

Human Capital and How It Affects the Performance of an Organization

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Abstract

Many countries' economies collapsed in early 2020 due to the worldwide financial crisis and the Covid19 pandemic. The economic stability of several nations has been disrupted by the outbreak. In this article, we will examine the many ways in which human capital contributes to a company's success. The administration is making significant efforts to boost economic growth in a more positive direction. The Human Development Index in Indonesia appears to have increased by 3.3% between 2015 and 2019, according to data from UNDP 2020. According to the Human Development Index (HDI), Indonesia would be ranked 107 out of 189 countries in 2020. The Indonesian government has taken many different ways and made many different kinds of attempts to help its people grow and develop their skills so that they can keep competing with other nations. The companies discussed here also played a role in spurring this expansion. Organizations in the business world also want to survive, thrive, and remain competitive on a global scale. Businesses have a responsibility and a potential remedy to their lack of global competitiveness: they can stimulate the growth of their resources. The best way for businesses to improve their performance is to invest wisely and train their employees further. The success of businesses can be directly attributed to their investment in human capital. Human capital models that explain why it matters for businesses to invest in their people have been backed up by this research.

Keywords: Human Development Index, A Sustainable and Globally Competitive Economy

1. Introduction

Human capital development improves a person's or group's expertise (E. Ellinger & D. Ellinger, 2014; Parise, 2007). From an organizational standpoint, this is how an organization can increase its employees' abilities and knowledge in a sustainable and planned manner. Various efforts are required for the company to make it happen in its activities to gain or increase the required capabilities. As a result, the organization must undertake several efforts to be able to carry out various responsibilities linked to this job, both now and in the future. Human capital investments made now will have an impact on future transformations.

It requires numerous techniques to be used in order for it to be implemented properly, including promoting human capital so that it can occasionally be better. Additionally, creating an organizational culture is essential since the organization must already have a competitive and productive culture (Denison, 1984; Zeb et al., 2021). The relationship between superiors and subordinates also reflects how an organization is performing (Henri, 2006; Kaiser et al., 2008). On the other hand, teamwork and collaboration to achieve targets and success is to support achievement and competitive advantage (Meglino et al., 1989; Sosik, 2005).

The notion of resource base view, or RBV, states that it is crucial for firms to acquire valuable, distinctive resources and a growing competitive advantage in order

to succeed as commercial organizations (Donnellan & Rutledge, 2019). Contrarily, relying on conventional wisdom, which holds that because it is simple to copy, competitive advantage does not depend on resources, technology, or economies of scale. The valuable, uncommon, and challenging to replicate resources that are present within the firm are crucial to the RBV concept's competitive advantage. In its purest form, human capital is an intangible resource (Coff, 2002; Flamholtz & Randle, 2012). As a result, the pool of human capital is critical. An important step that must be addressed is how this is managed through the HR process to be better, clearer, and is the organization's strategic purpose.

This article examines some of the relevant and recent literature and views of human capital experts and their influence on the performance of business organizations. This study examines several human capital constraints in achieving business organization performance based on data and literature. Besides that, it examines how human capital is related to the concept of economic performance and business organization. There is evidence that some literature indicates a strong and significant impact on increasing human capital.

2. Method

This research is a literature review that examines a variety of sources concerning human capital issues, corporate organizational performance, and challenges in Indonesia. Another method is to use the Human Development Index (IPM) statistics from the United Nations Development Program for 2020 and the Central Statistics Agency data for 2019. Other supporting evidence relates to the Covid 19 pandemic and its impact on the human development of Indonesia. This study examines facts and expert opinions from credible national and international sources. This study examines the relationship between the current study and prior relevant research on human development, its problems, and its impact on the performance of business organizations.

3. Results and Discussion

3.1. Human Capital Conceptual Approach

The roots of the concept of human capital are derived from the field of macroeconomic development theory (Sobel, 1978). The classical approach's domain, human capital, is demonstrated by theoretical and empirical analyses, with a focus on the educational strategy. As a result, the idea of capital has typically been that money spent on things like education, training, and healthcare is an investment. These are not simply fees; rather, they are viewed as investments with demonstrably beneficial returns.

The human capital approach is considered a commodity from the perspective of the classical approach (Islam, 2012). The traditional concept highlights capital's exploitation of labor. Human capital refers to a person's expertise, knowledge, and abilities gained via education and training (Unger et al., 2011). While emphasizing social and economic ideas, researchers discovered that investing in people is a very useful form of capital.

Alternatively, general purpose human capital refers to people who have been educated and trained in areas that are useful to a variety of businesses. One example would be generic abilities in human resource development. Investing in a person's education and professional development yields significant returns (Blundell et al., 1999; Lutz et al., 2008).

3.2. The Global Crisis and Its Impact on Human Resources

Currently, the intricacies of rivalry in the business environment can be felt. The ever-changing environment necessitates that business organizations thrive under extremely turbulent business situations. Moreover, changes in the business environment with mounting uncertainties and the COVID-19 epidemic have resulted in an increasingly constrained business environment. Obviously, this state has an effect on an ever-increasingly complex competition and an abundance of extremely unpredictable developments. The level of competitiveness is intensifying, and the external environment exerts a great deal of pressure. The task for commercial organizations is not only to generate higher earnings, but also to drive the management and development of dependable and superior resources.

Indonesia's human development index and open unemployment data can be used to get a general idea of the state of Indonesia's people and the problems they face. At least, the HDI indicators and statistical information show how the Indonesian workforce is doing right now. Using the Human Development Index (HDI) numbers, it looks like Indonesia is on the rise. From 2015 to 2019, there was a 3.3% increase. This was made possible by the different ways and efforts the Indonesian government took to help its people grow and develop so they could keep competing with people from other countries.

Table 1. Indonesia's Human Development Index 2015-2019

Year	HDI value
2015	0,695
2016	0,703
2017	0,707
2018	0,712
2019	0,718

Source: Human Development Report (UNDP, 2020)

As an example, the HDI can be used to compare the progress of human development as assessed by the HDI. This statistic calculates the average size of a country's human development achievements. The Human Development Index placed Indonesia 107th out of 189 countries in 2019.

Statistical information on the open unemployment rate in Indonesia from August 2018 to August 2020. In 2020, the young age group (15–24 years) will have the greatest unemployment rate, reaching 20.46 percent (BPS, 2019). In contrast, it rose to 19.77 percent in 2018 and fell to 18.69 percent in 2019. In the meantime, there is a trend for the proportion of unemployment to rise for the age range (25–59 years). The unemployment rate peaked in 2020 at 5.04 percent after reaching 2.89 percent in 2018 and 3.01 percent in 2019. This unemployment rate demonstrates how the number of unemployed workers is essentially rising every year. This demonstrates how employees who are comparatively unable to compete in the workplace are very likely to face rationalization or termination of employment with their company organizations.

Business organizations are being forced to constantly rethink due to the escalating industrial competitiveness in a highly competitive atmosphere. This circumstance requires commercial enterprises to look for and take alternative actions in order to compete successfully. To produce high-quality outcomes from the goods and services they provide, business organizations often employ novel approaches and new mechanisms. A business organization's superior position in the market segments in which it competes is referred to as having a competitive edge. This advantage is built on giving

customers more value while incurring fewer expenses than rivals (Hooley et al., 2001). Positional advantage based on cost, promotion, and sales is a critical aspect in improving business organization success (Wang & Lestari, 2013).

3.3. Human Resources and Business Organizational Performance

A company organization's assets can be increased in part by its human capital, which also refers to its people resources. In addition, the purpose of human capital is to preserve competitive advantage while boosting productivity. Human capital is now a tool that can be used to boost productivity in order to keep firms competitive. Therefore, the significance of human capital is something that is inherent in professional activities such as education and training. Employees' knowledge, skills, and social assets can all be increased thanks to human capital. Final outcomes include employee performance and happiness, which can help business organizations function better. So, knowledge, skills, competencies, and other characteristics that help people achieve personal, social, and economic well-being are included in the definition of human capital (Cooper et al., 2019). The business environment is constantly changing, forcing businesses to continue to strive for a competitive advantage (Lei & Slocum, 2005). A dynamic business plan is used to realize this superior viewpoint, which then blends creativity and innovation (Achtenhagen et al., 2013). This is significant because the meaning of superior must be sustained over time (Roberts & Dowling, 2002). A crucial factor in boosting a corporate organization's competitiveness is the contribution of its human resources. Numerous researches have been done on human capital and how crucial a role it plays in corporate organization effectiveness. An increase in human capital will make a company more competitive than its rivals (Sabadie & Johansen, 2010). Human capital is based on the belief that there is a strong correlation between innovation and the performance of businesses (Seleim et al., 2007). Even though different business groups may have different definitions of performance. But some definitions of business organization performance link a number of financial and non-financial factors, including: Financial perspective (return on investment- ROI) and earnings per share (EPS). In the meantime, non-financial factors like employee salary, quality (number of production faults), and depreciation (such as defects, loss of inventory, sales returns) are taken into consideration. In the meantime, two key elements, namely individuals and organizations, are the focus of the interaction between human capital and the success of corporate organizations.

Conceptually, human capital has four fundamental characteristics: (1) adaptability and flexibility (2) the enhancement of individual competence, (3) the growth of organizational competence, and (4) the development of individual work capacity. This may indicate that this characteristic can create benefit for both individuals and companies. In addition, there is evidence of a connection between human capital and organizational performance that has an effect on sustained competitive advantage (Zlate & Enache, 2015). Improved organizational performance is a result of greater organizational commitment (Carlos Pinho et al., 2014).

From an economic point of view, having lower transaction costs means that a business has a competitive advantage. This is a sign of specific resources that business organizations have that are hard or impossible to copy. So, when the uniqueness of human capital in a business organization goes up, it has an effect on how well the business does. Aside from that, business organizations need to invest and manage these resources well. The goal is for business organizations to have less risk and be able to use their productive potential. Business organizations must be able to encourage people to keep improving their skills and abilities so that people can help the company the most and so that people can compete within the organization. The idea of "human capital" has

changed very quickly in recent years. Most business organizations focus most on ways to improve skills, such as training. Investing in human capital is usually linked to things that make workers better and more productive. So, training is an important part of investing in human resources. This shows that a person's knowledge and training can make him or her better at doing activities that add value and have economic value. Some recent research shows how important training is and how it affects the way a business organization does its work (Bartlett, 2001). Additionally, research indicates that investing in human capital inspires employees and strengthens their dedication to success (Lepak et al., 2006). Thus, investing in education serves both individual and societal interests. Human capital influences organizational strategic planning, specifically how to build competitive advantage. Resources are useful to corporate organizations if they can boost effectiveness, capitalize on opportunities, and mitigate threats. From the standpoint of successful management, value delivery enhances profits while decreasing unplanned expenditures. In other words, a company's human capital can produce or expand value while also helping to keep expenses down. Another study found that indices of human capital have a favorable link with organizational success (Hsu, 2008). Based on the preceding considerations, it is possible to conclude that human capital indicators directly or indirectly improve the performance of business enterprises.

Other research discovers outcomes from human capital management. This study investigates the connection between human resource management, economics, and business outcomes. Other study focuses on specific elements, such as how each firm may earn more income per worker (Han & Lee, 2020). Additionally, intellectual capital assets, which yield better financial returns per worker, are directly impacted by human capital. The development of human resources is positively impacted by employees' overall satisfaction and educational attainment.

Therefore, it is evident that improving an organization's human resources significantly influences improving organizational competency. There is also evidence that performance in new technology-based firms is related to human capital (Criaco et al., 2014). Diversity thus has a favorable impact on performance. Adopting a certain management philosophy approach in an organizational setting also considers the involvement of human resources (such as quality circles and skilled work teams), particularly when addressing issues.

4. Conclusions

The evidence demonstrates that numerous researches have looked at the connection between performance and human resources. According to a number of significant study findings, best practices and contingency models can work in tandem to foster an environment that supports efficient human resource management. This indicates that high numbers are evident in the actual application of performance, such as those pertaining to incentive-based employee compensation, employee selection, and how to organize, construct, and develop human resources.

Moreover, the measurement of human capital revealed a number of parallels. This demonstrates that a number of studies have identified irregularities inside various business organizations, or that there are distinct characteristics between business organizations. Leaders or stakeholders should utilize the balanced scorecard approach, which is seen the most suitable since it can capture the complexity of human resource activities and explain the variations in complexity effectively.

Regarding human capital, many firms believe that market value is determined less by tangible resources and more by intangible ones, particularly human resources. Recruitment patterns place a greater premium on qualified candidates, and businesses

retain more of their top employees. This is applicable to all commercial entities in general. By fostering both individual and organizational learning, business organizations seek to continuously enhance the skills and competencies of their employees. Business organizations exert maximum effort to facilitate the creation, dissemination, and use of knowledge. This literature review attempts to examine the context and determine the key factors of how human capital affects business organizations by employing a variety of characteristics.

Additionally, there is a connection between human capital and other qualities like supplementary capital, including intellectual, social, and organizational capital. Next, look at a few instances of human capital that affect performance, show signs of progress, and investigate human capital measurement methods. This article looks at current, pertinent literature and how it affects business organizations' performance. The relationship between human capital and the notions of economic performance and corporate structure is then explored. Evidence suggests that various writings point to a strong and considerable impact on boosting human capital.

The most crucial consideration for the firm is how it can continue to foster innovation and improve its business success. Several studies indicate that financial performance has a favorable effect on human capital. It is essential for businesses to motivate their entire workforce, which is regarded a valuable asset. Therefore, business organizations encourage creativity and innovation as a means for business organizations to attain greater results. Investing in diverse facets of human capital necessitates the development of a number of successful and advantageous approaches for commercial enterprises. This drives commercial organizations to reach higher levels of performance and simultaneously makes them more competitive for their continued survival.

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