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# The Important Role of Intellectual Capital for SME (Small Medium Enterprise)

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## **Abstract**

The purpose of this research is to know the importance of the role and application of intellectual capital against informal business units. Approach to the research methods used in this research is qualitative case study applied in the Small Medium Enterprise in developing countries, such as Indonesia. In result, when a leadership style that was applied by a leader is different from the person who is led, then there will be a decrease in the productivity of work. It was concluded that the intellectual capital that is measured using the leadership, employee competencies, and loyalty/commitment has not optimized properly.

**Keyword:** Financial Accounting, Small Medium Enterprises.

# El importante papel del capital intelectual para las PYME (pequeñas y medianas empresas)

## Resumen

El propósito de esta investigación es conocer la importancia del rol y la aplicación del capital intelectual contra las unidades de negocios informales. El enfoque de los métodos de investigación utilizados en esta investigación es un estudio de caso cualitativo aplicado en la pequeña y mediana empresa en países en desarrollo, como Indonesia. En consecuencia, cuando un estilo de liderazgo que fue aplicado por un líder es diferente de la persona que es liderada, entonces habrá una disminución en la productividad del trabajo. Se concluyó que el capital intelectual que se mide con el liderazgo, las competencias de los empleados y la lealtad / compromiso no se ha optimizado correctamente.

**Palabra clave:** contabilidad financiera, pequeñas y medianas empresas.

## 1. INTRODUCTION

History has shown that Micro, Small and Medium Enterprises (MSMEs) in Indonesia still exist and develop through the economic crisis that has attacked since 1997. In addition, Micro, Small and Medium Enterprises (MSMEs) have even become the saviors for economic recovery in our nation because of its ability to make a significant contribution to GDP and employment. Since then the role of MSMEs in supporting national and regional economies from year to year, including their existence, resilience and contribution has

continued to increase. The success of these MSMEs is because, first, MSMEs have no foreign debt and they do not have much debt to the banks. Second, the sectors of MSME activities, such as agriculture, trade, home industry, and others, do not depend on the sources of raw materials from abroad. MSMEs use local raw materials. Third, most of the MSMEs nowadays are export-oriented. One of the keys to the problem of MSMEs today is knowledge. Knowledge of doing business and marketing is very important for MSMEs. Many MSMEs started just by having ideas and minimum capital, but with a touch of knowledge, their business will be growing.

Khalique et al. (2011) identify that the main problem faced by MSMEs in Pakistan was the lack of knowledge about technical marketing, branding, customer loyalty and also the lack of establishing cooperative relations with related local and international companies. According to Khalique et al. (2011) and Ramli et al. (2018) knowledge-based economic intellectual capital emerged as the most important resource for developing organizations to thrive in a competitive environment. Intellectual capital is a knowledge that can be converted into the value of a company. Intellectual capital is a valuable, difficult to imitate and irreplaceable resource that produces competitive advantage and is able to improve company performance. Intellectual Capital (IC) is also a useful knowledge which is packaged in such a proper way including organizational processes, technologies, copyrights, employees, skills, expertise and information about customers, suppliers and stakeholders. Intellectual Capital according to the research framework formulates an explicit model of how the intellectual capital model influences SMEs in Mexico, including dividing intellectual capital into three main categories: (1) Human

Capital is divided into leadership, employees competencies, loyalty. (2) Organizational Capital is divided into the organizational process, technology process, intellectual property, culture. (3) External Capital is divided into Satisfaction of clients SME image, Product reputation and Suppliers. Lennox shows that there are findings of how the impact of the application of intellectual capital, one of them is knowledge and management as a component of intellectual capital is very low in the engineering industry, this is done using qualitative methods.

Bozbura (2004) shows that MSMEs in Turkey do not like to share knowledge within the company. Managers are afraid of losing control of knowledge. However, because they close the information channel, they directly prevent the entry of knowledge. All of these studies state that IC greatly influences business performance, especially MSMEs. IC increases company value, the effectiveness of organization, competitive advantage, and also creates corporate prosperity. Meanwhile, adopting the conceptual framework, this journal refers to the research framework of Alain, Egide. However, this journal only discusses the Human Capital segment with a qualitative approach to one of the MSME in Indonesia, namely Kue basah Micro AA MSME.

## **2. LITERATURE REVIEW**

Intellectual capital is defined as the skills, knowledge, and technology used to create a competitive advantage for organizations

(Bataineh and Alzoaby, 2011). Intellectual Capital (IC) focuses on several things, namely:

- a) Revolution in information technology and public information
- b) The growth of the importance of knowledge and knowledge-based economy
- c) Changes in the patterns of interpersonal activities and institution network, and
- d) The emergence of innovation and creativity as the main determinant of competition

Intellectual capital can be obtained through total value using three (3) indicators, including Human Capital (knowledge and skills), structural capital (database and structure of the organization) and customer capital (customer and supplier relations). Intellectual capital is classified as follows:

(1) Human Capital, Human capital consists of knowledge, skills, competencies, attitudes, behaviors and experiences of an individual as a company employee. Human capital (human resources) is the key to important operating factors to support and encourage the dynamics of value creation over time and produce extraordinary performance in a company.

(2) Structural Capital, Structural capital refers to the expansion and manifestation of human capital which functions as a supporting infrastructure for human capital to carry out its functions (work) of employees in creating the company's income and value that can create corporate wealth. Structural capital is defined as a general system and procedures for solving problems and innovations (Alipour, 2012; Ahmad & Ahmad, 2018). Furthermore, structural capital shows the

composition and the structure of the organization that leads to the creation, development and distribution of knowledge. The company cannot optimize its intellectual human resource capabilities if the company does not have good corporate systems and procedures.

(3) Customer Capital, it is also called relational capital, is the knowledge that is embedded through capabilities and utilized by individual interactions or knowledge embedded in business networks. Customer capital also includes the development of knowledge about customers, stockholders, suppliers, industrial associations (government) and society. So that this capital is a comprehensive knowledge of marketing and customer relations. The quality of relationships and the ability to create new customers are some of the key factors for the success of a company.

The aspect of Human Capital is also one of the strategic sources that are important for the development of an organization. Human Capital is identified as the key element in increasing the assets and employees' performance of an organization to increase productivity in competitive competition (Asad et al., 2018). Therefore, the main aspect of IC is Human Capital. There are several important points why Human Capital is referred to as the main investment, (1) Expertise and Knowledge are the main basis in the capital that must be owned by the organization, (2) Quality of Human Capital is a major ability of organizations to get concern through the improvement of productivity. Human capital is lifeblood in intellectual capital. Here is the source of innovation and improvement, but it is a component that is difficult to measure. Human capital is also a place to the source of very useful

knowledge, skills, and competencies in an organization or company. Human capital reflects the collective ability of the company to produce the best solution based on the knowledge held by the people in the company. Human capital will be increased if the company is able to use the knowledge possessed by its employees. Some basic characteristics that can be measured from this capital, namely training programs, credential, experience, competence, recruitment, mentoring, learning programs, individual potential, and personality. The main factor in advancing MSMEs lies in how the owners run the MSME units they have. The good/bad of the MSMEs that they run depends on one of the main aspects of intellectual capital, namely Human Capital. This is because Human Capital can trigger the skills and knowledge which are developed over time. Owners of companies/ organizations utilize their Human Capital such as (knowledge, skills and value added) in two main dimensions, they are passive (tacit), and explicit. An example of passive application (tacit) is how business owners and their employees learn about market knowledge that will be targeted by the industry both local and international.

### **3. METHODOLOGY**

The research method approach used a qualitative case study. The reason of using a qualitative approach in this journal is to explore more about how the application of the human capital aspects in MSMEs, so that qualitative methods are very suitable to be applied considering the aspects which will be reviewed are related to the human psychology side, namely behavior. The type of qualitative

research chosen is a case study or field study, it is intended to study intensively about the background of the problem and the situation, and position of an ongoing event, and the interaction of a particular social unit environment that is going on naturally, such a given. There are five (5) main components in the case study applied in this study, they are: (1) A study's questions, those are the initial and main components which will be the main issues in the background of this research writing, according to the themes discussed in the background that this research wants to see how IC applies to MSMEs in more detail and explores sources in depth. (2) The proposition, according to the scope discussed in the study that this research only takes the component of Human Capital, some of the related propositions are: MSMEs are informal business sectors that do not have the special soft skills because most of their businesses are only based on family relationship so it is very possible for many of them not to utilize aspects of intellectual capital in their business units. (3) Unit Analysis; This research chooses one of the MSMEs in Surabaya, namely Micro AA it sells a variety of cakes, the owner is Mrs. Anik. The researcher conducted deep interviews to get the information from MSME owners. The questions in the interviews explore their understanding of Intellectual Capital, especially in the Human Capital segment, it is related to its application in MSMEs.

Furthermore, the results of this research observation that is in the form of deep interviews will be presented in an encrypt based on the transcript. The subject of the interview is the owner of Micro AA MSME, she is Mrs. Anik Pudjiati. The researcher chooses Mrs. Anik

as the subject based on several reasons as follows: 1. Mrs. Anik is the founder of Micro AA MSME that is located in the center area of MSMEs which sell cakes in Penjaringansari Surabaya, so the researcher considered that she had understood fully how to handle business units that she runs from the beginning with a very limited number of HR. 2. Micro AA MSME often receives mentoring training held by Surabaya Department of Industry and Trade concerning the field of marketing and HR management. 3. Micro AA is the best in selling their products among the MSMEs which sell cakes in Penjaringansari Surabaya, so the researcher assumed that Micro AA MSME is the appropriate object for this research to see how this MSME actually has superior potential. 4. Micro AA MSME often provides training for PKK (Family Welfare Program) in Rungkut District, Surabaya, related to how to prepare skills in making cakes for housewives. Stages (4) and (5) are linking data to propositions and criteria for interpreting the findings, these steps are about analyzing findings and relating them to propositions and subject matter which can be the basis of the research topic. This study adopts the framework of research conducted by Alain Daou, Egide Karuranga and Zhan Su (2014) it was formulating an explicit model of how the intellectual capital model influences MSMEs (SMEs) in Mexico, including dividing intellectual capital into three main categories, namely: (1) Human Capital, divided into leadership, employees competencies, loyalty. (2) Organizational Capital, divided into organizational processes, technology process, intellectual property, culture. (3) External Capital is divided into Satisfaction of clients SME image, Product reputation and Suppliers.

#### **4. DATA ANYLISIS**

The data used in this study is based on primary data with qualitative analysis collected in a number of ways (observation, interview, document resume, recording) question instruments are processed before they are ready to be used (through recording, typing, editing, or transcribing), but the qualitative analysis still uses the arrangement of words that are written in expanded text, and it does not use mathematical or statistical calculations as an analytical tool. The activity of data analysis in this study consists of three activities that occur simultaneously, they are data reduction, data presentation, and data analysis techniques. Data analysis techniques used in this study include transcripts of interviews, data reduction, analysis, data interpretation and triangulation. Conclusions can be drawn by considering the results of data analysis. The following are data analysis techniques used by the researcher: 1) Data Reduction, as long as the data collection takes place, there is a reduction phase, namely making a summary, coding, tracing themes, making clusters, making partitions, and writing memos. Data reduction is a form of analysis that sharpens, classifies, directs, discards unnecessary, and organizes data in such a way that then the final conclusions can be drawn and verified. Data reduction or transformation process continues after field research, until the final report is complete. 2) Data Triangulation, Triangulation is done by using some techniques such as interviews, observations and documents. This triangulation is used to check the

accuracy of the data and to enrich the data. In addition, triangulation can also be useful to investigate the validity of the researcher's interpretation of the data, therefore triangulation is reflective.

## **5. FINDINGS AND DISCUSSIONS**

In this part of the study, the research discusses the implications of a component of Human Capital aspect in creating Intellectual Capital, the research connected between propositions, findings and also some results of previous studies in the formation of Intellectual Capital.

### *5.1. Leadership*

The Leadership Style aspect is a quite critical factor for a team or MSMEs to achieve success. Not a few leaders who have good character and good interpersonal, but they failed to lead a group or company because the leader has a leadership style that is not in accordance with the people whom they lead. Aziz found the evidence that leadership style influenced the performance of MSMEs, it was because SME owners/managers' leadership style could influence the success and existence of SMEs. Thus, differences in leadership styles can affect performance. Why could it be like that? Because leadership style is very closely related to culture. If the leadership style applied by the leader is different from the people whom they lead, so something bad could happen, such as a decrease in work productivity. Based on the results of the interview, The business that I lead is inherited from

my father, anyway, my father, before he passed away, often said to me just in case I am interested in continuing this business, I should manage it well. When I am a boss it does not mean that I will not work, I have to go into the business, treat my employees like family. Well, those words, I always remember so, Insyah Allah, until now, I always treat them like family, I definitely take part in the team mbak, I am the only one who will be in charge to make the dough recipe, my employees are not merely like the workers but rather colleagues and friends. So we help each other if maybe some of us feel that the responsibilities are so much harder than the other people in a team... it can be concluded that the Micro AA MSME unit applies transformational leadership.

Transformational leadership styles can stimulate positive changes in those (members) who follow them. These types of leaders pay attention and are directly involved in the process including in terms of helping group members to successfully complete their assignments. Leaders tend to have a positive spirit for their workers so that the leader's enthusiasm can affect their members to be more energetic. The leader will really care about the welfare and progress of each of his employees. From the above explanation, we can see the evidence from the interview results above stating that Micro AA MSME owner, Mrs. Anik, always implanted family aspects in leading their businesses, Mrs. Anik also participated in the production process to delivery process. Yes, mostly my employees are my cousins, so if we just do not do anything, we will discuss what new recipes are, then we try to make them for the tester, plus I often train them to be

independent though they are my employees but I still give them tips and encouragement to open their own business, I teach them the cake recipes. Those statements shows that in her Leadership style, Mrs. Anik also teaches and motivates employees to always develop skills in doing the business. Even the results of the above analysis support Ozer and Tinaztepe (2014) who found that the most suitable leadership style for MSMEs in Turkey was transformational leadership, because transformational leadership styles were more flexible, simple and dynamic to face all future challenges. The leader use only simple language to give real motivation which will be directly given when the leader takes part in running the business process. According to the results of MSME interviews analysis, Micro AA has several problems in carrying out the leadership aspects, due to:

- 1) There is still no assessment of performance either in teams or individuals. It has been implemented and explained in the previous point, because most employees who work for Micro AA are family, so there is no significant performance assessment for the performance plan for each individual, so it is very difficult to measure the parameters of how the MSME unit will going concern.

- 2) The lack of firmness from MSME owners in determining the decision of the business policies. The main task of a leader is actually clear, it is to carry out management functions as previously mentioned which consist of: planning, organizing, moving, and supervising. The implementation of these tasks cannot be achieved only by the leader himself, but by moving the people he leads. So that people whom he leads will work effectively. In addition, a leader must have initiatives and creativity and always pay attention to human relationships. In more detail, the tasks of a leader include: decision making, setting

goals and arranging policies, organizing and placing workers, coordinating activities both vertically (between the worker and the leader) and horizontally (between divisions and units), and leading and supervising the employee's tasks/works. For the case of Micro AA MSME, the researcher still sees too much intervention from the family towards Micro AA MSME so that it becomes an obstacle in developing MSME. There are a lot of MSMEs that experience the same case like Micro AA, which is the family intervention. Implementing family leadership is one of the obstacles to optimizing the aspects of Human Capital (Shulha & Hasratuddin, 2018; Mat et al., 2018).

### *5.2. Employee Competencies*

Competency is defined Mitrani (1992), Spencer and Spencer (1993) as an individual's underlying characteristic which is causally related to criterion-referenced effective and superior performance in a job or situation. Or the characteristics that activate a person and are related to the effectiveness of individual performance in his workplace. From that understanding, it can be said that competence is something inherent in a person that can be used to predict the level of performance. It is about motives, self-concept, nature, knowledge and abilities/expertise. Competence for employees refers to how they can explore their knowledge, skills and abilities. Some previous studies found that the impact of significant competencies can help small enterprises (MSMEs) to advance their business (Tsui, 1984; Cascio,

1987). In line with Ulrich and Lake (1990) employee competency is divided into three aspects, Knowledge of Business, HR Functional Expertise, and Management of Change this study analyzes competency into three parts.

(1) Knowledge of Business. Knowledge of Business is a strategy directed at identifying, selecting, organizing, and packaging organizational knowledge as a way to improve organizational performance and competitiveness. The aim of managing this knowledge is to foster sustainable competitiveness so the organization is able to manage change. The role of knowledge management is to enable organizations to develop the knowledge, experience and creativity of their staff/employees in order to improve organizational performance (Davidson & Voss, 2002). In accordance with the distribution of characteristics knowledge that has been classified by Davidson & Voss (2002), Micro AA MSME units have several characteristics of knowledge as follows: a). Knowledge acquisition, it is an activity to obtain good knowledge from outside, for example through the internet, television, newspapers, and so on, as well as from internal organizations such as learning through experience and recording information from employees. The interview excerpt presented as follows gives the evidence of how this MSME manages the knowledge, Yes, I understand, it is indeed what might be the second obstacle after physical capital/money, human capital is also very important. Well, if you say how to do it, right, as I have told you before Mbak, this business is a kind of inheritance from my parents, huh, so first my father taught me with self-taught learning process, I learned by myself from seeing the process, then from generation to generation I taught my employees Mbak, in this era, it is so easy to

find many recipes that come out from YouTube, usually the children of my employees give me the suggestions so we learn to think about the recipe like the one I have been doing. From the excerpt of the interview, we can analyze that the Micro AA MSME unit has been exploring its sources of knowledge spontaneously and self-taught. It is informal because of several factors, first is a supportive environmental factor, when we know that Micro AA MSME units are business unit that is built from generation to generation, we can see that the environment supports the process of gaining good knowledge directly or indirectly without formal baking education. Second, economic and financial factors, the lack of economic and financial resources encouraged Mrs. Anik to empower employees by giving them self-taught training such as gaining knowledge from internet sources.

(2) Knowledge creation is an activity to create knowledge. This process occurs after knowledge acquisition. In general, knowledge consists of two kinds, namely tacit and explicit. Tacit knowledge is difficult to formulate and communicate and personal. Explicit knowledge is systematic and has been arranged so that it is easily transferred to the formal discussion. I have participated in the training held by the Ministry of Industry and Trade once, I often took part in exhibitions in some plazas Mbak, and there I got additional skills as well as additional equipment, Mbak. I was also invited to PKK meeting to share experiences related to new recipes and by doing that I felt I could develop my recipes so it would be better later. For the benefit, yes, there might be a lot of cake varieties. Recently I can get so many orders by modifying recipes here and there. The result of the

interview above prove that Micro AA MSMEs do explicit knowledge using a learning approach through external factors, they are training and various knowledge sharing with the other businesses or organization.

(3) Knowledge storage and retrieval. Knowledge storage and retrieval are related to the easy storage of knowledge and knowledge acquisition. In the context of Micro AA MSME, the process occurs simply because it is done through human processes (individual memory and group memory), such as self-taught recipe lessons which are taught by Mrs. Anik's family from generation to generation and direct learning between Mrs. Anik and her employees.

(4) Knowledge transfer. Knowledge transfer is a process of transferring knowledge through mentoring. It can be knowledge transfer within the members of Mrs. Anik's family, between Mrs. Anik and her employees. They do the knowledge transfer with the other organization also, such as the guidance from Industry and Trade department, or join the training with other outsiders both verbally and publicly.

Proper knowledge management greatly influences the ability of Micro AA MSME to become a learning organization. However, according to the researcher, there are still several obstacles in the application of knowledge management, including: (1) a simple Micro AA MSME structure with low levels of competition among employees. (2) Lack of human resources to run the organization make Micro AA MSME is able to work in one common belief and mission so that it is easier to change Micro AA MSME into organizations that are capable of carrying out knowledge management (3) Low salaries and management level make it possible for employees to move to

larger business units that offer high salaries and good career paths so that there is a need for integrated knowledge management, and consequently knowledge assets of employees can be saved. (4) The ability of human resources in the field of information technology and education is low. It has some implications for the constrained process of applying knowledge management in Micro AA MSME.

2) HR Functional Expertise in MSMEs is how to manage human resources in MSME. Cardon and Stevens (2004) declare that HR potential is an initial decision that influences the success of an organization, so we need to understand how functional areas in HR can influence the development of MSME units both in the long term and short term. Researcher analyzed several important aspects in supporting HR in Micro AA MSME including: (1) Developing organizational structures in MSME, although they do not have many human resources in Micro AA MSME it does not mean that the organizational structure will not be created. Maybe it is not considered as the important thing right now but in the future when Micro AA MSME developed - and become large, the organizational structure becomes so important. For starters, the organizational structure should only be made from the level of directors/owners to managers and staff. It does not matter if all the positions are held by 2 or 3 people. Once the structure is formed, it facilitates micro AA MSME in recruiting HR, registering the business to the trade department, or even partnering with other enterprises. The organizational structure of MSME is not firmly bureaucratic. Decision making will also be done quickly and decisively. (2) Multiple positions are so familiar in the

scale of MSME organization. A director can also be HRD manager when he recruits workers, he can also become a salesperson when he promotes SME products. The director can also become a financial manager when he manages the financial report of his business. Or even the director sometimes becomes the office boy to clean up his own workplace. Multiple positions can sometimes be troublesome, but according to the researcher it can be useful and applied to Micro AA MSME, considering that MSME does not have too many human resources. (3) Delegating work. Micro AA MSME should delegate the responsibilities to the employee. The first step, the owner of MSME can give instructions to the employees to do some of a wide range of works. After that, the leader will understand what part of the field that the employees are able to do and be reliable. The employees become more reliable. For example, in the case of Micro AA MSME, besides being able to make cakes, it turned out that the employees are able to open up the market segment and market the products. So MSME owner can provide the widest possible space to provide the best for the improvement of MSME. Even though MSMEs are not large companies, we can make periodic work performance appraisal, it is important for the sustainability of MSMEs.

3) Management of Change, in general, MSME owners have not applied management consistently and comprehensively. In production management, Micro AA MSME only has stocks that depend on their capital capabilities, when they have funds quite a lot then they can provide a lot of stocks too, and vice versa. It certainly has an impact on the cost of inventories, but it is not realized by Micro AA MSME. In some MSMEs, the owners do not want to depend on the loans from banks, because of the difficulty of the loan process (for example there

must be bookkeeping for their business), and the owners do not want to rely on capital loans from the bank. Micro AA does not want to be connected to one supplier only, because they want to get a variety of raw materials sources which can be adjusted to existing financial conditions.

Micro AA MSME tends to use human resources who stay around their business areas, although without the required expertise, for example, most recruited employees are from their own families. However, this problem can be overcome by training new employees even though they come from family members. Most MSME units do not use the principle of specialization because a worker tends to be focused on one job. It is also the case that the researcher found in Micro AA MSME. There is no marketing strategy that is used specifically because marketing is done only based on a coincidence or the easy opportunity for entering a market. For example, by entrusting and dropping the products to the seller who opens stalls at markets or warung that sell various foods. They applied the consignment system. This system tends to harm MSME, because they will experience so much fraud that will probably be done by the seller. Because Micro AA owner had gained a low education level, they are less familiar with the technology, especially information technology that should be used as one of the marketing strategies. Micro AA MSME uses the internet only to find information for the innovations that they can do.

Micro AA MSME owner automatically make the segment of their products, one of which is based on the required raw materials. They set the segment for the middle-upper class with a price that is

quite expensive and raw materials that are definitely higher quality, for the middle-lower class they make the products with lower prices and lower quality of raw materials. For big investors, they are able to provide products with good raw materials and have middle to upper segment. While small investors focus on the lower middle class with the limitation of raw materials. Micro AA had not done bookkeeping because they have difficulties, which of course requires accuracy while they do not have enough knowledge to do bookkeeping, and there are huge of disabilities in carrying out bookkeeping. This is what causes some MSMEs owners, in general, experiencing difficulties when they will need additional capital by proposing loans to the bank. The bank demands a complete financial report; the aim is of course to know the prospect of the business. This situation caused MSME owners to feel unenthusiastic to propose loans in the banks. Bookkeeping is an important thing, for doing an evaluation and knowing the business development in terms of profit and return on investment. The lack of coaching and training, as well as mentoring, has caused MSME do not have the ability to manage finances. They often mix Business and personal finance so that it is difficult to control the financial condition of the business. This condition is closely related to other factors, such as production, when financial conditions are not good it will affect the ability to supply raw materials (Francis, 2018).

### *5.3. Loyalty/ commitment*

Authority or loyalty is one of the elements in employee appraisal which includes loyalty to his work, employer and organization. Elements of loyalty including

1) Compliance or obedience. Obedience is the ability of an employee to obey the rules of instructions or orders given by an authorized supervisor and be able to not violate the prescribed prohibitions. Hmmm... How to describe this, if you ask me whether I am satisfied or dissatisfied, it is really difficult to explain, Mbak, because you also know this, this business sector is informal, so what can I do ... How can we talk about obedience? This is just a family business, so sometimes the rules are not fully in line with expectations because I do not feel good if I am too tight, they are my family, I think this is how it could be ... Hmmm, for example, they are still so young, sometimes if I do not describe the tasks and responsibilities, they cannot notice it, sometimes if they are asked to do a certain work they will do another work, so it is hard for me to relate. We can see from the result of an interview with Mrs. Anik above that employees in Micro AA SME are still not applying the function of compliance well, it can be proven as follows: 1. Lack of compliance in obeying the command that is given officially by the authorized boss, it is analyzed by seeing the result of the interview above that indeed MSMEs are informal businesses led by families that have a significant lack of compliance to the leader's instructions, why could it be like this? Because generally this is associated with socio-cultural factors that consider family is everything so that they will show a lack of firmness in leading a business. 2. Lack of compliance with predetermined working hours, Working hours are a determining factor in business processes, most informal business sectors consider working hours not too important so many of them make production work hours according

to their will, this is also the case for Micro AA MSME. Either they are formal or informal businesses, regulating well-organized working hours regularly will have a good impact on business development.

2) Responsibility is the ability of an employee to complete the work submitted to the boss well, on time, and dare to take risks for making decisions or taking actions. I think, if we are talking about the responsibility issue, it can actually be said that they already understand about their own job description, they are only the young men again and again, sometimes they are still doing the wrong things, sometimes it can make me mad if we buy the raw material when I think it is fixed orders, it does not even work, there are always a few things they forgot to buy but again.... I do not want to hurt them if I am too strict in giving instructions. From the interview excerpts above we can see that the employees of Micro AA cannot complete the task properly and on time, and there are difficulties in storing or maintaining inventories well.

## **6. CONCLUSION**

The conclusions from this study indicate that the application of intellectual capital in MSMEs is still largely focused on financial capital. They consider the success of a business is gained by the support of large financial capital but they mostly forget that in the management and good organization, in particular, human resources aspect also plays an important role in promoting MSME units. After conducting a qualitative approach in the form of interviews to explore the data from Micro AA MSME owner, the researcher conclude that

all intellectual capital has not been well optimized because of too much involvement of the family in MSME, it tends to hinder the development of intellectual capital. The involvement of families in MSMEs can actually be bridged by the presence of professionalism and good organizational structure, even if it is only an informal business. Well - managed MSMEs have a very clear separation between business and family affairs in a professional manner so that the MSME unit will be run effortlessly.

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