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## The Role of Intellectual Capital in Improving Micro, Small, And Medium-Scale Business Performance in The Hostel And Culinary Sector in Pekanbaru, Indonesia

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Astri Ayu Purwati <sup>1</sup>, Budiyanto <sup>2</sup>, Suhermin <sup>3</sup>

**Abstract:**

*The increased level of competitiveness and Micro, Small, and Medium-Scale Business (MSME) performance in the hostel and culinary sector in Indonesia, especially in Pekanbaru, need more concerns since MSME is an important business sector to encourage the economy of a country and reduce the unemployment rate by creating job opportunities. In the technology era, the development of the intellectual capital concept suitable for MSME is needed due to the current competitive and disruptive business area. This study was conducted in 378 MSMEs in the hostel and culinary sector in Pekanbaru city. The data analysis technique in this study was Structural Equation Modeling (SEM) assisted by AMOS. The result of this study showed that human capital influenced the financial performance and non-financial performance of MSME in the hostel and culinary sector in Pekanbaru City, while technology capital did not influence the non-financial performance of MSME in the hostel and culinary sector in Pekanbaru city. Customer capital influenced the financial and non-financial performances of MSME in the hostel and culinary sector in Pekanbaru city. Social capital influenced the financial and non-financial performances of MSME in the hostel and culinary sector in Pekanbaru city. Non-financial performance influenced the financial performance of MSME in the hostel and culinary sector in Pekanbaru city.*

**Keywords :** Intellectual Capital, Business Performance, MSME.

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<sup>1</sup>Institut Bisnis dan Teknologi Pelita Indonesia, Business Faculty,  
[astri.ayu@lecturer.pelitaindonesia.ac.id](mailto:astri.ayu@lecturer.pelitaindonesia.ac.id)

<sup>2</sup>Sekolah Tinggi Ilmu Ekonomi Indonesia, Management science doctoral program,  
[budiyanto@stiesia.ac.id](mailto:budiyanto@stiesia.ac.id)

<sup>3</sup>Sekolah Tinggi Ilmu Ekonomi Indonesia, Management science doctoral program,  
[suhermin@stiesia.ac.id](mailto:suhermin@stiesia.ac.id)

## **1. Introduction**

Indonesia is famous for a country with its natural beauty and tourism attraction. The increased tourism growth in Indonesia is determined by the concept of ideal tourism development, the tourism development that can support sustainable nature conservation, make the community participation available, and encourage the economic growth. In developing the community welfare and prosperity, all areas compete to develop the tourism object. One of the ways is by driving the sector of Micro, Small, and Medium-Scale Business (MSME) as the support of tourism. It is a method performed by the municipal government of Pekanbaru in tourism development.

Globally, the Micro, Small, and Medium-Scale Business (MSME) is one of the businesses becoming a current highlight that is classified into a tool for the economic growth of MSME (Tengeh, 2011)(Aidis & Saul, 2007). The Micro, Small, and Medium-Scale Businesses (MSMEs) have obtained a market in improving the life standard; therefore, entrepreneurship grows widely as it is so that many people like it since it can improve many people's lives (Pascal, 2015). If it is compared to big companies, MSME is considered better in managing crises even though many MSMEs face difficulties during the crises. However, MSME can respond faster and be more flexible against the environmental condition or the external changes than big companies do. MSMEs have a big growth potency to be big companies in the future(Berry, Rodriguez, & Sandee, 2002). According to the data from the Minister of Cooperatives and MSME in 2019 whereby the Riau province from 2013 to 2018 faced a trend of a declined number of businesses annually of 1,379 business units on average; therefore, in 2018, the total MSME in Riau province was 528,061 businesses. The declined number of MSMEs is a sign of a problem in the MSMEs performance caused by the incapability of the MSMEs to survive in the competitive environment (Anton, Muzakan, & Muhammad, 2015). In this study, the MSME in the hostel and culinary sector was focused on supporting the tourism development in Pekanbaru city.

The urgency of this study was that the improvement of competitiveness and MSME performance in the hostel and culinary sector in Indonesia, especially in Pekanbaru, needed more concerns since MSME is an important business sector that may encourage the economic growth of a country and reduce the total unemployment by creating job opportunities. Moreover, in the technology era, the existence of the development of the intellectual capital concept that is suitable for MSMEs in the current competitive and disruptive business environment is also needed.

In improving the competitiveness, besides requiring the strength from the sector of physical assets, MSME needs to be supported by the sector of the non-physical asset, namely Intellectual Capital (IC). IC represents the combination of non-physical assets or non-physical resources, such as knowledge, skills, professional expertise and skills, customer relationship, information, database, structural organization, innovation, social values, faith, and honesty (Claver-cortes, Zaragoza-saez, & Molina-manchon, 2015). To improve performance through competitive excellence, MSMEs need to utilize some IC factors, such as human capital including skills, competencies, and knowledge owned by human resources in the MSMEs,

which can lead to the improvement of company performance (Absah, Muchtar, & Qamariah, 2018) (Fatoki, 2011) (Muda, Ridhuan, & Abdul, 2016). The next is technology capital; in facing the era of the rapidly developed technology these days, it should be able to adapt ourselves to the use of technology from production to marketing strategy (Absah et al., 2018). The study showed that technology capital plays an important role in improving business performance (Alazzawi, Upadhyaya, & Alkubaisi, 2018). Customer capital which its customer orientation is an important thing to be owned by each business unit, especially MSME sector also significantly influences the improvement of company's competitiveness and business performance (Ciemleja & Lace, 2008) and, the last is social capital, whereby the MSME doers should be able to build both sufficient vertical relationship (supplier, investor, etc.) and horizontal relationship (competitor, association, etc) (Ozigi, 2018).

The assessment of MSME performance in this study was measured by financial and non-financial performances done separately and had not been found the previous studies that analyzed them separately through a capital intellectual concept.

## **2. Theoretical Background**

### **Tourism Sector**

According to the government regulation on the Tourism Development Master Plan within 2010 – 2025, the definition of tourism and development in this government regulation is all activities related to tourism activities supported by several facilities and services provided by people, businesspersons, government, and regional government. The development is a transformational process to a better direction containing planning efforts, implementation, and control in creating preferred value-added.

### **Micro, Small, and Medium-scale Business (MSME)**

MSMEs through a circular letter of Bank Indonesia Number 26/I/UKK on May 29th, 1993 on Small Business Credit defines MSME as a business achieving a maximum total asset of IDR 600 million, not including land and the building, while another source states that a small-scale business has the income criteria of below one billion rupiahs annually. Furthermore, the medium-scale business is a business having an asset of around one to a hundred billion rupiahs annually. If it is seen from the total employment, according to the Central Bureau of Statistics, the small-scale business is the business with a total employee of 5 to 19 people, while the medium-scale business has a total employee of 20 to 99 people.

### **Intellectual Capital**

Intellectual capital includes all employee knowledge, organization, and competencies in creating value-added and resulting in sustainable competitive excellence. From the definition above, it can conclude that intellectual capital is the resource owned by a company that will provide profits for the company in the

future; it can be seen from the company performance. Intellectual capital is categorized as a non-physical asset owned by the company. Hence, IC becomes a focus on creating a company's values and it is one of the strategic assets owned by the company (Moeheriono, 2012). Chen et al., (2005) stated that an investor would provide a higher value to the company having resources with a higher intellectual level than to the company having resources with a lower intellectual level. The value provided by the investor to the company will be reflected in the company's share price (Chen, 2005). Some previous studies had proven empirically that intellectual capital positively influenced the company's financial performance (Maditinos, Ševi, & Tsairidis, 2010; Sharabati, Jawad, & Bontis, 2010).

### **Human Capital and Business Performance**

Human capital is defined as a combination of skills, innovation in accomplishing tasks involving the company's value, culture, and philosophy (Bontis, Chua, Keow, Richardson, & Richardson, 2009). It also reflects the company's collective competence to find the best solution based on the knowledge owned by the people in the company. Human capital will increase if the company can use employee knowledge. Several basic characteristics that can be measured in this capital are training programs, credential, experience, competence, recruitment, mentoring, learning programs, individual potency, and personality (Khalique, 2016). The result of the study showed that human capital positively and significantly influenced business performance (Khalique, 2016). Based on the explanation above, several hypotheses can be formulated as follows:

- H1. Human Capital positively and significantly influences the MSME financial performance
- H2. Human Capital positively and significantly influences the MSME non-financial performance

### **Technology Capital and Business Performance**

The more sophisticated technological development in these days influences the business world so that many business strategies are performed using the information technology basis. The technology-based business strategy is very important to win the business competition. This type of strategy is a direction and a scope of the company in the long-term that will provide some profits for the company. In the knowledge-based economic system, the role of technology capital is strongly important. Fernandez et al., (2000) stated that the components of technology capital in a company usually consisted of product innovation and the product of technology (Fernandez et al., 2016). The study showed that technology capital positively and significantly influenced business performance. Consequently, several hypotheses can be formulated as follows:

- H3. Technology Capital positively and significantly influences the MSME financial performance
- H4. Technology Capital positively and significantly influences the MSME non-financial performance

### **Customer Capital and Business Performance**

Customer capital is a component of intellectual capital that provides a significant value (Bontis, 1998). This element is a harmonious relationship owned by a company and the partners from reliable suppliers with good quality, loyal customers who are satisfied with the relevant company's services, and from the relationship between the company and the government or the local residents. Customer capital is the resources connecting the company's external relationship with the customers, suppliers, or partners. There are 4 dimensions of customer capital, according to Starovic and Marr (2004), namely (1) customer profile, (2) customer duration, (3) customer role, and (4) customer support. According to Khalique and Isa (2014), customer capital positively and significantly influenced business performance (Khalique, 2016). Based on the explanation above, several hypotheses can be formulated as below:

- H5. Customer Capital positively and significantly influences the MSME financial performance
- H6. Customer Capital positively and significantly influences the MSME non-financial performance

### **Social Capital and Business Performance**

Social capital includes the relationship, attitude, and values that maintain the interaction between people and contribute to economic development and social community. Based on Fukuyama (2002), social capital is the people's competency to work together in achieving the common goals in some groups and organizations (Fukuyama, 1995). The findings on social capital also showed that social capital positively and significantly influenced business performance (Nahapiet & Ghoshal, 1998)(Arregle, Hitt, Sirmon, & Very, 2007). Hence, the hypotheses for the next study are as follows:

- H7. Social Capital positively and significantly influences the MSME financial performance
- H8. Social Capital positively and significantly influences the MSME non-financial performance

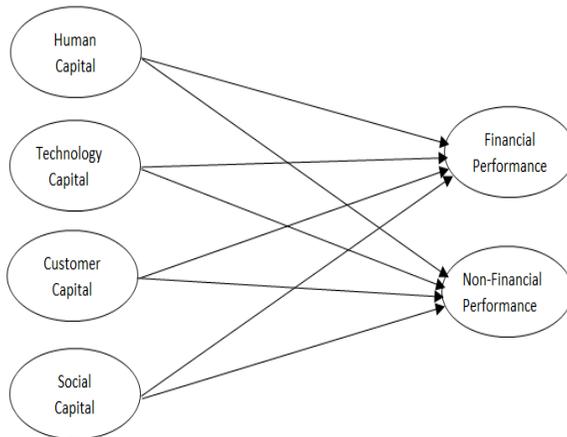
### **Non-Financial Performance and Financial Performance**

Over the past few years, the use of non-financial information has been booming to be used for measuring organizational performance. Eccles (1991) is the first writer who highlights the use of non-financial information for the goals of profit organization. In the article entitled "The Performance Measurement Manifesto", Eccles mentioned the "revolution" and "new philosophy" for the process of entering non-financial information in performance measurement. A study in a bank and found that either customer satisfaction or customer loyalty as non-financial performance measurement had a significant impact on financial performance. Based on the explanation above, the research hypothesis is as follows:

- H9. Non-financial performance positively and significantly influences the MSME financial performance

### Conceptual Framework

Based on the theoretical explanation and empirical research finding that have proven the influence of IC on MSME performance, the research frame of reference can be illustrated as below:



**Figure 1: Research framework**

## 3. Methodology

### Population

The population in the generalized areas consisting of objects and subjects that have quality and characteristics was determined by the researcher to be investigated and concluded. The population in this study was MSME (Micro, Small, and Medium-scale Business) in Pekanbaru city with a total MSME of 13,547 businesses.

### Total Sample and Sampling Technique

The sample of this study was some MSMEs taken from the total population and the total sample was calculated using the Slovin formula with 5% of error. From the total sample that had been determined, there were 387 MSMEs. Sampling was done using a purposive sampling technique, and it was found that the sample consisted of MSMEs in the hostel sector and culinary sector.

### Research Instrument

The indicators and measurement in the form of interval consisting of five-scale response with each score were investigated using the 5-point Likert scale. The measurement indicators used in this study were Human Capital (X1) consisting of education, skills (innovation), and experience (Ghozali, 2017), Technology Capital (X2) consisting of Production technology and marketing technology(Absah, et. al.,

2018), Customer and Social Capital (SC) consisting of Relation, Cognitive, Structure (Nahapiet, & Ghoshal, 1998), Financial Performance (Y1) consisting of the position of sales growth, satisfaction with the sales growth level, satisfaction with the company's return of investment, the position of net profit, satisfaction with the return on sales, the position of financial liquidity, and non-financial performance (Y2) consisting of better production flexibility (volume), better production speed and delivery, better production cost, better quality, better market share, better customer satisfaction, better employee satisfaction, better employee commitment, and better quick customer response.

### **Validity and Reliability Test**

The feasibility assessment of a questionnaire was done using a validity test and reliability test. A validity test is a test for measuring the accuracy of a research instrument or a questionnaire. A questionnaire was considered as valid if a question or statement of the questionnaire was able to reveal something that would be measured by the questionnaire. The accuracy level of the questionnaire might be measured using a coefficient of correlation. A questionnaire was good and valid if the coefficient of correlation was significant or the calculated-r was more than the tabulated-r, where  $df = n - 2$  with 2-sided tests (Ghozali 2016). The reliability test is an assessment for a questionnaire done to measure the consistency of the respondents' responses. It was done using a statistical test known as Cronbach's alpha test. The limitation of Cronbach's alpha test was more than or equal to 0.70 (Ghozali 2016).

### Testing the Research Model using SEM AMOS

#### a. Arranging the path diagram and structural equation

$$Y1 = \beta_1 X1 + \beta_2 X2 + \beta_3 X3 + \beta_4 X4 + e1$$

$$Y2 = \beta_5 X1 + \beta_6 X2 + \beta_7 X3 + \beta_8 X3 + \beta_9 Y1 + e1$$

Where,

Y1 : Non-Financial Performance

Y2 : Financial Performance

X1 : Human Capital

X2 : Technology Capital

X3 : Customer Capital

X4 : Social Capital

$\beta_1$   $\beta_9$  : standardized coefficient

$e1..e2$  : error term

#### b. Testing Assumptions in Structural Equation Modeling

Before reaching the analysis result in the form of the goodness-of-fit, a check should be done against the underlying assumptions for the validity model that had been made. The assumptions in SEM were divided into two parts, namely the assumption

related to the model and the assumption related to the parameter estimation and hypothesis testing.

The assumptions related to the parameter estimation and hypothesis testing in SEM (Ghozali 2017), were:

- Large sample (asymptotic).
- The observation of multivariate normal distribution.
- The hypothesized model should be valid.
- Continuous measurement scale (interval).

#### c. Goodness-of-Fit Testing

**Table 1 Goodness-of-Fit Indices**

Goodness-of-Fit Index	Cut-off Value
Chi-Square	Expected to have small value
Significant Probability	$\geq 0.05$
GFI	$\geq 0.90$
AGFI	$\geq 0.90$
TLI	$\geq 0.90$
CFI	$\geq 0.90$
NFI	$\geq 0.90$
IFI	$\geq 0.90$
RMSEA	0.05 - 0.08

Source: (Hair, Anderson, Tatham, & Black, 1998)

#### d. Fit Model Measurement

The last step of the assumption test known as SEM was the measurement of each construct to assess the unidimensionality and the reliability of a construct. The unidimensionality was the assumption underlying the calculation of reliability and it was shown when the indicator of a construct had a single model factor of acceptable fit. The measurement of Cronbach's alpha did not guarantee the unidimensionality but it assumed the availability of unidimensionality.

The approach to assess the model measurement was measuring the composite reliability and average variance extracted for each construct. Reliability was a measurement of the indicator's internal consistency of a construct. The high reliability indicated a belief that all individual indicators were consistent with the measurement. The acceptable reliability level, in general, was more than 0.70, while the reliability of less than 0.70 was acceptable for exploratory research (Ghozali, 2017). The Average Variance extracted is a validity measurement. Validity is a measurement of how accurate all indicators in measuring the points that will be measured. The recommended value for the average variance extracted was more than 0.50 (Ghozali, 2017).

#### e. Data Processing and Hypothesis Testing

The next step was conducting data processing using SPSS 21 and AMOS 21. The collected result might be processed for hypothesis testing.

#### **4. Empirical Findings/Result**

##### **Confirmatory Factor Analysis (CFA)**

Confirmatory Factor Analysis (CFA) was conducted to assess the validity and reliability of the latent construct. The criteria for a construct to be valid and reliable might be seen from the average variance extracted value and the value of construct reliability that the result can be seen in Table 2 below:

**Table 2 The Result of the Construct Reliability Test and Average Variance Extracted Test**

<b>Variables</b>	<b>Construct Reliability (CR)</b>	<b>Average Variance Extracted (AVE)</b>
Human Capital	0.847	0.50
Technology Capital	0.840	0.58
Customer Capital	0.824	0.50
Social Capital	0.865	0.52
Financial Performance	0.891	0.58
Non-Financial Performance	0.934	0.52

Source: Processed Data by AMOS Version 21 (2020)

The required average variance extracted value should be equal to or more than 0.5. Meanwhile, the required construct reliability value should be equal to or more than 0.70. From Table 5.16, it is known that all research variables have an average variance extracted value of more than 0.5 and the construct reliability value of more than 0.7. Thus, it can be inferred that the validity and the reliability of the construct have fulfilled the requirements.

##### **Goodness-of-Fit**

The testing of the SEM (Structural Equation Model) is the testing of the overall model involving the structural model and integrated measurement model that is the entire model. The model would be said fit if the model conceptually and theoretically supported the empirical data. The Goodness-of-fit testing for the overall model is done using the following measurements:

**Table 2 Goodness-of-Fit Testing**

No	Goodness-of-Fit Index	Cut off Value	Test Result	Conclusion
1	Chi-Square <i>Significant Probability</i>	Expected to have small value $\geq 0.05$	1081.64 0 0.000	Good Fit
2	GFI	$\geq 0.90$	0.860	Marginal Fit
3	AGFI	$\geq 0.90$	0.822	Marginal Fit
4	TLI	$\geq 0.90$	0.914	Good Fit
5	CFI	$\geq 0.90$	0.928	Good Fit
6	NFI	$\geq 0.90$	0.876	Marginal Fit
7	IFI	$\geq 0.90$	0.929	Good Fit
8	RMSEA	0.05 - 0.08	0.055	Good Fit

Source: Processed Data by AMOS Version 21 (2020)

Based on the table above, it can be explained that the values of Goodness-of-Fit Indices for TLI, CFI, IFI, and RSMEA that have been done are good fit models, while the values for GFI, AGFI, and NFI are marginal fit models. However, in this case, the marginal fit models were still acceptable. Therefore, the assumption of the feasibility test against the models in the study was acceptable.

### Hypothesis Testing

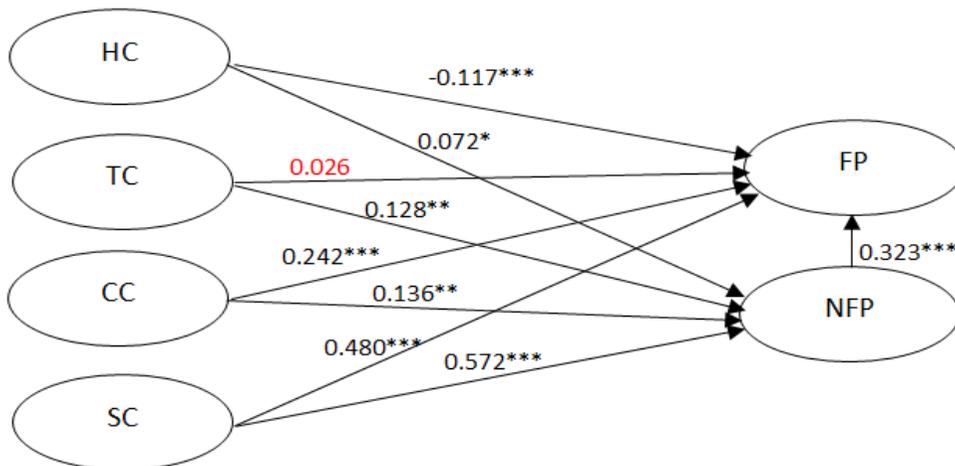
The hypothesis testing was done using the t-value with a significance level of 0.05. The t-value in the Amos 21 was the critical ratio (c.r.) in the regression weights. The critical ratio (c.r.) was more than 1,967 or the probability value (P) was less than 0.05 indicated that H<sub>0</sub> was rejected. It means that the hypothesis was accepted. The result of the hypothesis testing in this study is presented in the table below:

**Table 3 Standardized Regression Weights**

No	Endogenous Variables		Exogenous Variables	C.R.	P	Conclusion
1	Financial Performance	<---	Human Capital	-3.290	0.001	Significant
2	Non-Financial Performance	<---	Human Capital	1.655	0.098	Significant
3	Financial Performance	<---	Technological Capital	0.633	0.527	Not Significant
4	Non-Financial Performance	<---	Technological Capital	2.328	0.020	Significant
5	Financial Performance	<---	Customer Capital	3.123	0.002	Significant
6	Non-Financial Performance	<---	Customer Capital	2.081	0.037	Significant
7	Financial Performance	<---	Social Capital	7.380	0.000	Significant

No	Endogenous Variables		Exogenous Variables	C.R.	P	Conclusion
8	Non-Financial Performance	<---	Social Capital	7.806	0.000	Significant
9	Non-Financial Performance	<---	Financial Performance	5.613	0.000	Significant

Source: Processed Data by AMOS Version 21 (2020)



Note : \*\*\*  $\alpha$  0.01, \*\*  $\alpha$  0.05, \*  $\alpha$  0.1

Figure 2. The Structure of Model (Source: Processed Data by AMOS Version 21 (2020))

## 5. Discussion

### 1. The Influence of Human Capital on Financial Performance and Non-Financial Performance

The result of testing the hypothesis 1 showed that the P-Value of 0.001 was less than  $\alpha$  of 0.01, indicating that hypothesis 1 was acceptable or human capital influenced the MSME financial performance in the sector of hostel and culinary in Pekanbaru City. Furthermore, the testing against hypothesis 2 showed that the P-Value of 0.098 was less than  $\alpha$  of 0.1, indicating that hypothesis 2 was accepted or human capital influenced the MSME non-financial performance in the sector of hostel and culinary in Pekanbaru City. These findings showed that human capital played an important role in improving the MSME financial performance and non-financial performance in the sector of hostel and culinary in Pekanbaru city. Human capital reflected the company's collective competency to result in the best solution based on the knowledge of people in the company. Human capital will increase if the company can use the knowledge owned by the employees. This type of capital is important because it is a source of innovation and the renewal of strategy that can be obtained

from brainstorming through laboratory research, the management vision, reengineering process, and the improvement or development of employee skills. Besides, human capital provides the value-added in the company every day through motivation, commitment, competence, and teamwork effectiveness. The value-added that might be contributed by employees were in the form of the development of competence owned by the company, the knowledge transfer from the employees to the company, and the changes of management culture (2010); Felício et al., (2014); and Wu & Sivalogathan (2013) explained the influence of human capital on performance; the company's condition that was able to create a high performance usually has competent human resources with strong work motivation and high commitment against the achievement of the company's goals and missions. Each company will produce different performances if it is managed by different people. It means that different human resources in managing the assets of the same company will produce different value-added.

## **2. The Influence of Technology Capital on Financial Performance and Non-Financial Performance**

The result of testing the hypothesis 3 showed a result that the P-Value of 0.527 was more than  $\alpha$  of 0.1, indicating the hypothesis 3 was rejected or technology capital did not influence the MSME financial performance in the sector of hostel and culinary in Pekanbaru City. The result of testing the hypothesis 4 showed that the P-Value of 0.020 was less than  $\alpha$  of 0.05, indicating that hypothesis 4 was accepted or technology capital influenced the MSME non-financial performance in the sector of hostel and culinary in Pekanbaru City. Even though in this study technology capital did not influence the MSME financial performance, it still influenced the MSME non-financial performance. It means that the use of technology by the MSME can improve the MSME non-financial performance in satisfying the customer and achieving loyalty. Fernandez et al., (2000) stated that the component of technology capital in the company consisted of product innovation and the manufactured technology product (Fernandez, et. al., 2000). The study showed that technology capital positively and significantly influenced business performance (Muda & Rahman, 2016). Technology is an instrument used for accelerating productivity in a business. By the existence of the instrument, it will be easy for the employees to produce goods and improve the employee productivity that will affect the income level. The development of MSME technology is affected by many factors, such as the human resource competency for developing the technology, the availability of capital for technology provision, the role of research institutions in supporting technological development, and the monetary and fiscal policies.

## **3. The Influence of Customer Capital on Financial Performance and Non-Financial Performance**

The result of testing the hypothesis 5 showed that the P-Value of 0.002 was less than  $\alpha$  of 0.01, indicating that hypothesis 5 was accepted or customer capital influenced the MSME financial performance in the sector of hostel and culinary in Pekanbaru City. The result of testing the hypothesis 6 showed that the P-Value of 0.037 was

less than  $\alpha$  of 0.05, indicating that hypothesis 6 was accepted or customer capital influenced the MSME non-financial performance in the sector of hostel and culinary in Pekanbaru City. Customer capital is an asset that is visible from the company's reputation and customer loyalty. Customer capital is defined as resources related to customers. This type of capital is a relationship built by the customers and other significant parts of the capital structure. Customer capital is a harmonious relationship owned by a company with its partners from both reliable suppliers with good quality. Customer capital also occurs from loyal customers and the customers who are satisfied with the services given that make them return to the relevant company. These findings were in line with a study conducted by Khalique and Isa (2014), stating that customer capital positively and significantly influenced business performance (Khalique & Mansor, 2016).

#### **4. The Influence of Social Capital on Financial Performance and Non-Financial Performance**

The result of testing the hypothesis 7 showed a result that the P-Value of 0.000 was less than  $\alpha$  of 0.01, indicating that hypothesis 7 was accepted or social capital influenced the MSME financial performance in the sector of hostel and culinary in Pekanbaru City. The result of testing the hypothesis 8 showed that the P-Value of 0.000 was less than  $\alpha$  of 0.01, indicating that hypothesis 8 was accepted or social capital influenced the MSME non-financial performance in the sector of hostel and culinary in Pekanbaru City. Kim & Aldrich (2005) described Social Capital widely as resources available in people through a social relationship. In the entrepreneurship context, Social Capital can be obtained through a social network built by an entrepreneur to obtain access to a source that is vital for starting a business, growth, and success. An entrepreneur shall cooperate to build a network to achieve success and to be more developed. The relationship that is built by an individual by utilizing social networks can be used for gaining additional resources. Other benefits that can be obtained are acceptable information flow if joining a membership related to the business area. These research findings were in line with the previous studies against social capital showing that social capital positively and significantly influenced business performance (Nahapiet & Ghoshal, 1998)(Arregle et al., 2007).

#### **5. The Influence of Non-Financial Performance on Financial Performance**

The result of testing hypothesis 9 showed a result that the P-Value of 0.000 was less than  $\alpha$  of 0.01, indicating that hypothesis 9 was accepted or non-financial performance influenced the MSME financial performance in the sector of hostel and culinary in Pekanbaru City. The non-financial measurement was believed to be able to improve financial performance in the future. The non-financial measurement was proposed by a company to achieve competitive advantages and to be able to reduce more costs. The focus was on the value-added products and services to consumers. The company was more oriented on the customers who need the performance measurement system focusing on customers to evaluate the effectiveness and the

efficiency of an organization (Montgomery, Lemak, and Reed, 1997). The strategy was applied by having an orientation on long-term financial performance. Most financial measurements reflected past performance but they did not anticipate the future (Koller, 1994; Schiemman and Lingle, 1997) or the actions needed to survive in a competitive environment these days (Fisher, 1992; Davila, 1999). The leading indicators of business performance were not found only in financial data (Eccles, 1991).

## 6. Conclusions

Based on the research results, some conclusions can be drawn as follows: human capital influences the MSME financial performance and non-financial performance in the sector of hostel and culinary in Pekanbaru city, technology capital does not influence financial performance but it influences the MSME non-financial performance in the sector of hostel and culinary in Pekanbaru city, customer capital influences the MSME financial performance and non-financial performance in the sector of hostel and culinary in Pekanbaru city, and social capital influences the MSME financial performance and non-financial performance in the sector of hostel and culinary in Pekanbaru city. Meanwhile, non-financial financial influences the MSME financial performance in the sector of hostel and culinary in Pekanbaru city.

From these findings, some suggestions for the MSME in the sector of hostel and culinary in Pekanbaru city are paying attention to human capital, such as company's employees, by improving their skills and their competencies, improving technology capital is also needed by using the technology facility in the MSME, especially for production and marketing activities. The MSME in the sector of hostel and culinary can use e-commerce technology in selling, drive-thru technology, technology for delivery, and other services. In gaining customer capital, the MSME shall be more sensible against customer satisfaction, such as involving customers in all MSME production activities/services. In addition, the MSME shall be opened in a positive social network for sharing knowledge and information to improve business performance. The next researcher can continue this study using a deeper analysis against the MSME sustainability strategy since having only performance is not sufficient if it is not equipped with sustainable business in this current uncertain era.

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