

# **IS SMEs ABLE TO CONSTRUCT BUSINESS STRATEGY TO IMPROVE ITS PERFORMANCE USING ITS OWN ABILITY? (STUDY ON SMEs KARAWO HANDICRAFT IN CITY OF GORONTALO, INDONESIA)**

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## **Abstract**

*The objectives of this study were to analyze and investigate the human capital resource of SMEs to achieve the expected level of performance and to see if the quality of human capital had been appropriate enough to be able to apply certain business strategy. This study also intended to see if the cost leadership strategy, differentiation strategy, as well as appropriate focus strategy to improve the performance of SMEs. This study employed a survey design in which researcher conducted a survey to managers or owner of 68 SMEs of Karawo handicraft in Gorontalo city. This study also employed the structural equation or PLS approach using warpPLS application to analyze the data. The finding of this study showed that the ability of the human capital owned by the SMEs had not yet maximized in improving its performance. The role of the mediation business strategy (cost leadership strategy and differentiation strategy) have been appropriate and matched the ability of the human capital to improve the performance of SMEs. The result of this study enriches the body of knowledge related to the resource based theory and the development of strategic management of the human capital investment for the implementation of business strategy to achieve good performance and system. This study also offers practical benefit for managers or owners of SMEs, and government in developing the business. The data were collected using cross sectional strategy by analyzing the opinions and perception of the managers or owners of the business. Future researchers are encouraged to expand this by involving bigger number of sample and broader scope of study. Future researcher may also develop this study using mix method research design to verify and take action on the interesting result of this study related to the implementation of focus strategy based on the ability of the human capital which has been confirmed to have the highest coefficient path, yet did not have significant effect to the improvement of the performance without the involvement of mediational variables such as the combination of focus-cost strategy or focus-differentiation strategy.*

**Key word :** Human capital, business strategy, cost leadership strategy, differentiation strategy, focus strategy, performance, SMEs

## **Introduction**

There have been intensive and big attentions to the development of small and medium enterprises (SMEs) in the last decade both from the government, practitioners, as well as researchers. This concern is important because each of SMEs in different area worldwide has unique characteristics and phenomena in terms of development strategy, making it are still very relevant to explore and investigate for developing business strategy.

Being placed in the tight business competition is not a pleasant condition for SMEs since it has to be ready to compete, and have to develop its internal and external excellent and competitive resources to be implemented in the business practices (Cater and Cater 2009). Internal resources are in the form of intangible assets called human capital which is the most important aspect for an organization to compete and improve its performance Crook et al., 2011; Mohd Rosli, 2012; M. Khaliq, Shaari, Isa, & Samad, 2013; Ismail, 2014; Khan, 2015). Crook et al., (2011); Unger, Rauch, Frese, & Rosenbusch, (2011) in which its meta analysis showed that in the past three decades, human capital has been an important factor yet not all of the human capital gives positive benefits to the improvement of the performance, even it could decrease the quality of the performance. Having excellent management (human capital) does not simply guarantee positive effect and improvement to the performance of SMEs (Razafindrambinina & Anggreni, 2011; Nur, Surachman, Salim, & Djumahir, 2014). Moreover, low knowledge, skill and level of education of the employees would not be able to improve the

performance of SMEs (Muhammad Khalique et al., 2011; Jardon & Martos, 2012; Husnah, Subroto, Aisjah, & Djumahir, 2013). This condition has been the main problem of the SMEs in Indonesia. Thus, it is necessary to create strategic policies to solve the problems related to the human capital resources in order to grab the big chances in the market and to overcome the threats to win the tight market competition (Kaya 2015).

Some researchers have suggested that SMEs implement a business strategy in mediating those gaps which has been proven to improve the performance of SMEs (Pribadi & Kanai, 2011; Kamukama, Ahiauzu, & Ntayi, 2011; Husnah, Subroto, Aisjah, & Djumahir, 2013). The implementation of the business strategy should be adjusted to the target performance either the financial performance, product quality or market performance (Kimat & Bichanga, 2015; Ebitu, 2016). This study was a continuation research of the ones conducted by Oyewobi, Windapo, & James, (2015); Ariawan, Sudarma, Djumahir, & Maski, (2016) related to the tight business competition in which companies are competing to implement the best business strategy that improves their performance. However, those studies have not yet explained the best and the most suitable strategy out of the three generic porter strategies that matched the characteristics of the human capital of SMEs in Indonesia to improve its performance. The researcher intended to close the gap by conducting this research that attempted to investigate characteristics that should be possessed by SMEs to be able to implement suitable business strategy that improves its performance.

Indonesia has been in the first rank of the ASEAN countries with the biggest number of SMEs of around 57.87 million units with population of 248.80 people (BPS, 2016). However, the huge number of the population was not proportional to the percentage of business development in ASEAN countries in which the percentage of Indonesia was only 1.65% out of the total population and placed the 5<sup>th</sup> rank of in ASEAN and 34<sup>th</sup> in the world in terms of the ability to compete (Amri, 2015). This problem was caused by the imbalance ability to compete of each province in Indonesia, even Indonesia was considered unready to compete in the Asean Economic Community (AEC) (Situmorang, 2016). In 2010, West Nusa Tenggara Province placed the first place of national competitiveness ability category. Meanwhile, Gorontalo Province achieved the 12<sup>th</sup> place of national rank. In 2011, East Nusa Tenggara Province and West Nusa Tenggara Province won the first place, while Gorontalo Province achieved lower national rank at the 19<sup>th</sup> with competitiveness ability index at 27.38% (BAPPENAS 2014). Therefore, it is important that SMEs improve its performance by implementing suitable business strategy and stay focus on the paradigm related to the improvement of knowledge, skill enhancement and the use of advanced technology and innovation (Ashariyadi, 2016).

Based on these considerations, this study aims to analyze the ability of human resources (human capital) owned by SMEs in reaching the expected performance and prove that the capabilities are very suitable to apply certain business strategies which are appropriate in terms of cost leadership strategy, differentiation strategy, the right focus and strategy to improve its performance.

Specifically, the objectives of this study were to analyze and prove the influence of human capital on the performance of SMEs, analyze the impact of human capital on the implementation of the business strategies including cost leadership, differentiation, and focus strategies, and analyze the influence of business strategies on the increase the performance of SMEs. In addition, this study also analyzed the interactions of these variables to observe mediating role in improving the performance of business strategies of SMEs. To achieve that goal, literature review was conducted to analyze the relationship between human capital used to implement business strategies and the improved performance of SMEs as to support the proposed hypothesis.

## **Research Methodology**

Research was conducted on SME center of *Karawo* handicraft in City of Gorontalo. These SMEs produce distinctive products of *Karawo*, a traditional hand-crafted cloth from Gorontalo, in the form of embroidered fabric developed become other handmade products, such as floral fan, fish, and local motifs, skullcap embroidered with various shades, scarves, tablecloths, ties, handkerchiefs, praying clothes, wallets, coasters, clothing for men and women, and so forth. The population of SMEs *Karawo* were determined based on the listed criteria, such as having business license from the Department of Industry, Trade and Cooperation City of Gorontalo, having two or more permanent employees, and having been producing in the last 3 years. Structured questionnaire was distributed directly by visiting the SMEs as the respondents. Based on the criteria of population, there 68 SMEs *Karawo* scattered across districts in City of Gorontalo.

Measuring the human capital variable was adopted from Halim, (2010); Muhammad Khalique et al., (2011, 2013), including four elements, namely professional competence, social competence, motivation, and leadership skills. Business strategy variable was adapted from generic strategies Porter (1993) namely: cost

leadership, product differentiation, and focus. Porter's model of competitive strategies are considered important in this study because popularity is well-defined, simplicity, clarity, and general (Ormanidhi dan Stringa, 2008). Question items were on adaptation of (Parnell, 2011; Husnah et al., 2013) and there were adapted to the situation in Gorontalo. Measuring the success of SMEs by assessing the performance of the SMEs, it was adapted from Najib & Kiminami, (2011); Kalkan, Erdil, & Çetinkaya, (2011); Chong, (2008) which include financial performance, product performance, and market performance. The measurement scale used to measure respondents' perceptions of the items or indicator variables that is formatted as a statement list (stated in the questionnaire). Human capital and business strategy variables were scaled by using five-scale Likert's Scale, namely SS = strongly agree (point 5); S = agree (point 4) N = neutral (point 3) TS = disagree (point 2) and STS = strongly disagree (point 1), while for the performance of SMEs variable was scaled as follows: ST = very high (point 5); T = high (point 4) S = moderate (point 3) R = low (point 2) and SR = very low (point 1).

Statistical analysis used in this study was structural equation modeling (SEM) through approach PLS (Partial Least Square) using WarpPLS program 3.0, with two steps, i.e. the evaluation of the measurement model (outer model) and the evaluation of the structural model (inner model).

## Result And Discussion

*Karawo* business actors were dominated by women as much as 66 people or 97.05%, 34 people or 50% of the business actors were 31-40 year old, and 28 of them (41.18%) were with high school education level. There were 35 people or 51.41% of the business actors have had business in *karawo* sector over 5 years or 6-10 years.

Evaluation on the measurement model was conducted by checking the convergence, discriminant validity and measurement reliability test to the obtained data. Based on the result of the analysis as presented in Table 1 of the Combined Loading and Cross-Loading after deleting indicators which did not fulfill the criteria 0.70, there were found 1 indicator of the differentiation variable and 1 indicator of strategy focus variable based on the procedure as proposed by Hair, et al. (2013) which was explained by Sholihin & Rahmono, (2013). The result of the analysis showed that the indicators of human capital variable, cost leadership strategy, differentiation strategy, focus strategy and performance showed loading value up to the construct value at above 0.70 and p-value lesser than 0.05. Therefore, the validity criteria of the convergence has been fulfilled. After that, a test on the discriminant validity was conducted (See Table 1) in which the loading value of each indicator between each construct or cross-loadings showed bigger value than other construct. In addition, finding the discriminant validity can be done by comparing the square roots value of the average variance extracted (AVE) in which the value of the human capital was found at 0.858, cost leadership strategy at 0.832, focus strategy at 0.864 and performance value at 0.824. Those values were higher than the latent inter-variable correlation of within a column or bigger than 0.50 (Mackenzie, Podsakoff, and Podsakoff 2011) Thus, it can be stated that the measurement instrument have fulfilled the criteria of convergent validity and discriminant validity.

**Table 1 Combined Loadings and Cross-Loadings**

	Human Capital	Cost Lead	Different	Focus	Performance	SE	P value
hc1	(0.859)	-0.317	-0.436	0.284	0.384	0.073	<0.001
hc2	(0.864)	-0.076	0.438	-0.275	0.047	0.079	<0.001
hc3	(0.839)	0.213	-0.114	-0.092	-0.030	0.081	<0.001
hc4	(0.871)	0.183	0.106	0.081	-0.396	0.077	<0.001
lc1	0.214	(0.741)	-0.211	0.348	-0.282	0.100	<0.001
lc2	-0.248	(0.881)	0.102	0.154	0.132	0.092	<0.001
lc3	0.158	(0.808)	0.162	-0.459	0.041	0.095	<0.001
lc4	-0.076	(0.891)	-0.072	-0.026	0.067	0.097	<0.001
dif1	-0.100	-0.048	(0.907)	-0.016	-0.026	0.069	<0.001
dif2	-0.157	-0.074	(0.837)	0.387	0.020	0.099	<0.001
dif3	0.022	-0.019	(0.859)	-0.165	0.113	0.086	<0.001
dif4	0.239	0.143	(0.852)	-0.197	-0.106	0.069	<0.001

foc1	-0.081	-0.187	0.726	(0.776)	0.049	0.120	<0.001
foc2	0.033	0.155	-0.091	(0.908)	-0.287	0.083	<0.001
foc3	0.037	0.005	-0.534	(0.901)	0.246	0.084	<0.001
pf1	0.056	0.440	-0.287	0.187	(0.834)	0.104	<0.001
pf2	0.076	0.461	-0.067	0.094	(0.785)	0.113	<0.001
pf3	-0.019	0.330	-0.232	-0.049	(0.834)	0.087	<0.001
Pf4	0.051	-0.242	-0.024	0.041	(0.788)	0.094	<0.001
pf5	-0.136	-0.608	0.254	0.086	(0.832)	0.078	<0.001
pf6	0.045	-0.405	0.185	-0.146	(0.867)	0.087	<0.001
pf7	-0.069	0.053	0.161	-0.201	(0.826)	0.073	<0.001
P values < 0.05 are desirable for reflective indicators							

Source : own calculation

The next evaluation model measurement procedure was investigating the reliability of the instruments employed in this study using composite reliability and cronbach's alpha in which the values should be above 0.70 (Mackenzie, Podsakoff, and Podsakoff 2011)

**Table 2. Composite Reliability dan Cronbach's Alpha Coefficient**

	Human Capital	Cost Leadership	Differentiation	Focus	Performance
Composite reliability	0,918	0,900	0,922	0,898	0,937
Cronbach's alpha	0,881	0,850	0,886	0,827	0,921

Source : own calculation

The result of the test (Table 2) showed the value of the composite reliability and cronbach's alpha of all the research variables including the human capital, cost leadership strategy, differentiation strategy, focus strategy, and performance were above 0.70 and have fulfilled the reliability criteria.

The model of the research has been tested based on the hypotheses of the study including the direct influence of human capital as well as the role of strategic business mediation which are the financial management strategy, differentiation strategy as well as focus strategy toward the performance of the SMEs as explained in Figure 1.

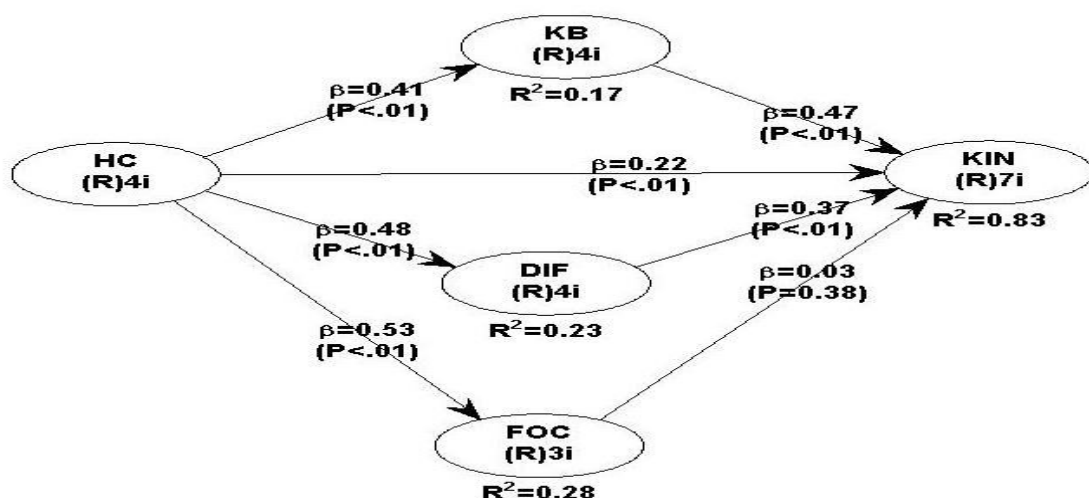


Figure 1. : Structural model of human capital, business strategy, performance of SMEs

Based on Figure 1, it can be explained that there were 7 paths of the structural model which have direct influence from the latent exogenous variable to latent endogenous variables as well as the effect size based on the criteria as proposed by Kock, (2014), in which 6 of the 7 paths had significant influence to each other and 1 path had insignificant influence. The path that had insignificant influence was the human capital which directly influenced the performance of SMEs with path coefficient at 0.220 and p value of ( $<0.001$ ) and effect size of 0.132 (weak); Human capital directly influenced the cost leadership strategy at path coefficient value at 0.414 and p value at ( $<0.001$ ) and size effect of 0.171 (medium); Human capital had direct influence toward the differentiation strategy with path coefficient of 0.533, p value of ( $<0.001$ ) and effect size at 0.284 (medium); cost leadership strategy had a direct influence toward the performance of SMEs with path coefficient of 0.471 and p value ( $<0.001$ ) and effect size of 0.385 (strong); Differentiation strategy had direct influenced tot he performance of SMEs with path coefficient of 0.365, and p value of ( $<0.001$ ) and effect size of 0.292 (medium). Meanwhile, the one which was not significant was the influence of focus strategy toward the performance of SMEs with path coefficient of 0.026 and p value (0.377) bigger than (0.05) and effect size at 0.017 (weak)

The finding of this research has confirmed that the human capital of SMEs was able to improve the performance of the SMEs yet with weak influence. The finding of this research goes in line with the research finding of Unger et al., (2011) related to the low influence of the human capital to the SMEs performance in 3 decades. This finding also supports research findings of Khalique, (2011); Jardón, (2011); Jardon & Gonzalez-loureiro, (2013) did not find any significant influence of those variables. This finding indicates that the investment in the human capital is necessary to conduct in order to improve the professional competence that will also improve the knowledge on the product, marketing and innovation since it is not enough to have only general business administration knowledge to achieve better business performance. Moreover, it is not easy to improve the performance with low level of knowledge and education (Khalique, 2011; Husnah et al., 2013). Even though professional competence is still being limited to only general business administration competence, but it is strong enough to influence the performance. In line with Acar & Zehir, (2010) business capability includes managerial competence, marketing ability that gives positive influence to financial performance and to managerial competence, marketing ability and external relationship that give significant influence to the development performance. Sarwoko & Hadiwidjojo, (2013) stated that those who are involved in the SMEs business should have some knowledge and understanding on the business implication, learning ability, and perform the management process that influence the betterment of the SMEs business performance.

The special characteristic of human capital in SMEs is its better social competence in doing teamwork, communication, and ability to adapt to changing environment and overcome pressure to be able to improve its performance compared to other constructs such as professional competence, leadership ability and motivation. This view has been confirmed by Gerli, Tognazzo, & Gubitta, (2012) who identified the managerial competence of SMEs in Italia that had high performance. In this context, the relationship dimension influenced the organizational achievement in which three competences specifically influenced the financial performance of SMEs that were orientation to efficiency, organizational awareness, and teamwork. In line with Meutia, (2013) business social competence strengthens SMEs since it its built by kinship values which turn out to be business relationship in the form of strong social network that is able to improve the performance of SMEs. This finding is contradictory to Mohebi & Farzollahzade, (2014) who stated that the social business competence strengthens the business networking and creates competitive excellence that will finally improve the business performance of SMEs.

The leadership and managerial competencies are also important factors since they are the indicators that reflect the quality of the human capital of SMEs. Leadership competency reflects individual's ability in leading himself/herself as well as leading other people and decision making which were found to be low in this study. Some present literature showed that the leadership ability is an important factor in improving the performance of SMEs as found by Chandrakumara, Zoysa, & Manawaduge, (2009); Yanney, (2014); Arham & Fadly, (2014). In their research, different types leadership styles such as business leadership, transformational which is adjusted to the condition will give different results in different SMEs.

The construct of the human capital which also had lower value compared to other constructs was the motivation. The motive that drives a businessman to work hard is the income, which is followed by the suitability of the job to businessman's skill which can be enhanced through the job. In line with the research finding by Stefanovi, Rankovi, & Proki, (2011) analyzed the factors related to the motives of businessman who started their business in Serbia. It was found that income, the suitability of the job to the doer's skill, workshop to improve the skill and the safety of the job influence the motivation. This view was strengthened by Mulolli, Islami, & Skenderi, (2015) who stated that income and reward were the main human capital that were able to improve the job

performance in Kosovo. Meanwhile Widarni, (2015) found that the level of education, experience and motivation were the main elements of human capital that were able to improve the performance of SMEs in West Java, Indonesia.

For a better and higher performance, the result from human capital investment and excellent experience in dealing with business-related tasks. In the other words, businessman needs to have broad knowledge and special skills in running the business which can be achieved from a long learning process and experience (Unger et al. 2011). Human resources as the inputs that influence the management process require good adequate knowledge, skills and other capacities in order to achieve certain core competence which can be fairly managed in every employee (Jardon and Gonzalez-loureiro 2013). Therefore, fair managerial competence needs to be considered to trigger strong core competence of the company that also improves and enhances the performance of the SMEs.

To answer the research question related to which human capital competencies among the cost leadership strategy, differentiation strategy or focus strategy that is the best and the most suitable one to be applied as the business strategy to improve the performance of the SMEs, the data were analyzed. The result of the analysis showed that the path coefficient of the focus strategy was higher than the cost leadership strategy and the differentiation strategy which meant that the focus strategy had a direct influence to the human capital. It also implies that the human capital of the SMEs is suitable to be applied with business strategy including the dominant focus strategy since it had the most significant influence and then followed by the cost leadership strategy and differentiation strategy. In line with the research finding by Batista, Lisboa, Augusto, & Almeida, (2016) in which internal abilities owned by a company is suitable to be applied with certain strategies, for instance the marketing ability is closely related to the focus strategy, the managerial ability is related to the cost leadership strategy, and the technology ability should be closely related to the differentiation strategy. Yet, in their research, this view has not yet been proven. Nur et al., (2014) suggested to SMEs who have good business orientation and good market orientation yet low managerial ability that it would be better to implement the focus strategy in their business practice. The result of this study strengthen the finding by Omsa, Salim, Djumahir, & Rahayu, (2015) who stated that the managerial ability of SMEs included the quality of the human resources who own the production skill, marketing skill, and innovation to be able to implement certain business strategy. The finding of this research showed that all of those three strategies can be applied to the business practice of SMEs in Gorontalo, Indonesia. Yet, based on the value of the path coefficient, the most suitable strategy out of those three strategies to be applied is the focus strategy, followed by the differentiation strategy and then cost leadership strategy at last. Is the implementation of the best or the most suitable business strategy successful enhancing the human capital to improve its performance in the SMEs? To answer this question, the researcher analyzed the direct and indirect influence of the business strategy variable as the mediator of the human capital influence toward the performance.

The direct influence of the focus strategy toward the performance of SMEs was not significant to the lowest path coefficient value of the other strategies. The implementation of focus strategy through the selection of certain market which does not achieve good attention from competitors would not improve the result of good performance. This finding adds up to the research finding found by Kulatunga, (2008); Ariawan et al., (2016) in which focus strategy had a positive but insignificant effect to the performance. Different result was obtained by Siriwan, Ramabut, Thitikalaya, & Pongwirithon, (2013), in which focus strategy had a strong positive influence to the success of overall SMEs operations including the financial perspective, customers, internal processing, learning and development and it also had strongest influence toward the non-financial performance (Kimatu and Bichanga 2015). The result of the mediation test showed that focus strategy was not the mediator within the influence of human capital to the performance, and focus strategy had the lowest effect size compared to other strategies. This finding is interesting since the human capital competence of the SMEs was found high in terms of business competency (professional competency) which indicated that the implementation of focus strategy was the main concern, but in fact, it could not improve the performance. It is in line with Batista et al., (2016) who found that the marketing ability is the main competence that drives the implementation of focus strategy to improve the performance.

The direct influence of the differentiation strategy toward the performance of SMEs was significant to the second highest path coefficient among the other strategies. The implementation of differentiation strategy has been able to improve the performance. This finding goes in line with Kulatunga, (2008); Ariawan et al., (2016) who stated that the differentiation strategy had significant influence toward the performance of SMEs, overall success of the organization that included the financial perspective, customers, internal process, learning and development (Siriwan et al. 2013), non-financial performance (Kimatu and Bichanga 2015). This finding does not

match the research finding of Acar & Zehir, (2010) in which differentiation strategy did not significantly influence the financial performance yet it had significance toward the developmental performance. Similar to Acar & Zehir, Gibcus & Kemp, (2003) did not find the influence of differentiation strategy toward the performance. The result of mediation test showed that differentiation strategy was a partial mediator in the influence of human capital toward the performance and it had medium level of effect size compared to the other strategies. The result of the test showed that the differentiation strategy has been proven as the most suitable and appropriate strategy to be implemented on the present characteristics of the human capital owned by the SMEs in order to improve its performance. This finding goes in line with Yunis, Jung, & Chen, (2013) who found that differentiation strategy was the mediator of the soft TQM practice (leadership and human resources management) toward the operational performance of a company. On the other hand, Seedee, (2012) found the moderation effect of the relationship between the best business practice (product innovation, innovation process) and the company's performance.

The influence of the cost leadership strategy toward the performance was significant and it had the highest coefficient path compared to the other strategies (See Figure 1). The implementation of the cost leadership strategy has been able to improve the performance of the SMEs. The result of this study goes in line with Kulatunga, (2008); Oyedijo, (2012); Ariawan et al., (2016) who found that the financial management strategy had a direct influence toward the performance of SMEs. However, this finding is contradictory to Acar & Zehir, (2010) who found that cost leadership strategy had a direct influence to the financial performance and to the developmental performance, non financial performance (Kimatu and Bichanga 2015), and to the overall success of the SMEs operational activities including the financial perspectives, customers, internal process, learning and development (Siriwan et al. 2013). On the contrary, Gibcus and Kemp (2003); Seedee, (2012); Kaya, (2015) did not find the influence of cost leadership strategy toward the performance. It indicates that if the cost leadership strategy is implemented in the most efficient production expenses that decreases the price to be more competitive among the competitors, it will improve the performance to achieve the expected result. The result of the mediation test showed that the cost leadership strategy was a partial mediator within the influence of human capital toward the performance for it had stronger effect size compared to other strategies. Cost leadership strategy was the most appropriate strategy to be implemented that match the human capital which is able to improve the performance. This finding is different from Yunis et al., (2013) who found that cost leadership strategy was not the mediator of the TQM practice toward the operational performance.

Based on the result of the data analysis, it has been confirmed that the most appropriate strategy to implement in order to improve the performance of SMEs were the cost leadership strategy and differentiation strategy. This finding supported the finding of Pribadi & Kanai, (2011); Kamukama et al., (2011); Husnah et al., (2013) bahwa that business strategy was a partial mediator in the influence of the human capital toward the performance of the SMEs.

## Conclusion

Facing this era of tight competitive market, SMEs needs to prepare itself for the competition by identifying the quality of the owned resources in evaluating and implementing the best business strategy that improves the performance of SMEs. According to the resource-based theory of the intellectual asset management showed that human capital is an important thing to be well-managed for it can improve the performance of the SMEs. This study showed that the human capital of SMEs including the professional competence, social competence, leadership competence and motivation have weak influence toward the improvement of the performance. The identification of human capital required strategic steps in achieving the core competences to be used as the guidance in choosing and implementing the most appropriate business strategy. The finding of this study showed that the most appropriate business strategy were the focus strategy in the first rank, differentiation strategy (2<sup>nd</sup> place) and cost leadership strategy (3<sup>rd</sup> rank) can be implemented to improve the performance. Appropriate choice and implementation of the best business strategy has not yet offered real pictures related to the best business strategy to use in order to improve the performance. The analysis on the role of the mediator showed that the most appropriate business strategy to use in order to improve the performance was the cost leadership strategy and the differentiation strategy. On the other hand, focus strategy did not mediate the influence of human capital toward the performance of SMEs.

The finding of this study adds up to the body of knowledge on the resource based theory and the development of management strategy within the human capital investment in order to be able to implement the business strategy to achieve good performance. Besides, the finding of this study also give practical insights for

managers/owners of SMEs in managing their intellectual capital related to the human capital to get focused on the core competences that matched the implementation of the chosen business strategy to improve the performance. Government is expected to design good policies to facilitate the development program of SMEs and society empowerment through educative trainings which have been adjusted to the condition of the human capital and the implemented business strategy in the SMEs.

Even though this study has been conducted based on certain systematical steps, it still suffers from some weaknesses that include the small number of sample, the neglect of size, business characteristics and the ownership structure as the control variables. Cross sectional data collection was administered to collect data of the perception or opinion of managers/owners. To close the gap of this study, future researchers are encouraged to conduct similar study that involve broader scope of study with bigger number of sample and using mix method to verify the result of the study. In conclusion, it is suggested that practitioners used the finding of this study related to the implementation of focus strategy based on the ability of the human capital which had the highest coefficient path yet had insignificant influence to the improvement of performance by involving the mediation variables such as the combination of focus-cos strategy or focus-differentiation strategy as suggested by Hitt, et al. (2011:107).

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