

A causality model of people equity, VRIN resource, social capital, innovation capability and SMEs performance

Awan Kostrad Diharto

Faculty of Islamic Economic and Business
Institute Agama Islam Negeri (IAIN), Surakarta, Indonesia

Budiyanto

STIESIA (Sekolah Tinggi Ilmu Ekonomi Indonesia), Surabaya, Indonesia

Muafi

Universitas Islam Indonesia, Yogyakarta, Indonesia

Key words

People Equity, VRIN resources, social capital, innovation capability, SMEs performances.

Abstract

This research purpose is to test and analyze the influence of: 1) people equity, VRIN resources, innovation capability towards SMEs performance; 2) social capital and people equity toward innovation capability; 3) social capital towards people equity; and 4) social capital towards VRIN resources. The population in this research is all group produces of small and medium enterprises (SMEs) in Kasongan Clay Crafts Centers which is the biggest one in Indonesia, located on Bantul Regency, Province of Daerah Istimewa Yogyakarta (DIY). The sampling technique that is used in this research is purposive sampling with amount of sample 237 SMEs. Whereas, statistic technique used in this research is Partial Least Square. Conclusion of this research is: 1) people equity, VRIN resources, and innovation capability have a significant positive result toward innovation capability; 2) social capital and people equity have a significant positive result toward innovation capability; 3) social capital has a significant positive result towards People Equity; 4) social capital has a significant positive result towards VRIN Resources.

Corresponding author: Muafi

Email address for corresponding author: muafi@uii.ac.id

First submission received: 24th February 2017

Revised submission received: 30th March 2017

Accepted: 3rd April 2017

Introduction

Small and Medium Enterprises (SMEs) of clay crafts located on Kasongan, Bantul Regency, Province of DIY is the biggest clay crafts centers in Indonesia. Unfortunately, SMEs performance in Kasongan by the year of 2006-2015 has been decreasing. Volume development and the export value of the clay crafts in Bantul Regency by the year of 2004-2015 are on high fluctuation and also have significant decrease (<http://www.medanbisnisdaily.com>, accessed on February 21, 2017). Based on earlier survey which was done by researcher, there is some fundamental problem that was faced: resources (including human resources), social capital, and lack of innovation. The reality that happened is most leaders are capable of doing HR activity traditionally, but they are not good enough on deliver human resources capability strategically (Becker *et al.*, 2001; Muafi, 2012; Muafi, 2015; Muafi, 2016; Muafi *et al.*, 2016; Muafi, 2017).

Schiemann (2011; Schiemann and Seibert, 2013) stated that there are three people elements that is affect to organization success. These three elements are alignment, capability, and engagement

which are called as people equity. Schiemann (2011; Schiemann and Seibert, 2013, Muafi, 2012) also stated that having a good quality of people equity will increase the organization performance, either financial or non financial performances. On the context of VRIN resources, Pina (2011) stated that VRIN resources of the company are affect significantly to the competitive advantage and organization performance. Meanwhile, Miraza (2015) concluded that rareness has direct influence towards SMEs performances and inimitable has indirect influence towards SMEs performance through the competitive advantage. Ayandibu and Houghton (2017) stated that the contribution of SMEs towards employment generation is significant because they support the building up of systemic productive capacities. Related to the social capital aspects is also important to SMEs. The research result of Felicio, et al. (2013) stated that social capital has significant positive effect towards organizational performance, SMEs performance (Siyamtinah, 2011), and innovation capability (Muafi, 2015). Innovation capability is also has significant positive effect towards SMEs performance (Adeniran, 2012). Innovation capability is directly and positively related to financial and operational performance of the company (Bukhamsin, 2015). This research wants to fill the research gap that has not been researched before by integrated the relationship pattern among People Equity, VRIN Resources, Social Capital, Innovation Capability, and SMEs performance in Indonesia, especially Bantul Regency, Province of DIY.

Literature Review

People Equity and SMEs Performance

“People Equity” is a new paradigm to manage human capital (Schiemann, 2011; Schiemann and Seibert, 2013; Muafi, 2012). People Equity is human resources and functioned as the wealth of organization. People Equity concept was introduced as an integrative way to measure and manage human resources. People Equity is consisted of three main elements: alignment, capabilities, and employee engagement. When there is an incomplete element of people equity, then the organization performance will be worse. For example, there is a company that has an engaged employee, but they are misaligned with the company goals, then the company will not be able to fulfill its business target (Schiemann, 2011, Schiemann and Seibert, 2013; Muafi, 2012). The research of Schiemann and Seibert (2013; Schiemann, 2011) stated that an organization with high people equity score will have financial performance and work quality two times higher than the average of another company on that industry. Having a good quality of people equity will increase organizational performance. Welis (2014) research showed the result that people equity has significant positive effect towards SMEs performance which is heterogenic and not on similar business of SMEs centers.

H1. People Equity has a significant positive effect towards SMEs Performance.

VRIN Resources and SMEs Performance

Theory of VRIN resources was based on the view of Resource-Based View (RBV) which stated that a continuous competitive advantage will only be existed if there is a failed effort that was done by another party to imitate the company advantage (Barney, 1991; Muafi, 2017). VRIN resource is a strategic company capability (Barney, 1991). Organization resources must fulfill the VRIN criteria so that it could give competitive advantage and continuous performance. Pina (2011) stated that VRIN resources affect significantly towards competitive advantage and company performance. Meanwhile, research by Talaja (2012) found that a company with more valuable and rare resources can achieve continuous competitive advantage level and higher performance. This is because there is interdependence between a valuable and rare resources so it can affect to competitive advantage either directly or indirectly. Clulow (2007; Muafi, 2017) research found the result that intangible assets (client trust, reputation, network, and intellectual wealth/properties) and abilities (knowledge, organization culture, skill, and experience) is a valuable, unique, and inimitable resources that makes a company on financial service industry can have high performance.

H2. VRIN Resources has significant positive affect towards SMEs Performance.

Social Capital and SMEs Performance

Social capital is one of the forming elements of intellectual capital (Armstrong, 2002). Social capital is a structure, network, and procedure which enables human to get and develop intellectual capital presented by savings and knowledge flow that come from relationship outside and inside the organization. Social capital, as other capitals, can be a substitution or complementary to another resources. As substitutes, sometimes it can substitute the lack of financial or human capital with excellent relationship. Social capital is one of critical success factors on the market (Muafi, 2015). According to Coleman (2009) social capital can have a social function from an organization that is shaped as trust, norms, and network which can increase the effectivity of community and the organization. The result research of Felicio, et al. (2013) explained that human capital affects social capital. Experiences and cognitive ability and also the engagement of managers are affected to organizational performances. Collins and Clark (2003) stated that strength and external connection scopes between top managers are being a significant indicator for company sales growth. Muafi (2015) stated that social capital is profitable for SMEs growth.

H3. Social Capital has significant positive effect towards SMEs Performance

Innovation Capability and SMEs Performance

Research by Adeniran (2012) proved that innovation capability for SMEs is rely on innovation capability of human resources in increasing the competitive advantage and organizational performance. The result research stated that innovation capability for company will trigger the increase of competitive advantage and organizational performance. Bukhamsin (2015) researched the relation between innovation capability aspects and organizational performance of the whole company. The result gives finding contribution that innovation capability and innovation process are directly and positively related to financial and operational performance of the whole company. Research by Siyamtinah (2011) also proved that the better the effort to manage internal factors a SME has, the innovation capability will also increase. A good management of SMEs external factor will increase the innovation capability and will be affected to the improvement of SMEs performance. Rosenbusch (2011) stated that some factors like company age, innovation type, and cultural context affect the innovation in company performance. Different result on the research by Kim and Park (2010) shows that not all innovation activity is open for SMEs, although it still has positive effect on their innovation output which is SMEs performance.

H4. Innovation Capability has a significant positive effect towards SMEs Performance

Social Capital and Innovation Capability

The research result by Muafi (2015) stated that social capital has a positive effect towards innovation. There is a positive relation between social capital and innovation. Ahuja (2000) on his research stated that social capital either directly or indirectly, both of it has positive effect to innovation, but the impact of indirect relation is moderated by the amount of the direct bound of the company. Gunadi (2011) added that social network gives positive impact for innovation. There is a significant positive relation among teamwork intercompany, teamwork with intermediation institution, teamwork with research organization, and innovation performance (Zeng, 2010). Social capital higher level affect to the increase of innovation capability of small company (Camps, 2011).

H5. Social Capital has a significant effect towards Innovation Capability.

People Equity and Innovation Capability

Welis (2014) researched the relation among people equity, innovation strategy, and crafts creative industry performance in Indonesia. The research result shows that people equity has significant positive towards innovation strategy. This result strengthen by Muafi (2012) who tested the innovation relation involvement of the organization, people equity, and SMEs performance in DIY, Indonesia. This shows that there is positive effect of organization innovation towards people equity (alignment, capability, engagement). It is also strengthened by Caloghirou (2004) that both

internal capability and openness to share knowledge are important to increase innovative performance.

H5. People Equity has a significant effect towards Innovation Capability.

Social Capital and People Equity

Ali (2013) in his research found that organization investment of social capital is positively affected to employee performance, but the interaction of work involvement (alignment) is debilitating this relation. Employee involvement in a job moderates the effect of organization investment on social capital and employee performance. There is a significant effect of social capital towards the marketing and capability of the organization (Kemper, 2013). Research by Shoara (2014) found that there is a significant and positive relation between organization perspicacity and social capital components. The component of organization perspicacity is fellow fate, harmony, and suitability (alignment). This result is strengthened by Miller (2015) that the higher the network, fellow norms, trust, feedback hope, and collective efficacy, then it will increase the alignment.

H7. Social Capital has a significant effect towards People Equity

Social Capital and VRIN Resources

There is a positive relation between social capital of the company in increasing the VRIN resources and knowledge about export. Export knowledge is involved with entrepreneur orientation, which later has a correlation with export performance. Empirical proof has potential to give information about resources role and the ability in the creating process of company value in the VRIN design from RBV (Roxas, 2011). This is strengthened with Fu (2013) findings which stated that High Performance Work System can affect organization performance in two steps: creating human resources, social capital, and organization capital; and using efficient resources.

H5. Social Capital has a significant effect towards VRIN Resource.

Research Method

This research approach is a causality research, which means analyzing the existence of causality between the variables of people equity, VRIN resources, social capital, innovation capability, and SMEs performance of clay crafts centers in Bantul Regency, DIY Province. Population in this research is the producers of clay crafts center industry in Kasongan, Bantul Regency, DIY, Province of 582 SMEs. Because of the wide scope of the area, technique sampling used in this research is purposive sampling with 237 SMEs respondents as samples. The respondents and analysis unit in this research is the owner and manager of the SMEs. Questionnaire types in this research are closed questionnaire and ask about the perception of the owner and manager. The composing technique of Likert scale used for people equity, VRIN resources, social capital, and innovation capability is using seven points Likert scale which is a method to survey an opinion to agree or disagree on a subject, object, or certain events. Whereas, the question for SMEs performance is using a seven points Likert scale with several choices start from very strongly high to very strongly low on perception its own performance compare to the performance of SMEs competitor. Statistic analysis technique in this research is Partial Least Square. Validity and reliability test result found that the whole questionnaire and variable items is valid and reliable.

Result

Hypothesis in this research was conducted with analyze the data linkage that was required and also the relation between exogenous and endogenous variables with the statistic test Partial Least Square (PLS). The analysis result can be seen on Figure 1.

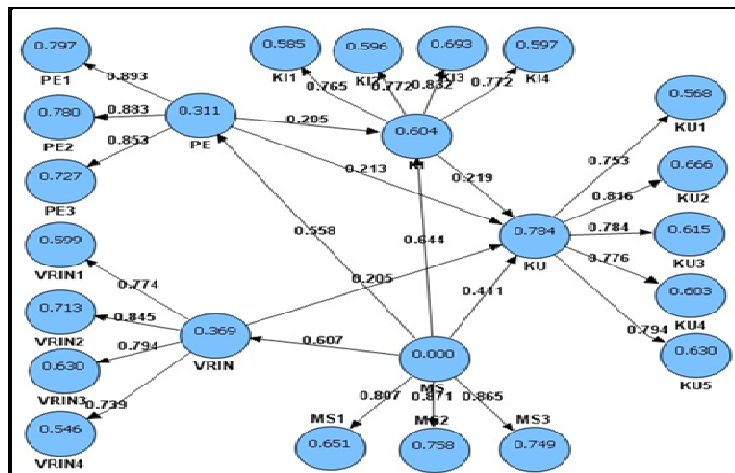


Figure 1. Structural Model (Inner Model) Between Research Variables

Table1. Inner Model Test Result

Path	Original Sample Estimate	t-Statistic	Sig.	Decision
People Equity → SMEs Performance	0,213	3,679	0,000	Accepted H1
VRIN Resource → SMEs Performance	0,205	2,899	0,004	Accepted H2
Social Capital → SMEs Performance	0,411	4,479	0,000	Accepted H3
Innovation Capability → SMEs Performance	0,219	2,400	0,017	Accepted H4
Social Capital → Innovation Capability	0,644	9,124	0,000	Accepted H5
People Equity → Innovation Capability	0,205	2,502	0,013	Accepted H6
Social Capital → People Equity	0,558	8,767	0,000	Accepted H7
Social Capital → VRIN Resources	0,607	9,931	0,000	Accepted H8

Inner model test result as written on Table 1 shows that the whole relation path is significant and also prove that the entire research hypothesis is accepted.

Theory and Managerial implications

Kasongan industry centers should be able to fuse organizational perspicacity like togetherness, harmony, and suitability (alignment) to support people equity. The higher the network, fellow norms, trust, feedback hopes, and collective efficacy of an industry center will also increase the harmony or alignment of it (Shoara, 2014). This research finding is also supported Roxas (2011) findings that social capital of a company increases the VRIN resource and employee knowledge. Innovation capability for SMEs is strongly relying on innovation capability of human resources in increasing the competitive advantage and organizational performance (Adeniran, 2012; Bukhamsin, 2015; Muafi, *et al.*, 2016; Rosenbusch, 2011). This research gives theory implication by strengthened the measure construct of people equity from Schiemann (2011; Schiemann and Seibert, 2013), Muafi (2012) and Welis (2014). It also strengthens the findings of relationship pattern between people equity, social capital, VRIN resources, innovation capability, and SMEs performance. This research gives practical implication that SMEs performance which has a basic on centers can be achieved with increasing people equity, social capital, VRIN resources, and innovation capability of the owner or the manager of the SMEs. Future research should consider other aspects that are also important to

increase SMEs performance which is local culture, local wisdom, competition level, creativity and social capital (Muafi, 2015).

References

- Adeniran T.V., Johnston K.A., 2012, Investigating the dynamic capabilities and competitive advantage of South African SMEs, *African Journal of Business Management* Vol. 6 (11), , pp. 4088-4099.
- Ahuja G.S., 2000, Collaboration Networks, Structural Holes, and Innovation: A Longitudinal Study, *Administrative Science Quarterly* Vol. 45, No. 3, pp. 425-455
- Ali M A., Hussain A., Azim A., 2013, Organizational Investment In Social Capital (OISC) And Employee Job Performance: Moderation By Employee Job Engagement, *International Review Of Management and Business Research*, Vol.2 Issue 1, pp. 250-257.
- Ayandibu, A.O., and Houghton, J., 2017 , The role of Small and Medium Scale Enterprise in local economic development (LED), *Journal of Business and Retail Management Research (JBRMR)*, Vol. 11, Issue 2, January, p. 133-139.
- Armstrong M., Baron, A., 2002, *Strategic HRM: The key to improved business performance*. CIPD Publishing.
- Barney J., 1991, Firm Resources and Sustained Competitive Advantage. *Journal of Management*, Vol 17. No 1 p.99-120.
- Becker B. E., Huselid M.A., Ulrich D., 2001, *The HR Scorecard. Linking People, Strategy and Performance*, Harvard Business Scholl Press, USA.
- Bukhamsin M, 2015, Investigating the Relationship between Organizational Innovation Capability and Firm Performance with Irish SMEs, *Dissertation* submitted in partial fulfilment of the requirements of Dublin Institute of Technology for the degree of MSc in Computing (Information and knowledge Management). Pages 4
<http://arrow.dit.ie/cgi/viewcontent.cgi?article=1063&context=scschcomdis>.
- Caloghirou Y., Kastelli I., Tsakanikas A, 2004, Internal capabilities and external knowledge sources: complements or substitutes for innovative performance?. *Technovation*, 24(1), 29-39.
- Clulow V., Barry C., Gerstman J., 2007, *The Resource-Based View and Value: The Customer-Based View of the Firm*, *Journal of European Industrial Training*, Vol. 31, No.1. p. 19 - 35.
- Collins, C. J., Clark, K. D., 2003, Strategic human resource practices, top management team social networks, and firm performance: The role of human resource practices in creating organizational competitive advantage, *Academy of management Journal*, 46(6), 740-751.
- Felício, J. A., Cuoto E., Caiado, J., 2014, "Human capital, social capital and organizational performance", *Management Decision*, Vol. 52 Issue. 2, pp.350 - 364.
- Fu, N., 2013, Exploring the impact of high performance work systems in professional service firms: A practices-resources-uses-performance approach. *Consulting Psychology Journal: Practice and Research*, 65(3), 240-257.
- Gunadi A.B, 2011, Social Networks and Innovation (Handicraft Industry in Bantul, Yogyakarta), *Munich Personal RePEc Archive (MPRA) Paper No. 28032*, posted 10. January 2011 21:01 UTC. Online at <https://mpra.ub.uni-muenchen.de/28032/pages.17>.
- Kemper J., Schilke O., Brettel M., 2013, Social capital as a microlevel origin of organizational capabilities. *Journal of Product Innovation Management*, 30(3), 589-603.
- Kim H., Park, Y, 2010, The effects of open innovation activity on performance of SMEs: The case of Korea. *International Journal of Technology Management*, 52(3/4), 236-256.
- Miller S., 2015, "Social Capital and Alignment Between Business and IS - A Deep Dive Into the Impact of Trust" (2015). *UK Academy for Information Systems Conference Proceedings 2015*. Paper 24. <http://aisel.aisnet.org/ukais2015/24>.
- Miraza Z., 2015, Dampak Sumber Daya VRIN terhadap Keunggulan Bersaing dan Kinerja (Studi pada UKM di Medan), *Jurnal Manajemen dan Organisasi*, Vol VI, No 2. pp 91-102.

- Muafi., 2012, Pola Hubungan Inovasi Organisasi, *People Equity Dan Kinerja UKM*. *Ekuitas*, Vol.16, No.2, *Jurnal Ekonomi dan Keuangan*,. ISSN 1411-0393 Publisher: STIESIA Surabaya. hal.231-244.
- Muafi., 2015, Green IT Empowerment, Social Capital, Creativity and Innovation: A Case Study of Creative City, Bantul, Yogyakarta, Indonesia, *Journal of Industrial Engineering and Management*, Vol. 8, No. 3, p. 719-737.
- Muafi., 2016, The role of robust business model in ensuring external fit and its impact on firms in social performance, *Actual Problems of Economics*, No.4 (178), p. 257-264.
- Muafi., Roostika, R., Wijayani, A and Poerwanto, M.E., 2016, Strategic Role Of Women In Chrysanthemum-Based Engineering Design On Disaster Affected Areas, *International Journal of Business and Society*, Vol. 17 No. 3, 2016, 413-428.
- Muafi., 2017, Is there a relationship pattern between small medium enterprise strategies with performance in technology business incubator?, *International Journal of Public Sector Performance Management*, Vol. 3, No. 1, p. 18-39.
- Pina M., 2011, Obtaining competitive advantages based on specific resources and capabilities. The case of Corticeira Amorim (*Doctoral dissertation*, Universidade Católica Portuguesa).
- Rosenbusch N., Brinckmann J., Bausch A., 2011, Is innovation always beneficial? A meta-analysis of the relationship between innovation and performance in SMEs. *Journal of business Venturing*, 26(4), 441-457.
- Roxas Hernan., Chadee D., 2011, A Resource-Based View Of Small Export Firms' Social Capital In A Southeast Asian Country. *Asian Academy Of Management Journal*, Vol.16, No. 2, 1-28, July 2011 © Asian Academy Of Management and Penerbit Universiti Sains Malaysia.
- Schiemann W. A., 2011, *Alignment, Capability, Engagement*. Pendekatan Baru Talent Management untuk Mendongkrak Kinerja Organisasi PPM Jakarta Cetakan 1.
- Schiemann W.A., Seibert J.H., 2013. *Optimizing Human Capital Moving Beyond Engagement*. Volume 36/Issue 1.p.33-61.
- Shoara Z.F., Karimzadeh., Kaffashi., 2014, Structural Model Of Social Capital Of Islamic Azad University Based On Organizational Intelligence And Presenting The Practical Solutions Of Improving Organizational Social Capital, *Indian Journal of Fundamental and Applied Life Sciences* Vol. 4 (S4), ISSN: 2231- 6345 pp. 3261-3269
- Siyamtinah., Sulisty H., Rahmani E., 2011. *Model Peningkatan Kinerja Melalui Kapabilitas Inovasi Pada UKM Di Semarang*, Prociding Seminar Nasional Ilmu Ekonomi Terapan Fakultas Ekonomi UNIMUS 2011. Pp 251-262 <http://jurnal.unimus.ac.id/index.php/psn12012010/article/view/435/484>.
- Talaja A., 2012. Testing VRIN frame work & resource value and rareness as source of competitive advantage and above average performance. *Management*, Vol. 17, 2012, 2, pp. 51-64.
- Welis R.W., 2014, Upaya Peningkatan Kinerja Industri Kreatif Kerajinan Melalui People Equity dan Strategi Inovasi di Kabupaten Konawe. *Ekobis* Vol 15. No.2 pp 102-112.
- Zeng S. X., Xie X. M., Tam, C. M., 2010, Relationship between cooperation networks and innovation performance of SMEs, *Technovation*, 30(3), 181-194.
<http://www.medanbisnisdaily.com/news/read/2016/08/29/254075/ekspor-gerabah-kasongan-menurun/#.WKz3SjnDqKE>, akses 21 Februari 2017