

Human Capital on Business Performance on Distro and Boutique SME in Medan City

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Abstract: SME business owners in general still tend to utilize conventional based in implementing their business. Thus, in generating products the applied technology is still low. If entrepreneurs are following the latest development, which focused on maximizing the management of intellectual capital, then the existing entrepreneurs in Indonesia will be able to compete by utilizing 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 clothes and accessories which are entrusted by the clothing manufacturer or self-produced. Boutique is the result of personal production of the owner and the purchase of clothes from the manufacturer/clothing distributor from clothing company. The aim of this research is to analyze the effect of human capital on business performance on distro and boutique SME in Medan City. The result shows that human capital has a positive and significant effect on the business performance of Distro and Boutique in Medan. Furthermore, human capital contributed 78.9% to explain Business performance. Meanwhile, the remaining 21.1% is explained by other variables.

1 INTRODUCTION

SME business owners in general still tend to utilize conventional based in implementing their business. Thus, in generating products the applied technology is still low. Abidin (2000) stated if entrepreneurs are following the latest development, which focused on maximizing the management of intellectual capital, then the existing entrepreneurs in Indonesia will be able to compete by utilizing 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 clothes and accessories which are entrusted by the clothing manufacturer or self-produced (<https://id.wikipedia.org>). The word boutique comes from French, which in its original language means small stores to seek popularity. Boutique provides a variety of high quality products, such as clothes, accessories, and jewelry. Boutique is 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 boutique. Distro and boutique as creative industries become a place for the people to choose the concept of clothing they want.

The increasing number of distro and boutique is due to the large number of university students who are interested in clothing products sold in distro and boutique. Therefore, almost all distro and boutique are located near campus, due to the market segment of distro and boutique is university students, 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).

From pre-survey, it is obtained the majority of distro and boutique sells similar products and only a few sells different products, many products sold in distro and boutique are result of plagiarism or fake, moreover the stock renewal of the products is classified as slow.

2 LITERATURE REVIEW

2.1 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 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 begin to recognize 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 labor owned by the industry must possess a good skill and ability.
4. To grow and adapt, the leadership of an organization must recognize the value and contribution of people.

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

1. Competency
2. Attitude
3. Intelligence

2.2 Business Performance

There are ten different types of performance measurements identified by Business Performance and it narrowed down to three main dimensions of financial performance, business performance and organizational effectiveness (Laosirihongtong and Boon-Itt, 2007).

The definition of performance (Moeheriono, 2012:32) is a quantitative and qualitative measure that describes the achievement level of a goal set by the organization. Man *et.al.*, (2002) stated performance is a main indicator to see the success and this is proven factually and theoretically. In other words, performance in an organization is an answer to whether the set goal of an organization 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 characterize performance in physical or other form.

Quantitative dimension explains:

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

The growth of customer 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 the increasing market share, finance, production, and the number of employees (Ratno and Sri, 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. Labor's discipline
2. Individual behavior
3. Business image

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

2.3 Human Capital on Business Performance

Theoretically and empirically, human capital has been linked to business performance. Since a couple 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, 2007).

The intricacy of business organization environments insists on employees who are proactive, positive and having sufficient quality of human capital (Samad, 2012).

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, 2012), in order to acquire competitive advantage and business performance, depends on the characteristics of human capital that have potential to develop the capabilities internally and the cost of acquiring them in the market.

The significant role of human capital on firm’s competitiveness and performance is connected by Human Capital (Agarwala, 2003).

It has been found that Human Capital is associated to high quality of employee, productivity, longevity of companies, greater tendency to business and economic growth (Goetz and Hu, 1966).

3 METHOD AND RESULT

The research type is causal associative (causality). The population in this research is 22 Distro and Boutique within the area of USU, moreover within the area of ITM is 54, resulting in total of 76 distro and boutique within the area of USU and ITM. In this research, the sampling is conducted by utilizing purposive sampling and accidental sampling with saturated sampling. These sampling techniques are utilized due to the number of population of 76 distro and boutique within the area of USU and ITM.

This research utilized two types of data resources, which are: (1) Distribution of Questionnaires, and (2) Documentations Studies. Simple linear regression analysis is used as data analysis technique to find out the influence of the independent variables, which is Human Capital to the dependent variable which is Business performance (Y). Also, this research used descriptive statistical analysis method and depth interview as data analysis techniques.

Table 1: The Result of Simple Linear Regression Analysis.

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

a. Dependent Variable: smeperformance

Source: Processed Data (2018)

It is found the Simple Regression Analysis Model is:

$$Y = 4,960 + 0,667HC + e \tag{1}$$

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

a. Predictors: (Constant), humancapital

Source: Processed Data (2018)

The coefficient determination of this research is 0.789, which means that Human Capital contributed 78.9% to explain Business Performance. While the remaining 21.1% is explained by other variables.

4 DISCUSSION

Partially, human capital is positively and significantly affecting business performance on distro and boutique SME in Medan City. Human capital is an essential factor to a business especially SME in improving the business performance of distro and boutique. Distro and boutique is one of 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, the ability to manage the business as well as the skill in utilizing the technology is playing a part in improving the business performance. Furthermore, continuous improvement of employees in terms of knowledge, skills and abilities is important for business input and performance (Samad, 2010).

Distro and boutique SME in Medan City is playing a role in the ability possessed by the employees especially knowledge, skill and ability as a collective ability of the business, therefore SME is able to improve the performance hence increasing

the revenue. Other than that, by owning human capital SME is able to compete within the industry and give response to the business activity in facing the competitor.

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

5 CONCLUSIONS

Human capital is positively and significantly affecting business performance on distro and boutique SME in Medan City. Furthermore, the value of r square is 78.9% to explain business performance. While the remaining 21.1% is explained by other variables.

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