HUMAN CAPITAL AS A SOURCE OF STRATEGY FOR ACHIEVING ORGANIZATIONAL PERFORMANCE

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ABSTRACT

Due to the fierce competition in today's global economy, many businesses are constantly looking for ways to differentiate themselves. Companies in the modern day must invest in and keep their human capital in good shape because of how dependent they are on it. If they want to succeed in today's competitive business climate, companies need to choose employees who are committed to the same strategic goals they are. To do this, businesses must invest in human capital development as a means to improve their bottom line. The research strategy used in this investigation is a combination of literature reviews and qualitative methods. Researchers in this article will look at the nature of human capital, how it is defined, and how it relates to business goals. On the other hand, he thinks HR should be driven by business goals. The study concludes that, to achieve their strategic goals, such as improved business performance, companies should allocate resources toward developing the human capital those goals demand.

Keywords : Human Capital; Human Resources; Competitive Advantage; Company Performance

INTRODUCTION

In today's competitive climate and competency-based economy, the success and survival of an organization or firm are significantly contingent on the development, maintenance, and enhancement of competitive advantage. Lenggogeni and Ferdinand (2016) assert that businesses must provide superior products and services at a lower price to establish and retain a competitive edge. To attain excellent product and service quality, firms must maintain outstanding human resources and acquire and implement best practices. Additionally, Ellitan (2002) argues that a company's human resources are a source of sustainable competitive advantage if it has competent people.

Organizational capital, customer capital, and Human Capital, all contribute to the worth of a company. These human-centered variables are the foundation for all sorts of capital (Santosa & Setiawan, 2007). Nonetheless, accounting research on the concept, forms, and characteristics of human capital remains restricted. It is challenging to collect statistical human capital data from the current accounting system, let alone use this information to manage human capital, which is becoming increasingly vital to producing company value (Nasrullah & Pohan, 2020).

Evaluation of company performance based on human capital is an exciting concept that organizations must develop. Human capital is a company's key intellectual capital component (intangible assets). Historically, more physical assets have been employed to measure the performance of a corporation (Ongkorahardjo et al., 2008). Measuring corporate performance from a financial perspective is highly precise, but human capital generates the value of finance through its knowledge, ideas, and innovations. Additionally, human capital is the heartbeat of an organization (Mayo, 2000).

LITERATURE REVIEW

Human resources (HR) play a critical part in the organization's destiny, but businesspeople have not yet adopted the phrase human capital to replace HR. Human resources are a sort of capital that can continue to expand in unison with the dynamics of the business environment and scientific progress (Oktaviani et al., 2019). Compared to other production factors in a company's competitive strategy, the advantages of human resources include creativity and entrepreneurial capabilities, distinguishing attributes, specialized talents, unique services, and the capacity to develop productive capacities. (Kasmawati, 2017).

Human resources are a form of capital that can continue to grow with time, the dynamics of the business environment, and advances in knowledge. Compared to other production factors in a company's competitive strategy, the advantages of human resources include creativity and entrepreneurial capabilities, distinguishing attributes, specialized talents, unique services, and the capacity to develop productive capacities. Mathi and Jared (2003) In comparison to capital, technology, and money, the majority of firms place less emphasis on human resources or human capital as one of the fundamental components of production. Many executives are ignorant that human capital is the source of the company's earnings. This is due to the fact that the company's operations are evaluated solely from a business perspective. The leaders of an organization regard it as something other than a unique unit of knowledge and skills or a collection of commercial assets that can distinguish their products from those of their competitors. (Ritonga, 2019).

Mayo (2000), bases his definition of human resources or human capital on five pillars: individual competence, motivation, leadership, the organizational climate, and workgroup effectiveness. Human capital determines a company's worth, and each element plays a unique part in this process. In light of HR's importance, top management should treat employees more like capital by treating them as human capital needing constant attention and growth in line with the ever-changing dynamics of the business environment.

Mayo (2000) argues that although financial measures of firm success are highly reliable, the value of finance will ultimately be determined by the knowledge, ideas, and innovations contained in human capital. One crucial aspect of any business is the ability to evaluate and track employee performance. Measuring performance is beneficial not just for gauging the company's progress but also for allocating internal rewards. Measures of corporate performance can also be used as a tool for retrospective analysis by management. This research aims to provide a cursory theoretical examination of human capital's potential as a source of strategy for enhancing business success.

METHODS

Method is a method of work that can be used to obtain something. While the research method can be interpreted as a work procedure in the research process, both in searching for data or disclosing existing phenomena (Zulkarnaen, W., et al., 2020). The descriptive-qualitative approach was selected in this research study based on the literature review. When employing this method, it is essential to provide extensive reasoning for the precise requirements for specific products (Sugiyono, 2011). The author seeks a broad comprehension of human capital as a source of firm performance strategy. The data used in this study originated from both primary and secondary sources. Primary data encompasses both primary and secondary data. Most of the data this research uses come from scholarly sources, including books, scientific articles, journals, and other publications authored by industry experts.

RESULTS AND DISCUSSION

The Role of Human Capital

Referencing Reason (1995), organizational managers have acknowledged that the human dimension, not money, structures, or equipment, is the performance-differentiating factor. Human capital and other components of intellectual capital play a crucial role when we join a knowledge-based society or economy, in particular. The contribution of human capital can be assessed from micro and macro perspectives.

According to the micro perspective, human capital is a component of an individual's production function, which is related to the quality of human resources. Knowledge can affect technological expertise and the presence of innovations in the industrial process. This information results in production process efficiency, which can boost productivity. On the other hand, expertise will make individuals more proficient in the production process, boosting productivity.

Son (2010) asserts that human capital is crucial for economic progress and poverty reduction. On a global scale, human capital accumulation raises labor productivity, stimulates technical innovation, boosts returns on capital, generates sustainable growth, and ultimately contributes to poverty reduction. Human capital acquired via education can boost a person's chances of securing a job in the labor market and their ability to generate a higher income on a micro-scale.

Human capital must be handled efficiently for businesses to utilize these vital assets. Human capital management is concerned with acquiring, analyzing, and reporting the added value of intellectual capital, as well as managing human capital as assets and emphasizing that competitive advantage is achieved through strategic investment in assets via employee engagement, talent management, learning, and program development (Goldin, 2016).

Human capital plays a significant role in the formation of intellectual property (intellectual assets) because only HR can develop and possess knowledge. Human capital has a substantial impact on the creation of organizational/company value, whereas knowledge is vital for establishing organizational/company value (strategic HR). Human capital (strategic HR), according to Buller & Mcevoy (2012), is a combination of knowledge, skills, innovation, and the ability of employees to carry out their obligations, including company values, culture, and philosophy. This perspective is compatible with their claims.

Human capital is a vital component of intellectual capital since it can give firms a competitive advantage. Human capital is the capacity of each member of an organization to contribute to the creation of intellectual property. Consequently, human capital is a critical aspect in determining the performance level of an organization or business. Hsu and Fang (2009) presented a similar claim, arguing that when a person's strengths are maximized, they will produce an exceptional performance. This ability is crucial to the creative process.

Human capital has a strong driving force to improve individual employee productivity and company performance via the ability of human resources (HR) to communicate knowledge (soft skills), be skilled and professional at work, and build sustainable relational values in the form of partnerships between companies as internal stakeholders and customers as external stakeholders (Sari, 2022).

Ulrich (1997) identifies four roles of human capital in the development of a strong organization, which are as follows: 1. Strategic human resource management. This approach addresses the procedure in the future. 2. Transformation and Change Management Its primary function is to steer the organization in a more productive direction with a profit level that grows sustainably. 3. Firm Infrastructure Management Its primary function is to re-engineer to improve the organization. 4. Employee Contribution Management is an endeavor to improve employee loyalty.

Human Capital as a Source of Corporate Performance Achievement Strategy

Individuals and organizations are at the center of Human Capital's strategic position in relation to Company Performance. He went on to explain that human capital has four key characteristics: (1) flexibility and adaptability, (2) the improvement of individual competence, (3) the development of organizational competence, and (4) individual work capacity. Multiple studies demonstrate a correlation between human capital and better performance and enduring corporate advantage. All of these conversations revolve around individual and organizational performance. Human capital is important insofar as it contributes to the formation of company performance. Economically speaking, transaction costs illustrate that organizations gain a competitive advantage when they hold non-replicable resources. Thus, as the uniqueness of human capital increases, businesses are incentivized to invest in their management to minimize risk and maximize their productive potential in pursuit of business objectives (Sukoco & Prameswari, 2017).

The human capital theory has undergone fast development. In its evolution, training-related factors have received more focus. It is very dependent on one's perception. Investing in human capital includes any action that enhances personnel's quality (productivity). Training is a source of human capital strategy (Siregar, 2014).

This refers to a person's knowledge and training that boosts their capacity to do economic value-adding tasks. Recent research demonstrates the significance of training. However, it is essential to note that a lack of workforce training correlates with poor levels of competitiveness. Consequently, a larger stock of human capital correlates with increased productivity and higher wages. Similarly, training is associated with company longevity and an increased tendency for business and economic expansion.

According to Yanti and Sanica (2021), human capital inspires workers, strengthens their commitment, produces R&D expenditures, and opens the way for a new generation of the economy and society. In addition, it is advantageous for small businesses if it favorably corresponds with business performance. In conclusion, training investments are both personally and socially desirable. Human capital is vital at the organizational level for achieving business success through strategic planning. The two components of an organization's human capital are value and individuality. Companies demonstrate the worth of their resources by increasing their efficiency, capitalizing on opportunities, and minimizing risks. As a result of inefficient administration, the emphasis is placed on increasing earnings rather than spending. In this method, the value of a company's human capital can increase if it contributes to decreased costs and improved performance.

Another study by Saragih (2017) examined the relationship between human capital and the organizational effectiveness of industrial organizations. They indicate a positive relationship between human capital metrics and organizational performance. Indicators like as training participation and collaborative practices result in exceptional performance, which can be converted into even greater organizational performance. This is corroborated by research presented by Siregar (2018), which reveals a strong correlation between developer quality and market share volume. Based on the above reasons, human resource indicators boost business performance either directly or indirectly. According to Ritonga's (2019) research, management of human capital yielded results. They establish the link between human resource management and business and economic results. More than twenty-five financial services companies have been considered for this investigation. The effectiveness of human resources is determined using four criteria: the revenue factor, the cost factor, the revenue factor, and the HC return on investment. Human capital influences intellectual capital assets directly, which create higher returns per employee. The degree of education and contentment of employees have a positive effect on the expansion of human resources. Therefore, the development of human capital has a direct effect on the ROI of the organization. Develop a casual model with a cross-sectional data collection. Increased human capital paves the way for greater innovation, which has positive effects on the performance of a business.

Human capital and company performance can be evaluated in the context of a high-performance work system. It is commonly disputed that establishing an emphasis on building human capital will result in a high-performance work system. Increasing human capital within a business unquestionably contributes significantly to organizational competence. The current research supports the notion that human capital has a good effect on a company's success, and this further fosters innovative improvement. Some argue that the development of human capital is a precondition for excellent financial performance and that the significance of human organizational capital is linked to future firm performance (Hartini, 2012).

Moreover, data indicates why human capital is becoming increasingly important to the performance of technology-based startup enterprises. The use of human capital (emphasizing the quality of people) has a substantial impact on the success of a small, newly founded technology-based business. While the increase in human resources might be viewed through the lens of top management, heterogeneity, also known as diversity, will lead to enhanced performance. Due to the debate's variability, it generates varied characteristics to be merged into the labor team. There are people of varying ages, genders, educational levels, job functions, and service lengths represented. In a major way, the company's success is affected by these features. According to studies, heterogeneity improves the knowledge, inventiveness, and creativity of team members. Heterogeneity is linked to enhanced problem-solving and creative solutions. Consequently, diversity has a favorable correlation with performance. Even in an organizational environment, implementing a particular management technique or philosophy is linked to incorporating human capital (e.g., a quality circle or a team of employee specialists) while confronting challenges. Financial and non-financial performance can be used to evaluate a company's success, particularly in the context of overall quality management.

The link between human resources and performance are researched more and more frequently. Even though the case is not airtight, the weight of evidence is beginning to emerge for some metrological reasons. An essential outcome of this study is that contingency models and best practices can work together to generate the conditions for effective human resource management. This indicates that implementing high-performance methods, such as incentive-based compensation or staff selection, is a component of constructing an HR architecture. There are similarities in the measuring of human capital. A possible indication of a vast number of intrinsic possibilities and anomalies in an organization.

However, an inadequate evaluation may result from focusing just on monetary indicators of performance. Human resource tasks are complicated, thus it's best to represent that complexity using a stakeholder perspective or a balanced scorecard method. The view that intangible resources, such as human capital, are more important to market value is reflected in companies' increased focus on it. But attracting and keeping top talent is only half the challenge. As a result, businesses need to cultivate a culture that encourages employees to learn both on the job and independently, as well as provide resources and support for this type of activity. In this analysis, we will consider the setting in which the concept of human capital is being addressed, and we will isolate key elements of the concept, along with their connections to intellectual, social, and organizational capital. Then, we'll look at examples where human capital has been shown to affect performance, and we'll go into the various ways that human capital is measured.

CONCLUSION

Such fast growth has occurred in the connection between human capital in its many forms and business results. It is crucial for businesses to effectively manage their human resources in order to foster peak performance, as there is a correlation between human capital and company success. Growth in the company's worth is desirable for everyone involved, notably the stockholders; hence top performance is crucial. For this reason, it would be incorrect to assume that human resource performance has no impact on a business's bottom line. This means recasting the entire staff as the company's most important asset, which will pave the way for increased innovation and productivity. As a result, businesses must introduce efficient and helpful strategies for investing in various forms of human capital. In addition to improving performance, this helps the organization remain competitive for the long term, which is essential to its continued existence.

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