

Human capital readiness and global market orientation in Indonesian Micro-, Small- and-Medium-sized Enterprises business performance

Human capital
readiness

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Bambang Tjahjadi, Noorlailie Soewarno and Viviani Nadyaningrum
*Accounting, Faculty of Economic and Business, Airlangga University,
Surabaya, Indonesia, and*

Aisyah Aminy

Koperasi dan UKM, Pemerintah Provinsi Jawa Timur, Surabaya, Indonesia

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Abstract

Purpose – This study aims to investigate whether human capital readiness affects business performance, and if so, whether the effect is mediated by global market orientation.

Design/methodology/approach – This is a quantitative study employing partial least square structural equation modeling (PLS-SEM) to test the hypotheses. Using a survey method, the data were collected using both online and offline questionnaires. As many as 433 owners/managers of micro-, small- and-medium-sized enterprises (MSMEs) in the East Java Province of Indonesia participated in this study. A mediating research framework was developed to investigate the mediating role of global marketing orientation on the human capital readiness–business performance relationship.

Findings – The results show that human capital readiness has a direct and positive effect on business performance. Further analysis reveals that global market orientation partially mediates the effect of human capital readiness on business performance.

Research limitations/implications – First, this study focuses on the MSMEs in the East Java Province of Indonesia. Caution needs to be taken if the results are generalized to other regions. Second, it employed a survey method that is commonly criticized as having the potential to be biased.

Practical implications – The findings provide a more comprehensive understanding of owners/managers of human capital readiness and how it should be improved to better execute global market orientation strategies to achieve the desired business performance.

Social implications – Because MSMEs play a crucial role in society, this study provides a general model to improve the welfare of society by enhancing the MSMEs' business performance. By understanding its antecedents, namely, human capital readiness and the global market orientation, improvements can be made.

Originality/value – Human capital readiness has been rarely examined in previous studies. This is the only study applying the constructs of human capital readiness, global market orientation and business performance to the Indonesian MSME research setting.

Keywords Human capital readiness, Global market orientation, Business performance, Resource-based view, MSMEs

Paper type Research paper

1. Introduction

Business performance (BP) is important for every firm. BP is the result of a firm's effort to manage its internal resources. The contemporary business landscape drives firms to become increasingly active to improve their BP (Fareed *et al.*, 2016; Onkelinx *et al.*, 2016). BP is related to the business objectives, resource management and the ability to compete with external factors to achieve a competitive advantage (Pintea and Achim, 2010; Hejazi *et al.*, 2016; Masa'deh *et al.*, 2018). BP is, therefore, a critical indicator reflecting the financial and non-financial conditions of a firm.



A resource-based view (RBV) explains that the BP and the competitive advantage of a firm are determined by a firm's unique resources. The internal resources must be properly managed so then they become valuable, rare, inimitable and non-substitutable (Penrose, 1959; Wernerfelt, 1984; Barney, 1991; Peteraf, 1993; Kristandl and Bontis, 2007; Lonial and Carter, 2015; Kellermanns *et al.*, 2016; Chabowski and Mena, 2017). Human capital and strategy are two important resources for a firm to use to create a sustainable competitive advantage and to enhance their BP.

Human capital plays an important role in modern organizations, especially in the era of knowledge economy and globalization. Scholars have conducted studies regarding the impact of human capital on BP, and the results are still inconclusive. Some scholars have revealed that human capital has a positive effect on BP. A study by Sung and Choi (2014) in Korea revealed that employees' competencies have a positive effect on financial performance. Chahal *et al.* (2016) conducted a study in North India and showed that high-performance human capital practices have a positive and direct effect on BP. The study by Jogaratnam (2017) in the USA demonstrated that human capital has a positive and direct effect on firm performance. On the contrary, studies by other scholars have proven that human capital does not affect BP. Costa *et al.* (2014) conducted a study in the Portuguese Republic and proved that human capital does not directly affect the performance related to product innovations. A study by Scafarto *et al.* (2016) into the global agribusiness industry of various countries demonstrated that human capital does not directly influence firm performance. Cabrilo and Dahms (2018) in Serbia proved that human capital does not directly affect innovation performance. The study by Zhao and Thompson (2019) in the UK revealed that the small and medium-sized enterprises (SMEs) experiencing gains are more likely to make investments in managerial human capital. This research gap justifies that further studies are needed. For this reason, this study proposes a more specific construct, namely, human capital readiness (HCR), and introduces the mediating variable of global marketing orientation.

There is no doubt that investing in human capital is an absolute requirement for firms in the era of the knowledge economy (Cerrato and Piva, 2012; Hejazi *et al.*, 2016; Khalique *et al.*, 2018). Human capital contributes to the creation of economic value, which becomes the knowledge of an organization to create differential advantage to satisfy customer needs. The value of human capital greatly depends on its readiness. The knowledge-based assets or intangible assets, including human capital, are valued by their strategic readiness. Strategic readiness refers to the status of any intangible assets to support an organization's strategy. The fact that 70–90% of organizations fail to execute their strategies is due to the low level of HCR (Kaplan and Norton, 2004). Thus, HCR will guarantee the achievement of better BP.

Although HCR is an interesting and more specific concept, not many researchers have examined its impact on BP. Most scholars have investigated the effect of human capital on BP. Using 320 government employees, a study by Ali *et al.* (2019) conducted in Aceh Province in Indonesia revealed that strategic HCR partially mediates the effect of high-performance work systems on the performance of the government administration. Using the Geometrics Formula and Human Development Index (HDI) formula to show the readiness, the study by Herdarman *et al.* (2020) at a manufacturing firm in Indonesia revealed that the firm's human capital had not been fully ready to implement Industry 4.0. Vrchota *et al.* (2020) conducted a study on human capital and its preparedness for Industry 4.0 in the Czech Republic, and the results showed that the level of computer skills in the Czech Republic is increasing.

Indonesia still faces a big problem in terms of HCR. Indonesia ranked 111th out of 189 countries on the HDI in 2019 (Tempo.co, 2019). Based on the 2019 PISA (Programme for International Student Assessment) report, Indonesia's reading score was ranked 72 out of 77 countries, the mathematics score was ranked 72 out of 78 countries and the science scores were ranked 70 out of 78 countries (Kurnia, 2019). This means that HCR has become a strategic issue, and it must be the focus of improvement. It will be difficult for the Indonesian

firms, especially micro-, small- and medium-sized enterprises (MSMEs), to compete in the global market if the current human capital condition remains as it is.

The following are the reasons why this study has focused on HCR. First, this study argues that the higher the HCR, the more effective the strategy execution. As a result, the BP will be higher. Second, HCR has been rarely examined in the previous studies. These two reasons have become the novelty of this study.

This study focuses on MSMEs because they play an important role as the economic driver of most developing countries. They contribute to the economic growth and provide opportunities tied into the welfare of society (Javalgi and Todd, 2011; Agwu and Emeti, 2014; Shibia and Barako, 2017). In the East Java Province of Indonesia, MSMEs have also significant contributions as follows: (1) 55% of the gross regional domestic product (GRDP) and (2) 78% of the workforce absorption (Kominfo Jatim, 2018).

The Indonesian MSMEs absorb approximately 89% of the workforce (Kompas.com, 2019). There are many unprepared MSMEs in the East Java Province because of poor access to markets and a lack of reliable human resources (Hermanto *et al.*, 2016). Most MSMEs do not have a formal human resource system in terms of industrial management (Rahmadani, 2018). Problems in the MSMEs include limited working capital, the low capability of the human resources and a low mastery of technology, resulting in unclear business prospects (Fidela *et al.*, 2020). In short, low HCR in the MSMEs is among the national strategic issues. This study provides empirical evidence directed to the owners/managers and MSME stakeholders, indicating that HCR plays an important role in executing global market orientation (GMO) strategies while providing a solution for the purpose of BP enhancement. This justifies the importance of this study.

This study continues and develops the work of scholars who have investigated the effect human capital on BP. However, this study has some differences. First, this study prioritizes the construct of HCR and not merely human capital. Second, it employs the mediation research framework involving three constructs, namely, GMO, HCR and BP. This framework has never been studied before. Third, it employs different measurements, especially when measuring the construct of HCR. Lastly, this study has a different research setting, namely, the MSMEs in the East Java Province of Indonesia, which is different from the settings of the previous studies.

The rest of this paper is organized as follows: Section 2 explains the literature review and hypothesis development; Section 3 describes the research methodology; Section 4 elaborates on the results and discussion; and the last section presents the conclusions, contributions, limitations and suggestions for future research.

2. Literature review and hypothesis development

RBV states that organizations' internal resources are a tool for the purpose of creating a competitive advantage. These resources create optimal product market activities, develop more economical products and increase the satisfaction regarding the needs of the consumers (Wernerfelt, 1984; Peteraf, 1993). Different and inimitable excellent strategies that cannot be duplicated by competitors mean that firms have a sustainable competitive advantage (Barney, 1991; Newbert, 2008; Chabowski and Mena, 2017). To achieve a sustainable competitive advantage, a firm must create unique intangible resources compared to those of their competitors. Intangible resources are strategic assets that should meet the characteristics as required by the RBV, namely, that they are valuable, rare, inimitable and non-substitutable resources (Kristandl and Bontis, 2007; Fareed *et al.*, 2016; Jogaratnam, 2017).

A sustainable competitive advantage is reflected in BP. It refers to the ultimate goal of an organization, and it is used to improve future performance (Pintea and Achim, 2010; Lee *et al.*, 2015; Masa'deh *et al.*, 2018). Scholars have proven that BP is obtained from the utilization of organizational resources (Lonial and Carter, 2015; Jogaratnam, 2017). The studies by Sung

and Choi (2014) and Chahal *et al.* (2016) revealed that BP is closely related to how individual capabilities contribute to organizations. Improving and aligning intangible assets will lead to improved performance processes and drive forward the success of the organization.

Resource-based view (RBV) states that knowledge is among a firm's strategic intangible assets that should have unique characteristics. Knowledge is recognized as the main resource that plays an important role in business success (Nonaka and Takeuchi, 1995; Darroch, 2005; Dayan *et al.*, 2017). Knowledge management is the formal process of determining what internally held information can be used to benefit a company and ensuring that this information is easily made available to those who need it (Roy, 2002; Harlow, 2008; Muthuveloo *et al.*, 2017). Knowledge management manages and combines information and human capital to create economic value (Omotayo, 2015; Kianto *et al.*, 2016; Dayan *et al.*, 2017). Therefore, knowledge management helps firms to create different knowledge as a basis for providing products that are superior to those of their competitors.

Knowledge closely relates to human capital as the resource that is inherent in every member of an organization. Employee knowledge and skill create economic value (Schultz, 1961; Marvel *et al.*, 2016). Human capital is valued by its readiness to execute an organizational strategy. HCR must be built, managed and utilized, so then it can be converted into cash through higher sales and lower expenses. HCR drives the success of internal business processes, and as a result, it enhances firm's performance. Thus, the higher the level of readiness, the faster the intangible assets contribute to generating cash.

Human capital consists of the knowledge, skills and values that can be used to achieve a competitive advantage. Several studies by scholars have proven that human capital plays an important role in achieving good BP in SMEs. A study by Inmyxai and Takahashi (2010) in Laos revealed that human capital, including entrepreneurship education, entrepreneurship training and work experience, has a strong impact on the SMEs' performance. Onkelinx *et al.* (2016) conducted a study in Belgian manufacturing SMEs, and the results proved that investing in the employees – the human capital – will lead to increased productivity the following year. Another study by Khaliq *et al.* (2018) on the SME sector of electrical and electronics manufacturing in Malaysia demonstrated that human capital is an important component of intellectual capital, and that it is related to organizational performance. As stated by Kaplan and Norton (2004), Ali *et al.* (2019), Hendarman *et al.* (2020) and Vrchota *et al.* (2020), HCR is important in the achievement of targeted BP. HCR accelerates the conversion of intangible assets into BP. The higher the level of HCR, the higher the firm's performance. Based on the previous arguments, the first hypothesis is proposed:

H1. HCR positively affects BP.

Intangible assets are the strategic assets used in the success of international expansion (Camisón and Villar-López, 2010). Human capital plays a fundamental role in a firm's internationalization strategy (Cerrato and Piva, 2012). Robson *et al.* (2012) also stated that the human capital profiles of entrepreneurs are significantly linked to their exporting intensity. Human capital transforms market information into a firm's strategic assets when conducting business in the global market. Market orientation refers to the dissemination of information within organizations to respond to consumer needs and to identify competitor activities (Kohli and Jaworski, 1990; Kumar *et al.*, 2011; Lee *et al.*, 2015; Mahmoud *et al.*, 2016). Narver and Slater (1990) stated that market orientation is the most effective and efficient organizational culture for creating superior value for buyers, which impacts on superior BP (Mahmoud *et al.*, 2016; Chabowski and Mena, 2017). The source of the competitive advantage from market orientation is the focus of the organization in terms of identifying and developing differential value for customers (Martin *et al.*, 2009). GMO refers to the orientation and actions of firms to create superior value when marketing their products in the global markets (He and Wei, 2011; Alotaibi and Zhang, 2017; Nakos *et al.*, 2019). Firms that have a

GMO will have a better understanding of their consumer needs, competitor capabilities and other external forces (Knight and Kim, 2009; He and Wei, 2011; Nakos *et al.*, 2019).

Previous studies have proven that human capital is an important factor for companies to use to compete in the global market. A study by Javalgi and Todd (2011) revealed that human capital has a positive effect on the level of internationalization in the SMEs in India. Another study by Cerrato and Piva (2012) on manufacturing SMEs in Italy proved that human capital has a positive and significant effect on internationalization. Suseno and Pinnington (2018) conducted a case study and revealed that technical knowledge and market knowledge play an important role in the firms that have a GMO. Furthermore, Dar and Mishra (2019) demonstrated that education, knowledge, experience and skills are the main dimensions of human capital that are proven to be valid and reliable at measuring the effect of human capital on the internationalization of SMEs in India. Studies by other scholars confirm that HCR plays a critical role in enhancing performance (Ali *et al.*, 2019; Hendarman *et al.*, 2020; Vrchota *et al.* (2020). In summary, the readiness of the human capital is imperative for the success of the GMO. The higher the level of HCR, the more effective the strategy execution, including the GMO strategy. Based on the previous arguments, the second hypothesis is proposed:

H2. HCR positively affects GMO.

Today, the business world is characterized by global competition. The era of globalization encourages all firms, including MSMEs, to look for opportunities in the global market (Ghouse, 2017; Sadeghi and Biancone, 2018; Ruiz-Coupeau *et al.*, 2019). GMO is a firm's action to create a competitive advantage when marketing their products to global markets (He and Wei, 2011; Alotaibi and Zhang, 2017; Nakos *et al.*, 2019). Unfortunately, it is not easy for a firm to compete in the global market because it has to face several international barriers such as business policies (Bell *et al.*, 2004), technology (Simmons *et al.*, 2008), language (Sui *et al.*, 2015), international entrepreneurial culture (Dimitratos *et al.*, 2012) and human capital (Cerrato and Piva, 2012; Dar and Mishra, 2019). GMO creates a huge opportunity for all firms, including MSMEs, to improve their BP.

GMO is one of the critical customer management processes that leads to better customer performance and financial performance. A study by Kumar *et al.* (2011) revealed that firms implementing a market orientation strategy have a greater chance of gaining sustainable BP, such as a higher level of sales and profits. Market orientation is also directly and positively related to the profitability of SMEs in the USA (Baker and Sinkula, 2009). Profitability as the ultimate goal of a firm is the result of a successful market orientation strategy (Narver and Slater, 1990; Lee *et al.*, 2015).

SMEs are encouraged to implement an internationalization strategy to expand their markets (Felzensztein *et al.*, 2015). A study by Knight and Kim (2009) on US SMEs confirmed that international orientation, international marketing skills, international innovativeness and an international market orientation are important dimensions of the international business competence. They play a crucial role in international performance. Another study by Chabowski and Mena (2017) revealed that market orientation is implemented to better compete globally and to enhance their level of BP. Export market orientation has a positive effect on financial export performance and strategic export performance in the exporting manufacturing firms in Ethiopia (Birru *et al.*, 2018). Nakos *et al.* (2019) conducted a study on the SMEs of the UAE, and the results showed that international market orientation has a positive effect on international performance. In summary, GMO leads to better BP. The more effective the GMO, the higher the firm's BP. Based on the previous arguments, the third hypothesis is proposed:

H3. GMO positively affects BP.

Scholars have confirmed that human capital is a strategic resource used in improving BP (Hejazi *et al.*, 2016). The higher the HCR, the more effective the strategy execution and the

better the BP. Firms will generate tangible outcomes faster by managing their HCR. Unfortunately, firms should start early when developing human capital because it is a lifelong journey influenced by parental cultural capital (Jayawarna *et al.*, 2014).

A good market orientation strategy is needed by firms in the era of globalization. Human capital management is positively associated with financial performance and labor productivity in SMEs (Lai *et al.*, 2017). The use of human resource practices also positively enhances a sustainable competitive advantage (Sheehan, 2014). Although applying a particular market orientation requires resources, it generates benefits greater than its costs or it generates an increased overall income (Kirca *et al.*, 2005). A study by Kirca *et al.* (2005) showed that market orientation is positively related to customer consequences, including perceived quality, customer loyalty and customer satisfaction. In their study, Amin *et al.* (2016) proved that market orientation partially mediates the effect of entrepreneurial orientation on the SMEs' performance among the food and beverage manufacturers in Malaysia. In summary, the success of the GMO strategy depends on the firm's HCR. The success of the GMO will enhance the BP. Based on the previous arguments, the fourth hypothesis is proposed:

H4. GMO mediates the effect of HCR on BP.

Based on the previous discussions in the hypotheses development, a conceptual model was developed, as presented in Figure 1. The mediation research model focuses on the mediating role of GMO on the HCR–BP relationship.

3. Research methodology

3.1 Sample and data collection

The exact population of MSMEs in the East Java Province is unknown. Therefore, the sample of this study was purposively derived from the data available in the Cooperatives and SMEs Office of the East Java Province, with a total number of 1,004 MSMEs. The primary data were collected using online and offline questionnaires. Before being distributed, the questionnaires were tested on 30 MSMEs in the city of Surabaya, East Java, Indonesia. The values for the correlation and Cronbach's alpha confirmed that all measurements were valid and reliable. Furthermore, the online questionnaires were sent to the owners/managers of the MSMEs via email accompanied by a cover letter explaining the research objective. The questionnaires were also directly distributed to the respondents during their product exhibitions in Surabaya. The researchers also visited 15 cities in East Java where some of the MSMEs were located. The cross-sectional data were collected over a period of five months. As many as 433 respondents participated and completed the questionnaires. The response rate was 43%.

Table 1 shows the result of the non-response bias test. The first cutoff period lasted four months since the field survey began, and as many as 389 respondents participated. In the fifth

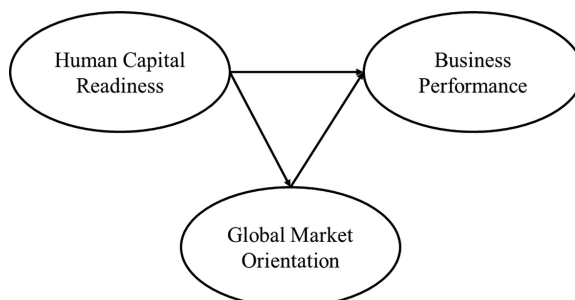


Figure 1.
Conceptual model

Variable	Cutoff	N	Mean	Levene's test		Assumption	t	t-test Significance (two-tailed)	Conclusion
				F	Significance				
HCR	Before	389	4.1116	0.895	0.345	Equal variances	0.15	0.988	Not statistically different
	After	44	4.1101						
GMO	Before	389	4.3033	0.272	0.602	Equal variances	-1.665	0.097	Not statistically different
	After	44	4.4602						
BP	Before	389	4.1715	1.202	0.273	Equal variances	-1.328	0.185	Not statistically different
	After	44	4.2922						

Note(s):
1. HCR, Levene's test significance 0.345 > 0.05, ttest 0.988 > 0.05
2. GMO, Levene's test significance 0.605 > 0.05, t-test 0.097 > 0.05
3. BP, Levene's test significance 0.345 > 0.05, ttest 0.988 > 0.05

Table 1.
Non-response bias test

month (after the cutoff period), additional 44 questionnaires (late response) were obtained. Thus, in total, 433 questionnaires were obtained from the respondents. The non-response bias test was conducted using Levene's test and an independent *t*-test. The results showed that there were no significant differences in the variance and mean either before or after cutoff.

3.2 Definitions and measurements

HCR in this study is operationally defined as the respondents' perception of the competency and readiness of their employees to carry out the business processes as part of the success of the strategy execution. Referring to [Kaplan and Norton \(2004\)](#), HCR has three dimensions, namely, (1) knowledge, (2) skills and (3) values. A total of seven points have been developed to measure the construct of HCR as follows:

- (1) employees' knowledge readiness to carry out operational activities properly;
- (2) employees' knowledge readiness in relation to customer needs;
- (3) employees' knowledge readiness on quality at an affordable price;
- (4) employees' skills readiness when processing the current line of business;
- (5) employees' skills readiness when providing a consultation, suggestions and responses to customers;
- (6) employees' values or attitude towards readiness in relation to the business strategies, politeness and quick responses; and
- (7) employees' values or attitude readiness toward good teamwork to achieve a common goal.

A five-point Likert scale was used stating that 1 is for "strongly disagree," 2 is for "disagree," 3 is for "neutral," 4 is for "agree" and 5 is for "strongly agree."

GMO in this study is operationally defined as the respondents' perception of the abilities of its employees to provide for the consumer needs, to respond to their competitors' activities and to coordinate market information within the organization in the context of the global market. Following [Nakos et al. \(2019\)](#) who also refer to [Narver and Slater \(1990\)](#) and [Frösén et al. \(2016\)](#), GMO has three dimensions, namely, (1) consumer orientation, (2) competitor orientation and (3) inter-functional coordination. A total of seven indicators were used to measure the construct of GMO as follows:

- (1) Our business development is always based on global customer needs.
- (2) We always pay attention to international customer satisfaction with the products purchased.
- (3) We have a customer service department that routinely answers questions and responds to global customer complaints.
- (4) We do not ignore suggestions and information from both national and international customers.
- (5) We respond quickly if our global competitors engage in new activities, such as if our competitors offer new products to their customers.
- (6) We collectively discuss any new information obtained, such as new information about global customer needs.
- (7) We contribute to each other to provide the best service for our global customers.

A five-point Likert scale was used, stating that 1 is for “strongly disagree,” 2 is for “disagree,” 3 is for “neutral,” 4 is for “agree” and 5 is for “strongly agree.”

BP in this study is operationally defined as the respondents’ perception of the results related to managing the company resources, as reflected in the financial and non-financial performance over the recent three-year period. BP has four dimensions, namely, financial performance, customer performance, internal process performance and learning and growth performance as stated by [Kaplan and Norton \(2004\)](#). A total of 12 points are used to measure the construct of BP as follows:

In the past three years:

- (1) Sales have tended to increase.
- (2) We have succeeded at cost efficiency.
- (3) Profits have tended to increase.
- (4) We have been able to sell quality products at affordable prices and deliver them on time.
- (5) Customer complaints have tended to decrease.
- (6) We have succeeded at building an image and reputation, so then we have loyal customers.
- (7) We have succeeded at improving the quality of our products and services.
- (8) We have succeeded at getting new customers and retaining existing customers.
- (9) We have succeeded at innovating our products and services.
- (10) The expertise of our employees has tended to improve.
- (11) Our ability to process information using computers has tended to increase.
- (12) The cooperation among our employees (teamwork) has tended to be better.

A five-point Likert scale was used, stating that 1 is for “strongly disagree,” 2 is for “disagree,” 3 is for “neutral,” 4 is for “agree” and 5 is for “strongly agree.”

3.3 Analysis

The partial least square structural equation modeling (PLS-SEM) approach was employed to test the hypotheses for the following reasons. First, it can simultaneously test both direct and indirect effects. Second, it is able to handle relatively small sample sizes and multicollinearity among the independent variables ([Chin, 1998](#); [Nitzl, 2016](#)). Lastly, it does not require a normal distributional assumption ([Chin and Newsted, 1999](#)). WarpPLS version 5.0 software was chosen to process the data obtained. Both the measurement and structural model were simultaneously examined in this study. The relationship between the indicators and the latent variables was assessed using the measurement model. The measurement model assessed the reliability and validity of the indicators relating to a specific construct. Furthermore, the structural model assessed the effect of one construct on another construct.

4. Results and discussion

4.1 Statistical results

4.1.1 *Characteristics of the respondents.* [Table 2](#) presents the characteristics of the respondents dominated by the owners/managers of MSMEs in the fields of manufacturing (54%) and trading (40%). Based on the annual sales, the respondents are dominated by micro-

Table 2.
Characteristics of the
respondents

Classification data	Sub-classification	Frequency	
		Absolute	%
Type of business	Trading	173	40%
	Services	26	6%
	Manufacturing	234	54%
	Total	433	100%
Annual sales	≤ IDR 300 M (micro)	316	73%
	>IDR300m–IDR2,500m (small)	95	22%
	>IDR2,500m–IDR50,000m (medium)	22	5%
	Total	433	100%
Number of employees	<5	238	55%
	5–10	113	26%
	11–15	30	7%
	>15	52	12%
	Total	433	100%

sized enterprises (73%) and small-sized enterprises (22%). Furthermore, based on the number of employees, as many as 55% of the respondents have less than five employees, and 26% of the respondents have between five and ten employees.

4.1.2 Descriptive statistics. In this study, descriptive statistics were used to examine the general description of the respondents' answers. Before conducting the descriptive statistics analysis, the class interval was calculated to categorize the respondents' answers as follows:

$$\text{Class Intervals} = \frac{(\text{Highest Class} - \text{Lowest Class})}{\text{Number of Classes}}$$

$$\text{Class Intervals} = \frac{(5 - 1)}{5} = 0.8$$

Table 3 presents the categories used for the respondents' answers involving the class interval of 0.8. The descriptive statistics consist of the minimum value, maximum value, mean and SD, as presented in Table 4. Based on the mean value of each construct, most of the respondents agreed with the statements in the questionnaires. The results show a mean value of 4.147, meaning that the respondents agreed with the questionnaire items on HCR. The mean value of 4.183 indicates that the respondents agreed with the questionnaire items on BP. The mean

Table 3.
Respondents' answer
categories

Interval	Category
$1.00 < \alpha < 1.8$	Strongly disagree
$1.8 < \alpha < 2.6$	Disagree
$2.6 < \alpha < 3.4$	Neutral
$3.4 < \alpha < 4.2$	Agree
$4.2 < \alpha < 5$	Strongly agree

Table 4.
Descriptive statistics

Variable	Minimum value	Maximum value	Mean	SD	Category
HCR	4.05	4.28	4.111	0.09	Agree
BP	3.99	4.29	4.183	0.104	Agree
GMO	4.21	4.48	4.319	0.113	Strongly agree

value of 4.319 also indicates that the respondents strongly agreed with the questionnaire items on GMO.

4.1.3 Measurement model analysis. Measurement model analysis was used to evaluate the relationship between the measurement indicators and the constructs by conducting reliability and validity tests. All of the loading factors must be above 0.7 (Hair *et al.*, 2013). In the first iteration, all loading factors of HCR met the criteria of being more than 0.7. However, not all of the loading factors of BP met the criteria of being more than 0.7. The loading factors of BP 1 (the tendency of sales to increase), BP 3 (the tendency of profit to increase), BP 4 (the ability to sell quality products at affordable prices and to deliver on time), BP 5 (the tendency of consumer complaints to decline) and BP 11 (a tendency to increase the ability to process information using a computer) were 0.700, 0.688, 0.639, 0.386 and 0.694, respectively. Furthermore, not all of the loading factors of GMO met the criteria of being more than 0.7. The loading factors of GMO 1 (business development that is always based on consumer needs), GMO 3 (presence of customer service that routinely answers questions and responds to consumer complaints), GMO 5 (quick response if their competitors engage in new activities) were 0.606, 0.698 and 0.659, respectively. The invalid measurement items with a loading factor of less than 0.7 were deleted and not used to conduct the further data analysis.

Table 5 presents the result of the data analysis after the second iteration. All measurements in this study were significant, and the loading factors met the criteria of above 0.7. This result proved that 70% of the variance underlies the latent variables. Composite reliability was used to test reliability. The composite reliability value must be > 0.7 (Hair *et al.*, 2013). The results of the composite reliability of each construct in this study were all above 0.7, so they met the criteria, and the measurements were found to be reliable. Convergent validity was measured using the average variance extracted (AVE). The AVE

Latent variable	Loading	<i>p</i> -values
HCR (composite reliability = 0.931 ^(r) ; AVE = 0.660 ^(cv))		
HCR 1	0.805	<0.001
HCR 2	0.857	<0.001
HCR 3	0.818	<0.001
HCR 4	0.754	<0.001
HCR 5	0.796	<0.001
HCR 6	0.848	<0.001
HCR 7	0.804	<0.001
BP (composite reliability = 0.930 ^(r) ; AVE = 0.657 ^(cv))		
BP 2	0.709	<0.001
BP 6	0.861	<0.001
BP 7	0.801	<0.001
BP 8	0.854	<0.001
BP 9	0.793	<0.001
BP 10	0.868	<0.001
BP 12	0.777	<0.001
GMO (composite reliability = 0.907 ^(r) ; AVE = 0.710 ^(cv))		
GMO 2	0.850	<0.001
GMO 4	0.789	<0.001
GMO 6	0.868	<0.001
GMO 7	0.860	<0.001

Note(s):

1) ^(r)CR of 0.70 or more: sufficient reliability

2) ^(cv)AVE of 0.50 or more: convergent validity

Table 5.
Results of the
reliability and
convergent validity

value must be > 0.5 , indicating that the variance obtained from the construct exceeds the measurement error (Vandenbosch, 1996). The AVE values of the constructs of this study were above 0.5. The AVE values of HCR, BP and GMO were 0.660, 0.657 and 0.710, respectively. Thus, the values met the required value of the convergent validity.

Table 6 presents the results of the discriminant validity test. The discriminant validity test was to ensure that the construct used to measure the causal relationships does not measure the same thing, which can lead to multicollinearity problems. To test the discriminant validity, the square root of AVE was compared to the correlations between the latent variables. The AVE square root is valid if the AVE square root of the construct is greater than the correlation between the constructs (Fornell and Larcker, 1981). The value of HCR was 0.812, showing the highest value when compared to the value of the other variables horizontally. The value of BP was 0.811, showing the highest value when compared to the value of the other variables horizontally. The value of GMO was 0.842, showing the highest value when compared to the value of the other variables horizontally. In conclusion, the measurement model of this study is both valid and reliable.

4.1.4 Structural model analysis. Structural model analysis was used to test hypotheses studied. This study was undertaken to investigate the direct effect of HCR on BP. If it does, we also seek to determine whether the relationship is mediated by GMO. When employing the structural model analysis, this study followed the steps of Baron and Kenny (1986), namely, (1) to examine the direct effect of HCR on BP and (2) to test GMO as the mediating variable in relation to the effect of HCR on BP. Table 7 presents the results of the structural model analysis.

Table 7 (Panel A) shows that HCR has a positive effect on BP (β coefficient: 0.28; p -value < 0.01). Thus, the first hypothesis stating that HCR affects BP is supported. Further analysis was conducted by introducing GMO as a mediating variable (Panel B). The results show that HCR affects GMO (β coefficient: 0.46; p -value < 0.01), so the second hypothesis is supported. GMO affects BP (β coefficient: 0.50; p -value < 0.01), so the third hypothesis is

Table 6.
Results of the
discriminant validity

	HCR	BP	GMO
HCR	0.812 ^(dv)		
BP	0.463***	0.811 ^(dv)	
GMO	0.395***	0.589***	0.842 ^(dv)

Note(s): *** $p < 0.01$

Table 7.
Results of the direct
and indirect effects

Hypotheses	Path coefficient	Decision
<i>Panel A. Direct effect</i>		
1. HCR > BP	0.28***	Supported
2. HCR > GMO	0.46***	Supported
3. GMO > BP	0.50***	Supported
Hypotheses	VAF	p -values
<i>Panel B. Indirect effect</i>		
HCR > GMO > BP	67.6%	< 0.001 ***

Note(s):
1) *** $p < 0.01$; * $p < 0.1$
2) ^ VAF value is between 20 and 80%

supported. The effect of HCR on BP after being mediated by GMO remained significant (β coefficient: 0.22; p -value < 0.01). The decrease of the β coefficient from 0.28 to 0.22 was a sign of the existence of a partial mediation. Therefore, the fourth hypothesis stating that GMO mediates the effect of HCR on BP is supported. In conclusion, HCR affects BP, and GMO partially mediates the effect of HCR on BP.

To determine the level of the mediation of GMO on the effect of HCR on BP, variance accounted for (VAF) was employed (Hair *et al.*, 2013). A VAF value of less than 20% indicates no mediation effect, a VAF value of 20–80% indicates partial mediation and a VAF value of more than 80% indicates full mediation. The value of the VAF was calculated using the following formula:

$$\text{VAF} = \frac{\text{Indirect Effect}}{(\text{Indirect Effect} + \text{Direct Effect})}$$

$$\text{VAF} = \frac{0.46 \times 0.50}{((0.46 \times 0.50) + 0.48)}$$

$$\text{VAF} = \frac{0.48}{0.71} = 0.676$$

The results show a VAF value of 0.676 or 67.6%. This confirms that GMO partially mediates the effect of HCR on BP. Figure 2 shows the outputs of the inner and outer model.

4.2 Discussion of the results

4.2.1 *Effect of human capital readiness on business performance.* The first hypothesis stating that HCR affects BP is supported in this study. The results provide empirical evidence for the RBV stating that internal resources that are valuable, rare, inimitable and non-substitutable make a company have a sustainable competitive advantage. As previously discussed, there are still gaps in the previous studies on the effect of human capital on BP. By using HCR as a construct, the results of this study provide strong support for the previous studies in terms of the effect of human capital on BP as conducted by Sung and Choi (2014), Khalique *et al.* (2018) and Fareed *et al.* (2016). The results of this study prove that the higher the level of HCR, the

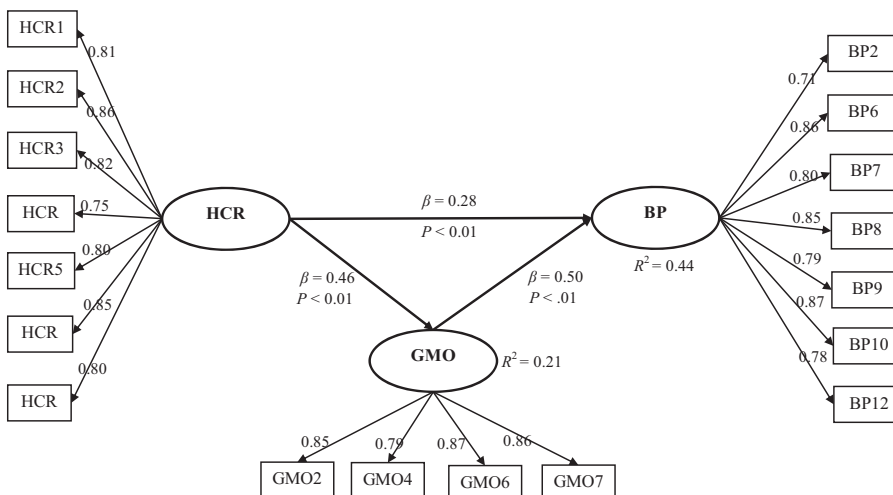


Figure 2. Inner and outer model outputs

higher the BP. This finding is in line with the studies by [Kaplan and Norton \(2004\)](#), [Ali et al. \(2019\)](#), [Hendarman et al. \(2020\)](#) and [Vrchota et al. \(2020\)](#) that prioritize the role of HCR.

The owners/managers of MSMEs need to pay special attention to the HCR issue, especially the need to invest in their employees' knowledge, skills and values. The competitive advantage is not determined by the number of employees but on the readiness of the employees to effectively execute any strategies necessary. The government, companies, universities and other stakeholders of the MSMEs in the East Java region should collaborate to create synergy and to have the same vision when it comes to enhancing the HCR of the MSMEs to enhance their BP.

When the MSMEs are encouraged to compete in the global market in the era of the knowledge economy, HCR will play a more important role. Knowledge can be used to create distinct advantages and HCR as an intangible resource that should be quickly converted into either cash or other tangible outcomes. The owners/managers of MSMEs need to build their HCR to ensure that their competencies have met the global standards, so then they are capable of competing with other global players. The higher the level of readiness, the higher the opportunity to achieve high BP.

4.2.2 Effect of human capital readiness on global market orientation. The second hypothesis stating that HCR affects GMO is also supported. The results confirm that the higher the HCR, the higher the capability of the MSMEs to have a GMO. The role of HCR as an important factor in the success of GMO is proven. This finding supports that of [Kaplan and Norton \(2004\)](#) stating that HCR is the strategic foundation used for more effective strategy execution. Here, the employees' abilities can be used to meet the customer needs. In the context of GMO, this finding supports [Cerrato and Piva \(2012\)](#), stating that management competencies and human capital skills will increase the opportunities available when developing an international market. It also supports the study by [Onkelinx et al. \(2016\)](#) revealing that investing in human capital will produce higher levels of productivity and increase the reach and scale of the internationalization of SMEs. Furthermore, it supports the study by [Baier-Fuentes et al. \(2018\)](#), showing that Chilean entrepreneurs rely more on either formal education or experience to rapidly internationalize their firms. In the context of the MSMEs in the East Java Province, the owners/managers and their stakeholders should prepare their HCR to meet the needs of the international community by focusing on international customer satisfaction, on suggestions from both national and international customers, on new information about global customer needs and on the best service for global customers.

4.2.3 Effects of global market orientation on business performance. The third hypothesis stating that GMO affects BP is also supported. This study proves that the more the MSMEs increase their GMO, the higher their BP will be. This result supports the previous studies proving the effect of GMO on BP ([Alotaibi and Zhang, 2017](#); [Nakos et al., 2019](#)), market orientation strategies on firm performance in international target markets ([Gruber-Muecke and Hofer, 2015](#)), market orientation on competitive advantage in global markets ([Chabowski and Mena, 2017](#)), market orientation strategy on BP in the short and long term ([Kumar et al., 2011](#)), market orientation on the differentiation strategy and cost leadership strategy and then on financial and non-financial performance ([Lee et al., 2015](#)). Based on the results of this study, the owners/managers of MSMEs should be oriented to the global market to improve their BP. They should be encouraged to implement GMO strategies to enhance their BP. The owners/managers agreed that GMO will improve their BP in terms of cost efficiency, image and reputation, the quality of the products and services offered, new customer attraction and existing customer retention, innovation in terms of products and services, employee competency and teamwork.

4.2.4 Mediating effect of global market orientation on the human capital readiness–business performance relationship. The fourth hypothesis stating that GMO mediates the effect of HCR on BP is also supported. HCR and GMO are proven to be the antecedents of BP. HCR is the

foundation of an effective strategy execution, specifically when executing internal business processes. The higher the level of the HCR, the more effective and efficient the execution of the business processes, including any global marketing processes, will be. Furthermore, the excellent execution of a market orientation strategy will drive the BP higher, as proven by Kirca *et al.* (2005) and Amin *et al.* (2016).

The findings of this study bridge the gap in the results of the previous studies that are inconsistent regarding how human capital influences BP. Previous studies by scholars (Sung and Choi, 2014; Chahal *et al.*, 2016; Jogaratnam, 2017) provided empirical evidence that human capital has a positive effect on BP. Meanwhile, other scholars (Costa *et al.*, 2014; Scafarto *et al.*, 2016; Cabrilo and Dahms, 2018) proved that human capital does not affect BP. By introducing GMO as a mediating variable, this study confirms that it has a mediating role in the HCR–BP relationship. In the context of the MSMEs in the East Java Province, the owners/managers of the MSMEs should be encouraged to develop their employees' competencies, so then they are ready to enter the global market. The higher the level of the HCR, the more the MSMEs will increasingly enhance their global market success. The more the MSMEs enhance their global market success, the higher their BP will be.

5. Conclusion, contributions, limitations and future research

This study aims to investigate the antecedents of BP. Specifically, it examines the effect of HCR on BP, and whether GMO mediates the HCR–BP relationship. Using a sample of 433 MSMEs from the East Java Province of Indonesia and by employing PLS-SEM, this study proves that HCR affects BP. Further analysis also demonstrates that GMO partially mediates the HCR–BP relationship. Although this study has differences compared to the previous studies by Sung and Choi (2014), Chahal *et al.* (2016) and Jogaratnam (2017), the results of this study strengthen and confirm their work. The results of this study also confirm the works of Kaplan and Norton (2004), Ali *et al.* (2019), Hendarman *et al.* (2020) and Vrchota *et al.* (2020) by describing that the higher the level of HCR, the more effective the strategy execution will be, and as a result, the higher the firm's performance. The understanding of this relationship is important for both the theoretical development and practical implications.

5.1 Contribution to theory

Theoretically, this study provides important empirical evidence for the literature development on RBV, human capital development and marketing. The introduction of HCR as a construct in this study provides a more specific explanation to better understand the effect of human capital on BP. Furthermore, all hypotheses are supported, showing that in the era of globalization, HCR does not optimally produce good BP without having a GMO strategy in place.

5.2 Contribution to practice

This study provides a more comprehensive understanding of the mechanism related to how to enhance the BP of MSMEs in the East Java Province by enhancing HCR and by orienting to the global market. The RBV states that a competitive advantage is achieved by managing the internal resources, including HCR and GMO strategy. Practically, the results of this study suggest that the MSMEs need to carry out strategic initiatives to improve the level of HCR to effectively support the GMO strategy execution. Strategic training courses that need to be carried out include international marketing, the development of marketing information, customer service, website design, social media utilization, joint exhibitions, import–export procedures and the development of international business networks. The MSMEs are also suggested to increase their cooperation with education and training, with the government and with financial institutions to get a better access to training and funding facilities.

5.3 Contribution to society

Because MSMEs are important for the Indonesian economy and the welfare of society, it is crucial for society to support the MSMEs when it comes to improving their BP by effectively, efficiently and innovatively utilizing their internal resources, especially HCR and global marketing abilities. This research framework provides a simple model that allows all parties to understand the antecedents of the MSMEs' BP. The success of BP depends on the results of GMO. GMO depends on the HCR.

5.4 Limitations and future research

There are several limitations in this study. First, it focuses on the MSMEs in the East Java Province of Indonesia. Therefore, caution needs to be taken if the results are generalized to other regions. Second, this study employed a survey method that is commonly criticized as being biased. Third, it also uses PLS-SEM to prove the hypotheses, which can be challenged by some scholars. They prefer the use of the experimental approach to investigate the cause-effect relationship. Lastly, this study only used three variables in a simple research model for clarity, which will be challenged by some scholars who prefer a more complex model. Future studies should test the same model for either MSMEs or big companies in other regions or countries to examine its validity. Future studies are encouraged to employ other research approaches such as the experimental approach. A more complex research model can be built for use in future research by adding other relevant variables such as information capital readiness and online market orientation. Notwithstanding the limitations, this study provides strategic information for the purpose of enhancing the MSMEs' BP in the knowledge economy era, and that of globalization by introducing its antecedents, namely, HCR and GMO.

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About the authors

Bambang Tjahjadi is a Professor at the Faculty of Economics and Business, Universitas Airlangga, for more than 30 years. His research explores the factors affecting organizational performance. He is particularly interested in diverse strategic management issues influencing firm value and performance. His work has appeared in the *European Research Studies Journal*, *Asian Journal of Business and Accounting* and *International Business Management*. Bambang Tjahjadi is the corresponding author and can be contacted at: bambang.tjahjadi@feb.unair.ac.id

Noorlailie Soewarno is an Accounting Lecturer and Researcher at the Faculty of Economics and Business, Universitas Airlangga, for more than 20 years. She is particularly interested in management accounting research.

Viviani Nadyaningrum is a Research Assistant at the Faculty of Economics and Business, Universitas Airlangga. Her research interests are around human capital, strategy, sustainability and performance.

Aisyah Aminy is a Statistician at the Department of Cooperatives and SMEs East Java province. Her works involve analysis, program development and coaching for cooperatives and SMEs in East Java province.

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