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Human Capital Management Initiatives and Organizational Sustainability: Case Study in a Selected Medium-sized Manufacturing Enterprise

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Abstract

The presence of MEs has proven to strengthen the Indonesian economic stability. They are important for several reasons: their contributions to the national production, the total units of enterprises, and the creation of employment. Despite the fact that MEs are very potential for building a stable economic growth, developing MEs is a challenging issue. The most critical problem in today's Indonesian MEs lies on Human Capital related issues. The study aims to explore the current Human Capital Management (HCM) initiatives and how it affect the sustainability of the organization. More specific, the study aims to describe the HCM policies, programs, and practices being employed by medium-sized manufacturing enterprises, and what factors act as enablers that motivate human capital to undertake the current HCM policies, programs, and practices. By using case study approach, preliminary prepositions are developed.

Key words: Human capital initiatives, sustainability, manufacturing enterprise

1. Introduction

The Medium Enterprises (MEs) in Indonesia are important for several reasons, such as their contributions to the national production (GDP), the total units of enterprises, and the creation of employment. In the period of 2008-2012, the GDP development of Indonesian MEs is respectively the highest, compared to Small Enterprises (SEs) and Large Enterprises (LEs).

Medium enterprises were the most affected when the economic crisis hit Indonesia in 1997. Due to the economic crisis in 1997, the total of enterprises was decreased by 10% in 1998. Many of medium enterprises were collapsed and most of them were in the manufacturing sectors (Tambunan, 2009). Due to financial crisis in 2009, manufacturing was also the most affected sector. However, in 2010, manufacturing sector was able to recover, shown by the increase of its export values by 30%. This underlines the important of manufacturing sector to the stability of Medium Enterprises as a whole, and to Indonesian economics in general. Moreover, Kemenekop clasifies manufacturing sector (non-oil and gas) into nine sub-sectors: Food-Beverage-Tobacco, Textile-Leather-Slipper, Wood & Forestry Product, Paper & printing, Fertilizer-Chemical-Rubber, Cement & minerals (non-metal), Iron & steel, Transportation-machine-tools, and Other industrial products. Among them, Food-beverage-tobacco contributes the highest GDP contribution during 2008-2012 (BPS, 2013).

Regardless of the fact that MEs are very potential for building a stable economic growth, maintaining and upgrading MEs is a challenging issue, especially in the quality of human resources. Tambunan (2012) reveals that many government supporting programs have been put into practices during 1993-2003 to increase the capability of Indonesian medium enterprises, and some of the programs were continued during the 2004-2012. The programs include training programs in human resource development, such as in production techniques, general management, quality management systems (ISO-9000), quality control methods, and entrepreneurship. The largest amount of fund has been allocated to human resource development training programs (22.9%).

Nevertheless, though the government has been allocating a sufficient amount of fund to human resource development training programs during 1993-2003, studies conducted after 2003 (i.e. 2003-2012 period) reveal that human capital still became the main problem to most Indonesian MEs (as well as SEs).

2. Human Capital and Enterprise Sustainability

Previous studies have been conducted to understand the main problem faced by Indonesian Medium Enterprises. The studies argue that the quality of human capital is the main issue among Medium Enterprises as well as Small Enterprises (Rudjito & Nazirwan, 2003; Djamhari, 2006; Kuncoro, 2007; Firdanianty, 2009; Hartanto, 2012). The studies, however, did not separate between medium and small enterprises.

Rudjito & Nazirwan (2003) described that low quality of human capital among Indonesian SMEs are characterized by the lack of comprehension of what kind of products needed by market, how big the market is, when the products are needed, and how to deliver the products. These conditions are mainly caused by lack of access to market, information, technology, and financing, which are also the result of poor human capital development programs. Even if they understand the market, they sometimes find difficulties in raw material, both in the availability and supply. Therefore, SMEs have a weakness in bargaining power, especially in dealing with big buyers. This condition affects the sustainability of the business.

Djamhari (2006) found that low quality of human capital amongst the Indonesian SMEs is mostly caused by "calculative behaviour" of SMEs leaders. They believe that the cost to improve the capability of human capital is higher than the benefit of doing it. Managers are expected to conduct only 'general HRM initiatives' which include: preparing job description, evaluating employee performance, calculating absenteeism, dealing with Workers Union, etc. Furthermore, the author argues that the "traditional initiatives" to human resources contributed to the the lack of knowledge, skill, ability to manage conflict, and risk distribution, which basically, will end up to the immaturity of decision making capability, and consequently, the sustainability of the enterprise.

Kuncoro (2007) stated that low quality of human capital in Indonesian SMEs is not only considered as constraint for SMEs to grow, but it is considered as the main problem in developing SMEs. Poor human resource management initiatives had caused SMEs to be less competitive in running their business. Most of HRM programs are allocated to employee training, such as: salesmanship training, supervisory training, computer training. Moreover, the lack of competitiveness of the people is primarily caused by their limited access to knowledge, which is held by top level management only. Such circumstance considerably influences their business skills and decision making ability, so it is difficult for them to develop optimally. Therefore, SMEs can hardly adopt the

development of new technology to improve their product competitiveness, and therefore, the sustainability of their business is in risk. In fact, since 1983, Indonesian Government has consistently developed some deregulations as one of the efforts to support SMEs. However, the deregulations in trades and investments have not yet contributed to the development of SMEs, due to the fact that the large enterprises and conglomerates are to gain the advantages.

Another recent-comprehensive study about human capital management practices in Indonesian SMEs was conducted by Human Capital-Turner Indonesia in April – May 2009 (Firdanianty, 2009). The aim of the research was to explore the main problems in human capital management of Indonesian SMEs which included 57 SMEs leaders as samples. The research used focus group discussion (FGD) method, and explored four criteria: factors considered in recruiting employees, training and development practice, retention practice, and how leaders view their employees. The results of the research are described as followed: From recruitment perspective, the main criteria for leaders to recruit their employees is attitude factor (37%), followed by work experience (18%), education (10%), closeness (10%), age (7%), marital status (2%), and others (16%). From training and development perspective, training and development model that have been done: mentoring (50%), external training (19%), job enrichment (12%), apprenticeship (6%), and others (13%). From retention perspective, leaders tend to providing achievement bonus (43%), followed by giving attractive compensation package (36%), providing opportunity to self-development (12%), and promising to give a better career (9%). From leaders perspectives of how they view their employees, 36% leaders considered their employees as strategic business partners, 64% considered them as resources to be manage, and others (2%). The research also found that for the first three years of their operations, the effort lies heavily in sales generation and production, instead of managing the best talent. Another interesting fact is after three years of their first operations, many of their best employees moved to another companies. It affects the stability of the enterprises, since many of them finally out of business after the key talents left the companies.

Based on the above studies, “poor human capital management initiatives” become the most critical issue in today’s Indonesian SMEs. However, none of the studies explored nor described the human capital management system employed by the enterprises. Moreover, based on the Strategic Plan of The Indonesian Ministry of Cooperative, Small, and Medium Enterprises (Kemenekop) for 2010-2014, the development of human capital becomes a major focus in order to upgrade the competitive positioning of the Cooperation, Small and Medium Enterprises. Nevertheless, the strategic plan underlines that the coming development programs will be still focused on education, basic production training, motivation and creativity training, technical support, entrepreneurship training, and managerial training. In line with Kemenekop, the Ministry of National Development Planning (BAPPENAS), in its development policy 2010-2014, the government plans to improve the bargaining power of Indonesian MEs, specifically, by facilitating the entrepreneurship skill and technical competence of the people. Then again, the focus is still in the area of “training”. In other words, “training” is the main program, instead of developing a better human capital management system and initiatives.

3. Research Question and Objective

The ability of organization to manage its human capital is considered the key factor to the sustainability of the organization. In fact, many enterprises still not aware of the importance of human capital initiatives to foster organizational performance (Nafziger & Terrel, 1996; Nafukho et al, 2004; Bruhn et al, 2010). This leads to the following research question: *how are the current HCM initiatives (i.e. policies, programs, practices) being implemented by the Indonesian medium-sized manufacturing enterprise and how do these initiatives affect the business performance?*

Thereafter, the study tries to understand the current Human Capital Management (HCM) implementation and how it affect the business performance of the organization within the selected Indonesian Medium-sized Manufacturing Enterprises. In other words, the study strives to understand the HCM initiatives being employed by the organization, and how each of the initiatives affects and contributes to organizational sustainability.

4. Research Method

This study is accomplished by implementing a thorough case study research. Thorough case study research is conducted to understand (1) current HCM initiatives and how they affect the sustainability of the enterprise; and (2) factors enabling the members of the enterprise to carry out the current HCM initiatives.

The research question being studied reflects on the fact that previous studies in human capital were mostly conducted based on the current human resource management (HRM) models and neglect the fact that human are the main actors, not the object (Gonzalez & Tacorante, 2004, 2006; Hartanto, 2012). Gonzalez & Tacorante (2004) argue that the previous “resource-based models” were developed based on researches in large organizations from USA and UK, and therefore, should be evaluated before any adoptions are made. In the resource-based models, which is used widely in most enterprises all over the world, employees are considered as a resource that belongs to the company, which is equally treated as other resources (i.e., machines, money, material, and methods). In this case, whenever a resource is no longer needed or productive, it will be terminated at the will of the business owners (Ouchi, 1981; Kockan, 2006; Hartanto, 2012). Unfortunately, these models are adopted by most of Indonesian enterprises without first understanding the needs of the organizations.

Thus, since the theoretical foundation for answering the research question are not adequately developed, the use of case study is helpful to understand more about the real condition in the field, and therefore, will be very helpful to develop propositions (Eisenhardt & Graebner, 2007; Yin, 2009). By adapting Nalbantian’s Six-factors Framework of Human Capital Strategy (Nalbantian et al, 2004), human capital initiatives within the enterprise is explored.

Data/information are collected through observation and semi-structured interviews within 40 days period to leaders (2 informants), managers (2 informants), and staffs (2 informants) from one Indonesian Medium-sized Manufacturing Enterprise as the subject of study. In this case, the subject of study is a Food Manufacturing enterprise located in Cikarang Industrial Estate, Greater Jakarta. The Subject is selected purposively using the following criteria: the enterprise should be familiar with human capital management practices, the enterprise should be among the top ten performer within the sector, and the enterprise should be willing to involved thoroughly in the research process.

5. Findings and Preliminary Propositions

Comments were made by two leaders (People Management Director; Operations Director), two managers (People Development Manager; Production Manager), and two staffs (Production Staff; Sales Officer). The informants were asked to provide interpretations on what they have experienced through the last three years regarding the organization’s human capital management initiatives. By adapting Nalbantian’s Six-factors Framework of Human Capital Strategy, the comments of the informants are gathered through opinions to six key human capital management factors: people, work process, managerial structure, information and knowledge, decision making, and rewards. Table 1 shows the example of how information is coded for each key human capital management factor.

Table-1. Example of Comments on Human Capital Management Initiatives based on Key Human Capital Management Factors

HCM Factors	Guides	Comments
People	Those who are in the organization (including its leader), what skills and competencies they bring with them when hired, what skills and competencies they develop through training and experience, their qualifications (such as prior experience and education),	“When I was hired, the Bos expected me to show my expertise in <u>dealing</u> with people, especially when it comes to <u>motivating</u> and <u>coaching</u> . Those expertise can be developed through years of <u>field experience</u> , and some from my <u>graduate education</u> . However, I must develop my ability in <u>problem solving</u> .” (PMD) “I believe I was hired because of my ability to act as <u>people coordinator</u> , and also my

and the extend to which they embody firm specific and generalized human capital.

experience in dealing with complex system. Those expertise were gained through 10 years experience in Large enterprise. During my last three years in this company, I found my self to be more patient, especially when dealing with first level staffs.” (OD)

“I was hired because the organization believes that I’m a good team player and a good communicator. Those skills are very helpful in complex assignments. In this company, I learn how to use quantitative methods to support my decisions and staffs assignments. However, this company need managers with strong problem solving skill ability. This is what I must excel in the next view years.” (PDM)

“I guest I was hired because of my experience in handling large number of tasks. Another character that makes me comfortable to do my work is that I’m a fast learner. I gained my experience and skills 100% through field learning. Nevertheles, I guest I’m still lack of communication skill.” (PM)

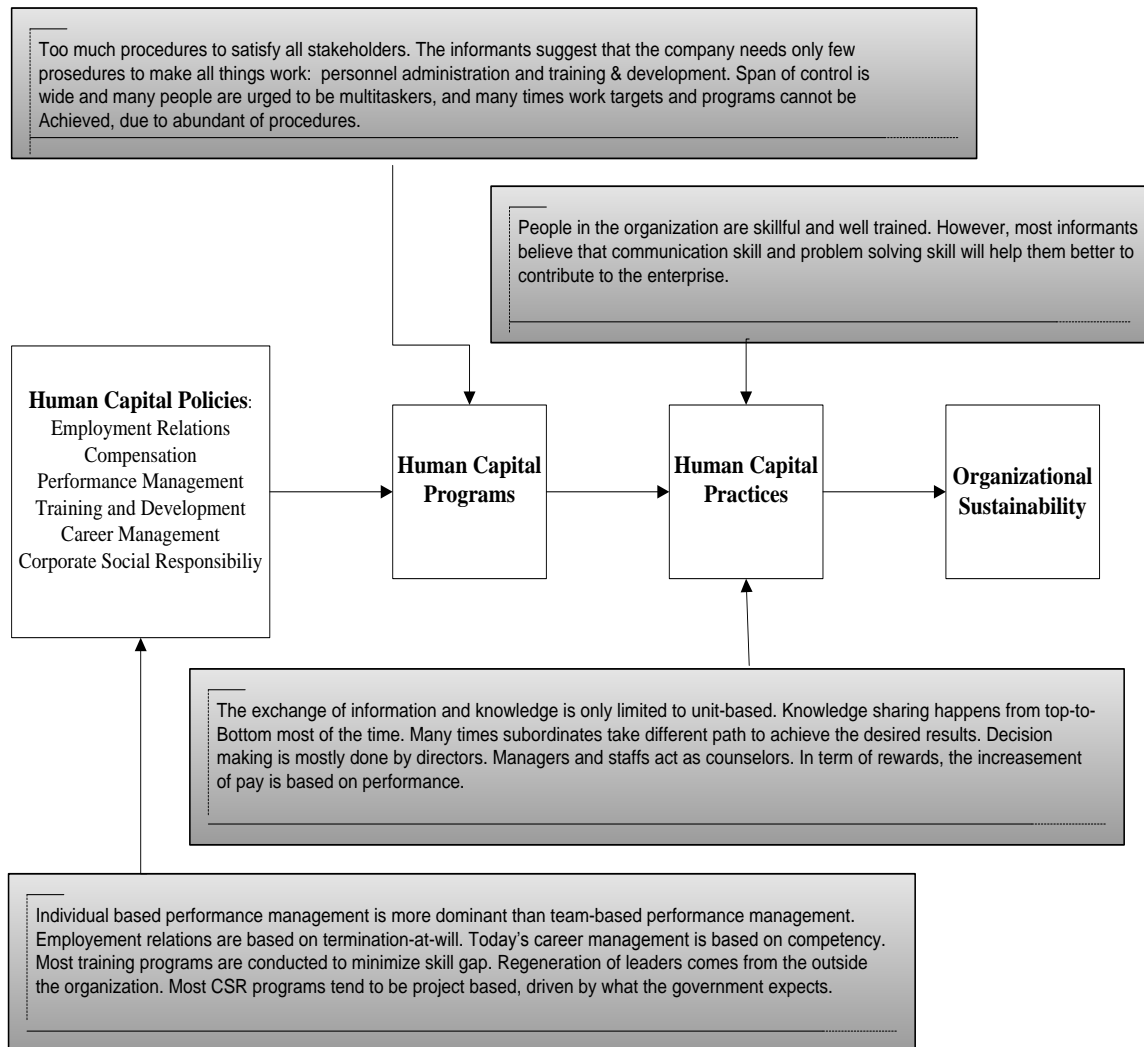
“My superior told me that I was hired because of my communication skill showed during my probation period, which is very valuable in continuous improvement process in the shop floor. During my period in this company, I think I become more critics, since my job demands me to. I believe becoming more critics helps me to do my job well and perfect. However, I think I must also develop my problem solving ability to be a good manager someday, like my superior shows me.” (PS)

“I was hired because I’m told to be a good listener. As a sales person, I must listen all the time to my customers. By listening, I develop my ability to be a good communicator. It is also an important skill to be able to meet company’s demand. My limitation would be my IQ, since I find it difficult to learn new things, specially when it comes to new strategy and technology. It takes more times to learn.” (SO)

Note: PMD: People Management Director; OD: Operations Director; PDM: People Development Manager; PM: Production Manager; PS: Production Staff; SO: Sales Officer.

Comments made by all informants, regarding what they have understood to be important to the succesful implementation of human capital management initiatives, are coded and framed as follows:

Figure-1. Important notes to the implementation of human capital management initiatives



There are four propositions developed based on the above condition:

Proposition1:

In medium sized manufacturing enterprises, where the corporate social responsibility policy and programs encourage the development of human capital, the impact of the policy and programs will be positive to the sustainability of the enterprises.

Proposition2:

In medium sized manufacturing enterprises, where procedures are limited and focused to only training & development and personnel administration, the human capital policies and programs will be more practical, and the contribution of the programs to organizational sustainability will be better.

Proposition3:

In medium sized manufacturing enterprises, where base-pay is based on position, and incentives/bonus is based on performance, the satisfaction level of employees will be higher, and will positively affect the sustainability of the enterprise.

Proposition4:

In medium sized manufacturing enterprises, where human capital values (i.e. employee capabilities, experience) and performance of all level employees are measured with appropriate human

capital metrics, the impact of people on business performance can be measured, and the contribution of people to the organizational sustainability will be higher.

Furthermore, in the study of organisational competitiveness, literatures of human capital research from 1975 to today have been conducted in many areas and have developed many key success indicators. Unger et al (2011) found that based on many prominent researches, human capital has help to increase the capabilities of employees in discovering and exploiting business opportunities, as well as identifying and acquiring physical and financial capital. Human capital has also assisted the transformation of experience into knowledge and skills. However, Sonnentag (1998) argues that “experience should not be equated with knowledge, because experience may or may not lead to increased knowledge” (in Unger, Rauch, & Frese, 2011). In other words, organizations cannot rely on employees experience to increase their knowledge. Therefore, human capital needs a certain process of knowledge acquisition. Based on this analysis, this study comes up with the following Proposition:

Proposition5:

In Indonesian medium sized manufacturing enterprises, where human capital experience is acquired into organisational knowledge, the use of knowledge management framework will help the process of knowledge acquisition, and therefore will directly impact the sustainability of the enterprises.

6. Conclusion and Future Research

The implementation of human capital management initiatives is affected by several condition: how the policies are developed by understanding the nature of works, how the procedures are efficiently designed, and how the programs are effectively executed. Contextually, a medium-sized manufacturing enterprise, with regards to its complexity, needs a more comprehensive human capital management model. The use of today’s people management model should be evaluated.

Future research will be positioned heavily to develop a more comprehensive human capital management model for Indonesian medium-sized manufacturing enterprises, by involving statistically approved of number of samples from nine sub-sectors (i.e. Food-Beverage-Tobacco, Textile-Leather-Slipper, Wood & Forestry Product, Paper & printing, Fertilizer-Chemical-Rubber, Cement & minerals (non-metal), Iron & steel, Transportation-machine-tools, and other industrial products).

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