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OPTIMIZING ORGANIZATIONAL PERFORMANCE THROUGH STRATEGIC HUMAN CAPITAL MANAGEMENT

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Abstract: The pivotal role of human capital in organizational success is increasingly recognized in contemporary business environments. This study presents an in-depth analysis of how strategic human capital management can significantly enhance company performance. Utilizing a qualitative approach, grounded in a comprehensive literature review, our research explores various strategies that can be employed to improve human resource performance in organizations. We emphasize that the success of a company hinges not just on its business operations, but critically on its human capital – the unique knowledge and skills possessed by its workforce. This research argues that the nuances of human capital, such as education, skills, and health, are essential for the strategic development of an organization. By implementing effective human capital strategies, companies can foster an environment conducive to growth, innovation, and long-term sustainability. Our findings highlight that understanding and leveraging the unique attributes of human resources can lead to significant improvements in organizational activities and outcomes. This paper contributes to the ongoing discourse on human capital theory by demonstrating its practical application in organizational strategy and performance enhancement.

Keywords; *Human Capital Development, Human Capital Management, Organizational Performance, Performance Optimization, Strategic Human Resources.*

INTRODUCTION

The sustainability and growth of a company are not solely contingent on financial capital; they are equally influenced by human capital. Human capital encompasses aspects related to the development of a company's human resources, such as employee motivation, competence, commitment, and loyalty (Salim & Karyawati, 2013). In this vein, human capital is conceptualized as the company's proficiency in harnessing employee knowledge, skills, and experience to achieve optimal outcomes. Various elements of human capital, including individual capabilities, leadership, and organizational climate, are pivotal in augmenting company value.

Setyanti (2017) posits that knowledge is a strategic corporate asset, distinguishing itself through rarity, inimitability, and the challenge of substitution by other resource types. Sukoco and Prameswari (2017) argue that human capital, comprising employee skills such as technical knowledge, motivation, innovation, adaptation, and social capital, is an indispensable component.

Furthermore, Mayo (2000), as cited by Kasmawati (2017), elucidates that human resources comprise several facets: individual ability, leadership, work group effectiveness, individual motivation, and organizational climate. Each facet plays a distinctive role in shaping a company's human resources, which, in turn, determines the company or institution's value.

Figure 1. Components of Human Capital

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This research focuses on capability, leadership, and organizational climate. Individual capabilities include knowledge, skills, experience, networks, the ability to achieve results, development potential, and individual contributions from various aspects of life. Leadership encompasses decision-making abilities, motivation, communication, and responsibility. Meanwhile, organizational climate involves factors such as organizational culture, atmosphere, freedom to innovate, openness, flexibility, and respect for other individuals. Additionally, intellectual intelligence plays a crucial role in changing practices and fostering innovative solutions to problems (Starovic & Marr, as cited in Divianto, 2010).

Jac Fitz-enz (2000), in his work 'The ROI of Human Capital,' emphasizes that employee costs can account for up to 40% of a company's general and administrative expenses. Therefore, it is vital for companies to carefully evaluate the return on investment from human asset management as an important capital factor in the production process.

The quality possessed by each human resource is a potential that is essential to support the company's operations in carrying out its daily activities and achieving its goals. The presence of human resources will determine the success of the company. Consequently, companies should pay attention to their employees as a reciprocal measure in realizing their goals. This attention to HR aims to maintain a balance between the energy expended by employees and the rewards they receive. An imbalance between the company's attention and the sacrifices made by employees can lead to decreased employee performance. Eventually, employees may feel dissatisfied and choose to leave the company, resulting in unmet performance expectations (Frimayasa & Lawu, 2020).

Performance is the result of a person's work that describes the quality and quantity of work that has been done. Good employee performance impacts the level of productivity and the achievement of organizational goals (Mulyono, 2012). Performance between individuals may differ due to various driving factors. Employee performance is crucial as it determines the effectiveness of an agency's overall performance. If employee performance is not up to par, then the agency's performance will also suffer. Conversely, good employee performance enhances the company's overall performance.

Furthermore, a proficient organization must apply human capital as an investment in the company. The indicators included in human capital encompass education, experience, and skills possessed by employees to support the organization's progress (Sukarti & Kistyanto, 2014).

This research aims to explore human capital strategies in improving company performance, ensuring sustainable profits through products or services that meet customer needs, with effective Human Capital Process management.

METHODS

In this study, the researcher employed a qualitative descriptive methodology, as defined by Norman K. Denzin and Yvonna S. Lincoln (2009), to holistically comprehend the phenomena experienced by the research subjects. This approach aims to understand subjects' behavior, perceptions, motivations, and actions in a descriptive manner. The data collection technique utilized literature studies, encompassing the review of various sources such as scientific articles, online media, and other relevant literature that relate to the research problems and objectives (Danial, 2009; Denney & Tewksbury, 2013; Zed, 2008, as cited in Nursalam, 2016). A pivotal piece of literature forming the foundation of this research is the study conducted by Yuni Kasmawati (2017),' which elucidates the link between human capital and employee performance.

The data analysis in this research employed the interactive model developed by Miles and Huberman, consisting of three interconnected subprocesses. First is data reduction, which involves the process of selecting, focusing, and determining the conceptual framework from various data sources. The second stage is data presentation, forming the second part of the analysis phase. The third stage encompasses conclusion and verification, where

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researchers engage in interpreting or ascertaining the meaning of the presented data. This stage involves drawing conclusions and verifying them by identifying any strategic objectives that can be applied in the context of human capital to enhance performance within a company.

RESULT AND DISCUSSION

1.1 The relationship between human resources as human capital and the management of company performance

The strategic role of Human Resources (HR) as Human Capital in managing company performance is critical, especially for companies aiming for long-term survival (Salim, S. M., & Karyawati, 2013; Lestari, 2023). Effective HR management should be viewed as an investment in human capital, requiring integration with the organization's overall strategy to enhance performance, foster a culture supportive of innovation, and increase flexibility. This strategic role of HR in a business context can be better understood through the lens of resource theory.

A company's core function is to mobilize all internal resources or capabilities to address market dynamics, the primary external factor. Strategic HR, being a valuable resource, contributes to business success and becomes a competitive advantage. From this resource perspective, a company's business strategy aims to maximize added value and optimize competitive advantage.

The organization's comprehensive plan for human resource development includes recognizing and appreciating quality improvements. Every employee is rewarded for their achievements. Assessing HR as Human Capital involves several aspects. It encompasses HR Planning and Management, where the extent of HR planning is connected to company strategy, HR's relation to quality improvement targets, and the use of employee data to improve HR management. Employee Improvement focuses on the extent of employee involvement in quality improvement, empowerment in managing work areas, and methodologies for measuring and monitoring the quality progress of internal employees. Education and Training address the creation of training initiatives and educational programs, assessment of the correlation between training and employee performance, and the impact of training on specific fields of work. Employee Performance and Recognition evaluate how reward programs support quality improvement objectives and how these programs are reviewed and improved. Employee Satisfaction considers the development of service programs for employees, their satisfaction assessment & evaluation system, and the completeness of data in employee improvement and service.

Therefore, human capital should not be equated with treating humans merely as mechanical positions, challenging the notion that humans are interchangeable with machines, as suggested in previous human capital theories. With the evolution of this theory, human capital has emerged as a concept aiding decision-makers in focusing on human development, achieved by prioritizing investment in education, including training, to enhance organizational quality as an integral component of national development. Treating human capital as such underscores the idea that returns from non-physical investments surpass those from investments in physical development.

1.2 Human capital management through implementation

Laillanti and Herawati (2021) underscore that the success and growth of a company or institution are not solely dependent on substantial financial capital but also hinge on the presence of quality human resources. These skilled human resources significantly contribute to the production of goods and services, thereby increasing output and overall company performance.

This view aligns with the findings of Niar Yuniarsih et al. (2022), who assert that a company's success stems from human capital, beyond just the company's business activities.

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These research advocates for companies to focus more on harnessing the unique knowledge and skills within their organization, recognizing the crucial role of quality human resources in company activities. Effective management of human resources is key, as the human aspect, with its knowledge that keeps pace with current and future technological developments, is fundamental to a company's success.

Effective management of human resources, according to Ennimay Hady Efendy (2017), involves measuring performance to optimally improve a company or organization's performance. Performance can be gauged through employee evaluations, aiding companies in making decisions aligned with predetermined goals.

Furthermore, prior research findings indicate that human capital has a positive and significant impact on employee performance, suggesting that organizations need to manage human capital to boost competitiveness and achieve a competitive edge. Fitz-enz (2000) states that the growing importance of intellectual capital's contribution necessitates management efforts at both organizational and economic levels. This management encompasses individuals' creation, storage, and usage of knowledge and skills as intellectual capital (Yuni Kasmawati, 2017). Additionally, these individual knowledge bases interact with one another, forming the institutionalized knowledge held by the organization as a whole.

Efforts to manage human capital involve prioritizing productivity increases in knowledge and service work for organizational progress, as highlighted by Wibowo (2012). This shift is necessitated by the end of the tangible asset era, focusing instead on intellectual capital, human capital, and other intangible assets. Such management includes fostering innovation capacity, establishing new patterns, and recognizing the invisible knowledge assets of organizational members and collaborative networks.

Baron and Armstrong (2007) recognize the necessity of creating value through enhancing employee knowledge and skills. Workers' knowledge and skills, derived from education and training, positively impact productive value creation. In efforts to create value, human resource management acts as a catalyst, activating invisible intellectual capital while improving operational effectiveness. This is related to the realization that human factors play an essential role in achieving organizational goals, needing enhancement, especially regarding intellectual and relationship capital.

Value development involves building a system capable of achieving a competitive advantage. Hall (2008) suggests that components such as executive team effectiveness, leader performance, competitor analysis, and employee performance are crucial. Defining performance, identifying key performances, and building effective systems for measuring and managing these performances are necessary.

Increasing the value of human capital is fundamental for achieving organizational competitive advantage, as humans are seen as a unique resource with competitive benefits. It is essential to recognize, measure, and manage human capital strategically, evaluating its year-over-year enhancement (Hall, 2008).

Burud and Tumolo (2004) propose that strategies for augmenting human capital should not only focus on the general assumption that better results are achieved through human roles. Instead, this strategy is considered an approach to Human Resources (HR) management, encompassing workforce consideration as a new reality, emphasizing human factors in achieving organizational goals, viewing people as a key element for competitive advantage, and using adaptive strategy power to enhance human capital. This involves practical adaptation methods, including investing in people, adopting new beliefs, understanding organizational culture, transforming management practices, and ensuring congruence between beliefs, culture, and practices.

Armstrong (2012) adds that strategic investments in assets through employee involvement, talent management, and learning and development programs are crucial. Human Capital Management is related to recognizing that employees are assets for achieving

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competitive advantage, involving the process of obtaining, analyzing, and reporting the added value of intellectual capital.

1.3 Measuring human capital's impact on business performance

Human capital-based company performance assessment is a very vital aspect and should be implemented and developed by every company. Human capital is a core element of intellectual capital (intangible assets) owned by a company. Although many companies still adopt performance assessments focused on physical resources (tangible assets), human capital-oriented performance measurements have become a key determinant in evaluating how a company operates and develops. This can be seen from the way management manages the quality of decision making by utilizing human capital performance.

Performance measurement has an important role in assessing the achievement of company goals and targets, by evaluating employee productivity and the results achieved or vice versa. Although, according to Mayo (2000) as quoted by Ritonga (2019), performance measurement from a financial perspective is considered more precise and accurate. However, in fact, the foundation that motivates financial value is human resources with all the knowledge, ideas and innovative abilities they have. Human capital is not only the core of a company but also determines its success. Below are several measurements of the impact caused by human capital starting from the process, results and financial aspects. The following is the explanation:

First, Measuring the Impact of Human Capital on the Process. The impact of human capital on this process can be measured through five added value points (Sugeng Prayetno, 2017), namely: a) Setting requirements; b) Interference from outside the process. Intervention from external parties in the process through partnerships with other units that can influence the course of the process, so that the process can run on time and provide the best results; c) Orientation to individuals in the process, including training, communication, supervision and intensive support, helping individuals to achieve performance according to expectations; d) Feedback, accurate information as a result can reduce errors and speed up correction of deviations from the expected level; 5) Increase, both in the form of rewards and corrective action, to impact behavior at the right time. Improvements in these processes can generate a lot of value, which can be measured financially because time efficiencies can lead to savings.

Second, Measuring the Impact of Human Capital on Results. Measures that focus on results, which are measured from performance improvements that can lead to investment in business assets, for example ROI and training programs, namely, results from business units include organizational performance which can be measured through traditional financial parameters such as economic value added, sales growth, market share and stock performance. Key factors that directly influence business unit performance or company results involve productivity, quality, innovation, and consumer satisfaction. Human capital capability is measured through aspects: a) Individual quality in achieving critical business results, such as workforce expertise; b) Adaptability and employee engagement. The human capital development process aims to improve the capabilities, resources and operations of human capital. These measures are measurement techniques used to identify the company's special needs and formulate solutions to achieve targets that meet these needs..

CONCLUSION

Based on the analysis described, it can be concluded that the success of a company or organization depends not only on business activities or perspective but also on human capital. Companies must focus on the unique knowledge and skills of their employees. This uniqueness is important to consider because quality human resources have a significant influence on company activities.

This research aims to guide companies in improving the quality of their Human Resources (HR) and employee performance, ultimately leading to improved company

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performance. It is important for company leaders to recognize that profits are not solely derived from the business aspect, but also from the value of human capital. Corporate leaders should view their company as an entity that contains unique knowledge and skills, rather than solely from a business perspective. Therefore, effective human capital management strategies are crucial for company success.

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