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# STRATEGY TO IMPROVE MSME PERFORMANCE IN PADANG CITY BY DEVELOPING HR COMPETENCIES MEDIATED BY THE USE OF INFORMATION TECHNOLOGY

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## Abstract

This research aims to find out what strategies are carried out by Padang City MSMEs to improve their business performance by developing superior human resource competencies. The problem is focused on limited human resources, the existence of these human resources limitations can then directly limit the movement of Indonesian micro and small businesses so that they can compete sectorally in the domestic market or in the global market. The research method used is descriptive qualitative research using purposive sampling research techniques for selecting informants. Data collection was carried out by means of observation, interviews and documentation studies. It can be seen that the results of this research show that the problems that occur in the MSME sector are quite complex due to the multidimensional side effects of the pandemic on the businesses of MSME players, therefore a sophisticated strategy is needed so that the MSME ecosystem can continue to develop sustainably in Padang City. The population and sample used in this research were 100 respondents. This study concludes that Knowledge and Skills and Information Technology have a significant effect on MSME Performance. Meanwhile, capability does not have a significant effect on the performance of Padang City MSMEs. And Information Technology mediates the knowledge and ability variables on the performance of Padang City MSMEs.

**Keywords: MSME performance; Competence; Information Technology**

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## INTRODUCTION

Small and Medium Enterprises (SMEs) are one of the drivers of the people's economy in Indonesia. This is because small and medium entrepreneurs start from home industries managed by individuals or small business entities in the economic sector. SMEs have an important role in national economic development and growth. The SME sector is able to create jobs, thereby reducing the unemployment rate and creating a source of income for the community. The contribution of the SME sector in determining Gross Domestic Product and increasing the country's foreign exchange is also increasing every year. Empowerment of SMEs needs to be increased by the Government considering that every year the economic growth target is getting higher but this is not followed by an increase in the quality of SMEs. The growth of SMEs in the current of globalization and high competition means that SMEs must face global challenges such as increasing product and service innovation, developing human resources and technology, and expanding marketing areas. The Indonesian economic market has the potential to develop rapidly because the population will continue to grow so that demand and supply will be high. SMEs should take advantage of this to increase the selling value of SMEs themselves, especially so that they can compete with foreign products which are increasingly flooding the local market. Seeing the many challenges in the future makes SMEs do their best to develop their businesses [1]. The strategic role of MSMEs in the Indonesian economy can be seen in their

position as key actors in economic activities in various sectors, including providing the most employment opportunities, sources of innovation, community empowerment, development of local economic activities, creation of new markets, and international trade [2]. MSME performance is the hope of achieving achievements in financial and non-financial measures. The financial performance of MSMEs is demonstrated by an increase in the number of sales, increased business capital, increasing profit trends. Meanwhile, non-financial performance achievements are measured by increasing the number of workers and expanding marketing areas [3]. Performance is the work result that can be achieved by a person or group of people in a company in accordance with their respective authority and responsibilities in an effort to achieve organizational goals illegally, does not violate the law and does not conflict with morals and ethics [4]. Apart from that, employee performance is the contribution made by each employee in order to achieve each goal of the organization [4]. Employee performance is the punctuality of employees in completing work from input to output. Apart from that, employee performance can be measured through attendance, by how often employees come in. specified working hours [5]. Apart from that, according to [6] performance reflects the company's ability to manage and allocate its resources, so performance is an important thing that every company must achieve. According to employee performance, it is a central issue in the life of an organization because an organization or company will be able to achieve its goals or not, It really depends





on how good the performance shown by the employees is.

Improving the performance of Micro and Small Enterprises (UMK) in Indonesia is the backbone of the people's economic system which is not only aimed at reducing the problem of disparities between income groups and between business actors, or poverty alleviation and employment. More than that, its development is able to expand the economic base and can provide a significant contribution in accelerating structural change, namely improving the regional economy and national economic resilience. The programs and activities carried out by the central government in an effort to develop the Micro and Small Enterprises (UMK) sector have been truly encouraging (Sudiarta, Kirya and Cipta, 2014). According to research results by Munizu (2010), internal factors consisting of human resource aspects, financial aspects, production/operational engineering aspects, and market and marketing aspects have a significant and positive influence on the performance of micro and small businesses. Then external factors consisting of aspects of government policy, socio-cultural and economic aspects, and aspects of the role of related institutions have a significant and positive influence on the performance of micro and small businesses. The research results of Rochayati and Lestari (2016) reveal that the performance of MSMEs can be measured by various environmental aspects, namely internal factors and external factors. Internal factors include human resource aspects, financial aspects, production aspects and marketing aspects. Meanwhile, external

factors include technological aspects, government policies, socio-economic aspects, aspects of the role of related institutions. Performance can be seen from business success which can be seen from the level of sales growth, workforce growth, profit growth and market growth [7].

The low competitiveness of Indonesian MSMEs is caused by many factors. The competitiveness of Small and Medium Enterprises (SMEs) will increase if positive performance is achieved (BPS, 2019). A company's performance can be measured from various perspectives. One measure of company performance is marketing performance. The most widely used marketing performance measurement indicators are sales volume, market share and profitability. Research [8] found that the competitiveness of SMEs can be increased through improving SME business performance. One of the supporting factors for improving SME performance is the use of information technology (BPS, 2019). The use of information technology by SMEs is related to many factors, including the intention or interest to use technology because of the belief that when using technology the results achieved in work will increase or be better. User intention is a person's tendency to use a technology to make their work easier and produce quality information [9]. User intention is a person's desire (intention) to carry out a certain behavior. Someone will carry out a behavior if they have the desire or intention to do it [10].

In this era of globalization, information technology continues to develop. Almost all activities are initiated through information technology. Where everything





is easier to reach with the help of information technology. With the existence of information technology, it can facilitate maximum performance. In the online world, social media is redefining the way people interact with each other, allowing people to build relationships without geographic and demographic barriers. The impact of social media doesn't stop there, social media also facilitates global collaboration in innovation. Social media encourages social inclusivity and builds a sense of belonging in their community (Philip Kotler et al; 2019). In micro, small and medium enterprises (MSMEs), apart from competence, good organizational performance is also needed. With good performance, you can produce good work which can lead to competitive advantage. The competitive advantage that has been achieved by the company should be maintained because with competitive advantage, more and more competitors will pay attention to the company's unawareness [9] .

Even though we know that MSMEs play an important role in the economic sector, there are several forms of limitations and obstacles that MSMEs often face. First, there is very low accessibility to information sources for MSME sector players. Second, there is an increase in access while market opportunities are relatively low. Third, the ability to generate sufficient sources of capital is not strong enough. Fourth, low ability to master and empower IT. Fifth, there is still low capability in terms of organizational and management development. And sixth, the inability to build business networks and strategic partners among Micro, Small

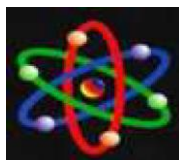
and Medium Enterprises (MSMEs) (Hejazziey, 2009).

Some of the recommendations that can be used as solutions to the economic and social problems that occur as the author explains above are increasing the scalability and quality of Micro, Small and Medium Enterprises (MSMEs). BPS data in 2018 alone shows that MSMEs can absorb more than 117 million workers or 97% of the total workforce absorption capacity of the business world in 2018. Not only that, the MSME sector also provides a contributive impact as 61.07% of total GDP Indonesia. Based on the urgency of the importance of the position of MSMEs in Padang City for business actors, government and society, the Department of Cooperatives, Micro, Small and Medium Enterprises is making various efforts to welcome the revival of MSMEs. Such as collaborating with the Indonesian Micro, Small and Medium Enterprises Industry Association (IUMKM Akumandiri) in Padang City and many other development and coaching steps so that MSME players can become enthusiastic again in running their businesses [7] .

## RESEARCH METHODS

This research was conducted to determine the Strategy to Improve the Performance of Micro, Small and Medium Enterprises (MSMEs) in Padang City by Developing Human Resource Competencies Mediated by the Use of Information Technology. This research is explanatory research, namely research that tests existing hypotheses. The method used in this research is a quantitative method using a survey method [11] . Quantitative research





is research that emphasizes the use of questions with formal standards and previously determined answer choices in the questionnaire distributed to respondents [12].

The population is the place of research and the employees who will be researched where the population is really true and then studied and conclusions drawn. The population used in this research is all MSMEs in Padang City, totaling 42,452 business owners.

According to [13] it is part of the number and characteristics possessed by the population that samples taken from the population must be truly representative or representative of the population studied.

Based on the reference above, because the population was 42,452 business owners, the researchers used a simple random sampling technique. According to [14] simple random sampling is a method of drawing from a population or universe in a certain way so that every member of the population or universe has the same chance of being selected or taken. The sampling formula is carried out using the Slovin formula, namely:

$$n = \frac{N}{1 + N(e)^2}$$

Where :

S = Number of samples

N = Number of Population

e = Tolerance level = 10%

$$N = \frac{42,452}{1 + 42,452 (0.1)^2}$$

$$N = 99.76 = 100$$

So the samples taken in this research were 100 business owners in Padang City.

Based on the results of calculating the number of samples, the sample size is then calculated for each sub-district which is the object of data collection as shown in the table below:

Subdistrict	Number of business owners to total population (%)	Sample size calculation	Number of samples
West Padang	(3899/42452)x100=9%	9% x 100	9
South Padang	(3964/42452)x100=9%	9% x 100	9
East Padang	(4318/42452)x100=10%	10% x 100	10
North Padang	(2726/42452)x100=6%	6% x 100	6
Nanggalo	(2199/42452)x100=5%	5% x 100	5
Koto Tangah	(6385/42452)x100=15%	15% x 100	15
Kuranji	(6633/42452)x100=16%	16% x 100	16
Pauh	3113/42452)x100=7%	7% x 100	7
Lubuk Refinery	(1996/42452)x100=5%	5% x 100	5
Lubuk Begalung	(5223/42452)x100=12%	12% x 100	12
Bungus Teluk Kabung	(1996/42452)x100=5%	5% x 100	5
<b>Total sample</b>			<b>100</b>

Table 1. Sample size for each sub-district

The data collection technique was carried out using a survey method, namely a primary data collection method by providing or distributing a list of questions/statements to respondents in the hope of providing responses to the list of questions. The list of questions/statements can be open if the answers are not predetermined, it can be closed if alternative answers have been provided. The instrument in the form of a list of questions can be in the form of a questionnaire. Each question has 5







answers, starting from strongly agree, agree, neutral, disagree and strongly disagree [12].

## RESULTS AND DISCUSSION

### Outer Model Analysis

level of validity of a statement item. Outer model testing was carried out based on the results of questionnaire trials that had been carried out for all research variables. There are three criteria for assessing the outer model, namely Convergent Validity, Discriminant Validity and Composite Reliability. In the development stage, a correlation of 0.50 to 0.6 is considered adequate or acceptable. In research, the limit value for Convergent Validity is above 0.7 [15].

### Outer Model Testing

Outer model assessment aims to assess the correlation between the item or indicator scores and the construct scores which the research shows as follows:

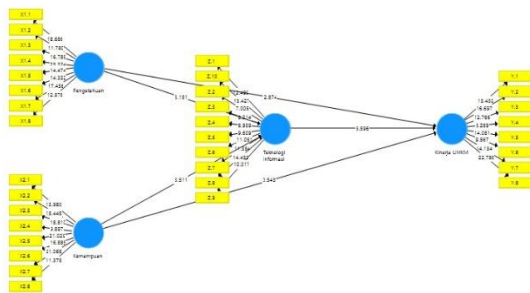


Figure 1. Outer Loading Results After Elimination

### Average Variance Extracted (AVE) Assessment

Validity criteria for a construct or variable can also be assessed through the Average Variance Extracted (AVE) value of each

construct or variable. A construct is said to have high validity if its value is above 0.50. The following AVE values in this research will be presented in table 2:

Table 2. Average Variance Extracted (AVE) Value

Variable	AVE
Knowledge (X1)	0.659
Ability (X2)	0.671
MSME Performance (Y)	0.603
Information Technology (Z)	0.550

Source: SmartPLS processed results, 2023

Based on Table 2, it can be concluded that all the constructs or variables above meet the criteria for good validity. This is indicated by an Average Variance Extracted (AVE) value above 0.50 as the recommended criteria.

Construct (Variable)	Cronbach's Alpha	Composite Reliability	Information
Knowledge (X1)	0.926	0.939	Reliable
Ability (X2)	0.918	0.935	Reliable
MSME Performance (Y)	0.906	0.924	Reliable
Information Technology (Z)	0.909	0.924	Reliable

Source: SmartPLS processed results, 2023

Table 3. Reliability Values

Based on the SmartPLS output in Table 3 above, the value and Cronbach alpha value for each construct or variable have been found to be greater than 0.70. Thus it can also be concluded that the level of data reliability is good or reliable.





### Outer Model Equation

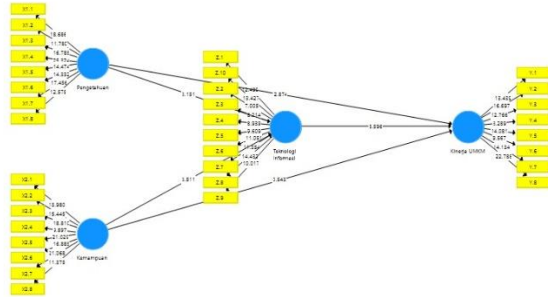


Figure 1. Outer Loading Results

Based on the image of the outer model structure above, Equation I can be drawn, which is a description of the magnitude of the influence of the Knowledge and Ability construct on Information Technology with the existing coefficients plus the error level which is an estimation error or which cannot be explained in the research model.

- Information Technology =  $\beta_1$  Knowledge +  $\beta_2$  Ability + e1.
- MSME Performance = 0.525 Knowledge + 0.381 Ability + e1

Equation II, is a description of the magnitude of the influence of the Knowledge Climate, Capability and Information Technology constructs on MSME Performance with each coefficient for each construct plus an error which is an estimation error.

- MSME performance =  $\beta_1 X_1 + \beta_2 X_2 + \beta_3 Z + e_1$
- MSME performance = 0.310 - 0.106 + 0.762 + e1

Next, as previously explained, the inner model assessment is evaluated through the R-Square value, to assess the influence of certain exogenous latent constructs on endogenous latent constructs whether they have a substantive influence. The

following is the R-Square estimate in Table 4:

Variable	R Square	R Square Adjusted
MSME performance (Y)	0.900	0.897
Information Technology (Z)	0.795	0.790

Source: SmartPLS processed results, 2023  
 Table 4. Evaluation of R Square Value

Outside this research. Meanwhile, the R<sup>2</sup> value for the MSME Performance construct is 0.900 or 90.0%, indicating the magnitude of influence exerted by Knowledge, Capabilities and Information Technology in explaining or influencing MSME Performance. The remaining 10.0% is influenced by other variables outside this research. The higher the R-Square value, the greater the ability of the exogenous construct to explain endogenous variables so that the better the structural equation formed.

### Inner Model Testing

The next testing process is testing the inner model or structural model which aims to determine the relationship between constructs as hypothesized. The structural model is evaluated by paying attention to the R-Square value for the endogenous construct from the influence it receives from the exogenous construct.

Testing the hypothesis aims to answer some of the problems that exist in this research, namely the influence of certain exogenous latent constructs with certain endogenous latent constructs both directly or indirectly through mediating variables. Testing the hypothesis in this study can be assessed from the large statistical or t-count values compared





with t - table 1 , \_ \_ 96 at 5% alpha. If the t-statistic/t-count < t-table 1.96 at alpha 5%, then Ho is rejected and if the t-statistic/t-count > t-table 1.96 at alpha 5%, then Ha is accepted.

### Direct Influence

Direct Influence	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV)	P Values
Capabilities -> MSME Performance	-0.064	0.060	0.117	0.543	<b>0.587</b>
Capabilities -> Information Technology	0.473	0.489	0.135	3.511	<b>0,000</b>
Knowledge -> MSME Performance	0.276	0.269	0.096	2,874	<b>0.004</b>
Knowledge -> Information Technology	0.438	0.429	0.139	3,151	<b>0.002</b>
Information Technology -> MSME Performance	0.754	0.758	0.114	6,596	<b>0,000</b>

Source: SmartPLS processed results, 2023  
Table 5. Results For Inner Weight

SmartPLS test results in Table 5, it can be seen that the results of research hypothesis testing start from the first hypothesis to the seventh hypothesis which is the direct influence of Knowledge and Ability. on Information Technology and the influence of the Knowledge and Ability construct

through Information Technology on the Work of MSMEs.

### Indirect Influence

Based on the results of data testing using the SmartPLS program tool , path analysis results were obtained which can be seen from the following table:

Indirect Relationships	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistics (O/STDEV)	P-Values
Knowledge => Information technology => MSME performance	400	404	138	2,905	<b>0.004</b>
Capabilities => Information technology => MSME performance	290	301	123	2,359	<b>0.019</b>

Source: SmartPLS Inner Model Test Results, 2023

Table 6. Path Analysis Results

Based on the path diagram, the t-statistic or t-count value is useful for assessing whether a hypothesis is accepted or rejected, by comparing the t-statistic or t-count value with the t-table at 1.96 (with an error of rejecting data of 5%).

### Discussion of Research Results

Based on the results of the research that has been carried out, the author can imply the following things:

#### The Influence of Knowledge on Information Technology

The influence of knowledge on information technology is 0.438, which shows that the direction of the relationship between knowledge and







information technology is positive. Where the P-Value value of 0.002 is smaller than alpha 5%, namely  $0.002 < 0.05$  which shows a significant effect and with a t-statistic value of 3.151 to find out whether this hypothesis is accepted or rejected, then compare the t-statistic value with t-table 1.96. Where the t-statistic value  $>$  t-table or  $3.151 > 1.96$  therefore  $H_0$  is rejected and  $H_1$  is accepted. So it can be concluded that Knowledge has a positive and significant effect on Information Technology. Hypothesis  $H_1$  in this study **is accepted**

#### **The Influence of Capabilities on Information Technology.**

The effect of ability on information technology is 0.473, which indicates that the direction of the relationship between ability and information technology is positive. Where the P-Value value of 0.000 is smaller than alpha 5%, namely  $0.000 < 0.05$  which indicates there is a significant influence and with a t-statistic value of 3.511 to find out whether this hypothesis is accepted or rejected, then compare the t-statistic value with the t-table 1.96. Where the t-statistic value  $>$  t-table or  $3.511 > 1.96$  therefore  $H_0$  is rejected and  $H_2$  is accepted. So it can be concluded that Capabilities have a positive and significant effect on Information Technology. Hypothesis  $H_2$  in this study **is accepted**.

#### **The Influence of Knowledge on MSME Performance.**

The effect of knowledge on MSME performance is 0.276, which shows that the direction of the relationship between knowledge and

MSME performance is positive. Where the P-Value value of 0.004 is smaller than alpha 5%, namely  $0.004 < 0.05$ , which shows that there is a significant influence and with a t-statistic value of 2.874 to find out whether this hypothesis is accepted or rejected, then compare the t-statistic value with the t-table 1.96. Where the t-statistic value  $>$  t-table or  $2.874 > 1.96$  therefore  $H_0$  is rejected and  $H_3$  is accepted. So it can be concluded that knowledge has a positive and significant effect on MSME performance. Hypothesis  $H_3$  in this study **is accepted**.

This research is in line with research conducted by Anggita Tresliyana Suryana and Burhanuddin. With the research title The Influence of Entrepreneurial Competence on the Business Performance of Coffee MSMEs: A Theoretical and Empirical Review and research results. The results of the study show that entrepreneurial competence has been proven to influence the business performance of coffee MSMEs in Indonesia [2].

#### **The Influence of Capabilities on MSME Performance.**

The effect of capability on MSME performance is -0.064, which indicates that the direction of the relationship between capability and MSME performance is negative. Where the P-Value value of 0.587 is greater than the alpha of 5%, namely  $0.587 > 0.05$  which shows that it has no significant effect and with a t-statistic value of 0.543 to find out whether this hypothesis is accepted or rejected, then compare the t-statistic value with the t-table 1.96. Where the t-statistic value  $<$  t-table or





$0.543 < 1.96$  therefore  $H_0$  is accepted and  $H_4$  is rejected. So it can be concluded that capability has a negative and insignificant effect on MSME performance. Hypothesis  $H_4$  in this study **is rejected**. This research is in line with research conducted by Mudjiarto, Apri Yanah Vimesa. With the research title The Influence of Capability Factors on the Performance of MSMEs participating in the PKT Program in the Kebayoran Lama Area, South Jakarta and the results of the research. The results of multiple linear regression analysis show that it has no significant effect on the performance of MSMEs participating in the PKT program in the Kebayoran Lama area, South Jakarta [16].

#### **The Influence of Information Technology on MSME Performance.**

The influence of Information Technology on MSME Performance is 0.754, which indicates that the direction of the relationship between Information Technology and MSME Performance is positive. Where the P-Value value of 0.000 is smaller than alpha 5%, namely  $0.000 < 0.05$  which shows there is a significant influence and with a t-statistic value of 6.596 to find out whether this hypothesis is accepted or rejected, then compare the t-statistic value with the t-table 1.96. Where the t-statistic value  $>$  t-table or  $6.596 > 1.96$  therefore  $H_0$  is rejected and  $H_5$  is accepted. So it can be concluded that Information Technology has a positive and significant effect on MSME Performance. Hypothesis  $H_5$  in this research **is accepted**. This research is in line with research conducted by Wahid and Zaki. With the research title The

Influence of Information Technology on the Performance of Batik SMEs in Malang City in the Era of Industrial Revolution 4.0 and the results of research on the use of information technology on the performance of Batik SMEs in Malang City also have a significant influence [10].

#### **The Influence of Knowledge on MSME Performance through Information Technology as an intervening variable.**

The influence of Knowledge on MSME Performance through Information Technology is 0.400, which indicates that the direction of the relationship between Knowledge and MSME Performance through Information Technology is positive. Where the P-Value value of 0.004 is smaller than alpha 5%, namely  $0.004 < 0.05$ , which shows that there is a significant influence and with a t-statistic value of 2.905 to find out whether this hypothesis is accepted or rejected, then compare the t-statistic value with the t-table 1.96. Where the t-statistic value  $>$  t-table or  $2.905 > 1.96$  therefore  $H_0$  is rejected and  $H_6$  is accepted. So it can be concluded that Knowledge has a positive and significant effect on MSME Performance through Information Technology.

The influence of Capability on MSME Performance through Information Technology is 0.290, which indicates that the direction of the relationship between Capability and MSME Performance through Information Technology is positive. Where the P-Value value of 0.019 is smaller than alpha 5%, namely  $0.019 < 0.05$ , which shows that there is a significant influence and with a t-statistic value of





2.359 to find out whether this hypothesis is accepted or rejected, then compare the t-statistic value with the t-table 1.96. Where the t-statistic value  $>$  t-table or  $2.359 > 1.96$  therefore  $H_0$  is rejected and  $H_6$  is accepted. So it can be concluded that Capability has a positive and significant effect on MSME Performance through Information Technology. Hypothesis  $H_7$  in this study is **accepted or mediated**.

## CONCLUSION

Based on the results of data analysis and interpretation of research results and discussion Which has be delivered previously, so can be stated a number of conclusion from results study as following:

1. There is a positive and significant influence between Knowledge and Information Technology in Padang City MSMEs. Where the P-Value value of 0.001 is smaller than alpha 5%, namely  $0.001 < 0.05$ , which indicates a significant effect. The t-statistic value  $>$  t-table or  $3.461 > 1.96$  therefore  $H_0$  is rejected and  $H_1$  is accepted.
2. There is a positive and significant influence between Capabilities on Information Technology in Padang City MSMEs. Where the P-Value value of 0.015 is smaller than alpha 5%, namely  $0.015 < 0.05$ , which indicates there is a significant influence. The t-statistic value  $>$  t-table or  $2.443 > 1.96$  therefore  $H_0$  is rejected and  $H_2$  is accepted.
3. There is a positive and significant influence between Knowledge and MSME Performance in Padang City. Where the P-Value value of 0.001 is smaller than alpha 5%, namely  $0.001 < 0.05$ , which indicates there is a significant influence. The t-statistic value  $>$  t-table or  $3.278 > 1.96$  therefore  $H_0$  is rejected and  $H_3$  is accepted.
4. There is no positive and significant influence between Capabilities on MSME Performance in Padang City. Where the P-Value value is 0.341, which is greater than alpha 5%, namely  $0.341 > 0.05$ , which shows that it has no significant effect. The t-statistic value  $<$  t-table or  $0.952 < 1.96$  therefore  $H_0$  is accepted and  $H_4$  is rejected.
5. There is a positive and significant influence between Information Technology on the Performance of MSMEs in Padang City. Where the P-Value value of 0.000 is smaller than alpha 5%, namely  $0.000 < 0.05$ , which indicates there is a significant influence. The t-statistic value  $>$  t-table or  $6.670 > 1.96$  therefore  $H_0$  is rejected and  $H_5$  is accepted.
6. Information Technology mediates Knowledge on MSME Performance. Where the P-Value value of 0.004 is smaller than alpha 5%, namely  $0.004 < 0.05$ , which indicates there is a significant influence. The t-statistic value  $>$  t-table or  $2.905 > 1.96$  therefore  $H_0$  is rejected and  $H_6$  is accepted.
7. Information Technology mediates Capabilities on MSME Performance. Where the P-Value value of 0.019 is smaller than alpha 5%, namely  $0.019 < 0.05$ , which indicates there is a significant influence. The t-statistic value  $>$  t-table or  $2.359 >$





1.96 therefore H<sub>0</sub> is rejected and H<sub>1</sub> is accepted.

### THANK-YOU NOTE

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