

Human Capital Effectiveness as a Mediation Concepts

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Human Capital Effectiveness as A Mediation Concept: Leveraging The Influence of Social Capital on Organizational Performance

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Abstract

*The rapid growth of social media users indicates that as an organization, it needs to adopt a concept of social networking as a communication tool among its members. However, in the real implication, a social capital gained cannot directly influence the organizational performance. It needs a filter to select the social network which suits the organization and runs effectively. This research introduces the novelty of Human Capital Effectiveness (HCE) as the concept of human resources as well as the competent mediator in the research gap. The sample used in this research was 176 fashion SMEs. The data were collected by randomly distributing the questionnaires. Structural Equation Modelling is applied as the analysis data method. This study aims to define the level of entrepreneurs' readiness for managing social networking to meet the challenges in terms of innovation to foster work performance. Social capital significantly influences organizational performance of 0.846 (0.93*0.91) which is supported by human capital effectiveness variable as moderating role.*

Keyword: Social capital, Human capital, Readiness to change, Organizational performance

Introduction

The discussion of the role social capital concept on organizational performance based on previous researches (Augusto Felício, Couto, & Caiado, 2014; Lazarova, Taylor, Psychology, & Behavior, 2009; Leana & Pil, 2006). In the world of business, running an industry needs social environmental supports including solidarity and trust. Nahapiet & Ghoshal, (1998) has divided social capital into three categories: structural, relational, and cognitive. As a concept, social culture structure includes the relationship between staffs and their configuration (solidity, connectivity, and hierarchy). Social capital relates to organizational performance. In their research, Lana and Pil (2006) explain that social capital takes a significant role in forecasting either internal or external organizational performance.

Based on the Global Competitiveness Index, Indonesia is ranked 45th out of 140 countries in the world for readiness to Industry 4.0 Revolution era (WEF, 2018). Indonesia has 20 points (total score: 64.9) higher than other low-middle income countries ranked below Indonesia such as Mexico (46th), Philippines (56th), India (58th), Turkey (61st), and Brazil (72nd). Indonesia gained a better rank on GCI 2018 than on GCI 2017. It is due to the Indonesian demography by which it contributes Indonesia to obtain the population score 81.6 which is ranked 8th rank out of 140 countries.

Since Indonesia has a huge number of population, it needs to develop human resources to meet the revolution 4.0 era. By using the innovation of start-up technology which facilitates business development, the Indonesian Ministry of industry encourages the entrepreneurs to start new established are such as in Bandung (Bandung Techno-park),

Denpasar (TohpaTI Center), Semarang (Incubator Business Center), Makassar (Makassar Techno-park: Rumah Software Indonesia), and Batam (Pusat Desain Ponsel). The implementation of Industry 4.0 focuses on individual acceleration and capability to adapt to the current phenomena. In addition, the combination of cyber and physical worlds need the entrepreneurs to be able to analyse and to assess the quality and the bias of the data. It is a must since all global network sectors require human resources to build a network and to collaborate with the stakeholders in order to communicate with the public. There is a significant effect of entrepreneur capability with firm performance (Hermawan & Tripriyo Ps, 2016). The implication of the Wearesosial Hootsuite (January 2019) indicates that there are 150 million social media users in Indonesia representing 56% of the total number of the Indonesian population, up 20% from the previous survey. The rapid growth of social media users develops the social relationship among the entrepreneurs by which it enables to enrich their quality in terms of knowledge sharing to promote optimum business performance. From these phenomena, it is perceived that it would be essential to learn about the influence of social capital on organizational performance. Some researches define that there is no significant relationship between social capital and organizational performance (K. Asiaei & R. J. M. D. Jusoh, 2015). Another study (Dimov & Shepherd, 2005) explains that human capital and social capital variables consistently deliver positive correlation to organizational performance. Social capital effectively relates to and impacts on the increase of individual quality and trust-building. It means that in an organization, social capital is able to find, to collect and

to facilitate the qualified human resources (Augusto Felício et al., 2014). It derives a gap theory between social capital (SC) and organizational performance (OP) variables.

This paper offers a series of hypotheses based on previous research. They are the influence of Social Capital (SC) on Human Capital Effectiveness (HCE); the influence of Human Capital Effectiveness (HCE) on Organizational Performance (OP); the influence of Human Social Capital (SC) on Organizational Performance (OP); the influence of Organizational Learning (OL) on Organizational Performance (OP); the influence of Organizational Learning (OL) on Readiness to Change (RTC); and the influence of Readiness to Change (RTC) on Organizational Performance (OP).

HCE is a novelty concept of human capital representing human resources who own effective skill by which it enables them to develop their organizational performance. It is influenced by their social capital ability to build and select social networking by which they are able to share information and experience. The methodology used in this research discusses the data and method applied to the empirical analysis which consists of a sample of respondents representing fashion SMEs. In conclusion and future research, it would discuss essential topics and limitation of this research.

2. Research model and hypotheses

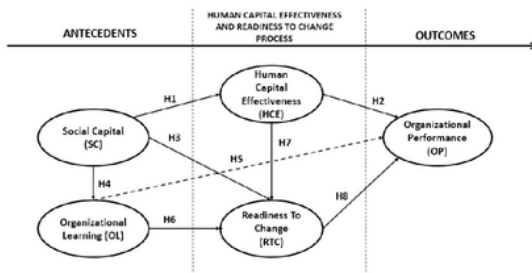


Fig. 1 Conceptual Model

2.1 Social Capital as the human capital effectiveness determinant

Most researchers consider a social capital in an organization is as a kind of transformation from each individual, but it is never described how an individual social capital is able to change to organizational capital which can be considered as an indicator that influences the organizational performance (Inkpen & Tsang, 2005; Kostova & Roth, 2003; Lazarova & Taylor, 2009). Augusto Felício et al. (2014) describes that social capital is an individual capability to process interpersonal relationship to become valuable knowledge while human capital is productivity support and individual efficiency in enhancing organizational activity through cognitive knowledge gained. Davidsson and Honig (2003) define that human capital is a capital that could be possessed by either formally (educational institution) or informally (practical experience and learning). It affirms that knowledge connects to social capital through the extraction

of social structure by which knowledge assets are formed as part of the human capital concept.

H1: SC is significant as HCE determinant

2.2 Human capital effectiveness is as organizational performance determinant

According to Augusto Felício et al. (2014), the qualified capability of a manager to establish social networking and to make a decision can generate a strong influence on organizational performance. It has been confirmed by Davidsson and Honig (2003) that human capital belongs to the potential factor of enhancing organizational performance. The staffs' experiences, knowledge, and capabilities can be considered as valuable assets to promote the organizational value (Baron, 2011; Hashim, Osman, & Alhabshi, 2015; Khan, Farooq, & Hussain, 2010).

H2: HCE is significant as OP determinant

2.3 Social capital is as readiness to change the determinant

Social circumstances generate social networking among individuals including family, friends, society, and the organizational leader. Social support is determined by individuals' participation. The more individuals get involved in their organization, the more ready individuals would be to adapt to the change (Foster-Fishman, P.G., Pierce, & Psychol, 2007). Basically, the readiness to change in an organization is influenced by its members. Individuals' commitments and self-confidence in social networking can encourage their readiness to change (Weiner, 2009).

H3: SC is significant as RTC determinant

2.4 Social capital is as organizational learning

Lesser and Prusak (1999) explained that social capital cognitively plays an important role in enhancing organizational learning by accelerating the capability of organizational knowledge management. In connection with that statement, Wirtz, Kuan Tambyah, and Mattila (2010) define that the individual social capital is a kind of support to report the organizational negative feedback to be considered as organizational evaluation and learning.

H4: SC is significant as OL determinant

2.5 Organizational learning is as organizational performance determinant

Most literature emphasizes the importance of organizational learning to maintain the organization and to promote effective performance (C & DA., 1996; CM & MA., 1985). The main goal of organizational learning is driving quality and quantity performance. Furthermore, organizations which can learn fast will be able to significantly develop strategical competency, to maintain their competitive advantages and to increase their outcome. Attitude, behaviour, and organizational learning strategy guide the organization to become superior in long-term performance. An organization encourages individual determination of direct learning performance to achieve future performance since direct learning performance is a kind of process which

comes out from the previous events while future performance is the outcome of the current learning process (B., 1996).

H5: OL is significant as OP determinant

2.6 Organizational learning is as readiness to change the determinant

Individual attitude is formed from the surrounding circumstance. A good circumstance might generate positive outcome such as knowledge sharing so that it will help an individual to be ready to meet the changes (He, Qiao, & Wei, 2009). Performance evaluation is an organizational learning process which provides feedback so that it will guide the organization to generate better performance and to be ready to adapt the changes (Goh, Cousins, & Change, 2006).

H6: OL is significant as RTC determinant

2.7 Human capital effectiveness is as readiness to change the determinant

It is nearly impossible to avoid organizational change in terms of fluctuated global context, uncertainty, and complexity. It needs to maintain the balance of organizational performance during the change process. The involvement of the staffs becomes absolutely essential to meet the organizational change as well. (Cunningham et al., 2002) emphasizes that the organization has to consider the individual readiness to change to achieve the organization goal. The concept of readiness to change is defined as determination, intention, and attitude towards how essential the change needed (Armenakis, Harris, & Mossholder, 1993; Rafferty, Simons, & Psychology, 2006).

H7: HCE is significant as RTC determinant

2.8 Readiness to change is as organizational performance determinant

The organizational performance is formed from the most essential element, the members. They must be ready to meet either the internal or external organizational changes. Entrepreneurs who preserve classical method and culture in running their business will meet obstacles and will encounter some more difficulties with the current business development than their competitors who are welcome to the global business change (Mathew, Sulphey, & Rajasekar, 2014). It will influence their future business.

H8: RTC is significant as OP determinant

3. Methodology

3.1 Sample

The data collecting technique used in this research is stratified sampling. After the data testing, using Mahalanobis, there existed 24 outliers involving 176 respondents. The sample used in this research was the fashion SMEs. The non-self-assessment method, a surveyor team was provided to guide the respondents in completing the questionnaire, it was applied in this research data collecting process. Table 1 below describes the respondents' profile as follow:

Table 1 above shows that 164 out of 176 respondents have run their business for 10 to 20 years as sole proprietorships. It indicates that they have a strong determination in maintaining their business. In line with the

use of social capital to build appropriate human capital, the entrepreneurs will generate readiness to change to foster organizational performance.

Table 1 : Profile of Respondents

Demographic Variables	N	%		
Length of Business Operation				
<10 years	86	48.86%		
11 - 20 years	61	34.66%		
21 - 30 years	18	10.23%		
> 31 years	11	6.25%		
Business Structure				
Estate	12	6.82%		
Sole Proprietorship	164	93.18%		
Number of Employees				
<10	71	40.34%		
11 - 21	53	30.11%		
22 - 32	29	16.48%		
>33	23	13.07%		
Amount of Capital				
No Capital		15.34%		
IDR 1,000,000 - 5,000,000	70	39.77%		
IDR 5,000,000 - 10,000,000	18	10.23%		
IDR 10,000,000 - 15,000,000	10	5.68%		
> IDR 15,000,000	51	28.98%		
Total	176	100%	Total	176 100%
Source of Capital				
Private Capital	123	69.89%		
Loans	24	13.64%		
Others	29	16.48%		
Turnover per Month <IDR 1,000,000				
IDR 1,000,000 - 5,000,000	86	48.86%		
IDR 5,000,000 - 10,000,000	23	13.07%		
IDR 10,000,000 - 15,000,000	43	24.43%		
>IDR 15,000,000				
Production Cost				
<10% - 30% per month	35	19.89%		
31 - 61% per month	67	38.07%		
62 - 92% per month				
>93% per month	3	1.70%		
Number of Branches				
No branch	115	65.34%		
1-2 branches	57	32.39%		
>3 branches	4	2.27%		

3.2 Measurement

The measurement concept used in this research is the Linkert scale which ranges from 1 to 10, of which 1-5 refer to disagree and 6 to 10 indicates agree. Social capital consists of 3 dimensions: knowledge sharing, business relationship, and positive interaction (Chen, Chang, & Chang, 2015). There are 2 dimensions included in Organizational learning: learning-based experience and work life-based family (Peterson & Behfar, 2003). Human Capital Effectiveness contains 3 dimensions: appreciation, commitment to change, and planning (Baron, 2011). Readiness to Change consists of 3 dimensions: technology, self-efficacy, and enthusiasm. There are 2 dimensions included in Organizational Performance: creativity and innovativeness (Gumusluoglu & Ilsev, 2009).

The result of the CFA test is as follow:

Table 2. Loading Factor Variable

Variable	Indicator	Loading Factor	Composite Reliability
SC	SN2	0.66	0.75
	SN6	0.68	
	SN7	0.77	
HC	HC2	0.55	0.74
	HC3	0.43	
	HC4	0.70	
	HC5	0.69	
OP	CRE3	0.58	0.75
	CRE4	0.73	
	CRE5	0.79	
OL	SDR1	0.85	0.82
	SDR2	0.74	
	SDR3	0.73	
RTC	RCP3	0.76	0.83
	RCP4	0.76	
	RCP6	0.83	

The CFA test was applied by determining the Composite Reliability (CR) value of each sub-scale. Valid measurement model can be represented by CR values of each variable (Molina et al., 2007).

Table 3. CFA Testing of Each Variable

Variable	Chi-Square	CMI N/DF ≤ 2.00	GFI ≥ 0.90	AGFI ≥ 0.90	CFI ≥ 0.95	TLI ≥ 0.95	RMS EA ≤ 0.08
SC	1.307	1.307	0.996	0.963	0.999	0.991	0.042
OP	0.684	0.408	0.998	0.981	1.000	1.009	0.000
HCE	6.607	1.652	0.986	0.947	0.989	0.973	0.061
OL	1.766	1.766	0.995	0.950	0.997	0.981	0.066
RTC	10.728	1.533	0.981	0.943	0.993	0.986	0.055

The CFA test uses an analysis tool, AMOS ver. 22, to assess the construct validity. It generates a measurement model to examine the theory concerning 5 latent constructs. It indicates good loading factor and enables to generate Goodness of-Fit (GoF) index which means that the questions provided in the questionnaire matched to the included variable. In full model test, it describes that the complete measurement fulfils the minimum required values of Goodness of-Fit (GoF) model which are mentioned respectively as follow: chi-square $97.356 \leq 112.02$, probability 0.255, degree of freedom 89, CMIN/DF 1.094, GFI 0.935, AGFI 0.901, CFI 0.992, TLI 0.990, and RMSEA 0.023. It can be concluded that the model is able to present each construct and variable which are built as well as to represent the general concept of the research.

4. Data analysis and result

The analysis method used in this study is Structural equation modelling. Based on Table 2 below, 7 out of 8 hypotheses can be accepted which are H1, H2, H3, H4, H6, H7, and H8. Otherwise, H5 is rejected. The acceptance of H1 and H2 indicates that this research has successfully fulfilled the gap between social capital and organizational performance by applying human capital effectiveness as a mediator.

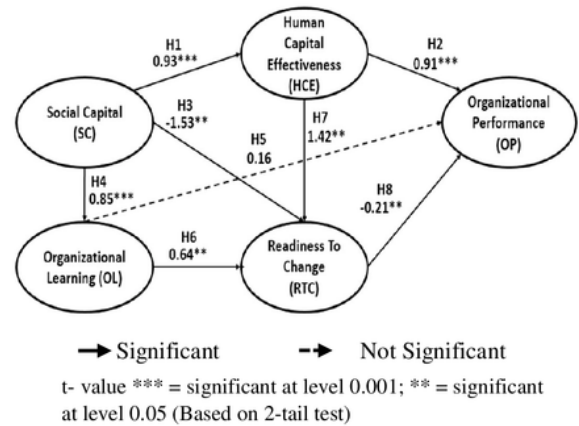


Fig. 2 Full Structural Equation Modelling

Table 4. Direct, Indirect and Total Effect of Endogenous Variables

Effects on Endogenous Variables	Direct Effects	Indirect Effect	Total Effect
Effects on Organizational Performance			
H2: Human Capital Effectiveness	0.978	-0.364	0.615
H5: Organization Learning	0.054(NS)	-0.110	-0.164
H8: Readiness to Change	-0.222	-	-0.222
Effects on Human Capital Effectiveness			
H1: Social Capital	0.925	-	0.925
Effects on Readiness to Change			
H3: Social Capital	-1.617	1.933	0.316
H6: Organization Learning	0.494	-	0.494
H7: Human Capital Effectiveness	1.637	-	1.637
Effects on Organization Learning			
H4: Social Capital	0.847	-	0.847

The influence of social capital on organizational performance is valued 0.846 (0.93*0.91) with the support of human capital effectiveness variable as a moderating role and of readiness to change variable which is valued 0.321 (-1.53*-0.21).

5. Discussion

This research is intended to examine the level of respondents' readiness to build social capital by which it is expected to promote their business performance. At first, this research used 200 respondents as the sample. After the testing process, only 176 respondents could fulfil the requirements. The result of the test is as follow: Hypothesis 1: SC is significantly as HCE determinant ($\beta=0.71$, C.R = 6.779, Value= sig < 0.001). It means that **H1 is accepted**. It implies that maintaining a great number of relations (suppliers and customers) impacts on business performance in terms of fulfilling the market demand. It is perceived as a factor to strengthen organizational performance which is also stated by Davidsson and Honig (2003). Hypothesis 2: HCE is significantly as OP determinant ($\beta= 0.79$, C.R = 4.172, Value sig < 0.001). It indicates that **H2 is accepted**. According to K. Asiaei and R. Jusoh (2015), the contribution of human resources is essential for the organization. Effective and strongly committed human resources will support the organization to achieve the goal. The organization will develop more innovatively by adopting their creativities. Hypothesis 3: SC is significantly as RTC determinant ($\beta= -171$, C.R = -2.703, Value= 0.007). It defines that **H3 is accepted**. Social capital which is a kind of individual support is able to drive well-relationship in order to encourage readiness to change. It is in line with the research conducted by Weiner (2009). Hypothesis 4: SC is significantly as OL determinant($\beta=0.84$, C.R = 9.183 Value sig < 0.001). It means that **H4 is accepted**. Sharing information and knowledge need a broad network. It aims to enhance individual performance and to widen business relationship (Wirtz et al. 2010). Hypothesis 5: OL is significantly as OP determinant ($\beta= - 0.30$, C.R = -0.367, Value=0.713). It indicates that **H5 is rejected**. Organizational learning through knowledge sharing cannot directly influence organizational performance. It requires mental and physical readiness to change. RTC is essentially required to mediate between OL and OP during the learning process in order to enhance organizational performance (C & DA., 1996; CM & MA., 1985). Hypothesis 6: OL is significantly as RTC determinant ($\beta=0.53$, C.R =2.096, Value=0.036). It explains that **H6 is accepted**. Readiness to change is a requirement that individuals have to fulfil while they get involved in an organization since during the learning process they will interact with others which need a capability to fast adapt to the current circumstances (He et al., 2009). Hypothesis 7: HCE is significantly as RTC determinant ($\beta=2.29$, C.R = 3.007, Value=0.003). It implies that **H7 is accepted**. The quality of human resource that an organization has is perceived as the determinant of individual readiness to change. It is as well as influenced by several factors (Cunningham et al., 2002). Hypothesis 8: RTC is significantly as OP determinant ($\beta= -0.13$, C.R = -2.117, Value= 0.034). It indicates that **H8 is accepted**. A condition in which an organization and its whole elements have the readiness to change will contribute positive influence to the organization. It will promote organizational performance to be more creative and innovative (Mathew et al., 2014).

6. Conclusion and implication

The social relationship has not been able to directly influence organizational performance. It is evident in this study that the HCE variable is able to be applied as a mediator which can fulfil the research gap. Competent human resources are perceived as the organizational capital by which competitive advantage can be gained in order to foster organizational performance. The quantity and quality of the human resources are the factors that can influence the existence of mutual social networking which enables individuals to transfer knowledge among them. It aims to prepare the individual to have a sense of readiness to change corresponding with the market trend such as the competition among entrepreneurs in the industry 4.0 era in which they are able to take advantage of the updated technology in order to generate efficient and effective performance.

7. Limitation and directions for future research

There exists an inversely proportional relation among variables in this research which can be considered as a limitation, yet it still shows a significant influence. This study can be used as a reference to future research since it consists of different views concerning the influence of social capital on readiness to change as well as the influence of readiness to change on organizational performance.

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Attachment measures

I. Social capital

Construct	Indicators
SN1	I have a lot of friends becoming my business relations as suppliers or customers who gives orders
SN2	I am able to forecast current market trend by observing social behaviour which will be a trending topic
SN3	I have friends, subordinates, and colleagues (close friends) to interact with each other positively

II. Human capital

Construct	Indicators
HC1	I always assist my team and award them reward for their achievements
HC2	My team and I consistently join the upgrading programs
HC3	My team and I have a strong commitment to maintaining this business

Construct	Indicators
HC4	I have careful planning before investing (equipment, computer/software, workshop, recruitment)

III. Organizational performance

Construct	Indicators
CRE1	I can overcome my business problems by implementing my innovative creativity
CRE2	I am able to generate my own innovative products which have never been produced by my competitors
CRE3	It is so simple for me to generate new products since i have abundant fresh ideas in my mind

IV. Organizational learning

Construct	Indicators
SDR1	School/foundation has a management system which promotes operational activities
SDR2	In my opinion, a principal/ head of foundation implements a management policy in which they never arbitrarily draw a decision on termination of employment to teachers
SDR3	The relationship between my family and I in conducting family-time, maternity leave appreciated by the school (a balance between work and family)

V. Readiness to change

Construct	Indicators
RCP3	As an entrepreneur, I think it is essential to have an app that can help home tailors receive orders (society empowerment).
RCP4	The home tailors' reputations and skills will be recorded in the app and are considered as essential information.
RCP6	Go-Jahit system essentially needs to provide an online shop as a place for the garment - marketplace (offering shirts, pants, hijab, jeans) or other specific fashion products.

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