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Human Capital (HC) Development and SMES Performance: A Conceptual Review

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Abstract

This conceptual paper examines Human Capital Development (HCD) and its impact on SME perfor in Nigeria. The literature on HCD strongly supports the existence of a causal relationship between and SME performance. Organizations strive to hire individuals who can enhance operational effic and contribute to competitive advantage and organizational success, which can be achieved through H HCD encompasses activities such as training, education, investments in classes, workshops, presentati and work experience. The findings indicate that HC improves the efficiency and productivity of SME enhances SMEs competitive advantage, HCD support SMEs growth and sustainability and improves SM innovativeness capacity. Consequently, the study concludes that there is a positive and signific relationship between HCD and SMEs performance. Content analysis was conducted using documentati seminars, and databases. The study recommends that SME owners and managers should invest more in H and prioritize HCD by engaging employees in training programs, obtaining educational qualifications, a participating in workshops, seminars, and exhibitions. This approach is essential for building robu knowledge and work experience among employees, thus achieving higher levels of organizationa performance.

Keywords: Human Capital, Human Capital Development, SMEs Performance, Human Development

1.0 Introduction

Human capital development plays a crucial role in the performance of SMEs. This is because all activities conducted within an organization rely on the skills of its workforce to achieve optimal results aligned with organizational goals. According to Rumawas (2015), improving employees' skills is an effort to enhance their capabilities beyond their current abilities. Sari (2015) emphasizes the critical role of H development in organizations, asserting that distinguishes one organization from another Enhancing HC transforms it from a mere resource into a competitive advantage for organizations, thereby improving employee performance. Daniel *et al.* (2019) hypothesized that HC influences organizational culture and structure, positively impacting organizational

sustainability and performance. Widarni and Khaleng (2015) affirm that SMEs heavily rely on the supporting that investing in education, training, and retraining is essential for cultivating new entrepreneurs and enhancing SME efficiency. Anosa (2021) supports this viewpoint, stating that HC enables organizations to achieve and sustain higher operational effectiveness and productivity, thereby enhancing their chances for success and performance. The study aims are to explore the significant relationship between HC development and SMEs performance. To achieve this objective, the paper has the introduction, the literature review which discussed previous studies and findings related to the topic. The methodology employed in the study. Finally, the study concludes that HC improves the efficiency and productivity of SMEs, it enhances SMEs competitive advantage, HCD support SMEs growth and sustainability and improves SMEs innovativeness capacity. the study makes valuable recommendations based on the findings.

2.1 Conceptual Review

2.1.1 Conceptualizing Human Capital Development

A firm's HC represents a critical and sustainable source of competitive advantage, playing a pivotal role in achieving success (Adebayo et al., 2019; Emmaculate et al., 2019; Anosa, 2021). Ahmed *et al.* (2021) have demonstrated that investments in HC of the workforce can increase employee productivity and contribute to organizational performance. Similarly, enhancing HC enables individuals to develop knowledge, skills, and competencies that add value to the organization (Adebayo *et al.*, 2019). According to the resource-based theory, firm performance hinges on how effectively managers leverage resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). HC meets these criteria, and therefore, firms should nurture and safeguard such resources to enhance organizational performance (Adebayo *et al.*, 2019).

Literature Review

Anosa (2021) further extends the argument from a knowledge-based perspective, emphasizing that acquiring talent externally enhances a firm's knowledge heterogeneity, which is crucial for sustainable organizational performance. HC is essential for organizations to creatively respond to environmental changes and is widely acknowledged for its impact on SME performance (Emmaculate *et al.*, 2019). HCD is a multifaceted concept that involves enhancing individuals' capacity to generate and utilize knowledge and expertise, thereby building intellectual capital (Daniel *et al.*, 201 Ugochukwu and Ikechukwu (20 conceptualize HCD as an ongoing process assessing an organization's HC needs u evolving conditions and formulating perso strategies to ensure long-term effective Further review of literature reveals di definitions highlighting critical compo inherent in the concept of HC. Minin

Nwinee (2021), for instance, define HC as encompassing employees' competencies, knowledge, skills, creativity, attitudes, commitment, wisdom, and experience. They emphasize that HC includes the values, attitudes, and behaviors of individuals within the organization, as well as management practices that motivate people to realize their potential. Human capital is integral to development and comprising elements such as knowledge, skills, abilities, experience, insights, and training, underpins all aspects of organizational development, social, economic, technological, (Ifejika, 2017). Okafor *et al.* (2019) view HC as investments in career support, off-the-job training and on-the-job training, skills development, knowledge enhancement, and attitude improvement, all of which enhance the productivity of employees with limited skills, knowledge, or attitude.

According to Cross (2019), HCD encompasses educating new employees, upgrading skills and knowledge of existing staff, addressing challenges in technological advancements, acquiring skills necessary in the competitive market, and enhancing HC intelligence. Daniel *et al.* (2019) highlight that HC consists of knowledge, skills, and experience, which can be cultivated through coaching, training, development programs, empowerment, assignments, and participation in workshops and seminars. This perspective aligns with Egberi's (2019) observation that individuals possess innate abilities, experience, and skills, collectively forming HC. In a
Marimuthu and Ismail (2009) affir
within organizations significantly co
enhancing organizational competenci
fostering creativity and improv
performance, which positively imp
organization due to effective HC practi
the above, it can be concluded that the
to HCD is crucial in strengthening
performance. This study views HCD in
to SMEs' performance as a catal
knowledge transfer, skill enhanc
innovation, and overall firm perfo
leading to the achievement of organiza
objectives. Similarly, Rumawas (2018),
HCD as fundamentally an investment aim
enhancing human productive capacity thr
efforts in improving work quality, educa
training, and health. Additionally, Daniel e
(2019) reiterates that HCD has becom
increasingly essential and critical i
organizations in the current busine
environment. Ahmed *et al.* (2021) identifie
training, education, and work experience a
indicators of HCD, according to the study, th
indicators are likely to positively influenc
SMEs' performance.

2.2.1 Training

This aspect is crucial in any organizational setting as it serves as a key driver of SMEs' performance by enhancing employee skills, increasing productivity, and improving organizational effectiveness and efficiency (Sirinaga *et al.* 2020). Anosa (2021) underscores that effective

and efficient HC development requires organizations to invest concerted exertions in their employees' development to stay up-to-date of the evolving business environment for enhanced job productivity. According to Zemburuka and Dangarembizi (2020), training is a methodical procedure aimed at imparting knowledge, skills, abilities, and appropriate attitudes and behaviors necessary to meet organizational requirements. They emphasize that training teaches employees how to perform their jobs professionally and prepares them for future responsibilities.

In another study, Okafor *et al.* (2019) define training as a process of imparting knowledge and skills essential for employees to execute their assigned tasks. They argue that training not only focuses on improving current job performance but also equips employees with the necessary knowledge and skills to effectively achieve their organizational set goals. The study further contends that training enhances employees' knowledge and skills, thereby preparing them for new or expanded responsibilities. Motlokoa *et al.* (2018) posit that training is vital to organizational success, likening it to the bloodstream of an organization, crucial for achieving its objectives and goals by leveraging its HC effectively. Therefore, organizations should invest in employee training to enhance their performance and that of the organization as a whole. Based on the reviewed academic literature, this study aligns with the consensus among extant studies n literature concerning the impact of training on SMEs' performance. Training serves as a motivational factor that enhances employee productivity and improves organizational performance.

2.2.2 Education

According to Minini and Nwinee (2021), entrepreneurial education serves as the key catalyst for economic growth and development of nations, with HC forming the fundamental basis for national wealth. Anosa (2021) asserts that employing academically qualified workers in organizations initiates sustainable HC development. Mahmood *et al.* (2021) similarly argue that entrepreneurship education is essential for achieving effective economic growth and sustainable development. In alignment, Olusadum (2020) emphasizes the crucial role of education in developing HC for the nation, citing UNESCO's recommendation that countries allocate 26% of their annual budget to education Idrus *et al.* (2020) emphasize that education i imperative in the success of business units lik small and medium enterprises (SMEs), as stimulates critical thinking among workers a motivates them to drive business developm Education guides SME workers entrepreneurs towards achieving the goals aspirations necessary for business suc Studies by Suroso and Anggraeni (2017), and Frantisek (2016), and Othman *et al.* (underscore that entrepreneurs with education and management experienc greater impact on business perfo compared to those with lower educatio

and limited management experience. Based on the reviewed studies, this research agrees that education significantly influences SMEs' performance, highlighting the necessity for SME owners/managers to possess comprehensive business education to harness its benefits effectively.

2.2.3 Work Experience

Work experience plays a crucial role in enhancing SMEs' performance. Work experience facilitates the development of knowledge and skills through practical engagement in job tasks, thereby improving employee output per task assigned (Ardianto, 2020). According to Maftuchach and Salfadilla (2020) affirm with strong employee competencies are evident in those with extensive years of experience, as they possess confidence in their abilities. Ardianto (2020) further emphasizes the significance of experience across all activities, citing it as the best teacher due to the learning derived from personal encounters. In a related perspective, Sprint *et al.* (2017) highlight that organizations often prioritize experienced candidates for senior positions, believing they bring not only a suitable fit for the role but also leadership insights that positively influence team performance. Peng *et al.* (2020) argue that entrepreneurial work experience is essential not only for immediate entrepreneurial success but also for the long-term growth of entrepreneurial ventures. Similarly, Othman *et al.* (2016) illustrate that entrepreneurs with prior business experience tend to achieve better firm performance. Also, Egberi (2019) assertain that in today's knowledge driven e
performance of SMEs' and
advantages are relatively attributed to
experiences and skill sets of a workforce.

2.3 SMEs Performance

Sustainable development of developing
like Nigeria depends largely on the perfo
of their indigenous micro, small and
scale enterprises (Suleiman, Aliyu &
2021). These enterprises are generally cons
as the engine of economic growth as a re
their immense contribution towards employ
generation, poverty reduction, export ea
and gross domestic product

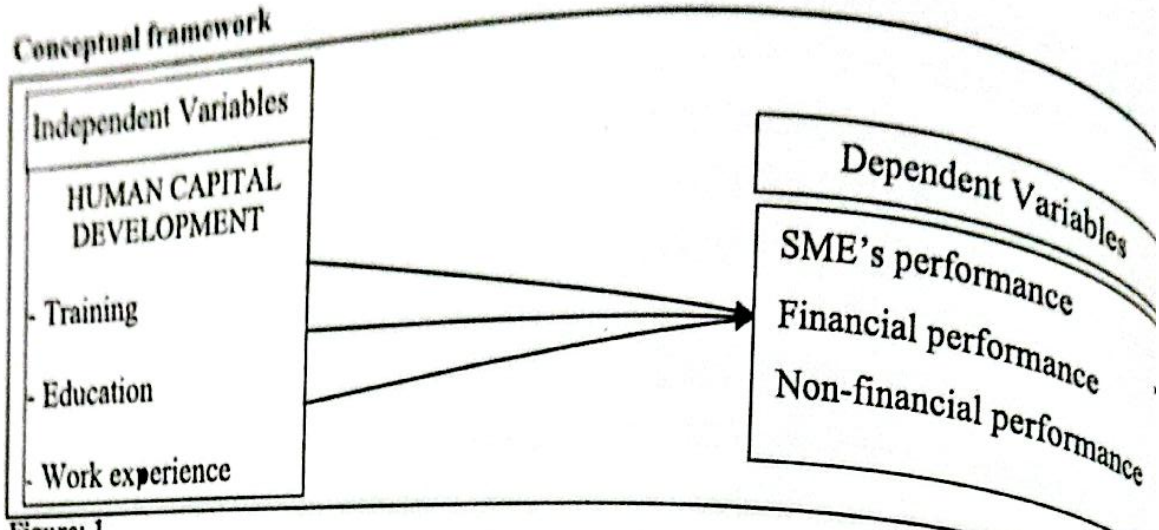
Performance is defined as the quality
quantity of work accomplished by an empl
in fulfilling their responsibilities according t
tasks assigned (Muhtadi *et al.*, 2021). M
(2018) suggests that performance is
multidimensional construct that can
subjective, depending on specific objectives
perspectives being assessed. There is no sin
best approach to measuring performance. Za
et al. (2020) refer to SMEs' performance as
ability to achieve desired outcomes and activi
that are generally accepted by the firm, which c
be measured through both subjective (financi
and objective (non-financial) criteria, or
combination of both. Cicea *et al.* (2019) elabora
that SMEs' performance can be quantitativel
assessed by measures such as efficiency
financial results, production levels, custome
base, market share, profitability, productivity
cash flow, expenses, and liquidity. Qualitatively

performance can be evaluated based on goals achievement, management style, employee behavior, customer satisfaction, product and process innovation, organizational and marketing development. Kiyabo and Isaga (2020) define SMEs' performance as the outcomes of firms' business activities. Muhtadi *et al.* (2021) further categorize performance into individual performance and organizational performance.

2.4 Human Development

Human development, as a concept, involves acquiring and enhancing the shared industrial relevant skills, key education, and the experiences that are essential for the social, economic and political advancement of a given nation. It is closely associated with investing in human beings as creative and productive resources (Ogunniyi, 2018). Olusadum (2020) defines development as a change that occurs in a specific area aimed at improving the standard of living for its populous. Development in human value is also interpreted as the process focused on enhancing individuals' capabilities over time to manage desired change effectively and mitigate undesirable outcomes, with a particular emphasis on building the knowledge and skills of organizational members to tackle new responsibilities and challenges (Lind, 2019). According to Okowa and Vincent (2019), education plays a pivotal role in human development by equipping individuals with necessary skills and knowledge to enhance their efficiency and value. Human development encompasses the entirety of human potentials—knowledge, skills, attitudes, energy, and technology—inherent within a nation's HC stock. Ifejika (2017) similarly emphasizes the highlighted importance of education in human identified development as it provides a skilled labor force and serves as a factor for the attainment of other developmental goals. The United Nations (UN), as cited in Ekperiware *et al.* (2017), measures human enhancement by indicators such as the average life expectancy (i.e. health), adult literacy (that is education), and average income earned (that is standard of living). HC can be broadly viewed as individuals' well-being in terms of health, social, educational, economic, and political freedoms. Daniel *et al.* (2019) perceives human development as a process aimed at enhancing employees' capacity to achieve and sustain goals and aspirations beneficial to the individual, firm, community, and the world at large.

In light of these perspectives, the current study conceptualizes human development as a process that expands individuals' opportunities and enhances their well-being. This involves assessing the external and internal environments of countries and organizations, supporting individuals, groups, and organizations in identifying and implementing strategies that improve SMEs' performance.



Figure; 1

Source: adopted from Daniel *et al.* (2019)

The conceptual framework reveals the relationship between independent and dependent variables. The independent variable is Human Capital Development (HCD), comprising its dimensions (Training, Education, and Work Experience). The dependent variable is SMEs performance, encompassing its measures (Financial Performance Measurement and Non-Financial Performance Measurement). This framework is based on the conceptualization aimed at investigating the impact of HCD on the performance of SMEs. It hypothesizes that HCD positively influences SMEs' performance. Additionally, the conceptual framework illustrates the existence of a relationship between HCD and SMEs' performance.

2.4.1 Human Capital Development and SMEs Performance

Human capital development and SMEs performance are discussed from both individual and organizational perspectives, as these elements constitute the fundamental components of HC (Marimuthu *et al.*, 2009). Khayinga and Muathe (2018) assert that the success of every organization hinge on HC necessitat ability to develop, deploy, and continually it through effective HC management to m competitiveness and gain an edge over firms. In Nigeria, approximately 96% of bu ventures are SMEs, making a modest contri to business generation and poverty red (National Bureau of Statistics, 2015; SMEI 2017). Evidence suggests that SMEs in Ni perform less favorably compared to counterparts in other developing countries as South Africa, Ghana, and Malaysia (Du Banwo, 2015). The low performance of SME Nigeria adversely impacts GDP, growth r unemployment levels, and Nigeria's ranking the world competitiveness index, highlighting significant challenges facing SMEs in country. Scholars like Ojokuku and Sajuyi (2015), Duru *et al.* (2018), Adebayo *et al.* (201 and SMEDAN (2017) identify major obstac hindering SMEs' performance in Niger including outdated technology, multiple taxe market access issues, poor support (busines development services), inconsistency i

government policies, inadequate infrastructure, limited access to finance, and insufficient attention to HC. This study focuses on HCD as a critical determinant of SMEs' performance in Nigeria.

HC pertains to both individuals and organizations (Ali, 2020). Kale (2019) asserts that MSMEs are crucial for Nigeria's industrialization and comprehensive economic development, emphasizing HC as the most vital component of industrialization according to the economic recovery and growth plan. Furthermore, enterprises are categorized as micro, small, and medium-sized, defined as any legal entity with the right to engage in economic activity and conduct business independently (Suroso and Anggraeni, 2017; Edoko *et al.*, 2018). Widarni and Malang (2015) found that SMEs are types of businesses heavily reliant on HC. Qamariah and Muchtar (2019) illustrate that HC directly and indirectly influences SMEs' performance, serving as an intangible asset crucial to their success. Moreover, Ojokuku and Sajuyigbe (2015) argue that in the knowledge economy, firm performance and competitive advantage stem primarily from a firm's knowledge base and the HC that enables it to leverage that knowledge. Thus, HC emerges as a critical driver of SMEs' performance, with HCD identified as a key tool for enhancing SMEs' performance. Cross (2019) explored the impact of HC development on SMEs' performance, surveying a population of 152 SMEs. The study revealed a significant positive relationship between HC development and SMEs' performance, recommending that SMEs owners/managers ensure proper identification, protection, and assessment of HC needs. Adebayo *et al.* (2019) examined the influence of HC development on SMEs' performance in Southwest Nigeria. Findings indicated a significant positive relationship between HC and SMEs' productivity, suggesting that investing in HC by SMEs owners/managers enhances firms' profitability and increases sales revenue.

Simic *et al.* (2020) investigated the relationships between HC and SME performance, incorporating the mediating effect of entrepreneurial management within the context of a traditional economy. The study concluded that HC indirectly influences SMEs' performance through the mediating effect of entrepreneurial management. In another study, Ojokuku and Sajuyigbe (2015) contributed insights into the relationship between HC development and SME performance in Ibadan, South-Western Nigeria. Their study highlighted significant impacts of development factors on SMEs' performance, emphasizing that SME performance can be enhanced through investments in on-the-job training, formal education, and participation in workshops. The study recommended that SMEs owners/managers actively promote participation in educational activities such as seminars, trade fairs, workshops, and exhibitions to acquire current knowledge that positively impacts SMEs' performance and enhances their capacity

growth and survival. Also, Ebrahimi *et al.* (2018) established the relationship between entrepreneurship and SMEs' performance through innovation and firm size. Their findings revealed direct and significant relationships between entrepreneurship, innovation, and SMEs' overall performance. The study indicated that each dimension of entrepreneurship significantly enhances SMEs' growth and performance. Nura *et al.* (2019) explored the impact of an entrepreneur's social network and HC on SMEs' performance in Kano State, North-Western Nigeria. The study sought to determine whether HC moderates the relationship between social networks and SMEs' performance in Nigeria. Results indicated that an entrepreneur's social network and HC have significant positive effects on SMEs' performance, with HC playing a moderating role in the relationship between the entrepreneur's exposure and SMEs' performance. The study concluded that social networks and HC are critical drivers of SMEs' performance.

2.5 Theoretical Review

2.5.1 Human Capital Theory

Schultz (1961) laid the groundwork for the HC theory, which was later expanded by Becker, a Nobel laureate in economics, in 1964 with his seminal work on the economics of employer-provided training. The theory posits that the education or training of workers increases their productivity and income levels by enhancing their skills and knowledge. Building on Schultz's insights, Becker (1967) likened HC to the traditional factors of production such as land, labor, and capital. He argued that investments in HC through education, training, [illegible] quality healthcare, and other measures can [illegible] total output, akin to physical investments in capital, albeit with the returns on HC [illegible] this framework, HC is considered a [illegible] production that continuously requires [illegible] to yield increasing levels of output. According to HC theory, the development of employees' [illegible] achieved through investments in their [illegible] training, and welfare. Daniel *et al.* emphasize that a fundamental tenet of HC [illegible] is the added value that individuals bring to the organization, making HC a critical asset for the firm. Thus, the HC theory is fundamentally aligned with the resource-based view (RBV) model, which emphasizes the [illegible] importance of valuable, rare, and inimitable resources to achieve competitive advantage.

2.5.2 Resources Based View Theory

The resource-based view (RBV), [illegible] introduced by Edith Penrose in 1959, emphasizes that organizations should be assessed based on their available resources to achieve their objectives. According to RBV, an organization's success is largely determined by its "internal" resources rather than external factors. Scholars have extensively explored this theory in various studies (Gao *et al.*, 2018), highlighting its significance in understanding organizational performance. RBV conceptualizes the organization not merely as an administrative unit but as a collection of both physical and human resources. These resources include land, labor,

and capital assets, which can be strategically leveraged to create competitive advantages. By effectively utilizing these resources, organizations can enhance their economic performance and achieve sustainable growth (Kor *et al.*, 2016; Chandrashekar and Subrahmanya, 2017). The theory underscores the importance of resource management in gaining a competitive edge in the market. Consequently, RBV has become a fundamental framework in strategic management, guiding organizations in resource allocation and utilization.

According to the resource-based view (RBV), organizational resources and capabilities that are rare, valuable, non-substitutable, and difficult to imitate form the basis for a firm's sustained competitive advantage. RBV posits that a firm can maintain this advantage by developing capabilities that are unique to the firm, foster complex social relationships, are deeply rooted in the firm's history and culture, and generate tacit organizational knowledge (Odhong *et al.*, 2013). In this framework, human capital (HC) is identified as the most valuable, non-substitutable, and difficult-to-imitate asset. Effective utilization of HC can significantly enhance a firm's efficiency and competitiveness. RBV emphasizes the importance of investing in people, aligning with human capital theory, which states that such investments add substantial value to the firm (Armstrong and Taylor, 2014). This alignment underscores the critical role of human resources in achieving long-term success. By leveraging their unique resources and capabilities, firms can create and sustain competitive advantages in their respective markets. Thus, the RBV framework provides a strategic approach to resource management and organizational development.

3.1 Methodology

The study employed a conceptual literature review to explore the intricate relationship between human capital development and SMEs performance. Utilizing a qualitative methodology, the research focused on conceptualizing HCD, identifying key indicators, and examining its broader implications for human development and organizational growth. A conceptual framework was developed to understand how enhancements in HCD directly influence SMEs performance, aligning with HC theory and the RBT theory. articles were reviewed, encompassing discussions on how investments in HC through training, education, and experience contribute to the competitive advantage and sustained performance of SMEs. This approach facilitated a comprehensive synthesis of literature, offering insights into the multifaceted dimensions through which HCD shapes the operational effectiveness and long-term success of small and medium enterprises.

4.1 Conclusion and Recommendations

The conceptual review revealed a significant and positive effect of HCD on SMEs performance in Nigeria. This corroborates earlier research by Simic *et al.* (2020), which similarly found that HC directly influences SMEs performance. A related study by Adebayo *et al.* (2019) investigated the impact of HCD on SMEs in the

South-Western Nigeria and also confirmed a positively significant effect of HC on SMEs profitability. These underscore the importance of investing in HC through training, education, seminal, workshop and experience to enhance SMEs' operational efficiency and overall success in Nigeria's business environment. The study concludes that HC improves the efficiency and productivity of SMEs, it enhances SMEs competitive advantage, HCD also support SMEs growth and sustainability and improves SMEs innovativeness capacity, the more an organization invests in its employees, the greater the likelihood of improved efficiency and success. The study focused on three aspects of HCD: training construct, education construct, and work experience construct. It posits that an entrepreneur who possesses a comp range of HC competencies with effective programs, a rich educational backgro substantial work-related experience is achieve high levels of performance a ventures. Conversely, lacking any of the elements individually may lead to neg impacts on SMEs performance. Based on study recommends that SME owners/man should invest more in HC and prioritize Engaging employees in various forms of tra including off-the-job training and on-the training, acquiring educational qualifications participating in workshops and seminars, sh be encouraged to cultivate robust w experience and achieve higher levels organizational performance.

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