

The Effect of Human Capital on Business Performance on Distro and Boutique SMEs in Medan City

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SME business owners in general still tend to utilise a traditional view in implementing their business. Thus, in generating products the applied technology is still low. If entrepreneurs are following the latest development, which focuses on maximising the management of intellectual capital, then the existing entrepreneurs in Indonesia will be able to compete by utilising the competitive advantage gained through innovation and creativity generated by the intellectual capital owned by the entrepreneurs. Distro (distribution store) is a type of store in Indonesia that sells clothing and accessories which are entrusted by the clothing manufacturer or self-produced. A boutique is the result of personal production of the owner and the purchase of clothes from the manufacturer/clothing distributor of a clothing company. The aim of this research is to analyse the effect of human capital on business performance on distro and boutique SMEs in Medan City. The result shows that human capital has a positive and significant effect on the business performance of distro and boutique SMEs in Medan. Furthermore, human capital contributed 78.9% in explaining business performance. Meanwhile, the remaining 21.1% is explained by other variables.

Keywords: *Human Capital, Business Performance, Entrepreneur.*

Introduction

Small and medium-sized company (SMEs) have developed before and during the crisis in Indonesia. Case studies indicate that various processes, such as technology diffusion by foreign purchasers and sub-contracting influence each other,. The prevalence of SME clusters shows that small and medium-sized enterprises benefit from development. SMEs were more able than big corporations to deal with the recession, but others were also harshly affected.

SMEs are less dependent on formal and formal credit markets than their large counterparts in unexpected shocks and are more flexible to respond quickly and easily (Berry et. al, 2001).

Ayandibu and Houghton (2017) address the importance of small and medium-sized enterprises in a given economy. This shows that small and medium-sized enterprises should be focused on entirely, also to help existing SMEs and promote further start-ups. It is well known that SMEs have been able to contribute to a nation's Local Economic Development (LED). SMEs contribute significantly to job creation in developed countries as they promote business enterprise. Small businesses employ nationals and contribute to the reduction of crime levels. SMEs also promote institutional capacity building and the production of stable economic structures.

The measurement of economic values is widely accessible and the evaluation of social values / impact has had a variety of difficulties in being formulated, in particular with acceptable measures. In assessing social values for the related stakeholders, Arshad et.al (2015) offers a range of quantitative data from business activities. Their research focuses on one aspect of social output, i.e. the development of human capital through an enterprise education medium for small entrepreneurs at the university. The results revealed that social output / values can be measured and used to increase organisational support, especially in terms of the provision Islamic-based micro-finance and other forms of Islamic funding.

Irawan & Mulyadi (2016) states that entrepreneurial skills have a 74.2% influence on business success, this can be seen in the success of the business distro members of the Kreative Independent Clothing Community (KICK) community. From the results of hypothesis testing, it can be seen that entrepreneurial skills have a positive influence on business success

SME business owners in general still tend to utilise traditional view in implementing their business. Thus, in generating products the applied technology is still low. Abidin (2000) stated that if entrepreneurs are following the latest development, which focuses on maximising the management of intellectual capital, then the existing entrepreneurs in Indonesia will be able to compete by utilising the competitive advantage gained through innovation and creativity generated by the intellectual capital owned by the entrepreneurs.

Laufs & Schwens (2014) state that despite substantial disparities between small and medium-sized enterprises (SMEs) and large multinational enterprises (MNEs), the majority of current international market entry-mode preference literature centred on MNEs. The current state of information on the option of SME foreign market entry mode is inaccurate.



Distros (distribution store) are a type of store in Indonesia that sell clothes and accessories which are entrusted by the clothing manufacturer or self-produced (<https://id.wikipedia.org>). The word boutique comes from the French language, which in its original language means small stores seeking popularity. Boutiques provide a variety of high quality products, such as clothes, accessories, and jewellery. Boutiques are the result of personal production of the owner and the purchase of clothes from the manufacturer/clothing distributor from clothing company.

The phenomenon of high public demand for fashion becomes an opportunity for the creative industry community to develop their business in the clothing industry, one of which is distro and another boutique. Distros and boutiques as creative industries become a place for people to choose the concept of clothing they want.

The increasing number of distros and boutiques is due to the large number of university students who are interested in clothing products sold in distros and boutiques. Therefore, due to the market segment of distro and boutique being university students, almost all distros and boutiques are located near campuses, such as in USU there are 22 distros as well as boutiques in Jalan Gedung Arca, and there are 50 distros and boutiques in Jalan Halat.

Intellectual capital has several elements, such as human capital, technological capital and customer capital which help the entrepreneurs in improving their business performance (Khalique, et al, 2013).

With increasing recognition of human resources as a competitive advantage in today's global economy, human capital and, more recently, social capital is being promoted both in theory, research and practice. To date however, positive psychological capital has been virtually ignored by business academics and practitioners. "Who I am" is just as important as "what I know" and "whom I know." By avoiding concern about personal weaknesses and dysfunctions and focusing instead on personal strengths and good qualities, today's leaders and their associates can build trust, hope, optimism and resilience, thus improving both individual and organisational performance (Luthans et al, 2004)

From pre-survey, it is obtained that the majority of distros and boutiques sell similar products and only a few sell different products. Many products sold in distros and boutiques are a result of plagiarism or are fake, moreover the stock renewal of the products is classified as slow.

Method

The research type is causal associative (causality). The population in this research is 22 distros and boutiques within the area of USU and 54 within the area of ITM, resulting in total of 76 distros and boutiques within the area of USU and ITM. In this research, the sampling is conducted by utilising purposive sampling and accidental sampling with saturated sampling. These sampling techniques are utilised due to the population of 76 distros and boutiques within the area of USU and ITM.

This research utilised two types of data resources, which are: (1) Distribution of questionnaires, and (2) Documentation studies. Simple linear regression analysis is used as a data analysis technique to find out the influence of the independent variables, which is human capital to the dependent variable, business performance (Y). This research also used descriptive statistical analysis method and indepth interview as data analysis techniques.

Literature Review

Human Capital

The definition of human capital is a combination of knowledge, skill and the ability to innovate in completing tasks including the company value, culture and philosophy (Bontis, et al 2000).

Human capital theory and organisational ecology offer a comprehensive set of factors that influence the mortality of newly formed business organisations. The human capital theory identifies individual characteristics of the founder as important prerequisites for survival. Organisational ecology emphasises organisational characteristics and environmental conditions. We tested basic hypotheses derived from both theories using retrospective data from a survey of 1,849 business founders in Germany. Organisational characteristics, especially the number of employees and the amount of capital invested, and organisational strategies, especially businesses aiming at a national market, are the most important determinants of business survival. The human capital characteristics of the founder, especially years of schooling, work experience and industry-specific experience, show strong, direct and indirect effects as well (Bruderl et al., 1992)

Bosma et al. (2004) investigated the manifold posed question: "To what extent does investment in human and social capital, besides the effect of 'talent', enhance entrepreneurial performance?" We distinguish between three different performance measures: survival, profits and generated employment. Based on the empirical analysis of a rich Dutch longitudinal data set of firm founders, we conclude that specific investments indeed affect the three performance measures substantially and significantly. Specific attention is paid to the

unobserved talent bias. Moreover, the effect of the emergence of so-called "knowledge industries" is explored.

Extending human capital approaches to entrepreneurship, the "inputs" of an entrepreneur in general (i.e. education and work experience) and the entrepreneurship-capital profile (i.e. business ownership experience, managerial capacity, entrepreneurial capacity and technical capacity) are presumed to be related to entrepreneurial "outputs" in the form of business opportunities. Entrepreneurs reporting higher information search intensity identified significantly more business opportunities but did not significantly pursue more or fewer opportunities. The use of publications as a source of information was positively linked to the probability of identifying more opportunities, while information emanating from personal, professional and business networks was not (Ucbasaran et al., 2008)

Human capital plays an important role in a company. For that reason, for the company to be able to own human capital means the company must be able to generate a sense of ownership among the employees and the company itself.

According to Stokey (2003), the need for human capital these days is based on:

1. An intense competition of financial and nonfinancial profit.
2. Business and politic leaders begining to recognise that having people with skill and high motivation can make a significant difference in performance.
3. Rapid changes marked by new process and technology will not sustain if the competitor is able to adopt the same technology. However, to implement a change, the labour owned by the industry must possess good skills and ability.
4. To grow and adapt, the leadership of an organisation must recognise the value and contribution of people.

There are 3 dimensions of human capital according Bontis (2000):

1. Competency
2. Attitude
3. Intelligence

Business Performance

There are ten different types of performance measurements identified by business performance and is narrowed down to three main dimensions of financial performance, business performance and organisational effectiveness (Prajogo et.al, 2007).

The definition of performance (Moeheriono, 2012) is a quantitative and qualitative measure that describes the achievement level of a goal set by the organisation. Man et.al., (2002) stated that performance is a main indicator in seeing success and this is proven factually and theoretically. In other words, performance in an organisation is an answer to whether the set goal of an organisation is a success or not.

According to Purnomo dan Lestari (2010) there are two dimensions of business performance, namely:

a. Quantitative

Quantitative is a measure based on empirical data and the number result which characterises performance in physical or other form.

Quantitative dimension explains:

1. Sales growth
2. Revenue growth
3. Customer growth
4. Profit growth

The growth of customers or other sector in the business is included in the quantitative dimension. The indicator to see the performance of the company can be seen from increasing market share, finance, production and the number of employees (Purnomo and Lestari, 2010).

b. Qualitative

Qualitative is a measure based on a person's perception according to observation and assessment of something.

The measurement of qualitative performance, include:

1. Labour's discipline
2. Individual behaviour
3. Business image

Qualitative dimension becomes important due to the focus on the people itself as activity actors will be stronger (Purnomo and Lestari 2010).

Human Capital on Business Performance

Three dependent variables identified as return on sales (ROS,) return on assets (ROA) and return on capital (ROC) were used in the study by Awang et al. (2009) conducted on 210 firms among Bumiputera small and medium enterprises (BSMEs) in three states of northern Peninsular Malaysia, namely Penang, Kedah, and Perlis. Four control variables of a sole proprietorship, partnership, private limited company and the small-sized firm were dummy-coded to ascertain their influence in performance.. Hypothesis testing utilised four steps in hierarchical multiple regression analysis. The four steps model shown in F-value and the positive beta coefficient shows the statistical significance of direct relation and interaction effect. In the first steps of the analysis, two control variables directly affected ROS. The second step of the analysis found a direct relation of three EO dimensions related to higher performance.

Theoretically and empirically, human capital has been linked to business performance. Since a couple of decades ago many comparative studies on the relationship of human capital and performance exhibited that certain aspects of human capital are beneficial to business performance (Bontis, 2008).

The sample for this research by Kroeger (2007) involved the owners and principal managers of North-eastern Ohio small businesses, all of whom are members of COSE, the largest local small business organisation in the country, and all of whom participated and completed a COSE-sponsored strategic planning course. The results of this research indicate that a firm's entrepreneurial orientation is positively related to firm performance. However, the positive relationship between strategic planning processes and firm performance was not supported. Environmental uncertainty was shown to affect the relationship between entrepreneurial orientation and performance

Cera & Kusaku (2020) state that public sector performance has attracted the attention of many researchers because it is considered as one of the key factors for efficiency and positive results in the public sector. Various studies have identified many variables that influence performance in public organisations. Four of them were considered in this study: organisational culture, work environment, training and development, and management. A sample of 162 local government employees was surveyed to carry out this research. Statistical tests such as Cronbach Alpha, KMO and Bartlett, factor analysis, correlation and regression were used to achieve the results. The study shows that variables such as work environment, training-development and management are important determinants of organisational performance. Meanwhile, organisational culture doesn't correlate positively with organisational performance.

The intricacy of business organisation environments insists on employees who are proactive, positive and having sufficient quality of human capital (Samad, 2013). Human capital is connected to individuals' knowledge and abilities that grant changes in action and economic growth. Individuals' knowledge and abilities can be secured from numerous approaches (Coleman, 1988)

According to Samad (2013), acquiring competitive advantage and business performance depends on the characteristics of human capital that have the potential to develop the capabilities internally and the cost of acquiring them in the market.

The significant role of human capital on a firm's competitiveness and performance is connected by human capital (Agarwala, 2003). It has been found that human capital is associated to high a quality of employees, productivity, longevity of companies, greater tendency to business and economic growth (Goetz and Hu, 1996).

The longevity of small businesses is investigated using a nationwide random sample of males who entered self-employed work between 1976 and 1982. Highly educated entrepreneurs are most likely to set up firms that remained in operation until 1986. Also, the educational background of the owner is a key determinant of the financial capital structure of small business start-ups. Notwithstanding the endogeneity of financial capital, firms with larger financial investments at start-up are consistently over-represented in the survivor column. Last but not least, firm leverage is trivial for delineating active companies out of discontinued business. Reliance on debt capital to finance start-up business is not linked to a heightened risk of failure (Bates, 1990)

Results

Table 1: The result of simple linear regression analysis

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4,960	2,358		2,103	,039
	Human capital	,667	,060	,789	11,031	,000

a. Dependent Variable: SME Performances

Source: Processed data (2018)

It is found that the simple regression analysis model is:

$$Y = 4,960 + 0,667HC + e$$

The predictor variable, partially human capital (Sig. = 0.000 < 0.05) < 0.05) is significantly affecting business performance.

Table 2: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,789 ^a	,622	,617	1,851

Source: Processed Data (2018)

The coefficient determination of this research is 0.789, which means that human capital contributed 78.9% in explaining business performance. The remaining 21.1% is explained by other variables.

Discussion

Partially, human capital is positively and significantly affecting business performance in distro and boutique SMEs in Medan City. Human capital is an essential factor to a business, especially SMEs, in improving the business performance of distros and boutiques. Distros and boutiques are part of the creative industry in the field of fashion that need knowledge, ability and skill. The most important aspect of human capital in improving business performance is competency and creativity (Samad, 2013).

The knowledge of product, design and marketing and the ability to manage the business, as well as the skill in utilising technology plays a part in improving business performance. Furthermore, continuous improvement of employees in terms of knowledge, skills and abilities is important for business input and performance (Samad, 2013).

Distro and boutique SMEs in Medan City are playing a role in the ability possessed by the employees, especially knowledge, skill and ability as a collective ability of the business. Therefore, a SME is able to improve the performance hence increase revenue. Other than that, by owning human capital, a SME is able to compete within the industry and give response to the business activity in facing competitors.

A notable contribution of human capital in any industry including logistic companies has been accentuated extensively in literature. A number of studies on motivational aspects, knowledge, skills and competencies required for a logistician disclosed their impression on business performance (Thai et.al, 2011).



Conclusion

Human capital is positively and significantly affecting business performance in distro and boutique SMEs in Medan City. Furthermore, the value of r square is 78.9% in explaining business performance. The remaining 21.1% is explained by other variables.

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