The Influence of Human Capital on Organizational Performance

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ABSTRACT

Currently, the economic downturn in various parts of the world has made human capital increasingly important with increasing globalization and the saturation of the job market.In order to increase economic growth by giving more time and effort, both developed and developing countries place an emphasis on human resource development.To enter the international arena, human resource development is one of the basic solutions.For this, companies need to invest the necessary resources to develop human resources that have a greater impact on performance.This paper reviews the effects of human capital having a direct impact on firm performance from various critical perspectives.Company performance in terms of financial and non-financial performance.Finally, this paper proposes an initial model that explains the relationship between human capital and firm performance.

Keywords: **Human capital; Company, Performance**

INTRODUCTION

Human capital development is the process of helping people to acquire skills. In an organizational context, this is the process by which organizations assist their employees on an ongoing and planned basis to: acquire or sharpen the skills necessary to perform various functions related to their current or expected future roles; develop their general skills as individuals, discover and utilize their inner potential for their own and/or organizational development purposes; develop an organizational culture in which superior-subordinate relationships, teamwork and collaboration between sub-units are strong and contribute to the professional well-being, motivation, and pride of employees.

According to Maruping (2002), Johnson et.al. (2000), Jonson, M. (2001).and Abel, J.R.; Deitz, R. (2012) When analyzing what issues contribute to competitive advantage, Penrose's work shows the beginnings of a resource-based view of the company which was later polished. The importance for an organization to build a valuable set of resources and tie them in a different and unique way to develop the company's success has been defined by the RBV. Unlike traditional assumptions, competitive advantage does not depend on natural resources, technology, or economies of scale because it is easy to imitate. According to the RBV, competitive advantage depends on the valuable, rare and difficult to imitate resources that exist within the organization. Human capital in the true sense is "Invicible assets" Seymour W. I (2003).The importance of pooled human capital, and how it is managed through the HR process, becomes clear, then, for the strategic objectives of the organization.

LITERATURE REVIEW

Human Resources and Company Performance

Human capital according to Simkovic, (2013), the term "human capital" has been defined as a key element in increasing company and employee assets to increase productivity and maintain competitive advantage. Human capital consists of two words, namely Human and capital or capital. Capital is defined as one of the factors of production that can be used to produce goods or services without using them during the production process (Nurkholis, 2018). So that human capital is very functioning to maintain competitiveness in the organization, human resources become an instrument used to increase productivity. Human Capital is basically an inherent way of education, training and other professional initiatives to increase the level of knowledge, skills, abilities and social assets of an employee.

Therefore, human capital management for business organizations is crucial. The goals of business organizations are difficult to realize without the active role of employees, even though the supporting tools owned by the company are quite sophisticated. Sophisticated tools owned by the company will not function properly for the company, if the active role of employees is not included (Hasibuan, 2016). So that one of the management of human capital leads to employee satisfaction and performance and results in company performance. Human capital can also be defined as "knowledge, skills, competencies, and attributes contained in individuals that facilitate the creation of personal, social, and economic well-being". The ever-changing business environment requires companies to strive for a superior competitive advantage through dynamic business plans that combine creativity and innovation. This is fundamentally important for long term sustainability. It is undeniable that human resource input plays an important role in increasing the competitiveness of a company Zahid (2015). Significant studies were conducted on human capital and its implications for company performance, so that an increase in human resources will result in greater competitiveness and performance. Under the human capital philosophy, there is a strong relationship between innovation and company performance. The definition of company performance may differ from each other. However, certain clear definitions of firm performance with regard to capital increase can be given. In addition, return on investment, earnings per share and net income after tax can also be used as measures of financial performance. Interestingly, researchers also tend to compare managerial accounting indicators to financial measures in six dimensions; “workers' compensation; "quality" ; “shrinkage‟ ;”productivity‟ ; operating costs" (Samad, 2012).Perceived performance approach can be used to measure company performance. The company's performance from top management can be measured using a Likert scale.

According to Abbas (2019), several interesting strategic issues in human capital management are the availability of energetic, creative, innovative, and professional human resources. Another challenge for the Human Resource Department (HRD) is facing the millennial generation who tend to be uncomfortable in carrying out a monotonous job, so that their turnover rate tends to be high. This can happen, because some of the millennial generation are still in the process of looking for a job that feels right to their liking, and they feel satisfied quickly with a shorter working period compared to the previous generation's tenure (Faiza and Firda, 2018).

According to Florin et. al (2003), explained that human capital has four basic attributes: flexibility and adaptability, improvement of individual competence, development of organizational competence, and individual work ability. This indicates that these attributes in turn generate added value for individual and organizational outcomes. There are various findings that combine human capital with higher performance and sustainable competitive advantage (Coleman, 1988); higher organizational commitment (Sandberg, 1986); and increased organizational retention (Siegel, et al, 1993). According to Kenney and Burg, (1999), All of these discussions focus on individual and organizational performance. Pennings, et.al (1998), found that the significance of human capital depends on the extent of its contribution to the formation of company performance. Economically, transaction costs indicate that firms gain a competitive advantage when they have firm-specific resources that cannot be imitated. Thus, when the uniqueness of human capital increases, the company has an incentive to invest resources into its management and aims to reduce risk and exploit productive potential. Therefore, individuals need to improve their competency skills in order to compete in their organizations. Human capital theory has undergone rapid development, In its development, greater attention is paid to aspects related to training, It has a lot to do with individual perspectives. Human capital investment is any activity that improves the quality of workers. Therefore, training is an important component of human capital investment. This refers to the knowledge and training needed and experienced by a person that increases his ability to carry out activities of economic value. Some recent literature points to the importance of training, however, it is appropriate to point out that lack of workforce training is associated with low competitiveness (Chen, et al, 2004).In turn, a larger stock of human capital is associated with greater productivity and higher salaries (Rodrigues, et al, 2010). Similarly, training is related to firm longevity (Pen, 2002) and a greater propensity for business and economic growth (Garvan, et al. 2001). According to Agarwala (2003), states that human capital motivates workers, increases their commitment and also creates spending in R&D and ultimately creates avenues for new generations for the economy and society in general. In addition, it is the value for small businesses that is positively related to business performance. Finally, investment in training is desirable from both a personal and social perspective. From the organizational level, human capital plays an important role in strategic planning on how to create competitive advantage. According to Boyatzis, et al (2002), two dimensions of a company's human capital are value and uniqueness. Companies demonstrate that resources are valuable when they enable increasing effectiveness, seizing opportunities and neutralizing threats. In the context of effective management, value emphasizes increasing profits rather than associated costs.In this way, a company's human capital can increase in value if it contributes to lower costs, providing improved performance.

Other studies by Culver (2010), and Costley (2012), analyzed the relationship between human capital and organizational performance of software companies. They show that on organizational performance, human capital indicators have a positive relationship. Indicators such as training followed and teamwork practices lead to outstanding performance where more productivity can be translated into organizational performance. It is also supported by Barney, (1986), which found a significant positive correlation between developer quality and market share volume. Based on the arguments above, we can conclude that human capital indicators improve company performance directly or indirectly.

According to study Hooley, et al (1998) and Barney, (1991), found the results of human resource management. They develop links between human resource management and economic and business outcomes. Nearly 25 companies in the financial services sector have been selected in this study. Four metrics are used to measure the effectiveness of human capital: income factor, cost factor, income factor and HC ROI.

The fundamental aspect of any organization is to generate more revenue and income per employee. Human capital directly affects intellectual capital assets which provide higher financial returns per employee. The level of education of employees and their overall satisfaction have a positive effect on the development of human resources. That is why The company's ROI is directly affected by the development of human capital. Swanson and Holton (2001), developed a casual model using a cross-sectional data set, showing that increased human capital paves the way for greater innovation and this in turn offers positive implications on firm performance. Meanwhile, human capital and company performance can be seen in the context of a high-performance work system (Wright, et.al, 1994).

What is widely debated is that high performance or high performance work systems will result from the establishment and emphasis on improving human resources. It is undeniable that the improvement of human resources in an organization contributes significantly to organizational competence. This again encourages to further increase innovation and the current literature supports the fact that company performance is positively influenced by human capital. Some even support that human resource development is a prerequisite for good financial performance (Itami, 1987) and in addition, the importance of organizational human capital in relation to company performance is further supported by Boyatzis (1982).In addition, it is explained through evidence that human capital is relevant to company performance which has become prevalent among new technology-based ventures. It seems that the use of human capital per say in a small technology-based new venture seems to have a major influence on the success of the company (Venkatraman and Ramanujam, 1983). While the increase in human resources can be seen in the context of top management. Heterogeneity which can sometimes be referred to as diversity in TMT will lead to greater performance. The reason is that the debate is heterogeneity that develops various characteristics to be absorbed in the workforce team. It involves people of different age groups, functional backgrounds, educational backgrounds, gender and years of service. All these characteristics have a positive influence on firm performance as suggested under the upper echelon theory (Johnson et al. (2000). Studies show that heterogeneity results in greater knowledge, innovation and creativity among team members Kenney and Burg, (1999), and Boyatzis, et al (2002). Positive heterogeneity is inherent in better problem solving and offering creative solutions. Therefore, diversity is positively related to performance. Even in the organizational context, the application of a certain management approach or philosophy is also related to the inclusion of human capital in particular.

Company performance

Performance is a general term used to indicate part or all of the actions or activities of an organization in a period (Mulyadi, 2001 in Hanuma, 2011). According to (Mulyadi, 2007:328 in Nugrahayu and Retnani, 2015), company performance is the overall success of the company in achieving the strategic goals that have been set through selected strategic initiatives. Company performance is defined as the company's ability to achieve its goals through the use of resources efficiently and effectively and describes how far a company achieves its results after being compared with previous performance, previous performance and benchmarking the performance of other organizations, as well as to how far to achieve the goals and targets that have been set (Muhammad, 2008:14 in Nugrahayu and Retnani, 2015). Performance is a description of the level of achievement of the implementation of an activity/policy program in realizing the goals, objectives, mission and vision of the organization contained in the formulation of a strategic plan (strategic planning) of an organization (Wibowo, 2010: 7 in Tahaka, 2013). From the various definitions of performance above, it can be concluded that performance is the performance or appearance or work of a person or organization in carrying out work to achieve goals and can be measured by standards that have been set for a certain period.

Human Capital Theory

Human Capital has its roots in the classic book field of macroeconomic development theory (Sharabati, 2010). Human Capital: This domain is described by Theoretical and Empirical analysis with special emphasis on education.Consequently, it is entirely in keeping with the concept of capital as it is traditionally defined to say that expenditures on education, training, and medical care, etc., are investments in capital.. This is not just a cost but is considered an investment with a quantifiable valuable return. ”

METHOD

Human Capital can be thought of as a commodity from the perspective of Classical, tradable Economic Theory in terms of buying and selling.Classical theory emphasizes the exploitation of labor by capital, human capital refers to the expertise, knowledge and skills acquired by a person through education and training.Pennings, et.al (1998)while emphasizing on social and economic theory, it was found that investment in people is one of the most valuable capital.Pennings, et.al (1998) distinguish company-specific human capital from general-purpose human capital. The expertise gained through education and training in accounting procedures, management information systems and other skills specific to a particular company are examples of corporate human capital. Meanwhile, general purpose human capital is knowledge gained through education and training in value areas for various companies such as generic skills in human resource development.According to Becker, education and training are important investments in human capital.

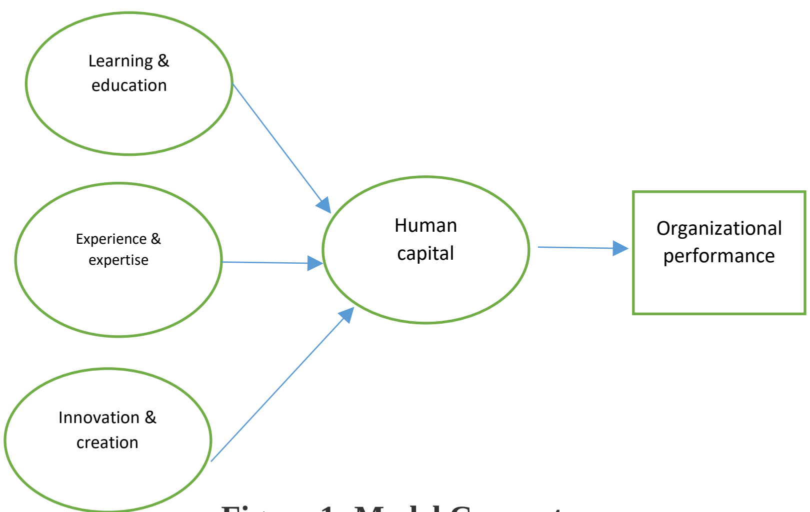

Figure 1: Model Concept

RESULT DISCUSSION

More and more research is trying to show the relationship between human resources and performance. An important finding of this study is that contingency models and best practices can complement each other to create conditions for effective human resource management. This means implementing high-performance practices such as incentive-based payments or staff selection, is part of designing the HR architecture. Similarities can be found in the measurement of human capital. It may indicate a large number of possibilities and abnormalities inherent in a particular company. However, relying solely on financial performance measures can result in a very partial evaluation.The stakeholder view or the balanced scorecard approach is considered the most appropriate to capture the complexity of human resource activities. The emphasis on human capital in organizations reflects the view that market value depends less on tangible resources, but on intangibles, particularly human resources. Hiring and retaining the best employees, however, is only part of the equation. Organizations must also enhance the skills and capabilities of their employees by encouraging individual and organizational learning and creating a supportive environment in which knowledge can be created, shared and applied. In this review, we will assess the context in which human capital is being discussed and identify the key elements of the concept, and their interrelationships with other complementary forms of capital, particularly intellectual, social and organizational. We will then examine cases of human Capital impacting performance.

CONCLUSION

This paper examines the current literature and its effect on firm performance. Human Capital conceptualization is related to the fundamentals of economic and corporate performance. According to the literature there is strong evidence to suggest "human capital enhancement infusions" in organizations and foster greater innovation and corporate performance. According to research, financial performance is positively influenced by human capital considerations. Based on this, the company's performance in relation to human resources should not be considered as a phenomenon that adds zero to the company's profit. Basically transforming the entire workforce as the most valuable asset thus creating a path for the organization to greater achievements through creativity and innovation. Therefore, companies must bring some effective and useful plans to invest in various aspects of human capital. This not only leads the company to achieve greater performance but also keeps the company competitive for long-term survival.

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