THE ANALYSIS OF HUMAN CAPITAL BUILDING AND FINANCIAL ASSISTANCE ON SMALL MEDIUM ENTERPRISES DEVELOPMENT IN MANADO AND TOMOHON

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ABSTRACT

In ASEAN, Indonesia as one of the developing countries that is continuously preparing themselves in order to compete with other countries in the case of ASEAN single market. Small Medium Enterprise is the best solution to facing the ASEAN Single Market and also to face unemployment as a one of Indonesia's problem. Small and medium enterprises play an important role for Indonesia economy development and also generating employment. The development of small and medium enterprises in urban areas is needed. Beside the vital role of SMEs to contributing significantly to economic growth and job creation SMEs are facing more challenges to operations and to grow from factors both inside and outside: the lack of access to external financing, and need human capital building. The objective of this research is to analyze human capital building and finance assistance to development of small and medium enterprise in Manado and Tomohon. The research type is quantitative research that associative with multiple linear regression analysis technique. There are 100 participant of SMEs are participated in this research. The result of this research shows that there is significant simultaneous and partial influence of Human Capital Building and Financial Assistance on small medium enterprises development in Manado and Tomohon. Regarding on the result to enhance the development of SMEs in Manado and Tomohon these proponents should be considered intensively.

Keywords: Financial Assistance, Human Capital Bilding, Micro and Small Enterprises

INTRODUCTION

In ASEAN, Indonesia as one of the developing countries that is continuously preparing themselves in order to compete with other countries in the case of ASEAN single market. Small Medium Enterprise is the best solution to facing the ASEAN Single Market and also to face unemployment as a one of Indonesia's problem. The important role of SMEs sector in generating growth, creating jobs and reducing poverty, especially in developing countries is widely acknowledged (Ogot, 2012). Small and medium enterprises play an important role for Indonesia economy development and also generating employment. Small Medium Enterprise (SMEs) are generally regarded as the engine of economic growth and equitable in developing economics (Agwu, 2014). The amount of labors involved in SMEs sector reach approximately 98% of all Indonesian workers.

Contribution of SMEs to the national GDP is also very significant, because the SMEs sector contributes for around 57% of total GDP in Indonesia.

A country can be prosperous if any entrepreneur has at least 2% of the population, while Indonesia is only having 0.18% of the population, or 400,000's of people who become entrepreneurs. So our country is still far short of the prosperity. Small and medium enterprises (SMEs) have been existed and major in establishments and contribution in global economy. Akande and Ojokuku (2008) stated that SMEs have greatly contributed in the creation of jobs, innovation and to economic growths which has been given a global acknowledgement and recognition.

The development of small and medium enterprises in urban areas is needed. SMEs play a big role in local economic performance. SMEs can be established in any locality for any kind of business activity in urban or rural area (Khalique, 2011). SMEs can be found in all provinces in Indonesia. According to Small-Medium Enterprise institute in North Sulawesi, there are 22.198 small enterprises and 2.826 medium enterprises in North Sulawesi. There are a lot of SMEs in Manado and Tomohon, which are New Segar (Roti Kering), Sinar Karya Stainless Steel (membuat pagar besi), and Pundi Emas (product kopi bubuk) and Badan Usaha Empat Saudara (produksi garam halus). Those SMEs are contributed to development of local and national economy and generate job employment. Beside the vital role of SMEs to contributing significantly to economic growth and job creation (Rebecca & Benjamin, 2009), SMEs are facing more challenges around the world in general and in developing local and national in particular. SMEs face challenges to operations and to grow from factors both inside and outside: the lack of access to external financing, and need human capital building.

According Snell and Lau (1994) found that small organization failed to develop skills, knowledge and competencies among workers in the small organization. This is mainly because of financial constraints and insufficient training. In the role of human capital building to small-medium enterprises development, Khan (2011) argued that in order to create a better change to SMEs, it can be generated by giving them such knowledge and skill of entrepreneurship and also five some training about entrepreneurship. Financial assistance also plays a vital role on small and medium scale enterprises development because bank or microfinance institutions have significant influence to the development of SMEs (Srinivas, 2014). According to the World Bank, there are 200 to 245 million enterprises that do not have a loan though it is important in facilitating access to finance.

Financing is frequently becoming a major hurdle to overcome the way to setting up and staying in business, with access to risk capital.

Along with SMEs development, it can be seen that the SMEs sector in the urban area has shown significant growth. For this reason, it is very interesting to know proponents above have a significant influence to the development of small and medium enterprises in Manado and Tomohon city.

Research Objectives

The objectives in this research are to find out the influence of:

1. Human capital building, financial assistance on small and medium enterprises development in area Manado and Tomohon simultaneously

2. Human capital building on small and medium enterprise development in area Manado and Tomohon partially.

3. Financial assistance on small and medium enterprise development in area Manado and Tomohon partially.

THEORETICAL FRAMEWORK

Business

Stephenson (2008) defines business as, "The regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants. According to Dicksee, Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted.

Small Medium Enterprises

Small and medium enterprises (SMEs) play a vital role in contributing to the economies and considered as the backbone of economic growth in developing as well as developed nations. Like other developing countries, Pakistan's economist also largely based on SMEs (Khalique, 2011). The definition of small and medium sized enterprise (SME) varies. Because of the diversity of small business, every simple definition is subject to criticism.

Department of Micro Small Medium Enterprises Cooperative (MSME, 2004) defines SME as economic activities that meet these following criteria:

1. Having a net worth of at most Rp 200.000.000, - (two hundred million rupiah), not including land and buildings.

2. Having annual sales turnover that does not exceed Rp 1.000.000.000, - (one billion rupiah).

3. Owned by Indonesian citizen.

4. Standing independently, is not a subsidiary or branch company owned, controlled or affiliated directly or indirectly with medium or large businesses.

5. Shaped individual, a business entity that is not a legal entity, or incorporated entities

Human Capital Building

Schultz (1993) defined the term of human capital refers to processes that relate to training, education and other professional initiatives in order to increase the levels of knowledge, skills, abilities, values, and social assets of an employee which will lead to the employee's satisfaction and performance, and eventually on a firm performance. Lack of trained manpower and management skills also constitute a major challenge to the survival of SMEs.

Financial Assistance

Tambunan (2008) explained that the financial assistance is the aid of money given to facilitate business activities, it is enabling factor of production that is essential for any business, whether small, medium or large. Neti (2009) stated that financial assistance may act as a support in business development or capital for a new business. Small and medium enterprises are stifled because of poor financing and other associated problems. The problem of financing SMEs is not so much the sources of funds but its accessibility. Factors identified inhibiting funds accessibility are the stringent conditions set by financial institutions, lack of adequate collateral and credit information and cost of accessing funds.

Previous Research

Factors Affecting Business Success of Small & Medium Enterprises (SMEs) in Thailand by Chuthamas Chittithaworn (2011). This study attempted to identify factors that are affecting business success of small and medium enterprises (SMEs) in Thailand. The study examined eight factors that influence the SMEs business success. These factors are: SMEs characteristic, management and know-how, products and services, Customer and Market, the way of doing business and cooperation, resources and finance, Strategy, and external environment. The regression analysis result shown that the most significant factors affecting business success of SMEs in Thailand were SMEs characteristics, customer and market, the way of doing business, resources and finance, and external environment.

Human Capital Development and its impact on firm performance by Marimuthu (2009). The paper examines the extent to which human capitals have direct impacts on firm performance from various critical perspectives. It found that the human capital enhancement in organizations promotes innovativeness and greater firm performance. It is closely to some fundamentals of economics and firm performance including Small Medium Enterprises development

Financial Assistance to Micro, Small and Medium enterprises with References to Canara Bank by Srinivas K T (2014). The Study was aimed to find out the financial assistance to MSMEs sector by Canara Bank. The result is government continuously supporting the MSMEs to grow. The financial assistance provided by the Canara bank to various MSMEs is commendable and worthwhile.

Conceptual Framework
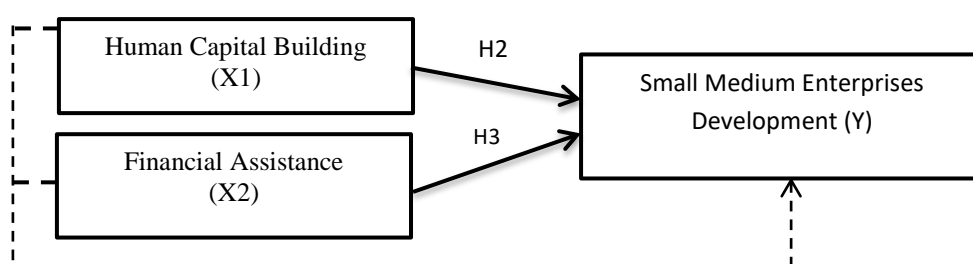Partially ──────
Simultaneously ‹ ─ ─ ─

Figure 1. Conceptual Framework

Research Hypothesis

The research hypotheses of this research are:

H_1 : Human capital building, financial assistance, influence small medium enterprises development simultaneously

H_2 : Human capital building influence small medium enterprise development partially

H_3 : Financial assistance influence small and medium enterprise development partially

RESEARCH METHODOLOGY

Type of Research

This research is quantitative research method using causal type of research, to investigate the influence of human capital building, financial assistance, on small medium enterprises development in area of Manado and Tomohon.

Place and Time of Research

This research is conducted in rural area of Manado and Tomohon, North Sulawesi during the period of June to August 2017.

Population and Sample

The population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate (Sekaran & Bougie, 2010). The population in this research is the developed Small medium enterprises which located in area of Manado and Tomohon. Sample is a conclusion can be made from the sample about the population to achieve the research objective (Saunders & Thornhill, 2007). This research is based on Simple Random Sampling technique of Probability Sampling Method. 100 SMEs were conducted as the sample in this research.

Data Collection Method

The data used in this research consist of two types between primary data through questionnaires and secondary data taken from books, journals and relevant literature from library and internet to understand of theoretical support on this research.

Operational Definition of Research Variables

The general explanations about variables in this current study are stated as follows:

1. Human Capital Building (X1) is the process of improving skill and resources of people either in group or individual (Abdullah, 2009)

2. Financial Assistance (X2) is the activities by facilitating an access of finance to a group or individual in business development or capital for a new business (Neti, 2009)

3. Small Medium Enterprise Development (Y) is the improvement process of Small Medium Enterprise through several consideration or measurement (Hallberg, 2000)

Data Analysis Method

1. Validity and Reability Test

2. Classical Assumption

3. Multiple Regression Analysis Method

RESULT AND DISCUSSION

Validity and Reliability

Table 1. Validity Test

Indicators	Pearson Correlation		Indicators	Pearson Correlation
X1.1	.586		X1.3	.649
X1.2	.565		X1.4	.714

Indicators	Pearson Correlation
X2.1	.662
X2.2	.825
X2.3	.656
X2.4	.795

Indicators	Pearson Correlation
Y1.1	.607
Y1.2	.696
Y1.3	.735
Y1.4	.703

Table 2. Reability Test

Variables	Crobach's Alpha	N of Items
X_1	.649	4
X_2	.717	4
Y	.619	4

Source: Data Processed, 2017- IBM SPSS 22

From the table 1 and 2, it is shows that all instrument and indicators are valid and reliable

Classical Assumption

Table 3. Multicollinearity Result

Model	Collinearity Statistics	
	Tolerance	VIF
Human Capital Building	.680	1.470
Financial Assistance	.680	1.470

a. Dependent Variable: SMEs Dev

Source: Data Processed, 2017- IBM SPSS 22

Table 3 shows that the Tolerance value of human capital building is 0.680; financial assistance is 0.680; meaning the tolerance value of each variable is more than 0.2. The VIF value of Human capital building is 1.470, financial assistance is 1.470, meaning the VIF value of each variable is less than 10. Since all the tolerance values are more than 0.2 and VIF value of each independent variable is less than 10, this research is free from multicollinearity.
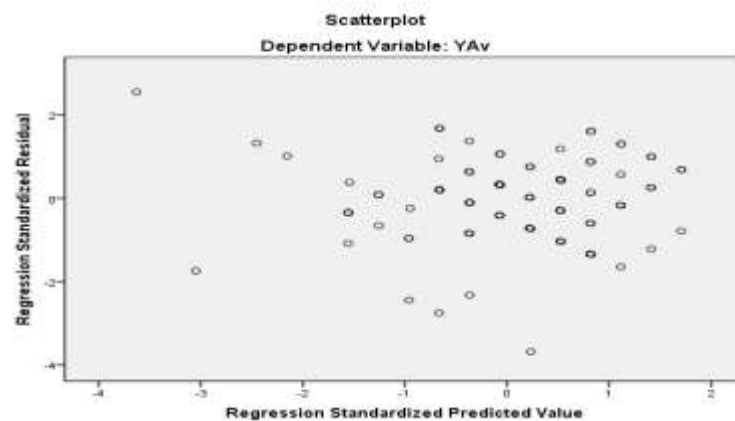

Figure 2. Heteroscedasticity result

Source: Data Processed, 2017- IBM SPSS 22

The Figure 2 shows that the pattern of points is spreading. The points are spreading above and below of zero point in ordinate. It proves that there is no heteroscedasticity in this regression model.
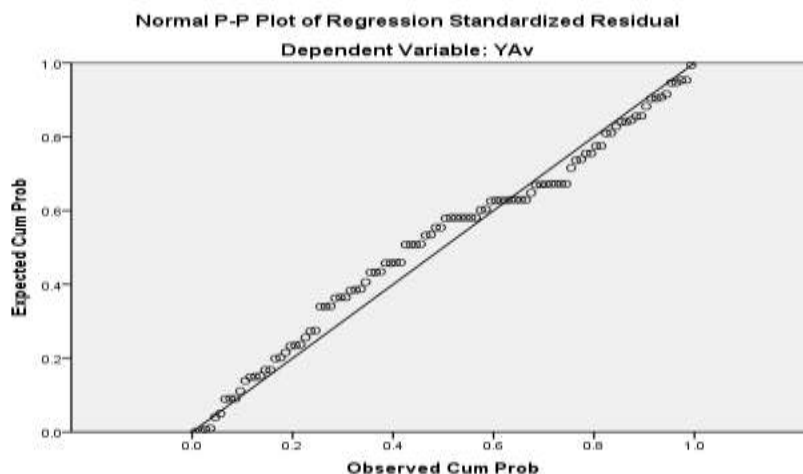

Figure 3. Normality result
Source: Data Processed, 2017- IBM SPSS 22

Figure 3 shows that the data spreads near the diagonal line and follow the direction of diagonal line. Therefore, the normality test is accomplished.

Multiple Regression Analysis

Table 4. Multiple Regression Result

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.589	.360		1.636	.105
	Human Capital Building (X1)	.415	.098	.359	4.237	.000
	Financial Assistance (X2)	.421	.078	.458	5.399	.000

Dependent Variable: SMEs Dev
Source: Data Processed, 2017- IBM SPSS 22

$$Y = 0.589 + 0.415X_1 + 0.421X_2 + e$$

From the multiple linear regression equation above, it can inform the interpretation as follows:
1) Constant value of 0.589 means that if the variables in this research of Variable X_1 and X_2 simultaneously increased by one scale or one unit will increase the Y at 0.589 point.
2) Coefficient value of 0.415 means that if the variables in this research of X_1 increased by one scale or one unit, it will improve and increase Y at 0.415.
3) Coefficient value of 0.421 means that if the variables in this research of X_2 increased by one scale or one unit, it will improve and increase Y at 0.421.

Multiple Regression Coefficient of Correlation & Determination

Table 5. Table R and R_2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.725[a]	.525	.515	.33848

Predictors: (Constant), X2Av, X1Av
Source: Data Processed, 2017- IBM SPSS 22

The coefficient of correlation (R) measures if there is significant relationship between the four independent variables with dependent variable, the value of R is 0.725 which proves that the relationship among independents and dependent variable is very strong. The value of R2 is 0.525, the coefficient of determination (R2) measures how far the ability of a model in explaining variation of dependent variable.

Hypothesis Testing
F-test

Table 6. F-test

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.289	2	6.145	53.631	.000^a
	Residual	11.113	97	.115		
	Total	23.402	99			

a. Predictors: (Constant), X2, X1
b. Dependent Variable: Y
Source: Data Processed, 2017- IBM SPSS 22

The level of significant of 0.05 and degree of freedom (df) of 2; 100, the ftable from F distribution table is F4; 100; 0.05 = 3.09, while fcount is 53.631 then the result is fcount > ftable : 53.631 > 3.09. Since the fcount is greater than ftable, H0 is rejected and H1 is accepted. It means that the independent variables significantly affect the dependent variable simultaneously.

T-test

Table 7. T-test

Variables	T	Sig.
Human Capital Building	4.237	.000
Financial Assistance	5.399	.000

a. Dependent Variable: SMEs Development
Source: Data Processed, 2017- IBM SPSS 22

By using the confidence level of 95% the T_{table} will be $T_{100; \ 0.05}$ =3.09. The partial influence of each independent variable will be explained as follows:

Human Capital Building (X_1) to SMEs Development (Y)

The hypothesis is reject H_0 and accept H_1 if $T_{count} > T_{table}$ or accept H_0 and reject H_1 if $T_{table} > T_{count}$. In Table 6 the T_{count} of Human Capital Building (X_1) is 4.237. Comparing T_{count} with T_{table}: 4.237 > 3.09. Since the T_{count} is greater than T_{table}, H_0 is rejected and H_1 is accepted. Therefore, Human Capital Building has very significant influence to Small Medium Enterprises Development.

Financial Assistance (X_2) to SMEs Development (Y)

The hypothesis is reject H_0 and accept H_1 if $T_{count} > T_{table}$ or accept H_0 and reject H_1 if $T_{table} > T_{count}$. In Table 6 the T_{count} of Financial Assistance (X_1) is 5.399. Comparing T_{count} with T_{table}: 5.399> 3.09. Since the T_{count} is greater than T_{table}, H_0 is rejected and H_1 is accepted. Therefore, Financial Assistance has very significant influence to Small Medium Enterprises Development.

Discussion

This research want to know the significant influence to the development of Human capital building and finance assistance on Small and Medium Enterprise in Manado and Tomohon city. The research is collected data from 100 respondents that were categorized by gender, age and location. The data is taken from the owner of small medium enterprises in l area of Manado and Tomohon. The result shows those human capital building, financial assistance have positive influence on small medium enterprise development. Based on the hypothesis testing by using F-test and T-test, it is proven that there is linear relationship between independents and dependent variable simultaneously and partially.

Human Capital Building on Small Medium Enterprises Development

The development of small medium enterprises in area of Manado and Tomohon is inseparable from the human resource development of the entrepreneurs conducted by both central and local government. It is also supported by private parties who participate through promoting the SMEs sector in Manado and Tomohon. Various methods are used as a form of business to improve the quality of human resources of entrepreneurs in rural area such as training, managerial knowledge and various entrepreneurial skills. It is supported with previous study by Marimuthu (2009) which explored that investing necessary resources in developing human capital which tend to have a great impact on performance The researcher recognizes that if the proponents like human capital building continues to be implemented or even more developed to the small medium enterprises in rural areas of Manado and Tomohon, it will be a great advantage, especially in order to boost the development of small medium enterprises in areas of Manado and Tomohon.

Financial Assistance on Small Medium Enterprises Development

The essential of financial access has been experienced by small medium enterprises in areas of Manado and Tomohon. Based on the previous research by Srinivas (2014), it found that financial assistance plays a vital role to small medium enterprises because SMEs have been considered as the engine of economic growth. The researcher finds that financial

assistance has contributed greatly to the development of SMEs in areas of Manado and Tomohon. Financial access such as loans or funds provision from the government or various financial institutions for financing SMEs will ensure effective entrepreneurial development in areas of Manado and Tomohon.

CONCLUSION AND RECOMMENDATION

Conclusion

The final conclusions in this research are:

1. Human capital building, financial assistance, facilities & infrastructure support, and government policy have significant influence on small and medium enterprises development simultaneously

2. Human capital building has a significant influence on small medium enterprises development partially

3. Financial assistance has a significant influence on small and medium enterprise development partially.

Recommendation

The recommendation to development of SMEs in area of Manado and Tomohon has been made as listed below. The few things that must be considered by the government and private institutions related to these proponents, including:

1. Keep enhancing the human resources quality of entrepreneurs in Manado and Tomohon through various capacity building program such as training and leadership development, managerial knowledge and various entrepreneurial skills.

2. Government support agencies (bank or microfinance institution) that can help new SMEs with finance to giving out loans to the SMEs, concessional loans for SMEs should have low interest rates in order to ease the loan burden on the emerging ventures and easy to get access for loan.

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