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Human Capital in SMEs Life Cycle Perspective

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Abstract

In tandem with globalization and rapid changes in technology, the role of SMEs in enhancing economy development and employment becomes more crucial despite resource constraints. The emergence of a knowledge economy requires SMEs to be embedded with intellectual capital, namely human capital, structural capital and relational capital in order to compete in the resilient business environment. Given the unique characteristics of SMEs, prior studies revealed that human capital has the strongest influence on SMEs' performance than the other sub-elements of intellectual capital. The changes in the business environment force firms to alter their strategies in achieving their stated goals. Hence, to align between the changes in the environment and the firm's structures, systems and processes, the role of human capital must be properly identified and distinguished according to the needs in different life cycle stages. The contributions of human capital in the early stages are found to be more significant than later stages. Therefore, the aims of this conceptual paper are twofold. The paper will highlight the contribution of human capital in business performance, followed by the role of human capital in the different life cycle stages of SMEs.

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1. Introduction

The rapid growth of the global knowledge economy requires firms in various industries and sizes to be embedded with intellectual capital in assuring sustainability and competitiveness. In today's knowledge economy, the influence of human capital, structural capital and relational capital on business performance indicates that the investments in intangible resources gain their importance over tangible resources (Cohen and Kaimenakis, 2007; Clarke et al., 2011). In the context of small and medium-sized enterprises, the transition of the Malaysian economy requires SMEs to become more resilient in facing the challenges despite their shortage in financial and non-financial resources. The small size and fund of SMEs hinder them to highly invest in external resources, therefore the internal knowledge that is embedded in SMEs' managers and employees must be effectively and efficiently used and managed to continue success (Desouza and Awazu, 2006). Prior studies revealed that human capital is a primary determinant of SMEs performance than structural capital and relational capital (Daou, 2014; Rohana and Abdul Razak, 2009; Tovstiva and Tulugurova, 2007). The quality of SME employees not only contribute to the value enhancement of SMEs, but is also beneficial in developing structural capital through the transformation of employees' knowledge into process and routines and improving relational capital with stakeholders (St.Pierre and Audette, 2011). Accordingly, the uniqueness of humans that is hard to be substituted and duplicated by other firms provide managers the opportunities to identify and develop the human capital's potential to achieve the firm's stated goals (Darcy et al., 2014).

The challenges confronted by SMEs throughout their business life require education, experience and motivation of humans to be engaged in business strategies that will lead to business performance (Pena, 2002). As the business grows, myriad issues and problems occur due to factors such as technological advancement, which requires some changes in strategies, systems and structures (Churchill and Lewis, 1983). Therefore, the role of human capital must be identified and mobilized according to their importance in different business life cycle stages due to its characteristics that are accumulative, continuously created and adaptive to environmental changes (Chang and Hsieh, 2011). Human capital requirement in the start-up stage might have different significance compared to the growth period, thus it must be distinguished properly in order to attain performance in each stage (Chang and Hsieh, 2011; Zalesna, 2012). Hence, the objectives of this paper are twofold. Firstly, the paper aims to highlight the contribution of human capital on the business performance and secondly, to review the importance of human capital in different business life cycle stages in the context of SMEs namely starts up, growth and maturity. The following section presents the literature review on the overview of Malaysian SMEs, human capital and the human capital in different life cycle stages.

2. Literature Review

2.1. *Malaysian SMEs: An overview*

The roles of SMEs in economic development, growth, export and employment are highly recognized in most countries despite facing challenges and limited resources (Saleh et al., 2008). The definition of SME varies across countries. Meredith (1994) argued that the definition of SMEs must comprise not only the quantitative components such as turnover, assets and staff levels, but qualitative components such as how the business is organized and operated also need to be incorporated. In Malaysia, SMEs are typically defined according to the number of employees and the firm's annual turnover. Effective from 1st January 2014, the new definition of SME is used where the qualifying threshold for annual turnover and number of employees has been revised in all sectors to adapt with the current economy situation (SMECORP, 2013), as depicted in Table 1.

SME development is crucial since it is expected to be an integral component of Malaysia's plan to achieve sustainable economic growth and a developed country status by the year 2020. The achievement of Malaysian SMEs can be seen from their high contributions in total output, gross domestic product (GDP), value added, as well as employment. The 2011 Economic Census by the Department of Statistics Malaysia reported that SMEs constitute 97.3% of total firms in Malaysia for the year 2010 with 90% of the establishments in the service sector, 5.9% in the manufacturing sector and the remainders operate in the construction, agriculture and mining and quarrying sectors.

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