

## Human Capital, Social Capital, And Innovation Capability In Performance Of Village-Owned Enterprises

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**Abstract.** *This study aims to analyze the effect of human capital and social capital on the performance of Village-owned Enterprises, which is mediated by innovation capability. The population in this study is Village-owned Enterprises located in Kampar Regency. Respondents in this study were the director of BUMdes. as many as 228 Village-owned Enterprises. The data collection technique is by sending a questionnaire in an internet questionnaire designed using Google Forms. A total of 120 BUMDes Directors participated in this research. The results of data analysis with PLS show that the study results indicate that human capital does not affect the performance of Village-owned Enterprises. Social capital involves the performance of Village-owned Enterprises. Social and human capital have also been shown to affect the ability to innovate. Social capital has also been shown to affect humans, and innovation capability affects performance. The power of innovation can also partially mediate the relationship of social capital with the performance of Village-owned Enterprises and fully mediate the effect of particular capital on the performance of Village-owned Enterprises. However, human capital is not a mediating variable for social capital's impact on Village-owned Enterprise's performance. This research has a contribution to improving the performance of Village-owned Enterprises.*

**Keywords:** Village-owned Enterprises; human capital; social capital; innovation capability

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### INTRODUCTION

Village-owned Enterprises are Village business institutions managed by the community and the Village Government. According to the regulation of Ministry of Village, Development of Disadvantaged Regions and Transmigration of Republic of Indonesia No. 4 of 2015, the objectives of establishing Village-owned Enterprises include improving the village economy, creating market opportunities and networks supporting the public service needs of citizens, and improving community welfare through the improvement of public services, growth and equitable distribution of the village economy and increasing village community income.

This regulation has encouraged the growth of Village-owned Enterprises, which is relatively high. According to data from the Ministry of Villages, Development of Disadvantaged Regions, and Transmigration of the Republic of Indonesia in 2018, the total of Village-owned Enterprises throughout Indonesia reached 35 thousand in 74,910 villages. This amount is five times the target of the Ministry of Villages, Development of Disadvantaged Regions, and Transmigration of the Republic of Indonesia, in which the ministry only set 5000 Village-owned Enterprises. However, various data have indicated that most Village-owned Enterprises are only established, and they do not have

productive activities. Notwithstanding, most of them are stagnant. Village heads represent a lack of understanding regarding the knowledge concerning Village-owned Enterprises (Berdesa, 2018)

In the Province of Riau, the growth of Village-owned Enterprises has been quite significant in the last five-year. Every village is competing to establish Village-owned Enterprises. However, the percentage of the established Village-owned Enterprises which are successful is still far from the expectation. There are 849 Village-owned Enterprises spread over 1592 villages. Of this number, 131 Village-owned Enterprises went bankrupt (Gagasan.riau, 2019). In the Regency of Kampar, there are 242 active Village-owned Enterprises and 26 inactive Village-owned Enterprises. It shows that the management of Village-owned Enterprises is far from optimal, indicating the lack of performance of Village-owned Enterprises.

One of the factors that affect the performance of Village-owned Enterprises is human capital. Unger et al. (2011) define Human Capital as individual skills and knowledge gained through investment in school education and life experience. Previous research has shown that human capital affects organizational performance, for example, the study by Gupta & Rahman (2021) on companies in India. Research by (Nugraha, 2018) also shows that individual capacity and individual motivation affect the non-financial performance of advertising companies. However, Oktaviany & Raharjo (2019) research shows that human capital does not influence organizational performance.

In addition to human capital, research by Gandhiadi & Kencana (2020) and Kim & Aldrich (2005) has found that social capital is one of the factors causing high and low business performance. Kim & Aldrich (2005) describes social capital, broadly, as a resource available to people through social relationships. Social capital can affect success because the information obtained from business acquaintances can sharpen the entrepreneur's perception of the business being managed. The social capital possessed by the

owner will affect the relationship between the external environment both with other entrepreneurs, related agencies and institutions, suppliers, consumers, and the surrounding community. Managers of Village-owned Enterprises should have the ability to establish relationships with parties whose relationships can be utilized to support the business. However, the Social Capital owned by business actors is still optimally unutilized.

The effect of social capital on Village-owned Enterprises can transform things in terms of corporate governance, improve the quality of human resources, and develop organizations with community welfare. Village-owned Enterprises based on social capital can bring change in a promising direction. Social capital affects the survival of Village-owned Enterprises in the village. This description is also supported by research conducted by Walenta (2019) and Yohanes et al. (2017) on SMEs, showing that social capital affects these SMEs. However, Akintimehin et al., (2019) research show that social capital does not affect organizational performance.

Previous research has shown inconsistent results. Other factors may indirectly influence social and human capital's influence. In contrast to previous studies Walenta (2019) and Gandhiadi & Kencana, (2020), this study uses innovation capability as a mediating variable. Varadarajan & Jayachandran (1999) Explain that the concept of organizational innovation capability refers to a set of beliefs and ways of working that influence an organization's view of how innovation capability and change should be handled. Innovating is needed for organizations to face various changes in a dynamic environment. Jamshidi & Kenarsari, (2015) argues that social capital can increase the innovative behavior of employees. Well-formed social capital will impact employee performance or performance, one of which is innovative behavior. Research Widjajanti et al (2017) shows that human capital can also increase innovative behavior. Therefore, organizations are required to create new ideas and offer innovative products. Therefore,

innovation capability can improve business performance (Widjajanti et al., 2017).

In addition to using innovation capability as a mediation, this study also examines the effect of social capital on human capital, which was not carried out in previous studies. Research by Kimbal (2020) on MSMEs shows the component of human capital, which is identified with individual competence, high work motivation, work environment value system, teamwork, and leadership in running a small business. These components contribute to establishing and strengthening the required social capital in small companies like relatively strong networks, mutual trust and cooperation, adherence to norms, exchanging kindness, and the value of a meaningful life. Social capital sourced from substantial human capital is vital energy for the survival of small businesses during intense competition in the era of the industrial revolution 4.0.

This study aims at examining the effect of human capital and social capital on the performance of Village-owned Enterprises. This study also tested innovation capability as a mediating variable. In addition, this study also examines the effect of human capital on social capital. It looks the mediation of human capital on the relationship between social capital and the performance of Village-owned Enterprises. This study on human capital and social capital in Village-owned Enterprises is rarely done. Previous research was mainly conducted on MSMEs and large companies, such as Kimbal (2020) and Widjajanti et al (2017). Therefore, this study is interesting to do.

## LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

### Resource-Based View (RBV) Theory

According to RBV theory (Wernerfelt, 1984), its resources and capabilities are essential for the company because it is the basis of its competitiveness and performance.

RBV is a method for analyzing and identifying a company's strategic advantages based on a review of the combination of assets, expertise, capabilities, and intangible assets that are specific to an organization. When resources are managed so that what is produced is difficult for competitors to imitate or make, which in turn creates barriers to competition (Mahoney & Pandian, 1992). In this study, human capital, social capital, and innovation capability are advantages possessed by BUMDes to increase performance village-Owned Enterprises

### Village-Owned Enterprises

Village-Owned Enterprises (BUMDes) are village economic institutions/agencies with legal entities formed and owned by the Village Government, managed economically independently and professionally, with all or most of the capital being separated village assets. Village-Owned Enterprises themselves are intended to gain profits which can further strengthen Village Original Income, promote the village economy, and improve the welfare of rural communities as according to Government Regulation Number 72 of 2005 concerning Villages, article 78 paragraph (1).

### The effect of human capital on the performance of Village-owned Enterprises

Unger et al. (2011) define "human capital as individual skills and knowledge acquired through investments in school education, training, and various experiences." Human capital investments like education and experience may not lead to knowledge and skills. Human capital is the accumulation of capabilities, capacities, and opportunities owned by members of the organization. Capability is the ability of organizational members to do something that is both a capacity and a chance to achieve predetermined goals. The availability of competent human capital is required in various organizations to regulate and manage Village-owned Enterprises properly. Hence, it can increase Village-owned Enterprises' income and prosper the community. The result of

research conducted by Nugraha (2018) and Gupta & Rahman (2021) also shows that individual capacity affects the performance of MSMEs.

H<sub>1</sub>: Human capital affects the performance of Village-owned Enterprises

### **The effect of social capital on the performance of Village-owned Enterprises**

Social capital is a person's ability to get benefits or profit through investment strategies in social networks. The higher the social capital owned by the manager of Village-owned Enterprises, the more resources, and benefits that can be obtained from the successful management of Village-owned Enterprises. Managers of Village-owned Enterprises who are able to take advantage of relationships with other parties, customers, and related agencies or institutions can work together sharing useful information until distributing resources that can support the success. An excellent business is a business that benefits itself and the community around the company. The participation of business actors with the surrounding community is a form of relationship establishing mutual trust that the company will not harm the community and the environment around the company. The confidence arising in the community can increase the success of Village-owned Enterprises. Hence, it can be concluded that social capital has a positive effect on the performance of Village-owned Enterprises. Research conducted by Walenta (2019) and Yohanes et al (2017) shows that social capital affects the performance of MSMEs. Based on the description above, the hypothesis is:

H<sub>2</sub>: Social capital affects the performance of Village-owned Enterprises

### **The effect of social capital on innovation capability**

Jamshidi & Kenarsari (2015) argues that social capital can increase employees' innovative behavior. Well-formed social capital will impact employee performance, one of which is creative behavior. (Landry et al., 2002) argues that an increase in social capital

in the form of participation assets and relational assets contributes to increasing company innovation. In Village-owned Enterprises, cooperation can be established with various business circles. This collaboration will encourage creativity to generate new ideas following business demands to increase the ability to innovate. The result of research by (Pertiwi, 2020) found that social capital affects innovation. Based on the explanation above, it is hypothesized:

H<sub>3</sub>: Social capital affects the innovation capability

### **The impact of human capital on innovation capability**

Human capital must involve competencies of Human Resource (e.g., skills, knowledge, and capabilities) and their commitment (e.g., willingness to dedicate their lives and work for the company). According to (Collins & Clark, 2016), human capital is the characteristics of human resources determined by the knowledge used to create value for the organization. This explanation shows that someone with high abilities can establish and utilize company resources in ways that make company innovation. Research conducted by Widjajanti et al (2017) proves that human capital can increase innovative behavior. Innovative behavior is all individual behavior that is directed to produce, introduce and apply new things that are useful at various levels of the organization (De Jong & Hartog, 2003). Based on the description above, it is hypothesized:

H<sub>4</sub>: Human capital affects the innovation capability

### **The Effect of Social Capital on Human Capital**

According to Kim & Aldrich (2005), social capital is a resource available through social relationships. This ability to establish social networks is called social capital. The wider one's association and the more comprehensive the network of social relations, the higher one's value. Recent developments in social capital conclude that the value of human

capital can be increased through the will and goodwill established with a series of social relationships that can be done to facilitate the action (Widodo, 2010). According to (Suriatna, 2013), Social factors or social support will make it easier for individuals and a source of strength when facing problems. From the description above, it can be concluded that the better the social capital owned, the better human capital that can be formed. It is supported by research conducted by (Widjajanti et al., 2017), showing that social capital positively affects human capital. Based on this description, the hypothesis in this study is:

H<sub>5</sub>: Social capital affects the human capital

### **The effect of innovation capability on the performance of Village-owned Enterprises**

According to OECD (2005), four product/service innovation types are process innovation, organizational innovation, and marketing innovation. Product/service innovation introduces a product or service with significantly improved performance. Product/service innovation is an important performance factor providing the capability for expansion into new markets and industries (Damanpour & Gopalakrishnan, 2001) and allowing to explore opportunities for abnormal profits and providing a route for companies to earn profits (Savitz et al., 2000)). Process innovation is the implementation of new or significantly improved production or delivery methods. It may consider changes in tools, human capital, and working techniques or a combination of these, such as new installations or upgraded software to speed up the claims settlement process and policy issuance (OECD, 2005). Process innovation introduces new tactics for a product or service or new ways to commercialize a product or service. Process innovation may affect productivity, productivity growth, or profitability.

The process required to produce a product or service is unpaid directly by the customer. Therefore, process innovation must be a new change to the act of making or

delivering a product allowing significantly increased value delivered to stakeholders (Savitz et al., 2000). Marketing innovation introduces new marketing methods involving significant changes in product design, product placement, and product promotion or pricing (OECD, 2005). The main goal of marketing innovation is to address customer needs better, penetrate new markets, or position new company products to increase company sales. (Savitz et al., 2000) has investigated the impact of marketing innovations in private commercial banks in Jordan. Their findings prove that marketing innovation has a positive effect on creating long-term competitive advantage and company growth. In addition, it is crucial managers align with the company's strategy and perceptions of marketing innovation to create sustainable development.

Thus, the higher the innovation capability owned by the manager of Village-owned Enterprises, the better the performance of the Village-owned Enterprises by producing innovative products or businesses needed by the community. Previous research has shown that innovation capability encourages increased company performance (Rajapathirana & Hui, 2018). The result of research Widjajanti et al (2017) shows the ability of innovation capability has a positive effect on the marketing performance of MSMEs. Based on the description above the hypothesis:

H<sub>6</sub>: Innovation capability has an effect on the performance of village-owned enterprises

### **Mediation of innovation capability on the relationship between social capital and the performance of Village-owned Enterprises**

The description above shows that social capital can create creative ideas with social networks (Jamshidi & Kenarsari, 2015). Furthermore, innovation capability can improve performance (Rajapathirana & Hui, 2018). Innovative behavior is the successful implementation of the creative ideas of Village-owned Enterprises' managers and is a

significant factor in improving the performance of Village-owned Enterprises. Thus, the higher the company's innovation capability, it will enhance the company's performance by increasing purchasing decisions. The results of previous research show that social capital affects innovation capability (Pertwi, 2020), and the ability to innovate can improve business performance (Widjajanti et al., 2017). Based on the description above, it is hypothesized:

H<sub>7</sub>: Innovation capability mediates the relationship between social capital and the performance of Village-owned Enterprises

#### **Mediation of innovation capability on the relationship between human capital and the performance of Village-owned Enterprises**

Human capital, like a person's skill and knowledge, can create company innovation (Collins & Clark, 2016), and innovation capability will improve performance through innovative behavior that can generate, introduce and apply new things that are useful in various organizations so that it has a positive effect on the improvement of organizational performance (Savitz et al., 2000). The result of research by (Widjajanti et al., 2017) proves that human capital can increase innovative behavior. The result of research by Pertwi, (2020) and Widjajanti et al (2017) also confirms that innovation capability can improve performance. Based on the description above, it is hypothesized:

H<sub>8</sub>: Innovation capability mediates the relationship between human capital and the performance of Village-owned Enterprises

#### **Mediation of human capital on the relationship between social capital and the performance of Village-owned Enterprises**

The wider one's association and the more comprehensive the network of social relations, the higher one's value. Recent developments in social capital conclude that the value of human capital can be increased through the will and goodwill established with a series of social relationships that can be done to facilitate collective action (Widodo, 2010). According

to (Suriatna, 2013), Social factors or social support will make it easier for individuals and a source of strength when facing problems. From the previous description, it can be concluded that the better the social capital owned, the better human capital that can be formed. Human capital must involve competencies of Human Resource (e.g., skills, knowledge, and capabilities) and their commitment (e.g., willingness to dedicate their lives and work for the company). (Widjajanti et al., 2017) proves that human capital can increase innovative behavior. Innovative behavior is all individual behavior directed to produce, introduce and apply new things that are useful at various levels of the organization (Jong et al., 2003). Based on the description above, it is hypothesized:

H<sub>9</sub>: Human capital mediates the relationship between social capital and the performance of Village-owned Enterprise

### **RESEARCH METHODS**

This research is quantitative research using a population of 228 Village-owned Enterprises spread across various sub-districts in the Kampar Regency. The sampling technique employed in this study is probability sampling with area sampling technique or cluster sampling, namely grouping Village-owned Enterprises per district area. There are 21 sub-districts in Kampar Regency with 250 villages. However, the number of Village-owned Enterprises is only 228, and the number of Village-owned Enterprises that are still active is only 216. Determination of the number of samples employed the Slovin obtained a selection of 140.

Data collection in this study was using a questionnaire. Some were delivered directly to the managers of Village-owned Enterprises, and some were sent via digital media, namely Google Form. Google Form is an online form application to efficiently collect information through surveys, namely by inputting questionnaire questions distributed digitally to every manager of Village-owned Enterprises acting as a respondent in this study. Information on managers of Village-owned Enterprises was obtained from the Community

and Village Empowerment Service of Kampar Regency.

### **Operational Variables**

#### ***Performance of Village-owned Enterprises***

Performance results from optimal work performance carried out by a person or group, or business entity. The indicators employed in this study were adopted from the research of (Savitz et al., 2000), consisting of 8 indicators: Return on Assets (ROA), Return on Equity (ROE), revenue growth, and sales returns, loyalty, competitiveness, stability, and customer satisfaction.

#### ***Social Capital***

Social Capital is a person's ability to get benefits or profits through investment strategies in social networks. The indicators employed are the ability to establish cooperation, establish trust, and participate in local communities. (Ferdinand, 2003) Social Resources with hands of Social Capability, Social Networks, Trust, Cohesion

#### ***Human Capital***

Human Capital is the knowledge and expertise of individuals owned and acquired through investment in education and experience helpful in improving performance and success. Human Capital can be measured changes in skills, creativity, and intelligence, developing new ideas and knowledge. The human capital indicators used are from (Mayo, 2000) developed by (Widodo, 2010)

#### ***Innovation Capability***

Innovation Capability is the ability to generate new ideas leading to higher performance, create new opportunities, increase future capacity, technology leadership, and increase the knowledge base through managing technological change (Malaysia Productivity Corporation, 2009). Indicators employed to measure innovation capability are developed by (Widjajanti et al., 2017) with hands New product development, Application of appropriate technology, Process development and adaptation, Response to competitors

All variables were measured using a 5-point Likert scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

#### **Data Analysis Technique**

Data analysis was carried out using SmartPLS software. PLS is an alternative approach shifting from a covariance-based SEM approach to a variance-based system that can simultaneously test the measurement model and test the structural model. The measurement model is utilized to test the validity and reliability, while the structural model tests causality (testing hypotheses with predictive models). In addition, SmartPLS is used for intervening testing with path analysis models. The path analysis model systematically becomes a standardized regression model (without constants) because it wants to compare various paths or know the direct and indirect effects between variables (Ghozali, 2014).

### **RESULTS AND DISCUSSION**

Of the 140 questionnaires distributed to respondents, there were 120 questionnaires readmitted (85%). The characteristics of the respondents are presented in table 1:

**Table 1: Respondent's Characteristic**

		Total	Percentage (%)
Sex	Male	73	60.8
	Female	47	39.2
	Total	120	100.0

Age	21 - 30 years	60	50.0
	31 - 40 years	43	35.8
	41 - 50 years	14	11.7
	> 50 years old	3	2.5
	Total	120	100.0
Education	Junior High School	3	2.5
	Senior High School	55	45.8
	S1	60	50
	S2	2	1.6
	Total	120	100.0
experience	< 1 year	58	48.3
	1 - 5 years	49	40.8
	6 - 10 years	13	10.8
	Total	120	100.0

Source: Results of Processed Data, 2021

### Test Results of Outer Model

#### Test Results of Validity

Test results of convergent and discriminant validity after eliminating several indicators can be seen in table 2. Factor loading shows the factor loading value  $> 0.7$ , and the AVE value in table 4 also shows a value  $> 0.5$ .

Cross loading also indicates that the factor loading variable block value is higher than the other variable blocks (Hair et al., 2010). It shows that the convergent validity and discriminant validity have been met. Figure 1 shows the full structural equation model, and table 2 shows the value of the loading factor.

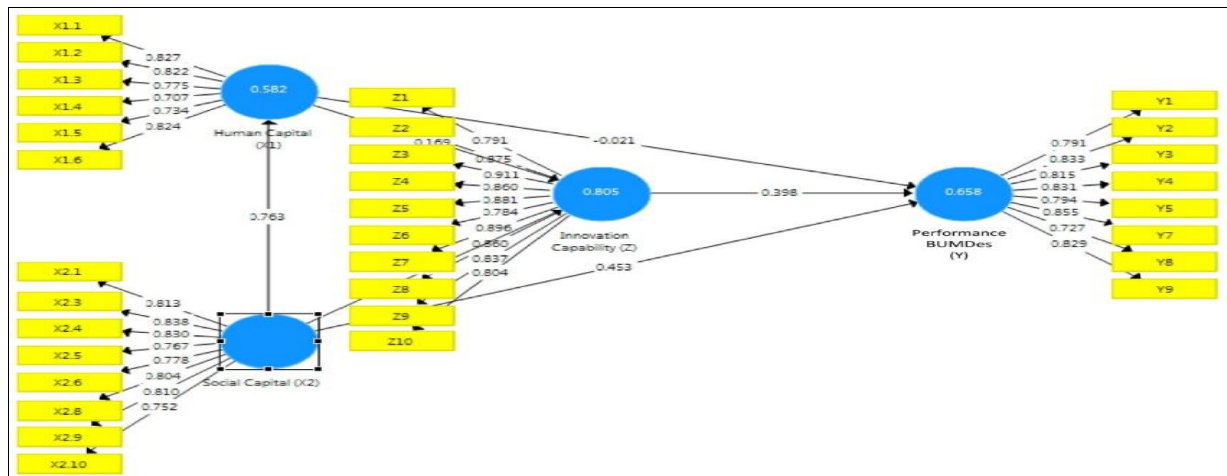


Figure 1: Structural Equation Model

Table 2: Loading Factors



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*/ Human Capital, Social Capital, And Innovation Capability In Performance Of Village-Owned Enterprises*

	Human Capital (X1)	Innovation Capability (Z)	Performance of Village-owned Enterprises (Y)	Social Capital (X2)
X1.1	0.827	0.568	0.537	0.619
X1.2	0.822	0.563	0.455	0.576
X1.3	0.775	0.571	0.482	0.570
X1.4	0.707	0.530	0.466	0.530
X1.5	0.734	0.534	0.413	0.537
X1.6	0.824	0.727	0.554	0.719
X2.1	0.655	0.687	0.671	0.813
X2.3	0.650	0.718	0.535	0.838
X2.4	0.674	0.742	0.623	0.830
X2.5	0.583	0.746	0.630	0.767
X2.6	0.614	0.687	0.621	0.778
X2.8	0.651	0.749	0.686	0.804
X2.9	0.553	0.676	0.741	0.810
X2.10	0.481	0.688	0.540	0.752
Y1	0.498	0.652	0.791	0.626
Y2	0.447	0.627	0.833	0.613
Y3	0.438	0.598	0.815	0.596
Y4	0.497	0.601	0.831	0.606
Y5	0.584	0.689	0.794	0.690
Y7	0.615	0.690	0.855	0.703
Y8	0.385	0.588	0.727	0.570
Y9	0.543	0.633	0.829	0.703
Z1	0.554	0.791	0.625	0.749
Z2	0.628	0.875	0.727	0.762
Z3	0.706	0.911	0.692	0.817
Z4	0.621	0.860	0.709	0.746
Z5	0.655	0.881	0.627	0.766
Z6	0.643	0.784	0.595	0.700
Z7	0.663	0.896	0.660	0.770
Z8	0.673	0.860	0.748	0.790
Z9	0.604	0.837	0.614	0.722
Z10	0.628	0.804	0.669	0.748

Source: Processed Data, 2021

**Test Results of Reliability**

The results of the Reliability test can be identified in Table 3. The results of the

reliability test show the value of Cronbach's alpha and composite reliability > 0.7(Hair et al., 2010) , indicating that all variables meet reliability

**Table 3: Construct Reliability and Validity**

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)	R Square
Human Capital (X1)	0.873	0.904	0.613	0.582
Innovation Capability (Z)	0.957	0.963	0.724	0.805
Performance of Village-owned Enterprises (Y)	0.925	0.938	0.656	0.658
Social Capital (X2)	0.919	0.934	0.639	

Source: Processed Data, 2021

**Evaluation Results of Structural Model**

The value of R-Square can be identified in Table 3. The R-Square value of the effect of human capital, social capital, and innovation capability on the performance of Village-owned Enterprises shows a value of 0.658 or 65.8%, indicating the performance of Village-owned Enterprises is affected by human capital, social capital, and innovation capability by 65.5%, and the remaining 34.2% is affected by other factors not examined in this study. The R-square value of the effect of human capital and social capital on innovation capability is 0.805 or 80.5%, meaning the innovation capability is affected by human capital and social capital of 80.5%. The

remaining 19.5% is affected by other variables not examined in this study. The R-square value of the effect of social capital on human capital is 0.582 or 58.2%, indicating the human capital is affected by social capital. The remaining 41.8% is affected by other variables not examined in this study.

**Test Results of Hypotheses**

Hypotheses testing is based on the p-value. The hypothesis is accepted if it has a p-value < 0.05. The results of hypotheses testing can be seen in the path coefficient table of direct effect in table 4.

**Table 4: Path Coefficient**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
<i>Direct Effect</i>					
Human Capital (X1) -> Innovation Capability (Z)	0.169	0.177	0.068	2.495	0.013
Human Capital (X1) -> Performance of Village-owned Enterprises (Y)	-0.021	0.003	0.140	0.148	0.882
Innovation Capability (Z) -> Performance of Village-owned Enterprises (Y)	0.398	0.393	0.136	2.936	0.003
Social Capital (X2) -> Human Capital (X1)	0.763	0.765	0.044	17.519	0.000
Social Capital (X2) -> Innovation Capability (Z)	0.761	0.755	0.061	12.479	0.000
Social Capital (X2) -> Performance of Village-owned Enterprises (Y)	0.453	0.440	0.147	3.090	0.002

<i>Indirect effect</i>					
Social Capital (X2) -> Human Capital (X1) -> Innovation Capability (Z)	0.129	0.136	0.055	2.346	0.019
Social Capital (X2) -> Human Capital (X1) -> Performance of Village-owned Enterprises (Y)	-0.016	0.005	0.107	0.148	0.882
Human Capital (X1) -> Innovation Capability (Z) -> Performance of Village-owned Enterprises (Y)	0.067	0.067	0.031	2.142	0.033
Social Capital (X2) -> Human Capital (X1) -> Innovation Capability (Z) -> Performance of Village-owned Enterprises (Y)	0.051	0.052	0.025	2.065	0.039
Social Capital (X2) -> Innovation Capability (Z) -> Performance of Village-owned Enterprises (Y)	0.303	0.299	0.110	2.745	0.006

Source: Processed Data, 2021

## DISCUSSIONS

### The effect of human capital on the performance of Village-owned Enterprises

The test results can be seen in table 4, showing P-value of the effect of Human capital on the performance of Village-owned Enterprises was 0.882 or  $\geq 0.05$ . It can be concluded that hypothesis 1 is rejected: Human capital does not affect the performance of Village-owned Enterprises.

The results of this study indicate that the competence of Village-owned Enterprises managers cannot directly affect the improvement of Village-owned Enterprise's performance. The expertise and knowledge of Village-owned Enterprises managers will not directly improve the performance of Village-owned Enterprises. Still, competence will have an impact on the ability of human resources to create creativity. If human resources with high competence do not have high creativity, they will necessarily be unable to improve organizational performance. It means that even though a person's level of education is high, it does not guarantee that they can improve the performance of Village-owned Enterprises. The results of this study are also in line with

research by (Oktaviany & Raharjo, 2019), showing human capital does not affect organizational performance.

### The Effect of Social Capital on the performance of Village-owned Enterprises

Test results of Hypothesis 2 in the structural model image show that the p-value is 0.002 or  $< 0.05$ . The original sample estimate value of 0.453 indicates that social capital has an effect on the performance of Village-owned Enterprises. It can be concluded that social capital has an impact on the performance of Village-owned Enterprises in the Kampar Regency. Thus, Hypothesis 2 is accepted.

According to (Kim & Aldrich, 2005), social capital is a resource available through social relationships. Social capital can affect success because the information obtained from business acquaintances can sharpen the entrepreneur's perception of the business being managed. Hence, Managers of Village-owned Enterprises who can take advantage of relationships with other parties, customers, and related agencies or institutions can work together sharing useful information until distributing resources that can support the success. The trust arising in the community can

increase the success of Village-owned Enterprises.

According to Heider's attribution theory, situational attribution is an external cause referring to the environment affecting behavior, such as social conditions, social values, societal views. Social capital, a social relationship owned by managers of Village-owned Enterprises, can affect the success of Village-owned Enterprises with the trust gained through social connections. Social relations can increase the sales of Village-owned Enterprises.

The results of this study support research by (Pertwi, 2020) showing social capital can improve performance.

The test results show the P-value of social capital's effect on innovation capability was  $< 0.000$  or  $\leq 0.05$ . The original sample estimate value of 0.755 indicates hypothesis 3 is accepted: social capital affects innovation capability in Village-owned Enterprises in Kampar Regency.

The results of this study support the attribution theory: external attribution, which is a social-environmental factor that can affect the way a person behaves. A motivating and supportive social environment can affect managers of Village-owned Enterprises to be more innovative. It is in line with research conducted by (Jamshidi & Kenarsari, 2015), stating that social capital can increase creative behavior. Social capital can affect the quality of human resources in an organization. The collaboration will encourage creativity to generate new ideas following business demands to increase innovation capability. This study is also in line with the statement of (Pertwi, 2020) arguing that social capital will increase the innovative behavior of managers.

### **The Effect of Human capital on the innovation capability**

The test results show the P-value of human capital's effect on innovation capability was  $< 0.013$  or  $\leq 0.05$ . The original sample estimate value is 0.169. It can be concluded that hypothesis 4 is acceptable, showing that human capital affects innovation capability in

Village-owned Enterprises in Kampar Regency.

Human capital is the skills, knowledge, capabilities, and commitments possessed by individuals in the organization. (Collins & Clark, 2016) stating that human capital creates value for the organization. Managers of Village-owned Enterprises own human capital in Village-owned Enterprises. Therefore, managers of Village-owned Enterprises with high abilities can build and utilize Village-owned enterprises' resources by creating creativity. For instance, it is creativity in producing products according to the village's potential. Furthermore, it is creativity in marketing the product. It supports the statement of (Jong et al., 2003), stating that innovative behavior can generate, introduce and apply new things that are useful at various levels of the organization.

This study supports the research (Widjajanti et al., 2017), showing that human capital can increase innovative behavior.

### **The effect of social capital on human capital**

The test results of hypothesis 5 showing the P-value of the effect of social capital on human capital was  $< 0.000$  or  $\leq 0.05$ . The original sample estimate value is 0.763. It can be concluded that hypothesis 5 is acceptable, showing that social capital affects human capital in Village-owned Enterprises in Kampar Regency.

The study results indicate that an increase in human capital, in this case, is an increase in one's skills and competencies caused by the establishment of a network of social relationships with other people. Someone with a broader network will have higher competencies and abilities. It means that the more comprehensive a person's association and network of social relationships, the higher a person's value. These results also support attribution theory, especially external attribution, namely external effect like the social environment affecting one's ability. The results of this study also support the research of Kesi et.al., (2016), showing social capital has a positive effect on human capital. Hence, the first hypothesis in this study is:

**The effect of innovation capability on the performance of Village-owned Enterprises**

The test results showing the P-value of the effect of innovation capability on the performance of Village-owned Enterprises was 0.003 or < 0.05. The original sample estimate value is 0.398. It can be concluded that hypothesis 6 is acceptable, showing that innovation capability affects the performance of Village-owned Enterprises in the Kampar Regency.

In line with research by Trott (2005), they stated that innovation capability is the ability to generate new ideas, products, or processes. Innovation capability for individuals is the achievement of ideas that can encourage organizational progress. Thus, the higher the innovation capability owned by the manager of Village-owned Enterprises, the better the

performance of the Village-owned Enterprises by producing innovative products or businesses needed by the community. The results of this study also support the attribution theory, namely internal attribution. A person's abilities, including the ability to innovate, can affect the way in which goals are achieved. The results of this study support the research of Kesi et al. (2016), which shows that the ability of innovation capability has a positive effect on the marketing performance of MSMEs.

**Mediation of innovation capability on the relationship between social capital and the performance of Village-owned Enterprises**

For mediation testing, it can be seen on the indirect effect. To determine whether the mediation is partial or full, comparing the relationship before mediation is carried out is necessary. The path coefficient of direct result can be seen in table 5:

**Table 5: Path Coefficient of Direct Effect before Mediation**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Human Capital (X1) -> Performance of Village-owned Enterprises (Y)	0.044	0.073	0.136	0.324	0.746
Social Capital (X2) -> Performance of Village-owned Enterprises (Y)	0.764	0.744	0.113	6.779	0.000

Source: Processed Data, 2021

The test results show that the P-value is 0.006 < 0.05. It indicated that the indirect effect of social capital through innovation capability (table 4) was significant. It shows hypothesis 7 is acceptable: innovation capability can mediate the relationship between social capital and the performance of Village-owned

Enterprises. The relationship between social capital and the performance of Village-owned Enterprises without going through innovation shows a direct effect with a p-value of 0.00 < 0.005. It shows innovation capability is only partial mediation. Barron and Kenny (1986) state that a mediating variable is a partial mediation if the influence of the independent

variable on the dependent variable has a significant effect before and after the mediation variable.

Social capital, a social relationship owned by managers of Village-owned Enterprises with various stakeholders, can generate creative ideas. Managers of Village-owned Enterprises can increase assets and discover opportunities to market the products of Village-owned Enterprises with the existence of social networks. It has an impact on improving the performance of Village-owned Enterprises. Innovative behavior is the successful implementation of the creative ideas of Village-owned Enterprises' managers and is a significant factor in improving the performance of Village-owned Enterprises. Thus, the higher the innovation capability carried out by the company; it will improve its performance. It supports stewardship theory stating that internal and situational factors originating from environmental influences can affect goal achievement. The results of previous research show that social capital affects innovation capability (Pertwi, 2020), and the ability to innovate can improve business performance (Widjajanti et al., 2017). It shows that innovation capability can mediate the relationship between social capital and the performance of Village-owned Enterprises.

#### **Mediation of innovation capability on the relationship between human capital and the performance of Village-owned Enterprise**

Test Results In the structural model image, it can be identified that the indirect effect of human capital-innovation capability-performance of Village-owned Enterprises shows a P value of  $0.03 < 0.05$ , meaning that innovation capability mediates the impact of social capital on the performance of Village-owned Enterprises. Thus, hypothesis 8 is accepted. The two relationships are significant, meaning that innovation capability can

mediate the relationship between human capital and the performance of Village-owned Enterprises. The direct effect of human capital on the performance of Village-owned Enterprises is shown in table 8 with a p-value of  $0.746 > 0.05$ , meaning that innovation capability is full mediation. Following Barron & Kenny (1986) stated that a mediation variable is a full mediation if the independent variable on the dependent variable has no effect before the mediation variable and impacts after the mediation variable.

It supports stewardship theory stating that individual factors such as competence can affect a person's behavior in achieving their goals. In line with (Unger et al., 2011) saying that human capital, such as skills and knowledge is the key to success in business. The skills possessed by managers of Village-owned Enterprises can create innovation, creativity, and business opportunities to increase the income of Village-owned Enterprises. This result support research conducted by (Widjajanti et al., 2017), stating that innovation capability can improve performance.

#### **Mediation of human capital on the relationship between social capital and the performance of Village-owned Enterprises**

Test results of hypothesis 9 showing the mediation of human capital on the relationship between social capital and the performance of Village-owned Enterprises are demonstrated by the indirect effect of social capital-human capital-performance of Village-owned Enterprises with a P-value of  $0.822 > 0.05$ , meaning that human capital is not a mediation of the impact of social capital on the performance of Village-owned Enterprises. Thus, hypothesis 9 is rejected. It is because human capital cannot directly improve the performance of Village-owned Enterprises. Even though managers of Village-owned

Enterprises have a high level of education, they are not necessarily able to enhance the performance of Village-owned Enterprises if they are not innovative. The previous analysis shows skill will affect creativity, and then it will affect performance. The high competence of Village-owned Enterprises' managers without being followed by creativity and innovation will not impact the performance of Village-owned Enterprises.

## CONCLUSIONS

The results showed that human capital did not affect the performance of Village-owned Enterprises. It shows that managers of Village-owned Enterprises with high competence and expertise cannot directly improve the performance of Village-owned Enterprises. Social capital affects the performance of Village-owned Enterprises in the Kampar Regency. The social network owned by Village-owned Enterprises managers can increase the sales relations of Village-owned Enterprises so that it directly affects the performance of Village-owned Enterprises.

Social capital is also proven to affect innovation capability in Village-owned Enterprises in the Kampar Regency. Social capital can affect the quality of human resources and encourage creativity to generate new ideas following business demands to increase innovation capability.

The results also show that human capital affects innovation capability in Village-owned Enterprises in Kampar Regency. The competencies possessed by managers of Village-owned Enterprises can increase creativity, which impacts improving the performance of Village-owned Enterprises. Social capital is also proven to affect human capital in Village-owned Enterprises in

Kampar Regency. Innovation capability affects the performance of Village-owned Enterprises in the Kampar Regency, and innovation capability can also mediate the relationship between social capital and the performance of Village-owned Enterprises. The results show that innovation capability is only partial mediation. Innovation capability fully mediates the effect of social capital on the performance of Village-owned Enterprises. The results show that human capital is not a mediating variable on the impact of social capital on the performance of Village-owned Enterprises.

The study's limitations include the amount of data collected which is still not optimal, and the research population limited to Kampar Regency. Further research can expand the people in the study so that more data can be collected.

This study contributes to increasing references for research related to performance in Village-owned Enterprises. Apart from that, this study also contributes to Village-owned Enterprises in improving the performance of Village-owned Enterprises so that it is beneficial for village communities in improving their welfare.

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