

# The Role of Human Capital Investment on Human Resources Performance in Indonesia

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## Abstract

This study examines the role of human capital investment in the form of improving education and health services in Indonesia in order to improve the performance of Indonesia's human resources so that it can increase the income of Indonesians which is reflected in the encouragement of economic growth. This study uses secondary data from world banks and processed regression using the moving average autoregression method. We find that education and health investment are positively related to economic growth. This indicates that human capital investment in Indonesia is able to improve the performance of Indonesia's human resources so that it has the impact of encouraging Indonesia's economic growth.

**Keywords:** Human Resources Performance, Indonesia, Human Capital

**JEL Classification :** C0, J24,J64

## Background

Performance is the result of work within a certain period. Generally, performance is measured monthly or annually. Own performance is the work of a person or group of people. The performance of Indonesia's human resources is the result of the work of the Indonesian population in the economy, which is generally reflected in the gross domestic product. Because the gross domestic product is the amount of domestic production in a period of one year which is the aggregate work of the entire population in Indonesia (Ockert,2021).

Human resources from a macro perspective in a country are all of the population of productive or working age. In work, of course, required criteria such as knowledge, skills, experience and of course health. When someone is sick, of course they cannot work optimally. A set of things that are inherent in humans related to one's performance is called human capital (Türkmenoğlu & Cicek,2020).

Human capital includes knowledge, skills, work experience and health. Human capital can be increased by investing in human capital, namely through the mechanism of education and training as well as maintaining health, including increasing nutrition and nutrition (Shi & Johnson,2020).

Human capital investment is generally in the form of education investment and health investment. Education and health are very important things in improving performance because education increases knowledge so that it can improve skills and health can make people work optimally (Mangla,2020).

## Literature review

Human capital consists of knowledge, skills and health. Healthy and skilled humans can help increase production better. With knowledge, skills and work experience. Someone can improve the quality of production and work faster than those who lack these three things, of course, must also be supported by good health (El-Saharty et al,2020).

Human resource performance is measured in various ways. Own performance is the result of work that is measured based on a certain time period. The performance of human resources collectively in one territory of a country can be reflected in the country's gross domestic product (Marchington et al,2020).

Gross domestic product is the result of domestic production within one year. Because gross domestic product is the result of production, and the result of production is the result of work, the gross domestic product can be used as an indicator of the performance of the population living in a country (Fraumeni,2019).

Human capital investment is expenditure for the purpose of increasing human capital such as spending on education and health costs. Education can increase knowledge so that it can improve skills. Health can improve health performance so that it can work more optimally. When skills improve and health improves, people can perform better and faster than when they are sick (Jones-Smith,2020).

## Research Method

This study examines the role of human capital investment in the form of improving education and health services in Indonesia in order to improve the performance of Indonesia's human resources so that it can increase the income of Indonesians which is reflected in the encouragement of economic growth. This study uses secondary data from world banks and processed regression using the moving average autoregression method with the following equation:

$$GDP_t = C_t + \beta_1 IE_t + \beta_2 IH_t + e_t$$

Where,

GDP = Gross Domestic Product

C = Constant

IE = Education Investment

IH = Health Investment

e = Error Term

All financial data is calculated in USD, technology inclusion data is calculated in the number of gadgets that access the internet in Indonesia.

## Result and Discussion

The estimation results are as follows:

$$GDP = 321630837976 + 3.38366606542*EI + 4.19635533482*HI$$

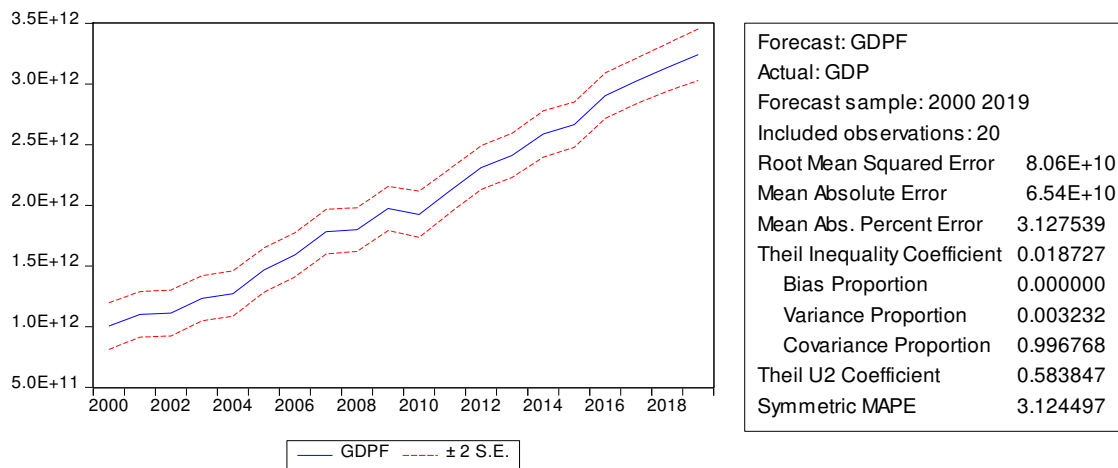
From the estimation results, education investment (EI) and health investment (HI) are positively related to economic growth. This indicates that human capital investment in Indonesia is able to improve the performance of Indonesia's human resources so that it has the impact of encouraging Indonesia's economic growth. Table 1 illustrates the estimation results as follows:

**Table 1.** Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.22E+11	6.02E+10	5.339147	0.0001
EI	3.38	0.806857	4.193636	0.0006
HI	4.196355	0.828206	5.0668	0.0001
R-squared	0.987154	Mean dependent var		2.03E+12
Adjusted R-squared	0.99	S.D. dependent var		7.30E+11
S.E. of regression	87400000000.00	Akaike info criterion		53.36399
Sum squared resid	1.30E+23	Schwarz criterion		53.51335
Log likelihood	-530.6399	Hannan-Quinn criter.		53.39315
F-statistic	653.1781	Durbin-Watson stat		1.009205
Prob(F-statistic)	0			

Based on the estimation results described in Table 1., it can be seen that the R-square is quite high, namely 0.987154 so that the quantitative calculation results show the correctness level of 98%. Figure 1. Shows the forecasting of economic growth in Indonesia.

**Figure 1.** Forecasting Economic Growth in Indonesia.



Source: Author's Computation

From the forecasting results, it can be seen that the economic growth in Indonesia is experiencing very rapid growth by taking into account Indonesia's human capital investment in the forecasting process. This indicates that the human capital investment issued by the Indonesian government is able to improve the performance of Indonesian human resources, which is reflected in the encouragement of Indonesia's economic growth.

## Conclusion

The Indonesian government seeks to increase Indonesia's human capital by investing in improving education services and public health services, which is a mechanism to increase Indonesia's human capital to improve the performance of Indonesia's human resources in order to realize the welfare of the Indonesian people.

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