A Conceptual Framework of Human Capital, Self-Efficacy and Firm Performance Among SMEs in Malaysia

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Abstract
In many developed countries, it is proved that SMEs contribute significantly to their countries as they stimulate economic growth and increase employment rates. It is noteworthy that the Malaysia SMEs’ contribution to the GDP is considered low as compared to other developed countries and even the neighboring countries. Hence, SMEs in Malaysia need to further improve themselves in order to increase their contribution to the country’s GDP. It is undeniable that there are numerous studies on human capital that prove it is able increase the performance. Conversely, there are entrepreneurs who still fail in conducting a business. It is noteworthy that the failure rate among SMEs in Malaysia is recorded high at 60 percent. The question arises whether human capital really does not have any significant impact to the firm performance or it does not incorporate extensive measures of self-efficacy which constitute factor that may amplify or mitigate human capital outcomes. This paper goes on to analyze two internal factors viz human capital and self-efficacy that play a significant role in development and improvement of SMEs in Malaysia. It is believed the combination of both of these internal factors would enhance the contribution of SME to the economy as well as the performance of the entrepreneur increase. Lack of study on these three variables as a cohesive framework has created a literature gap. Hence, this conceptual paper try to discuss the effects of these internal factors on SMEs’ firm performance in Malaysia.

INTRODUCTION
Small and Medium enterprise (SMEs) constitute the backbone of the country in the economic development. SMEs are not only important for the developed country but also to the developing country. According to Ayagari, Demirguc-Kunt and Maksimovic (2011), SMEs are crucial for economic wealth, especially in low-income range. The contribution of SME to the Malaysia’s GDP is considered low if we compare among developed and even in neighboring countries. The latest SMEs contribution to the country GDP was only at 35.9% percent in 2014. Although the contribution has been increasing year by year, the contribution of SMEs towards Malaysia’s GDP is considered low. The SMEs contribution to GDP is stated to be more than 50 percent in developed Asian and neighboring countries. For example, Japan constitutes (55.3%) and Korea constitutes (50%) of GDP (Katua, 2014). In neighboring countries, SME contributes 57.8% to the total Indonesia GDP (Yoshino & Wignaraja, 2015) while Singapore is (50%) of GDP (Singapore, 2015). As responsible agencies, the
SME Corporation Malaysia (SME Corp) aim to reach 41 per cent SME contribution to the country GDP by 2020 (SME CORP. Malaysia, 2015). According to our Prime Minister Datuk Seri Najib Razak, to achieve 41 percent of GDP as stated in vision 2020, it can only be achieved if we focus towards increasing the productivity and innovation which are included in human capital. However, this could be hard to achieve as Malaysia produces homogeneous products which are almost the same like other competitors’ products (Yaacob & Tuan Hassan, 2014). Besides that, According to the Eleventh Malaysia Plan 2015 report, Malaysia labor productivity constitutes the lowest which is (2.3%) as compared to other developing countries such as Thailand (2.5%). This shows the entrepreneurs weaknesses in human capital to produce an innovation.

The issues on financial difficulties are the main factors that impede the growth and survival of SMEs. Previous study revealed that among the reasons the SME have difficulties in obtaining fund from financial institution is because of the lack of human capital factors (Rahman, Yaacob & Radzi, 2016). Human has been considered as the most important factor in contributing to the firm performance. However, the entrepreneur might underestimate this factor because they think that this factor is not important and insignificant to the firm performance and hence contributing to the total failure in managing a business. There are numerous studies about human capital in business and the successes have been studied. However, there are entrepreneurs who still fail in conducting a business. According to Rahman et al. (2016), the failure rate among SMEs in Malaysia is recorded high at 60 percent. Coff (1997) has argued that firms cannot achieve sustainable competitive advantage from human asset if they cannot cope with the associated management dilemmas such as motivation and morale hazard which can exert low entrepreneur effort. It is noteworthy that self-efficacy constitutes an important role that could influence human resource (Stajkovic & Luthans, 2003). This means that self-efficacy prepares an entrepreneurs with a self-confidence and belief in their mind to succeed by using their capability which in turn increases their performances. It is supported by Shane et al. (2003), where self-efficacy helps influence the entrepreneur with a confidence by mustering necessary skills in order to achieve certain level of achievement. Besides that, the performance of SMEs does not rely on financial factors solely. This is because the owners of the SMEs can strengthen their credibility by managing their business efficiently that in turn, convinces the bank to fund back to their businesses. Hence, it depends on entrepreneur willingness to achieve some level of extent. Therefore, it is essential to have both human capital and self-efficacy in order to have a better firm performance.

SMALL AND MEDIUM ENTERPRISE (SME)

SMEs have been given a salient role in promoting economic growth as well as to elevate the Gross Domestic Product (GDP). There are numerous contributions that were done by SMEs. According Ahmad (2012), the study has concluded that there are three important factors of SMEs that are generally accepted by the world wide which include stimulator for growth, poverty alleviation and counter balance the economy. It is stated to be the stimulator for growth because of its capability to reduce unemployment rates and as sources for new products and technological innovations. This rapid growth in fact is very difficult to be achieved without the numerous contribution from SMEs.

It is undeniable that there are numerous studies related to SME since the government has just realized on the role played by SME to the economic growth. However, literature shows that the most popular study on SME discussed about challenges and profile characteristic rather than emphasizing at any particular parameters that relates to the development or improvement of the SMEs in Malaysia (Alam et al., 2015). There are a lot of challenges in the marketplace that could mitigate the SMEs’ growth and survivals. The survival of business can be affected by the internal factor and external environment. According to Barney (1991), a sustainable competitive advantage could be reached by the firm with strengthen up their internal factors which in turn help the entrepreneurs in dealing with external threats. Therefore, an attention should be given to the SMEs to strengthen the internal factors which in turn will enable them to face the challenging external environment. Hence, this paper focuses only on what could develop and enhance the role of SMEs in Malaysia.

The development and improvement of SMEs can be strengthened through the development in human capital. It cannot be denied there are many studies on human capital and performance and the relationship were found to be positively significant. However, what drives an entrepreneur to act entrepreneurially remains as an isolation. It is noteworthy that self-efficacy assists the entrepreneur to achieve their goals by preparing themselves with necessary skills to complete certain task. Therefore, this paper will further discuss how both of these internal factors (human capital and self-efficacy) interact to influence the firm performance.
HUMAN CAPITAL

The definition of human capital varies among many kind of people. There is no one standard definition of human capital that could be found. The theory of human capital was originally derived from the work of Adam Smith who is a British economist. He concluded that the acquiring of useful knowledge and skills by the inhabitant of one nation increase human abilities which at the same time increase society’s overall wealth, as well as for individuals. The human capital concept is developed further by the economist with the writings of Becker in 1975. According to Becker (1975), the investment in human capital improves the physical and mental abilities of people and hence increase the real income prospect. In general, he emphasized the important elements of human capital viz. education and training. The importance of education can be seen in the fact that people with more education tend to have better Intellectual Quotient (IQ) and are more educated than people who are not. According to Amin (2004), IQ is an entrepreneur’s ability in thinking to resolve problems.

The theory was then has been adopted by the entrepreneurship researcher which led to the larger number of studies including human capital as a prediction to the entrepreneurial success. According to Unger et al. (2011) human capital refers to the attributes such as education and training or other professional initiatives in order to acquire related knowledge and skills which led to the firm performance. Furthermore, the organization which comprises the knowledge and skilled people constitute as valuable resources. This statement is supported by Ahmad (2007), where entrepreneur with knowledge and skills assist them in determining the business direction and act accordingly. Rastogy (2000) defined human capital as people who are of highly skilled, creative, motivated and knowledgeable who in return are able to understand dynamic business environment. In a different study, Davidson and Honig (2003) defined human capital as a tacit and explicit knowledge which in turn contributes to new discoveries, exploitation and viable business. Kor and Sundramurthy (2008) stated that human capital refers to both entrepreneurs’ current and past experience that enable them in shaping their thinking and perception. Munjuri et al. (2015) has described that human capital as the people’s abilities in accomplishing certain task, resolving a problem and making an innovation which will enhance the firm’s performance. Although there are variety definitions form different people, this study believe among all of the definitions, there are the similarities definition of human capital that could be identified.

PREVIOUS STUDY IN HUMAN CAPITAL

There are numerous findings that include the relation of human capital with a higher firm performance (Samad, 2013). According to Rastogy (2000), entrepreneurs who invest in human capital are able to enhance the business capacity. This is because, human capital increases the firm competitiveness as it becomes the instrument to increase the productivity (Musa & Semasinghe, 2014). In addition, human capital can positively affect the firm performance by helping the entrepreneur in planning and venturing strategies. Besides that, it also assists the entrepreneur to get financial assistance and physical capital easier (Samad, 2013).

Innovation is also the element of human capital which is closely interlinked with education and knowledge (Muhammad et al., 2012). Without human capital, the firm will be unable to think of new ideas and create an innovation. It is supported by Skare (2011) where new ideas and innovation might increase the overall number of people enrolled in education and knowledge. From here it is clear that in order for the entrepreneurs to produce innovations, they have to invest in human capital. Study done by Sharabati et al. (2010) shows that, innovations have a significant positive impact to the firm performance.

According to Unger et al. (2011), some other people may contend that highly educated people may not choose to become an entrepreneur as they have to bear failure risk and at the same time decrease their income as their main concerns as compared to people who work and get fixed income every month. People who choose to be entrepreneurs however earn more profit once they invest in human capital. Unger et al. (2011) throughout their studies concluded that human capital gives a significant positive impact to the firm performance.

SELF-EFFICACY

The term self-efficacy was first introduced by Bandura (1997). According to the study, self-efficacy refers to a person’s belief in their ability to achieve something successfully. Beliefs and confidence can be developed through observational learning. According to the study, people generally behave by watching the behavior of people around them. This means that people will likely to copy a behavior of someone who is quite similar with them.

The definition of self-efficacy was developed further by other scholars. Stajkovic and Luthans (2003) has defined self-efficacy as self-confidence and beliefs which would influences human resources. From this
definition, it is clear that self-efficacy prepares a person with a confidence to utilize their human capital pool in order to achieve their goals. Besides that, Shane et al. (2003) defined self-efficacy as a person’s perception to accomplish specific task by mustering the skills and competencies that they have to achieve some goals. Different study such as Drnovsek et al. (2009) has defined self-efficacy as a person’s estimation about their capability to engage in activities that in turn leads to the completion of task. Hence, this study stated that self-efficacy provided a person’s confidence with their capability to control a negative feedback in a positive manner. Besides that, Raza et al. (2011) defined self-efficacy as a person’s confidence, hope and optimism that can be generated through the development in human capital. Other study that defines self-efficacy in a different perspective is by Oyugi (2016). The study define self-efficacy as an entrepreneur willingness in order to act entrepreneurially, identify and pursue an opportunity to achieve a designated goal. Hence, this paper defines self-efficacy as an entrepreneurs’ belief and confidence in their ability to cope with any kind of moral hazard in completing a difficult task in order to achieve their designated goal.

PREVIOUS STUDY IN SELF-EFFICACY
It is clear that self-efficacy plays an important role in influencing a person to achieve their goals. This is because, to take a calculated risk may require a person’s confidence. However, in order for a person to have a confidence, they may require a capability to achieve their designated. A study proved that, a person with a human capital pool has the belief in their mind that their business will succeed. It is supported by Mohd et al. (2014), where the results in acquiring human capital will in turn develop a high self-efficacy.

Hence, it is clear that self-efficacy is closely interlink with human capital. According to Shane et al. (2003), a person still could not perform if they don’t have the confidence that their business will be successful although they have all those capability. This is because, an entrepreneur will face a lot of obstacle and receive negative feedback along the way that may impede their business’ growth. However, a person with high self-efficacy is able to regard a negative feedback in a positive manner (Alam et al., 2015). It is supported by Oyugi (2016) where self-efficacy will make an entrepreneur even stronger even under a high uncertainty. According to the study, self-efficacy will increase a person’s effort in accomplishing a difficult task because of the beliefs inside themselves that tailor with their capability.

Other study done by Shane et al. (2003) has stated that it is impossible to investigate the relationship between self-efficacy and performance because the relationship is considered weak. Hence, the study recommended that in order for the researcher to study this relationship, the other factor such as cognitive factor should be studied in concert.

Besides that, the study done by Mohd, Kamarudin, Hassan and Muda (2014) has stated that self-efficacy helps people to understand why some business still fail although they employ the sufficient capabilities. A low in self-efficacy may result to low performance. A person with high self-efficacy is able to utilize their skills that they have to achieve their targeted goals. A person with high self-efficacy possess a belief in their mind that tailor with their skills to keep a cool head and perform well.

FIRM PERFORMANCE
Previous study has argued that it is important to find a perfect measure for SMEs’ firm performance in order to help improve their performance (Ahmad, 2007). Besides that, Maduekwe and Kamala (2016) believe that one of the factors that increases the failure rate of SMEs is because of the inappropriate performance measures. The measurement of performance is numerous. According to Samad (2013), the performance measurement can be categorized into two which are financial and non-financial performance. Financial performance would measure the performance in terms of money such as profit and sales. While non-financial performance would measure the performance in terms of quality of the product. Until now, there is no final words regarding what are the perfect measures that are suitable to measure the performance of SMEs either in terms of financial or non-financial performance. In this paper, firm performance will be measured by using both financial and non-financial performance as there are limited studies that considered both of these performances.

CONCEPTUAL FRAMEWORK
In this study, a Resources Based View (RBV) theory will be used as underpinning theory for the study. This is based on the meaning of RBV theory which emphasizing on the internal factors of the organization to enhance its sustainable competitive advantage. This study has emphasized on the role of internal factor (human capital and self-efficacy) in order to increase the performance of SMEs in Malaysia.
RESOURCES BASED VIEW (RBV) THEORY

There are a variety of opinions about who was the first person that introduced the resources based view (RBV) theory. Some study has argued that the first person who introduced the RBV theory is Ricardo in 19th century. However, some other studies believed that the RBV theory was introduced by Penrose (1959). According to Penrose (1959), the resources that are heterogeneous have the characteristic such as hardly to be imitated, valuable and rare which is beyond organizational control. A firm can have a sustainable competitive advantage if these resources cannot be easily mobile. Besides that, David (2009) added that human capital is one of the heterogeneity resources that can be used by the firm. Barney (1991) has argued the concept of homogeneity which has brought by Ricardo (1817). Barney (1991) has stated that a firm cannot obtain sustainable competitive advantage because of the fact that every firm has the same performance. The study argue that the resources based view theory emphasizing on the internal factors and the performance of the firm that could increase their sustainable competitive advantage. Hence, this study will using both human capital and self-efficacy which are the element in the internal factor that helps to increase the firm performance.

HUMAN CAPITAL AND FIRM PERFORMANCE

A firm can be rewarded by investing in human capital (Unger et al., 2011). According to their study, human capital could improve the capability of the entrepreneur which in turn would assist them in exploiting business opportunities. Besides that, entrepreneurs who invest in human capital may acquire knowledge which eventually helps preparing them to discover and interpret new opportunity that may not be visible to other competitors (Samad, 2013). According to Samad (2013), a firm that is able to create a uniqueness in a product is able to differentiate their firm form other competitors that could benefit the firm in a long term. Besides that, in order to survive in a long term, a continuous innovation is needed (Askun & Bakoglu, 2010). Therefore, it can be hypothesized that:

H1: human capital has positive relationship on firm performance

HUMAN CAPITAL AND SELF-EFFICACY

As has been discussed earlier, human capital and self-efficacy are closely interrelated. This is because in order for a firm to have a high self-efficacy, they need to have a pool human capital. To discover new thing and pursue the opportunity may require an entrepreneur willingness and confidence (self-efficacy) to involve in entrepreneurial process. Meanwhile, to obtain a high self-efficacy may require human capital that enables them to make a decision. Oyugi (2016) agree that experience which is also the element in human capital could develop a high self-efficacy. Besides that, Raza et al. (2011) has stated that the development in human capital could results in positive psychological capital (confidence). It is supported by Mohd et al. (2014), where self-efficacy can be developed through the development human capital that can improves entrepreneurial activities. Overall, it is clear that self-efficacy and human capital are interdependence which are needed in order to increase firm performance. Therefore, the associated hypothesis is:-

H2: human capital has positive relationship on self-efficacy

SELF-EFFICACY AND FIRM PERFORMANCE

There are numerous studies that have investigated the relationship between self-efficacy and performance and it shows that there is a relationship between them. It is believe that self-efficacy increases a person effort even in a difficult task because of the belief in self that tailored with their capabilities. Therefore, self-efficacy is the key determinant for a good performance (Drnovšek et al., 2009). A study done by Cherian and Jacob (2013) has investigate the relationship between self-efficacy among the employees performance. The study revealed that the performance of employees is positively influence by the self-efficacy. Therefore, the associated hypothesis is:

H3: self-efficacy has a positive relationship with firm performance

HUMAN CAPITAL, SELF-EFFICACY AND FIRM PERFORMANCE

There are numerous study done has shown that human capital have a positive impact on firm performance. Besides that, human capital and self-efficacy are closely interrelated which would increase the firm performance. This can be proved by a number of studies. Unger et al. (2011) has stated that human capital could improves the capability of the entrepreneur to exploiting business opportunity which helps to determine the future of the firm. Self-efficacy is believed to have positive effect on the entrepreneurial actions which in turn could increase the firm performance. Besides that, Mohd et al. (2014) has stated that self-efficacy can be developed through the development in human capital that can improve entrepreneurial activities resulting to the increase of firm performance. It is undeniable that there are numerous studies about self-efficacy, but more
important thing is there is a limited literature to summarize the mediating role of self-efficacy especially on human capital and firm performance. This future study will fill the gap. Therefore, the associated hypothesis is:

**H4: Self-efficacy mediates the relationship between human capital and firm performance.**

![Figure 1: The conceptual framework of this research](image)

**CONTRIBUTION OF THIS STUDY**

This study attempts to contribute to the growing body of knowledge in the area of human capital and self-efficacy among SMEs in Malaysia. Recognizing the challenges and resources constraints that the SME often have, it is important understand the best way to support and strengthen their performance. This study has incorporated other factor viz self-efficacy to study the relationship between human capital and firm performance. As there is a limited study on the mediating role of self-efficacy on the relationship between human capital and firm performance. Therefore, this study will be important to fill the gap in the literature.

**CONCLUSION**

This paper discussed on the performance issues of SMEs in Malaysia and how human capital and self-efficacy could positively influence their performance. As human capital, self-efficacy and firm performance is lacking in study as a cohesive framework, this paper discussed the possibility of filling the literature gap and consequently contribute practically to the Malaysia’s SMEs.

**REFERENCES**


