

Explicating Human Capital Contribution for SMEs Sustainable Competitive Advantage

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Abstract—Researchers debating about the role of human capital in order to increasing financial performance, sustainability and competitiveness. This study aims to examine the role of human capital in improving financial performance and competitive advantage. This study used a quantitative design through the distribution of questionnaires to managers of SMEs Wood Crafts in Badung Regency. The research sample amounted to 43 SMEs using proportional random sampling which was then analyzed with SmartPLS 3.0 software. The results contribute theoretically and practically, especially organizational efforts in maintaining the stability of financial performance, sustainability and competitive advantage. The analysis shows that human capital has a significant positive effect on financial performance, human capital has a positive and significant effect on competitive advantage, financial performance has a positive and significant effect on competitive advantage. Research limitations are discussed in the paper)

Keywords—*human capital, financial performance, competitive advantage, SMEs, Sustainability*

I. INTRODUCTION

The business world is undergoing rapid changes, from a production-based economy to a knowledge-based economy. At present cash, buildings and equipment cannot be considered a differentiator in competitive advantage [1], therefore many companies are now concentrating their knowledge-based business. This means that company companies begin to build their knowledge which is a non-physical resource or intangible asset compared to the development of physical resources.

SMEs in Indonesia are still lagging behind and still face various challenges in the current era of globalization. This is indicated by one indicator to measure the extent of a country's position in the environment and global competition. The 2006 Global Competitiveness Report issued by the World Economic Forum (WEF), Indonesia was ranked 50th and based on the Human Development Report, Indonesia's position in terms of quality human resources was ranked 108th out of 177 countries. The data shows that Indonesia's competitiveness is not in line with expectations.

The important role of knowledge found that companies can increase effectiveness and efficiency after increasing ability in terms of knowledge [2]. But one of the obstacles is

when the role of knowledge is not matched by clear identification in traditional financial reports. Many company investments in the form of intangible assets cannot be found on the balance sheet because of limitations in accounting criteria for the recognition and valuation of these assets [3]. One approach in assessing intangible assets that are important for companies is intellectual capital.

Human capital includes a combination of employee capabilities in providing the best solutions to business problems [1]. Company can manage human capital effectively and efficiently, it can bring a high level of profit. The current lack of competitiveness of SMEs is due to problems in the capital, marketing, lack of knowledge and lack of quality human resources [4].

From the data released by the Department of Industry and Trade of Bali in 2016, it was stated that wood crafts were still in demand by foreign markets, the realization of exports from January to August 2016 showed an increasing trend of 32, 84%. Furthermore, UKM Wood Crafts contributed 15.72% of the total export commodities in Bali with export volume reaching 24.05 million. This is a positive signal that Wood Craft UKM has a competitive advantage that must be maintained in the future.

II. LITERATURE REVIEW

A. Human Capital

This research focuses on human capital because, considered to be the most important asset which then influences the emergence of issues surrounding the supervisory system management. Some studies show the influence of human capital on organizational performance, some are focused on human resources themselves, and some are focused on human resource management practices to develop and empower human resources for performance [5]. The important role of human capital in determining organizational performance and creating 'value', a question that often arises is how to make these invisible and measurable intangible assets and knowledge become tangible while measuring and assessing human capital is very risky [6].

B. Financial Performance

The company's financial performance reflects the level of effectiveness and efficiency of the company in achieving company goals. Information about the condition and financial performance of a company during a certain period can be seen in the company's financial statements. One analytical method for measuring financial performance, companies use financial statement analysis with financial ratio analysis aims to find out information about the level of liquidity, solvency, activity, profitability, and stability of a company.

The company's financial performance can be measured using financial ratios such as return on assets, return on capital and increase or decrease in sales. The most commonly used traditional financial performance measurement method [7] is the return on assets, return on equity and sales change, namely the difference in an increase or decrease in sales with the previous year's sales. Furthermore, according to the view of resources based view, the knowledge contained in one component of intellectual capital can create value for other components of intellectual capital [8] where the combination of these two components of intellectual capital results in unique company resources that directly affect performance. company finance

C. Competitive Advantages

Competitiveness is a concept that refers to the ability of a company to compete with other companies to create value. Competitiveness can be created or enhanced by applying the right competitive strategy, one of which is to manage resources effectively and efficiently. In addition, the determination of the right strategy must be adjusted to all activities of the company's functions, so that it will create company performance in accordance with what is expected even more and can produce value. All companies, especially SMEs, compete to be at the forefront of the era of competition. Therefore, each UKM is required to have high competitiveness, so it must begin to improve itself. SMEs that have high competitiveness are characterized by the ability of reliable human resources, high mastery of knowledge, and mastery of the economy.

D. Hypothesis Development

1) *The Effect of Human Capital on the Financial Performance* :According to the theory, intellectual capital-based perspectives focus on the availability of resources and the flow of knowledge capital owned by the company and position it has a direct relationship with financial performance. Human capital is one of the important aspects of intellectual capital which is the focus of this research considering that the industrial sector throughout the world is increasingly shifting towards high dependence on aspects of human capital. Human capital becomes very important especially for knowledge-based industries such as finance and technology. There are a positive and significant relationship between intellectual capital and financial performance in companies in the United States [9]. In a separate study on companies in the US, it is known that only the human capital variable has a positive and significant relationship with each component of the company's financial

performance, namely between the variables of human capital and structural capital; between human capital variables and ROA; and between the variables of human capital and ROE [7]. While [10] found that the relationship was not significant between Human Capital and financial performance.

H1: Human Capital has a positive and significant effect on the Financial Performance

2) *The Effect of Human Capital on Competitive Advantages* :Intellectual capital is knowledge that is owned today which can be used to have competitive advantage. That small company companies should focus on adding value in the production process and service innovation as a benchmark of competitive advantage compared to profit or market share [11]. Furthermore, it was revealed, that competitive advantage of SMEs requires the involvement or participation of business actors (entrepreneurs), corporate resource resources, capabilities, support from related partners, branding, and clustering.

To obtain and maintain competitive advantage human capital that has capability in the form of commitment and competence is needed, which is manifest in creativity; innovation; excited; and effective and efficient in building customer value and uniqueness. Competitive advantage through humans as a people-based strategy, with this strategy employees will feel as the owner of the company and will provide the best energy for the progress of the company. Human capital is directed towards market-oriented money regardless of the type of industry. It is concluded that the more competent employees are the better their understanding of customer needs is to pay attention to their loyalty. Structural capital produces competitive advantage which is reflected in relatively higher business performance to an innovation in the relationship between human capital and competitive advantage [12].

H2: Human Capital has a positive and significant effect on the Competitive Advantage

3) *Effect of Financial Performance on Competitive Advantages* :A development of a new theory that competitive advantage will develop if the company can improve the performance of its company. This means that financial performance will increase the competitive advantage of SMEs. Based on the explanation above, a hypothesis can be drawn regarding the relationship between financial performance and competitive advantage as follows:

H3: Financial performance has a positive and significant effect on the competitive advantage

III. RESEARCH METHODS

A. Sampling Methods

The population framework of this study is all Wood Craft SMEs in Badung Regency which number 49 units. After that, the sample frame was drawn to 43 SMEs.

TABLE I. POPULATION AND SAMPLE

Areas	Population and Sample		
	Population	Sample	Total
Petang	15	13	13
Abiansemal	10	9	9
Mengwi	8	7	7
Kuta Utara	5	4	4
Kuta	5	4	4
Kuta Selatan	6	5	5
Total	49	43	43

Source: Cooperative service of Badung regency, 2019

From 43 sample frame units, the next step is to determine the research respondents as the unit of analysis in this study. Determination of respondent research with non-replacement sampling method where the respondent and unit of analysis are UKM managers. This is done because managers are considered as representations of SMEs so that they know the research variables well.

B. Data

Data collection of this research was conducted using a survey method, namely the distribution of questionnaires to research respondents (SME managers) which amounted to 43 respondents.

IV. RESULT AND DISCUSSION

The hypothesis testing of the research was carried out with an initial evaluation of the feasibility test of the model by looking at the ability of model in explaining the variation in value distribution in the dependent latent variable that was able to be explained by the factors that influence it. For this purpose, first seen from the results of R2 analysis. Secondly, it will be looked at thoroughly using the predictive method of relevance Stone Geiser and Goodness of Fit (GoF).

In evaluating this structural model it will be carried out through several approaches including R-square (R2), Effect Size (f²), Q-square predictive relevance (Q2) and Goodness of Fit (GoF). R2 shows the strength of the relationship/information generated by exogenous variables on endogenous variables, so R2 can show the strength of a research model. The value of R2 is 0.67 classified as strong, 0.33 classified as a moderate model and 0.19 classified as a weak model. The results of the calculation of R2 are presented in Table II.

TABLE II. R² AND R² ADJUSTED

Variables	R ²	R ² Adjusted	Remarks
	Financial Perf (Y1)	0.517	0.505
Competitive Adv (Y2)	0.671	0.654	Moderat
Mean	0.594	0.560	

Source: Data processed using SmartPLS 3.0

Based on the findings of the results, the R2 value of financial performance is 0.517, and the competitive advantage is 0.671. The value of R2 is classified as a moderate model because it is below 0.67. From the second

value of R2 obtained an average value of 0.594, this means that the relationship model of the construction of human capital, financial performance, and competitive advantage can be explained by 59.4 percent, while the remaining 41.6 percent is explained by other variations outside the model.

Other information that can be concluded is that, based on the feasibility evaluation of the model with the role of each dependent latent variable with the factors that influence it, there are characteristic patterns that are very reasonable and in line with the available statistical theory, that at the level of influence with more constructs R2 values are obtained greater. So the conclusion that can be taken that the distribution of Adjusted R2 values is smaller than the distribution of R2 values so that it can be used as a clue that changes or expansion of research models by including other latent variables are still possible.

Testing the hypothesis in this study was carried out through two stages, namely testing the direct effect and testing the indirect effects of exogenous variables on endogenous variables.

TABLE III. DIRECT COEFFICIENTS

Construct	Result of Analysis					
	Original Sample	Sample Mean	Standard Deviation (STDEV)	T Stat	P Values	Rem
X -> Y1	0.716	0.734	0.091	7.921	0.000	Support
X -> Y2	0.451	0.456	0.189	2.400	0.017	Support
Y1 -> Y2	0.427	0.417	0.200	2.148	0.032	Support

Source: Data processed using SmartPLS 3.0

Human capital has a positive and significant effect on financial performance, where the path coefficient value shown is 0.716 with a t-statistic of 7.921 > 1.96 which means a significant and indicate that hypothesis 1 is accepted. Human capital has a positive and significant effect on competitive advantage, where the path coefficient value shown is 0.451 with t-statistic 2.400 > 1.96 which means significant and hypothesis 2 is accepted. Financial performance has a positive and significant effect on competitive advantage, where the path coefficient value shown is equal to 0.427 with a t-statistic of 2.148 > 1.96 which means significant positive and hypothesis 3 is accepted.

This study produces theoretical findings that the role of human capital is very important in improving the financial performance of SMEs. Especially in preparing, managing, and performing control functions in financial management regarding performance and accountability. In the context of SMEs, the role of human capital is not only in determining the budget posture but also providing knowledge about increasing competitiveness. This means that this research is able to redefine the role of human capital in building SME performance and competitive advantage.

By maintaining a stable, developing an integrated financial performance, competitive advantage can be increased, especially as the subject has its own uniqueness as explained in the resource-based view. The role of the organization in increasing human capital is to ensure that people who join the organization have complete and ideal knowledge [13], implementing appropriate reward and

punishment and building a sustainable atmosphere. Manager's role is very crucial, especially in HR Practices.

This study has few weaknesses such as respondents so the results of the study cannot be generalized. It is necessary to test the model consistently so that it can truly carry out the role of human capital in competitive advantage. Future research is to compare the SME sector and large companies to prove whether human capital is truly crucial in competitive advantage. The role of knowledge management and organizational learning can be considered as other variables included in the research model. This is because knowledge has a high cohesiveness with human capital.

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