

Table 9. Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Human Capital -> Innovation Capability	0,894	0,895	0,029	30,555	0,000
Human Capital -> SMEs Performance	0,436	0,436	0,188	2,315	0,021
Innovation Capability -> SMEs Performance	0,415	0,420	0,198	2,091	0,037

Therefore, business actors must manage their business to achieve and improve business performance. Human capital can also be demonstrated through social capital by individuals running their businesses. Individuals' social capital can be characterized by the ability of business actors to interact with their business partners and consumers. With high social ties, consumers can also have high trust in business actors. Therefore, social capital can positively impact business effectiveness and increase the income of the business actor. Human capital is one of the driving factors that support SMEs' business performance improvement. The results of this research show that the importance of human capital through knowledge, skills, social capital, and social interaction has a significant positive impact on improving the performance of SMEs. This research aligns with research conducted by (Iqbal et al., 2023b), (Mubarik et al., 2020) found that human capital positively impacts the performance of SMEs.

Human Capital on Innovation Capability

The second hypothesis proposed in this research is that higher human capital can encourage higher innovation capability. Human capital built with indicators of knowledge, skills, social capital, and individual behavior can positively impact innovation capability through product innovation capabilities, business process capabilities, marketing capabilities, and management system capabilities. High human capital through high knowledge can make it easier for them to run their business. The knowledge provided by business actors can make it easier for them to carry out business innovations. Human capital can also be demonstrated by the ability of business actors to manage their business well. So, with these skills, business actors can skillfully innovate the products they produce. Therefore, human capital is critical to increasing innovation capabilities, especially in the small and medium business sectors. This is like in research Aman-Ullah et al., 2022b) and Chaudhuri et al. (2023), which explains that human capital can create innovation capabilities in entrepreneurial practice.

Innovation Capability on SMEs Performance

The third hypothesis proposed in this research is that higher innovation capability can encourage SMEs' good performance. Innovation capability, built with indicators of product innovation capability, business process capability, marketing capability, and management system capability, can positively impact improving SMEs' good performance, as shown by efficiency, effectiveness, improved operations, and increased income. The importance of innovation capability in running a business or enterprise is due to the ability to innovate products. Business actors strive to consistently meet the needs of their customers by providing many product choices. This aims to strengthen the market position. Apart from that, product innovation can also encourage a business to develop well and be able to compete with its competitors. In this way, the company can survive amid tight market competition. Furthermore, adequate innovation capabilities can encourage firms to perform well. This is in line with Ratanavanich & Charoensukmongkol (2024), who, in their research, concluded that innovation capabilities can positively impact improving

business performance in the SME sector. Apart from product innovation capabilities, capabilities in the management system for the business being run are critical in determining its future direction. The management system in question is based on excellent financial management, marketing management, and resource management. This can encourage the business being run to grow better.

Conclusion

Based on previous research and discussion, this research can be concluded as follows: Human capital demonstrated through knowledge, skills, social capital, and individual behavior significantly affects SME performance by showing efficiency, effectiveness, improved operations, and increased income. Thus, high human capital support can encourage increased SME performance. Human capital, shown through knowledge, skills, social capital, and individual behavior, significantly affects innovation capacity by demonstrating product innovation, business process, marketing, and management system ability. This can be interpreted as indicating that high human capital support can encourage innovation capacity. Innovation capacity demonstrated through product innovation capabilities, business process capabilities, marketing capabilities, and management system capabilities has a significant influence on SMEs' performance, as demonstrated through efficiency, effectiveness, improved operations, and increased income. Thus, high innovation capability can encourage increased SME performance. This can be a reference for business actors that human capital is a factor in supporting the improvement of SME performance. Furthermore, human capital can positively and significantly impact innovation capabilities. This shows that human capital, besides improving performance, can also increase innovation capabilities. This is supported by the knowledge and skills possessed by business actors who can easily carry out business innovations. This innovation capability can easily encourage the business to improve its performance. This study still has some limitations: the number of samples used could be a lot bigger. The ability to fill out the questionnaire still needs to be improved because it is filled out via Google form, so it is better to increase the number of samples for further research. The questionnaire filling model is adjusted to the respondent's ability to complete the questionnaire. In addition, from the study's results, the R-Square value is still classified as moderate, namely 0,686 or 60%, which means that the influence of human capital and innovation ability on MSME performance is 60.86%. Therefore, further researchers are advised to use other variables that are considered to be able to affect MSME performance.

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