1. Introduction

Small and medium enterprises (SMEs) play an important role in the development of any nation’s economy. The reasons for this are the fact that SMEs provide benefits such as job creations, knowledge spillover, economic multipliers, innovations driver and cluster development in an economy, (Mercy Gacheri Munjuri, 2013). In the last three decades, entrepreneurship has received much attention from all spheres of society – academia, business, economy, research, social work, politics and government administration. The post Second World War era has seen developed countries strive for innovation as the main feature of entrepreneurship, whereas developing countries consider entrepreneurship as a self-employment solution.

Moreover, regarding resource availabilities, during the last three decades the business world has seen a paradigm shift in the creation of competitive advantage for firms in terms of the increased share and importance of human resources as compared to financial and infrastructural assets. Advances in the technology and knowledge based industries have influenced this to a greater extent and firms derive much of their competitive position from intangible assets – human capital as supported by the resource based view (RBV) of the firm (Wernerfelt, 1984, cited in Muhammad Azam Room, 2013). Resources are key drivers of every business success. The need for these adequate resources (in form of human and
social capital) in ensuring the continuous operation of a business function can never be over-emphasized. The world economy has shifted from industry based economy to knowledge-based economy. Organization today devotes a greater attention to intellectual capital of which human and social aspects are keys, (Idowu Abiola, and Ogundipe Sunday, 2013). According to Oko, Onadi and Tapang, (2018), while in the past, most economies depended on use of land, natural resources, equipment and capital for the creation of value, currently, our information economy depends largely on the application of knowledge in the creation of wealth and economic growth.

A firm’s human capital is an important source of sustained competitive advantage, (Hitt, M.A., Bierman, L., Shimizu, K. & Kochhar, R. (2001), and therefore investments in the human capital of the workforce may increase employee productivity and financial results (Pfeffer, J. & Salancik, G. R. (1998). Helping individuals to develop knowledge, skills and competence increases the human capital of the organization. People are better equipped to do their jobs and this is generally of value to the organization (Cunningham, 2002). The resource-based theory argues that firm performance is a function of how well managers build their organizations around resources that are valuable, rare, inimitable, and lack substitutes (Barney, 1991). Human capital as resources meet these criteria, hence the firm should care for and protect resources that possess these characteristics, because doing so can improve organizational performance (Crook, Ketchen, Combs, and Todd, 2008).

2. Statements of Problem

There has been a general outcry in the persistent rise in the unemployment rate in Nigeria. This has an army of angry and desperate unemployed youths prowling cities and the unending influx of youth into the urban areas which has now posed further threat to an already precarious state of national security.

Many SMEs in Nigeria have failed to perform above average in terms of profitability in order to sustain their stay in business. SMEs operators were paying low wages to the workers, due to their poor performance and low profits making. This is due to their poor-quality products to the customers which has led to low sales. Ancillary to the above reason is the fact that most SMEs are managed by owners or managers who rely on their experiences for the day to day decision making. In most cases, skills and competencies needed for strategic management are lacking. The importance of human capital lies in its ability to improve the efficiency of organizations and in turn gain a competitive advantage. Lack of proper education, experience and skills during and after start-up of business operators are major barriers that hindered their good performance of SMEs in South West Nigeria. Some authors attributed SMEs failure to lack of finance, poor infrastructure, inconsistency in government policies, poor support in business development services, access to market, multiple taxation, and obsolete technology. Looking differently, this research impinged on Human capital as the major constraint to the performance of SMEs in the South West Nigeria.

3. Literature Review

3.1. Concept of Human Capital

One of the most important resources organizations rely on is human capital as it helps organizations respond to environmental changes innovatively (Kong, 2010). In addition, human capital is considered to be of vital importance as it affects the performance of organizations (Santos-Rodrigues, Faria, Cranfield, and Morais, 2013). Human Capital (HC) can be defined as “the sum of employees’ competence, knowledge, skills, innovativeness, attitude, commitment, wisdom and experience” (Wang, Wang, and Liang, 2014). Human capital consists of the values, attitudes, and habits of the people in the organization, in addition to the leadership that motivates people to display their potential in the organization (Tarus, and Sitienei, 2015). De Pablos, (2003), mentioned that the importance of human capital lies in its ability to improve the efficacy and efficiency of organizations and in turn gain a competitive advantage. Therefore, human capital is considered to be the most significant intellectual capital component as the existence of the firm relies on it (Kianto, Hurmelinna-Laukkanen, and Vitala, 2010). It must be noted that the human capital of one organization is different from that of another which gives the characteristics of being inimitable, rare and non-replaceable (Ngah, and Ibrahim, 2011). Hussi, (2004), and Mention, and Bontis, (2013), reported that human capital is not fully controlled by the firm which distinguishes it from the other resources available in the firm. As a result, Chen, Wang, and Sun, (2012), advised that organizations should continuously invest in human capital in order to improve their competitive advantage.

Expenses in education, healthcare and training are investments in human capital, with educational and training expenditure the most important of these (Becker, 1964). Various authors agree that human capital can be built through training and/or education (Bontis, 2002; Dakhli, M. ans De Clercq, D. (2004)). Neergaard, (2006), described the nature, level and the total number of years in education and the extent of experience of an entrepreneur as part of an individual’s human capital. Education is one of the most cited indications of general human capital (Bruderl, J., Preisendorfer, P., and Zeigler, R. 1992; Parker and Van Praag, 2006). In fact many researchers use education, skills and human capital as interchangeable concepts (Harris and Helfat, 1997); Teixeira, 2002), and some have used education as a substitute for human capital and skills (Bates, 1990; Teixeira, 1998). However, there are a considerable number of authors who argue that education is just one way to develop skills, and others still who argue that education is simply a way to measure a worker’s ability to learn on the job.

3.2. Human Capital and Firm Performance

Past studies consistently indicated that human capital plays a role in the performance and growth of SMEs, (Coleman, 2007). Sofian, Tayles, and Pike, (2004), sees Human capital as the stock of competences, knowledge and personality attributes embodied in the ability to perform labour so as to produce economic value. Human capital
represents the investment people make in themselves or by their organizations that enhance their economic productivity. Management-related training is seen as particularly helpful in growing a business. Human capital also benefits entrepreneurs by allowing them to adapt to changing circumstances. Higher or further education makes a company less likely to fail and also makes it easier to source capital from banks, (Coleman, 2000).

According to Ganotakis, (2012), human capital can be divided into general human capital and specific human capital. General human capital for the case of the entrepreneur is usually measured by the educational qualifications and by the total number of years of working experience. Specific human capital includes specific business education, specific skills, industry related experience and managerial experience. The SMEs Financing Data Initiative, examines the role of experience in SMEs growth using the Managerial Capacity Index (MCI). The MCI presents a composite measure of managerial experience and activity. The study finds that a high score in the managerial capacity index is positively associated with both strategic planning practices and high firm performance and growth. Mention, and Bontis, (2013), reported that, innovative and managerial capabilities of the management team are strongly associated with ex-Port performance and firm growth. Tarus, and Sitienei, (2015), find that lack of managerial experience, skills and personal qualities as well as other factors such as adverse economic conditions, poorly thought out business plans and resource starvation are found as the main reasons why new firms fail. The distinguishing feature of high growth and low growth small firms is the education, training and experience of senior managers. Mention, A., and Bontis, N. (2013), evaluate managerial competencies as measured by the education of the founder, managerial experience, entrepreneurial experience, start-up experience and functional area experience versus new venture performance. The results show that relative profits tend to be high when an entrepreneur has more education and experience in the line of business. On the other hand, profitability tends to be low when the entrepreneur has only start-up and managerial experience, but lacks an educational background. The results confirm the importance of education to new venture success. Bosma et al., (2004), also find that the endowed level of talent of a small business founder is not the unique determinant of performance. Rather, investment in industry-specific and entrepreneurship-specific human capital contributes significantly to the performance of small firm founders. The result shows that human capital appears to influence the entire set of performance measures (profitability, employment and survival).

![Figure 1: Operationalization of Variables](source: Researcher Conceptualization, 2019)

### 3.3. Human Capital Theory

#### 3.3.1. Resource-based Theory

The theory that supports this study is Resource-based theory which emphasizes the critical importance of internal resources for sustainable competitive advantage. This perspective argues that firm performance is a function of how well managers build their organizations around resources that are valuable, rare, inimitable, and lack substitutes, (Barney, 1991). Intangible resources like human capital are more likely to produce a competitive advantage because they are rare and socially complex, and therefore difficult to imitate (Hitt, M.A., Bierman, L., Shimizu, K. & Kochhar, R. (2001). In particular, specific human capital represents an inimitable asset in terms of knowledge and skills that are only of use to an individual company.
3.3.2. Objectives of the Study

The main objective of this study is to assess the impact of Human Capital on the performance of SMEs in South West Nigeria. Whilst achieving this aim, the study zeroes in on the following specific objectives:

- To assess the impact of Human Capital on the profitability level of SMEs in South West Nigeria.
- To examine the impact of Human Capital on sales revenue of SMEs in South West Nigeria.

3.3.3. Research Questions

- To what extent does Human Capital affect the profitability of SMEs in South West Nigeria?

3.3.4. Hypotheses of the Study

H₀₁ There is no significant relationship between Human Capital and profitability level of SMEs in South West Nigeria.

3.3.5. Scope of the Study

The scope of the study covered Human Capital, and the Performance of SMEs in South West Nigeria, consequent upon which Lagos, Oyo and Osun States were purposively chosen for the research.

3.3.6. Population of the Study

The population for this study comprises of all registered SMEs in Lagos, Oyo and Osun State, Nigeria. SMEDIAN, (2013), recorded a total number of 21,581 SMEs registered in Lagos, Oyo, and Osun State, Nigeria. These were selected in three sectors (manufacturing, services and trading). The sample size for the study is 393, based on formula suggested by Taro Yamane (1967), out of this, 302 questionnaires were returned.

### Table 1: Empirical Study

| S/N | Authors | Title | Scope | Method of Estimation | Variables | Findings | Gap |
|-----|---------|-------|-------|----------------------|-----------|----------|-----|
| 1   | Ojo Kuku and Sajuyigbe (2015) | “Effect of Human Capital development on the performance of small and medium scale enterprises in Nigeria”. | - Registered SMEs operating in Ibadan City, Nigeria. - 80 SMEs operators were randomly selected from various sectors. | Correlation coefficient and multiple Pearson product moment Regression analysis was used to analyze the data. | Lev el on-the-job training - Lev el of formal education - Lev el of participatio n on seminars / conferences - Trade fair exhibitions | Findings, shows that Human Capital development activities that can enhance the knowledge, skill and competency of SMEs operators have positive impact on SMEs performance. | -Further studies can be extended to two or more states. |
| 2   | Esther, Nneka and Dapper (2017) | “Human capital management and the growth of SMEs in Emene, Enugu State.” | - Study population is 84 from 5 SMEs in Emene town, Enugu. - Sample size is 69 respondents from 5 MESs in Emene. | Kolmogorov Simonovstastics was used | Sta ff training - Reward and compensati on - Fin ancial growth | The study revealed profit level of SMEs is significantly driven by their staff reward and compensation practices. Hence, SMEs records high profit level. | -Further studies should adopts both quantitative and qualitative research for their studies. - The scope should extend to entire state(s) for better results. |
| 3   | Raji Sadiq (2017) | “Impact of working capital management on SMEs performance in Nigeria.” | 28 SMEs firms was selected to measure firm’s performance between 2010 – 2014 in Osun State, Nigeria. | Regr ession analysis was used to test the hypothesis - Seco ndary data was collected for the analysis | Effi ciency - Pro fitability - Cur rent Ratio - Gro wth - Gro ss Earnings | ARP and ITID has a negative effect on performance, while positive relationship is found in APP, CCC and NTC. | Further research can be conducted to use both qualitative and quantitative methods in 2 or more states which may probably give us clearer results. |
4. Method of data Analysis

The sampling method is purposive, both primary and secondary data was used for the study. Descriptive and statistical analyses were used in analyzing the data collected with the aid of SPSS software version 22.0 and smart PLS 3 as tools of analysis. Regression analysis (Multiple regression analysis) was used to establish the nature and magnitude of the relationships between the variable of the study and to test the hypothesized relationships.

5. Findings and Discussion

5.1. Interpretations

The results in Table 3 which shows a relationship R value = 0.503 indicated a strong positive relationship between independent variable Human Capital and dependent variable profitability level of the firm. While R square (0.253) specify the degree of which the independent variables can explain the variance in the dependent variable. Independent variable (Human capital) can explain 25% variance in dependent variable (profitability level). While the remaining percentages of 75% was explained by other factors which are not included in the model. Hence, human capital has significant effect on profitability. This is in line with Esther, Nneka & Dapper, (2017), in his research work which concluded that human capital has significant effect on SMEs profitability in Enugu.

- Ho: There is no significant relationship between Human Capital and profitability level of SMEs in South West Nigeria.

5.2. Interpretations

- Hypothesis 1: Ho₁, There is no significant relationship between human capital, and profitability level of SMEs in South West Nigeria. F-test was employed to test the relationship between human capital and profitability level. ANOVA test in table 3, shows that the ‘F’ value is 29.096 with a significance of P value = 0.000 which is less than 0.05, meaning that null hypothesis is rejected and concluded that there is a significant relationship between Human capital and profitability level of performance of SMEs in South West, Nigeria. This is supported by Ojo Kuku and Sajuyigbe, (2015), in his study which revealed that experience and skills have positive effect on profitability level of SMEs performance in Nigeria. Therefore, the null hypothesis of this study is rejected and alternative hypothesis that stated that Human Capital improved profitability level of SMEs performance in South West Nigeria is accepted.
To test the significance of regression relationship between human capital and profitability of SMEs, the regression coefficients (β), the intercept (α) and significance of all coefficients in the model were subjected to the t-test to test the null hypothesis that the coefficient is zero. The results on the beta coefficient of the resulting model in table 3, shows that the constant α 0.787 is significant different from 0, since the P - value (0.000) is less than 0.05 (level of significant). The coefficient β = 0.143 is also significantly different from 0 with a p-value of 0.000 which is less than 0.05. The ‘t’ value for constant is 2.116, while the ‘t’ value for Human capital is 2.644, which indicated that there is significant relationship between Human capital and profitability of SMEs.

This implies that the null hypothesis (that is β=0) is rejected and the alternative hypothesis β = 0 is accepted indicating that the model Y = 0.787 + 0.372 (capital) is significantly fit. Furthermore, the beta value of 0.143 implies that a unit change in Human will lead to 0.143 units change in the level of SMEs profitability. In this study, it is concluded that Human Capital has a positive linear effect on SMEs profitability in South West, Nigeria. This study agreed with the result of Ojo Kuku and Sajuyigbe, (2015), that Human capital – Education, work experience and skill have significant effect on the performance of SMEs in Oyo state. In the findings of Raji Sadiq, (2017), observed in his study that human capital and non-financial measures have positive effect on SMEs profitability in Osun state.

6. Summary and Conclusion

The general objective of the study examined the effect of Human Capital on the Performance of SMEs in South West Nigeria. Specifically, the study assessed the influence of Human Capital on the profitability level of SMEs. Questionnaires were distributed through the adopted stratified random sampling technique. The sample of three hundred and ninety three (393) respondents from the population of twenty one thousand five hundred and eighty one (21,581) SMEs in the three states - Lagos, Oyo and Osun was used. Data was analyzed with the use of multiple regression analysis. Findings showed that there is significant relation between Human Capital and profit level of SMEs.

7. Recommendations

Entrepreneurs’ own human capital – especially education and experience – help them acquire attributes such as confidence, communication and creativity. This study finds that experience in the same industry raises entrepreneurs' self-confidence, knowledge and understanding of customers' needs and demands, and their connections with suppliers. This study would be of help to potential entrepreneurs to gain some experiences in the same industry to help them generate new ideas for products, services, systems or procedures; showing creative thinking for cutting costs and increasing their customers base. Finally, we can conclude that although entrepreneurship is in its infancy in most parts of the world, it has a huge potential to grow and help develop national economies. Thus, if the governments, non-profit organizations, academia and other stakeholders are able to help entrepreneurs build and utilize human capital, they can be able to increase the growth of their businesses and become the economic stimulus for many countries.

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