

# NEED FOR DEVELOPING HUMAN CAPITAL MANAGEMENT IN SMEs

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## **Abstract:**

This research work is a documentary that exposes the importance of training and human capital development in SMEs, particularly the manager, for the decisions they make and carry the same significance in both the external and internal environment of the company. It mentions the need to investigate the effect of training and human capital development manager in the growth and survival of SMEs.

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**Keywords:** Human capital management, training and development, SMEs

## **Introduction**

For three decades, have been intensifying a series of economic, technological and social where Mexican firms are embedded, the response being competitive for companies that are concerned about adapting to this environment, and also stay current and grow. The term competitiveness is no longer a static concept focused on purely economic aspects. Currently, incorporates various factors like culture, social development, health, environmental sustainability, tourism, education, politics, quality of human resources, their spatial location, among others.

Companies manage to be competitive through its human capital, with large companies who generally recognize it as an important strategic factor that must be present in their planning. Today, small and medium enterprises (SMEs) are realizing the need of having in their template specialized people, with the skills to develop innovative solutions that give them competitive advantages and bring down their low survival rate.

## **Characteristics of SMEs**

Much has been reported in several studies, the problem of lack of competitiveness that afflicts SMEs, as are those that generally have a low survival rate (Esparza, Monroy and Granados, 2012; Lecuona, 2009). In Mexico, 99.8 percent are micro, small and medium enterprises, however, this count is the total economic units in the country and does not identify those with the competitiveness problem, or that seek to attend (Fund SME 2012). But it has been estimated that the total SMEs that open their doors each year, only 17.5% can survive two years later (Pavon, 2010), ie, the rest closed before that time, which shows poor performance or competitiveness.

Under that MSMEs generate 75.1% of employment (ME Performance Report 2007-2011), is highly relevant to support them through some instruments such as SME Fund consisting of economic resources that the federal government grants through the Ministry of Economy (ME). The SPO of the SME Fund 2012 are linked to the Public Policy Hub 2 of the NDP (National Development Plan), "Competitive economy and job generator" as well as the Axis Rector 1 of the SEP (Sectoral Economics Program), "Detonate the development of micro, small and medium enterprises", in particular with the Rector Objective 1.1 "To contribute to job creation by promoting the creation of new companies and the consolidation of existing MSMEs".

Now, in terms of productivity, micro enterprises contribute very little to GDP, however small and medium enterprises account for 4.3% of the total land and generate 29.4% of employment, are highly productive and are the backbone national economic activity being the main providers of large companies. (ME, Performance Report 2007-2011). Atkinson (1984) According to the statement of the

Ministry of Economy (ME) on June 30, 2009. The following table presents (No.1) shows how companies are classified in Mexico.

**Table.1** Classification of companies in Mexico

SECTOR	MICRO ENTERPRISE			SMALL BUSINESS			MEDIUM		
	Staff	Annual sales range (mp)	T.M.C*	Staff	Annual sales range (mp)	TMC *	Staff	Annual sales range (mp)	TMC *
Industry	0-10	Up to \$ 4	4.6	11-50	From \$ 4.01 to \$ 100	95	51-250	From \$ 100.1 to \$ 250	250
Trade	0-10	Up to \$ 4	4.6	11-30	From \$ 4.01 to \$ 100	93	31-100	From \$ 100.1 to \$ 250	235
Service	0-10	Up to \$ 4	4.6	11-50	From \$ 4.01 to \$ 100	95	51-100	From \$ 100.1 to \$ 250	235

**Source:** Official Journal of the Federation 30 June 2009

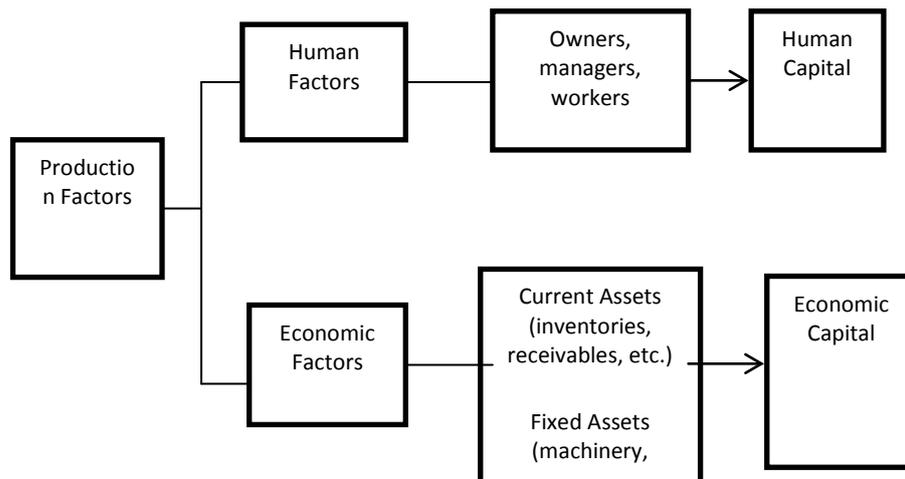
\* TMC (The maximum combined) = Workers) x 10% + (Annual Sales) x 90.  
(Mp) = million pesos

Pavón (2010) in his study said that SMEs in terms of the quality of human capital employed, according to figures from INEGI and ME in 2003, only slightly more than half of them provided training to their employees, most of staff plant, and to a lesser extent to the owners and partners. This is striking considering that SMEs are considered to be more easily adapted to different macroeconomic scenarios, given its structure and functionality (Pavon, 2010), however, given the changes in their environment rapidly in last thirty years, impacting them so that it is no longer possible to direct them under the same old model, prior knowledge and experience, so that managers warn their great responsibility to be alert to changes, opportunities and threats on their companies. Small and medium enterprises (SMEs) should be prepared to face all the economic, technological and social changes taking place today, because their competition surely will be prepared. Atkinson (1984) believes that companies have warned that human capital is a key to its development. In this era of knowledge and information, SMEs are realizing the need to have on staff, skilled people with the skills to develop innovative solutions that give them competitive advantages and bring down their low rate survival.

#### **Human capital in SMEs**

The company defined as an economic entity pursuing certain objectives (in the case of a lucrative company would be the generation of profits) through the production of goods and / or services and the marketing thereof. Being required elements known as factors of production for such activities (Figure # 1)

**Figure # 1** Factors of production



**Source:** Own elaboration based on Martin, et.al, 2004

Of these elements, we have considered the human factor as a key to achieving the objectives of the company such as indicated by Romero and Muñoz (2006), cited by Teran, et. al (2008), companies need people with specialized skills to develop innovative solutions that give competitive advantages to organizations in which they work and to help them improve their productivity and redesign of business processes by taking advantage of opportunities that provide process technologies, products and information.

They are the people (human capital) who should know better use of management (efficient) the financial resources available to the company to achieve its goals. It is clear that every person within the organizational structure has different scope or power of decision, but each from his trench must be competitive. A competitive person is one who is known for being innovative, creative, proactive, motivated, highly skilled, flexible, available, have complex thinking among other features.

Put in another way, the factor or human capital is the key to competitiveness in companies, but in SMEs, particularly small, a weakness is to consider that only the owner is the one who can perform efficient resource management and has failed to surround himself with people who are talented in the areas that make up the business and support, companies that depend on one man at some point fail. Another aspect that has been neglected, is, less has been concerned is, realizes that he just cannot do all the work, because it would fail. The owner requires its staff to learn and know the company, put aside the fear that takes away power and authority, on the contrary, the entrepreneur manager who is a good leader, intelligent, always look to surround himself with the best, since he knows that by the quality of its people depend on the growth of the company (Lechuga, 2004)

In modern times, this is essential because as indicated Dessler (2001) "Trends such as globalization and technological innovations are changing the way companies manage," says that the traditional pyramid structure is flattening, today more powers are delegated employees to make more decisions, more work is organized around teams and processes, changing power bases and now managers must establish more commitments. Dessler (2001) adds that these changes mean that organizations must rely more heavily on a committed staff and self-discipline.

Sáez, et.al. (2003) note that changes in work organization require all employees to acquire new skills, referring to management personnel including: oral and written communication, teamwork, interpersonal sensitivity, leadership, management planning, reasoning analytical, problem-solving ability, decision making, creativity, entrepreneurship, dynamism, energy and initiative and stress management.

The question that entrepreneurs make is where to get that human capital, as it is not as economic capital that is available in any market or business. Or, how you can change and help the current human capital that the company has to be competitive.

Training and development of human capital

Human capital theory is developed in the mid-twentieth century, where Mirce, Schultz and Becker are outstanding exponents of the same theory, which believes that the talent of the people,

expressed by their knowledge and skills, rather than being something innate, is acquired and develops through learning and experience, providing formal and informal education (school, work, home). But this capital is perishable, meaning it's lost because of the obsolescence of knowledge and skills, from oblivion by the lack of practice, or the deterioration of the health of the person.

Padilla and Juarez (2006) suggest that human capital consists primarily of knowledge and skills acquired through formal and informal education in the education system and in the home and also through the training, experience and mobility of the labor force. Thus, educational institutions and businesses are pillars of training and human capital development, namely academic life and working life should be linked to equip people with knowledge, skills and experience which will cope with the changing circumstances of the work environment in which they are pursued. One of the ways it is conducting this linkage is through internships, where students being in real scenarios, to gain experience, to perform tasks of their profession, to complement their academic preparation, acquire specific skills and get his security upon graduation, that they will have an excellent performance of his duties as a professional for the benefit of society (Hernandez, et.al., 2010).

In business, human capital lies on its staff, is the acquired knowledge, the skills they have, the ability and willingness to learn, placed at the service of the company where they work. An example of this is the personal satisfaction, skills and attitudes of individuals, leadership skills and teamwork (Navas and Ortiz, 2002).

Madrigal (2009) notes that the human capital of the company is a source of development and therefore one of the factors that generate competitiveness. It is then that a competitive business is one that incorporates or train competitive people and continues to improvement. Everyone has skills, but not all apply those capabilities. In training and human capital development must always go together these two main elements, learning and experience. Sometimes companies taught numerous staff courses, provides a wealth of information and thinking that will form and develop human capital, but learning is not applied is useless, not useful, forgets and causes the discouraged worker trained go or simply refuses to receive it because it does not see the benefit of it. Just as there are many empirical people, they do things, but always in the same way, and when it comes to innovation and changes, are the most resistant because they do not care to learn that there are different ways to perform activities and perhaps with less effort. So then learning is complemented by the experience and vice versa.

"Knowledge, if it not applies, only provides the intellectual satisfaction of those who practice them, while willing to do without knowledge and without know-how, have important limitations, since knowledge is the substrate helps improve and advance to overcome difficulties. Knowledge facilitates decision-making and expertise helps solve." (Saez, Garcia, Palao and Rojo, 2003).

#### Problem statement

Small businesses of the industrial sector is 11 to 50 people, with about 80% of the workforce operational and the rest in management, according to the Ministry of Economy, basically for a small business management positions to its main functional areas would be the manager or owner, production management, sales management, administration and finance management and quality control management.

Usually in small businesses, management positions are assigned to the owner family, just for the fact of being part of the family given the distinction of being the head of the company (Ceron, Pimentel and Barranco, 2007) and not only to have a strong background or experience, which leads to companies that have been in management positions to persons lacking knowledge and experience to be good leaders, only wield power and authority. Or, there are cases where owners are worried about leaving the reins of the business to the children who have professional education, but lacking experience and love for the business makes to not get involved. There are also cases where very young owners joined their children in the business and gained experience, falling on them more and more responsibility to the extent that the work completely absorbed and do not have time to prepare academically. This evidence then that in small businesses can be found without knowledge leaders and inexperienced leaders, with experience and knowledge but without knowledge and leadership experience. But ideally is to have leaders with knowledge and experience.

SMEs in the country faces the problem of lack of effective management and cutting edge derived from the lack of development of their managers that retain traditional knowledge and obsolete, which entails that these companies cannot face the complex world competition in which they are immersed.

No matter the size of the company, it is important that their managers to appropriate administrative and management knowledge to inform their decisions which impact not only within the company as productivity, profitability, but also outside the create jobs, to worry about the environment, and the development of the country.

As for SMEs, studies concerning the lack of competitiveness show that although care has been taken to support them with funding, technology, with tax, it will not be enough to produce the changes they demand the current environment if they neglect their human capital (managers and workers), since from them depend the value creation of the company.

The development of human capital in small businesses has been limited to operating personnel to provide training and job training (Lopez and Luna, 2009), is aimed at learning is how to perform and how to improve production, but neglected the manager because no having programs that meet their requirements, and properly is the person who tries to stay current (Gonzalez, et al, 2012) may be due to misconceptions that managers in the position they occupy within the organization know everything and can do everything. One reality is that managers should also be trained and developed to understand and thereby directing the subordinate. Lopez (2005) comment that it is difficult to find talented people, not because of the lack of knowledge, but the problem lies with the leaders of the companies that keep highlighting the abilities and efforts of its staff just to maintain control. Human capital development aims to expand, develop and improve the individual for their professional growth in his career in the company, or to promote efficiency and productivity in office (Sáez, et.al., 2003). Thus the development of human capital raises long-term goals preparing the individual to take responsibility and more complex actions of the hand which requires the current environment.

This raises several questions as to know what percentage of small firms have training programs and development of its human capital management, and what effect it has had on the company's training and development of human capital management.

Goal

Identify small businesses with training and development of human capital management.

Justification

Although SMEs in Mexico are generating 75.1% of formal employment in the country, fail to provide a permanent job, much less guarantee growth in personal and professional development of employees, due to the short life span as they have, due to their lack of competitiveness.

Speaking of competitiveness is a complex problem, different theories analyze this phenomenon and give explanations about its cause and propose solutions on how organizations can create competitive advantages that allow them to adapt to circumstances and environmental turbulence and stay longer times.

Among these contributions is the human capital approach, based on the wealth that every organization has in both operational and management staff, operatives are those who strive to get quality products or services and managers in making decisions channeled towards achieving objectives. This wealth deposited in operational staff and management of the company, cannot be stored but must be developed and be effective in achieving the objectives of the company.

Small businesses have been characterized by neglect this aspect of training and development of human capital mainly to managers, as operational staff are taking training courses, but do so rather to satisfy legal requirements or labor (Gonzalez et . al., 2012), rather than to be convinced of the benefits in the investment in human capital.

Therefore, it is appropriate to conduct studies that show how is composed the human capital management in small business, their training, their experience, their functions, their responsibility, their seniority, the power they wield, the index rotation at this level, and so on., because this will show needs that require training and the impact that will generate growth and continuity of the company.

There are no detailed studies analyzing human capital management and its effect on the survival of SMEs, their productivity, profitability, and competitiveness. When making studies of human capital management and correlation with growth, survival, etc., conclusions can be drawn to guide the economic, financial and educational links with SMEs.

## **Conclusion**

SMEs in Mexico are concerned about the issue of the formation and development of its human capital, but mainly with operating personnel to meet brand aspects that federal labor law, but human capital management is neglected, unlike large companies that spend a significant investment in it.

This work shows the importance for companies and their directors and realizes the little research that has been done regarding the effect of prepared managers in the growth and survival of SMEs.

To the extent that there are more companies that address the need to train and develop their human capital, and provide information about it will be in ability to generate quantitative data including reports of non-financial nature, by identifying the benefits generated training and development human capital to the organization where he works.

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