
**Analyzing Business Performance from Human Capital and Social Capital
with Competitive Advantage as Mediating Variable**

Erbin Chandra¹, Julyanthry², Putu Laksmi Dewi Rahmayanti³, Rr. Chusnu Syarifa Diah
Kusuma⁴, Acai Sudirman⁵

^{1,2,5}Management Studies Program, Sekolah Tinggi Ilmu Ekonomi Sultan Agung,
Pematang Siantar, Indonesia

³Management Studies Program, Universitas Hindu Indonesia,
Bali, Indonesia

⁴Office Administration Study Program, Universitas Negeri Yogyakarta,
Yogyakarta, Indonesia

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Abstract

The development of technology, information, and the internet is growing rapidly and massively in various business sectors, including SMEs, which has created new changes. This situation certainly provides opportunities and challenges for every business actor. This study analyzes the effect of human capital, social capital, customer capital, and technological innovation on business performance. This study's research method includes library and field research design with a quantitative approach. Data collection techniques using observation, interviews, questionnaires, and documentation. This study used 180 samples of small and medium business actors with convenience sampling. The data analysis method used is Partial Least Square (PLS). Findings. The study's results found that human capital positively and significantly affects business performance. Then social capital has a positive and significant effect on business performance. The results of this study also confirm that the competitive advantage variable cannot mediate the relationship between human capital and business performance and that competitive advantage can mediate the relationship between social capital and business performance.

Keywords: Human Capital, Social Capital, Competitive Advantage, Business Performance

1. Introduction

The business landscape is experiencing its shift in today's era of globalization. Many things that are unthinkable or only in our minds all this time are happening right now (Julyanthry, Putri, Lie, et al., 2021). The development of technology, information, and the internet is growing rapidly and massively in various business sectors, including SMEs, which has created new changes (Halim et al., 2021). This situation certainly provides opportunities and challenges for every business actor. SMEs currently plays a very important role in the Indonesian economy, especially in economic growth, employment, social improvement, innovation, income collection, development of entrepreneurial culture, skills development, and exports and imports (Tjahjadi et

al., 2020). Successful entrepreneurs generally have competence, namely someone with the knowledge, skills, and individual qualities needed to carry out the work/activity (Felício et al., 2014). From a business perspective, it is clear that the contribution of human resources (HR) is very important as a valuable asset for the company, which is not easily replaced by other human resources (Chen & Chang, 2013). Therefore, it is very important to obtain, analyze, and present information systems to develop, accelerate, and actualize the realization of an efficient and effective business strategy. Human capital is an intangible asset believed to be an important component that contributes to a successful strategy for businesses in ensuring better business performance (Utami & Lantu, 2014). Research results (Ahmed et al., 2020); (Djajasinga et al., 2021), revealed that all aspects of human capital contribute significantly to business performance.

From a business perspective, social capital plays an important role in supporting the exchange of business ideas with marketing (Secundo et al., 2018); operations, and sales, as well as accessing financial resources from individuals or groups to drive optimal business performance (Hallam et al., 2018). Practical institutional support is achieved through active social contacts that buffer the entrepreneur's ability to innovate and creativity and reduce the risk of business failure (Jirawuttinunt & Wongsahai, 2021). The results of research on social capital also show that social capital has a significant positive effect on business performance (Absah et al., 2018); (Nasip et al., 2017). When following a strategic resource-based view, enterprise resources must take advantage of opportunities or neutralize threats. This cannot be perfectly imitated to have a commensurate change for sustainable human resource development (Dirisu et al., 2013). Entrepreneurs are responsible for managing SMEs and trying to get a better business scale from the performance generated through new procedures, plans, and strategies during the entrepreneurial life cycle (Rugraff & Hansen, 2011). In gaining long-term competitive advantage, every business gains a competitive advantage through its ability to develop a set of key competencies to serve its target customers better than its competitors (Kuncoro & Suriani, 2017). Competitive advantage relates to how a company selects and puts a general strategy into practice (Purba et al., 2022).

The first problem of this research is that entrepreneurs are only oriented to the type of product and quantity, but in the current digital era, it is necessary to have more value so that it can be sold to market share. For this reason, there is a need for an in-depth study of the concept of intellectual capital (IC) in maintaining and improving the performance of SMEs in Pematangsiantar City. Intellectual capital represents a combination of intangible assets or resources, such as knowledge, skills, professional skills and expertise, customer relations, information, databases, organizational structure, innovation, social values, faith, and honesty. To improve performance through competitive advantage, SMEs need to take advantage of several intellectual capital factors, including human capital, social capital, and customer capital. Next problem, namely the lack of knowledge to adapt to the internet and technological developments experienced by SMEs due to the weak management of human capital and social capital management. Therefore, this study aims to analyze the influence of human and social capital on business performance with a competitive advantage as a mediating variable.

2. Literature Review

2.1. Human Capital

Human capital can be defined as human capital, where further human capital is a collection of aspects of knowledge, expertise, and abilities to what skills make up a human being as an asset in the company (Chen & Chang, 2013). They will later become an added value for the company to carry out daily operations by providing motivation, competence, and teamwork between teams (Yaseen et al., 2016). Contributions from workers can be in the form of developing employee skills. This development is expected to increase the quality and quantity of the company's productivity, transfer the existing knowledge from workers to the company, and change the company's culture (Wu et al., 2007). Later, the company can still use the employee's knowledge if the worker is no longer working. Therefore, employees can be considered valuable capital, and their hard work is appreciated so that the company makes them a legacy (Absah et al., 2018). Human resources also see human resources as assets that function as supporters to achieve company goals or targets. Study results (Fatoki, 2011) and (Jayabalan et al., 2020) revealed that human capital positively and significantly influences competitive advantage and business performance. Therefore, based on several previous research results, this study is carried out to develop hypotheses:

H1: Human capital affects competitive advantage

H3: Human capital affects business performance

2.2. Social Capital

Social capital is a set of informal values or norms shared among members of an interrelated community group based on the values of trust, norms, and social networks (Lee, 2015). Social capital is a capability that arises from trust in a society in general (Ado & Mata, 2020). Social capital forms social obligations that are institutionalized into shared life, roles, authority, responsibilities, reward systems, and other attachments that result in collective action (Nasip et al., 2017). Social capital is a relationship created from social norms that become social glue, creating unity among group members (Manev et al., 2005). Social capital is a commitment from each individual to be open to each other, trust each other, and give authority to everyone he chooses to play a role following his responsibilities. Study results (Hallam et al., 2018) and (Lee, 2015) revealed that social capital positively and significantly influences competitive advantage and business performance. Therefore, based on several previous research results, this study is carried out to develop hypotheses:

H2: Social capital affects competitive advantage

H4: Social capital affects business performance

2.3. Competitive Advantage

Competitiveness is how well the company does everything compared to its competitors. The long-term success of an organization is considered very important, which is illustrated by the competitive advantage of a company (Inrawan et al., 2021). Competitive advantage is when a company does business better than its competitors (Inrawan et al., 2022). Not only through operating performance, but this advantage is also reflected in its finances. Business actors who apply competitive advantage will tend to generate higher than average profits for all business

actors who do not have a competitive advantage (Sudirman et al., 2021). Competitive advantage depends on the speed of competitors to outpace the company. This speed determines how long the competitive advantage will last (Sherly et al., 2020). Competitors can acquire the skills needed to compete effectively (Julyanthry, Putri, & Sudirman, 2021). They can duplicate the benefits of a company's value-creating strategy beyond what already exists. Study results (Teo & Pian, 2003) and (Anwar et al., 2018) revealed that competitive advantage positively and significantly impacts business performance. Therefore, based on several previous research results, this study is carried out to develop hypotheses:

- H5:** Competitive advantage affects business performance
- H6:** Human capital has an effect on business performance with a competitive advantage as a mediating variable
- H7:** Social capital affects business performance with a competitive advantage as a mediating variable

2.4. Business Performance

(Chaudhary & Sharma, 2012), define it as an effort to measure the level of performance, including sales turnover, number of buyers, profits, and sales growth. Organizational performance, often called business or company performance, indicates success in achieving company goals. Good company performance shows the success and efficiency of company behavior. Business performance is an accumulation of activities within the company itself (Lorenzo et al., 2018). An entrepreneur is not someone who only struggles with thoughts, ponders, or tests hypotheses but someone who focuses on execution (Huhtala et al., 2014). This focus on execution means not wanting to stop exploiting the mind or thinking full of doubts. Humans with the characteristics of an executing mindset will act and realize what they are thinking rather than analyzing new ideas to death (Samuel, 2013). An entrepreneur is also adaptive to situations or easily adapts to new facts in the field. In technology-based industries, business competition is highly characterized by significant market dominance and concentration (Kumar et al., 2011). So that to be able to compete and survive and develop in running their business, a technopreneur should start making strategic business plans and marketing strategy plan to improve business performance (Öztamur & Karakadılar, 2014). based on the explanation of the background of the research problem and the explanation of several previous studies, the overall development of the hypothesis in the study can be explained in the following figure:

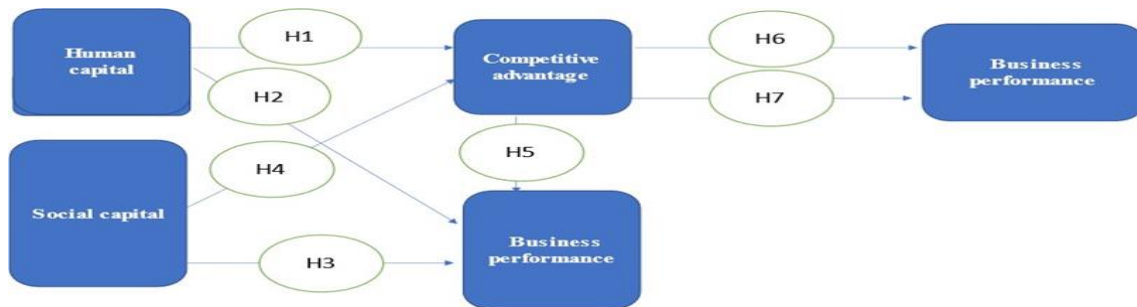


Figure 1. Research Framework

3. Method

This study uses the quantitative causality approach to answer the formulation of research problems and hypotheses. The location of the study was adjusted to the number of SMEs in each sub-district of Siantar Timur, Siantar Barat, North Siantar, South Siantar, Siantar Marihat, Siantar Martoba, Siantar Sitalasari, Siantar Marimum. The process and mechanism of data collection were carried out from May to July 2022, and then a questionnaire was used as an instrument of this research which was then distributed to respondents directly. The population in this study is the total number of SMEs in Pematangsiantar City. The sampling method used in this study is the convenience sampling method, where this technique was chosen because it is the fastest method due to time constraints, and anyone who accidentally meets the researcher can be used as a sample if that person is considered suitable as a data source. According to (Hair, 2014), if the population is unknown, the number of samples can be determined from 5-10 times the number of indicators used in a single construct. This study uses 18 indicators from 5 dimensions of existing variables, so the number of research samples obtained is $18 \times 10 = 180$. The data analysis method used is Partial Least Square (PLS). The data analysis test tool uses the statistical software Smartpls 3.0. The analysis stage consists of testing the validity and reliability and evaluating the external model with convergent validity. The expected convergent validity criteria are > 0.7 (Hair, 2014). The internal evaluation model reviews the value of R Square (R²) with the criteria that the R² value is in the range of 0.5-0.6, which means good, 0-0.33, which means moderate, and 0-0.19, which means weak. Next, reviewing the F-Square (f²) value with assessment criteria of 0.02 which means weak, 0.15, which means moderate, and 0.35, which means large (Hair, 2014). Finally, testing the hypothesis is the criteria for measuring significance and probability values < 0.05 .

4. Results

Outer Model Measurement

The data from the research questionnaire were processed using the SmartPLS version 3.2.9 application with processing guidelines (Juliandi, 2018). In measuring the outer model, validity and reliability tests were conducted. The loading factor and AVE determine a convergent validity testing with the condition that the loading factor is above 0.7 and the AVE value is 0.5 (Hair, 2014). The model reliability test, according to (Hair, 2014) is seen from the value of Cronbach's alpha and composite reliability (CR), which has a value higher than 0.7. The following will show an explanation of the measurement of the outer model, which is presented in Table 1 below:

Table 1. Outer Model Measurement Results

Variables	Items	Outer Loading	Average Variance Extracted (AVE)	Composite Reliability	Cronbach's Alpha
Human Capital	Employees' Experience (HC1)	0.777	0.632	0.872	0.804
	Employees' Knowledge (HC2)	0.821			
	Employees' Skills (HC3)	0.871			
	Employees' Innovation (HC4)	0.713			
Social Capital	Cognitive Capital (SC1)	0.914	0.783	0.915	0.858
	Structural Capital (SC2)	0.958			
	Relational Capital (SC3)	0.771			
Competitive Advantage	Superior Efficiency (CA1)	0.855	0.690	0.870	0.775
	Superior Quality (CA2)	0.805			
	Customer Responsibility (CA3)	0.831			
Business Performance	Financial Performance (BP1)	0.916	0.823	0.903	0.785
	Non-Financial Performance (BP2)	0.898			
Discriminant Validity					
	Business Performance	Competitive Advantage	Human Capital	Social Capital	
Business Performance	0.907				
Competitive Advantage	0.501	0.831			
Customer Capital	0.652	0.514	0.795		
Human Capital	0.422	0.400	0.310	0.885	

Source: Processed Data (2022)

In the validity test presented in Table 1 above, it was obtained that the value of each loading factor on the indicators of the variables of human capital, social capital, competitive advantage, and business performance was above 0.7 and above 0.5 for the average variance extracted (AVE) values. Furthermore, for Cronbach's alpha value and composite reliability, the value for each variable was above 0.7, which showed that all research variables had good reliability

values. With these good values, it can be used as an overview that the condition of the relationship between variables was also good so that further tests can be carried out.

Inner Model Measurement

Inner model measurement was carried out by bootstrapping research data using SmartPLS 3.2.9. There were two results obtained from bootstrapping, the first was the significance of the two related variables and also the R-square of the study. The value of the R-square is the value that shows the ability of exogenous variables to build endogenous variables. According (Chin et al., 2008), there are three categories of R-square values, in which if the R-square value is 0.19, the relationship between exogenous variables forming endogenous variables is weak, if it is 0.33, it means that the relationship is moderate, and if the value is 0.67, it means that the relationship is strong. Meanwhile, (Sarwono, 2016) , stated that if the R-square value is more than 0.67, the relationship between endogenous and exogenous variables is very strong.

Table 2. Calculation results of the R-Square value

Notes	<i>R Square</i>	<i>R Square Adjusted</i>
Business Performance	0.496	0.487
Competitive Advantage	0.328	0.321

Source: Processed Data (2022)

Judging from the R-square value for the endogenous business performance variable, it obtained a value of 0.496, whose value ranges from 0.33-0.67, this shows that the overall ability of exogenous variables to explain endogenous variables is moderate. For the next R-square value, the value of the endogenous competitive advantage variable is 0.328, which is below the value of 0.33, so this value indicates that the overall ability of the exogenous variable to explain the endogenous variable is weak. Furthermore, a significance test was carried out to prove the hypothesis to determine the relationship between exogenous and endogenous variables. The significant criterion is seen from the p-value. With a significance level of 5%, if the p-value between the exogenous and endogenous variables is less than 0.05, it means that the exogenous variable has a significant effect on the endogenous variable, on the other hand, if the value is greater than 0.05, it means that the exogenous variable has no significant effect on building the endogenous variable. The following presents the results of hypothesis testing, which are explained in table 3:

Table 3. Hypothesis Test Results

Hypothesis	Coefficient	t-count	P-Value	Conclusion
Human Capital>>Competitive Advantage (H1)	0.432	6.563	0.000	Accepted
Social Capital>>Competitive Advantage (H2)	0.266	5.136	0.000	Accepted
Human Capital>>Business Performance (H3)	0.507	6.419	0.000	Accepted
Social Capital>>Business Performance (H4)	0.201	3.828	0.000	Accepted
Competitive Advantage>>Business Performance (H5)	0.160	2.289	0.024	Accepted

Source: Processed Data (2022)

Based on the results of the processed data presented in table 4, it is known that the influence of human capital on competitive advantage obtained positive and significant results with the acquisition of a p-value of 0.000 below 0.05. The effect of social capital on competitive advantage obtained positive and significant results with the acquisition of a p-value of 0.000 below 0.05. Furthermore, the influence of human capital on the business performance obtained positive and significant results with the acquisition of a p-value of 0.000 below 0.05. The influence of social capital on the business performance obtained positive and significant results with the acquisition of a p-value of 0.000 below 0.05. Likewise, for the effect of competitive advantage on business performance, positive and significant results were obtained with the acquisition of a p-value of 0.024, which is below 0.05. Overall, from the five hypotheses developed following the framework to test the direct effect between variables, it can be concluded that all hypotheses are accepted. Furthermore, to determine the mediating effect of competitive advantage on the relationship between human capital and social capital on business performance, a mediation test was conducted using an indirect effect approach, with the following explanation of the results:

Table 4. Hypothesis Test Results

Hypotheses	Coefficients	t-Statistics	P-Value	Result
Human Capital>>Competitive Advantage→Business Performance(H6)	0.069	1,917	0.056	Rejected
Social Capital>>Competitive Advantage→Business Performance(H7)	0.043	2,098	0.036	Accepted

Source: Processed Data (2022)

Based on the results of the processed mediation test data based on indirect effects, it can be concluded that the competitive advantage variable cannot mediate the relationship between human capital and business performance, as evidenced by the acquisition of a p-value of 0.056, which is above 0.05. Furthermore, based on the indirect effect, the second mediation test results show that the competitive advantage variable can mediate the relationship between social capital and business performance, as evidenced by the acquisition of a p-value of 0.036, which is below 0.05.

5. Discussion

The research results developed through the first hypothesis show that human capital positively and significantly affects competitive advantage. These results prove that human capital encourages a business's competitive advantage, including small and medium-scale businesses. Because, as a resource, the productivity of employees will inevitably decline with age. In addition, few workers experience slack performance when they feel comfortable with their profession or work position. So, before the level of these resources decreases, the company tries to create and add value from its employees to further develop. A business with good HR management will generally look at the psychological condition of prospective employees. The trick is to do various tests and interviews. Although this cannot directly assess a person as a whole, it will at least provide an overview of the prospective employee. Recruiting employees is a very important initial process. The human capital management team must conduct employee recruitment activities appropriately to obtain good human capital. The process includes creating job vacancies, sorting incoming candidates, conducting applicant tests, conducting job interviews, and signing employment contracts. If the employee recruitment and selection process is carried out properly and correctly, this will result in competent human resources to support the achievement of the company's competitive advantage.

The research results developed through the second hypothesis show that social capital positively and significantly affects competitive advantage. These results prove that social capital encourages a business's competitive advantage, including small and medium-scale businesses. Social capital is a filter that must be passed where the flow of human resources and financial capital from parents and society to children results in a better level of education. If social capital is low, it will lead to a conflict of values and low trust. In addition, social capital is a social glue that helps employees and companies to work together towards a common goal. Social capital arises from the relationships between people daily due to connectivity and social networks based on trust, shared values, and mutual give and take. Social glue is born from social interactions and emotional bonds that unite people to achieve common goals, fostering the trust that grows from these relationships. Thus, mutual trust, adherence to social norms, and social networks can improve the efficiency of community performance, so this will directly impact business competitive advantage and be able to differentiate from other competitors, which then fosters the trust that grows from the relationship.

The research results developed through the third hypothesis show that human capital positively and significantly affects business performance. These results prove that the human capital aspect is believed to be able to encourage better business performance. A small and medium-sized business with good human capital management will be able to manage human resources to improve its performance to achieve a more effective level of productivity. Like equipment or financial resources, the concept of human capital makes HR a valuable asset and is no less important than other resources. Even so, human capital in the context of assets does not have a form because it is in the form of expertise, skills, creativity, and knowledge that is abstractly attached to and owned by human resources. Through the development of good human capital, all employees are required to adapt to all the internal provisions of the company. The presence of human resources with all their collective characteristics can provide capital for the company to

increase its productivity. In addition, professional services will also be created, providing additional economic value that is profitable for the company, and the implication is that business performance will grow rapidly.

The research results, developed through the fourth hypothesis, show that social capital positively and significantly affects business performance. These results prove that the social capital aspect is believed to be able to encourage better business performance. The existence of social capital within the scope of the company is crucial to embracing information between employee lines. The importance of a smooth flow of information within the social structure to encourage the development of activities within the company. The flow of information that is not smooth tends to cause people to be ignorant or indecisive, so they don't dare to do something. Social networks allow for coordination and communication that foster mutual trust among employees within the company. Besides that, Social capital is also believed to be able to bridge the gap between groups with different ideologies and strengthen agreement on the importance of employee empowerment. Groups of employees who traditionally lack cultural values which are the bridge's social capital tend to be more concerned with their group, are exploitative and are easily involved in conflicts with other employees. This understanding of social capital is expected to improve the performance of an organization and better income. On the business side, social capital will build and encourage employees to be more attractive in doing business and explore opportunities and the best possibilities for obtaining a work network through social capital.

The research results, developed through the fifth hypothesis, show that competitive advantage positively and significantly affects business performance. These results indicate that competitive advantage is crucial to achieving optimal business performance. In an ever-changing environment, business alignment and internet technology are challenging for MSMEs. In addition, MSMEs need high flexibility to have service preferences. Unlike large companies or organizations, MSMEs generally only have limited resources and market experience. To improve the performance of electronic marketing, MSME actors must dare to take risks in complex investments at a high industrial level. The faster and more dynamic the industry changes for a product, the easier it is for MSMEs to improve their electronic marketing performance. Building a business is not done carelessly or haphazardly, as previously explained. Companies need to do research and analysis. As good businessmen, companies must understand what products sell well in the market.

The research results developed through the sixth hypothesis show that the competitive advantage variable cannot mediate the relationship between human capital and business performance. These results indicate that the human capital aspect is not the most important factor but the most important thing when opening a business must be considered is the choice of business location. The cause of the presence of competitors or competitors is that an entrepreneur is wrong in choosing his business location. Competitors can steal all ideas and plans the entrepreneur has carefully thought out. Competitors can also open their businesses in other places considered more strategically. The thing that pops up in the minds of consumers is the company's competitors, so every company makes good advertising promotions, and consumers will be more familiar with the services or products offered by the company's competitors. This will have an

impact on extraordinary losses for the company. Business people or actors need to consider all possible impacts on their company before implementing various marketing strategies. Because if you can't run optimally, the strategy you think will fail.

The research results developed through the seventh hypothesis show that the competitive advantage variable can mediate the relationship between social capital and business performance. Competitive advantage is important in winning the competitive business competition and maintaining entrepreneurial viability. In business activities, entrepreneurs should not just stay in one business and not be creative in developing it. Creativity is a source of competitive advantage. Through creativity will try to innovate new and old products. Creativity and innovation will create added value for the products/services offered. Added value will be a feature the market looks at when deciding to consume the goods/services offered. Unlike other entrepreneurs, More creative endeavors require more innovation and creativity. Entrepreneurs must be more adaptive and have more innovative breakthroughs in a competitive and dynamic business. The character of complacency will not bring the business to progress. So through social capital, the answer to being a successful entrepreneur is found. In addition, to survive in business, entrepreneurs must pay attention to businesses that are liked by the community, namely businesses that are more for less, meaning businesses that can provide more value to the community with less investment. Generally, a company can maintain a competitive advantage only for a certain period.

6. Conclusion

The study results conclude that competitive advantage is an important foundation to encourage the growth of MSME business performance to be more optimal. Build an efficient use of budget, which is illustrated through the selection of the right technology to cut variable costs and build the ability of the business to get products to market directly from the source. On the other hand, business capabilities deliver quality products at competitive prices, business strengths in providing faster and responsible delivery access and building marketed products with excellent durability. In addition, human capital and social capital factors are believed to be able to build accuracy and speed of business in providing services through the ease and access to the latest communications, building internal business expertise in providing detailed descriptions of products marketed to consumers, as well as building consumer convenience in finding, paying and keep track of every transaction they have made. Firms with a differential advantage offer products or services that offer more unique benefits to the market than competing businesses. Having a differential advantage means identifying a business's unique position in its market and explaining its unique benefits to its target market. A unique selling point can be some distinct product features, such as better quality, faster service, or other specific features that the product or service offers customers.

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