



EuroEconomica

Human Capital Development and Small-Medium Scale Enterprises Growth: A Critical Appraisal of Empirical Studies

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Abstract: Human capital is one of the most strategic inputs for the expansion of the organization's growth. In view of this, the study critically appraised the submission of various scholars regarding the contributions of human capital development to SMEs growth over the time. Consequently, studies regarding the nexus between human capital development and SMEs growth are ongoing currently. Based on the perspectives of various studies it could be submitted that many of these studies are in support of the argument that human capital development has advanced the growth of SMEs significantly in the recent times. The growth of SMEs has been in terms of the production of novel goods, productivity, better profit margins, profitability, output significance and capital base. Therefore, this study recommends that the policymakers, the SMEs owners, shareholders, and strategic managers should place maximum priority to development of their human resources whenever they have a plan to expand the growth of their organization.

Keywords: Human Capital Development; SMEs; Growth

JEL Classification: J24

1. Introduction

The survival of economy in this modern dispensation has been largely driven by Small and Medium Enterprises (SMEs) (Bako *et al.*, 2021; Ogunleye *et al.*, 2020; Okoh *et al.*, 2022: a; Okoh *et al.*, 2022: b). This is due to the innovation and competition that usually accompany the emergence of SMEs in the economy. Meanwhile, the sustainability of SMEs and other similar ventures better productivity through highly skilled manpower has been a function of human capital development (Ezeliora *et al.*, 2020; Olowookere *et al.*, 2022; Oloke *et al.*, 2022; Akinbode *et al.*, 2020). For SMEs to succeed, there is a need for the availability of substantial tangible and intangible resources. One of these resources is human capital. The input such as human capital is a strategic catalyst for the enhancement of firm's competitiveness and long-term continuity. This is the major reason why the organization needs to leverage on its workforce by providing an enabling environment through for its workforce to flourish through the instrumentality of human capital development programmes.

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However, due to the strong connection that exists between human capital development and SMEs growth, various studies have been conducted in different parts of the world with a view to identifying the direction and magnitude of human capital development and SMEs growth. In order to unravel the perspectives of various scholars regarding this subject matter, this study compiled the propositions of authors over the time.

It is important to stress that this study is structured as follows; section one contains introduction. While section two focuses on theoretical and empirical review. In the same vein, methodology was discussed in section three and conclusion alongside recommendation was the subject matter of section four.

2. Theoretical Literature Review

2.1. *Diffusion of Innovation Theory

French sociologist Gabriel Tarde initially broached the theory in 1903, and Everett Rogers introduced it in 1983. It makes the case that collaboration as well as technological proficiency play a role in invention and innovation. A new technical development’s assessment depends on the traits and social standing of its users. It exhorts the inventor to think about their prospective market considering their existing needs and advertise their latest invention in accordance with the categories put forth in this theory. Essentially, the innovator must comprehend the unique traits of his target audience to be successful in the course of commercialization. Rogers asserts that the dissemination of innovation for adopters occurs in five stages: innovator, early adopter, early majority, late majority, and laggards. The bell curve below depicts Rogers’ quantifiable demonstration of the breakdown of each group.

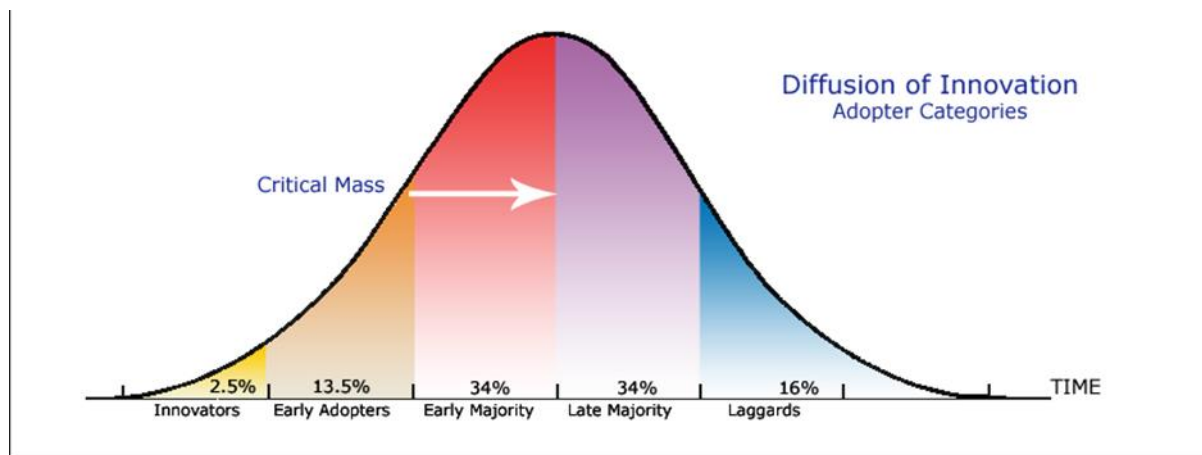


Figure 1. Categories of Adopters and their Relative Population

Innovators: The initial step is the development of a new concept, goods, or technology. Innovation is characterized by high-risk-takers with a diversified network of social connections and substantial financial support.

Early adoption: The second stage is the endorsement of the invention by a limited group of people who voluntarily take chances and utilize fresh ideas. Early adopters are deeply ingrained in social institutions and are the people who prospective innovative adopters will certainly approach.

Early majority: In the third stage, the invention is adopted by a wider proportion of people who are more skeptical and wait to do so until there is proof of its efficacy. They are those who tend to absorb advances more slowly and depend heavily on unofficial sources.

Late majority: The fourth stage is regarded to be skeptical and cautious. It is the adoption of the invention by a group of skeptics, who frequently wait until it becomes the standard. For this group, adoption depends on peers' approval of them.

Laggards: This is the stage of adopters. The innovation is adopted at this stage by a group of people who are hesitant to change and only do so when it is essential. They have a great resistance to change, are sluggish to absorb new ideas, have limited financial resources, and are conservative.

According to this approach, the objective is to simplify the innovation to fulfill the needs of all five categories rather than moving people from one of the five adopter groups into another. The adoption process begins with the adopter's entering information into their thoughts. This stage is extremely reliant on the adopter's current state of mind, resulting in the implementation procedure challenging and exceedingly unclear. Although the most crucial step in this process is to repeatedly present a similar straightforward information prior to the attention-grabbing hook is noticed, repeatability and perseverance in entering the information are the most crucial factors. After the first adoption, the adopter needs additional details in the second step. It is now the innovator's skill to carefully present the adopter with the right information that reflects those traits. How can the traits of a person be determined, one would wonder? And the specified surveys that aid in this evaluation step are where we get the responses to that. After gathering sufficient information, the adopter strives to examine the possibilities open to him in the third stage of the adoption process. At this point, the adopter typically performs a cost-benefit analysis. By their level of expertise, they may also go into further specifics during the entire research procedure, such as the innovator's history, time-dependent factors etc. The adopter begins using the invention or product in the fourth stage of the adoption process. This is the stage where the new product's usability and degree of effectiveness will be evaluated. The well-known phrase "customer service" implies the attention to detail and assistance offered by the vendor. The opinions of the early adopters are crucial at this point since marketing via word-of-mouth, which is the most blooming kind of advertising, is dependent on positive customer satisfaction. The adopter determines their decision to proceed with using the service they received from the vendor in the final stage of adoption depending on their prior stage's customer experience.

2.2. Review of Empirical Studies

Joseph and Tambandini (2022) proposed an essential indicator that African governments and financial institutions might employ to determine if a small business could be projected to make a significant contribution to economic progress. The study was motivated by the discovery that the only significant contributor to economic upswing was an upsurge in human capital. It has been conducted to analyze human capital in contrast to increased labour wages using statistical data from industrialized nations. Based on the research, it is impossible to adequately describe the linear market portfolio returns without considering human capital because of predictions for labour expansion. From the route of entrepreneurship, human capital may subsequently boost economic growth by causing a rise in the production of novel goods.

Meanwhile, Matekenya and Moyo (2022) investigated how innovation affected the effective functioning of SMMEs in South Africa. The quantile regression method was used in the statistical evaluation to investigate how innovation affects the success of a business at various exchange rates. The evaluation made use of data from the World Bank's organization survey. The discoveries of the analysis demonstrated that, for companies with greater profit margins (an elevated success or bigger organizations), R & D investment has a substantial and beneficial effect on productivity. There is proof that the launch of contemporary goods or services enhances productivity for more compact, slower-growing businesses. Vedastus (2022) used a sample of 309 Small and Medium-sized Enterprises (SMEs) from Tanzania and partial least square structural equation modelling to analyze the various consequences of managers' general and certain human capital on SME productiveness and creativity. The findings suggested that top managers with more advanced qualifications value innovation outside of technology more than their poorly educated counterparts. The conclusions also indicated that SMEs with more qualified managers outperform their less educated counterparts in terms of effectiveness, with the development of marketing serving as a significant complementary mediator of this association. It is demonstrated that the impact of senior managers' industry knowledge on SME effectiveness is negligible.

Adam and Alarifi (2021) explored creating a theoretical framework that would shed light on the relationship between initiatives to innovate and the growth of SMEs. At random, 259 SME managers in Saudi Arabia were surveyed on the Internet. The results were then evaluated utilizing the SmartPLS3 application. The analysis of the structural equation modelling demonstrated that the innovative strategies used by SMEs to deal with COVID-19's effects had a favourable effect on growth and the chance of business sustainability. In contrast to its efficiency, PLS-SEM bootstrap outcomes showed that external funding significantly improves the beneficial influence of SMEs' innovation methods on business sustainability. Yuliarmi *et al.* (2021) investigated the impact of social capital and human capital on investment and SME attainment. This analysis creates a sample of 203 small-scale enterprise groups employing the stratified random sampling technique with area strata. The study made use of accidental sampling. A path approach was used to examine the factors in this study. The study concluded that social capital had a favourable impact on SMEs' access to funding. Small businesses had more access to external financial resources because of their superior social capital. With a 1% level of certainty, social capital and SME funding have a favourable impact on SMEs' productivity, and with a 6% level of certainty, human capital does the same.

Adeyemo *et al.* (2020) studied the effect of human capital on the profitability of small and medium-sized enterprises (SMEs) in Southwest Nigeria. With the aid of a standardized questionnaire, information was gathered. Three hundred ninety-three (393) SMEs were selected by stratified random sampling from the total number of twenty-three thousand two hundred and ninety (23,290) SMEs in the Nigerian Southwest states, which include Lagos, Oyo, Ogun, Osun, Ondo, and Ekiti. The significance of the association between the factors was examined through the statistical evaluation of the data utilizing linear regression. The results of this research showed that the human capital index and had a favourable and critical impact on the inventiveness of SMEs. Adomako and Nguyen (2020) explored the impact of human capital gaps on environmentally sound creativity and productivity. Utilizing information from 301 small and medium-sized organizations in Ghana, the assumptions are evaluated. The findings revealed that conceptual factor benefit moderates the favourable association between the human capital gap and innovative sustainability. Adeodu *et al.* (2019) evaluated the upshot of human

capital on the performance of SMEs in Southwest Nigeria. Three hundred and ninety-three (393) people were given survey forms to fill out and 300 of those responses came back from sampling. Multiple regression estimation was used to analyze the data and ascertain the nature of the relationship between the variables. The study's conclusions revealed a strong correlation between SMEs' revenue and their human capital. The findings demonstrated an association between the business's income level and human capital.

Otete (2018) in her research, sought to understand how human capital deployment approaches affect SMP performance in East Africa. A randomized group of 360 SMPs was chosen implementing data gathered from the official portals of the National Board of Accountants and Auditors of Tanzania (NBAAT), the Institute of Certified Public Accountants of Uganda (ICPAU), and the Institute of Certified Public Accountants of Kenya (ICPAK). The 280 enterprises that provided complete answers to all the surveys have been analyzed for this research. According to the analysis, an extra 100-taxable period would result in a 5-per cent surge in the annual billing for consumers. A corresponding rise of one hundred days would raise the organization's income by USD 21900. Muriithi (2017) examined the functions performed by SMEs, their involvement, drawbacks, and approaches. The empirically supported research concentrated on African SMEs as well as ways to increase their productivity and profitability. The research study urges African countries to create SME-friendly measures and includes them in their list of development goals. Given the proper laws and regulations, enterprise structures, consistent electricity supply, and access to monetary resources supply, SMEs advocate to be beneficial to African development and put the African nation as a highly competitive and creative market by creating labour for unemployed societies and supplying 1.2 billion Africans, who make up a sizable market, with revenue and basic goods and services.

Ojokuku and Sajuyigbe (2015) investigated how Nigerian small- and medium-sized businesses performed in the advancement of their human capital. The findings suggested that indicators affecting human capital development show a significant influence on the effectiveness of SMEs. The results showed that, as methods of human capital development for the SMEs' employees, 84.9% of the performance of the analyzed SMEs can be linked to the betterment of on-the-job training, level of teamwork in lectures, conferences, and training sessions, and level of funding invested in exchange fairs and exhibitions. This indicates that to successfully obtain current knowledge that will have a real impact on the performance of the SMEs and enhance their capacity for growth and sustainability, SME authorities should efficiently foster demand for programs, trade shows, training seminars, and exhibits. Adisa *et al.* (2014) investigated the traits and difficulties faced by Nigerian small enterprises. This is accomplished by a thorough conversation with 152 Nigerian small business proprietors, the results of whom made up the data collection. The results demonstrated that Nigeria's small enterprises are identifiable by their idle population, which chooses small companies as their final resort. An additional discovery identified the five main issues that Nigerian small firms must deal with, and the analysis offered suggestions on how to manage these issues successfully.

Gadi (2014) investigated how the profitability of small and medium family businesses (SMFEs) in Nigeria was impacted by the development of human capital (HC). He spoke with fifty (50) business owners in Plateau State. The replies were quantified using a 5-point Likert scale. Analysis of the impact of human capacity development indices on the outcome's indicator was done using the multiple regression method. According to the evaluation's findings, the surveyed enterprises' output significantly

improves when they invest more in their human capital. Despite this, it was determined that educational outreach was an extensively important strategy for enhancing the human capital of SMFEs. Chidi and Shadare (2011) investigated the difficulties small and medium-sized businesses (SMEs) in Nigeria had while trying to build their human resources. The replies were quantified using a 5-point Likert scale. The statistical software package for social sciences (SPSS) was used for the evaluation of data. According to statistical research, 79% of the survey participants agreed or close agreement that many SMEs have poor training approaches and only put in token efforts to improve human resources.

70% of the survey participants agreed or strong agreement that several SMEs lack established strategies regulating developmental and training initiatives, and 52% of those interviewed concurred and highly concurred that SMEs expand human capital in an ad hoc manner despite first conducting a need assessment. Fatoki (2011) examined the effect of human, social, and financial capital on the operation of Small and Medium-Sized Enterprises (SMEs) in South Africa. In South Africa, SMEs have an extremely high struggle percentage, thus it's critical to investigate the variables that may affect how well they function. In a survey, information was gathered via an online questionnaire. Descriptive statistics, chi-square, Pearson correlation, and the regression approach were used for the data appraisal. The findings showed a considerable favourable correlation between SMEs' success and human, social, and financial capital.

Oforegbunam and Okorafor (2010) investigated how SMEs performed in the development of their human capital. Fifty (50) business owners from Aba, South-Eastern region of Nigeria SME were questioned about their revenue value, income, and cash flow as performance indicators. The growth of individual potential was measured by academic achievement from schools and colleges, on-the-job training, as well as involvement in trade exhibitions by the SME workforce. The replies were quantified using a 5-point Likert scale. The analysis's findings demonstrated that the surveyed SMEs' performance significantly improves when they invest more in developing their human capital. The main strategy for improving the human capital of SMEs was determined to be on-the-job training, nonetheless. Gibson and Van der Vaart (2008) explored the characteristics that affect how several small- and medium-sized businesses can obtain financing from banks, savings and loans, and other banking institutions. Cross-sectional survey methodology served as the foundation for the study because it enabled simultaneous comparison of a wide range of factors. According to the surveys, relatives and close friends, credit from the bank, and self-financing are these businesses' top three sources of funding. In conclusion, studies regarding the nexus between human capital development and SMEs growth are ongoing currently.

3. Methodology

Due to the nature of this study, which is a systematic literature review, this study extracted relevant information which is limited to only published literature from journal articles, books alongside conference papers. The need to identify the most relevant theory and highlight the strategic contributions of past studies on this subject matter motivate a systematic review of literature with a view to providing clarity the underlying empirical studies on nexus between human capital development and SMEs in order to contribute to the building of thought on SMEs on a sustainable manner (Ajibola *et al.*, 2022; Onifade *et al.*, 2022; Olanipekun *et al.*, 2022; Aderemi *et al.*, 2022).

4. Conclusion and Policy Recommendation

This study aims to assess underlying empirical studies focusing on human capital development and SMEs. The previous scholars have helped to unravel how human capital development has driven SMEs growth. However, many of the studies are in support that human capital development has advanced the growth of SMEs significantly in the recent times. The growth of SMEs has been in terms of the production of novel goods, productivity, better profit margins, profitability, output significance and capital base. Therefore, this study recommends that the policymakers, the SMEs owners, shareholders, and strategic managers should place maximum priority to development of their human resources whenever they have a plan to expand the growth of their organization.

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