

## **Strengthening Human Capital through Social Capital (A Study on Kacang Tore Small Enterprise)**

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### **ABSTRACT**

The objective of this study deals with revealing the component(s) of human capital which functions to establish social capital in the Kacang Tore small enterprises. This study involves peanut farmers and Kacang Tore business owner who are regarded as business doers of small enterprises. The research constitutes a qualitative study by applying triangulation technique of collecting data namely observation, interview, and documentation. The analysis of data follows Spradley's Developmental Research Sequence. The findings point out that human capital defined as the economic value of human resources relating to ability, knowledge, ideas, innovation, energy, and commitment constitutes the power to establish a strong social capital. Human capital in the small enterprise can be identified in several forms namely 1) individual competence, 2) High work motivation, 3) value system of the work environment, 4) teamwork and 5) leadership in running the small enterprise. These components contribute to build and strengthen the required social capital in the small enterprise such as 1) strong relative network, 2) mutual trust and collaboration, 3) obedience to the norm, 4) mutual exchange of kindness, and 5) meaningful life value. Social capital derived from strong human capital constitutes powerful energy for the survival of the small enterprise amidst the tight competition in the era of industrial revolution 4.0.

Keywords: Small enterprise, social capital, human capital, qualitative research, strengthening.

### **INTRODUCTION**

As the agrarian country, Indonesia has good natural condition sufficient enough to support its agricultural activities. The abundant agricultural land, the tropical climate and the human resources lead Indonesia to be a developing country which has potential to be acknowledged in the world economy. As time progresses, modernization has influenced the Indonesian society even the lower class. This changes human behaviour in the attempt to fulfill their needs. The activities of the agrarian society in the rural areas begin to change. They previously work in the agricultural sector, and now they start working in different sectors other than agriculture. The higher income they get from other sector diminishes the number of activities in the agricultural sector. As a result, agricultural production has decreased (Kimbal, 2018) Bank Indonesia explains that the agricultural sector faces three main problems (Setiawan, 2017), those are the decline in production, distribution and the issues in price affordability. As a result, the agricultural sector's market share dropped dramatically from 22.09 percent of gross domestic product (GDP) to 13.45 percent from 1990 to 2016. Meanwhile, employment in the agricultural sector also declined from 55.3 percent to 31.9 percent.

These problems also affect other sectors due to the fact the agricultural sector also influence the sustainability of other sectors such as the small industrial sector. This sector relies on raw materials produced from the agricultural sector. Thus, it turns to be a challenge to ensure these two sectors to survive and contribute income to the community. This is a big challenge how the agricultural sector and the small industrial business sector survive and provide economic income to the community. The contribution of these two sectors are inseparable from the human capital as a resource which signifies the economic values from human resources covering ability, knowledge, ideas, innovation, energy and commitment. Schermerhon argues that human capital is built from knowledge, innovation skill, and ability to perform tasks in order to add value to achieve goal. The additional values in the completion of duties and tasks that human capital contributes serve as the sustainable revenue for certain organizations in the future (Endri, 2010). The result of survey conducted by the Creative Economy Agency (BEKRAF) and Central Statistics Agency (2016) shows that the creative economy industry in Indonesia in 2015 recorded Rp 852 trillions in national gross domestic product (GDP), and in 2016 it rose to Rp 922.58 trillion with a contribution to the national GDP of 7.44 percent. It is predicted that the growth of creative economic sector will reach its peak in 2018. The projection released by Price Waterhouse Cooper (PWC) shows that Indonesia stands at the 5<sup>th</sup> place. Indonesia's Gross Domestic Product (GDP) in 2030 is predicted to reach US \$ 424 trillion. As we know, the government encourages Indonesian MSMEs to go online because 60 percent of Indonesia's economic strength come from this sector (Putra, 2018).

Farmers as the producers of agricultural products and entrepreneurs of small industries form the inseparable mutual relationship in which each party fitness benefits and depend on each other. This relationship can be found in the industry of Kacang Tore in Kanonang Kawangkoan village. Farmers grow peanuts and sell them to the owners of Kacang Tore industry, so both parties get incomes. The relationship between peanut farmers and Kacang Tore entrepreneurs is inseparable because they need each other and grow together within the social life in the Kanonang Kawangkoan community. This cultural aspect influences the existence of social modal leading this industrial sector to persist. It indicates that the development of Kacang Tore small enterprise greatly depends on the social aspects existing within the social life. In other words, the existence and contribution of social capital are inevitable (Kimbal, 2015). Therefore, social capital needs to be strengthened with human capital to ensure this business to sustain since this sector is almost swept away by the modern industry, In the industrial revolution 4.0 era, human capital needs to be maintained to support the social capital due to the fact that new changes result in more benefits for all economic actors. These economic factors move to economic digitalization by emphasizing the power of technology and information. Wide coverage and fast spread are advantageous for the economic digitalization (Rosyadi, 2018). Therefore, the strengthened human capital which builds social capital should be improved by having continuous adaptation on every change in the industrial revolution era. The management of Kacang Tore small enterprise has reflected this demand. From year to year, this business sector continues growing and contributes a positive value on the economic development. Since 1950, this business has been growing signified by the increasing number of peanut farmers and dozens of Kacang Tore entrepreneurs. However, some haunting problems are possible to threat the sustainability of this business in the digitalization era. To overcome these

problems, human capital becomes the strength to improve social capital in Kacang Tore small enterprise.

## RESEARCH METHOD

This research follows qualitative research methods. It means that the specific phenomenon to be investigated is social phenomena related to social behavior and social interaction in Kawangkoan District, as the center of Kacang Tore small industry. According to Bogdan and Biklen (1992) a case study is a detailed examination of a setting or a single subject, document deviations, or a special event. As has been described in the research objectives, this research focuses on finding various components of human capital which builds social capital in Kacang Tore small industry.

Data sources consist of informants the data from eleven key informants which consist of four bussines owner, six farmers and one packing workers on farming activities and small industry, factual events, and documents related to data. Data collection in qualitative research is carried out to reach the saturated level of initial information. People who know the subjects well are selected, and then other informants are also carefully chosen. These informants are selected by using snowball method; then, they are determined based on their turnuntil the information compiled has reached the saturated level. It means that the researcher does not new information from the informants. This research takes place in Kanonang Village, and the research subjects are the entrepreneurs of Kacan Sangrai small enterprise in Kawangkoan as the center of this industry.

Data obtained in this study were analyzed by following the stepwise progressive model from Spradley (Wijaya, 2018). This model consists of domain analysis, taxonomy, and compatibility. In the domain perspective, researchers will involve categories including covert behavior, behavioral parts, and semantic relationships in expressing the elements and role of social capital through data that has been collected.

The researcher begins the analysis by determining one of the semantic relationships and combining it with the findings from the data collection process when the researchers interact with the data sources at the farm and small industry. This analysis process will continue by undergoing the categorical relationship between the veiled behavior and the part of the behavior. This process is carried out until the researcher reaches the saturation point to find a list of domains that are seen as a reflection of the perceptions and understanding of the elements and relations of social capital in accordance with what is understood and believed by the actors in the economic activity involved in this small industry as a research subject.

The subsequent analysis process is carried out taxonomically in order to explain the terms relating to behavior in a specific domain and to organize these data to achieve research objectives. Therefore, the researcher chooses one of the domains that has semantic similarity be a chosen domain. In this process, the researcher will also look for part terms through constructing structural questions. The result will form a taxonomy graphically or the relationships between the domain and its sub-sections with respect to the terms drawn from the stages found. The analysis is evaluated taxonomically on the data obtained through the

intensive interaction between the researchers and data sources related of Kacang Tore small enterprise during the field research. Thus, the researchers conduct focused observations for checking. These findings are then described as findings regarding forms and designs and policies.

The next analysis is compositional, in which the domain that has been set to be the focus is further elaborated. In applying taxonomic analysis, each similar elements for every domain is clustered. It can be done through focused observation and interviews and documentation (Sugiyono, 2005). The last analysis is carried out by using theme analysis or discovering cultural themes in the attempt to find a red line that integrates all existing domains.

## RESULTS AND DISCUSSION

### 1. Human Capital

The Industrial Revolution 4.0 has fundamentally changed how humans think, live and interact to one another. This era will disrupt the various human activities in not only in technology but also other aspects of life such as economic, social, and political aspects. In the economic sector, the effect is clearly seen in the transportation services sector in which online taxis and motorcycle taxis begin to rise. Similarly, social and political sectors are greatly affected by this era. Social interaction becomes unlimited because the internet access and technology are easy to gain. The changes also occur in the political sector. Due to the easy connection to digital access, people's behavior has greatly changed. Political action can now be initiated through social media-based movements by carrying out certain political ideologies. Various negative impacts emerge; therefore, the main steps to face the Industrial Revolution 4.0 are to prepare technological advance and to develop human capital from the humanities side (Prasetyo & Trisyanti, 2018)

The components of human capital in the Kacang Tore small enterprise strengthen this business as it is seen in the following aspects:

#### Potential Individual Competence

Building social capital requires other capitals, one of which is human capital. Human capital is defined as a factor of production used to provide goods or service without consuming them during the production process. Humans also have a role or responsibility in all economic activities, such as production, consumption and transactions (Nurkholis, 2018). Human capital is completely important to build social capital because both capitals form a symbiotic mutualism. It means they depend on each other. Human capital consists of human as the main force; therefore, the success of a business needs strong human capital. Mr. Steddy' explained that to build a successful business needs maximum skills; otherwise, it would definitely not work:

"To build a business, someone needs excellent skills to ensure that the business will not succeed "

Someone gets skills from the continuous struggle in which this person keeps learning from new things and failure. If being capable of running a business, an

entrepreneur will succeed. The key to success is the ability to build, manage and sell the products.

Skills are obtained from a person who continues to be built through the struggle by continuing to learn from every new thing even experienced failure. If someone is good at doing his business. Surely the person is successful because the key to success is the skill in building, managing and marketing business results.

Similarly, the self-potential is regarded as the natural-born skill although it can shaped the learning process. Several the owners of successful small enterprises acknowledge this notion. They appreciate their potential by successive learning process that they have done without feeling tired. This struggle leads them to have successful Kacang Tore small enterprise.

### **Strong Motivation**

Motivation is the inner urge which drives someone to develop himself/herself to reach certain level. The entrepreneurs of Kacang Tore small enterprises also have this motivation. They have strong motivation to push and upgrade themselves in the efforts to run successful business. Regarding of this, Mr. Jemmy Lelasaid that:

."When I just started my Kacang Tore business, I was anxious and afraid of this business to fail. When starting this business, I listened to many experiences from my other fellows about how they failed but then survived in the business. These experiences motivated me to start the business and develop it. My friends' motivation also shaped my strong motivation

When I started by listening to many stories through the experiences of my fellow entrepreneurs how they got up and down in business. That too motivated me to go forward and build this business. In fact, the motivation of my friends built a strong work motivation in me.

Mr. Jemmy Lela's statement emphasizes that a successful business begins from strong self-motivation. Otherwise, the business will not run. Strong self-motivation is obtained through an intimate relationship with God instarting a business. Reciting prayers motivates someone to stay strong in running a business.

### **Supportive value system of work environment.**

A supportive work environment plays an important role in the success of a business. Human capability in doing business will improve within supportive working environment. It means that an entrepreneur needs support from family, society, and other external communities. Thus, their appreciation serves as a strong force to maintain a business. The existing values in the working environment is binding and continuous. It is reflected in the initial processing process in Kacang Tore small enterprise when the entrepreneurs bought raw peanuts from the farmers. The entrepreneurs build cooperation by setting the price of raw peanuts under an agreement. It is necessary because the farmers set higher price for the entrepreneurs with whom they never forms the agreement before. Therefore, the value system is calculated by the mutually supportive working environment. Another business activity highlights the importance of value system. After buying the raw materials from the farmers, the entrepreneurs will start production process, and they need to hire skillful people to do certain activities

such as to roast peanuts, sort the peanuts, pack the peanuts and sell the products. Some parts of these activities are inseparable. Thus, strong support from working environment can strengthen the system that has been formed.

### **Strong Teamwork.**

A good teamwork becomes the key to the strong human capital in order to build social capital. The business activities will be a failure without a good teamwork; consequently, human resources who can cooperate to develop business are essential. It is not only rooted from the wages but only personal responsibility to maintain the business. A good teamwork ensures the sustainability of the business. Ms Jelly explains

"When starting business, my husband and I only worked together. We were a small team, because our business was still small. As time passed by, our business grew bigger. It required more labor, so we hired some people. They work based on skill that we have taught. Because of commitment to work and responsibility, we become a strong team in carrying out the business.

The explanation from the entrepreneur confirms that achieving success in running business needs a responsible and strong teamwork. This is not only built because of the wages. A good teamwork is built due to the responsibility and sense of belonging. Regarding of this matter, Ms Jein who has worked as packaging staff for 10 years explains that

"I have been working here for 10 years. At first, it was to kill time because I did not have other skills. Ms Jelly taught me to pack peanuts which have been processed. I finally got a job and new skill, so I could improve the economic level of my family. To return the favor their kindness, I don't want to disappoint them. I work with a sense of responsibility because I think the success of this business will improve my economic condition. Thus, I have to take a part in sustaining this business as if it were mine".

This statement confirms that the working team built by entrepreneurs and workers serve as a force that binds them to keep the best member in this business. They realize that their life depend on this business

### **Leadership in Running the Small Enterprise**

It is not easy to be a leader because someone must have leadership capital. Leadership can be achieved through such a long process; thus, a leader must become a role model for everyone. The entrepreneur of Kacang Tore industry needs to have this leadership skill. As a leader, he or she must be able to protect the subordinates. However, in many cases, the business owners do not have this leadership skill. A Kacang Tore entrepreneur who had failed once explains that:

"I failed to run this business because I didn't have leadership skill. Some problems occurred such as the peanuts I had bought became rotten during the rainy season. It happened because the subordinate whom I assigned to carry out the task was negligent and irresponsible. I wanted to be angry, but I was afraid that he would quit. Then, I forgave him and I hoped he would never do the same

mistake. Unfortunately, what I hope for had vanished since that person did the same mistake. As a result, I suffered from losses and went bankrupt because my capital did not return.

The statement above explains that poor leadership skill can cause a loss. What the owner has experienced shows that a leader must act decisively in running business to prevent such great loss. Thus, a leader with a good leadership skill will result in strong human capital. In other words, the strength of a leader affects greatly on the business.

## **2 Social Capital in Kacang Tore Small Enterprise Strong Relative Network**

The relationship between farmers and Kacang Tore entrepreneurs has long been established. Mr. Frely, a peanut farmer, explains that

"I have been growing peanuts for almost 30 years. Initially, I started this business without any intention to be serious. However, I realized that the business had a good prospect, so I put all efforts on it. I am not afraid when growing peanuts because Mr. Steddy will buy the peanuts once they are harvested. I am his regular customer. Moreover, Mr. Fany Ratu explains that he is not afraid of growing peanut as follows.

The after-harvest period is not a big problem for a peanut farmer because Mr Steddy, a Kacang Tore entrepreneur will always buy those peanuts. This relationship is established through a long process. Moreover, we come from the same village so we have known each other since we were children. We have known each other characteristics. Thus, this network continues to exist because they live in one village.

Another case is found since Mr. Jolen Rawis sells his crops to Mr. Steddy due to relative network.

Mr Steddy and I are relative. His wife and I are siblings, so I grow peanuts and sell them to Mr Steddy. The price is different, but it is no problem for me. Then, I sell my crops to my relative.

The explanation from Mr. Jolen emphasizes that relative network strengthens the long-established relationship. Despite a difference in price with other entrepreneurs, the farmers keep selling their crops to their relatives. The relationship is more important than money which is spent in a short time. The strength of this social network capital certainly binds both parties to support each other's activities. Both parties realize that having good cooperation enables them to survive. The same as the research carried by Putri (2017) about network in Minangkabau use the Matrilineal kinship system is known as typical kinship system which is lived by tribes in Mnangkabau. The tribes have a strong tie among them. Thus, in most of election moment, a political candidate makes use of this cultural opportunity to approach the female head of the tribe or a local cultural leader. It emphasizes the important role of the traditional leader in Minangkabau. In other words, the matrilineal kinship system constitutes a strong basis for gaining big voting networks.

### **Mutual Trust and Cooperation**

The aspect of social capital as to trust has a vital role in fulfilling the availability of raw material and sale. The trust between the key informant and the supplier contributes to the success of the transaction and the availability of supply. On the other side, in terms of the sale, the trust between the key informant and the sale staff constitutes a main capital to meet the need of customers (Pamungkas & Sunaryanto, 2018). Trust is an essential part in the activities of farming and Kacang Tore small enterprise in order to sustain the business. Some businesses go bankrupt and are unable to survive due to lack of trust. One of the informants explains that

Initially, Mr. Noldy's farming business went well with good beans. During harvest, his crops were attacked by pests resulting in poor-quality peanuts. Mr. Noldy sold his crops without telling the truth to his customers. As a result, many entrepreneurs do not want buy his peanuts because they are traumatized by poor quality beans.

The statement above implies that concealing the truth about the poor quality of the harvest deteriorates the good relationship between farmers and entrepreneurs. Consequently, the entrepreneurs no longer trust the farmers resulting a negative impact. Due to this distrust, it is difficult for the farmers to sell their peanuts to entrepreneurs .

Mr. David who has long been planting peanuts experienced another case. He never hesitates to sell his peanuts to Kacang Tore entrepreneur, Mr Feddy because they have known each other for a long time. He will tell the truth if the harvest is not good. The price of this low-quality crop is different, but he is never afraid of not being able to sell his crops. He explains that "I have been selling crops for a long time to Mr. Steddy. If the harvest is bad, I will tell the truth. This openness keeps our relationship going strong. Poor harvest also affects the production of Kacang Tore, so I don't want Mr. Steddy to suffer more losses.

This statement is a proof of responsibility for businesses that depend on one another. Therefore, despite the abundant harvest and low prices, Mr Aring was never worried since Mr Steddy always buys the peanuts. Fear that harvest will not sell well no longer exist due to the openness and honesty about the harvest.

### **Obedience to Norm**

Norms serve as the existing rules in society. Norms established consist of ancestral culture passing down from generation to generation and written customs. Researsch from Bestari & Astuti (2014) Norm has a pivotal role in strengthening the relationship both among fellow members of the Paguyuban and among fellow customers. By the existence of the norm, the competition among the screen-printing industry owners occurs without conflict due to the existing shared agreement. In Kacang Tore small enterprise, norms or rules are deeply ingrained in society although those are not written. These norms are the result of social agreement. Mr. Aring explains that these rules prevent them to do bad deeds. He explains that



" In this small enterprise, When the harvest comes, we are free to choose customers to whom we sell our peanuts. However, the norms in society require us to help and cooperate. We hold firmly these rules.

This statement implies that each party hold tight the rules previously agreed in order to sustain the business. Due to this cooperation, these two businesses are able to survive. Their obedience to norm makes the society run their endeavour more dynamically and they do not burden each other.

The process of buying and selling transactions of farmers and entrepreneurs shows their agreement on the measurement used during this process. They usually use 'gantang' as the measurement. One 'gantang' is equal to 28 liters of raw peanut. As time progresses, they now use the size of white nylon sack as the measurement. One sack contains 5 'gantang' of peanuts. The agreement between farmers and entrepreneurs is valid until now. The normal price of one sack is Rp.500.000. If the availability of peanuts decreases, the price reaches up to Rp. 600,000. This rule also exists in the community.

### **Mutual Exchange of Kindness**

According to Khoirini (2014) the increasing of the working performance of the small medium entrepreneurship (SMP) is recommended to be achieved through several supporting activities such as forming quality control system and making the standard for production operation, improving the facilities of the small medium entrepreneurship, and joining trainings to improve the competency of the SMP workers. Exchange of kindness has been established and ingrained in the local community, particularly between farmers and Kacang Tore entrepreneurs. This phenomenon can be seen in their daily life. For example, if there are farmers who do not have seed to grow peanuts, the entrepreneur will lend peanut seeds to farmers. The explanation of Mr. Donald Paendong implies this fact.

"When the peanut planting season arrives. I don't have peanut seeds. Initially I try to borrow money and buy seeds. When I went to Mr Steddy's house, he lends me the seeds.

Mr. Steddy's kindness by lending seed capital to Mr. Donald became a plus point for Mr. Steddy. At the end, Mr. Donald will sell his crops to Mr. Steddy. Seeds that are loaned are usually collected immediately during the harvest. This confirms that the ability to establish relationships with each other helps to make both parties' activities continue. The two parties support each other. This mutual kindness can be seen in other Kacang Tore entrepreneurs such as Mr. Maxi, Ms. Jelly, Mr. Frely and other entrepreneurs. They are kind to farmers as their loyal producers. These entrepreneurs lend not only seeds but also money. Therefore, the farmers will sell the peanut only to their loyal customers.

### **Meaningful life values**

The aspects of social capital living among society such as trust, volunteerism, network and attitude have a big influence upon the development of the entrepreneurship behavior as to improving the people's trust embodied in honesty, order, and collaboration based on the shared norms. In entrepreneurship, social capital can also function as the lever of the success of the business operation due

to the existence of the aspect of the social capital namely collaboration (Thobias dkk, 2013) The value of life in society is influenced by the traditional values passed down by the Minahasa ancestors. In addition, the value of people's lives is influenced by religion teachings of the Kawangkoan community. For example helping each other in terms of supporting family income. What having been done by Mr. Max shows this aspect. He employs several workers for this Kacang Tore small enterprise. He is sad to see that most of his neighbours do not have decent job. This condition motivates him to improve their economic condition. When they work for him, they get money which can be used to support the family. Mr. Max never gives much pressure on his employees related to duties. He gives them an understanding. In short, Mr. Max and his employees have mutual relationship and fair treatment.

### CONCLUSIONS

Human capital defined as the economic value of human resources related to ability, knowledge, ideas, innovation, energy and commitment is one of the strengths of establishing strong social capital. It proves that strong social capital requires human capital associated with human personality. This aspect embodies in Kacang Tore small enterprise in which human capital is fully used to provide strong social capital. Human capital in the small enterprise can be identified in several forms namely 1) individual competence, 2) High work motivation, 3) value system of the work environment, 4) teamwork and 5) leadership in running the small enterprise. These components contribute to build and strengthen the required social capital in the small enterprise such as 1) strong relative network, 2) mutual trust and collaboration, 3) obedience to the norm, 4) mutual exchange of kindness, and 5) meaningful life value. Social capital derived from strong human capital constitutes powerful energy for the survival of the small enterprise amidst the tight competition in the era of industrial revolution 4.0.

### Acknowledgements:

This research work is supported by the KEMENRISTEKDIKTI Indonesia and LPPM Universitas Negeri Manado for facilitating this study and ICPM.

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5:31 PM 5/14/2020

International Journal of Applied Business and International Management (IJABIM) is an academic, interdisciplinary, and peer-reviewed publication (Print ISSN: 2614-7432) and (Online ISSN: 2621-2862) on International Business and Professional Management published from Indonesia. The aims of the IJABIM to feature narrative, theoretical and empirically-based research articles, student/faculty reflections, study abroad experience, and book reviews relevant to international students and their cross-cultural experiences and understanding in international business. IJABIM is indexed by Google Scholar, Neliti and PKP Index.

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<https://doi.org/10.32535/ijabim.v5i1.763>