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## Article

# Improving competitiveness and well-being through human resources quality, local culture, and product performance

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## BANKING & FINANCE | RESEARCH ARTICLE

# Improving competitiveness and well-being through human resources quality, local culture, and product performance

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**Abstract:** This study aims to examine and analyze the effect of Human Resources Quality, Product performance, and local culture on Competitiveness and welfare of small and medium-sized businesses. The study was conducted at the Small and Medium Enterprises in Denpasar-Bali-Indonesia which collected 126 business owner. The research was conducted by census, where all participation was used as research respondents. Data collection was carried out through interviews related to the prepared questionnaire. Questionnaires that were asked by respondents then tabulated and processed with the SmartPLS 3.0 program. The results found that the quality of human resources, product performance, and local culture showed a significant positive effect on competitiveness. Competitiveness shows a significant positive effect on the competitiveness of small and medium businesses. The results of the study prove that product performance and competitiveness together mediate the relationship between Human Resources Quality and Welfare.

**Subjects:** Macroeconomics; International Economics; Development Economics



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### PUBLICINTEREST STATEMENT

The welfare of small and medium industry players seems to deteriorate along with the weakening of their competitiveness. The weakening of competitiveness is caused by increasingly intense competition caused by the opening of free trade. Only industries that have quality human resources are better able to survive in situations of intense competition. Quality human resources are able to produce quality products and are competitive. Therefore, it is very important to always improve the quality of human resources, so that they have stronger competitiveness.

**Keywords:** human resources quality; product performance; local culture; competitiveness; well-being

## 1.. Introduction

Welfare for the community is one of the main objectives of the development process throughout the world (White, 2010), including Indonesia. One of the factors affecting the welfare of a country's society is its competitiveness in many ways (Balkyte & Tvaronavičienė, 2010). Increased competitiveness is able to realize better welfare for the community, including small and medium businesses (Holt & Powell, 2015).

Singh et al. (2010), Hult (2012), and Chabowski and Mena (2017), stated that in the era of free competition, competitiveness is becoming increasingly important. This condition encourages the growth of creative and innovative industries more widely. The growth of these industries is expected to be able to encourage an increase in the quality of life, as well as equitable distribution of people's welfare, especially in Bali.

Based on data released by the World Economic Forum from 2014 to 2018, the export value of handicraft commodities for small and medium enterprises in the city of Denpasar-Bali-Indonesia has fluctuated and tends to decline. At the same time, Indonesia's competitiveness has also decreased from 37 in 2015 to 41 in 2016.

One of the reasons for this decline in export value is the decline in the competitiveness of these products (Mohsenzadeh & Ahmadian, 2016). The decline in product competitiveness is influenced by many factors such as product quality (Suchánek et al., 2015), product prices (Noble & Gruca, 1999), promotion (Geldres-Weiss et al., 2016), and cultural factors (Dadzie et al., 2012). The quality of a product can also be influenced by one of which is the quality of human resources (Barrales Molina et al., 2018; Gutierrez-Gutierrez et al., 2018). Weakening competitiveness can have an impact on decreasing sales turnover (Abubakar & Mohammad, 2019) so that income decreases and profitability also decreases (Agbeja et al., 2015), which in turn has an impact on the welfare of business actors to decline. Therefore, in this case the research was conducted to see how the quality of human resources, local culture affects product competitiveness, especially in small and medium industrial handicraft products, and how it impacts the welfare of the community. small and medium enterprises.

## 2. Theoretical, previous research, and research hypotheses

### 2.1. Well-being

Well-being has been the subject of research in many countries, but the definition of well-being is still very diverse. Welfare involves things that are not visible and difficult to measure (Thomas, 2009). However, it is very important to set limits on welfare measures so that they can be formulated in a model. Todaro and Smith (2006) state that welfare is measured through the results of life development and improvement in living standards in an effort to improve the quality of life which includes 1) increasing the ability and equitable distribution of basic needs such as food, housing, health, and protection; and 2) an increase in the standard of living in terms of income, education, and awareness of cultural and human values. The welfare measures in this study are proxied through the large expenditure on food and public, education, and health.

The level of welfare of a person (in this case is a business actor) is actually influenced by a very complex factor. The ability to compete/compete is one of the factors that can create prosperity for business people (Singh et al., 2008). The stronger the ability to compete, allowing greater product selling power, so that income and greater business profits, the welfare is increasing. In addition, the ability to work better products, allowing greater buyer attraction, higher product sales, higher income, and profits, then the impact on welfare is increasing as well.

Another factor that can also affect the welfare of business actors is the quality of human resources within the company. The more qualified human resources working in the company, the more quality the products produced will be. Quality human resources, allows for a better level of efficiency so that the production costs per unit be lower, the price level becomes cheaper and competitiveness is getting stronger. Strong competitiveness causes product sales to increase, eventually, welfare will also increase.

Local culture is also one of the factors that can influence the welfare of business actors. Unique products with local cultural characteristics have a higher selling power. This means that the stronger the touch of local culture, the higher the selling power of the product, so that the income/profit will be even greater, and the welfare of the business actor will be higher.

## **2.2. Competitiveness**

Competitiveness is defined as the ability of an industry to show excellence in certain cases, by showing the most favorable situations and conditions, better work results compared to other industries. The competitiveness of a country is very dependent on the country's competitive advantage. There are four things in building the superiority of a country described by Porter (2000) as a diamond-shaped scheme, namely the condition of factors such as skilled workers and infrastructure, demand conditions and domestic quality demands for certain industrial outputs, the existence of related industries and empowered supporters competitiveness, as well as strategy, structure, and competition between companies. Porter (2000) also suggested four competitive strategies (Porter's Five Forces) consisting of Cost Leadership, Product Differentiation, and Focus. The Low-Cost Strategy (cost leadership) emphasizes efforts to produce standard products (the same in all aspects) with a very low cost per unit. Product differentiation strategy (differentiation), encouraging companies to be able to find its own uniqueness in the target market. The uniqueness of the product (goods or services) that is prioritized allows a company to attract the greatest possible interest from potential customers. The focus strategy is used to build competitive advantage in a narrower market segment.

The measurement of competitiveness used in this research is product appearance, product variations, and product standards. Appearance of products that are attractive to buyers, diverse product variations, as well as standardized products allow for higher selling power, so that revenues and profits from the sale of these products are greater, which in turn gives more prosperity for businesses. The competitiveness of a product is strongly influenced by a number of factors, namely the quality of human resources, product performance, and local culture. Based on this, the research hypothesis can be stated as follows:

Hypothesis 1: Competitiveness has a significant positive effect on well-being

## **2.3. Performance of product**

Product quality is how well the product can implement the functions assigned to a product (Krishnan and Ulrich, 2001). According to Tjiptono (1997) quality includes efforts to meet or exceed customer expectations including products from a company. The quality of a product is very dependent on the quality of raw materials, processes, and human resources. A good quality raw material, accompanied by a good workmanship process, and done by a competent workforce, can produce quality products and perform well.

The performance measures of a product in this study consist of Performance, Conformance to Specifications (Aesthetics), Aesthetics, and Perceived Quality.

The quality of product performance is getting better, more and more interested in product users, thus enabling the product to be more competitive. Based on these arguments, the following research hypotheses can be constructed:

Hypothesis 2: Performance of product has a significant positive effect on Competitiveness

#### **2.4. Human resources quality**

According to Sugeng (2002), the quality of human resources is a person's knowledge, skills, and abilities that can be used to produce professional services. According to Abdullah (1990), the quality of human resources will always not be separated from professional work. According to Masaki (1986), the term quality of human resources is the level of ability and will that can be demonstrated by human resources. Therefore Human Resources can be said to be quality if you have the education, skills, and competencies in accordance with the field of work. Quality human resources make it possible to produce quality products, so they are able to compete strongly (Izverciana et al., 2014). Improving the quality of human resources is important because it is based on research results that show that human resource variables are important factors in the formation of competitiveness (Jiang & Gong, 2019; Michie & Sheehan, 2005; Suliswanto & Sutikno, 2019). Referring to this argument, the formulation of research hypotheses that can be built are:

Hypothesis 3: Human Resources Quality has a significant positive effect on product performance

Hypothesis 4: Human Resources Quality has a significant positive effect on competitiveness

In theory and empirically, Human Resources Quality influences the performance of product and competitiveness, while on the other hand performance of products separately also affects competitiveness. In another part, competitiveness influences well-being, so based on this description a research hypothesis can be proposed as follows:

Hypothesis 5: Competitiveness significantly mediates the relationship of Human Resources Quality to Well-being

Hypothesis 6: Performance of product and competitiveness together mediate the relationship of Human Resources Quality to Well-being

#### **2.5. Local culture**

Local wisdom is defined as "wisdom in traditional culture" of ethnic groups. Wisdom in the broadest sense is not only in the form of cultural norms and values, but also all elements of ideas, including those that have implications for technology, health care, and aesthetics. With this understanding, what is included as a description of "local wisdom" is a variety of patterns of action and material cultural outcomes. In a broad sense, it means, "local wisdom" is interpreted in all cultural heritage, both tangible and intangible (Sedyawati, 2006, p. 382). Local wisdom is defined as wisdom or noble values contained in local cultural assets such as traditions, *petatah-petitih* and life motto (Nasiwan, 2012, p. 159). Indicators of local culture in this study include uniqueness, safety in life (communicative bridge), the idea of local culture (Cultural Heritage and Tradition), and the value of environmental and religious balance.

Terms of competitive products are unique, difficult to imitate products, including difficult to duplicate. Products that are increasingly unique, increasingly difficult to imitate, and increasingly difficult to duplicate will have their own competitiveness. Likewise, the greater the meaning that can be given by a product, the more attractive the product is. Thus, products that contain a stronger local culture, the stronger their competitiveness. Based on this argument, the research hypothesis building is as follows:

Hypothesis 7: Local Culture has a significant positive effect on competitiveness

### 3. Research method

This study was designed with a quantitative approach (positivism) by connecting the variables of Human Resource Quality (independent variables), Local Culture (independent variables), product performance (mediating variables), Competitiveness (dependent variable), and Welfare (dependent variable). The study population was 126 small and medium enterprises in the city of Denpasar-Bali-Indonesia which consisted of making musical instruments, woven bamboo, solid stones, furniture, wood, ceramics, leather, candles, metal, paintings, silver, rattan, terracota, bones, spa. The entire population was used as research respondents.

Data collection was carried out from January to February 2020, through direct interviews with respondents based on a prepared questionnaire. The collected data were then tabulated and processed using the SmartPLS 3.0 program. The data processing stage is carried out in three stages, namely the measurement model evaluation stage (measurement model evaluation), the structural model evaluation stage (structural model evaluation), and the hypothesis testing stage. The structural model evaluation stage consists of evaluating the validity and reliability through convergent validity and discriminant validity. The structural model stages consist of model accuracy through R-Square ( $R^2$ ), Q-Square Predictive Relevance ( $Q^2$ ), Goodness of Fit (GoF), and the significance of the Path coefficient.

### 4. Result and discussion

#### 4.1. Validity and reliability

The results of testing the validity and reliability of research data are shown through two criteria, namely convergent validity, and discriminant validity. Converging validity testing can be seen through the outer loading value. The indicator can be said to be valid if it has an outer loading value  $> 0.50$  and is significant. Based on the results of data processing with the SmartPLS program, the outer loading value is obtained as shown in Table 1.

Table 1 shows that the value of the outer loading indicator for each variable is greater than 0.50 so that it can be said to be valid.

Evaluation of validity based on discriminant validity is shown through the Root Variance Extracted (AVE) root value which is greater than the correlation value between variables. The recommended AVE value is  $> 0.50$ . The results of the discriminant validity assessment are shown in Table 2.

The reliability assessment of the research variables is based on Cronbach's Alpha and Composite Reliability. Research variables can be said to be reliable if the value of Cronbach's Alpha and Composite Reliability  $> 0.70$ . The results of the evaluation of the reliability of the research variables are shown in Table 3.

The results of reliability testing based on Cronbach's Alpha and Composite Reliability, as shown in Table 3, show that all Cronbach's Alpha and Composite Reliability values are greater than 0.70 so they can be declared reliable. In connection with all research data declared valid and reliable, it can be continued in the next process, namely the accuracy of the model and hypothesis testing.

#### 4.2. Evaluation fit model

Testing the accuracy of the research model as a research conceptual framework carried out through R-Square ( $R^2$ ), Q-Square Predictive Relevance ( $Q^2$ ), and Goodness of Fit (GoF). Model accuracy criteria based on  $R^2$  according to Cohen (1988), namely: 0.02 (small), 0.13 (medium), and 0.26 (large). Model accuracy criteria based on  $Q^2$  are 0.02 (small), 0.15 (medium), and 0.35 (large). While the accuracy criteria of the model based on GoF according to Akter et al. (2011), namely: 0.10 (small), 0.25 (medium), and 0.36 (large).



**Table 1. Outer loading values**

Variables	Code/Indicators	Outer Loading Coefficient	p-value	Informations
X1/Human Resources Quality	X1.1/Educated Human Resources	0.766	0.000	valid
	X1.2/Skilled/expert Human Resources	0.757	0.000	valid
	X1.3/Trained Human Resources	0.924	0.000	valid
	X1.4/Competent Human Resources	0.915	0.000	valid
X2/Local Culture	X2.1/Unique	0.857	0.000	valid
	X2.2/Meaningful life	0.794	0.000	valid
	X2.3/The idea of local culture	0.808	0.000	valid
	X2.4/The value of environmental and religious balance	0.730	0.000	valid
Y1/Product Performance	Y1.1/workability	0.833	0.000	valid
	Y1.2/Compliance with specifications	0.776	0.000	valid
	Y1.3/Aesthetics	0.840	0.000	valid
	Y1.4/Perceived Quality	0.826	0.000	valid
Y2/Competitiveness	Y2.1/product display	0.750	0.000	valid
	Y2.2/Product Variations	0.743	0.000	valid
	Y2.3/Meet the standards	0.804	0.000	valid
	Y2.4/Always in great demand	0.807	0.000	valid
Y3/Well-being	Y3.1/Food Expenditure	0.773	0.000	valid
	Y3.2/Education Expenditure	0.833	0.000	valid
	Y3.3/Health Expenditure	0.825	0.000	valid

Source: Data processing results, 2020.

The accuracy of the research model based on the  $R^2$  coefficient is shown in Table 4.

Testing the accuracy of the model through Q-Square Predictive Relevance ( $Q^2$ ), can be calculated through the formulation  $Q^2 = 1 - (1 - R^2_1) (1 - R^2_2) (R^2_3)$ .  $Q^2$  calculation results based on the formulation are as follows:

$$Q^2 = 1 - (1 - R^2_1)(1 - R^2_2)(1 - R^2_3)$$

$$Q^2 = 1 - (1 - 0.277)(1 - 0.528)(1 - 0.509)$$

$$Q^2 = 1 - (0.723)(0.473)(0.491)$$

$$Q^2 = 1 - (0.1679)$$



**Table 2. Discriminant validity**

Code/ Variables	AVE	X1/Human Resources Quality	X2/Local Culture	Y1/Perf. of Product	Y2/Compe titiveness	Y3/Well- being
X1/Human Resources Quality	0.712	<b>0.844</b>				
X2/Local Culture	0.637	0.208	<b>0.798</b>			
Y1/ Performance of Product	0.672	0.527	0.254	<b>0.819</b>		
Y2/ Competitive ness	0.603	0.540	0.322	0.682	<b>0.777</b>	
Y3/Well- being	0.657	0.625	0.367	0.703	0.714	<b>0.811</b>

Source: Data processing results, 2020.

**Table 3. Cronbach's alpha and composite reliability**

Variables	Cronbach's	Composite Reliability	Informations
X1/Human Resources Quality	0.863	0.908	Reliable
X2/Local Culture	0.818	0.875	Reliable
Y1/Performance of Product	0.837	0.891	Reliable
Y2/Competitiveness	0.783	0.859	Reliable
Y3/Well-being	0.742	0.852	Reliable

Source: Data processing results, 2020.

**Table 4. R-square (R<sup>2</sup>) coefficient**

Code/Dependent Variable	R-Square (R <sup>2</sup> )	Fit Level
Y1/Performance of Product	0.277	large
Y2/Competitiveness	0.528	large
Y3/Well-being	0.509	large

Source: Data processing results, 2020.

$$Q^2 = 0.8321 \text{ (large)}$$

Testing the accuracy of the model through Goodness of Fit (GoF) is calculated through the average value of R<sup>2</sup> (Table 4) and AVE average (Table 2), with the following formulation:

$$\text{GoF} = V(R^2 \times \text{AVE})$$

$$\text{GoF} = V[(0.277 + 0.528 + 0.509)/3] \times [(0.712 + 0.637 + 0.672 + 0.603 + 0.657)/5]$$

$$\text{GoF} = V(0.4380 \times 0.6562)$$

$$\text{GoF} = V(0.2874156)$$

$$\text{GoF} = 0.5361 \text{ (large)}$$

The results of the evaluation of the research model seen through the values of  $R^2$ ,  $Q^2$ , and GoF show that the research model built has a strong degree of accuracy, therefore it can be continued to the next process, namely testing the research hypothesis.

#### 4.3. Hypothesis testing

The research hypothesis testing is based on the results of data processing with the SmartPLS 3.2.8 program, shown in Figure 1 and Table 5.

Based on Figure 1 and Table 5, it appears that hypothesis 1 which states that competitiveness has a significantly positive effect on the well-being of small and medium-scale industry players in the city of Denpasar is accepted. This is indicated where the path value is 0.714 with a p-value of  $0.000 < 0.050$ . Increased competitiveness can lead to the welfare of businesspeople more prosperous.

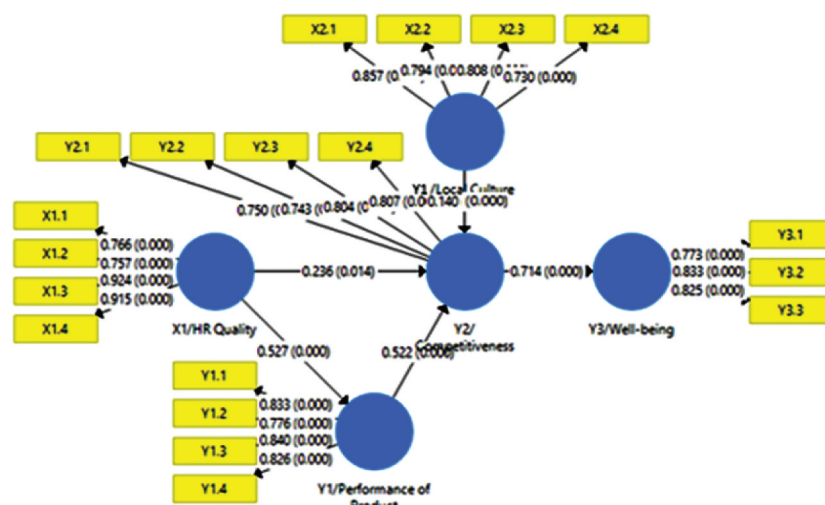
Competitiveness is also positively significantly influenced by product performance (Hypothesis 2 is accepted). This is indicated through the path value of 0.522 with a p-value of  $0.000 < 0.050$ . That means any increase in product performance can improve product competitiveness in a better direction.

Meanwhile, product performance is also positively significantly influenced by the quality of human resources (Hypothesis 3 is accepted). This is necessary through a path value of 0.527 with a p-value of  $0.000 < 0.050$ . These results indicate that product performance is strongly influenced by the quality of human resources working on the product. The better the quality of human resources, the better the performance of the products produced.

In addition, the improved quality of human resources also directly affects the ranking of competitiveness. This is evident from the results of the study, where the path value of 0.236 with a p-value of  $0.000 < 0.050$ . This means that the better the quality of human resources, the better the company's competitiveness (Hypothesis 4 is accepted).

Because the quality of human resources has a significant effect on competitiveness, while on the other hand competitiveness also has a significant effect on the level of welfare, it can be stated that competitiveness is mediating the relationship of the quality of human resources to the level of welfare. This is statistically proven, where the path value in the relation of the quality of human resources to competitiveness and welfare is 0.372 with a p-value of

Figure 1. Results of research data analysis.



**Table 5. Path coefficient direct influence and indirect influence**

Relations between Variables				Path Coefficient	p-value	Information
Independent	Mediation-1	Mediation-2	Dependent			
-	-	Y2/ Competitiveness	Y3/Well-being	0.714	0.000	Hypothesis 1 Accepted
-	Y1/ Performance of Product	Y2/ Competitiveness	-	0.522	0.000	Hypothesis 2 Accepted
X1/Human Resources Quality	Y1/ Performance of Product	-	-	0.527	0.000	Hypothesis 3 Accepted
X1/Human Resources Quality	-	Y2/ Competitiveness	-	0.236	0.000	Hypothesis 4 Accepted
X1/Human Resources Quality	-	Y2/ Competitiveness	Y3/Well-being	0.372	0.000	Hypothesis 5 Accepted
X1/Human Resources Quality	Y1/ Performance of Product	Y2/ Competitiveness	Y3/Well-being	0.196	0.002	Hypothesis 6 Accepted
X2/Local Culture	-	Y2/ Competitiveness	-	0.140	0.000	Hypothesis 7 Accepted

Source: Data processed, 2020

0.000 < 0.050 meaning hypothesis 5 is accepted. Further, research shows that the quality of human resources affects the quality of product performance, the quality of product performance affects competitiveness, competitiveness affects the level of welfare, it can be stated that the quality of product performance and competitiveness together mediate the relationship between the quality of human resources towards welfare level. Statistically shown where the path value of 1.96 with p-value 0.002 < 0.050 (Hypothesis 6 is accepted).

Local culture also shows a significant positive effect on business competitiveness. This is statistically apparent where the path value is 0.140 with a p-value of 0,000 < 0.050 (Hypothesis 7 is accepted).

## 5. Result and discussion

The results of the analysis prove that competitiveness positively significantly affects the welfare of business operators. The meaning is that increasing business competitiveness can improve the welfare of small and medium businesses in Bali. The most dominant indicator contributing to competitiveness is product uniqueness, where the more unique the product is produced, the higher the competitiveness of the product. The results of the analysis also prove that product competitiveness is positively significantly affected by the product's ability to perform. This means that the higher the product's performance capability, the stronger the competitiveness of the product. The most powerful product performance indicators have an effect on the competitiveness of SME products, namely product reputation. The stronger a product has a reputation, the more undoubtedly the performance of the product.

Competitiveness is also positively significantly influenced by the quality of human resources working on the product. The meaning is the more qualified human resources who work on the product, the more competitive it can be. The indicator of the quality of human resources that most contributes to the competitiveness of SME products in Bali is the level of skills and expertise of human resources, where the more skilled and expert a worker is in producing a product, the better and more competitive the results.

The competitiveness of SME products in Bali is also positively significantly influenced by the existence of local Balinese culture. That is, the stronger the performance of Balinese culture is displayed on a product, the stronger the competitiveness of the product. The most dominant indicator of local culture is its product uniqueness. The more unique the Balinese culture is, the more competitive the product is.

The results of the analysis also require increasingly qualified human resources, can produce products that are getting better performance, this is evident from the results of the analysis that proves that the quality of human resources has a significant positive effect on the quality of product performance. The more skilled and skilled human resources are able to produce increasingly innovative and quality products.

Based on the findings as described above, the product's performance capability and product competitiveness, both partially and jointly, act as a mediator in the relationship of the quality of human resources to the welfare of SMEs in Bali. That is, the ability of product performance and competitiveness of SME products in Bali is able to make the quality of human resources to prosper SMEs in Bali.

## 6. Conclusion and recommendations

The results of this study generally provide clues that the quality of human resources and the quality of product performance can be relied upon to improve business competitiveness, especially in small and medium-sized businesses in the city of Denpasar. Furthermore, increasing competitiveness is also able to boost the improvement of the welfare of business actors. Therefore, in an effort to improve the welfare of small and medium industry players, especially in the city of Denpasar, efforts can be made to improve the quality of human resources through various programs such as providing skills training, so that they become more skilled and qualified. Through qualified personnel, quality products will be produced as well, so that they can be more competitive with similar products. The ability to increase competitiveness can continue to break through the market more broadly, so that more sales (greater profits), then the welfare level becomes better.

## 7. Limitation and future research

This research is only limited to small and medium industries in Denpasar City, so the results have not been able to provide conclusions for various other industries in a number of other regions. Likewise, this study is limited to the variables of human resource quality, product performance, local culture and competitiveness associated with welfare levels. Community welfare is influenced by very complex factors. It is, therefore, necessary to consider including other variables that are more relevant, so that a more comprehensive research model is obtained.

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