

The Organization Resources and Performance: The Influence of Human Capital on Creative SMEs Sharia-Based

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Abstract—This study focuses on creative sharia-based Small and Medium Enterprises (SMEs) in Riau Province as no studies have been previously investigated the issue on human capital in sharia-based SMEs. Sharia-based SMEs is a new phenomenon in Indonesia. The study aims to investigate the influence of human capital towards organizations resources and performance of creative sharia based SMEs in Pekanbaru Riau. The samples undertaken 40 owners of creative SMEs sharia based which were selected based on purposive sampling technique. The data was employed using Structural Equation Modelling (SEM) with Wrap PLS approach. The results of the analysis showed that human capital has a significant influence towards the organization resources and the performance of creative SMEs sharia based. It is also demonstrated that the organization resources does not significantly influence the performance of creative sharia based SMEs. This research recommends creative SMEs sharia based to consider the human capital aspect in building the organization resources and improving the performance.

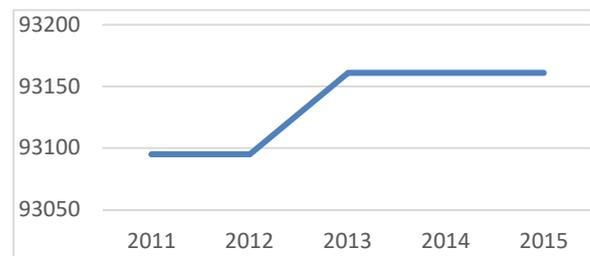
Keywords—human capital, the organization resource, performance, creative SMEs sharia based.

I. INTRODUCTION

The development of Small and Medium Enterprises (SMEs) in Indonesia shows the trend that in the beginning they increase, however a half of them cannot survive until they shut down their business or move to another business. Started from monetary crisis that occurred in 1999, there were many big companies included industry, commerce, and service became stagnant and collapsed. The consequence of that crisis, the government was active in doing improvement and development on economic sectors by taking SMEs into account. White paper reported, it is necessary to provide supporting service from the management and work together with the organization that supports SMEs. (*White Paper on SMEs in Japan 2016*, n.d.)

As the labor intensive business, SMES must innovate and have high creativity to continue producing prominent products and services. There is a strong empirical evidence that confirms the importance of Small and Medium Enterprises in developing the economy (Buli, 2017). The following is the data of SMEs development in Pekanbaru.

Graph 1. The Data of SMEs Development in Riau Province in 2011-2015



Based on Figure 1, the development of the number of SMEs in Pekanbaru for five years only experience one increase from 2012 to 2013. In last few years, many SMEs shut their business down, even many of them did not survive for five years (detikfinance, 2013). For them who have courage and enough capital, they will try to survive and develop.

One of the factors that propel the survival and the development of SMES is human resources. Human resources of SMES usually come from the members of the family. De Massis mentions the division of family ownership negatively affects the performance (De Massis, Kotlar, Campopiano, & Cassia, 2015). Different from Lafuente Research which shows that the proportion of family members who work in the business emerges as the determinant component. Ployhart in his research, human resources as individual capacity can be measured based on the knowledge, skill, ability, and other individual's characteristics that can be accessed for relevant purposes through efforts (Ployhart, Nyberg, Reilly, & Maltarich, 2014).

This research wants to prove that human resources have effect towards organizational resources and performance simultaneously. According to Lawler, business partner approach places human resources as the part of additional value from an organization until it contributes at the business performance by effectively managing what is important from the capital of most of

the organization which is the human resources. To adapt with the demands of the global market that always changes, human resources becomes more necessary to reach the limit between the organizational function thoroughly and the dynamic environment where it runs (Lawler III & Boudreau, 2015).

This research focused on shariah-based creative SMES which is a new phenomenon in Indonesia, in line with the development of shariah banking, shariah stock and other shariah service. The snapshot of shariah-based creative SMES climate in Pekanbaru nowadays, seen from the opportunity of the empowerment from time to time, from place to place, and from sector to sector shows the expectation on the group of works to support the growth of fair economic system. A deeper study on human resources at SMEs to reach good organizational resources and to improve business performance is needed.

The data used in this research were primary data obtained through field survey. The samples used were 40 owners of shariah-based creative economy SMES in Pekanbaru City. The data were processed inferentially by using Structural Equation Modelling (SEM) with Wrap PLS approach. Shariah-based Creative SMEs is the business at the small and medium business to support the economy of many people and has important role in developing local and national economy.

Literature Review

A. Creative SMEs

Creative economy is a concept in the new economic era which its main support is information and the creativity of the human resources that have idea and knowledge as the main production factor in economy activity (Merina, 2017). Because of the importance of creative economy, the government forms a special Creative Economic Board (PERPRES_NO_72_2015, 2015).

Creative economy is an economy based on the creation of values as a result of ideas. Howkins conclude that an economy would rely on an idea and a thought to create a better product in the future (John Howkins, 2013)

B. Shariah-based Economy

For micro business, small, and medium with shariah-based if correlated between the definition of "shariah" word according to the main dictionary of Indonesian language is the law of religion which determines the regulations of human life, the relationship between human and Allah SWT, the relationship between human and other humans around them based on Al-Qur'an and Hadist. Dr. Umar bin Sulaiman Al-Asyqar revealed a more detailed definition that Shari'a is the laws that Allah established in The Quran through the way of The Prophet Muhammad in his Sunnah. (Al-Madhkhal ila Asy-Shari'ah wa Al-Fiqh Al-Islami,4).

With the definition of that shariah, SMES of shariah-based can be defined as the activity of society productive economy with small and medium scale managed commercially, and fulfill the provisions of the requirements determined and its management uses shariah principles. In other words, it does not disobey shariah regulations such as *maisir*, *gharar*, and *riba*, for example its finance through shariah bank or shariah micro finance institution, and its guarantee with shariah insurance. In line with its shariah operational principles, then the products of finance that can be provided by the shariah bank and the institution of shariah micro finance to the candidate of customer based on the shariah principles.

C. Human Capital and Performance

The empirical study showed that the management as the human resources that consist of international experience, industrial knowledge, and CEO experience, and financial knowledge influence the performance (Volonté & Gantenbein, 2016). The characteristics of human resources are the skills and the knowledge carried by the individual director to the process of taking decision such as, the knowledge about industry, the experience as the CEO, the experience in the field of finance, firing CEO, influence them in taking decision (Johnson, Schnatterly, & Hill, 2013). The research by Ceng Tsai showed that the competence of employee also influence the performance.

The leaders of human resources state that by improving the skill, the ability, the quality of the new employee, it explains and determines the target, and improve the involvement of the employee, it can pay all the company investments (Boudreau & Cascio, 2017). It is strengthened by the findings which showed that to measure the human capital must consider the management of the company and the development of technical skills (Demartini & Paoloni, 2011). The literature study reveals that human capital from the director has important effect towards the result of the company (Johnson et al., 2013). The employee competence and good performance are mediated by the commitment of the organization (Cheng Tsai, Min Wang, & Chen Yuan, 2015).

Human resources focus on the management practical effectivity on human capital and other improvement process. The role of Human Capital is to help the task of administration. At the business company, human resources can add the value of the organizational performance effectively which are the important capital for many companies. The human capital is the strongest component when playing the strategic role, utilizing the information technology, owning the metric and the real analysis, and integrating the talent and business strategy (Lawler III & Boudreau, 2015). Our estimation showed that human capital is 4-5 times more important than the company ability. The manager must emphasizes on choosing the talent than train the workers to improve their innovational performance (Bhaskarabhatla, Hegde, &

Peeters, 2017), and the talent or interest determines the CEO choice (Miller, Xu, & Mehrotra, 2015).

The other empirical finding showed that human capital is important to explain the growth of the small company work. Beside that, the result showed that the active involvement of the entrepreneur in managerial task improves the intensity of human capital, and this leads to the level of higher work growth (Lafuente & Rabetino, 2011).

The efficiency of human capital has significant effect towards the company performance. The finding of this research is important to make better decision related to strategic asset placement which is the human capital (Rahim, Atan, & Kamaluddin, 2017). The human resources management often considers the main performance is determined from the operational improvement. On the contrary, some experts' opinion who learn the competitive excellence view the performance result firmly correlate with the contenders' result (Ployhart et al., 2014).

In evaluating the employee which is frequently used by SMES are professional experience, competence, and responsibility feeling, and the level of commitment to the company, the knowledge, the ability, and the accuracy. This survey reveals that work experience has the highest intensity followed by knowledge, ability, and competence (Marin, 2015). Because of the importance of the human capital, (Mäenpää & Voutilainen, 2012) research proposes the insurance as an important approach for the risk management of human resources. The important role of human capital can influence internasionalization (Cerrato & Piva, 2012).

D. Organizational Resources and Performance

(Boudreau & Cascio, 2017) states that to advance and to influence the organization, Human Capital Analytics (HCA) is necessary. The management must be careful in planning and providing the resources of the organization (Sengupta, Yavas, & Babakus, 2015). The research by Gillet (Gillet, Fouquereau, Huyghebaert, & Colombat, 2015) showed that through organizational resources, the variable of task changes, and ambiguity of work have direct effect and indirect effect towards the satisfaction of the psychological needs. The findings by Truyens, strategic management is necessary and the right planning on the organizational resources in prestigious sport (Truyens, De Bosscher, & Sotiriadou, 2016).

The global trend in the management of human resources give the latest findings about what makes Human Resources succeed and how it can add the value for the organization nowadays (Lawler III & Boudreau, 2015).

II. METHODE

This research used quantitative method with unit analysis the doers of shariah-based creative UMKM in Pekanbaru City. The variables of the research consisted of Human Capital (X1), organizational resources (Y1), and performance (Y2). The type of data used in this research was primary data which was the collection of information obtained through direct observation and taking the data need in accordance with the research in the form of interview, and spreading the questionnaires to the doers of shariah-based creative SMEs in Pekanbaru City. The technique of data collection used in this research was survey to obtain the primary data from a number of respondents by using the interview. In this research, the populations were all practitioners of Shariah-based Creative SMEs existed in Pekanbaru City. The number of the population was unknown because secondary data were not available at the institution existed in Pekanbaru, until the number of samples were determined based on expert provision in the amount of 40 respondents. The technique of taking the samples were done through Purposive Sampling with criteria of SMEs labelled themselves as Shariah business and included into creative economy.

III. RESULT AND DISCUSSION

According to the practitioners of Shariah UMKM in the amount of 50% had adequate knowledge. They also think that they already are expert in managing their business, but there are still the practitioners that feel they still have low ability in managing the business. The commerce brand from this product has been known by the society. There is no practitioner of Shariah SMEs who disagree. The second points states that this product has good reputation/image among the consumers, absolutely agree in the amount of 70%, meanwhile none of them disagree.

Outer model related to the test of validity and reliability of the research instruments. The data analysis (inferential) was done based on the data obtained from the questionnaires. The data analysis was done through the instrument test of the variable used such as validity test and reliability test whether it already was suitable or not, and statistic test to know the level of significance and suitability from the variables.

In order to do the data analysis collected through the questionnaires in the field, then quantitative method was used through SME WrapPLS approach. The following is the output result of SEM with WrapPLS.

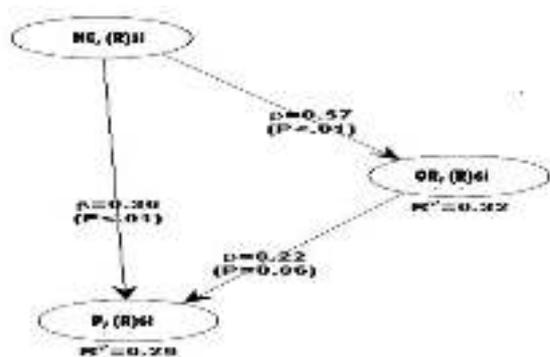


Figure 2. Research Model

The result of inferential analysis shows the direct effect of Human Capital towards Organizational Resources and Performance each in the amount of 0,57 and 0,36 are significant ($P < 0,01$). In line with the research by Ployhart, human capital resources as the individuals' capacity can be measured based on the knowledge, skill, ability and other individual characteristics that can improve the business performance (Ployhart et al., 2014). Meanwhile the organizational resources do not have significant effect towards performance marked with the value of $P = 0,06$ or $P > 0,001$. P value for Average Path Coefficient (APC) and Average R-Square (ARS) in the amount of 0,002 which means it is significant. Goodness of fit model has fulfilled the criteria with APC value and ARS value sequentially in the amount of 0,385 and 0,304 and significant. The AFIV value in the amount of 1,707 also has fulfilled the criteria.

WrapPLS output is the result of analysis based on the data that had been standardized (standardized data), until it can be interpreted the bigger the channel coefficient means the effect will be getting stronger (Solimun, 2017).

TABLE 1. Output Laten Variable

	HC	OR	P
R-Squared		0.322	0.285
Composite reliab	0.980	0.840	0.844
Cronbach's alpha	0.969	0.769	0.775
Avr.var.extrac (AVE)	0.941	0.471	0.483
Full Collin. VIF	1.640	1.491	1.403
Q-squared		0.314	0.323

Based on the output at table 1, the value of R-squared at variable Business Performance in the amount of 0,285 which means the contribution of variable Human Capital, Organizational Resources towards Performance in the amount of 28,5% and the remaining 71,5% influenced by the other variables outside this research and error. The value of composite

reliability and the value of cronbach's alpha $> 0,60$ which means all research variables had fulfilled the reliability requirements. Meanwhile the value of AVE at variable Organizational Resources and Performance $> 0,5$ until it still did not fulfill convergent validity. All variables were free from Full Collinearity VIF showed by the value of $< 3,3$ which means free from vertical collinearity, lateral, and common method bias. Q squared at this model shows a good model because it has bigger value than zero.

TABLE 2. Laten Variable Correlations

	HC	OR	P
HC	0.970	0.547	0.505
OR	0.547	0.686	0.425
P	0.505	0.425	0.695

Human Capital Validity had been fulfilled because the root of AVE in the amount of 0,970 bigger than 0,547 and 0,505. Organizational Resources Validity is also fulfilled because the root AVE in the amount of 0,686 bigger than 0,547 and 0,425. Performance validity had also been fulfilled because the root of AVE in the amount of 0,695 bigger than 0,505 and 0,425.

V. CONCLUSION

Human capital is the main factor in improving human resources and business performance, until the ability indicator, the talent or interest, and the knowledge must be developed sustainably. Those indicators can be improved through experiences at the school, and interaction with the working environment. This can improve the performance of the practitioners of the Shariah-based creative economy UMKM.

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