

SMES COMPETITIVENESS AND HUMAN CAPITAL

Abstract

For the modern economy, competition is decisive for business development, while competitiveness is the most important condition for the prosperity of global businesses. The Small and Medium Sized Enterprises (SME) area has an extraordinary potential for adapting to economic conditions and changing market conditions and is of major importance for national and regional economic development. On this basis, the analysis of the key factors for increasing SMEs competitiveness, identifying and evaluating the competitive advantages of the transferable and innovative features of employees and highlighting the direction of their sustainable development is of utmost importance for firms and policy makers. Currently, it is considered that the company's performance and competitive advantage derive from what the company knows and from the human capital that allows it to use this knowledge. Thus, human capital has been identified as one of the most important factors in increasing SMEs performance and competitiveness (jobs, sales, productivity). This study provides an overview of the relationship between the development of human capital and its variables, SMEs competitiveness and regional development.

Keywords: competition, SMEs competitiveness, human capital, regional development

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COMPETITIVITATEA IMM-URILOR ȘI CAPITALUL UMAN

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Rezumat

Pentru economia modernă, concurența este decisivă pentru dezvoltarea afacerilor, în timp ce competitivitatea este cea mai importantă condiție pentru prosperitatea afacerilor globale. Zona întreprinderilor mici și mijlocii (IMM) are un potențial extraordinar de adaptare la condițiile economice și schimbarea condițiilor pieței și este de o importanță majoră pentru dezvoltarea economică națională și regională. Pe această bază, analiza factorilor-cheie pentru creșterea competitivității IMM-urilor, identificarea și evaluarea avantajelor competitive ale caracteristicilor transferabile și inovatoare ale angajaților și evidențierea direcției dezvoltării lor durabile este de cea mai mare importanță pentru firme și factorii de decizie politică. În prezent, se consideră că performanța companiei și avantajul competitiv derivă din ceea ce știe compania și din capitalul uman care îi permite să utilizeze aceste cunoștințe. Astfel, capitalul uman a fost identificat ca fiind unul dintre cei mai importanți factori în creșterea performanței și competitivității IMM-urilor (locuri de muncă, vânzări, productivitate). Acest studiu oferă o imagine de ansamblu asupra relației dintre dezvoltarea capitalului uman și variabilele sale, competitivitatea IMM-urilor și dezvoltarea regională.

Cuvinte cheie: concurența, competitivitatea IMM-urilor, capitalul uman, dezvoltarea regională



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1. INTRODUCTION

The efficiency and productivity in operations are factors that ensure a business survival and growth and they determine whether an enterprise can be competitive with other firms - whether small or large, domestic or foreign. Among the factors that support the enterprise's productivity and competitiveness we place the knowledge and experience of the owner or entrepreneur, the decisions about the markets involved, the organization of production and distribution, investment in plant and equipment, financial management, supplier networks, marketing strategy, and human capital. Competitiveness does not focus only on economic aspects but incorporates factors such as culture, social development, health, environmental sustainability, tourism, education, politics, human resources quality, spatial location etc. Human capital offers a competitive advantage firms in terms of skills, expertise and willingness to work (Hewitt-Dundas, 2006) and is an essential part of innovation (OECD, 2011). Small and medium-sized enterprises (SMEs) recognize the fact that hiring specialized people with the ability to develop innovative solutions can offer them competitive advantages and increase their survival rate. Thus, the challenges posed by the economic crisis require SMEs to take advantage of existing resources to increase business performance and competitiveness, with human capital being such a resource. Defined as the stock of skills, knowledge and personality attributes that are incorporated into the ability to achieve the workforce able to produce economic value (Sullivan and Sheffrin, 2003), human capital is the investment people make themselves or through their organizations, which increase their economic productivity. Herrington et al (2009) highlighted the lack of human capital development as the most important cause of failure for new SMEs.

In this context, this study aims at examining the effect of human capital development on the SME competitiveness and its implications at regional level.

2. SMES COMPETITIVENESS AND DETERMINANTS FOR ITS GROWTH

Building on the classical theory of the economy (originating in the 1980s and complementing the ideas of Adam Smith, David Ricardo, Weber, Schumpeter, Sloan, Peter Drucker, Solow) the concept of competitiveness has reached its full development in the 1990s, following the publication of Michael Porter's works. In his book, "Competitive Advantage of the Nations," Porter identifies the sources of sustainable prosperity in the modern global economy. There are considerable differences of opinion on the issue of enterprise competitiveness, with currently no generally accepted definition. Therefore, there is a great difference of opinion regarding factors, assessment methods and strategies to improve it.

Some authors limit the competitiveness of the company to the competitiveness of its products (Lifits, Danailov, Ribov, Chobanyaneva, Hardy, Garvin, Hayes, Schmener, Kumar and Motwani). Other authors believe that marketing and business management, production efficiency, marketing experience and lower administrative costs indicators should be incorporated into product competitiveness (Pratten, O'Farrell and Hitchins). A large number of authors argue that what determines the very nature of the enterprise's competitiveness is its efficiency and effectiveness (Müller, Geroski, Jacobsen, Waring, Besanko, Goddard and Wilson). Alternatively, there is a group of authors who claim that the competitiveness of the enterprise is determined by the high productivity of its resources (Alan Porter, Brayan, Tatsiopolous and Kosmetatos, Markusen). Therefore, the competitiveness of enterprises comprise the competitiveness of products, the efficiency of production, the financial position and the effectiveness of the organization in terms of restructuring and stimulating sales and demand.

Velev defines the concept of competitiveness so: "Enterprise competitiveness is its ability through renewal and continuous improvement to create and maintain lasting competitive advantages, leading to longer economic performance."

The level of enterprise competitiveness is the result of many dynamic factors, involving both external and internal conditions of the enterprise that affect the nature of its performance and its level of success over that of its competitors. Resulting from the different understanding of the nature of the company's competitiveness as it is presented in the scientific research, there is a great divergence over the factors that increase the competitiveness of businesses.

In many studies, the favorable business environment (comprising factors such as: the government, the quality of institutions, the infrastructure, the technological development and innovation, the quality of human resources, the liberalization of the economy, the financial system, the business strategies) is considered the main aspect that impacts on the enterprise competitiveness. Other studies divide the determinants of the enterprise competitiveness into three separate groups: factors of the business environment (macroeconomic conditions, political conditions, infrastructure), industry factors (fluctuations in demand, international competition, suppliers challenges, customers challenges) and enterprise level factors (costs, technologies, process quality, production flexibility, product quality, distribution conditions, innovation, marketing-reputation, human capital) (Ahmedova, 2015).

3. HUMAN CAPITAL IN SMES

An enterprise can be defined as an economic entity that seeks to achieve certain goals (in the case of a profitable society it would be generating profits) by producing goods and / or services and marketing them. To achieve these activities, production factors are required, as shown in Figure 1.

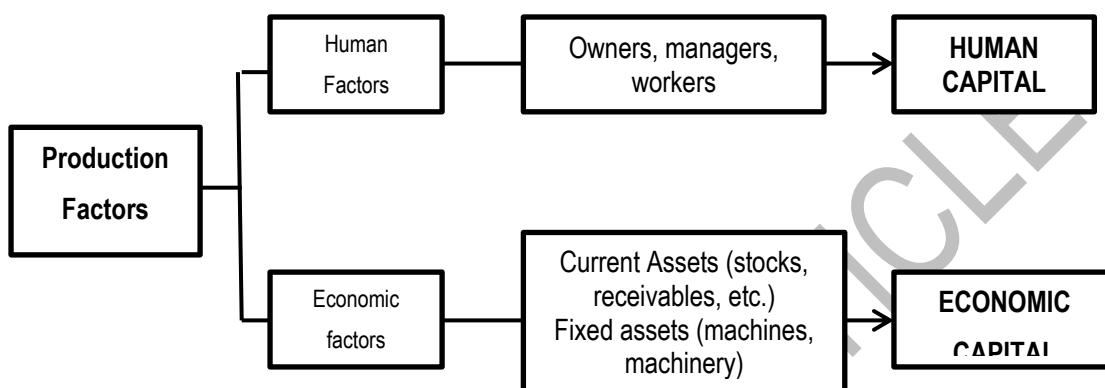


FIGURE 1 - PRODUCTION FACTORS
Source: adaptation after Martin, et all (2004)

The model shows the human capital as a decisive factor in achieving the company's objectives, a source of development and one of the factors generating competitiveness, therefore, a competitive business is a business that incorporates or trains competitive people and continues to improve.

The theory of human capital supports the idea that knowledge provides individuals with an increase in their cognitive abilities and leads to more productive and more efficient activities (Davidsson and Honig, 2003). Sullivan and Sheffrin (2003) have defined human capital as the stock of skills, knowledge and personality attributes that are incorporated into the ability to achieve the workforce so as to produce economic value. Ruzzier et al. (2007) suggested that human capital represents an investment in education and skills and is created when people's abilities and capabilities are improved. Sturman, Walsh and Chermie (2008) refer to human capital as personal intangible resources embedded in individuals [entrepreneurs] and developed through education, training and experience and are closely tied to know-how and associate human capital with the skills developed through education and experience.

Researchers consider human capital to be a different multidimensional construction in terms of size, comprising of several aspects such as attitudes (Javalgi, Griffith and White, 2003), national diversity [attitude] (Caligiuri, Lazarova and Zehetbauer, 2004) and experience (Seleim, Ashour and Bontis, 2007). Bruns et al. (2008) support the idea that human capital comprises two dimensions: general and specific. The general aspect of human capital provides the individual with universal abilities and broad problem-

solving skills that are relevant in many contexts and which are often associated with formal education. Specific human capital, on the other hand, is developed through training or experience. Sturman, Walsh and Cheramie (2008) view the specific human capital as described by individuals with unique knowledge and abilities for a single firm. Generic human capital is the knowledge and skills that generate value or rent for any business that uses them. The above arguments point to the fact that the uniqueness of human capital is based on managerial skills and knowledge.

The theory of human capital states that employees' talent, expressed through knowledge and skills, is not innate but develops through learning and experience through formal and informal education (in the educational system and at home, as well as through training, experience and mobility of the workforce). Thus, educational institutions and enterprises are the main actors in the formation and development of human capital, providing people with knowledge, skills and experience that will cope with the changing circumstances of the working environment. But human capital is perishable, diminishing until it is lost in time due to the wear of knowledge and abilities, due to forgetfulness, lack of practice or deterioration of the person's health Padilla and Juarez (2006). There are companies that provide staff training courses that will form and develop human capital. Also important for human capital is the tacit knowledge, which refers to how an assignment can be effectively fulfilled in a given job. Tactical knowledge cannot be encoded and therefore cannot be readily learned or shared through verbal communication or written texts, but must be learned through effort, discovery and experience (Polanyi 1969). The concept of tacit knowledge is closely related to skill and experience (Berman, Down & Hill 2002), which uniquely define specific human capital. The tacit knowledge has been proven to be a source of competitive advantage and positive performance (Berman et al., 2002, Hitt et al., 2001). Therefore, for the development of human capital to be complete, learning must be correlated with experience and vice versa. A competitive person or employee is one who is known to be innovative, creative, proactive, motivated, highly skilled, flexible, and available, among other features.

Human capital is the key factor to competitiveness within companies, but when dealing with SMEs (Knight, Madsen and Servais 2004), studies in human capital demonstrate that managerial skills are closely linked to the performance of firms (Haber and Reichel 2007) and we must take into account that only the owner can effectively manage resources and employ people who are talented in the fields that make up the business and support the process of achieving performance, because of the employees quality depends the growth of the company (Lechuga, 2004).

According to Coff (2007), the theory of human capital suggests that people possess skills and knowledge that have the potential to generate economic performance. Human capital has a market value but, unlike

other assets, the potential value of human capital can only be fully realized through the cooperation of the individual, because the firm investment to increase skills, knowledge is justified only if it produces future results by increasing productivity and the overall performance of the enterprise. Dessler (2001) states that the changes imposed by globalization and technological innovation mean that organizations need to rely more on committed staff and self-discipline on acquiring new skills such as: oral and written communication, teamwork, empathy, leadership, management planning, process analysis, problem solving, entrepreneurship, dynamism, energy and initiative, and stress management.

In the new business / business model, Lenihan (2011) suggests a holistic approach when operating in a knowledge-based economy that is based on intangible assets (for example, propagation, innovation and linkage technologies), while other authors emphasize the need for an appropriate balance between the types of education. More recent literature emphasizes the individual's creativity in innovation (Gimmon and Levie, 2010) and the key role of leadership in developing innovation across the organization, especially in the field of SME innovation (McAdam et al., 2010).

In conclusion, SMEs need people with specialized skills to develop innovative solutions that offer competitive advantages to their organizations and help them improve their productivity and revise their business processes, taking advantage of the opportunities offered by technologies, products and information processed.

4. THE MEASUREMENT OF HUMAN CAPITAL

There is a great interest in the measurement of human capital, the difficulties encountered in this process being due to the difference between human capital as a physical asset and human capital as an intangible asset.

The European Human Capital Index (Ederer, 2006) measures four elements related to human capital related to countries' capacities to improve the quality and quantity of human capital. Although useful at the level of the European Union and the Member States, the index does not take into account the specific individual elements of human capital that could influence the probability of innovation at a firm level. It is therefore necessary to introduce the concept of innovative human capital to estimate the effect on innovation of small firms, innovative human capital having the potential to generate a competitive advantage for the innovation of small firms.

The traditional measure of human capital - tangible elements

There is no generally accepted measure of human capital in the literature, although the level of education / years of schooling and training has long been taken into account (Cohen and Soto, 2007). Other measures included industry experience and learning, general and specific human capital (measured by age, gender, parenting, and education). Teixeira and Tavares-Lehmann (2014) surprised the intensity of human capital by measuring specific human capital (skilled workers) and general human capital (education workers seeing that if a firm is owned abroad, this factor has a direct impact on (education) and indirectly influences its specific capacities. Investments in human capital are considered to improve the performance of employees (Bosma et al., 2004). Education is a type of "accreditation" indicating greater productivity. The key to profitable innovations (Leiponen, 2005), highly skilled and highly qualified workers adapting quickly and efficiently to new tasks, thus providing a direct source of innovation.

In this context, the literature outlined a number of hypotheses for the importance of human capital for innovation and the performance of firms:

I1 – A firm employing a manager who has achieved a level 3 or higher education is more likely to innovate - there is a strong association between higher levels of education and technical training and an increased demand for technical and organizational innovation. The OECD (2011) suggests a number of skills needed for innovation, including basic and digital literacy, academic and technical skills, however, education and technical skills remain an important prerequisite for innovation.

I2 - Firms employing managers attending training courses are more likely to innovate - Becker (1993) examined the consequences of investing in a person's knowledge and skills through education and training. He describes capital as, first of all, bank money or company shares, but adds tuition and training as investments in man or individual. General training increases the trainee's productivity, while specific training can be defined as "training that has no effect on learner productivity that would be useful in other firms" and leads to greater marginal productivity for the firm providing it.

The intangible elements of human capital

There is an increase in awareness of the importance of "soft" skills for innovation (OECD, 2011). In the company-based vision, company performance differences may be due to variations in firm resources and capabilities, where "intangible resources are more likely than tangible resources to produce a competitive advantage" (Hitt et al., 2001). Back to the hypotheses for the importance of human capital for innovation and the performance of firms, the literature outlines the following:

I3 - Firms employing managers who are satisfied with their work are more likely to innovate - Work is an important part of human life and has a strong effect on the happiness or the satisfaction of the living person (Binder and Coad, 2013). Satisfaction at work is widely studied in the context of organizational behavior (Zhou and George, 2001) and is considered a significant determinant of innovation. Creativity of satisfied workers at work is also supported by colleagues' feedback and organizational support.

I4 - Firms employing managers who are willing to change are more likely to innovate - lack of management capabilities is perceived as an obstacle to the individual's strategic change within organizations, along with the hesitation of directors to take risks due to the uncertainty of change. The desire to change or accept change, both at the technological level and at the level of the skills needed to perform the function and the increased responsibility shown in small enterprises, has a strong impact on the small firms' tendency to innovate and consequently to increase the level of competitiveness and performance .

Figure. 2 presents the theoretical model illustrating the connections between the four elements of the innovative human capital, both tangible and intangible, presented above.

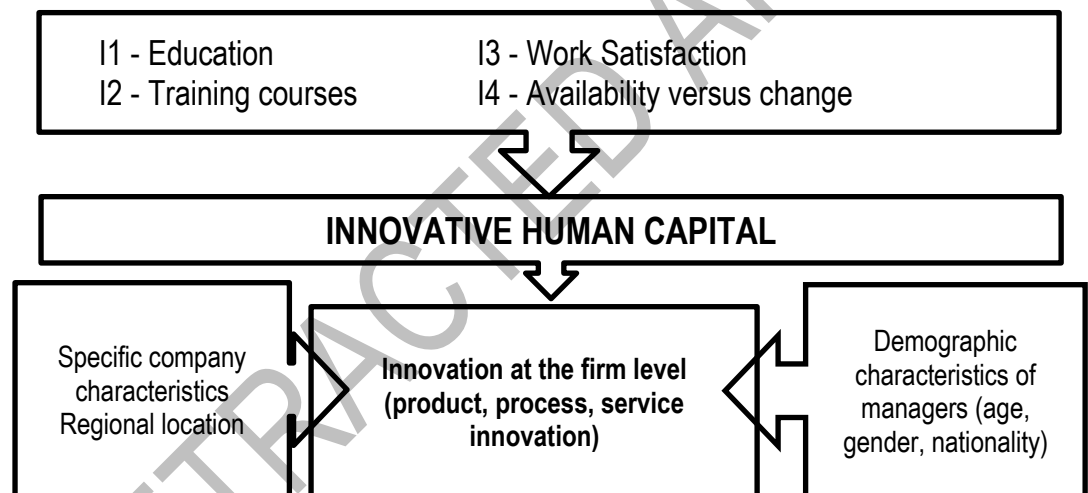


FIGURE 2 - THE THEORETICAL MODEL FOR THE ANALYSIS OF INNOVATIVE HUMAN CAPITAL AS A DECISIVE RESOURCE FOR COMPANY-LEVEL INNOVATION

Source: McGuirka, Lenihanb and Hartc (2015)

Developing innovative human capital in small businesses is often limited to staff through training and training programs aimed at learning to improve production, but the manager is neglected because of the misconception that managers in their position in the organization's framework know everything and can do everything. The reality is that managers should also be trained and developed to understand and lead their subordinates. This raises several questions as to what percentage of small firms have training and development programs for human capital management, and what effect they have had on the formation and development of human capital management of the company. It was found that workers' education

and training programs that firms offer to their workers are strongly correlated with labor productivity and that both together can have a significant impact on firms performance and competitiveness. In other words, continuing education and training are no alternatives from which an owner of an enterprise should choose. They are rather parallel support factors: firms can hire more educated workers and provide them with additional training, and both simultaneous efforts will help increase productivity.

SMEs play an important role in the development of the economy. Their contributions to job creation, investment, innovation and exports make them an important policy area for the government. Understanding the key factors that support enterprise productivity and competitiveness is essential to know where government and businesses can focus their energies.

CONCLUSIONS

Competitiveness is a complex issue, analyzed by different economic theories that have provided explanations about its causes of occurrence and have proposed solutions to how organizations can create competitive advantages that enable them to adapt to the circumstances and turbulences that arise in the economic environment and survive and thrive longer.

These contributions include the human capital approach, based on the wealth that each organization has in both the operational and management staff, the operators being those who strive to obtain quality products or services, while managers make decisions in order to achieve the goals. This wealth that a company owns in operational and management staff cannot be stored, but must be developed and streamlined to meet the company's goals. It is therefore advisable to carry out studies showing how human capital management in small enterprises is composed, training, experience, functions, responsibility, age, power, etc. because they will show the training needs, and their impact will generate the company's growth and continuity.

At a national level, SMEs face the problem of lack of effective management and an advantage stemming from the lack of development of their managers who keep their traditional and outdated knowledge, which means that these firms cannot face complex global competition in who are involved.

Regardless of the size of the company, it is important that its managers have adequate administrative and managerial knowledge to base their decisions that impact not only the company on indicators such as productivity, profitability but also outside the created jobs, growth and the development of the region where businesses are located.

The other factors determining the competitiveness of SMEs must not be neglected, which at the same time ensures sustainable development. The high degree of interconnection between all the competitiveness factors highlights the importance of a systematic integrated measure to increase the competitiveness of enterprises. Facilitating access to finance must be combined with measures to implement best practices to stimulate innovation, intellectual property registration and increased internationalization and human capital development. In this context, it would be more efficient to stimulate a small proportion of enterprises (those that have demonstrated development potential in terms of human capital, intellectual property, innovation and / or internationalization) in a systematic way so it achieves synergy effects of applied economic policies. In order to achieve this, the State should apply a systematic and unitary methodology to help identify those SMEs (through examinations, measurements and analyzes, creating their own databases, etc.) that demonstrate their potential in terms of some or all of the essential factors for development and competitiveness.

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