

## **HUMAN CAPITAL IMPACT ON COMPANY PERFORMANCE IN THE DIGITAL ERA (THEORETICAL STUDY)**

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### **Abstract**

*This study aims a portraying about concept and variable from human capital and the influence of the performance in this digital era. The research method here used is literary review with the source of the reference such journal article and literature review which discuss human capital and performance of company. The application of the existing literature review makes it possible to reveal the problem of human capital relations with company performance in the current digital era. The use of conclusions from the study shows that human capital is very influential on company performance. Human capital is one of the important factors in the company's competitive advantage to win competition, where this aspect plays a role in improving human resources.*

*Keywords: Human capital, company performance, competitive advantage, human resources.*

### **INTRODUCTION**

Digitalization is now no longer a choice, but a necessity. Therefore, companies that do not want to follow the digital era will not only be crushed by their competitors, but can also be lost from the business map forever. This awareness of technological developments triggered by digital technology which makes some companies carry out fundamental business transformations. The Digital Era that happened has demanded companies to continue to grow and adapt to current

conditions. The role of information technology in companies is increasingly large, so there needs to be an adjustment to face the era of digitalization and an innovation is needed. The important thing is to always learn new things because the knowledge and expertise we have now will become obsolete in the future. The motor of national economic growth can no longer only rely on commodities, but it starts to turn to human capital.

Whatever the form and purpose, the organization is formed based on the vision for human interests and in carrying out its mission managed by humans. So, humans are a strategic factor in all organizational activities. For that, handling reliable human resources must be carried out as human capital. Morling and Yakhlef (1999) state that what will determine a company's success is the company's ability to manage knowledge assets. Referring to the current developments, companies are required to compete by using competitive advantages obtained through creative innovations produced by their intellectual capital. Human resources is capital that can continue to grow along with the time and dynamics of the business environment and progress in science. The advantages of Human resources compared to other production factors in a company's competitive strategy include: innovation and entrepreneurship capabilities, unique quality, special expertise, different services and productivity capabilities that can be developed as needed. Business paradigm friction that leads to intellectual action, lately is increasingly debated when the integration of human capital as an internal resource as a core competency of the organization / company is very competent as a determinant of the success of achieving the best performance of the organization. Each organization / company aims to achieve the best, effective and sustainable performance, but the limited availability of internal resources has a significant contribution as a barrier to performance achievement. Addressing the above problems requires certain strategies and sharpness in management thinking, in exploring human capital and structural capital assets and innovation through optimizing the empowerment of internal organizational resource assets. Thus, the organization is able to produce competitive advantage (competitiveness) as a "core competence" of the organization / company.

Human capital management is a new development of human resource management, where the difference is in the fundamental philosophy inherent in both approaches. The approach to human capital is a thought which considers that humans are a form of capital or capital goods as well as other capital goods and as a company asset. The definition of human capital emphasizes the notion that humans are one of the main capital in a company with an infinite value and amount, which can be managed in a process, which in turn can produce more value for the company. In human resources, humans are considered as a resource. With this understanding the company assumes that humans can be depleted if overexploited. On the

basis of this understanding too, many companies mean that the procurement and maintenance of human resources requires a lot of money, but the company does not get much of the benefits that are commensurate with it. Human capital is a capital that is placed in the same position as machinery and other capital, and determines the success of the implementation of the concept of division of labor.

Intellectual capital is a long-term key to the "health" of an organization, and that humans or "human capital" are the main sources or assets of intellectual capital.

## **LITERATURE REVIEW**

### **Human Capital**

The concept of human capital according to Jac Fitz-enZ (2009: 45), human capital arises due to the shifting role of human resources in the organization from as an expense to an asset / capital. The concept of human capital initiates added value that can be given by employees (human) to the organization where they work. Chatzkel stated that human capital is the differentiating factor and the actual basis of the organization's competitive advantage. Human capital theory, as stated by Ehrenberg and Smith, conceptualizes that employees have a set of skills that can be "leased" to their organizations.

In general, human capital is always associated with the skills and expertise of a person in an organization. According to Sharma (2013), human capital is not only about these things but also includes character, attitude, health and self motivation. Furthermore, Sharma said that knowledge assets are only part of the intangible factor that contributes to one's performance. The term human capital is also often exchanged with the term intellectual capital, although by definition they are not the same. According to Marko (2013), intellectual resources and intellectual capital can only become competitive advantages when management recognizes the importance of individual experience, also when the knowledge of an individual has a positive influence on the current and future development of the organization.

As described by Scarborough and Elias (2009: 61), the concept of human capital should be seen as a bridge that defines the relationship between human resources management practices and business performance. They show that human capital has a dynamic, implicit, non-standard, and contextual definition. These characteristics make human capital difficult to evaluate. Characteristics of human capital that are very important for the performance of the company are flexibility and individual creativity, their ability to develop skills for life, and respond to various contexts of the situation. They mentioned that the reference to the theory of human capital was human and skills, while the reference of physical capital was factories and equipment.

According to Schermerhon (2005), human capital can be interpreted as the economic value of human resources related to ability, knowledge, ideas, innovation, energy and commitment. Human capital is a combination of knowledge, skills, innovation and a person's ability to carry out their duties so that it creates a value to achieve goals. The formation of value-added that contributed by human capital in carrying out its duties and work will provide sustainable revenue in the future for an organization (Malhotra 2003 and Bontis 2002 in Rachmawati and Wulani 2004). Humans as business people have a productive work ethic, skills, creativity, discipline, professionalism, and have the ability to utilize, develop and master science and technology and management skills. In real life, humans play a major role in increasing productivity and are required to be skilled / expert human resources. The success of an organization is strongly influenced by the performance of individual employees.

### **Organizational Performance**

Performance is defined as the achievement of results on certain tasks. Organizational / company performance is the level of achievement of results in order to realize the goals of the organization / company. Whereas, the definition of performance management is the overall activity carried out to improve the performance of a company or organization, including the performance of individuals and work groups (human capital) encompass: the preparation of organizational structures, technology selection, and the provision of work facilities and infrastructure. Performance will be improved when the empowerment of effective employee and utilization of organizational structural capital is improved, then all employees will be motivated to improve their performance and contribute directly to improving organizational performance.

According to Pasolong (2007: 175), organizational performance is the totality of work achieved by an organization. Employee performance and organizational performance are closely related. While Kasmir (2016: 182) simply states the definition of performance is the result of work and work behavior that has been achieved in completing tasks and responsibilities given in a certain period.

Organizational performance is as a whole organizational effectiveness to meet the set needs of each group related to systematic efforts and to improve the ability of the organization to continuously achieve needs effectively (Chaizi Nasucha in Fahmi 2016: 138).

According Mulyadi (2001: 337) "Performance is the success of personnel, teams, or organizational units in realizing strategic goals that have been previously determined with the expected behavior." Company performance is something that is produced by a company in a certain period by referring to the standards set. Company performance should be measurable results and describe the empirical conditions of a company of various agreed sizes. So, it can

be concluded that performance is the ability, effort, and opportunity of personnel, teams, or organizational units in carrying out their duties to realize the established strategic goals.

Company performance is a complete view of the state of the company during a certain period of time, is the result or achievement that is influenced by the company's operational activities in utilizing the resources owned (Helfert, 1996 in Ceacilia Srimindarti, *Economic Focus*, 2004: 53). According to Keban (2004) performance is a translation of "performance" which is often interpreted as appearance, demonstration or achievement. Performance is the level of achievement of organizational goals on an ongoing basis, while according to Mahsun (2006) performance is a description of the level of achievement of the implementation of a program, activity or policy in realizing the goals, objectives, mission and vision of the organization contained in the strategic planning of an organization. From some of the opinions above, the concept of a performance is a description of the achievements by individuals or groups in an organization in the implementation of activities, programs, and policies in order to realize the determined vision, mission and organizational goals.

According to Wibowo (2008: 7), performance originates from the notion of performance that is as a result of work or work performance. Performance is related to doing work and the results achieved from a job. In addition, according to Armstrong and Baron in (Wibowo 2008: 7), performance is the result of work that has a strong relationship with the organization's strategic goals, customer satisfaction and contribute to the economy. Whereas according to Mahsun (2006: 25), performance (performance) is a picture of the level of achievement of the implementation of an activity / program / policy in realizing the goals, objectives, mission and vision of the organization contained in the strategic planning of an organization. The term performance is often used to refer to the achievement or level of success of individuals or groups of individuals. Performance can be known only if individuals or groups of individuals have established success criteria. This success criterion is in the form of specific goals or targets to be achieved. According to Pasolong (2010: 175), the concept of performance can basically be seen from two aspects, namely employee performance (individual) and organizational performance. Employee performance is the result of individual work in an organization. While organizational performance is the totality of the work achieved by an organization. Whereas according to Wibowo in Pasolong (2010: 176), organizational performance is the overall effectiveness of the organization for the defined needs of each group with regard to systematic efforts and increasing the ability of the organization continuously to achieve their needs effectively. According to Pasolong (2010: 375), employee performance and organizational performance are very closely related. Achieving organizational goals can not be separated from the resources owned by the organization run by employees who play an active

role as actors in an effort to achieve the goals of the organization. Organizational performance is basically the responsibility of every individual working in the organization. If in the organization each individual works well, achieves, is passionate and gives their best contribution to the organization, the overall performance of the organization will be good. Thus, organizational performance is a reflection of individual performance. According to Sinambela (2012: 181), organizational performance is the cumulative performance of employees, therefore the higher the performance of employees the higher the performance of the organization.

## **RESEARCH METHODOLOGY**

The research method used in this study includes the type of literature study by looking for references to theories that are relevant to the cases or problems found. Theoretical references obtained by means of literature study are used as the basic foundation and the main tools for practice in the field. The technical analysis of the data used is secondary data, namely data obtained from textbooks, documentation books and journals. Documentation is a method to search for data that are considered important through newspaper / magazine articles, journals, libraries, brochures, and through electronic media such as the internet that have to do with this research.

The method used to collect data or sources related to the topic raised in a study through literature study. Literature studies can be obtained from various sources such as journals, documentation books and literature studies. Study adopted content analysis approach.

## **RESULTS AND DISCUSSIONS**

### **Synthesis and Variable Concepts of Human Capital**

The evolution of Human Resource Management (HRM) into Human Capital Management (HCM) where HCM anticipates HR as a key source (main capital) of an organization that focuses on strategic steps for assets that maximize talent to create value to be able to direct and accelerate business strategy. Human capital views employees not as mere resources, but as a useful asset for institutions / organizations. Human capital is a human resource that is seen not only as a major asset but also assets that are valuable and can be multiplied, developed as an organizational portfolio.

Above theoretical basis, some of the meanings of human capital have been explained as according to Jac Fitz-enZ (2009: 45), Sharma (2013), Marko (2013), Scarborough & Elias (2009: 61), Schermerhon (2015), Malhotra & Bootis (2013). Based on the expert's definition, it can be suggested that human capital is the whole that is attached to employees and is used by individuals who are the company's main assets so that they must be fostered and developed.

Based on some expert opinions and syntheses above, the human capital concept in this study is the knowledge, expertise, and experience inherent in the individual and is a valuable asset for the company that must be fostered and developed.

Synthesis and the concept of human capital in accordance with the hadith of Bukhari's history states that *"If an affair is left to non-experts, then wait for its destruction"*. For that, human is expected to endeavor as Allah says in surah Az-Zumar (39) verse 39 which means, "Say, "O my people, work according to your position, [for] indeed, I am working; and you are going to know" (QS. 39:39). Every resource must work according to its meaning, "Say, "Each works according to his manner, but your Lord is most knowing of who is best guided in way." (QS 17:84).

### **Synthesis and Concept of Variable Corporate Performance**

Performance management is the overall activity carried out to improve the performance of a company or organization, including the performance of individuals and work groups. (Human capital), with the support of organizational capital (structural capital) includes: structuring the organization, selecting technology and providing work infrastructure.

The term of corporate performance is based on several expert opinions such as Pasolong (2007: 175), Kasmir (2016: 182), Chaizi Nasucha & Fahmi (2016: 138), Mulyadi (2001: 337), Keban (2004), Mahsun (2006) and Mangkunegara (2011). In the 2003 Encyclopedia of Public Administration and public Policy, "Performance describes how far the organization achieves results when compared to its previous performance (previous performance) compared to other organizations (brench marking) and to how far the aim and target has been set." Performance is the achievement of results for certain tasks.

Organizational Performance / company is the level of achievement of results in order to realize the goals of the organization or company. "Performance is the success of personnel, teams, or organizational units in realizing previously defined strategic goals with expected behavior." Company performance is something that is produced by a company in a certain period with reference to the standards set. Company performance should be measurable results and describe the empirical conditions of a company of various agreed sizes. So, it can be concluded that performance is the ability, effort, and opportunity of personnel, teams, or organizational units in carrying out their duties to realize the established strategic goals. From some of the opinions above, then the concept of a performance is a description of the achievements of individuals or groups in an organization in the implementation of activities, programs, and policies in order to realize the vision, mission, and objectives of the organization set.

While the concept of performance management in Islam is *hasanah fi ad dunya* and *hasanah fi alakhirath*. So, a Muslim should be oriented towards the results of the world and the hereafter. In the Qur'an, Al-Ahqaf verse 19: *And for all there are degrees [of reward and punishment] for what they have done, and [it is] so that He may fully compensate them for their deeds, and they will not be wronged*. From this verse, Allah says that someone will certainly do a good job and show good performance of his organization so he will get good results and provide benefits to his organization.

### **Relationship between Human Capital and Company Performance**

Through the ability of human resources (HR), communicating knowledge (soft skills), skilled and professional at work and being able to build sustainable relational value in the form of partnerships between companies as internal stakeholders and customers as external stakeholders, human capital will have a strong driving force improvement of individual employee productivity, and improve company performance.

Human capital is a very important element of intellectual capital, because it can create competitiveness for organizations / companies. Operationally defined as the ability of each member of the organization to be used in the process of creating intellectual assets (Sangkala, 2006). Therefore human capital has a very urgent role as a key component that influences the level of performance of an organization / company.

Based on the results of research from Chusnah (2014), Chen et al. (2005), Rahadian (2011), Taurisca (2013) states that intellectual capital consisting of human capital, structural capital and innovation capital positively influences the performance of the organization / company and has a significant relationship. Human capital that relates to the knowledge and skills that exist in every employee's mind will be a value creation for the company, and human capital of creativity can be the core of the company's development in the future.

### **CONCLUSION**

1. Several previous studies have succeeded in establishing conclusions where it is known that human capital has a significant effect in improving the performance of an organization or company. The relationship of human capital is a series of very strategic intellectual asset creation activities, because only human capital (HR) can create knowledge and have knowledge as individual competencies, as well as an intellectual asset of organizations in the current digital era
2. The concept of human capital in this research is the overall ability inherent in individual employees which is a valuable asset for the company so it must be fostered and

developed. While the concept of corporate performance is a description of the achievements of individuals or groups in an organization in the implementation of activities, programs, and policies in order to realize the vision, mission, and objectives of the organization set.

3. Based on the literature review above, it can be concluded that the higher human capital capabilities possessed by an organization or company will have an impact on the performance of an organization or company

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