

# THE INFLUENCE OF HUMAN CAPITAL ON THE PERFORMANCE OF REGIONAL GOVERNMENT EMPLOYEES IN SOUTH SULAWESI PROVINCE

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## ABSTRACT

*The objective of this research is to examine the influence of human capital comprising of individual capability and motivation, leaderships, the organizational climate, and workgroup effectiveness on the performance of employees. The primary theory employed was resource-based theory by Wernerfelt (1984) & Barney (1991) which suggests that firm resource helps an entity in increasing its operational efficiency and affectivity. Additionally, as supporting theory, this study used human capital by Mayo stating that an entity consists of individuals who are collaborating in achieving certain goals. Mayo (2000) proposes that human capital comprises of five components such as individual capability, individual motivation, leaderships, the organizational climate, and workgroup effectiveness.*

*This study used quantitative method of explanative approach. From the population of officials of the Regional Finance Agency of South Sulawesi Province, a total sample of 30 was drawn using random sampling technique. The primary data obtained through questionnaire using a likert scale which was subsequently tested for its validity and reliability as well as classical assumption and hypothesis test. The result shows that all of human capital, except leadership, has a positive and significant impact on the performance of employees.*

**Keywords:** Human Capital, Individual Capability, Individual Motivation, Leadership, the Organizational Climate, Workgroup Effectiveness, Employee Performance

## INTRODUCTION

Resource Based Theory by Wernerfelt (1984); Barney (1991) proposes that firm resource helps the entity to increase its operational efficiency and effectiveness. Increasing the efficiency and effectiveness of operations through the management of human resources who have high skills and competencies can create a competitive advantage for the entity and employees. Consequently, the performance of the entity will increase leading to more effective and efficient resource management. The better the resource of an entity, the better its competitive ability.

According to Sinambela, et al., (2006), the ability of human resources to do something with certain expertise is the performance of an employee. Robbins (1989) suggests that performance is the result of an evaluation of the work performed by employees compared to predetermined criteria. A person's performance according to Mathis & Jackson (2001) depends on three factors, namely: 1) ability to carry out work, 2) level of effort, and 3) support provided by the person. Human Resources (Human Capital) are a combination of knowledge, skills, innovation and a person's ability to carry out their duties so that they can create value to achieve goals (Ongkorahardjo, 2008).

Human Capital consists of five components such as individual capability, individual motivation, leaderships, the organizational climate, and workgroup effectiveness. Each component has a different role in creating human capital which ultimately determines the value of an

organization. Stewart, et al., (1998) stated that human capital is lifeblood of an intellectual capital, the source of innovation and improvement. However, it is difficult to measure.

Kuryanto & Syafruddin (2008) found that there was no positive effect of human capital on employee performance, while Ulum (2008) stated otherwise that human capital had a positive effect on employee performance. Moreover, Sudibyo (2014) concluded that individual capability, individual motivation, leadership, the organizational climate, and workgroup effectiveness simultaneously have a significant effect on auditor performance, but partially individual capability, individual motivation and workgroup effectiveness have no effect on auditor performance. Likewise, study conducted by Supriatna (2014) show that, simultaneously, individual capability, individual motivation, leadership, the organizational climate, and workgroup effectiveness have a strong and significant relationship with auditor performance. The results of research by Lawasi & Triatmanto (2017) found that there is an effect of communication, motivation and teamwork on improving employee performance.

The inconsistent results in several studies drive authors to conduct research on the effect of human capital on the performance of employee in public sector organizations. Government organizations are not required to have a competitive advantage. Despite individual performance will affect organizational performance, organizational losses will not have a significant effect on employees.

## METHODS

Referring to the objective of this study which is to obtain an explanation of the relationship (causality) between variables through testing the previously formulated hypotheses, this research employed quantitative method using an explanative approach.

The population of this study is officials of the Regional Finance Agency of South Sulawesi Province. Purposive sampling technique was used that only officials involved in consolidation process of regional financial statement fulfill the criteria as research object. The primary data obtained through questionnaire using a likert scale which was submitted directly to the Regional Finance Agency of South Sulawesi.

This study aimed to examine how human capital affects the performance of employees. The two are the variables of this study where the former is the independent while the latter is the dependent variable. Several stages of testing were carried out, such as data validity was testing, data reliability testing, classical assumption testing and hypothesis testing. The analysis method used is multiple regression analysis. This analysis was started with the classical assumption test. The classical assumption test used consisted of the normality test, multicollinearity test and heteroscedasticity test. Multiple linear regression analysis was used to predict the outcome of the dependent variable if two or more independent variables as predictor factors are manipulated. Therefore, multiple regression analysis will be carried out if the number of independent variables is at least 2 (two) (Sugiyono, 2010).

Five independent variables of human capital components are used in this study, namely individual capability, individual motivation, leadership, the organizational climate, Dan workgroup effectiveness. The dependent variable is the performance of employees, the officials involved in financial statement consolidation process at Regional Finance Agency of South Sulawesi. The basic model of multiple linear regression of this study can be formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e \dots \dots (1)$$

Where:

Y: Employees performance

$\alpha$ : Constant

$\beta$ : Regression Coefficient

- $X_1$ : Individual capability  
 $X_2$ : Individual motivation  
 $X_3$ : Leadership  
 $X_4$ : The organizational climate  
 $X_5$ : Workgroup effectiveness  
 $e$ : Error

## RESULTS

The characteristics of the respondents who were the samples of this study were as follows:

<b>Item</b>	<b>Total</b>	<b>Percentage</b>
Sample size	30	100%
Gender:		
Male	17	57%
Female	13	43%
Length of Work (years):		
1 – 5	4	13%
6 – 10	1	4%
11- 15	9	30%
16 - 20	4	13%
>20	12	40%
Education:		
Bachelor	13	43%
Master	16	53%
PhD	1	4%

Based on above table, the majority of respondents are male. There were 17 (57%) male and 13 (43%) are female respondents. Moreover, majority of respondents have been working for more 20 years with 12 respondents (40%), followed by officials who have been working for 11-15 years (30%). The remaining respondents have been working for 1-5 years, 6-10 years, and 16-20 years with the frequency of 4 (13%), 1 (4%), and 4 (13%) respectively. As respect to education level, total of 16 respondents (53%) hold master degree, 13 respondents graduated with bachelor degree, and only 1 (4%) official hold doctor degree.

The collected research questionnaires were then tabulated for data analysis purposes. The tabulated data were all respondents' responses to each question in the questionnaire regarding the variables of Individual Capability, Individual Motivation, Leadership, Organizational Climate, Group Work Effectiveness, and Employee Performance. The results of tabulated data were then processed using the Statistical Product & Service Solution (SPSS 22) program to obtain descriptive statistics that show the minimum, maximum, average and standard deviation of each variable. Descriptive statistics of the variables used in this study are presented in the following table:

<b>Table 2</b>					
<b>DESCRIPTIVE STATISTICS</b>					
	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
X1	30	2,00	5,00	4,1063	0,48201
X2	30	1,00	5,00	4,1527	0,56513
X3	30	1,00	5,00	4,3490	0,52415
X4	30	1,00	5,00	4,1377	0,44729
X5	30	1,00	5,00	4,3490	0,41187
Y	30	2,00	5,00	4,0167	0,44012
Valid N(listwise)	30				

Source: SPSS data processing results

Table 2 portrays information of the minimum, maximum, mean, and standard deviation of the responses. The descriptive statistics of each variable are described in detail as follows:

- a. Variable of Individual Capability (X1) has a minimum value of 2, maximum value of 5, mean value of 4.10, and standard deviation of 0.48. This variable consists of 6 questions using 5-point Likert scale. This indicates that the perception of officials at the Regional Finance Agency of South Sulawesi on the individual capability variable is relatively high.
- b. Variable of Individual Motivation (X2) has a minimum value of 1, maximum value of 5, mean of 4.15, and standard deviation of 0.56. This variable is represented by 7 questions using 5-points Likert scale. The results indicate that the perception of officials at Finance Agency of South Sulawesi on individual motivation is relatively high.
- c. Variable of Leadership (X3) has a minimum value of 1, maximum value of 5, mean of 4.34, and standard deviation of 0.52. This variable is represented by 6 questions using 5-points Likert scale. The results indicate that the perception of officials at Regional Finance Agency of South Sulawesi on leadership is relatively high.
- d. Variable of Organizational Climate (X4) has a minimum value of 1, maximum value of 5, mean of 4.13, and standard deviation of 0.44. This variable is represented by 7 questions using 5-points Likert scale. The results indicate that the perception of officials at Regional Finance Agency of South Sulawesi on organizational climate is relatively high.
- e. Variable of Workgroup Effectiveness (X5) has a minimum value of 1, maximum value of 5, mean of 4.34, and standard deviation of 0.41. This variable is represented by 6 questions using 5-points Likert scale. The results indicate that the perception of officials at Regional Finance Agency of South Sulawesi on workgroup effectiveness is relatively high.
- f. Variable of Employees' Performance (Y) has a minimum value of 2, maximum value of 5, mean of 4.01, and standard deviation of 0.44. This variable is represented by 12 questions using 5-points Likert scale. The results indicate that the perception of officials at Regional Finance Agency of South Sulawesi on employees' (officials') performance is relatively high.

The validity test is used to measure whether a questionnaire is valid or not. A questionnaire is considered to be valid if the questions or statements in the questionnaire are able to reveal something that will be measured on the questionnaire. Validity testing uses Pearson Correlation, which is by comparing the calculated  $r$  and tabulated  $r$  value. If the calculated  $r$  value  $>$  tabulated  $r$  value, the data is valid. Conversely, if the calculated  $r$  value  $<$  tabulated  $r$  value, the data is invalid (Ghozali, 2011). The results of the validity test for all items show that the calculated  $r$ -value that is greater than the tabulated  $r$ -value by 0.2960. Therefore, all questions for each variable are considered valid, except for one question of Employees' performance (Y6) where the calculated  $r$ -value  $<$  tabulated  $r$ -value which is only 2.71. This question was excluded in the next test.

The reliability test is used to determine the extent to which the measurement results remain consistent if it is carried out twice or more for the same symptoms using the same measuring

instrument. A variable is considered reliable if it has a Cronbach's Alpha value  $> 0.60$  (Sekaran, 2009). The test results show that the Cronbach's alpha value of all variables is greater than the standard coefficient alpha value of 0.60. This means the instrument used in this study is reliable.

Before undertaking the hypothesis test, the classical assumption needs to be tested. This test includes normality test, heteroscedasticity, and multicollinearity. In this study, statistical normality testing was carried out using the Kolmogorov Smirnov test which resulted 0.200. This value has met the requirements of the normality test, that is, if the test results obtained a value of  $\text{Sig} > 0.05$ , the normality assumption is fulfilled.

The heteroscedasticity test shows that the variance of the variables is not the same for all observations. A good regression model is homoscedasticity, heteroscedasticity does not occur. Scatterplots graph analysis used to predict the presence or absence of heteroscedasticity in a model can be seen from the model's scatterplot image pattern. The results of the scatterplots graph in this study show that the dots spread above and below the 0 (zero) number on the y-axis, or in other words the distribution of the dots does not form a certain pattern. This result means that heteroscedasticity does not occur.

Multicollinearity test shows that the VIF value of all independent variables and interaction variables is below 10, so that all of these variables do not contain multicollinearity (non-multicollinearity).

The results of multiple regression tests can be seen in the following table:

Independent Variables	Coefficient		Sig.	Explanation
Constant	1.595			
Individual Capability	0.464	0.140	0.000	Significant
Individual Motivation	0.216	0.575	0.017	Significant
Leadership	-0.101	0.869	0.393	Not Significant
Organizational Climate	0.329	0.414	0.002	Significant
Workgroup Effectiveness	0.403	0.869	0.008	Significant
$\alpha=5\%=0.05$ R squared=0.834				

Source: Processed Data

The coefficient of determination, R squared, resulted from test above is 0.834 or 83.4%. This indicates that the employees' performance variable is affected by 83.4% simultaneously by individual capabilities (X1), individual motivation (X2), leadership (X3), organizational climate (X4), and workgroup effectiveness (X5). The remaining 16.6% is influenced by other variables outside the independent variables of this study.

Based on table 5.3 above, the regression equation before there is interaction with the moderating variable is as follows.

$$Y = -1,413 + 0,464 X_1 + 0,216 X_2 - 0,101 X_3 + 0,329 X_4 + 0,403 X_5 + e \dots (1)$$

The result of testing the effect of individual capabilities on employees' performance shows the path coefficient of 0.464, the t-value is 5.140 and the significance level is 0.000. These results indicate that high individual capabilities will improve the performance of employees. Hence, the hypothesis H1 is accepted.

The result of testing the effect of individual motivation on employees' performance shows the path coefficient of 0.216, the t-value is 2.575 and the significance level is 0.017. These results indicate that high individual motivation will improve the performance of employees. Hence, the hypothesis H2 is accepted.

The result of testing the effect of leadership on employees' performance shows the path coefficient of -0.101, the t-value is -0.869 and the significance level is 0.008. These results indicate that leadership has no impact on the performance of employees. Hence, the hypothesis H3 is rejected.

The result of testing the effect of organizational climate on employees' performance shows the path coefficient of 0.329, the t-value is 3.414 and the significance level is 0.017. These results indicate that high organizational climate will improve the performance of employees. Hence, the hypothesis H4 is accepted.

The result of testing the effect of workgroup effectiveness on employees' performance shows the path coefficient of 0.403, the t-value is 2.869 and the significance level is 0.017. These results indicate that high workgroup effectiveness will improve the performance of employees. Hence, the hypothesis H5 is accepted.

## DISCUSSION

### **The Influence of Individual Capability on Employees' Performance**

The test shows that the proposed hypothesis is accepted. Therefore, hypothesis that individual capability will improve the performance of employee is empirically proven. The higher the individual capability, the higher the performance of that employee. This research supports the Resource-Based Theory (RBT) stating that the key of the RBT approach is in the strategy of understanding the relationship between resources, capabilities, competitive advantage, and profitability, especially in understanding the mechanism by maintaining competitive advantage over time. In the company's resources, resource-based theory believes that the company is a collection of capabilities in managing these resources (Penrose, 1959).

According to Stewart, et al., (1998) in Sawarjuwono & Kadir (2003), human capital is lifeblood of intellectual capital, a source of innovation and improvement. Unfortunately, this component is difficult to measure. Human capital reflects the collective ability of the company to produce the best solutions based on the knowledge by the people in that respective Company. A Company can increase its ability if it can optimize the knowledge of its employees.

The results of this study were obtained from respondents' answers to the Individual Capability indicators which have a significant influence on employee performance. The ability indicators possessed by an employee will support their performance to be better and more professional. Fitz-Enz (2000) describes human capital as a combination of three factors, namely character or nature in undertaking job, ability to learn and motivation to share information and knowledge.

This result is consistent with study by Ongkoraharjo (2008) which found that individual capability either partially or simultaneously has a significant effect on the performance of public accountants. Human Resources (Human Capital) are a combination of knowledge, skills, innovation and ability to carry out duties so that an individual can create value to achieve goals (Ongkorahardjo, 2008). Therefore, human capital should not merely be used as an asset, but it also needs to be always developed, so that the resulting output can be expected to grow (Malhotra & Bontis in Ongkorahardjo, 2008).

### **The Influence of Individual Motivation on Employees' Performance**

The test results show that the proposed hypothesis is accepted. Thus the hypothesis stating that individual motivation will improve employees' performance can empirically be proven. The higher the individual motivation, the higher his performance.

Stoner, et al., (1996) in Sunarcaya (2008) proposes that motivation is a characteristic of human psychology that contributes to a person's level of commitment. The individual motivation variable in this study was measured using instruments developed by Sunarcaya (2008), namely success in working on job, recognition, responsibility, authority and development. The results of this study indicate that the respondents really like and enjoy their work. These in turn lead employees to be more motivated to perform better. This result consistent with study by Sunarcaya (2008) finding that working motivation partially affects employee's performance.

### **The Influence of Leadership on Employees' Performance**

The test results show that the proposed hypothesis is rejected. Thus the hypothesis stating that leadership will improve employees' performance cannot be proven empirically.

The leadership variable in this study was measured using instruments developed by Mas'ud (2004) in Sunarcaya (2008), namely the relationship between leader and his subordinates, task structure, authority, and position of leader. Similar to study conducted by Sunarcaya (2008), this study found that leadership has no influence on employees' performance. In addition, it supports research from Kuryanto & Syarifuddin (2008) that human capital which comprises of five components, one of which is leadership, does not have a positive effect on employees' performance.

According to Sunarcaya (2008), leadership is a factor that is external to an individual. The leader's willingness to achieve organizational goals is not always in line with the wishes of the employees due to conflict that occurs. Moreover, it is probably because the leadership style is not favored by subordinates. Consequently, they become difficult to control at the favor of their leader. Thus, as far as this study concern, leadership variable may not necessarily improve the performance of employees. Conversely, Ulum (2008) found that human capital positively affects employee performance, Sudiby's (2014) research which examines the performance of auditors at the Inspectorate agency shows that leadership partially affects auditor performance.

### **The Influence of the Organizational Climate on Employees' Performance**

The test results show that the proposed hypothesis is accepted. Thus, the hypothesis stating that organizational climate will improve employees' performance can empirically be proven. The better the organizational climate, the higher the employees' performance.

The organizational climate variable in this study was measured using instruments developed by Mas'ud (2004) (in Sunarcaya, 2008). Responses from respondents indicate that employee indicators are expected to comply with law and professional standards beyond other considerations. Also, every employee is expected to seriously comply with organizational regulations. These results imply that respondents agree to comply with law and professional standards beyond other considerations so that the interest of the organization is prioritized than personal or group concerns.

Respondents' answers to the indicator that all employees act responsibly and uphold ethical behavior indicate that the values, beliefs and norms shared by members of an organization can be positive and negative forces in achieving effective organizational performance. Likewise, Ongkoraharjo (2008) found that the organizational climate, either partially or simultaneously, has a significant effect on employees' performance. This is due to a conducive organization climate that has been in place to support the performance of employees leading to a better improvement of performance.

Markus & Santoso (2006) stated that a conducive work atmosphere will encourage employees to contribute maximum performance to the company. Employees, who are satisfied with the company where they belong to, are likely to choose to continue working in that organization even though opportunities for other job offers arise in other places.

### **The Influence of Workgroup Effectiveness on Employees' Performance**

The test results show that the proposed hypothesis is accepted. Thus, the hypothesis that the workgroup effectiveness will improve employees' performance can empirically be proven. The higher the workgroup effectiveness, the higher will be the employees' performance.

This study supports the resource theory which states that firm resources help entities in increasing the operational efficiency and effectiveness (Wernerfelt, 1984; Barney, 1991). Increasing the efficiency and effectiveness of operations through the management of human resources who have high skills and competencies can create a competitive advantage for the entity and employees. High employees' productivity will in turn increase the entity's performance leading to more effective and efficient resource management. The better the resources of an entity, the better its competitive ability.

Workgroup effectiveness is a group that is successful and shares the same goals in achieving predetermined goals (Mayo, 2000). The workgroup effectiveness variable in this study was measured using instruments developed by Lawasi & Triatmanto (2017), namely the experience of group members, building clear objectives, cooperation, and way of thinking. According to Mayo (2000), an entity consists of individuals who are collaborating to achieve certain goals.

This study found that employees are jointly responsible for the quality of work and work hand in hand when carrying out tasks and contribute to each other. So it can be said that workgroup effectiveness supports employees' performance. It is the extent to which a team is successful in achieving the task towards entity's objective. The team is jointly responsible for the quality of work where each team member has a strong contribution to the success of the team.

Similarly, Supritana's (2014) concluded that, partially and simultaneously, all human capital factors contribute significantly to auditors' performance. Auditor in this case is an individual carrying out a task built on the basis of employee's trust and ability. Fellow team members are given the task without having to do extra tight supervision. Hence, it can be said that the workgroup effectiveness can support employees' performance, thereby increasing their performance.

The results of this study are not in line with the results of research from Lawasi & Triatmanto (2017); Sudiby, (2014). The results of the two studies indicate that, partially, the workgroup effectiveness does not have a significant effect on auditor performance. This is because the workgroup effectiveness has not yet been created which is probably not influenced by the organizational context, structure, strategy, and reward system to support auditors' performance. As consequence, the performance of auditors cannot be improved.

## **CONCLUSION**

Based on results of this study, it can be concluded that:

- a. Individual capability has a positive effect on employee performance
- b. Individual Motivation has a positive effect on employee performance.
- c. Leadership has no positive effect on employee performance
- d. Organizational Climate has a positive effect on employee performance
- e. Workgroup Effectiveness has a positive effect on employee performance.

The results showed that only one of the five human capital factors which is leadership that had no effect on employees' performance. Therefore, the researcher proposes the following suggestions:

- a. The value of  $R^2$  of this study is 83.4% indicating that the performance of employees was affected by 83.4% by the human capital variables used in this study and the remaining 16.6% was influenced by other variables. Therefore, further research can incorporating more variables such as training and self-development, bonus and incentive systems, organizational culture, and several other variables
- b. The insignificance influence of leadership on employees' performance is a challenge for the Regional Government of South Sulawesi, particularly the Regional Finance Agency, to always carry out an alignment process between the willingness of the leader and/or the organization and the employees so that the goal of improving performance can be achieved. Additionally, the influence power of leaders' character and personality in improving employees' performance highly depends on how the respective leaders can act and behave which can consistently motivating the employees to improve their performance
- c. The results of this study confirm and provide recommendation for the government to prepare better quality human resources in order to increase performance. Despite the rapid advance of technology nowadays, human is still playing an important role for the success of company.
- d. The number and quality of civil servants will be ironically a burden to the state if they are not properly managed. Otherwise, they will become important and strategic assets if managed properly and will undoubtedly become a superior resource (competitive advantage) compared to other resources in government administration and development.

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