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# The Factors that Improve Employee Performance through Human Capital as a Mediating Variable in Coffee Shop Franchises in Batam City

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#### **Abstract**

In this study, seleadership andre at the root of improving performance through human capital in franchise coffee shops in Batam, such as training, intellectual capital, knowledge management, transformational leadership, and enhancing skills. This research population is all employees working in franchise coffee shops in Batam City. The coffee shop population consists of Kopi Kenangan with 35 employees, Janji Jiwa with 84 employees, Menantea with 10 employees, Kopi Lain Hati with 8 employees, and Fore Coffee with 30 employees. Researchers chose this coffee shop because it is a coffee shop franchise with more than 1 branch and is well-known in Batam City. Training after being accepted gets training with company standards. Only to improve employee skills to a higher level is optional now. The company needs to analyze the needs of its employees before training. Companies engaged in the service sector are very concerned with soft skills training to improve the quality of service to consumers. Teamwork, leadership, and attitude towards consumers are essential to this training.

**Keywords:** Training, Intellectual Capital, Knowledge Management, Transformational Leadership, Enhancing Skills, Human Capital, Employee Performance

# Introduction

Along with the development of coffee drinking in Indonesia in the 21st century, there has been a shift in the focus of the coffee industry in Indonesia. This has resulted in the coffee shop business in Indonesia experiencing rapid growth. This coffee shop is a hangout place to drink coffee that various groups and ages favour. AEKI (Indonesian CoffeeExporters Association) stated in 2019 that local coffee consumption in Indonesia will increase every year, along with the many coffee shop business ventures that often emerge. Various coffee

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shop businesses promote environmentally friendly practices and speciality coffee production, targeting the executive international market (Novilia & Mulyana, 2022).

According to kataboks. katadata.co.id (2022), national coffee consumption in 2016 was approximately 250 thousand tonnes and increased by 10.54% to 276 thousand tonnes. Indonesia's coffee consumption from 2016 to 2021 is expected to grow at an average rate of 8.22% per year. By 2021, the coffee supply is projected to reach 795 thousand tonnes, with a consumption of 370 thousand tonnes, resulting in a surplus of 425 thousand tonnes. Indonesian coffee consumers ranked second among 10 countries with a percentage increase of 1.8% in the period 2015/2016 to 2018/2019, which reached 4.55 sacks of coffee with a size of 60 kg/sack with the level of coffee consumption that has a surplus every year increasing coffee lovers in Indonesia. Based on these data, there has been a shift in lifestyle caused by the trend of drinking coffee in Indonesia, Batam City is also one of the cities where there are several coffee shops ranging from local brands to non-local brands. The existence of coffee shops in Batam City is familiar to the local community because the coffee shop is not only a place to enjoy drinking coffee but also a contemporary hangout place. The aesthetic and instragamable interiors and services provided are of good value for the coffee shop during competitive competition. With this intensified competition, it is necessary to have the quality of HR performance as a guideline in serving consumers. If consumers are satisfied with the performance provided, they will recommend it to friends and family so that the business being run is more advanced and well-known (Purwianti et al., 2022).

Developing shopping centres and commercial areas in Batam City creates opportunities for coffee shop franchise businesses to open outlets in strategically attractive locations for consumers (AlQershi, 2021). The following is the number of franchise coffee shop outlets in Batam City are Kopi Kenangan (5), Janji Jiwa (12), Menantea (3), Kopi Lain Hati (2), Fore Coffee (2) (TribunBatam.id, 2023). It is known that the number of franchise coffee shops has more than 1 outlet, and other branches are scattered in various places in Batam City. This phenomenon of business development reflects a combination of global and local factors that contribute to the strong demand for places that provide quality coffee and a cosy cafe experience. Overall, a coffee shop franchise can be an excellent way to own your own business with the backing of a successful brand.

Franchise coffee is a business model built by building a business using an existing brand name, such as a concept already running. The success of doing a coffee shop franchise business certainly requires supporting resources. In making superior resources, companies must be able to develop the performance of these resources adequately and appropriately. Performance can help companies when they experience problems in their market, and this human resource is the right help by developing innovation and knowledge (Andanawarih *et al.*, 2023). Apart from the factor of human resource performance, human capital is also a significant source of sustainable competitive advantage for a company because, in human capital, various things can help manage these human resources. The effectiveness of human capital management can help companies gain resources in terms of knowledge, skills, and abilities to gain competitive advantage (Khan *et al.*, 2018).

Based on this, the research is assisted by several factors that help in improving performance through human capital in the coffee shop franchise in Batam, as several previous

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studies that support human capital on performance have been researched by Cahyaningati *et al.* (2022), Ningsih et al. (2020), Syarifah et al. (2020), Jejen (2021), Mufidaet al. (2020), (Safriyanti et al., 2021), Rezaei et al. (2021). The effect of training on performance is supported by Yuswardi and Jesen (2022), Transformational leadership on performance by Rohani and Muchsinati (2022), Knowledge management to performance is supported by Setyawan (2021), Primawanti and Ali (2022), Ramadhani et al. (2020), Kılıç and Uludağ (2021), Transformational leadership on human capital is supported by Sitorus and Hendratmoko (2024), Khan et al. (2018). Enhancing skill on performance by Wongleedee (2020). Knowledge management on human capital by Al-Tit et al. (2022). The difference between previous and current research is that in a study on human capital's effect on employee performance, most studies use training and knowledge improvement in improving employee performance efforts. Still, sometimes the results cannot be the same as expected (Rachmawati, 2017).

# The Influence of Training on Human Capital

Alnoor (2020) discovered that training can enhance the value of human capital, making it more effective. Jamrizal (2022) also emphasized the importance of continuous and consistent training and skills development within a company to meet its needs. Therefore, training is crucial in enhancing the company's human capital. Novie et al. (2023) demonstrated that when viewed from a resource-based perspective, training programs offer employees the necessary knowledge and skills, ultimately contributing to optimal human capital management. Yuswardi and Jesen (2022) and Hirzi et al. (2023) highlighted in their studies that training positively and significantly impacts human capital, leading to its enhancement. Saputra et al. (2021) stressed the necessity of training for all employees to keep pace with the evolving work environment and business landscape. Training is essential for boosting productivity, fostering a strong work ethic, instilling discipline, shaping attitudes, honing skills, and developing specific competencies to enhance human capital effectively.

# H1: Training has a Positive Significance on Human Capital.

# The Effect of Intellectual Capital on Human Capital

Mahardika and Salim (2019) define intellectual capital as the possession of knowledge, experience, technology, and skills. Researchers have concluded that intellectual capital encompasses the company's intangible assets such as knowledge, experience, and skills that contribute to creating added value for the company. Siregar et al. (2022) view intellectual capital as a strategic resource that enhances existing human capital to create value. Cahyaningati et al. (2022) have found that intellectual capital positively impacts human capital, leading to improved employee performance and enhanced company competitiveness. Therefore, it is crucial to assess and ascertain the role of intellectual capital in performance, particularly in the absence of definitive research on the link between knowledge production, integration, application, and firm performance. Putri and Dewi (2021) have emphasized that companies failing to develop and leverage intellectual capital effectively will adversely affect human capital within the organization.

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# **H2:** Intellectual Capital has a Positive Significance on Human Capital.

# The Effect of Knowledge Management on Human Capital

Cahyaningati et al. (2022) also mentioned that knowledge management can assist companies in designing human capital, which can be a valuable asset in addressing future challenges. Knowledge management is a critical resource for enhancing innovation by implementing human capital. Rahman and Akhter (2021) state that knowledge management solves complex organizational dilemmas. It facilitates the transfer of knowledge that embodies essential organizational skills to facilitate the creation, storage, and assessment of human capital management. Sitorus and Hendratmoko (2024) highlight that knowledge management aims to generate value and meet tactical and strategic needs by systematically managing human capital. It involves various initiatives, processes, and strategies to enhance value through deliberate reuse and innovation by aligning resources and organizations within a company. The primary advantage is that it enables organizations to enhance operational efficiency, increase benefits, and deliver superior value. Kılıç & Uludağ (2021) emphasize that knowledge management has the effect of making an organization more effective, efficient, innovative, and rapidly growing. The ability of an organization to leverage this concept is considered the most critical source of sustainable competitive human capital.

# H3: Knowledge Management has a Positive Significance on Human Capital.

# The Effect of Transformational Leadership on Human Capital

Tucunan and Supartha (2020) found that transformational leadership is crucial in enhancing employee motivation, consequently impacting human capital. Khan et al. (2018) describes this leadership style as a process where the leader fosters high motivation and trust among subordinates. The significance of transformational leadership in maximizing human resource effectiveness lies in leveraging human capital to achieve organizational objectives. Putri and Sentoso (2022) highlight the distinctive characteristics of transformational leaders, who serve as role models for enhancing the competitiveness and reliability of existing human resources, thereby facilitating consistent company operations. This leadership approach hinges on the leader's ability to inspire followers to improve their effectiveness and efficiency. Rohani and Muchsinati (2022) emphasize that transformational leadership positively and substantially impacts human capital by enabling companies to improve their selection and utilization of leadership strategies for future success. Ultimately, human capital encompasses a variety of innovations and ideas that contribute to organizational growth and development.

# H4: Transformational Leadership has a Positive Significance on Human Capital.

# The Effect of Enhancing Skills on Human Capital

Rahman and Akhter (2021) play a crucial role in enhancing skills to manage human capital effectively, leading to the development of human capital and uncovering the company's idea potential. Wongleedee (2020) states that employees can enhance their performance through skill enhancement, resulting in higher efficiency and effectiveness in their work. Improved skills contribute to increased work productivity, ultimately boosting human capital at an organizational or economic level. Alnoor (2020) highlighted that previous studies have shown that enhancing skills significantly improve personal development, social engagement, and work success. Focus on communication is critical in skill enhancement, particularly in building

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relationships with customers and colleagues. Anthonius (2021) pointed out that individuals with advanced enhancing skills are more sought after in the job market, enabling them to negotiate better salaries and benefits, thus increasing their human capital value. Moreover, high levels of enhancing skills can enhance creative thinking and foster innovative ideas, driving growth and development to strengthen human capital.

# H5: Enhancing Skills has a Positive Significance on Human Capital.

The Effect of Human Capital on Employee Performance

Human capital is a company's primary source of sustainable competitive advantage, as it encompasses various factors that aid in managing human resources. Effective human capital management can enable companies to acquire knowledge, skills, and abilities resources, leading to a competitive edge (Khan et al., 2018). Human capital reflects the company's collective ability to generate optimal solutions based on the knowledge held by individuals within the organization, thereby adding value to the company. Human capital can increase when a company has employees who can fully utilize thei knowledge (Susanti et al., 2020).

Rezaei et al. (2021) suggest that human capital positively impacts employee performance. Human capital serves as an example for companies or organizations to enhance each employee's performance, influencing overall company performance. Yuwono (2021) defines human capital indicators as a blend of knowledge, information technology proficiency, skills, competencies, and inherent attributes in individuals. These factors enhance the ability and creativity of employees to carry out tasks within the company, ultimately improving performance. Alomari (2020) found that human capital significantly boosts employee performance and is crucial for success. Please leverage employees' knowledge and expertise to save potential that does not add value to the company.

**H6: Human Capital has a Positive Significance on Employee Performance.** 

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# **Data Source and Search Strategy**

Table 1
Demographic Profile of Respondents

Factors		Frequency (n)	Percentage (%)
Gender	Male	89	54.2
	Female	75	45.8
	Total	164	100.0
Age	Year 17 – 22	36	21.9
	Year 23 – 27	62	37.8
	Year 28 – 32	51	31.1
	Year >33	15	9.2
	Total	164	100.0
Educational level	High School	129	78.6
	Diploma	24	14.7
	Undergraduate	11	6.7
	Total	164	100.0
Name of Coffee shop	Kopi Kenangan	35	20.2
	Janji Jiwa	84	51.1
	Menantea	10	6.1
	Kopi Lain Hati	8	4.5
	Fore Coffe	30	18.1
	Total	164	100.0

Source: Author (2023)

This study's population consists of 164 employees working in franchise coffee shops in Batam City. The coffee shop population consists of Kopi Kenangan, with 35 employees; Janji Jiwa, with 84 employees; Menantea, with ten employees; Kopi Lain Hati, with eight employees; and Fore Coffee, with 30 employees. Researchers chose this coffee shop because it is a franchise that has more than one branch and is well-known in Batam City (Tika, 2022). The data used consists of both primary and secondary sources. Data collection involved distributing questionnaires with forms to all coffee shop employees. Subsequently, data analysis was conducted using the Structural Equation Modeling (SEM) PLS method with the SmartPLS version 3.0 application to examine the relationships between variables (Hair et al., 2021).

The number of questionnaires used was 32 with details of Training (7) (Rahman & Akhter, 2021), Intellectual Capital (5) (Yuwono, 2021b), Knowledge Management (2), (Rahman & Akhter, 2021), Transformational Leadership (5) (Putri & Sentoso, 2022), Enhancing Skills (5) (Rahman & Akhter, 2021), Human Capital (4) (Syarifah et al., 2020), Employee Performance (4) (Yuswardi & Jesen, 2022). The scale used is a 5 Likert scale with the meaning of 1 (Strongly disagree), 2 (Disagree), 3 (Neutral), 4 (Agree), and 5 (Strongly Agree).

#### **Results and Discussion**

The demographic analysis results of 164 employees on gender were dominated by men, with 89 respondents (54.2%). Based on the data processing results, it is concluded that most employees working in franchise coffee shops are male. This is because jobs in coffee shops,

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especially as baristas, often require expertise in coffee making and the physical ability to stand for long periods, move quickly, and deal with busy situations. For the age of respondents, the age range of 23 - 27 years is dominated by a total of 62 respondents, or 37.8%. Based on the data processing results, it is concluded that most employees working in franchise coffee shops are between the ages of 23 and 27. At this age, many individuals are interested in coffee trends and the general food and beverage industry. This makes working in a coffee shop an attractive option for those who want to get involved in the industry and learn more about coffee, drinks, and other customer services. The number of respondents' last education was dominated by the high school/vocational education level, with 129 respondents (78.6%). Based on the data processing results, it is concluded that most employees working in franchise coffee shops have a high school/vocational school education level. Many high school graduates are interested in the food and beverage industry or want to start their career with an educationally affordable job. Coffee shops provide an opportunity for them to enter the workforce quickly. Janji Jiwa dominates where respondents work, with 84 employees (51.1%). This is because Janji Jiwa Franchise CoffeeShop has the most outlets or branches in Batam City, so it requires more resources and employees to support its operational activities. **Model Evaluation Results** 

Of the 32 questions in this outer loading test, at least 8 question indicators do not meet the validity requirements, so the authors do not include them in the next analysis. Validity testing is likely valid if the value of the outer loading test results is above 0.6.

# AVE Validity Test Results (Average Variance Extracted)

The validity test results show that all variable indicators yield a value exceeding 0.5, indicating their validity and compliance with the validity criteria.

Table 2
Validity Test Results

Indicator	AVE (Average Extracted Variance)	Conclusion
Training	0.782	Valid
Transformational Leadership	0.727	Valid
Knowledge Management	0.802	Valid
Intellectual Capital	0.795	Valid
Enhancing Skills	0.724	Valid
Human Capital	0.839	Valid
Employee Performance	0.815	Valid

Source: Primary data processed (2023)

## Reliability Test Results

Reliability test results can be assessed by examining Cronbach's alpha and composite reliability values. All constructs tested in this study have demonstrated reliability, meeting the minimum standard of  $\geq 0.7$ . All variables exhibit Cronbach's alpha and composite reliability values exceeding 0.7 when considered collectively. Hence, all items can be deemed reliable and consistently reliable.

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Table 3
Reliability Test Results

Indikator	Cronbach's Alpha	<b>Composite Reliability</b>	Conclusion
Training	0.851	0.846	Reliable
Transformational Leadership	0.844	0.897	Reliable
Knowledge Management	0.818	0.826	Reliable
Intellectual Capital	0.797	0.847	Reliable
Enhancing Skills	0.803	0.855	Reliable
Human Capital	0.830	0.878	Reliable
Employee Performance	0.869	0.884	Reliable

Source: Primary data processed (2023)

# Direct Effect Test Results (Path Coefficients)

This test aims to establish the relationship between variables. A significant relationship is indicated by a p-value less than 0.05, while the opposite is true if the value exceeds this threshold. If the resulting t-statistics value is more significant than 1.96, it is considered unrelated (Hamid & Anwar, 2019). Table 4.9 displays the outcomes of testing the direct effect between variables.

# H1: Training has a Positive Significance on Human Capital.

Based on the test results, it is known that training has a significant influence on human capital. We can see this in the resulting t-statistics value of 2.387 and p-values of 0.002. Thus, the first hypothesis proposal is accepted and states that training affects human capital. According to Jamrizal (2022), human resources in a company must be continuous and consistent in developing training programs or skills according to what the company needs; therefore, training can be beneficial in increasing the company's human capital. The results of these findings are in line with research conducted by Rahman & Akhter (2021), Alnoor (2020), Novie *et al.*, (2023) Yuswardi and Jesen (2022) dan Hirzi et al. (2023) who also said that training has a positive and significance influence on human capital.

# H2: Transformational Leadership has a positive significance on Human Capital.

Based on the test results, it is known that transformational leadership significantly influences human capital. This is evident in the t-statistics value of 3.838 and p-values of 0.000. Therefore, the second hypothesis is supported, indicating that transformational leadership significantly impacts human capital. According to Putri and Sentoso (2022), transformational leadership is characterized by qualities that set them apart. A competent leader can serve as a model for how current human resources can perform competitively and reliably, enabling the company to progress and maintain operational consistency. This leadership approach relies on the leader's capacity to motivate followers to enhance effectiveness and efficiency in human capital development. These results align with studies by Sitorus and Hendratmoko (2024), Tucunan and Supartha (2020), Khan et al. (2018), and Rohani and Muchsinati (2022), indicating that transformational leadership significantly impacts human capital.

## H3: Knowledge Management has a Positive Significance on Human Capital.

Based on the test results, it is known that knowledge management significantly influences human capital. This is evident in the resulting t-statistics value of 2.406 and p-values of 0.013. Therefore, the third hypothesis proposal is accepted, indicating that

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transformational leadership significantly affects human capital. Cahyaningati et al. (2022) also mentioned that knowledge management can assist companies in shaping human capital, which is beneficial for addressing future challenges. Knowledge management is a crucial resource for enhancing innovation through implementing human capital. These findings align with the studies conducted by Rezaei et al. (2021), Sandri and Widodo (2020), Sitorus and Hendratmoko (2024), and Kılıç & Uludağ (2021), all of which suggest that knowledge management has a significant impact on human capital.

# H4: Intellectual Capital has a Positive Significance on Human Capital.

Based on the test results, it is known that intellectual capital significantly influences human capital. This is evident in the resulting t-statistics value of 4.137 and a p-value 0.001. Therefore, the fourth hypothesis is accepted, indicating that intellectual capital significantly impacts human capital. Mahardika & Salim (2019) have stated that intellectual capital comprises the company's invisible capabilities, such as knowledge, experience, and skills, which contribute to creating added value for the company. Intellectual capital is recognized as a strategic resource for enhancing existing human capital. Failure to develop and utilize intellectual capital effectively can negatively impact human capital within a company. These findings align with research by Cahyaningati et al. (2022), Putri and Dewi (2021), Novilia and Rasyid (2022), and Siregar et al. (2022), all of which support the notion that intellectual capital significantly affects human capital.

# H5: Enhancing Skills has no Significance on Human Capital.

Based on the test results, it is evident that improving skills does not have a significant impact on human capital. This is supported by the resulting t-statistics value of 0.859 and p-value of 0.281. Therefore, the fifth hypothesis regarding skill enhancement is rejected, indicating that it does not significantly affect human capital. As noted by Anthonius (2021), the effectiveness of skill enhancement is contingent upon the quality of training or learning provided. The impact may be negligible if the training does not align with actual needs or fails to impart relevant skills. This scenario may arise in unstable work environments characterized by frequent organizational changes or uncertain economic conditions, limiting the potential for skill development. These findings contradict the research by Rahman & Akhter (2021) and Alnoor (2020), which suggests that improving skills significantly impacts human capital.

# **H6:** Human Capital has a Positive Significance on Employee Performance.

Based on the test results, it is known that human capital significantly influences employee performance. This is evident in the resulting t-statistics value of 3.509 and p-values of 0.000. Therefore, the eleventh hypothesis proposal is accepted, affirming that human capital significantly affects employee performance. As Khan et al. (2018) suggest, effective human capital management enables companies to acquire resources in knowledge, skills, and abilities, leading to a competitive advantage. Human capital serves as an example of how a company or organization can enhance the performance of each employee, subsequently impacting the company's overall performance. These findings align with the research conducted by Rezaei et al. (2021), Bhatti et al. (2022), Otoo et al. (2022), and Susanti et al. (2020), all of which support the notion that human capital significantly influences employee performance.

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Model Fit (R Squares Adjusted)

R Square testing is conducted to assess the predictive power of the structural model for each endogenous latent variable. This test determines the correlation between independent, mediating, and dependent variables. The evaluation of the test results can be categorized into three groups: a value of 0.67 indicates a robust model, 0.33 indicates a moderate model, and 0.19 indicates a weak model (Chin, 1998). The output results from the table reveal that the r square adjusted for the human capital variable demonstrates moderate results with a sample mean value of 0.577. Similarly, the employee performance variable exhibits moderate results with a sample mean of 0.484.

## **Conclusions and Limitations**

Of the six hypotheses analyzed, one hypothesis is not significant, namely enhancing skills on human capital. This is very contrary to previous research, which states that enhancing skills will increase human capital (Rahman & Akhter (2021) dan Alnoor (2020). All employees are trained after being hired at the coffee shop. Companies need to conduct a needs analysis of their employees before training is carried out. Companies engaged in services are very concerned with soft skills training to improve the quality of service to consumers. Such as good communication, teamwork, leadership, friendly attitude, patience, and helping the needs of consumers. For training methods, the company can use role-playing by inviting appropriate and competent experts in their fields so that employees can be motivated to improve their skills.

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