

The Impact of Human Capital on company performance

Case of the footwear Sector in Ethiopia

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Abstract

Human capital is getting wider attention with increasing globalization and also the saturation of the job market due to the recent downturn in the various economies of the world. Developed and developing countries put emphases on a more human capital development towards accelerating the economic growth by devoting necessary time and efforts. Thus human capital development is one of the fundamental solutions to enter the international arena. Specifically, firms must invest necessary resources in developing human capital which tend to have a great impact on performance. There is some emerging evidence that human capital investment leads to greater company performance particularly in small enterprises. This study adopts the human capital theory to address this gap in knowledge. A survey research design was adopted to test this proposition using a sample of 143 small scale Footwear sector in Addis Ababa, Ethiopia. Estimation results using a regression model indicates that having human capital investment in company lead to the improved Company Performance. The findings of this study have important implications for theory, policy and practice. An important theoretical contribution of this study relates to its application of the human capital theory to examine the drivers of Company Performance by small firms in a developing economy. Another theoretical significance of this study relates to the ability of this study to link human capital theory and the concept of performance empirically.

Key Words: Company Performance, Human Capital, innovation

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Introduction

Existing literatures provide evidence that aspects of an individual's human capital facilitate the recognition or development of Company Performance (Marvel and Lumpkin 2007; Shane 2000). Moreover, the human capital theory indicates that individuals with more or higher quality human capital will reap more desirable outcomes (Becker 1964).

In current global market, companies are composed by competitors, regardless of industry. To develop a competitive advantage, it is important that firms truly leverage on the workforce as a competitive weapon. A strategy for improving workforce productivity to drive higher value for the firms has become an important focus. Firms seek to optimize their workforce through comprehensive human capital development programmes not only to achieve business goals but most important is for a long term survival and sustainability. To accomplish this undertaking, firms will need to invest resources to ensure that employees have the knowledge, skills, and competencies they need to work effectively in a rapidly changing and complex environment.

In response to the changes, most firms have embraced the notion of human capital has a good competitive advantage that will enhance higher performance. Human capital development becomes a part of an overall effort to achieve cost-effective and firm performance. Hence, firms need to understand human capital that would enhance employee satisfaction and improve performance. Although there is a broad assumption that human capital has positive effects on firms' performance, the notion of performance for human capital remains largely untested. Hence, this paper attempts to look into the connection between human capital and firm's

performance in the transition economics such as Ethiopia. Therefore, the following research question is used to guide the investigation: To what extent does human capital create impact on firm performance?

This study attempted to address this gap in knowledge by examining the relationship between human capital and Company Performance using a sample of 143 small-scale Footwear firms in Addis Ababa, Ethiopia.

The remainder of this paper is organized as follows: the next section reviews the human capital theory and links it to the concept of innovation. The research questions of this study are given thereafter. After that, the procedures employed in primary data generation, construct measurement and data analysis are outlined. Next, the present paper's propositions are assessed, and the results presented and discussed. The final section presents the key conclusions of the study and highlights relevant managerial and policy implications.

Statement of the Problem

International involvement of local firms is a major source of revenue for any nation and represents a significant share of GDP. Particularly firms in developing countries exchange goods in the international market with low income elasticity of demand for most of the exported goods are primary and semi-processed products. Consequently, the foreign earning generated from export is very low. Leather and leather producing firms in Ethiopia have been involving in the international leather markets for more than 68 years. Till 2010 majority of their exports are semi-processed leather products such as pickled and wet blue hides and skins. Only few firms are able to reach the highest stage of the value chain, produce and export finished leather products. On the other hand, in spite of the fact that the Ethiopian leather

industry seems to try to produce and export leather and leather products, the industry lacks competitiveness both in the domestic and international markets, makes it a sluggish and non-innovative industry.

Furthermore, although the industry has a comparative advantage of producing leather and leather products at relatively lower cost, local firms were not able to make use of it due to the reasons mentioned in the previous section. At the same time, the industry has witnessed erratic export growth over the past 10 years. This may be attributed mainly to shoe manufacturers and leather goods and garments producers exporting their products with intermittent variation and lack of sufficient market information and **competitive** capacity.

Though the Government of Ethiopia is promoting the leather footwear industry as a priority area and the sector has a huge potential for developing an economy, its performance is unsatisfactory due to external and internal problems that hinder its competitiveness (Umer, 2012).

Objectives of the Study

General objective of the Study

The general objective of the study was to establish the relationship between human capital components and firm performance of the leather footwear manufacturing SMEs in Ethiopia.

Objectives of the Study

- i. To establish the relationship between formal education status and performance of the leather footwear manufacturing SMEs.

- ii. To establish the relationship between innovation skill and performance of the leather footwear manufacturing SMEs.
- iii. To establish the relationship between experience and performance of the leather footwear manufacturing SMEs
- iv. To establish the relationship between human capital components and firm performance of the leather footwear manufacturing SMEs in Ethiopia.

Research Question

- (i) What is the relationship between formal education status and performance of the leather footwear manufacturing SMEs in Ethiopia?
- (ii) What is the relationship between innovation skill and performance of the leather footwear manufacturing SMEs in Ethiopia?
- (iii) What is the relationship between experience and performance of the leather footwear manufacturing SMEs in Ethiopia?

Conceptual Model

The purpose of this study is to develop a model to show the relationship between human capital and firm performance. As argued in the earlier discussions, the general human capital investment includes education, skills and experience that will lead to greater firm performance. Firm performance can be viewed in three different perspectives; financial performance, non-financial (growth) performance and overall performance. The details are given in Figure 1

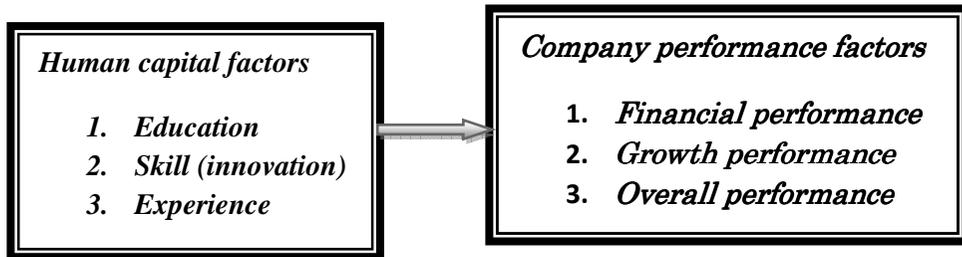
(iv) The Conceptual model

Figure 1: Conceptual Model linking Human Capital and Firm performances

Literature review

Definition of Human Capital and Firm Performance

What is human capital? According Schultz (1993), the term “human capital” has been defined as a key element in improving a firm assets and employees in order to increase productive as well as sustain competitive advantage. To sustain competitiveness in the organization human capital becomes an instrument used to increase productivity. Human capitals refer to processes that relate to training, education and other professional initiatives in order to increase the levels of knowledge, skills, abilities, values, and social assets of an employee which will lead to the employee’s satisfaction and performance, and eventually on a firm performance. Rastogi (2000) stated that human capital is an important input for organizations especially for employees’ continuous improvement mainly on knowledge, skills, and abilities. Thus, the definition of human capital is referred to as “the knowledge, skills, competencies, and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being” (Organization for Economic Co-Operation and Development or OECD, 2001: 18).

The constantly changing business environment requires firms to strive for superior competitive advantages via dynamic business plans which incorporate creativity and innovativeness. This is essentially important for their long term sustainability. Undoubtedly, human resource input plays a significant role in enhancing firms' competitiveness (Barney, 1995). At a glance, substantial studies were carried out on human capital and their implications on firm performance were widely covered and obviously, human capital enhancement will result in greater competitiveness and performance (Agarwala, 2003; Guthrie et al., 2002).

Meantime, there is a significant relationship between innovativeness and firm performance under the human capital philosophy (Lumpkin & Dess, 2005).

In relation to this, the definition of firm performance could vary from one and another. Nonetheless, some clear definitions of firm performance in the context of human capital enhancement could be put forward.

In some cases, financial performance measures such as percentage of sales resulting from new products, profitability, capital employed and return on assets (ROA) (Selvarajan et al., 2007; Hsu et al., 2007). Besides, return on investment (ROI), earnings per share (EPS) and net income after tax (NIAT) can also be used as measures of financial performance (Grossman, 2000). Interestingly, researchers also tend to benchmark managerial accounting indicators against the financial measures in six dimension; 'workers compensation' (workers' compensation expenses divided by sales); 'quality' (number of errors in production); 'shrinkage' (e.g. inventory loss, defects, sales return); 'productivity' (payroll expenses divided by output); 'operating expenses' (total operating expenses divided by sales) (Wright et al., 2005).

On the other hand, firm performance can also be measured using ‘perceived performance approach’ (also referred to as subjective performance measure) where Likert-like scaling is used to measure firm performance from the top management perspectives (Selvarajan, 2007).

The Relationship between Human Capital and Firm Performance

The human capital focuses two main components which is individuals and organizations. This concept have further been described by Garavan et al., (2001) that human capitals have four key attributes as follows: (1) flexibility and adaptability (2) enhancement of individual competencies (3) the development of organizational competencies and (4) individual employability. It shows that these attributes in turn generate add values to individual and organizational outcomes. There are various findings that incorporate human capital with higher performance and sustainable competitive advantage (Noudhaug, 1998); higher organizational commitment (Iles et al., 1990); and enhanced organizational retention (Robertson et al., 1991).

Hence, all this debates fundamentally focuses on individual and organizational performance.

From the individual level, Collis and Montgomery (1995) point out that the importance of human capital depends on the degree to which it contributes to the creation of a competitive advantage. From an economic point of view, transaction-costs indicate that firm gains a competitive advantage when they own firm-specific resources that can not be copied by rivals. Thus, as the uniqueness of human capital increases, firm have incentives to invest resources into its management and the aim to reduce risks and capitalize on

productive potentials. Hence, individuals need to enhance their competency skills in order to be competitive in their organizations.

The human capital theory has undergone a rapid development. Within its development, greater attention has been paid to training related aspects. This is much related to the individual perspective. Human capital investment is any activity which improves the quality (productivity) of the worker. Therefore, training is an important component of human capital investment. This refers to the knowledge and training required and undergone by a person that increases his or her capabilities in performing activities of economic values.

From the organizational level, human capital plays an important role in the strategic planning on how to create competitive advantages. Following the work of Snell et al., (1999) it stated that a firm's human capital has two dimensions which are value and uniqueness. Firm indicates that resources are valuable when they allow improving effectiveness, capitalizing on opportunities and neutralizing threats. In the context of effective management, value focuses on increasing profits in comparison with the associated costs. In this sense, firm's human capital can add value if it contributes to lower costs, provide increased performances.

Another study by Seleim, Ashour, and Bontis (2007) analysed on the relationship between human capital and organizational performance of software companies. They found that the human capital indicators had a positive association on organizational performances. These indicators such as training attended and team-work practices, tended to result in superstar performers where more productivity could be translated to organizational performances.

The Human Capital Theory

This study adopts the human capital theory as its theoretical framework. It also extends the human capital theory to incorporate both its direct and indirect effects on Company Performance. The human capital theory suggests that individuals with more or higher human capital achieve higher performance when executing tasks (Becker 1964). Human capital comprises the stock of knowledge and skills that reside within individuals. Specifically, human capital includes the unique insights, skills, cognitive characteristics and aptitudes of entrepreneurs (Ventakaraman 1997). It also includes achieved attributes, accumulated work and habits that may have a positive or negative effect on productivity (Becker 1964). Human capital represents a resource that is heterogeneously distributed across individuals and is thus central to understanding differences in opportunity identification and exploitation (Shane and Venkataraman 2000). In this study, Company Performance is viewed as aspects of productivity. Since human capital can be seen as an input, this study explores the human capital determinants of Company Performance among a sample of small scale Footwear sector in Addis Ababa.

Becker (1964) suggests that human capital can be categorized in two groups, general and specific human capital. General human capital is generic, implying that it can be transferable across all industries and firms. Examples of general human capital include family background characteristics, education, age and gender. In contrast specific human capital includes aspects such as prior knowledge, experience, attitude towards innovations, technical and managerial competencies and industry specific know-how.

Shane (2000) isolates prior knowledge of ways to serve markets, prior knowledge of customer problems, and prior knowledge of markets as important prerequisites of innovation outcomes. Existing literature indicates that human capital has significant influences on Company Performance by small enterprises (Marvel and Lumpkin 2007). Thus the overall human capital profile of an entrepreneur may be a key determinant of Company Performance.

Empirical studies have mainly focused on the direct link between individual strands or configurations of human capital factors and Company Performance, while less attention has been devoted on how management can utilize these factors more effectively. In other words there has been little consideration in literature on the interrelationships between human capital factors in explaining Company Performance.

The above discussion leads us to the following research questions: From the human capital theory: Does a bundle of superior human capital factors enhance Company Performance?

Research Method

This section begins by first outlining the research design that was adopted in this study. It then identifies the study population and sampling procedures before discussing the data collection methods. Next, it describes the methods that were used in analyzing data.

Research Design

This is a survey that aims at examining the determinants of Company Performance in a sample of small Footwear enterprises in Ethiopia. This research design is useful in examining the relationship between different

company phenomena (Saunders et al. 2003). This study was conducted in SMEs Division in Addis Ababa. Small Scale Footwear sector are a prominent economic activity in this area. The population for this study included all Small Scale Footwear sector that have registered in the MSEs. A sampling list of all Small Scale Footwear sector was constructed from lists of members of MSEs in the study area. From this exercise, a total of 322 Small Scale Footwear sector were identified in the study site as registered in the MSEs.

From the sampling frame, simple random sampling procedures were used to select the study sample. Following the seminal sample size determination formula produced by Krejcie and Morgan (1970), this study's sample size is 175 enterprises.

Measurement of Variables

Human capital

The study measured human capital with four metrics; skill (innovation) factor, education factor, and experience factor. Hence, the three variables (education, experience as a manager and innovative skill) were used to measure general human capital.

Company Performance

In measuring company performance, subjective and self-reported measures by the owners/ managers will be utilized which are consistent with the earlier studies (Covin and Slevin, 1989; Smart and Conant, 1994). Because company owners tend not to reveal their company financial data (Naman and Slevin, 1993) and asking for such data might have precluded any

response at all (Poon et.al 2006), the researcher will use perceptual measures to assess firm performance. As suggested by Knight (2000), majority of earlier studies have adopted self-reported measures to gather company performance data which have proven to be reliable. Furthermore, there is research evidence that top managers' perceptions of the performance of their firm are highly consistent with how their firm actually performed as indicated by objective measures (Dess and Robinson, 1984; Wall et al., 2004). The Company Performance Questionnaire was used to measure the performance of the SMEs. The BPQ consists of 7 questions that relates to sales growth, employment growth, market growth, gross profit, ROA, ROI, and overall performance.

Only the entrepreneurs/managers will complete the questionnaire as they are typically operationalized from the perspective of its CEO. This is an accepted approach (Covin and Slevin, 1989). The respondents must choose a position based from 1 to 5 ranges on the Likert scale format

Reliability Test

The results of the reliability test which was conducted to determine the internal consistency of the measures is shown in Table 1. It was found that the dimensions of EO has a Cronbach Alpha values of more than 0.6 which is higher than that recommended by Hair, Money, Page and Samouel (2007). The closer the reliability coefficient gets to 1.0, the better. In general, reliabilities less than .60 are considered to be poor, those in the .70 range, acceptable, and those over .80 good (Uma sekaran, 2003).

Thus this indicates that the variables were internally consistent and the scales deemed reliable for further analyses. Investment incurred on education, skills, and experiences were considered as proxy variables for

investment in human capital by prior studies (Marimuthu et al., 2009; Ukenna, jeoma, Anionwu, & Olise, 2010). This study also used the above variables to measure investment in human capital with minor modification after testing the reliability of the instrument.

Table 1 Results of reliability test

Variables	Items	Crombach alpha
Performance	7	0.939
Human capital	5	0.664

Source: Survey result

Data Collection

A structured questionnaire was used to collect data. The research tool for this study was tested for reliability and validity in several ways. First, the variables selected for this study were obtained from previous studies and tested for relevance. Secondly, experts in entrepreneurship were used in the selection of the study variables.

The questionnaire was double translated into Amharic to cater for the members of the sample that were not conversant with English. The questionnaire was pre-tested on 30 Small Scale Footwear sectors that operate in EIFCOS, which neighbour the study area. This exercise helped to rephrase and reorganize the format of the questionnaire.

Data was collected using interviews with the owners of Small Scale Footwear sector in the study area. The pre-tested questionnaire was administered by the researcher with the help of two research assistants. The research assistants were trained on the handling of the research tool and the

topic under study before being allowed to collect data. The research assistants were closely supervised by the researcher during data collection. The questionnaire took approximately twenty minutes to administer. Data collection took 21 working days to complete.

Data Analysis and Results

Several methods for analyzing data were adopted in this study. The survey data was initially summarized and presented using descriptive statistics such as means, standard deviation and correlation coefficients.

Sample characteristics

The profile of the respondents is illustrated in Table 2. The respondents consisted of 83.2 percent male and 16.8 percent females, majority of which were in the age group of between 21-39 years (81.2 percent). With regard to marital status almost it is equal with respondents (51.7 percent unmarried and 48.3 percent married). Majority of them had achieved a diploma education (47.6 percent). Most of the respondents in the leather footwear sector manufacturing sector have worked less than 5 years (74.1 percent). 66.4 percent of the firms have been established less than 5 years. And 81.1 percent respondents have been in that specific firm as a manager with less than 5 years.

Table 2: The profile of the respondents

		Frequency	Percent	Cumulative Percent
Gender	Female	24	16.8	16.8
	Male	119	83.2	100.0
Age	20 and below	6	4.2	4.2
	21-29	60	42.0	46.2
	30-39	56	39.2	85.3
	40-49	19	13.3	98.6
	50 and above	2	1.4	100.0
Marital	Married	69	48.3	48.3
	Unmarried	74	51.7	100.0
Education	High school and below	67	46.9	46.9
	Diploma/TVET	68	47.6	94.4
	First degree	8	5.6	100.0
Employees	<6 employees	85	59.4	59.4
	6-30 employees	48	33.6	93.0
	31-50 employees	10	7.0	100.0
No. Of years in operation	<5 years	95	66.4	66.4
	5-10 years	38	26.6	93.0
	>10 years	10	7.0	100.0
Years with firm	<5 years	106	74.1	74.1
	5-10 years	30	21.0	95.1
	>10 years	7	4.9	100.0
No of years as mgr of SME	<5 years	116	81.1	81.1
	5-10 years	21	14.7	95.8
	>10 years	6	4.2	100.0
Status of the sector	Declining	45	31.5	31.5
	Stable	23	16.1	47.6
	Growing	75	52.4	100.0
Firm status	Declining	37	25.9	25.9
	Stable	29	20.3	46.2
	Growing	77	53.8	100.0
	Total	143	100.0	

Source: survey result

Description analysis

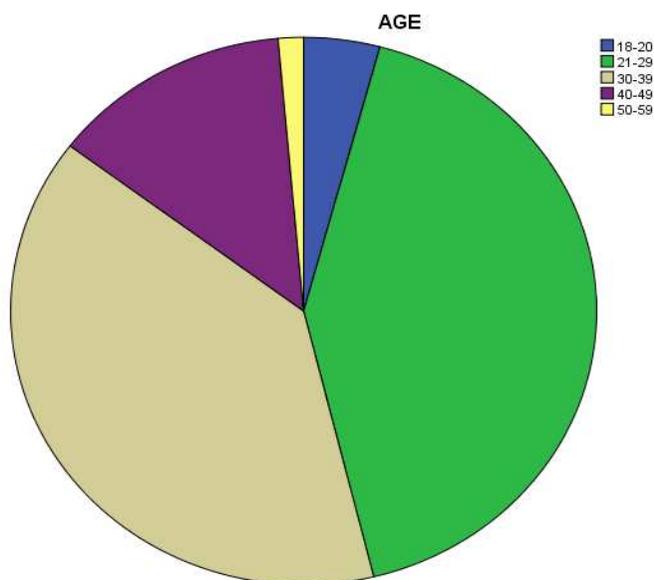
Measures	Mean	Standard Deviation
Growth Performance	2.96	0.64
Financial Performance	2.81	0.67
Overall Performance	3.00	1.27
Total Performance	2.00	0.86

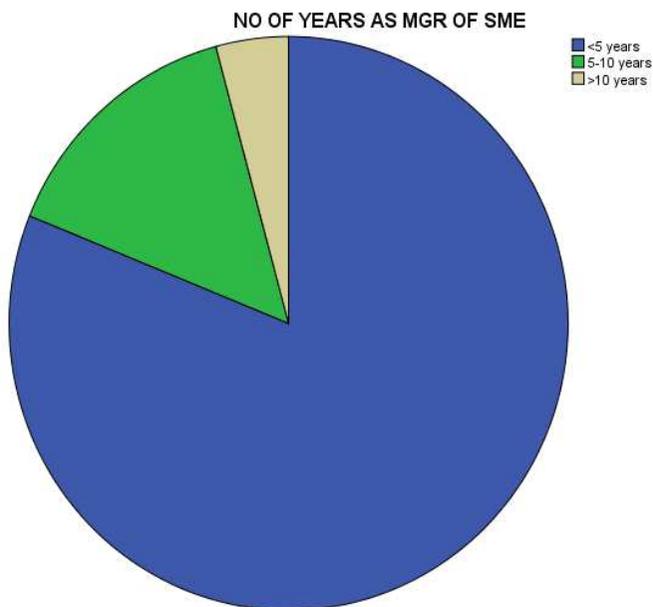
Emphasis on R & D, technological leadership	3.73	1.074
Introduction of new lines of products/services	3.78	1.071
Marketability of new product line	3.72	1.084
Total innovation	3.74	0.975

Frequency distribution of the independent variables

Statistics

	Innovation	Performance
Mean	3.74	2.90





Pie chart showing age and experience of the respondents

Estimation Results

Correlation

Table 3 depicts the correlation analysis between the threedimensions of HC and company performance. It is evidenced that the Pearson correlation between company performance and skill at 0.410 followed by education is significant at 0.086; and experience at -0.101.

Table 3 Correlation analysis between three dimension of HC and Company performance

		1	2	3	4
1. Education	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	143			
2. Experience of the owner manager	Pearson Correlation	.014	1		
	Sig. (2-tailed)	.867			
	N	143	143		
3. Innovation Skill of Manager	Pearson Correlation	.063	-.223**	1	
	Sig. (2-tailed)	.455	.007		
	N	143	143	143	
4. Performance	Pearson Correlation	.086	-.101	.410**	1
	Sig. (2-tailed)	.315	.236	.000	
	N	140	140	140	140

** . Correlation is significant at the 0.01 level (2-tailed). *Source: survey result*

Regression Analysis

A multiple regression analysis was done to investigate the relationships between the human Capital and company performance. The results of multiple regression analysis on the three dimensions of human capital with company performance are shown in Table 4. The R square value is 0.154 which means that 15.4% of variance in company performance of SMEs has been significantly explained by all three HC dimensions. The results in table 4 below show a linear relationship between human capital components and firm performance of leather footwear SMEs ($F=9.42$, $Sig.0.000$). A combination of human capital accounts for 15.4% of the variation in firm performance.

The table further shows that innovation capital significantly and positively affected firm performance (Beta=0.404, Sig.0.000) and education was proved to have an insignificant affect on firm performance (Beta=0.064, Sig.0.415). However experience have a negative and insignificant effect on firm performance (Beta=-0.011, Sig.0.142).

Table 4: Model Summary

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.415 ^a	.172	.154	5.567
a. Predictors: (Constant), Innovation skill, Education, Experience b. Dependent Variable: Performance				

Source: survey result

Table 5: Regression Analysis for HC components and firm performance

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.	Adj.d R ²	F	Sig.
		B	SE	Beta					
1	(constant)	10.092	2.686		3.758	.000	.154	9.422	.000 ^b
	Education	.646	.790	.064	.817	.415			
	Experience	-.133	.936	-.011	-.142	.817			
	Skillinnovation	.833	.165	.404	5.036	.000			
a. Dependent variable: Performance									

Source: survey result

Table 5 depicts the results regarding the strength of individual component on HC against company performance of SMEs. The coefficients show which among the three independent variables influences most the variance in company performance.

Therefore, innovation capital remains the only significant predictor of firm performance with significance level of less than 0.05 while experience and education components of the HC proved to have no effect on firm performance with significance level above 0.05.

Overall, the regression model indicated that relational capital accounts for 15.4% of the observed variance in firm performance. (Adjusted R Square=0.154)

The column Beta under unstandardized Coefficients shows that the highest number in the beta is 0.833 for innovation Skill which is significant at the 0.000. Education was ranked second with beta 0.646 at the significant 0.415 followed by experience with beta -0.133 at the significant 0.817. The two dimensions are the predictors which affect company performance of SMEs. However, the experience dimension has an insignificant negative impact on performance.

A significant level of p value of less than 0.05 was considered significant in this study. All the quantitative analyses for this study were tested using the Statistical Package for the Social Sciences (SPSS) version 20.0.

Conclusion

In conclusion, the results of this study offer support for human capitals push on company performance. Moreover other important implications are that males were more likely to be owners of small scale Footwear sector in the study site. Only 16.8 percent of women were sampled in the study. This finding is consistent with previous reports that show that women tend to shy away from owning manufacturing based enterprises (Bird 1989; ICEG *et al.*, 1999). This finding suggests that despite the increased interest in women

entrepreneurship (Brush 2007), little progress has been made in encouraging women to venture into male dominated sectors like Footwear.

Education was found to be insignificantly associated with the introduction of Company Performance. This finding collaborates the literature that argues that education is not associated with entrepreneurship (Bosma *et al.* 2008). This is particularly relevant in the Ethiopian situation where the education system has been criticized for promoting rote learning at the expense of creativity and independence.

The estimation results indicate that experience is negatively associated with the Company Performance. This finding partially collaborates the findings reported in Salavous and Loiukas (2003). The differences in the direction of association between experience and Company Performance in these studies are not easy to explain. This situation opens up a research agenda for the future in this study.

Consequently, it is safe to conclude that there is relationship between human capital factors and in explaining Company Performance. Further, this study offers support to the claim by Barney (1991) that the way a firm is organized, when combined with firm resources, can enhance the positive relationship between resources and performance. It also supports the empirical evidence offered by Wiklund and Shepherd (2003) that the inter-relationship between human capital and the way a firm is organized is important in attaining higher company performance.

Recommendation for:**Owners**

The study has shown a clear understanding of Human capital components and they influence firm performance. This promotes the efforts of managers to improve their firms' performance which can be done through appropriate management of Human capital components. Thus, management should intensify initiatives to encourage greater understanding and acceptance of human capital components that boosts performance in the Ethiopia leather footwear manufacturing sector.

In light of this, the understanding of firm performance in relation to human capitals should not be regarded as a phenomenon that only adds 'more zeros' in a firm's profits; it is rather transforming the entire workforce as the most 'valuable assets' in order for the organization to pave ways for greater achievements via innovativeness and creativity. Hence, companies should therefore, come up with some effective plans especially in investing the various aspects of human capital as not only does it direct firms to attain greater performance but also it ensures firms to remain competitive for their long term survival. In order to boost the wealth of manufacturing leather footwear firms, management should endeavour to find and employ a viable human capital composition that increases firm performance. Therefore, management should mainly focus on;

Increase on the budget towards funding intellectual activities. This will enable the community to have the company at heart and will always buy from them as a way of pay back.

Since there was a significant and positive relationship between innovation capital and firm performance, more capital should be invested in research and development attract more customers and sale highly in the local market.

Policy makers:

Policy makers interested in enhancing the development of Company Performance in small firms can benefit from this study. Policy makers should consider the role of HC on Company Performance. The study findings suggest that policy makers should focus on developing the HC strategic competencies of small firms if they wish to enhance the development of Company Performance. Thus, building a fertile entrepreneurial environment will accelerate Company Performance in small firms. The findings of this study can also help to qualify policies for the development of small enterprises particularly in Ethiopia.

Academicians

An important theoretical contribution of this study relates to its application of the human capital theory to examine the drivers of Company Performance by firms in a developing economy. Another theoretical significance of this study relates to the ability of this study to link human capital theory and the concept of performance empirically.

Suggested areas for further research

The study concentrated on capital components and firm performance of manufacturing leather footwear firms. A further study needs to be carried out on how to improve human capital in manufacturing companies not necessarily leather footwear firms. An in depth research on exactly on “How

to improve Human capital in manufacturing companies in order to sustain companies in business” is necessary. Further research should be carried out to establish how human capital can be measured over time and how the results from the measurement can improve on managerial decision making for companies.

Limitation of the research

A limitation of this study is that it is a cross sectional study and therefore the causal direction between human capital and company performance can be called into question. While there are conceptual arguments in favor of both human capital in affecting company performance, the other causal direction is also possible. The development of company may enhance the human capital stock. A suitable approach would be to conduct a panel study where data are repeatedly gathered from a cohort of new ventures as this would allow cross-lagged regression analysis, which could help tease out the causal relationship between human capital and Company Performance.

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