

The Challenges of Small and Medium Businesses in Managing Human Capital towards SMEs Performance – A Qualitative Study

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ABSTRACT

Manuscript type: Research paper

Research aims: Currently, machinery is replacing most human capital to save cost, but the value of human capital that contributes to the performance of SMEs is invaluable. SMEs were used to explain the connection between human capital and SMEs performance in South Australia.

Design/Methodology/Approach: Five case studies on SMEs in South Australia were used in this study. The analysis of qualitative data entailed data coding, within-case analysis, and cross-case analysis.

Research findings: The cross-case analysis result is unsurprising considering that all five firms depend on their employees to work and keep the firm in operation. The cross-case analysis results are mixed in respect to the connection between human capital and the several types of performance measurement. The results, therefore, need to be interpreted with caution. SMEs perform solely through the skills, experience, and knowledge of their employees. This distinction occurs when the knowledge and information that employees gain

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are focused directly on the employee's initiative, decision-making and critical thinking skills. Investment in human capital should be done carefully based on the limited resources of SMEs.

Theoretical contribution/Originality: Most research has shown the link between human capital and firm performance. However, the degree to which investment in human capital contributes to the type of performance is yet to be explored based on qualitative data especially regarding SMEs in South Australia.

Practitioner/policy implication: The sustainable development goal (SDG) entails a steady improvement in people's well-being in a good environment. Thus, decisions about investment in human capital and the use of temporary workers should be taken jointly by personnel managers, in accordance with the size of the firm. If this holistic view is ignored, a full understanding of the impact of human capital on the firm's performance will be obscured. On the other hand, a common feature that large and small firms share is an incompatibility between human capital and temporary employment.

Research limitation/implications: The main limitation of this study was the sample of the study that comprised solely of South Australia SMEs. Thus, this study outcome may not be generalisable to the whole Australia as a country. Further investigation across different states would expand knowledge of the complicated patterns of HC.

Keywords: Human capital, SME, Productivity, Profitability, South Australia

JEL Classification: M12

1. Introduction

Human capital is one of the resources that is considered as a competitive advantage to the firm (Vargo & Lusch, 2016). This is especially when individual experience, knowledge and skills are incorporated and exchanged with one employee to another, resulting in high generated value (Sardo et al., 2018). Small and medium sized enterprise (SME) owners can create a formidable team in the firm in order to minimise competition in their industry. The founders of SMEs must create value from a strong organisational team before they can compete with other companies. SMEs possess the capacity to co-create value, which enhances its competitive advantage. Human capital can be classified as tangible and static resources that are not limited but are scalable, re-usable, renewable, and creatable in the firm (Khan & Kamaruddin, 2018; Khan & Terziovski, 2014; Khan & Terziovski, 2016). Human capital is the value proposition that

permits firms to outstand their competitors and enhances the firms' performance (Khan, 2014; Khan & Kamaruddin, 2018).

SMEs contribute \$35 billion to the South Australian economy and employ more than a third of the state workers, but small businesses continue to be weighed down by red tape and high costs (Tauriello, 2018). SMEs in each district of Australia are considered as the pillar to the country's economy. South Australia is a state where many large minerals are discovered and thus, promotes the development of new businesses around the state (Evans & Sawyer, 2010). The state is expanding due to the mining sector (The Advertiser, 2008). The growth in the mining industry has created significant tension in several businesses in the state. Businesses related to the mining industry are benefiting, while other businesses are facing challenges due to competition from large multinational firms. These SMEs face shortages in employing skilled workers and are losing customers (Evans & Sawyer, 2010). In order to survive and be profitable, SMEs need to find ways to obtain these resources.

As of late, the rivalry between Australian SMEs has expanded mostly because of modest items from different nations such as India and China (Bessant & Tidd, 2007; Terziovski, 2010). The endurance of SMEs is viewed as basic to Australia's upper hand and financial turn of events (Porter & Kramer, 2006). Requesting customers, short item life cycles and globalisation have caused a circumstance where SMEs should be adaptable, responsive, and inventive (Anderson & Sohal, 1999). SMEs face a quandary with regards to how to accomplish the upper hand when supporting the business.

Human capital is crucial to an organization's efficiency and profitability because it transfers knowledge, skills, and capacities (Eleyae, 2021; Mustamil & Najam, 2020). Human capital shortages are regarded as a hindrance to profitability especially in the context of Australian SMEs (Junankar, 2009). Low degrees of human resources inconveniently affect an association's creation and productivity, which is a typical business issue. Firms with longer-term procedures will change creation strategies by utilising more funding to supplant work. In certain ventures, new innovation such as advanced mechanics has supplanted work. A survey by PwC (2018) conducted in China, India, Germany, the United Kingdom, and the United States revealed some interesting findings, including the notion that many occupations, particularly regular ones, will be eliminated and replaced with jobs that need flexibility to modern technologies (Anastasiu et al., 2020). Human capital is unlike physical capital; it is

an irreversible investment: the individual worker cannot be separated from human capital. In the development of human capital, time is crucial. As a result, there are substantial delays between an increase in the demand of skills and the increased supply from the company.

A study by Khan (2014) found that human capital does not predict effectiveness (income from sales and the range of products or services offered), and efficiency (profitability and productivity) among Australian SMEs. Researchers have declared a relationship between human capital, productivity, and profitability but there is still a grey area in the relationship between these connections (Carlier et al., 2019; Harrell-Cook et al., 2017; Škuflić et al., 2016). This study's objective is to explore how does human capital become a profitable investment in the future of the firm.

The main concern for business leaders in maximising profitability by increasing productivity presents significant challenges for organisations (Xie et al., 2019). To stabilise or enhance profits, business leaders may be driven to keep employee costs low, maintaining the minimum number of human capital, and resulting in improved profitability (Mueller, 2019). Although there is a link between human capital, productivity, and profitability, it has rarely been scientifically verified (Carlier et al., 2019; Rocha et al., 2019), especially through the qualitative method. Thus, this study looks into the link between human capital, productivity, and profitability in SMEs in Australia. The relationship between human capital, productivity, and profitability is unknown if the established outcomes hold true in a variety of circumstances. The contextual approach to human resource management towards human capital, in particular, advocates the consideration of the macro-social environment, which includes political, sociological, institutional, and cultural factors. Finally, past research has tended to describe human capital from a quantitative approach as a one-dimensional construct that ignores the impact and implications of various human capital. The objective was to educate SME managers that investing in human capital is an investment in future profitability. As a result, while these studies typically reveal that human capital has an impact on business performance, they offer little practical guidance on where to focus any human capital-related investments. Hence, this study examines the links between human capital and company performance by considering the qualitative path in order to fill these research gaps.

The direct relationship between human capital and firm performance has been widely studied (e.g., Crook et al., 2011; Easley

& Roberts, 2012; Khan & Quaddus, 2018; Khan & Terziovski, 2014; Khan & Terziovski, 2016; Ma et al., 2018). Conversely, human capital can be perceived based on different dimensions and examined according to its influence on various scopes of the firm's performance. However, it is vital to analyse these possible relationships between human capital dimensions and firm performance because in real-life situations, factors do not function standalone, rather they are sequentially linked. Therefore, discovering the changing aspects of such possible relationships and their direct effects will facilitate the understanding of SME owners and policy makers on the relationship between human capital dimensions and firm performance. It has been proven in previous literature that having poor human resources and capabilities are often cited as a key reason for firm's failure (Bismala & Handayani, 2017; Eesley & Roberts, 2012).

The changes experienced by human capital in SMEs and firm performance over the past decade remain unique. This is because experienced SMEs owners will explore ways of attaining the required human resources and capabilities. A quantitative study by Khan and Terziovski (2016) conducted in Australia found that human capital is an essential element in SMEs. Therefore, the main objective of this study is to understand this relationship and at the same time, to verify the influence of human capital on SME performance in South Australia. Given the theoretical and practical significance of the issue, this study is relying on the existing literature from a multitude of sources.

The remaining study is organised as follows. Section 2 reviews the literature on a few theories behind the concept, followed by a review of human capital and SME performance. Section 3 discusses the research methodology used, and the justifications for this method. Section 4 presents human capital in SMEs investigated as case studies. Section 5 interprets the observed definition of human capital in SMEs and concludes the findings. Section 6 presents the main implications of the paper on policy and practices.

2. Literature Review

2.1 Human Capital

There are various definitions on human capital based on several scholars. Based on a review by Martín-de-Castro et al. (2011), human capital (HC) can be grouped into three main clusters: behaviour, knowledge, and ability. HC is crucial for firms to unlock new

information and knowledge (Kang & Snell, 2009); and without HC, a firm may not be able to survive in the industry or to expand long term (Stewart, 2007). In this study, HC is referred to as the teamwork, skills, and knowledge of the individuals in the organisation.

Many studies include HC as a key factor that contributes to firm performance (e.g., Cezair, 2008; Garcia-Meca & Martínez, 2007; Khan & Terziovski, 2014; Khan & Terziovski, 2016). Literature on the HC theory suggests that HC are investments made in employees through education and training to improve their skills and knowledge (Becker, 1964). According to Davidsson and Honig (2003), the HC theory postulates that knowledge provides the power of thinking that contributes to the firm's effectiveness and efficiency. From the organisational learning theory point of view, employees' knowledge is essential to obtain, clarify, allocate, and retain the new knowledge for the firm's benefit (Fiol & Lyles, 1985).

2.2 *Theoretical Underpinning*

The resource-based view (RBV) shows that in certain situations, a pool of accumulated HC represents a sustained competitive advantage (SCA) (Wright et al., 1994), and the process of resource creation that creates SCA is dynamic capability (Helfat et al., 2007).

According to Chowdhury et al. (2014), HC is normally either general, or firm specific. General HC is where employees gain knowledge through their education and experience, both these elements being easily transferable. Knowledgeable and expert employees eventually retire or move (Daft & Weick, 1984). Firm-specific HC refers to the rare, possibly unique capabilities and skills that employees develop through experience. This aspect of HC is much discussed from the RBV perspective (Chowdhury et al., 2014; Crook et al., 2011).

In order for firms to succeed, they must pay specific attention to the capabilities and qualities which employees possess (Dulewicz & Herbert, 1999). Companies that manage to foster the appropriate features in their employees will gain a competitive advantage. Humans with valuable and rare knowledge and skills are expected to have better business judgement. Given that HC remains secure, employees can enhance their work performance and eventually improve the firm's productivity.

According to several scholars (e.g., Lerro et al., 2014; Barney, 1991; Penrose, 1959), the dominant theory to address the function of resources, knowledge, and its management in relation to firm

performance is by using RBV of the firm. Indeed, it was claimed under RBV that intangible resources give a stronger impact on firm performance (Eisenhardt & Schoonhoven, 1996). There is wealth of literature on human capital research integrating RBV into studies (e.g., Herremans et al., 2011; Kianto et al., 2013). Therefore, this study applies RBV as the dominant theory that assumes intangible assets are more likely to lead to an improvement in SME performance.

2.3 *Human Capital and SME Performance*

In the literature, HC has been acknowledged as the foundation of sustainable competitive advantage (Barney, 1991; Chandler, 1962; Itami & Roehl, 1987) and the key to generating knowledge within the firm, especially through education and training (Kianto et al., 2017). The knowledge that employees possess – their capabilities and skills – is hard for other competitors to imitate (Hossain & Roy, 2016; Junita, 2017).

It has been claimed by Bendickson et al. (2017) and Hossain and Roy (2016) that HC is the critical resource in every firm that needs to compete. These scholars believe that firms which develop and manage their employees will excel. Employees' education, experience, and skills affect firm performance (Finkelstein et al., 2009; Huselid, 1995; Nordhaug, 1998), and firms that invest in employees' training improve their HC and firm performance (Combs et al., 2006; Georgiadis & Pitelis, 2016; Renaud & Morin, 2019; Sung & Choi, 2018).

A study by Thornhill (2006) found that in competitive surroundings, hiring knowledgeable and highly skilled employees improve the performance of the firm more than it does in a stable environment, where investment in training the less skilled will be more beneficial. In either case, only the workers can obtain, clarify, assign, and retain the new knowledge that is important for the firm's future performance (Fiol & Lyles, 1985). This notion, called the organisational learning theory, says that when a firm faces the most competition, it needs highly skilled employees because it cannot waste time training new employees in a dynamic market where other firms have leaped ahead (Thornhill, 2006). This does not mean that the firm should totally ignore training, but that training is more important in stable environments (Thornhill, 2006) because the demand is consistent, and changes occur only now and then.

Khan and Quaddus (2018) through their qualitative and quantitative study, observed that tacit and explicit knowledge have a positive and significant effect on micro firms in Bangladesh.

Another study done in China by Ma et al. (2018) stated that specific human capital has authentic, reliable and continuous effect on the improvement of a firm's performance. A study in a high-tech firm in the Jiangsu region of China, conducted by Wang et al. (2014), found that HC significantly affects both financial and non-financial performance. Similarly, in Egyptian software firms, Seleim et al. (2007) found comparable relations between HC and a company's performance. Using value added intellectual coefficient (VAIC) measurements to calculate HC efficiency (HCE) in Serbia in multinational firms, Komnenic and Pokrajcic (2012) found that HC is positively associated with financial performance.

On another note, studies of the service sector by Hitt et al. (2001) and Shaw et al. (2013) showed that HC makes a difference only up to a certain point. More investment in HC might bring down performance, this being illustrated by a curvilinear U-shaped graph. In the HC theory, the embedded skills, knowledge, and abilities of employees become the drivers of a firm's performance when the return on investment in the employees is beyond the labour cost (Lepak & Snell, 1999; Ployhart & Moliterno, 2011). In these circumstances, when a firm increases investment in HC, the return on investment will be much higher.

Most researchers believe that the relationship between HC and company performance is conclusive, and that belief led to the 'best practice' approach (Crook et al., 2011; Stiles & Kulvisaechana, 2003). However, others found difficulties in identifying the successful element in this connection (Shaw et al., 2013; Unger et al., 2011).

Some studies (e.g., Bollen et al., 2005; Bontis, 1998; Vomberg et al., 2014; Wang & Chang, 2005) found that HC does not significantly affect performance directly, and that in advanced economies, investment in education only has a weak relationship to SME performance (Becker & Woessmann, 2007). A review by Newbert (2007) reports that the link between HC and firm performance is still uncertain: only 11 out of 33 tests supported the idea.

3. Research Methodology

Qualitative studies can take two general approaches; interviews and observations, which are both dependent on the research questions (Hair et al., 2007; Sekaran, 2006). In this study, face-to-face interviews with managers of SMEs in South Australia provided in-depth information. A multiple case study was built based on the analysis

of the findings from these interviews. In accordance with the ethical protocols, the firms remain anonymous.

According to Patton (1987) and Eleanor (1999), in order to ensure that the participating SMEs contribute to the richness of the data, several pre-determined characteristics need to be implemented so that purposive sampling of case firms are included. Purposive sampling is appropriately applied to this study so that rich and comprehensive information on the research area is collected. Eligibility criteria required for recruitment in the study included: 1) firms from South Australia state; 2) the business had fewer than 200 employees; and 3) the SME must be operating for more than ten years in the market.

The number of participating firms were not determined in advance when applying purposive sampling (Maykut & Morehouse, 1994). As the study progresses, more common themes and patterns will develop based on the research questions. Thus, the number of participants is influenced by the additional cases that will contribute to the understanding of the context. This is a method recommended by Glaser and Strauss (1967). When there is no new information emerging from the interview, the process of data collection stops. In the context of this study, this process was achieved with a sample size of five SMEs. Based on the recommendations of Eisenhardt (1989), a sample between four and ten firms is acceptable.

Addressing the managers of the SMEs, the qualitative survey using semi-structured questions was conducted face-to-face on-site in the interviewees' office. This form of questioning allowed interviewees to be free in their responses and to expand on issues where appropriate (Sekaran, 2006). With signed consent forms, all interviews were tape-recorded. Each interview took about less than two hours. The interviews produced case studies and the results were interpreted through thematic analysis to form cross-case analysis (Miles & Huberman, 1994).

3.1 Case Studies Data Collection

3.1.1 Data Gathering

Firms were selected from four broad industry categories: two manufacturing firms, one retailer, one builder, and one wholesaler. The firms were selected based on the predominant nature of business in South Australia and based on the convenience of the respondents

to participate in the study. The profiles of the sample companies are provided in the table below.

Table 1: Sample Description

| | Firm A | Firm B | Firm C | Firm D | Firm E |
|---------------------|------------------------|-----------------------|----------------------------|-----------------|--------------------------------|
| Industry | Wholesaler | Construction | Retail | Manufacturing | Manufacturing |
| Number of employees | 93 | 47 | 7 | 15 | 63 |
| Nature of business | Steel | Building construction | Outdoor activity equipment | Mexican Food | Detergent |
| Firm's age | 40 years | 25 years | 20 years | 20 years | 55 years |
| Manager interviewed | Human Resource Manager | Finance Manager | Operations Manager | General Manager | Innovation and Quality Manager |
| Location | Urban | Urban | Rural | Rural | Urban |

Yin (1994) proposed techniques which include archival research, interviews, and observation. Archival information collected for this study included the firms' websites, annual reports, flow charts, and media coverage (online). The data were collected in two phases. The first phase was the preparation phase where the history of the firms was collected from corporate websites and archival data in order to understand each firm's history and to verify respondents' answers. The second phase consisted of semi-structured interviews with the participating managers.

3.1.2 Interview Protocol

The interview consists of seven main open-ended questions about the SMEs performance. The interview with each respondent comprised a semi-structured set of questions. Semi-structured questions allow interviewees to provide free responses within a predetermined range of topics (Tewksbury, 2009). When explanations of information were required, supplementary questions were asked of the interviewees. These questions were sufficiently open-ended to allow free expression of views, and participants were encouraged to elaborate on relevant issues. Question 1 asked how SMEs see themselves and the roles which SMEs play within their business sector, while Questions 2 to 5 dealt with how employees can perform better, the

obstacles to further development, what could be improved, and the expectations of management.

1. Where do you think the value of the company resides?
2. How do employees increase their knowledge in your organisation? Does the company provide training?
3. What specific knowledge and skills do you look for in employees?
4. Do you think that knowledgeable and skilled employees can make firms more innovative? Do you think that employees contribute towards firm performance?
5. How is firm performance assessed in your firm?

3.1.3 Analysis of Case Studies

To obtain qualitative data, the interviews were taped, transcribed, and analysed using thematic-analysis NVIVO software (Welsh, 2002). Thematic analysis, a method that searches for reiterated themes in the transcript, can be defined as a method for coding qualitative data (Boyatzis, 1998). It also involves identifying common themes within the text, and the compilation of themes into categories for analysis (Fereday & Muir-Cochrane, 2006). The relationship between HC and SME performance in the conceptual framework are identified through repeated themes mentioned by interviewees as a basis for combining the qualitative evidence. According to Leitch et al. (2010), multiple case studies require the process of coding to be performed case-by-case, identifying themes, and continuing with *open coding*, *focus coding*, and *axial coding*.

Within-case analysis is used to enable the researcher to become familiar with each case before the cross-case analysis is performed. To summarise, a cross-case analysis is used, which encompasses five different cases, and the within-case analyses use thematic analysis. In the cross-case analysis conducted for this study, the five case studies were compared with the literature and with themes described by the managers.

4. Findings

4.1 Summary of Within-case Analysis

The objective of within case studies analysis was to investigate the elements of HC and their links to firm performance in five SMEs in South Australia. In this section, the quotations of the interviewees are presented in quotation marks with italic font.

Firm A

According to Firm A, its most important mission is “to make sure that their customers and workers are well treated because they are their most important asset in the firm”. The firm motivates and encourages its employees to achieve their highest capability in a safe and structured workplace. The employees undergo training of the highest standards to enable the development of the employees’ potential and empower them to use their own initiative so that they are more motivated and committed. Subsidies from the South Australian government helped in training their staff under the ‘Skills for All’ program, with staff upgrading their knowledge in their working area.

The manager stressed the importance of “attracting skilled employees and retaining good employees” that operate in a highly dangerous working environment. The manager spoke about building a knowledge-sharing culture, engaging generously in knowledge sharing behaviour among employees. The manager stressed that Firm A’s people are the “most important asset to the firm.” According to the manager, they “wouldn’t employ anyone unless they have already worked in a similar... industry.” The manager added that it is important to the firm to recruit employees with appropriate skills, knowledge, and experience because “this business is very dangerous and requires a lot of skill to handle the material,” therefore, it is important to hire employees that have knowledge in that field and experience in that particular environment.

Job rotation, one of the practices in the firm, allows staff to develop higher-level technical skills. Effective personal communication stimulates a remarkably open culture at Firm A where the sharing of expertise is the norm. Under these conditions, hoarding knowledge is not an option.

It is routine for the operations supervisor to meet with every person in four different shifts every day, to talk about safety issues, quality, general business, and other issues that the staff would like to raise. This results in hundreds of meetings a month. A monthly review by the top management monitors the progress. The annual meeting discusses the strategic and business planning process to allocate budget and set performance targets. It reviews the employees’ working progress and customers’ feedback. According to the manager, experienced and skilled staff will always find the most efficient and effective way of doing things, thereby improving processes, and reducing costs. The firm believes that employee

happiness and customer satisfaction are their biggest assets. The effective management of these intangible resources is essential.

Firm B

The business's vision is *"to remain dedicated in becoming the superior provider of construction services across South Australia and various ranges of markets"*. At the same time, they are committed to providing continuous training for their staff and to supporting each other. Teamwork and employees' safety matter the most. As the business grew, employee participation became the norm. The senior manager believes that the top management team should set an example to all other staff, and that teamwork will create knowledge and improve staff skills.

Currently, tacit knowledge is codified manually in paper folders with managers in different departments keeping several books or logs. In the future, workers will be able to easily access operation manuals on an intranet. According to the manager *"[the] intranet is one of the important knowledge sharing mediums in the firm,"* but it is not yet fully utilised. Therefore, improving the knowledge of employees, building a good relationship with external parties, and fully using the available technology are the ways towards achieving better performance.

Firm B is transparent in establishing boundaries in the job description stating the requirements for any position. Firm B will normally conduct a job analysis to identify the specific requirements needed in order to undertake the work. According to the manager, the selection of employees depends on the position: *"experience is certainly important but... there are certain positions in our business which are filled by workers straight out of university."*

Simultaneously, Firm B is dedicated to providing extensive training. Training at Firm B is a combination of in-house training and external contracted training and it involves all employees.

Firm C

The main mission statement for Firm C is *"to identify and provide specific customer solutions; the pride and satisfaction of their customers and suppliers will create brand and customer loyalty that will underpin the future viability of the business and dedicate employees committed towards innovation. Our proud, happy and engaged team will provide innovation and practical products that are profitable so that the business can grow"*.

Teamwork, sharing information and willingness to learn are important. According to the owner, *“the firm’s culture is the mould of the firm.”* The *“right”*¹ attitudes are required for employees to fit in at the company. This is to ensure that the firm can achieve its target. According to the owner, employee skill is important; however, a less skilled employee who adapts to the company’s culture can be far more valuable than a highly skilled employee who does not work well with the rest of the team. Therefore, the firm recruits employees with the *“right”* attitude. The staffs need to adapt to the firm’s culture in order to work as a team. The owner added that the *“right”* attitude is required for employees to learn. Employees are one of the important assets in the firm. Therefore, they will treat their staff as family members.

Currently, the tacit knowledge of the business resides with the owner of the firm, and it is not being documented for future reference. This issue must be addressed as Firm C moves forward. The lack of interest in knowledge sharing and inadequate credit given to teamwork influence the present situation. The owner noted that better communication among the staff would allow more discussion and feedback. The owner agreed that they should try harder to organise regular meetings.

In selecting employees in the firm, the owner expressed his opinion that *“...experience will not be necessary but a part of it... their willingness to fit into the culture and to blend into the team”* and *“the last thing that we look at is the degree qualification.”* The important criteria that employees should have are responsibility, honesty, and willingness to learn.

Knowledgeable and skilled employees require leadership support, and according to the owner, without this support, the initiative would have stalled. The business obtained support from the South Australian government under *“Skills for All,”* subsidising necessary training for their employees. In the small town which is geographically isolated, the owner provided some group training on-site to support knowledge development since it is *“quite costly... to send staff to external training.”* In this company, knowledge development was more of a ‘top-down’ initiative rather than a bottom-up approach. Employees are expected to have initiative to learn new things without any directive from the firm.

¹ The manager defines *“right”* attitudes as the appropriate characteristic or behaviour (x-factor) in employees.

Firm D

According to the firm's mission statement, "*increasing productivity and cost saving products for customers are the main objectives*". Knowledge creation and preservation is the key aspect of the development process in Firm D. Cultivating a well-trained and efficient workforce with up-to-date knowledge in food technology and the administration of regulations is a part of developing excellence in food processing.

According to the manager, Firm D is exposed to "*substantial business pressure*" where "*aggressive competition and high-quality expectations*" characterise the business market. According to the manager, in this competitive environment, the outstanding product being produced is a source of competitive advantage. Opportunities for face-to-face interaction between staff during informal meetings, such as lunch and while staff are working, enhances the potential for knowledge sharing.

Managers are responsible to make sure that knowledge and information is being distributed. Unfortunately, the management has found this to be a problem. They now combine a vertical and horizontal communication approach. According to the manager, they are aware that all knowledge development among employees requires leadership support. This is because some of the bottom-up knowledge transfer and sharing failed to flourish until managers "*come on board and openly offer their support.*"

The firm selects employees with "*basic skill... anyone that works in our factory, I prefer them to understand food manufacturing.*" According to the manager, "*knowledge... you can always employ someone that is knowledgeable, but experience is something that you gain through time.*" Therefore, it is important for the firm to select employees with experience. The manager added that, the firm does not focus on hiring employees with degree qualifications; this is because "*a degree does not prove that you will be able to fit in.*"

The firm provides sufficient work-based training and managed to get subsidies from the government under the 'Skills for All' training program. The manager agreed that training does enhance the employee's knowledge. According to the manager, the cost of training can be up to \$5,000 per person.

Although knowledge sharing, creation and distribution are necessary for HC, the manager considers creating new knowledge as essential to the business. Therefore, meetings at regular intervals provide opportunities for the top management to explore ideas and

feedback from their staff. Knowledge development is a way to ensure that the firm remains competitive in the market.

Firm E

Holding ISO 9001 certification and recognising the achievements gained helps maintain Firm E's standards. Firm E's mission statement is *continuously investigating and enhancing products to meet the needs of our ever-changing society and environment*. At the same time, Firm E is dedicated to providing a wide range of home care product substitutes that can help every Australian to save water, landfill, waterways, and money.

In order to improve their HC, a weekly department meeting is the platform for project discussion and the outcome of the meeting would be reported to the general and sales managers. The staff does not spend much time with other departments unless there is a problem. This is to protect confidential information in the firm. The firm divides knowledge and information clearly into confidential and non-confidential knowledge and into old versus new forms of knowledge. Firm E keep its tacit knowledge of training, network, experience, skills, and abilities separately from its explicit knowledge that contains information on tangible elements including electronic and hard copy documents, databases, websites, training manuals and other reference material. Normally, the managers in every department own the tacit knowledge and it will transfer from one person to another through on-the-job training. For Firm E, employing staff with appropriate qualifications is mandatory because of the complex chemicals and testing they are required to perform, especially in research and development (R&D). As such, human capital is vital in supporting knowledge development in the firm.

As Firm E grew, the firm became more bureaucratic and developed some isolationist behaviours and ways of thinking and working. Part of the journey over many years has been data and information not being shared efficiently with other staff, obstructing learning, and knowledge development in the firm. Most individuals and teams worked individually on separate projects. The managers described the situation as "*departmentalised*" that is, communications

across departments and across projects were simply limited unless there was a problem. They work within their own department. The implementation of knowledge sharing was slow.

The recruitment of employees in the firm focuses on selecting workers with experience relevant to the position. Based on a comment by the manager, "*the employees need to have a background in ...*," so that the employees can do their work effectively. According to the manager, a university qualification is important, particularly in the R&D laboratory, because not everyone can manage the material and equipment in the laboratory; that person must have the proper education and training for it.

Some of the employees have been with the firm for more than 30 years. Employees are important assets of the firm because most of the staff has undergone on-the-job training. The manager believes that it is not easy to nurture resolute employees, it takes time. Losing experienced and skilled employees would be a loss to the firm.

4.2 Cross-case Analysis

It is agreed by all five respondents that HC comprises of elements such as employees experience, skills, education, abilities, and training. This is accordance with Mubarik et al. (2018)'s findings. In all five case studies, HC contributes to the firm's success. This finding is not surprising considering that all five firms depend on their employees to work and keep the firm in operation. SMEs perform only through the skills, experience, and knowledge of their employees. This is consistent with several studies that find direct links between HC and SME performance (Bendickson et al., 2017; Chowdhury et al., 2014; Khan & Quaddus, 2018; Ma et al., 2018; Unger et al., 2011). A direct relationship between human capital and a firm's success is possible. This distinction occurs when the knowledge and information that employees gain are focused directly at the employee's initiative, decision-making and problem-solving skills, without focusing on generating innovative ideas or improving knowledge within the firm. Table 2 shows the quotes from the respondents that developed the themes in this study.

Table 2: Cross-case Thematic Analysis of Human Capital and Firm Performance Elements

| Themes | Firm A | Firm B | Firm C | Firm D | Firm E |
|---------------|---|---|---|--|--|
| Human capital | | | | | |
| Experience | I would not employ anyone unless they have already worked in the... industry We do not have many with a university qualification... a degree only shows... ability to apply yourselves... | ...experience is certainly important, but... there are certain positions in our business which are filled by workers straight out of Uni... | ...Experience will not be necessary, but a part of it... their willingness to fit in the culture and to blend in the team... The last thing that we look is the degree qualification... | Experience... money cannot buy. Knowledge... you can always employ someone that is knowledgeable, but experience is something that you gain through time... a degree does not prove that you will be able to adapt in... | The employees need to have background in... so that they know how to use the... definitely you need to have a university qualification to start with... in R&D lab |
| Skill | The value of the company resides... definitely in the skill of the people that we have working here... this business is very dangerous, and it requires a lot of skill to process... you cannot make skilled workers like that... | The skills of the employees will fit the technology... | Employee skill is important; however, a less skilled employee who conforms with the company's culture can be far more valuable than a highly skilled employee who does not work well with the rest of the team. | ...as a basic skill, anyone that works in our factory, I prefer them to understand manufacturing food... | A lot of it, you have to learn on-the-job, it is not something that they teach in university. |

Table 2: Cross-case Thematic Analysis of Human Capital and Firm Performance Elements (continued)

| Themes | Firm A | Firm B | Firm C | Firm D | Firm E |
|-----------------------------|---|--|---|--|--|
| Capturing tacit knowledge | We have 100 meetings a month. If you do not speak with your people, how are you going to know. | We have constant team meetings and different department meetings... if anybody else has any input... | Everyone will sit together and generally... talk about work etc. while we are having tea. | Talking is the best way to start... talking to them while they are doing it, is the best way to catch a problem. | ... we have regular meetings every week to discuss a project and where are we up to. |
| Enhancing staffs' knowledge | ...through job rotation, up skilling, in house training with the experienced operator, we have also done external training. | ... constant training, we send the employees quite regularly to keep up with various training courses, which relate to their role in particular. | ...it is quite costly for us to send staff off to external training, so we provide some group training on-site. | ... we provide training... implemented properly two years ago. | ... we get a lot of journals in, and also do web searches and go to conferences... lot of on-the-job training... |
| Firm effectiveness | customers satisfaction | satisfaction of customers | profit, on time delivery | net profit margin, customer complaints, and on time complete delivery | sale of the product |
| Firm efficiency | employee's turnover and produce lower cost | reduce operation costs | product turn-around time, inventory holding is less | staff turnover | nil |
| Firm growth | new market | KPI | nil | KPI | the number of new and improved product |

Based on the interviews, the managers have defined SME firm performance based on several categories such as firm efficiency, effectiveness, and growth. Firm efficiency measures how economic resources are used in the firm in order to avoid waste, while firm effectiveness measures the satisfaction of the stakeholder (Neely et al, 2002). Firm growth is measured based on three criteria: employment, turnover, and profitability (Robson & Bennett, 2000). Table 3 refers to the list of themes appear from the findings.

Table 3: List of Themes

| Firm's Value | Dimensions of human capital | Capturing tacit knowledge | Enhance knowledge |
|--------------|----------------------------------|---|--------------------|
| Employees | Experience and skilled employees | Formal meetings | Training |
| Culture | Selection | Informal discussions | Mentoring |
| Technology | Managing employees | Talking with employees | Buddy system |
| Customers | | Encourage employees to voice out ideas or suggestions | Job rotation |
| Suppliers | | | Management support |

Each firm gains a different type of SME performance from HC. Two of the firms stated that human capital contributes to the firm's efficiency. This result is consistent with the meta-analysis by Jiang et al. (2012) and Unger et al. (2011) who found knowledgeable and skilled employees contribute to productivity and profitability, respectively. Productivity and profitability equals effectiveness in this study. Two other firms stated that HC influences the firm's growth, and this is consistent with a study of small businesses (Pena, 2004). One firm indicates that HC significantly improves effectiveness, and this is consistent with several findings (e.g., Becker & Huselid, 2006; Mahsud et al., 2011; Ployhart, 2004). According to several scholars, diverse types of HR practices may have different outcomes (Batt & Colvin, 2011; Gardner et al., 2011; Jiang et al., 2012). Therefore, in this case, different firms may have different methods of managing and guiding their employees towards company goals.

The findings are consistent with RBV (Barney, 1991), which state that experienced employees who are given specific training to enhance their knowledge and skills will generate value for the firm. This theory is consistent with what Lant and Mezias (1992) and Williams (1992) had proposed.

5. Discussion and Conclusions

All five case studies show that HC is the most important asset in the firm, and without valuable employees, firms cannot function effectively. All five firms in the case study emphasised the importance of employee welfare, building good relationships with the employees, and practicing good human resource management in order to retain existing employees. This is consistent with several other recent enquiries such as Xi et al. (2017). Since RBV proposed that inimitable and valuable skills would mature over time (Coff, 1997; Grant, 1996; Penrose, 2009), the effect of HC on firm performance is clear in this longitudinal study, supporting the view that managers should emphasise HC for better SME performance.

The finding by Thornhill (2006) in regard to manufacturing SMEs is that highly skilled employees will affect the performance of firms that operate in a competitive environment and investing in training will be more beneficial to a firms' performance in a stable environment. This is similar to Xu and Li (2019) findings.

The cross-case analysis results are mixed in respect of the connection between HC and the distinct types of performance measurement. Therefore, the results need to be interpreted with caution. Each firm may expect that its staff might contribute to different levels of performance based on the objectives of the firm. For example, firms that mention the contribution of HC to efficiency emphasise that employees are important to improve the productivity of the firm, while HC that influences effectiveness shows that employees are important to improve the firm's products and sales.

According to the cross-case analysis, people that contribute to firm growth underline their importance to the enterprise. Employees' knowledge, skills, and abilities boost their performance and promote the firm's growth. As an example, a study of high-tech Small Innovative Enterprises (SIE) in Russia by Tovstiga and Tulugurova (2007) found that HC is the most crucial resource that contributes to firm performance, particularly non-financial performance. These findings are consistent with several previous investigations (e.g., Coff, 1997; Jiang et al., 2012; Snell et al., 1996; Unger et al., 2011;

Wright et al., 1994). The results of these cross-case analyses remind researchers that HC may have exclusive links with different firm performance outcomes. All three types of firm performance: firm efficiency, effectiveness and growth have distinct impacts on HC; failure to include any performance item may influence the overall outcome of HC on SME performance and may lead to inaccurate results.

Because HC develops through training, and through frequent interaction between the top and lower-level group of employees, knowledge and information must be distributed to every level so that employees are aware of the latest information and the right decisions can be made. Formal and informal communication between superiors and subordinates will enhance the creativity of decision making of the employees. Most of the firms in this case study established formal communication with regular meetings and discussion, and most problems are solved creatively. Only one firm has difficulty in organising a meeting with all the employees, which is seen as an obstacle to the distribution of information among the staff.

Informal communication is through morning and afternoon tea and conversation while employees are doing their work. According to one of the managers interviewed, informal communications are more effective in capturing problems, and training can expand employees' knowledge and capabilities. Most of the managers interviewed agreed that appropriate training is crucial to enhancing the ability of their staff. An obstacle to training is cost and some SMEs do not have a specific budget allocation for training. All the five firms faced the most limitations when investing in employees training, therefore, three out of five firms are depending on the grant 'Skills for All' from the government. This is one of the grants that has helped SME owners in encouraging employees to enhance their skills and knowledge. The South Australian government should enhance and continue this grant known as 'Skills for All' so that more SME owners can apply for it on behalf of their employees.

Firstly, SMEs should evaluate the strength of their HC, ensuring that it is sufficient for both the short and long-term objectives. Managers need to make sure that they are hiring the right candidates, and on-going staff interaction and regular training help to create employees with knowledge and skills. Top management must frequently communicate with employees so that knowledge exchange can take place, an interaction that can foster creativity in both groups. At the same time, training is essential and all businesses,

including SMEs, need to make sure that every employee experiences training that relate to their task. Allocating funds for training will benefit the firm in the short and long run. As discussed by Becker (1964), investment in education and training improves skills and knowledge and contributes significantly to performance. At the same time, SMEs must try to reduce employee turnover. Managers must try to retain their skilled and experienced employees, because HC is the most important capital in any firm.

Since most SMEs have limited financial resources, the provision of training subsidies will help SMEs to expand their employees' knowledge. Programs such as 'Skill for All' should be flexible, giving more opportunities for entrepreneurs to register their employees.

Environmental, economic, and societal considerations all play a role in sustainable development. In 1987, the United Nations Commission formulated the concepts of sustainable development (Ugnich et al., 2021). Simultaneously, the significance of ensuring a high quality of life for present and future employee generations is emphasised as part of attaining sustainable development. As a result, the shift to sustainable development provides significant problems for all aspects of society's socioeconomic structure, with people emerging as a primary subject of sustainable development. Emphasis should be devoted to the notion of sustainable HC development for the objectives of state policy aimed at achieving a balance between the formation and development of HC. This principle is applicable to both the micro and macro levels of management. Sustainable HC development emphasises a fair attitude toward its deliverer, the need to care for its development and well-being, supports ecologically responsible organisational practices, and is centred on work-life balance. The harmful implications of the assessed empires of life's imbalance touch more than just specific persons. Because of the interconnection and complementarity of the arenas of human activity as work-life, a temporary failure to meet specific groups of demands relating to influencing an individual's functioning in the workplace. In the end, this will have an impact on the ability to create added value and accomplish economic growth in general.

The main limitation of this study was the sample of the study that comprised solely of South Australia SMEs. According to the literature, entrepreneurial drivers of innovation and firm performance differ from country to country or even state. Thus, this study outcome may not be generalisable to the whole Australia as a country. Further investigation across different states would expand

knowledge of the complicated patterns of HC. A similar case study conducted in one of the other states in Australia where there may be different government policies, socio-economic settings, geographical influences, social factors, and culture – might generate interesting findings.

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