THE HUMAN CAPITAL INDEX IMPACT IN SMALL AND MEDIUM ENTERPRISE DEVELOPMENT: CASE STUDY IN INDONESIA

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ABSTRACT
Nowadays, a lot of small and medium enterprises (SMEs) become more exist in Indonesia, but some enterprises existence cannot stand for a long time. One of the reasons comes from employee condition which has role in developing enterprise. Human capital index of the enterprise can be a tool to measure the employee condition in the enterprise so we can know which part of enterprise that should be fixed. This study is going investigate two small and medium enterprises (SMEs) human capital index that influencing the enterprise development by using qualitative method by doing semi-structured interview. From this study, we find that higher educational background, ability to keep enterprise health and well, controlled employee management, and supported infrastructure of human capital index give positive impacts to enterprise development making of employee gives positive effect to the enterprise development. The purpose of this study is to give information about the impact of certain human capital index in SMEs to enterprise development. The contribution of this study is to give description to practitioners and stakeholders about the human capital index situation that usually happen in SMEs so that they can make some preparation and improvement to develop their SMEs.

Keywords: Human Capital Index, Small and Medium Enterprise

1. INTRODUCTION
Nowadays, the name “entrepreneurship” becomes so famous. The word entrepreneurship is used for many sectors, such as social entrepreneurship, technology entrepreneuruship, and many others. In Indonesia, many people nowadays like to become entrepreneur. Many people start to establish small and medium enterprises (SMEs) in various sectors, such as culinary, fashion, accessories, automotive, etc. Lal and Clemment (2005) found that the enterprises even can supports the country in economic growth. SMEs have a big role – more than 95% – in economic growth of Asia Pacific region (Kotelnikov, 2007). The Ministry of economic enterprise and SMEs of Indonesia, Syarief Hasan said in Suhendra (2013) that 90% of economic growth in Indonesia is contributed by SMEs.
But unfortunately, not all of the enterprise can stand for a long time. One of the reasons is the high turnover in enterprise. Haid and Sims (2009) said that employees’ attitude, absence, and turnover levels is affected by employee engagement towards the enterprise. Enterprise member activities reflect on organizational performance of enterprise that can be measured from revenue, growth, and development (Timothy, Okwu, & Akpa, 2011). It means that employee has role in enterprise development. To know what the employees value that affects enterprise development, we can assess the human capital index of employees.
Human capital index is a way to measure the quality of life expectancy, income, literacy, and educational background of well-being that related to enterprise development (Engineer, King, & Roy, 2008). In this study, we assess the human capital index of SMEs employees to find out the impact for the enterprise development. The purpose of this study is to give information about the impact of certain human capital index in SMEs to enterprise development. The contribution of this study is to give description to practitioners and stakeholders about the human capital index situation that usually happen in enterprise so that they can make some preparation and improvement to develop their enterprise.
2. LITERATURE REVIEW

Small and medium enterprises is a process to maintain entrepreneurship and the entrepreneur from the basic to know the exists opportunities, carry out the resources, even by taking risk to get the business profit effective and efficiently (Lucky & Olusegun, 2012). According to Kotelnikov research about the SME definitions in some Asia-Pacific regions in 2007, Indonesia enterprise which is categorized as small and medium enterprises (SMEs) is the enterprise which contain of less than 100 employees. The SMEs are important because they can comprise the country economy average 95%. One of the factors which influence the SMEs development, such as profit maximization, is the human capital index (Ranis, 2004). The word “human capital” is speaking about the importance of employee in organization success and development by transforming the employees and organization interaction (Thomas, 2009). Human capital index is an index measure to capture and track the human capital development and it has economic value in business world that based on the employee skills (Schwab, 2013). The human development index, same with human capital index, is a measurement of essential value for human development (Engineer, Roy, & Fink, 2009). It is the rank of human development, including living standard, life quality, and level of human development, in the country (Arabi & Abdalla, 2013).

Engineer, Roy, & Fink (2009) said that there are three essential choices in human capital index, they are: health, knowledge, and resources needed access. This index is indicated by life expectancy, literacy, and GDP (gross domestic product). According to Schwab (2013), there are four pillars as fundamental component of human capital index:

1. Education: related to quantitative and qualitative educational background aspects, whether the employee in primary, secondary, or tertiary levels of education.
2. Health and Wellness: related to how the socio-cultural, environment, and physiological health impact the human capital development.
3. Workforce and Employment: related to skills, talent, and experience, measurement to know the contribution of the employee
4. Enabling Environment: related to the infrastructure, collaboration with other enterprise, legal framework, and social mobility.

Arabi and Abala research in 2013 find that the education quality has a role in economic growth, people who have higher education level give more influence to economic output, and health quality gives positive impact to the economic growth. Better educated employee who are able to literate and numerate are easier to be trained, learn complex tasks, better in doing job, has time awareness, and more trusted. Fernandez and Mauro (2000) also find that higher education employee is faster in learning than the less educated employee. Health and wellness has relation to the employee enterprise too. Employee good health and wellness can give benefit to the enterprise. Wellness program can prevent employees from disease. The employee who has less sick days reduces the healthcare cost and work injuries (Khalil, Membree, & Brooks, 2013).

The infrastructure planning and development has a significant role to the SMEs potential for the enterprises growth (Nganga, Onyangi, & Kerre, 2011). Infrastructure and technology establish the enterprise development and networking environment (Nganga, Onyangi, & Kerre, 2011). Increasing the capabilities and function for human development can give good impact to their capability in enterprise performance. The extent of human development is correlated with human capital and it affects the nation economic growth, so the human development will give impact to the economic growth (Ranis, 2004).

3. METHODOLOGY

In order to find the human capital index which content of: educational background, health, workforce and employment, we use primary data from doing in-depth interview and direct
observation. The interview result then we code and interpret the data. Here, we compare two SMEs which one has management system and the other has no management system to know the impact of human capital index of those two enterprise condition to enterprise development. The SMEs that we observe are small business in culinary sector which contain of less than five employees on each. The first SME, called AP, has no management system. The second SME, called SG, already has management system. The respondents that we interview are the AP co-owner and SG top management. Here are some points we use in interview questions:

- Education: what is your last educational background; does the enterprise sector in line with your education background.
- Health and wellness: is there any health standard the enterprise request to the employee; how the enterprise keeps the employee and customer wellness.
- Workforce and employment: why you work or establish the enterprise; is there any training program to motivate or improve the employee skill.
- Enabling environment: how do you manage the infrastructure, is the enterprise has legality to establish.

### 4. RESULT AND DISCUSSION

The assessment of the capital index from AP and SG enterprise is based on interview result and direct observation about the real condition in the enterprise. The result of the observation can be seen in Table 1.

<table>
<thead>
<tr>
<th>Categories</th>
<th>Respondent</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AP</td>
<td>SG</td>
</tr>
<tr>
<td>Educational background</td>
<td>Junior high school</td>
<td>Senior high school</td>
</tr>
<tr>
<td>Health and Wellness</td>
<td>Bad</td>
<td>Good</td>
</tr>
<tr>
<td>Management system</td>
<td>Doesn’t have</td>
<td>Have</td>
</tr>
<tr>
<td>Workforce</td>
<td>Need</td>
<td>Need and hobby</td>
</tr>
<tr>
<td>Infrastructure condition</td>
<td>Bad</td>
<td>Good</td>
</tr>
<tr>
<td>Enterprise Permission</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*Yes = have the category, No = don’t have the category

**Education**

From this study, we find that the employees of those enterprises have low educational background. Their educational is only junior and senior high school. The manager of the enterprise also has no special requirement about educational background for the employee. So, everyone can be employee. This education background actually gives impact to their job. We can see that from comparing the AP and SG enterprise. The AP employee who have junior high school background, do her job everyday continuously without adding more innovation or decoration in her enterprise. She doesn’t really like to search information or education for inspiring her in developing her enterprise. It can be seen that there is no information media, such as television or radio, in her enterprise and she use her other time to do other job and to treat her family. We can also see from the menus that she provides has no changing in year to year. Here, we can see that the SG enterprise can develop faster even though SG enterprise is newer (3 years) than AP enterprise (5 years).
From this study, we can see that the SG employee who has senior high school background can do their job better, faster and more creative. They like to search information from any media to get more education and inspiration that they use for developing their enterprise, such as provide more menus and make some decoration in their enterprise. In the SG enterprise, they have a television to make them get more information too.

**Health and Wellness**

There is no health standard in the enterprise requirements to the employee in both SMEs. The enterprise manager even does not ask whether the employee has serious disease or not in the job interview. If the employee sick, the manager will only give several days for the employee to have a rest.

Besides the healthiness of the employee, actually the enterprise environment must be good too. Since the AP enterprise location is in traditional market, so the healthiness of the enterprise is not so good. The employee is also already common with the situation so the consumers are the market consumer or the residence. Even though the customers quite a lot, but they prefer to take off their food. This condition can be the reason why Indonesia human capital index in health and wellness sector still low because there are still a lot of SMEs which are not too care to the environment health. Schwab (2013) found that the human capital index score in Indonesia for health and wellness sector is only -0,215 and it is in the 84th rank from 122 countries.

The SG enterprise employees keep their place in clean condition so that the customers feel comfortable and being well to eat their order in that place. So, the better health and wellness of enterprise, the more customers feel comfort and make the enterprise better.

**Workforce and Employment**

From the interview, we get the information that the main reason why the employees from both SMEs work in the enterprise is because of need. They need to fulfill their daily need. The SG employee said that her hobby is cooking and because of her job in the enterprise is cooking too, so she feel enjoy to do her job. In AP enterprise, there is no management system so they just do what they need to do because the employee is only two persons who are also the owners. They like to share, discuss, and give spirit to each other to keep performing their enterprise. In SG enterprise, there is a manager who keeps control the employees every day, even though the manager not come to the enterprise, he will still contact the employees to control the enterprise. The SG employees have job division but they still help each other if the other employee needs help. They also start every day with motivating each other by sharing and giving motivation words. The manager will also give motivation training to them at least once in a year. The way of those SMEs in motivating each other is really good because it gives more spirit for the employees to be more enthusiastic in working which can give good effect on enterprise performance.

**Enabling Environment**

Since the AP enterprise location is in traditional market so the situation is quite crowd. The infrastructure access is also limited that the street is so narrow, crowd, and their enterprise location is only using tent. The AP enterprise also doesn’t have written government permission to open their enterprise in that location so it is quite difficult and unsafe to develop their enterprise in there.

For the SG enterprise, the location is in a house which is used as small restaurant. It also has a small park area in front of it so the guest can park their vehicle comfortably. The infrastructure access is quite wide for vehicles. It also has permission to build the enterprise in there so it is easier for them to decorate and making layout for their enterprise development.
5. CONCLUSION AND CONTRIBUTION
The human capital index condition gives impact for the enterprise development. The better human capital index, make it is easier for the SME to develop the enterprise. The higher educational background of employee produces better, faster, and more creative employee in work and deliver better enterprise performance. The health and wellness of employee and enterprise influence consumer comfortably towards the enterprise. Structured employee management makes the work more controlled and giving motivation in working is very important to make employee performance better. The enabling environment is also needed to make sure the enterprise going safely. In conclusion, the education, health and wellness, workforce and employment, and enabling environment, which are include human capital index have positive impact to enterprise development if they are in good condition. This study gives contribution for the SME practitioners and stakeholders to pay attention to the human capital index of the SME, including the education of the employees, the health and wellness, the workforce and employment, and the enabling environment in developing enterprises.

6. REFERENCES
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