# The Role of Human Capital in Creating Sustainable Competitive Advantage for Culinary MSMEs in Madura Indonesia

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**ABSTRACT:** MSMEs in the culinary sector in Madura have great potential to contribute to the regional and national economy. However, the challenges culinary MSMEs face in Madura are very diverse, including increasingly fierce competition, lack of skills, and limited access to training. It is critical to recognize the importance of human capital in creating sustainable competitive advantages for Madurese culinary SMEs. This research aims to determine and analyze the involvement of human capital in creating a sustainable competitive advantage in the Madurese culinary SME sector. Purposive sampling techniques were employed to select 254 respondents for this study. This research employs a quantitative methodology, distributing questionnaires as data collection forms. Partial least square (PLS)-SEM application was used for data analysis. The influence of human capital on sustainable competitive advantage is identified using a quantitative approach. It has been found in this research that human capital significantly and positively impacts sustainable competitive advantage. Thus, it is hoped that this research can provide valuable insight for culinary MSME entrepreneurs in Madura to increase their competitive advantage through developing human capital. In addition, this study is expected to provide academics and practitioners with an understanding of the role of human capital in creating sustainable competitive advantage.

**Keywords:** Competitive Advantage; Human Capital; MSMEs

## INTRODUCTION

Entrepreneurs dream of having a company with a sustainable competitive advantage. This advantage refers to everything a company can do much better than its competitors. When a company can do something that competing companies cannot do or has something that competing companies want, then that can represent a competitive advantage. (Paulus & Murdapa, 2016).

Competitive advantage is an important aspect that entrepreneurs need to pay attention to when facing intense business competition. Businesses that can achieve competitive advantage will have an advantage. Therefore, business people need to know the aspects that can influence competitive advantage in an industry. Yohanes & Hidayati, (2019) state that factors can influence competitive advantage, including human capital. Human capital is a compelling factor in creating sustainable competitive advantage. Arifin 2023 said that in the culinary sector, sustainable competitive advantage can be created through owned human capital. Research conducted by Li & Liu, (2018)., Anwar et al., (2018)., Liu, (2017) It also found that human capital positively and significantly influences sustainable competitive advantage.

A company organization has various forms of capital, such as machines, technology, land, money, and materials. Besides this capital, humans are also one of the company's assets. The human capital contained in a human being is reflected in knowledge, ideas, creativity, skills, and work productivity. The knowledge and skills humans acquire through education and training constitute human capital, similar to an investment product generating profits. (Mardatillah, 2021)

The Resource-Based View (RBV) theory assesses how a company's internal resources can be leveraged to gain competitive advantages. These internal resources encompass assets, capabilities, competencies, organizational processes, information, and knowledge the company can harness to execute formulated strategies (Paulus & Murdapa, 2016).

MSMEs in the culinary sector play a crucial role in the national and local economy, especially in regions such as Madura. (Hidayat et al., 2022). Culinary MSMEs not only provide food and beverage services to the community but can also create jobs, increase per capita income, and promote regional tourism. In Madura, culinary MSMEs have become integral to the local cultural and economic identity. MSMEs can significantly contribute to the welfare of communities and also economic growth. Even though they have great potential, MSMEs in the culinary sector in Madura face several serious challenges, especially related to human capital issues. (Arifin, 2015)These problems include the lack of skills, knowledge, and expertise necessary to compete effectively in increasingly complex and competitive markets. (Yong et al., 2023).

Limited access to formal education and lack of training and skills development are significant obstacles to the growth of culinary MSMEs in Madura. (Arifin et al., 2023). To have a competitive advantage in the culinary sector, MSMEs in Madura must consider human capital. Quality human capital, such as culinary, managerial, and marketing skills, is the main factor differentiating successful MSMEs from those that do not. Investments in human capital development can help MSMEs face existing challenges, increase operational efficiency, and create sustainable added value for customers. (Kurdi et al., 2021)This research examines how to create a sustainable competitive advantage. It focuses on human capital's role in this process in the culinary sector of MSMEs in Madura.

The research problem raised in this paper is the lack of research that explicitly integrates the concept of sustainable competitive advantage with a focus on human capital in the context of culinary MSMEs in Madura. Previous research focuses on external factors such as market access—and technology innovation (León-Gómez et al., 2023; Mady et al., 2023). Without emphasizing the importance of human capital development in creating sustainable competitive

advantage, some previous research has investigated the role of human capital in the context of MSMEs. (Rizvi & Garg, 2022; Alvino et al., 2021) However, often do not pay attention to aspects of sustainable competitive advantage (Sandes & Urdan, 2013).

Thus, this research can fill the gap by providing a sharper focus on human capital development, directly contributing to a sustainable competitive advantage for MSMEs. This research also uses an innovative approach in combining a sustainable competitive advantage concept with the human capital role by applying the PLS-SEM analysis method. This approach provides advantages compared to other classical approaches because PLS SEM can resolve complex relationships between variables involved, providing deeper insight into the dynamics underlying the process of creating competitive advantage. Thus, this research makes a new contribution to our understanding of how human capital can be a significant determinant in creating sustainable competitive advantage in the context of culinary MSMEs in Madura while paving the way for further research.

This research aims to discover and analyze the influence of human capital on the sustainable competitive advantage of MSMEs in Madura. It also aims to identify critical factors that influence the competitiveness of culinary MSMEs in Madura and find appropriate solutions to increase this sector's competitiveness. This research urgently needs to be carried out immediately because it is relevant not only for local stakeholders in Madura but also for national economic policies that aim to increase the contribution of MSMEs to overall economic growth.

## METHOD

The research design used in this study adopts a quantitative approach, allowing systematic and objective measurements of the variables used. (Sekaran & Bougie, 2016). The advantage of a quantitative approach is its ability to produce data that can be analyzed statistically, allowing for more robust conclusions and broader generalizations. (Strijker et al., 2020).

The population studied was MSMEs in the culinary sector in Madura, including the Bangkalan, Sampang, Pamekasan, and Sumenep areas. Madura was chosen as the research location because it has unique characteristics in the culinary sector, with a rich diversity of local culinary delights and a traditional culinary center that attracts the attention of local and foreign tourists.

This research uses a purposive sampling technique. The total number of respondents was 254, and they were MSME actors in the culinary sector in Madura. This approach was chosen to ensure that the sample used is representative of the population so that research results can be more easily generalized. (Y. et al., 2020). The data collection procedure was carried out through survey techniques among MSME actors in the culinary sector in Madura. This survey will be conducted in person, depending on availability and respondent preferences. The characteristics of respondents in this research are that they must have an active business (MSME), specifically in the culinary sector in Madura.

Table 1. Variables and Indicators

| Variable | Indicator | Source | Item | Scale |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Human Capital (HC) | 1. Knowledge, 2. Skills, 3. Abilities, 4. Personal mastery, 5. Leadership role | (Ayub et al., 2017). | 5 | Likert |
| Sustainable Competitive Advantage (SCA) | 1. Value 2. Growth and Performance 3. Market share 4. Service Delivery Systems 5. Innovations Practices 6. Imperfectly Non Imitable 7. Rareness | (Suryantini et al., 2023; Arsawan et al., 2022) | 7 | Likert |

Source: data processed, 2024

The analysis technique used is a quantitative approach using Partial Least Squares (PLS) analysis. SEM-PLS analysis is used because it can handle complex and non-linear models. This follows the relationship between human capital and sustainable competitive advantage, which is quite complex. (Khan et al., 2019; Manley et al., 2021; Hair et al., 2021) The parametric quantitative approach was chosen because it allows careful measurement and statistical analysis of the variables involved in the research, allowing more profound knowledge of these relationships. (Strijker et al., 2020; Becker et al., 2023).

Testing is done by first checking the standard method bias (CMB). The test was carried out with Harman's single factor using exploratory factor analysis without rotation. After that, an Evaluation of the Measurement Model (Outer Model) is carried out to ensure the reliability and validity of the constructs. Then, the structural model (inner model) evaluation will be tested to determine the developed model's goodness of fit and to find out the results of how strong the influence of the variables studied is.

## RESULT AND DISCUSSION

### Respondent Demographics

Table 2. Respondent demographics

| Characteristics | Item | Average | Total | Percentage (%) | Accumulation (%) |
|---|---|---|---|---|---|
| Respondent's Age (Year) | | 35.6 | | | |
| Company Operational Length (Year) | | 7.52 | | | |
| Number of employees | | 3.4 | | | |
| Gender | Man | | 53 | 21% | 21% |
| | Woman | | 201 | 79% | 100% |

| Age | < 25 | 20 | 8% | 8% |
|---|---|---|---|---|
| | 25-34 | 57 | 22% | 30% |
| | 35-44 | 96 | 38% | 68% |
| | > 44 | 81 | 32% | 100% |
| Education | Informal | 60 | 24% | 33% |
| | elementary S | 85 | 33% | 56% |
| | Junior H.S | 56 | 22% | 84% |
| | Senior H.S | 48 | 19% | 95% |
| | University | 5 | 2% | 100% |
| Occupation | Owner-manager | 198 | 78% | 78% |
| | Employee | 56 | 22% | 100% |
| Type of Business | Cafe | 5 | 2% | 2% |
| | Restaurant | 23 | 9% | 11% |
| | Fast food | 10 | 4% | 15% |
| | Food Stalls | 216 | 85% | 100% |
| Total Turnover per year | < 50 Million | 219 | 86% | 86% |
| | 50-100 Million | 23 | 9% | 95% |
| | 100-150 Million | 7 | 3% | 98% |
| | 150-200 Million | 5 | 2% | 100% |
| | > 200 Million | 0 | 0% | 100% |

Source: data processed, 2024

The data above shows the demographics of respondents regarding data on MSMEs in the food sector, which shows exciting characteristics. Respondents had an average age of 35.6 years, with the majority (79%) women. The age distribution is dominated by the 35-44 year group (38%), followed by the over 44 year group (32%). The education level of respondents tends to be low, with 33% having only completed elementary school and 24% having received informal education. Only 2% of respondents had a university education background. Most respondents (78%) were owner-managers of their businesses. The most common type of business is food kiosks (85%), followed by restaurants (9%), fast food (4%), and cafes (2%). The average length of business operation is 7.52 years, with an average number of employees of 3.4 people per business. Regarding turnover, most businesses (86%) have annual revenues of less than 50 million rupiah, with only 14% achieving turnover above this figure. No business reported a turnover of more than 200 million rupiah per year. This data describes the micro and small food business sector, in which women with lower middle school education dominate, operates on a small scale with relatively low turnover but has quite good business resilience, as seen from the average operational age.

**Common method bias**

Research conducted by the survey is very vulnerable to common method bias (CMB) interference. To evaluate the potential of CMB in this study, we applied Harman's single factor using exploratory factor analysis without rotation. Based on the tests carried out, the value of the extracted factors was 32.236% of the total variance. The eigenvalue for this component is 5.908. Based on the variance percentage value not exceeding the critical limit of 50% generally accepted in the literature (Podsakoff et al., 2003) Thus, we can decide that CMB does not seriously threaten the validity of this study's results.

## Evaluation of the Measurement Model (Outer Model)

The Outer Model in PLS-SEM is a crucial stage that aims to ensure the reliability and validity of the constructs. This process involves a series of statistical tests assessing the extent to which the indicators used accurately reflect or shape the latent construct. This evaluation covers several important aspects, including convergent and discriminant validity, reliability, and internal consistency. The results of outer loading in this are presented in Table 3 below:

Table 3. Evaluate the outer model

| Construct | Loading | CA | CR | AVE | HTMT |
|---|---|---|---|---|---|
| Human Capital | | 0.767 | 0.845 | 0.540 | |
| HC-1 | 0.889 | | | | |
| HC-2 | 0.766 | | | | |
| HC-3 | 0.793 | | | | |
| HC-4 | 0.770 | | | | |
| Sustainable Competitive Advantage | | 0.893 | 0.917 | 0.614 | 0.779 |
| SCA-1 | 0.804 | | | | |
| SCA-2 | 0.818 | | | | |
| SCA-3 | 0.890 | | | | |
| SCA-4 | 0.832 | | | | |
| SCA-5 | 0.622 | | | | |
| SCA-6 | 0.796 | | | | |
| SCA-7 | 0.691 | | | | |

Source: data processed, 2024

Outer Model shows satisfactory results for the two primary constructs in this research: Human Capital (HC) and Sustainable Competitive Advantage (SCA). The results of the concurrent validity analysis revealed that most items had a loading factor of more than 0.7, with HC1 showing the highest loading (0.889) for the HC construct and SCA3 for the SCA construct (0.890). Although SCA5 (0.622) and SCA7 (0.691) have loadings slightly below 0.7, these values are still acceptable as they are above 0.6, indicating a significant contribution to their constructs. The HC5 indicator is eliminated at this stage because it has a loading factor value below 0.4. The internal consistency of the two constructs was proven to be strong, indicated by CA and CR values , which exceeded the threshold of 0.7; HC had a CA of 0.767 and a CR of 0.845, while

SCA showed a CA of 0.893 and a CR of 0.917. Discriminant validity was also met well, as evidenced by the AVE value above 0.5 for both constructs (HC: 0.540; SCA: 0.614).

Furthermore, discriminant validity between the two constructs was confirmed through a Heterotrait-Monotrait Ratio (HTMT) of 0.779, below the conservative threshold of 0.85, indicating that the constructs are conceptually different. Overall, the results of this evaluation confirm that the indicators used have strong validity and reliability. This provides a solid basis for further structural model analysis and increases confidence in the resulting research findings.

### Evaluation of the Structural Model (Inner Model)

Structural Model Evaluation, also known as Inner Model Analysis in PLS-SEM, is essential in understanding the relationships between the main concepts under study. The goal is to test whether the alleged relationships between the various variables in the study occur and how strong these relationships are. First, the model's suitability will be evaluated by analyzing the $R^2$ value. Second, the model will be tested thoroughly using the developed predictive relevance technique. Third, calculate goodness of fit (GoF). Both $Q^2$ and GoF calculations utilize the R-square (c2) value. $R^2$ indicates the intensity of the relationship between the independent and dependent variables. Chin, (1998) They were determined that an $R^2$ of 0.67 indicated a robust model, 0.33 a moderate model, and 0.19 a weak model. The data in Table 3 shows $R^2$ for sustainable competitive advantage of 0.449, which indicates that the model is in the moderate category. The average $R^2$ of 0.452 indicates that existing constructs can explain 45.2% of the variation in the model, while the remaining 54.8% is influenced by external factors not included in the model. The Adjusted $R^2$ value, which is lower than the standard $R^2$, indicates an opportunity to expand the model by adding other latent variables. (Hair et al., 2014).

After ensuring satisfactory $R^2$ assessment results, the next stage involves evaluating the model using Stone-Geisser's ($Q^2$) predictive relevance method. $Q^2$ values indicate the model's predictive ability out of the sample, with values above zero indicating that the exogenous construct has predictive relevance for the endogenous construct being tested. The analysis results show that the Sustainable Competitive Advantage construct shows a positive $Q^2$ value of 0.271, which confirms that this model has moderate predictive relevance for this construct. Hair et al. (2019) say that Q2 values between 0.25 and 0.50 indicate medium predictive relevance.

Table 4. Evaluation of inner model and hypothesis

| Construct | Original sample (O) | Sample mean (M) | (STD EV) | T statistics (|O/STDEV|) | P-values |
|---|---|---|---|---|---|
| HC --> SCA | 0.673 | 0.679 | 0.043 | 15.738 | 0.000 |
| F2 : 0.823 Q2 : 0.271 | | | | | |
| R-square: 0.452 Adj. R-square: 0.449 | | | | | |

Source: Primary data processed, 2024

Furthermore, after completing the outer and inner model tests, the next important step is hypothesis testing, as shown in Table 4. Hypothesis testing is carried out to evaluate the

influence of Human Capital on Sustainable Competitive Advantage. The results of the analysis show that Human Capital has a positive and significant effect on Sustainable Competitive Advantage, with a path coefficient (β) of 0.673 (t = 15.738, p < 0.001). The almost identical original sample (O) and sample mean (M) values (0.673 and 0.679, respectively) indicate the stability of the estimates across bootstrap resamples. The relatively low standard deviation (STDEV) (0.043) indicates good precision in parameter estimation. The very high t-statistic value (15.738) and very low p-value (0.000) provide strong evidence to reject the null hypothesis, confirming the statistical significance of the observed relationship.

These findings emphasize the critical role of human capital in building and maintaining sustainable competitive advantage. The large magnitude of the effect (β > 0.5) highlights the importance of investing in human capital development as the best strategy for improving an organization's long-term competitive position.

Based on the tests carried out, it was found that the resulting t-statistical value was 15.738. This value shows that the resulting t-value exceeds 1.96 (15.738 > 1.96. In addition, the resulting p-value is 0.00. This means 0.000 < 0, 05. These results confirm that human capital positively and significantly impacts sustainable competitive advantage. These results are in line with RBV theory, which emphasizes the importance of internal resources that are valuable, rare, difficult to imitate, and cannot be replaced. In creating a competitive advantage (Barney, 1991). Resource-based view views that a company's resources can be maximized to achieve a competitive advantage, consisting of physical, company, and human resources. The potential of human resources assets to get a competitive advantage has stimulated the interest of many scientists. (Kasmawati, 2018). Paulus & Murdapa (2016) The resource-based view theory explains the importance of the company's internal resources. The company's success depends on its internal strengths and human resources' capability to convert existing resources into economic benefits. In this way, the knowledge and skills that MSME actors obtain through education and training can be a driving factor capable of creating a sustainable competitive advantage. (Mardatillah, 2021).

This research includes human capital in the form of knowledge, skills, ability, and personal mastery of MSME actors. Several factors can create a sustainable competitive advantage for culinary MSMEs in Madura. Li & Liu, (2018) It is said that human capital in a business that is well trained through training will encourage the company to have a competitive advantage over its competitors.

Competitive advantage can be a driving factor for an SME to exist and survive amidst the onslaught of food and beverage products from large companies, both domestic and foreign brands. Therefore, the research findings provide relevant evidence. (Barney, 1991) Statement. So, MSMEs in the culinary sector in Madura must pay attention to the availability of the products they sell, and the products they offer must have a value that is difficult for others to imitate. This teaches all culinary MSMEs in Madura to pay attention to the products they sell. Both in terms of quality, taste, and uniqueness of the food and drink products they sell.

This research also provides evidence of the superiority of human capital in creating advantages for micro, small, and medium businesses, especially in the culinary sector. This means that these

findings do not only apply to large companies, but also this view applies to MSMEs. Thus, these findings emphasize that business actors always pay attention to their human capital because knowledge, ability, skills, and personal mastery are crucial factors in creating a sustainable competitive advantage.

Currently, the business world is very competitive. Business actors are competing to take advantage of business opportunities in the culinary sector in Madura. This, of course, makes entrepreneurs who have already been involved in the culinary industry in Madura even more under pressure. Therefore, sustainable competitive advantage is one of the keys to surviving the competition. Apart from that, MSMEs are also required to have the skills to survive in the culinary industry in Madura.

Based on the survey, information was obtained that various aspects are needed to support the existence of MSMEs in Madura to survive in tight competition. The level of knowledge possessed by SMEs, whether obtained from formal or informal education, greatly influences SMEs in creating a sustainable competitive advantage. Besides that, skills gained from experience and other sources by SMEs are also critical. The ability of SMEs to develop their business and self-control is a crucial factor for culinary business actors in Madura to survive amid very competitive competition. Therefore, knowledge, skills, ability, and personal mastery are several factors that MSMEs and the government must consider. The results of this study support the statement. Yong et al. (2023) The problems that need to be resolved immediately include a lack of skills, knowledge, and expertise to compete effectively in an increasingly complex and competitive market. Likewise, the findings (2023) state that the obstacles to the growth of MSMEs in Madura are limited access to formal education, minimal training, and skills development.

This research found other exciting information, such as the average age of MSMEs being 35.6 years. This information certainly needs to be used as a reference to encourage the young generation in Madura to be more proactive in taking advantage of every business opportunity. Furthermore, the Company's Operational Length is 7.52 years. This finding shows that MSME actors in Madura are dominated by business actors who have been involved in the culinary industry in Madura for a long time. This can be used as a basis for stakeholders to be more active in encouraging Madurese people to enter the culinary industry. Further information is the number of employees it has is 3.4 employees. This proves that many small and medium enterprises in the culinary sector in Madura are pretty successful. This is because MSMEs can employ as many as 3 to 4 employees. This proves that MSMEs are indeed one of the industries that can provide space for Indonesian people to find work.

The results of this research are also in line with the findings of several previous studies and research results (2016). Human capital has a positive and significant influence on competitive advantage. The location of that study was conducted in Madiun, East Java, with the research object being minimarkets. This research is also in line with research findings conducted by Yohanes & Hidayati (2019)(2018), and Anwar et al. (2017) found the same results as this research. Several studies have found that human capital positively and significantly affects competitive advantage.

## CONCLUSION

From the explanation provided, we can infer that human capital positively and significantly impacts sustainable competitive advantage. Apart from that, several factors that need to be resolved immediately are the issues of access to formal education, training, experiences, and skills development for culinary SMEs in Madura. The average age of MSMEs is 35.6 years. The Company's Operational Length is 7.52 years, and the number of employees is 3.4.

This research is limited because it was only conducted in the Madura region (Sumenep et al.) The findings of this study cannot be applied to all areas in Indonesia. Therefore, it is hoped that this future research can reach other regions in Indonesia. This needs to be done to enrich the study of the role of human capital in sustainable competitive advantage. This research only uses one independent variable (independent variable), namely human capital, and one dependent variable (dependent variable), namely sustainable competitive advantage. Therefore, it is necessary to conduct research again using various types of capital, such as structural capital, intellectual capital, and so on, as independent variables. Apart from that, it is necessary to develop a research model in the future.

## ACKNOWLEDGMENT

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