

Effect of Human Capital on Employee Engagement in Increasing Employee Performance

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ABSTRACT : Increasingly competitive competition in the era of globalization encourages nations around the world to improve the quality of human resources. Human Capital has a central and important role in the success of an organization that can be used to develop the competitiveness of a company because it is rare, difficult to imitate by competitors and cannot be replaced by other types of resources. The sample size for this study is 110 participants, which will be used to support the research. The census method was utilized in this study as a sample methodology. The data required were collected through questionnaires. The results showed that Human Capital has a direct and significant effect on employee engagement, and also human capital has a direct and significant effect on employee performance, which were analyzed using SmartPLS software.

KEYWORDS : *Human Capital, Employee Engagement, Employee Performance*

I. INTRODUCTION

Organizations can survive in a climate of continuous change if they are supported by the capabilities of the resources owned by the organization. Progressively competitive competition in the era of globalization encourages nations around the world to improve the quality of human resources, thus making high standards for the creation of quality employees who are able to work productively, effectively, efficiently, and professionally and require organizations to think of ways of strategies to stay survive in maintaining their business. Including a change in the business paradigm from resource-based business to knowledge-based business, from dominant physical investment to dominant intellectual capital investment (intellectual assets) [1].

High quality of human resource is also one of the key factors for the success of a company. The problems of a company in the millennium era are not concentrated at the top of the management pyramid anymore. Human resources are central to the management of organization, since the principles of organization management are impossible to achieve without an integral contribution from human resources [2]. According to Abdullah [3] measuring a company's performance from a financial perspective is very accurate but actually what will be the basis for driving the value of the finance is human capital with all the knowledge, ideas, and innovations it has. In addition, human capital is the core of a company. The company consists of individuals who work together to achieve certain goals. The organization will not run if there are no individuals in it.

Employee engagement is the emotional commitment from employees to the organization and its purpose so that it can provide an assumption that employees feel concerned about work and responsibility in the company. Employee that has high level of engagement tend to have satisfactory work quality in completing their work and also have an impact on low desire to leave work [4]. This exhibits that individuals who are associated with their work perform better, which thus elevates the firm to arrive at its goals. Robbins [5] explains that employee engagement is the involvement of an individual with satisfaction and enthusiasm for the work done. Research from Choo [6] shows that there is a positive relationship between employee engagement and companies or organizations that can lead to profitability and better performance. Based on the context above, the authors are involved in researching the effects of human capital on employee engagement and their impact on enhancing employee performance at PT. IDS Medical Systems Indonesia.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Employee performance can also be said to be the result of the work of an employee over a certain period of time compared to the standards, goals or standards set and agreed upon by the company, and employee performance is also a factor affecting the profitability of the organization [7]. Employee performance plays an important role in the development and productivity of the organization and also drives innovation and overall company performance. According to Chowdhury [8], good performance can be achieved by completing work

above the established standards. A person can be said to perform well if the resulting performance meets or exceeds predetermined standards or goals, and vice versa. The further the goal from achieving performance, the person can be said to be underperforming.

There are several theories that explain employee performance metrics, including the Theory of Performance and Development by Dessler [9] are (1) Quality : the degree to which the result of an activity carried out approaches perfection in the sense that it corresponds to some ideal way to perform the activity or fulfill the expected objectives of the activity; (2) Quantity : the resulting quantity is expressed in unit quantity and the number of completed activity cycles; (3) Communication : effectively convey information and ideas verbally and in writing; (4) Cooperation : maintaining a harmonious and effective working relationship with colleagues; (5) Work Commitment : the level of employee work commitment and employee responsibility towards the company.

Employees at work will be involved physically, cognitively, and emotionally while showing their performance at work. Employees who have a good relationship and are tied to the company become one of the factors of the company's success if the company is able to manage employee engagement well and consistently. Schiemann [10] considered that employee engagement as a positive energy and motivation that employees have, so as to help the company to achieve goals. Rustono [10] added that employee engagement can be linked to success and various greater business consequences such as employees being more persistent in their efforts, better performances, higher quality and decreasing employee turnover rates. If engagement is linked to the consequences of each employee, it can reduce stress and conflict levels, better health and greater job satisfaction. Schaufeli [11] define employee engagement as a positive, meaningful, and high motivational attitude in members of the organization towards work characterized by three dimensions, which are (1) vigor : an outpouring of energy and a strong mentality during work, the courage to go all out in completing a job, as well as the willingness to invest all efforts in a job, an effort to continue to be energetic while working and a tendency to keep trying in the face of tasks even though it is difficult; (2) dedication : a sacrifice of energy, mind, and time for the success of a business with a noble purposes, a devotion to carrying out lofty ideals and it is necessary to have a firm belief in order to achieve a goal of the organization; (3) absorption : is characterized by a person becoming completely immersed in work with a certain time and will find it difficult to break away from his work, even though the work he does repeatedly and never feel bored with the work. According to Handoyo [12], mentioned several indicators of employee engagement as follows: working environment, leadership, team and co-worker relationship, career training and development, and also compensation.

Human Capital is the economic value of human resources related to a person's knowledge, skills, innovation, and ability to carry out their duties, so as to create a value to achieve organizational goals [3]. Thus, human capital-based company performance appraisal is an interesting thing that needs to be developed by the company. Human capital is one of the main components of intellectual capital (intangible assets) owned by companies. Usually, the assessment of the company's performance has mostly used physical resources (tangible assets) [13]. A successful organization needs employees who will perform more than just their formal duties and are willing to deliver performance that exceeds expectations. In today's dynamic world of work, where tasks are increasingly being done in teams, flexibility is critical. Organizations want employees who are willing to perform tasks that are not listed in their job description. Human Capital according to Becker [14] states that humans are not just resources but are capital that generates returns and every expenditure made in order to develop the quality and quantity of capital is an investment activity. Gaol [15] defines human capital as the accumulation of knowledge, expertise, experience and other attributes of worker strengths that are relevant within the strengths of the workers of an organization and spur productivity, performance and achievement of strategic goals. The indicators of human capital stated by Ganapathy [16] are (1) knowledge : information that an individual knows and understands where the information has been embedded in the mind of that person; (2) experience : knowledge and skills that a person possesses that are acquired through certain events in a certain period; (3) ability : the capacity that a person has in completing his work and mastering the things that will be done in a job; (4) skill : the ability to use reason, mind, creativity in doing something so as to produce something that has more value than the work; (5) creativity : the ability to create new things which can come from various existing ideas or combine them and produce something new; (6) innovation : an embodiment of something new or an update of something that has existed before.

Based on the previous research and existing theories, the hypotheses in this study are: H1 : Human Capital has a direct effect significantly on Employee Performance
 H2 : Human Capital has a direct effect significantly on Employee Engagement
 H3 : Human Capital has a direct effect significantly on Employee Performance through Employee Engagement

III. METHODS

This study is a quantitative study, aims to explain the effect among variables or the relationship that affects between variables through hypothesis testing. The sampling technique is census methods, which is a sample determination technique if all members of the population are taken as samples. The samples of this study

were 110 people, all permanent employees of PT. IDS Medical Systems Indonesia. Data collection is done with the technique of direct submitting from respondents and guiding respondents to fill out questionnaires. Score in determining the respondent's answer, using a Likert scale. The Likert's scales are 1 (Strongly Disagree), 2 (Disagree), 3 (Neutral), 4 (Agree), and 5 (Strongly Agree). After that, validity and reliability tests were carried out. Analysis model used is structural equation model (SEM) with the basis theories and concepts, Partial least Square (PLS) is a variant-based analysis of structural equations that can test measurement models while testing the structural models, using SmartPLS software.

IV. RESULT AND DISCUSSION

4.1 Measurement Model

A model that defines how each block of indicators relates to its latent variables. Measurement models are consisting of convergent validity, discriminant validity, and composite reliability; are used to test the validity of constructs and the reliability of tools.

4.1.1 Convergent validity

Validity testing is related to the principle that structural indicators should be highly correlated based on load factors indicators in PLS. The higher the value of the factor loading, the more important the role of the loading in explaining the factor matrix. The value of loading factor must be greater than 0.7 and the AVE value must be greater than 0.5. The output of SmartPLS for Outer Loading is as shown below:

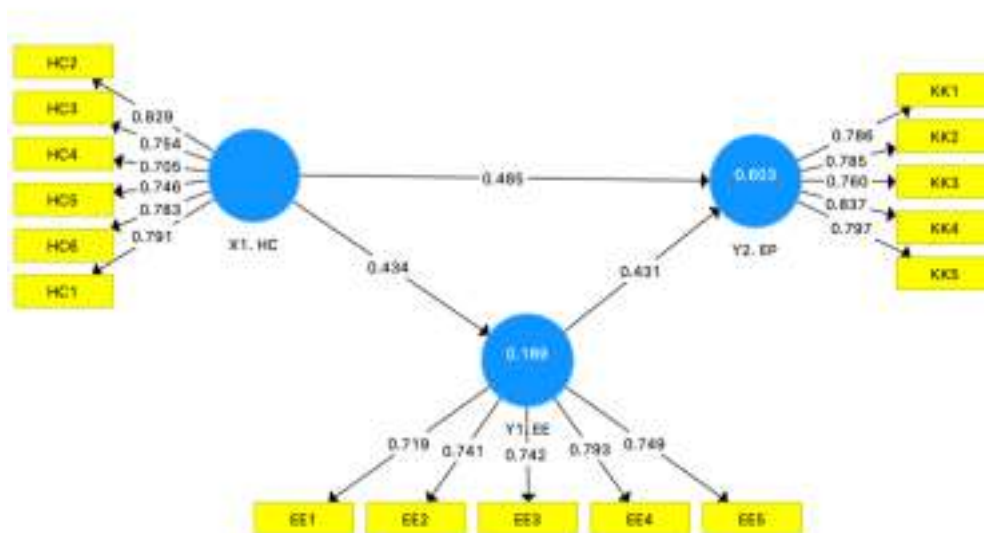


Fig. 1. Outer Loading

As shown in Fig. 1. Outer loading results, all indicators have value more than 0.7 for the Outer Loading, meaning all the indicators are valid. The criteria of Construct Reliability and Validity also show valid and reliable, the AVE value is more than 0.5 and Cronbach's Alpha and Composite Reliability are above 0.7, as shown in Table 1.

Table 1. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
X1. HC	0,861	0,864	0,896	0,591
Y1. EE	0,805	0,808	0,865	0,561
Y2. EP	0,853	0,860	0,895	0,629

Source: SmartPLS 3, 2022

4.1.2 Discriminant Validity

Discriminant validity is assessed based on the size of cross-loading with the construct. The model has sufficient discriminant validity if the AVE root for each construct is greater that the correlation between other constructs in the model. Cross Loading gives the AVE value greater than the correlation value between constructs, so that confirm this analysis meets the discriminant validity as shown in Table 2.

Table 2. Cross Loading

	X1. HC	Y1. EE	Y2. EP
EE1	0,271	0,719	0,399
EE2	0,322	0,741	0,489
EE3	0,283	0,742	0,522
EE4	0,337	0,793	0,499
EE5	0,402	0,749	0,483
HC2	0,829	0,412	0,537
HC3	0,754	0,317	0,493
HC4	0,705	0,153	0,551
HC5	0,746	0,333	0,521
HC6	0,783	0,308	0,534
KK1	0,727	0,462	0,786
KK2	0,525	0,394	0,785
KK3	0,321	0,558	0,760
KK4	0,418	0,849	0,837
KK5	0,608	0,487	0,797
HC1	0,791	0,451	0,474

Source: SmartPLS 3, 2022

4.2 Structural Model

The structural model in PLS tests the significance between constructs in the structural model by using R^2 to evaluate the dependent construct, the value of the path coefficient, or the value of t for each path. The value of R^2 is used to measure the degree of change of the free variable against the bound variable, the higher the value of R^2 , the better the production model.

4.2.1 R-Square

Table 3. shows the value R^2 obtained by Y1. EE indicates variable Human Capital affects Employee Engagement by 18.9%, while R^2 obtained by Y2. EP indicates variables Human Capital and Employee Engagement affect Employee Performance by 60.3 %.

Table 3. R-Square

	R Square	R Square Adjusted
Y1. EE	0,189	0,181
Y2. EP	0,603	0,595

Source: SmartPLS 3, 2022

4.2.2 Path Coefficient and T Statistics

Path coefficient indicates the relationship or degree of influence of the underlying construct on the guiding process. The purpose of this analysis is to see whether exogenous variables have an influence on endogenous variables can be seen from the comparison of statistical values of t and values of t-tables. Significant if the t-statistical value is greater than t-table value, otherwise insignificant if the t-statistical value is smaller than the t-table value. Therefore, the value of the path coefficient indicates the degree of significance in hypothesis testing. The score of the coefficient of the path or internal model indicated by the t-statistic must be higher than 1.96 for the bi-directional hypothesis and P value below 0.05. The t-statistic result as below:

Table 4. Direct Effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
X1. HC → Y1. EE	0,434	0,456	0,095	4,575	0,000
X1. HC → Y2. EP	0,485	0,488	0,063	7,750	0,000
Y1. EE → Y2. EP	0,431	0,426	0,074	5,833	0,000

Source: SmartPLS 3, 2022

Table 4 above shows the relationship between Human Capital variable has a positive and significant effect on Employee Engagement and the Human Capital variable also has a positive and significant effect on Employee Performance, the Employee Engagement variable has a positive and significant effect on Employee Performance. Table 5 below shows the Indirect Effect result;

Table 5. Indirect Effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
X1. HC → Y1. EE → Y2. EP	0,187	0,193	0,048	3,865	0,000

Source: SmartPLS 3, 2022

Table 5 above shows the relationship between Human Capital to Employee Performance through Employee Engagement has a significant effect, variable Employee Engagement can fully mediate in the relationship between the variables of Human Capital to Employee Performance.

4.2.3 Q-Square Test

Q-Square testing with a value of > 0 provides proof that the research model has a good predictive relevance or observation. The Q^2 results are shown in Table 6 below:

Table 6. Q-Square

	SSO	SSE	$Q^2 (=1-SSE/SSO)$
X1. HC	660,000	660,000	
Y1. EE	550,000	495,734	0,099
Y2. EP	550,000	352,395	0,359

Source: SmartPLS 3, 2022

From the Table 6, the Q^2 value is 0,099 for Employee Engagement variable and 0,359 for Employee Performance variable, both of the values are above zero, which confirm that they have good observation results, and this research model shows 72.4% fit. Model Fit value shown by the NFI value in Table 7 below:

Table 7. Model Fit

	Saturated Model	Estimated Model
SRMR	0,094	0,094
d_ULS	1,209	1,209
d_G	0,475	0,475
Chi-Square	266,455	266,455
NFI	0,724	0,724

Source: SmartPLS 3, 2022

4.3 Human Capital has a direct effect on Employee Engagement

The results of the study show the relationship between Human Capital and Employee Engagement as shown in Table 4. Where the value of t statistic is 4.575 bigger than 1.96 which give result Human capital has a positive and significant effect on Employee Engagement, this result is in accordance with the research of Witasari [17] that has t-statistic value of 4.718. According to Stankevičiūtė [18] employee engagement is evidence that employees in the organization are responsible for being reciprocal as long as there is a position of giving and taking relationships between employees and organizations that are financially, emotionally, and physically involved. In addition to talent and skill acquisition, human capital management aims to support business units to achieve their goals by integrating human capital strategies in accordance with business policies.

4.4 Human Capital has a direct effect on Employee Performance

The results of the study show the relationship between Human Capital and Employee Performance as shown in Table 4. Where the value of t statistic is 7.775 bigger than 1.96 which give result Human capital has a positive and significant effect on Employee Performance, this result is in accordance with the research of Thahrim [19], in the application of good human capital, the results achieved in employee output will become more quality and better, and vice versa. As stated by Ganapathy [16] that human capital plays an important role in employee performance productivity.

4.5 Human Capital has a direct effect significantly on Employee Performance through Employee Engagement

The results of the study show the relationship between Human Capital and Employee Performance through Employee Engagement as shown in Table 4. Where the value of t statistic is 3.865 bigger than 1.96 which give result Human capital has a positive and significant effect on Employee Performance through Employee Engagement, this result is in accordance with the research of Karatape [20]. Employee engagement could mediate human capital and employee productivity as an example of employee will make an exceptional

performance once they have finished the training and empowerment program. Engaged people are tend to passionate about sharing the ideas [21].

V. CONCLUSION

Human Capital has direct and significant effect on Employee Engagement where the t-statistic produced is 4.575 bigger than 1.96, so the first hypothesis is proven. Human Capital has direct and significant effect on Employee Performance as shown by t-statistic 7.775 bigger than 1.96, so the second hypothesis is also proven. The third hypothesis, Human Capital has a direct effect significantly on Employee Performance through Employee Engagement which given t-statistic 3.8665 bigger than 1.96 are confirm proven. So, that variable Employee Engagement has a fully mediating role on this variable relationship and the three hypotheses are proven. Finally, this study aims to give contributions in the organizational context and also in more general discussion with the topic of human capital theoretically and empirically. For future research, can be added or change the exogen variables to ideal indicators with employee engagement as the intervention variable. And we recommend for the upcoming study to develop at a broader level of human resource management in the organization, so that the research produced is better, concrete, and comprehensive.

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