



Entrepreneurial Human Capital and Persistence Underperforming Firms

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Abstract

Inadequate provision of human capital components mismatches between an employee's capabilities and the job required to be performed. Also, inadequate communication or feedback between the employees and the management remains a major challenge to organizations regardless of their nature and size. These challenges could lead to the persistent underperformance of an organization if they fail to take cognizance. Therefore, adequate provisions of human capital components are the fundamental solutions to the problems of firms' underperformance. This study examines human capital and its influence on firm performance and builds a conceptual model that explains the relationship between human capital and firm performance. The study employed the use of qualitative method of research which is based on secondary sources of data. The results of the study signify that human capital variables (training, skills development, knowledge management, motivation, work experience, and quality of education) lead to human capital effectiveness and have a significant effect on firm performance. Based on the findings it was recommended that firms should therefore, come up with effective motivational such as training opportunities, skill development, recognition, and pay benefits plans in providing various human capital components as not only does its direct organizations to achieve greater performance but also it ensures them to remain competitive for their long-term survival.

Keywords: *Capital, Entrepreneurship, Firms, Human, Underperformance*

INTRODUCTION

Human capital (HC) might be the ultimate asset for every organization. This is because every basic function of an organization is executed by employees (Channar, Talreja & Bai, 2015; (Krieger, Stuetzer, Obschonka & Salmela-Aro, 2021). This is the reason why the resource-based view of the firm supports the impression that human capital practices may be a significant foundation of competitive advantage and argued that resources lead to sustainable competitive advantages when they are valuable (Masood, 2010). In the word of Munjuri, K'Oboyo, and Ogutu (2015) resource-based view of the firm denote that resources are important when they allow for improving effectiveness, capitalizing on opportunities, and neutralizing threats. Additionally, in the framework of strategic management, value creation focuses on increasing the ratio of customer profits in comparison with the associated costs. Rationally, a firm's human capital attaches value if it contributes to lower costs, and provides increased service or product features to customers (Perez & Pablos, 2003). In addition, the authors noted that possibly the organizational resources most difficult to control for all our people. Traditionally, management has footed its competitive strategies on other factors, like product and process technology, protected market niches, access to financial resources, and economies of scale. As a result, several authors like Snell and Youndt (1995), Wright and McMahan (1992), and Pfeffer (2005) have contended that the human resource system may be a better source of core competencies that can lead to sustainable competitive advantage.

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In a period of sensitive corporate transparency, greater workforce mobility, and severe skills shortages, culture, engagement, and retention have become identified as the pinnacle of business dominance (Odon'g & Omolo, 2015). United Nations (2015) identify diverse approaches, visions, models, and tools available to each country, following its national circumstances and priorities, to achieve Sustainable Development by 2030. To support significant and promising business goals, strategies, and metrics, organizations must guarantee that their human resources have a strong understanding of the organization's promising and core business issues (Global Human Capital Trend, 2014). In numerous economies, employers are searching for workers who possess behavioral skills such as teamwork, diligence, creativity, and entrepreneurship, essential to thrive in today's rapidly evolving, and technologically driven globalized economies. Additional scholars have given greater attention to how firms acquire valuable strategic human capital from outside the organization to impact the composition of their internal human capital resources (Chatterji & Patro, 2014). This human capital acquisition can involve a variety of different processes by which firms augment their stock of knowledge and skills (Eckardt, Skaggs & Lepak, 2018). Perhaps the most basic processes could be those that involve existing employees learning from sources outside the environment of the firm.

Human capital according to Schultz (1993) is a term used by 'neoclassical economists' to describe the stocks of knowledge and skills which enable individuals to create economic value. In the word of Bosma, van Praag, Thurik, and De Wit, (2004) the term "human capital" has been defined as a key element in improving firm assets and employees to increase productivity as well as sustain competitive advantage. To sustain competitiveness in the organization, human capital becomes an instrument used to increase productivity. Human capital refers to the actions that are associated with training, education, and other professional schemes to amplify the level of knowledge, skills, abilities, values, and social assets of the owner/manager or an employee that will lead to their satisfaction and performance, and eventually on firm performance. It is also seen as the sum of the abilities and knowledge of individuals.

On the other hand, underperformance or poor performance is a failure to perform the duties of the role or to perform them to the required standard. Firms sometimes are confused about what underperforming is all about; this is because they look at underperformance as poor conduct or misconduct. PlusHR (2017) differentiated between the two concepts: underperforming is associated with an unacceptable standard of work, poor quality of work, low productivity, and poor outputs, whereas misconduct is associated with lateness and absence from work, bad behavior or attitude towards work or colleagues, theft, fraud, violence, breach of policies or procedures. Based on the above statement, persistent underperforming firms could arise as a result of inadequate clear expectations, insufficient training, work experience, high workload, and the wrong person hired for the job, ineffective or limited communication (feedback) between employees and management. Also, if there is a mismatch between an employee's capabilities and the job they are required to undertake, or the employee does not have the knowledge or skills to do the job expected of them, lack of motivation, low morale in the workplace, and/or poor work environment.

However, in the present global market, companies are composed of competitors, regardless of industry. To develop a competitive advantage, it is important that firms truly influence the workforce as a competitive weapon. An approach for improving workforce productivity to compel higher value for the firms has become an important focus. According to Marimuthu, Arokiasamy, and Ismail, (2009), firms seek to optimize their workforce through complete human capital development programs not only to attain business goals but most significant for long-term survival and sustainability. To accomplish this undertaking, firms will need to invest resources to ensure that employees have the knowledge, skills, and competencies they need to work effectively in a hastily changing or volatile and multifarious environment.

In response to the changes, the majority of firms have grasped the notion of human capital as a good competitive advantage that will enhance higher performance. Human capital development befalls part of a general effort to realize cost-effective and firm performance. For this reason, firms need to

understand human capital that would enhance employee satisfaction and improve performance. Hence, this study considers the link between entrepreneurial HC and firms' performance. Therefore, this question is used to direct the investigation: what is the relationship between entrepreneurial HC and firms' performance?

This study starts by defining the concepts of entrepreneurial human capital, and firm performance. It then explores the human capital theory and the relationship between human capital and firm performance. In the last section, the study builds up the model and winds up the implication of human capital as a mainstay in future examination of firm performance. This study is based on a qualitative method of research as it is purely a review of the literature.

LITERATURE REVIEW

Concepts of Human Capital

There is no precise definition of human capital. Nevertheless, according to Subramaniam and Youndt (2005), human capital is defined as the knowledge, skills, and abilities attached to and used by individuals. In the same vein, Sanchez (1993) simply defined human capital as the knowledge brought by workers when they lead the company. Human Capital (HC) is the sum of the knowledge, skills, abilities (KSA), and other characteristics of individuals (Ployhart & Moliterno, 2011). HC is unique because people cannot be separated from their knowledge, skills, or values in the way they can be separated from their financial and physical assets (F-Jardon & Gonzalez-Loureiro, 2013). According to Lafuente and Rabetino (2011), human capital is comprised of individual attributes such as formal education, previous labor experience, individual well-being at the place of work and even beyond, and the presence of partners who might provide additional expertise. This type of capital is considered unique since knowledge cannot be taken away from the individual as tangible assets and financial capital can. It can therefore be observed that the employee's knowledge brought about by their educational level, their abilities, and the level of motivation provided by their employers comprises a key determinant factor towards the success of any firm. As a result, for an organization to get real value from its workforce, human capital is central to its key elements of employee education level (Widarni, 2015). Based on the arguments above, human capital could be the most important asset a company has since it is a source that creates competitive advantage though it is riskier and does not belong to the organization per se but to everyone that constitutes the organization.

Firm Performance

Firm performance is understood as organizational goals involving the investment of resources. An organization that does not have survival as a primary objective or goal should re-think (Gross, 1968). The goal of organizational survival underpins all other goals (Gross, 1968). Paying attention to this goal contributes to the satisfaction and execution of other organizational goals. Gross (1968) argued that the concept of performance is an unwritten law of every organization. This suggests that every organization should see survival as an absolute prerequisite for it serving any interest whatsoever (Adewale, Abolaji & Kolade, 2011). The word performance on the other hand has been defined in various ways. Performance refers to those behaviors that have been evaluated or measured as to their contribution to organizational goals (Cook & Hunsaker, 2001). Firm performance is a common issue in any organization in the new era of globalization, where competitiveness and innovativeness are norms that go with performance (Marimuthu, Arokiasamy & Ismail, 2009).

Theoretical Review

The foundation of human capital goes back to the materialization of classical economics in 1776 and thereafter developed a scientific theory (Odhon'g & Omolo, 2015). Following the demonstration of that notion as a theory, Schultz (1961) acknowledged human capital as one of the important factors of national economic growth in the modern economy. The theory is embedded in the field of macroeconomic development theory (Schultz, 1993). Becker's (1993) classic book, *Human Capital: A Theoretical and Empirical Analysis with special reference to education* illustrated

this domain. Becker disputes that different kinds of capital include schooling, computer training course, and expenditures on medical care (Marimuthu, Arokiasamy & Ismail, 2009). The theory disputes that a person's formal education determines his or her earning power. The idea of human capital is instigated from the observation that schooling develops certain qualities in people and that these qualities enhance economic productivity and economic growth (Severine & Lila, 2009).

Becker's classic work, human capital (1964), elaborates on the idea of human capital in the context of neoclassical economics. It records that; investment in humans could be viewed as like investment in other means of production, like factories or mines. Additionally, in developing Becker's study another economist, Theodore Schultz set out to map how rates of return from education could be calculated in countries with different levels of income, and different attitudes to forgoing earnings to develop human capital (Severine & Lila, 2009). The human capital theory holds that it is the key competencies, skills, knowledge, and abilities of the workforce that contributes to an organization's competitive advantage.

Armstrong (2014) and Odhong, Were, and Omolo, (2014) argues that human capital theorists have typically argued that organizations can increase their human capital by internally developing the knowledge and skills of their current employees, and by attracting individuals with high knowledge and skill levels from the external labor market. Human capital theory is the major groundwork theory in studies associated with human capital; in this study, the theory supports variables such as knowledge management, education, training, and skills development as well. The implication is human capital investment adds short-and long-term value from investments in the development of knowledge and expertise in individuals and groups of individuals.

Therefore, this study adopts the word of Becker (1993) that education and earning power are correlated, which signifies theoretically, that the more education one has, the more he can earn, and that the skills, knowledge, and abilities that education provides can be transferred into the work in terms of performance or productivity.

Entrepreneurial Human Capital and Firm Performance

The concept of entrepreneurial human capital is understood in several empirical studies of the survival chances of businesses, both in the domain of organizational ecology and economics (Rui & Murat, 2006). Brüderl, Preisdorfer, and Ziegler (1992) argue that greater entrepreneurial human capital enhances the productivity of the founder, which results in higher profits and, therefore, a lower probability of early exit. Higher productivity of the founder means the business owner is more efficient in organizing and managing operations or can attract more customers, negotiate better contracts with suppliers and raise more capital from investors. It can then be argued that entrepreneurial human capital increases efficiency and plays an important role in the market selection process (the environment selects based on entrepreneurial human capital). Taking the reminder from Jovanovic's (1982) model of market selection, it is also possible to claim that entrepreneurs with greater human capital will be less uncertain about their efficiency and will be able to learn faster about market conditions, adjusting capacity and therefore reducing the probability of exit.

Barro and Lee (2010) estimated that increasing average years of schooling by one year increases per capita GDP by 1.7% to 12.1% depending on specification. Generally, the studies establish that education significantly and positively correlated with economic growth and argue that causation runs from education and growth in line with human capital growth models. Additionally, existing employees will be motivated to attain additional education for an increase in compensation. The organization saves money by retaining existing employees in addition to developing stronger skill sets that will increase productivity.

Jelena, Vesna, and Mojca (2012) conducted a study on the impact of knowledge management on organizational performance. The aim of their paper shows that through creating, accumulating, organizing, and utilizing knowledge, organizations can enhance organizational performance. The results show that knowledge management practices measured through information technology,

organizations, and knowledge positively affect organizational performance. Measures are consequently taken to improve the national pool of skills and talent during training that is relevant to the needs of the economy. World Bank (2010) reports that information on learning results point out that schools in many developing countries are failing to teach Foundational Cognitive skills, much less the expert thinking and complex communication and occupational skills needed to function effectively in the modern labor market.

Skills and skills development are indispensable elements of all efforts in this difficult era. Too numerous workers are unprepared to meet the needs of firms, particularly in more competitive economic environments. Skills are at the center of improving individuals' employment results and increasing countries' productivity and growth. This is significant as today's developing, and emerging countries seek higher sustained growth rates (World Bank, 2014). Skills development programs enable employees to gain employability. Employability according to Omolo (2013) incorporates skills, knowledge, and competencies that improve a worker's capability to secure and retain a job, progress at work and cope with change, secure another job if he or she so wishes or has been laid off, and enter more easily into the labor market at different periods of his or her lifecycle.

Finally, Rahim, Atan, and Kamaluddin (2017) conducted a study on human capital efficiency and firm performance: an empirical study on the Malaysian technology industry. Their study used quantitative and qualitative survey methods of research, and the results from their correlation analysis revealed that human capital efficiency has a significant and positive relation with a firm's performance. From their findings is logical to conclude that their study may be useful to managers to make better decisions about the proper deployment of their strategic asset, namely human capital.

In their investigation into the effects of human capital development on small and medium-sized enterprises in a few chosen firms in Anambra State, Chika, and Chike (2021) discovered that training employees for better performance of SMEs, increasing the efficiency of the SMEs, influencing the proactiveness of the employees, enhancing the flexibility of the employees, and improving service delivery are all ways that human capital development aids in improving the performance of firms. Like this, Arshed, Rauf, and Bukhari (2021) studied the empirical contribution of human capital in entrepreneurship and discovered a link between education and entrepreneurship. Also, Chandra, Julyanthry, Rahmayanti, Kusuma, and Sudirman (2022) found that the performance of businesses in Pematangsiantar City is considerably and favorably influenced by human capital. Additionally, Braunerhjelm and Lappi (2023) offered evidence that higher levels of business production are highly correlated with employee levels of entrepreneurial human capital. The impact of human capital development costs on the financial performance of listed manufacturing enterprises in Delta State, Nigeria, was also studied by Onoriode (2022). His findings showed a strong correlation between the financial performance of listed manufacturing companies, welfare costs, and human capital investment. Furthermore, Supriyanto, Basri, Wati, and Mariyanti (2022) did research in Indonesia on the use of entrepreneurial human capital to boost performance in micro, small, and medium-sized businesses (MSMEs). According to their findings, entrepreneurial human capital characteristics that affect the performance of MSMEs include the training, experience, and competence of human resources in businesses.

Therefore, based on the empirical studies above, it could be logical to conclude that the acquisition of human capital components significantly and positively influences firm performance. This implies that human capital components are very important to organizations regardless of their nature and size. This is because inadequate components of human capital might lead to the persistent underperformance of firms.

Conceptual Framework

This study builds up a framework to demonstrate the connectivity between entrepreneurial human capital elements and firms' performance. As shown in the previous discussions, the universal

human capital elements include motivation, training and skills development, knowledge management, educational level, and work experience that will improve human capital effectiveness. Regarding the literature reviews, it is, therefore, logical to hypothesize that entrepreneurial human capital leads to superior firms' performance as indicated by Figure 2.1 below.

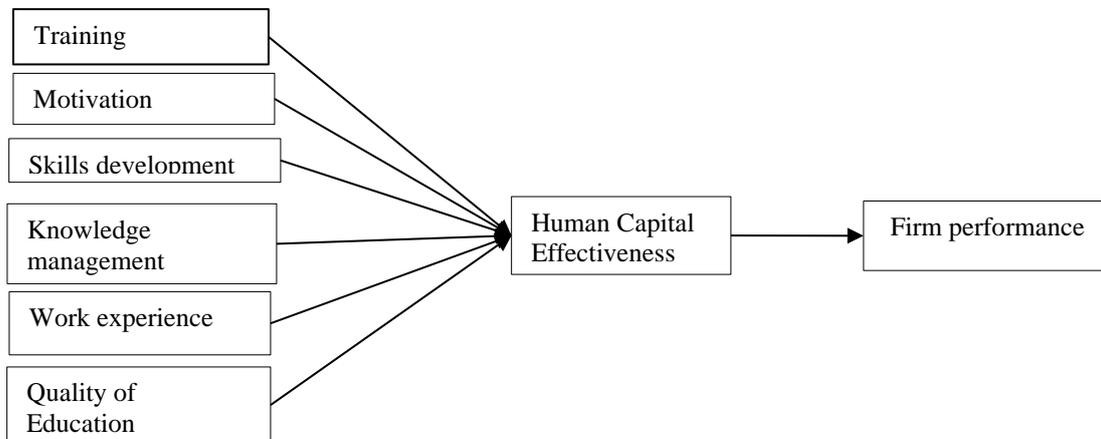


Figure 2.1: Conceptual framework of the study

Source: Researchers' Design

METHODOLOGY

To achieve the objective of this study, the survey research design was adopted. The study employed a literature review approach from national and international researchers on the same subject. Deductive reasoning was employed in this study since it was designed to examine existing literature about entrepreneurial human capital and the persistence of underperforming firms.

FINDINGS AND DISCUSSION

One of the fundamental goals of every organization is performance. Therefore, it is imperative to employ some strategic human capital development concepts to achieve these organizational goals, bearing in mind that human resource plays a vital role. Consequently, this paper explored the relevant literature on human capital and its effect on firm performance. The conceptualization of human capital is closely linked to some fundamentals of economics and firm performance. The literature reviews demonstrate that there is logically strong proof to illustrate that the mixture of 'human capital enhancement' in organizations promotes innovativeness and greater firms' performance. Therefore, entrepreneurial human capitals have a positive effect on firms' performance. Studies also clearly authenticate the fact that financial performance is positively affected by the consideration of human capital.

The human capital variables (training, skills development, knowledge management, motivation, work experience, and quality of education) lead to human capital effectiveness and have a significant effect on firms' performance. Human capital investment is an instrument for value creation and a form of human capital risk management strategy for sustainable organizational performance. Insufficient human capital elements have a negative effect on individual performance and organization as well. Employees need to get relevant training in school and job training should be relevant and specific to the organization's objectives. Employers need to extend the horizon of their employees by equipping them and allowing them to gain employability skills within or outside the organization. Most organizations do not conduct effective training and need analysis to support their on-the-job training. Results showed the need to support and provide opportunities for career development.

Hence, relevant training has a direct positive effect on the performance of employees and their organizations; skills development influences firms' performance; and knowledge management enhances firms' performance. This is because development and knowledge management promote entrepreneurial spirits that improve firms' performance and competitiveness. Also, the employees'

quality of education is important and has a major effect on their performance. Education influences employee earnings, performance, and the ability to acquire skills. The quality of education matters a lot in the firms' performance. Organizations need to encourage both formal and informal education to enhance their employee performance and that of the organizations. Hence, the quality of education influences individual performance. Therefore, regarding this, the understanding of firms' performance about human capital should not be observed as a fact that only put in 'more zeros' in a firm's profits; it is relatively transforming the total workforce as the major 'valuable assets' for the organization to look for ways to greater achievements through innovativeness and creativity.

It is argued that the formation and emphasis on human capital enhancement will result in high-performance or rather high-performance work systems. It was acknowledged that human capital development and enhancement in organizations tend to create a significant contribution to organizational competencies and this in turn becomes a great boost for further enhancing innovativeness the relevant literature to a large extent supports the fact that firm performance is positively influenced by the presence of human capital practices (Youndt, Subramaniam & Snell 2004). It was authorized that human capital development is a pre-requisite to good financial performance and additionally, the importance of organizational human capital regarding firm performance was further supported by Hsu, Lin, Lawler, and Wu (2007). Additionally, evidence shows that the relevance of human capital to firm performance has also become common among organizations regardless of size and nature, and it seems that the use of a human capital tool (emphasizing quality of employees) per se in organizations tends to have a great influence on the firms' success.

CONCLUSIONS

Based on the various kinds of literature reviews and discussions, the study confirms that human capital components (e.g., training, skills development, knowledge management, motivation, work experience, and quality of education) are significant predictors of firm performance. It revealed that human capital improvement surfaces a way for greater innovativeness and this in turn offers a positive influence on firm performance. In the meantime, firm performance and human capital could also be viewed in the context of high-performance work systems. Based on the literature reviewed and discussions, the following recommendations were made:

- i. Firms should provide employees with the necessary manuals and measures they need to help them do their job.
- ii. Firms should promote teamwork to improve knowledge sharing at their workplace, through autonomous work groups and team-building activities occasionally.
- iii. There is a need for organizations to have knowledge management systems that facilitate knowledge transfer and dissemination.
- iv. In promoting skills development, organizations should conduct orientation for existing and new employees to enable them to get introduced to the organization's systems and provide necessary equipment for work, and conduct skills assessment in the organizations to institute skills lacking or required to deliver effectively.

LIMITATIONS & FURTHER RESEARCH

This current study concentrated on a review of previous literature; it has some shortcomings. To understand the statistical implication of entrepreneurial human capital on the performance of organization, it is necessary to employ quantitative data. Therefore, quantitative research is required by further researchers to conduct a study in a particular organization.

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