

## The Role of Human and Organizational Capital in Small and Medium-Sized Entities in the City of Makassar

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**Abstract:** This study aims to examine and analyze the following: Description of human capital and organizational capital in SMEs in Makassar City. Regulations Number 20 of 2008 explains several vital points that serve as guidelines for empowering small and medium-sized businesses: creating a balanced, developing, and equitable economic structure for all; human capital is an added value for actors in conducting business. Organizational capital is the attitude, demeanour, and promptness in customer service that makes consumers feel cared about. Based on the Slovin formula and the population of 995 SMEs in the city of Makassar, 167 SME managers constitute the sample for this study. Several recommendations can be made based on the findings of this study for the government/policymakers, SMEs, and future research. In order to increase their competitive advantage, SMEs are expected to continually strive to increase their intellectual capital (human capital, organizational capital) while also continuing to innovate in various areas, including product innovation, organizational innovation, and marketing innovation.

**Keywords:** Human Capital and Organizational Capital in SME.

### 1. INTRODUCTION

In Regulations No. 20 of 2008, several important points are outlined that serve as guidelines for the process of empowering small and medium-sized businesses, namely: creating a balanced, developing, and equitable economic structure for all, and the capacity of small and medium-sized businesses to grow and become businesses. Improve its function as a partner in expanding the regional economy in the region, creating jobs, providing equitable income, a rising economy, and becoming a government partner in reducing poverty in the community. By this, SMEs must be appropriately nurtured to become the primary engine of economic development. In industrialized and developing nations, the sector of small and medium-sized enterprises (SMEs) is increasingly acknowledged as a driver of economic growth and a critical source of employment, revenue, innovation, and technical advancement. In recent years, the number of small and medium-sized enterprises has expanded in most of the world's nations, making them a critical economic asset (Murungi, 2018). Despite this, it turns out that SMEs confront several obstacles in the global environment throughout their development, such as lack of financing, low productivity, lack of prospective administrative capacities, access to expertise, and severe regulatory burdens (Wang, 2013).

Ting (2014) identified five major problems for small and medium-sized enterprises (SMEs), including lack of access to capital, constraints on human resources, limitations or unwillingness to adapt technology, lack of information about potential markets and customers, and global competitiveness. In addition, Ting (2014), who did research in Kenya, says that there is an excellent danger of SME closure if they fail to improve their competitiveness in a world that is fast changing. It is acknowledged that the barriers experienced by SMEs in Kenya tend to hinder their performance, even though IMF research (2012) indicates that SMEs are essential in Kenya, employing 74% of the labour force and contributing more than 18% of the gross domestic product. (GDP). This condition is comparable to the issues faced by small and medium-sized enterprises (SMEs) in Indonesia, according to Hasmirati and Akuba's (2022) research, which found that the most common issues faced by SMEs include inadequate human resources, poor management, a lack of mastery over the use of competitive technology, and weaknesses in the use of competitive technology. Establish a market network.

The issues faced by SMEs necessitate that SMEs in Indonesia improve their performance and competitive advantage to compete with SMEs from

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other nations. This has prompted small and medium-sized enterprises (SMEs) to establish new and innovative firms distinct from other business actors to enhance their business performance and competitive advantage. This study aims to examine and analyze the following: Description of human capital and organizational capital in SMEs in Makassar City.

## 2. CONCEPTUAL FRAMEWORK

According to Stockley (2008:52), human capital is the awareness that people in organizations and businesses are valuable assets that contribute to development and progress, just like physical assets such as machines and money. The collective attitudes, skills, and capacities of individuals contribute to the

performance and production of an organization. According to Baron (2007:114), human capital comprises the intangible resources that employees offer their employers. Human capital does not belong to the organization but is secured through employment ties. People provide organizations with human capital, which is grown through experience and training.

According to Mayo (2000), five components of human capital play distinct roles in determining a company's human capital, which ultimately defines a company's worth. The five components are individual capability, Motivation, organizational climate, workgroup effectiveness, and leadership. These components are depicted in Figure 1.



Figure 1: Human Capital Constituents (Mayo, 2000)

## 3. RESEARCH METHODS

Based on the Slovin formula and the population of 995 SMEs in the city of Makassar, 167 SME managers constitute the sample for this study. According to Sanusi (2011: 76), the instrument's validity is determined by linking the score for each question or statement to the total score. The total score is the sum of each question or statement's score. If the score of each question item correlates strongly with the total score at a certain alpha level (e.g. 1%), then the measuring tool is considered legitimate. In contrast, if the correlation is not significant, the measuring equipment is invalid, and it is not necessary to use it to measure or collect data. The validity acquired by the procedure above is known as construct validity.

## 4. RESEARCH RESULTS AND DISCUSSION

Makassar City has many attractions in various economic sectors that can expand Small and Medium Enterprises (SMEs); therefore, an SME empowerment strategy that can increase SME competition in Makassar City is required. The guidance and development of SMEs in Makassar City are based on the South Sulawesi Provincial Regulation No. 17 of 2019 concerning the Empowerment of Cooperatives and SMEs, which is intended to boost the economy and competitiveness of SMEs, and the Makassar Mayor Regulation No. 98 of 2016 concerning the Position, Organizational Structure, Duties and Functions, and Work Procedures of the Cooperatives and Small and Medium Enterprises Office.

Table 1: Human Capital: Frequency Distribution of Respondent Responses

| Item   | Respondent's Answer |     |    |     |     |     |    |      |     |      | Mean |             |
|--|---------------------|-----|----|-----|-----|-----|----|------|-----|------|------|-------------|
|  | STS                 |     | TS |     | R/N |     | S  |      | SS  |      |      |             |
|  | F                   | %   | F  | %   | F   | %   | F  | %    | F   | %    |      |             |
| <b>Proficiency:</b>  |                     |     |    |     |     |     |    |      |     |      |      | <b>4.70</b> |
| Knowledge is sufficient to support future business.          | 0                   | 0   | 1  | 0.6 | 4   | 2.4 | 31 | 18.6 | 131 | 78.4 |      | 4.75        |
| Appropriate abilities for managing a future enterprise.      | 1                   | 0.6 | 0  | 0   | 7   | 4.2 | 38 | 22.8 | 121 | 72.5 |      | 4.66        |
| <b>Individual capability</b>                                 |                     |     |    |     |     |     |    |      |     |      |      | <b>4.48</b> |
| In business, the individual ability is quite good.           | 0                   | 0   | 1  | 0.6 | 9   | 5.4 | 50 | 29.9 | 107 | 64.1 |      | 4.57        |
| Help employees improve their skills and education regularly. | 2                   | 1.2 | 3  | 1.8 | 13  | 7.8 | 57 | 34.1 | 92  | 55.1 |      | 4.4         |

|   |    |      |    |     |    |      |    |      |     |      |  |             |
|---|----|------|----|-----|----|------|----|------|-----|------|--|-------------|
| <b>Individual motivation</b>  |    |      |    |     |    |      |    |      |     |      |  | <b>4.67</b> |
| Personal inspiration from within is required to launch this firm, not the Motivation of others. | 1  | 0.6  | 1  | 0.6 | 2  | 1.2  | 31 | 18.6 | 132 | 79.0 |  | 4.75        |
| Always encourage workers to enhance their Motivation.   | 0  | 0    | 1  | 0.6 | 8  | 4.8  | 50 | 29.9 | 108 | 64.7 |  | 4.59        |
| <b>Commitment</b>   |    |      |    |     |    |      |    |      |     |      |  | <b>3.95</b> |
| Employees' dedication to their jobs distinguishes the organization from its competitors.        | 18 | 10.8 | 13 | 7.8 | 19 | 11.4 | 49 | 29.3 | 68  | 40.7 |  | 3.81        |
| Supports a dedication to the creation of novel concepts and goods                               | 6  | 3.6  | 8  | 4.8 | 29 | 17.4 | 44 | 26.3 | 80  | 47.9 |  | 4.1         |
| <b>Experience</b>   |    |      |    |     |    |      |    |      |     |      |  | <b>4.39</b> |
| Long tenure in the corporate world.   | 5  | 3.0  | 6  | 3.6 | 22 | 13.2 | 54 | 32.3 | 80  | 47.9 |  | 4.19        |
| Managers have appropriate business experience.  | 0  | 0    | 0  | 0   | 16 | 9.6  | 36 | 21.6 | 115 | 68.9 |  | 4.59        |
| <b>X1 Human Capital</b>   |    |      |    |     |    |      |    |      |     |      |  | <b>4.43</b> |

Human Capital is contributed by competence, individual capability, individual Motivation, dedication, and experience, with a mean value of 4.43, as determined by the results. First, the mean score of 4.75 indicates that SME managers in Makassar have sufficient knowledge to support future operations. Where this value is more significant than 4.70, the mean value of the indicator variable for the competency variable. Meanwhile, the mean value for future business management skills-based capability is 4.66. They are considered unrepresentative of competence because their value is below the mean indicator's 4.70 threshold.

Individual competence questions posed to SMEs in Makassar City placed greater emphasis on business-savvy individuals, as demonstrated by the indicator's mean value of 4.57 being more significant than the indicator's mean value of 4.48. Improving skills and education ranked second with a mean value of 4.40. still lower than the average indication value of 4.48

Thirdly, SMEs in the city of Makassar placed a stronger focus on individual Motivation, as

demonstrated by the mean value of 4.75, which is bigger than the indicator's mean value of 4.67. With a mean value of 4.59, which is less than the mean indicator value of 4.67, in response to the issue of rising individual Motivation, it is determined that SMEs have not demonstrated a rise in Motivation. Regarding Commitment, SMEs in Makassar City responded with a mean value of 3.81, which is not indicative of commitment because it is below the mean value of 3.95. This indicates a mean value of 4.10 for the company's commitment to generating new ideas and products, which is greater than the mean indicator of 3.95. This suffices to demonstrate commitment. Concerning the experience of SMEs in the city of Makassar, inquiries concerning their extensive business experience yielded a mean value of 4.19, which is less than the indicative mean value of 4.39. This indicates that SMEs lack sufficient business experience. The mean value for SME actors with appropriate business experience is 4.59, which is more than the mean indicator value of 4.39, indicating that SME actors have sufficient business experience.

**Table 2: Distribution of Respondents' Responses by Frequency Organizational Capital**

| Item   | Respondent's Answer |     |    |     |     |      |    |      |     |      | Mean |             |
|--|---------------------|-----|----|-----|-----|------|----|------|-----|------|------|-------------|
|  | STS                 |     | TS |     | R/N |      | S  |      | SS  |      |      |             |
|  | F                   | %   | F  | %   | F   | %    | F  | %    | F   | %    |      |             |
| <b>Attitude and Conduct</b>                                    |                     |     |    |     |     |      |    |      |     |      |      | <b>4.36</b> |
| Effectively serve customers                                    | 1                   | 0.6 | 1  | 0.6 | 14  | 8.4  | 53 | 31.7 | 98  | 58.7 |      | 4.47        |
| Good behaviour for personnel in customer service.              | 10                  | 6.0 | 9  | 5.4 | 28  | 16.8 | 51 | 30.5 | 69  | 41.3 |      | 3.96        |
| The company's future is bright.                                | 1                   | 0.6 | 0  | 0   | 5   | 3.0  | 42 | 25.1 | 119 | 71.3 |      | 4.66        |
| <b>Reliability</b>   |                     |     |    |     |     |      |    |      |     |      |      | <b>4.33</b> |
| Companies are capable of competing with other business actors. | 8                   | 4.8 | 6  | 3.6 | 28  | 16.8 | 54 | 32.3 | 71  | 42.5 |      | 4.04        |
| Our commercial items are dependable and high-quality.          | 0                   | 0   | 1  | 0.6 | 4   | 2.4  | 50 | 29.9 | 112 | 67.1 |      | 4.63        |
| <b>Trustworthy nature</b>                                      |                     |     |    |     |     |      |    |      |     |      |      | <b>4.55</b> |
| Managers are ecstatic to work for SMEs.                        | 1                   | 0.6 | 0  | 0   | 8   | 4.8  | 46 | 27.5 | 112 | 67.1 |      | 4.60        |
| Able to instil confidence in my consumers                      | 0                   | 0   | 0  | 0   | 7   | 4.2  | 70 | 41.9 | 90  | 53.9 |      | 4.50        |
| Capable of exerting effort to obtain the desired goals         | 0                   | 0   | 0  | 0   | 10  | 6.0  | 54 | 32.3 | 103 | 61.7 |      | 4.56        |
| <b>Quick response</b>  |                     |     |    |     |     |      |    |      |     |      |      | <b>4.14</b> |
| Respond promptly to the demands and desires of customers.      | 11                  | 6.6 | 14 | 8.4 | 18  | 10.8 | 55 | 32.9 | 69  | 41.3 |      | 3.94        |
| Respond expeditiously to customer complaints.                  | 1                   | 0.6 | 3  | 1.8 | 18  | 10.8 | 59 | 35.3 | 86  | 51.5 |      | 4.35        |
| <b>X2 Organizational Capital</b>                               |                     |     |    |     |     |      |    |      |     |      |      | <b>4.34</b> |

Source: processed primary data in 2022

According to the results, Attitude and Behavior, Reliability, Trustworthiness, and Quick Response contribute to Organizational Capital, with a mean value of 4.34 for X2 Organizational Capital. First, the mean value of 4.47 indicates that the attitude and conduct of SMEs in Makassar have been carried out well by providing excellent customer service, which is greater than the indicator's mean value of 4.36. Similarly, the mean value of 3.96 for positive behaviour toward employees is lower than the mean value of 4.36 for the indication. Moreover, considering enterprises with a promising future, the mean value is 4.66, which is more than the mean indicator value of 4.36, indicating that SMEs believe their business has a promising future. Second, in terms of dependability, SMEs in Makassar City think their enterprises can be relied upon to compete with business players; this is reflected by the indicator's mean value of 4.04, which is less than the indicator's mean value of 4.33. The mean value for their products' dependability and quality is 4.63, which is greater than the mean indicator value of 4.33, indicating that SMEs are sure that their products are of high quality.

Third, regarding dependability, SME actors in Makassar City are proud to work as SME actors, as demonstrated by the mean value of 4.60, which is greater than the indicative mean value of 4.55, indicating that SME actors are proud to work as SME actors. Regarding the ability to establish customer trust, the mean value of 4.50 is less than the mean indicator value of 4.55, indicating that SMEs must continue to work hard to build customer trust. As the mean value of 4.56 is greater than the mean indicator value of 4.55, this indicates that SMEs have worked hard to attain the desired goals. Regarding quick response, SMEs in Makassar City have not been able to respond quickly to consumer demands and desires, as evidenced by the mean value of 3.94. However, the mean value for quick response to customer complaints is 4.35, higher than the indicators. 4.14 indicate that SMEs in the city of Makassar are confident in their response to client complaints.

## 5. RESULTS AND DISCUSSION

The results indicate that competence, individual capability, individual drive, dedication, and experience contribute to human capital. These five characteristics have been measured by Edvinsson and Malone's (1997) definition of human capital: knowledge, experience, competence, skills, creativity, and innovativeness. Knowledge is acquired through education and pertains to academic materials, whereas skills refer to the capacity to work to satisfy practical abilities. Knowledge and skills do not come naturally; therefore, educational institutions must invest in human capital to cultivate them.

Human Capital is believed to be one of the aspects that can influence entrepreneurial success. Human Capital is defined by Unger *et al.*, (2011) as individual skills and knowledge acquired via investment in schooling, training, and diverse experiences. Investing in Human Capital, such as education and experience, may or may not result in acquiring knowledge and skills. As defined by Nakhata (2007), human capital consists of a person's acquired formal education and entrepreneurship experience, as well as the knowledge and skills necessary to improve performance and success. Human capital is crucial to producing economic and business value (McGregor *et al.*, 2004; Karami *et al.*, 2006). Human capital consists of all activities that can increase knowledge levels, develop competitive entrepreneurs, and run enterprises more effectively. Ability and quality human capital skills are required to increase corporate performance, particularly in small and medium-sized businesses (Skuras, 2005). Therefore, human development must be pursued to improve human quality for economic growth, particularly by enhancing the quality of industrial human resources.

With growing globalization and labour force saturation, human capital garners increased attention. Individually, the value of human capital depends on the extent to which it contributes to the establishment of competitive advantage, according to Collis *et al.*, (1995). Competence is one of the factors that promote human capital. Competence is described by Suryana (2013) as individual knowledge, skills, and talents that directly influence performance. Man (2001) defines competence as the personal qualities required to do a task more efficiently. Thus, competence can be understood as a collection of qualities, knowledge, skills, and abilities that influence the efficacy of an individual's performance.

Competence refers to the authority of each employee to carry out activities and make decisions pertinent to his position in the company based on his expertise, knowledge, and skills (Alwi, 2011). It will be able to hone its key competencies if it can continuously learn and adapt. Competence, which encompasses motivations, attributes, self- concept, knowledge, and abilities, can be inferred to be the essential characteristic of those who create exceptional work performance. Individual capability is the second underlying element of human capital. Personal capability is a skill possessed by a person that can be applied to all activities, physical and non-physical—the capability to mobilize resources to generate value that exceeds costs. The resources at issue include those with physical form (tangible resources) and those with intangible qualities (intangible resources). Financial resources, human resources, and physical resources are examples of tangible resources. In contrast, intangible

resources often consist of skill, intellectual property rights, collaborative networks, and brands.

Individual Motivation is the third underlying element of human capital. Individual work motivation is the process by which individuals generate energy to achieve a goal. A person with Motivation has acquired the ability to achieve brilliance and glory in life. Influence each other Motivation is, in general, an impulse possessed by an individual that stimulates him to act or something that is the cause or reason for a person's behaviour or actions. Employees and business actors must share the same Motivation to improve the business they run.

Dedication as human capital A commitment is an agreement someone makes to himself and others over a particular matter. In carrying out his or her activities, an entrepreneur must be committed, focused, and progressive (oriented towards progress). He can demonstrate self-commitment by identifying his life's aims, aspirations, and objectives. While an example of an entrepreneur's devotion to others, particularly consumers, is exceptional customer service, product quality proportional to the price of the product, solutions to consumer problems, etc. An entrepreneur who maintains a deep commitment to his customers.

Dedication to work implies that every entrepreneur should be committed to operating his firm in a manner that is both serious and attentive. Therefore, an entrepreneur dedicated to his profession will not allow his business to stagnate but will always consider and strive for its growth and competitive edge. In order to achieve this goal, an entrepreneur must conduct business with courage and dedication. Accept calculated risks in business. Entrepreneurs who are dedicated to their profession must have the fortitude to recover from setbacks and transform obstacles into opportunities.

In addition, experience as a component of human capital is an event captured by the five senses and preserved in memory. Experience can be gained or felt regardless of whether the experience just occurred or has been ongoing for a long time. The experience that occurs can be used as a guide and for human education by everyone. (Notoatmojo in Saparwati, 2012). Knowledge and experience are intertwined because knowledge is crucial for launching an entrepreneurial venture. In contrast, entrepreneurship experience may be utilized as a guide to launch a business successfully in the future and lower the chance of failure. This study demonstrates that attitudes and behaviours, dependability, trustworthiness, and promptness contribute to organizational capital. Structural capital or organizational capital is knowledge in organizations independent of humans. In other words, it can be regarded as the knowledge that stays in the organization after employees leave (Saleh & Gan,

2008). Any commercial enterprise requires an understanding of how to increase its capital. As with human capital, organizational capital is not limited to assets or cash. The most crucial aspect of organizational capital has loyal employees who support one another and work together to achieve organizational goals.

Attitude is a behaviour pattern. Observable behaviour is an actual activity or action that can be observed. This conduct develops from communicating information about stimuli until observable do-or-don't attitudes emerge. For customers to become loyal, business actors must give them the highest level of service possible by displaying positive attitudes and conduct. The second component that contributes to a business's capitalization is its products' dependability. A product is reliable if it satisfies the needs and wants of its clients. In this situation, business actors must endeavour to provide trustworthy products to compete with other business players and produce high-quality products for customer acceptance.

The following factor of organizational capital is the nature of trustworthiness, or a person is being trustworthy in daily life and business operations. A businessperson's trustworthiness and feeling of duty will demonstrate to other businesspeople that profit is not the sole objective. For a businessperson or entrepreneur, trust is a crucial asset. A business actor must work to earn his consumers' trust. Because the business's survival indirectly rests on the trust of customers who purchase or use its products. A swift response that contributes to organizational capital. Along with the intensifying competition in the business sector, business actors must react quickly. Customers will feel cared for, resulting in satisfaction, if their wishes and desires are addressed promptly. Similarly, complaints or feedback from customers should be promptly addressed. If the customer feels cared for, they will purchase the product again, but if they feel uncared for and dissatisfied, they will never purchase it again.

## 6. CONCLUSIONS

Human capital adds value to the commercial operations of business actors. Organizational capital is the attitude, demeanour, and promptness in customer service that makes consumers feel cared about several recommendations can be made based on the findings of this study for the government/policymakers, SMEs, and future research. In order to increase their competitive advantage, SMEs are expected to continually strive to increase their intellectual capital (human capital, organizational capital) while also continuing to innovate in various areas, particularly product innovation, organizational innovation, and marketing innovation.

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