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Research Paper Management

The Effects of Human Capital, Social Capital and Financial Capital on the Performance of SMEs

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ABSTRACT

The aim of this study is to determine the effect of human, social and financial capitals on the performance of small and medium-sized enterprises (SMEs). SMEs are very important for Turkey since they comprise 98.9% of all the companies and 76.7% of the total employment in Turkey (Cansız, 2008). Accordingly, it is important to investigate the factors affecting the performance of the SMEs. In this study, financial and non-financial scales have been used to measure the performance of SMEs. Three different performance measures have been taken into account: sales growth, profitability growth and increase in employment. The empirical part of the study is based on the survey conducted on SMEs in Antalya, Turkey. Data which were collected by means of a questionnaire in the field have been analyzed by using SPSS-21 Statistical Program through descriptive statistics, reliability, factor, Pearson correlation and regression analysis. Consequently, it has been determined that there is significant relationship between the human, social and financial capitals and the performance of SMEs.

KEYWORDS : Human Capital, Social Capital, Financial Capital, SMEs

Introduction

The small and medium-sized enterprises (SMEs) play an important role for employment and welfare in Turkish Economy. SMEs are essential sources for employment, entrepreneurial spirit and innovation. Therefore, they are very important for fostering competitiveness (Temtime and Pansiri, 2004). Turkish economy is characterized by high growth rate, 8.9 % (1.8 in EU in 2010), high inflation rate, 6.4% (Consumer Price Index) (2.6 in EU in 2010) and high unemployment rate, 10.7% (9.7% in EU in 2010) according to EU-27 (TUIK, 2008). SMEs employ 76.7 % of the working population and the share of the SMEs in production is 38 % in Turkey (Cansız, 2008). SMEs are categorized in Turkey as indicated in Table 1.

However, despite the noted contribution of SMEs, many SMEs in Turkey have a high failure rate. According to TUIK (2008), it is estimated that the failure rate of SMEs (in the first 5 years) in Turkey is 60 %. Many of SMEs cannot reach their full potential and fail to grow, resulting in lost jobs and wealth for their region where they are based. According to these results, it is very important to determine the factors that are required to enable the SMEs to survive. SMEs have many problems and some of them can be described as environmental, financial and managerial.

The success or failure of the SMEs is largely influenced by the skills and abilities of the owners. The lack of education and training is the most important cause of failure for new SMEs. In the entrepreneurial process, there are three basic categories of capital that contribute to a successful venture. These are human capital, financial capital and social capital.

Table 1. Definition of SMEs in Turkey (Regulations, 2005)

Total Full-Time Employee (less than)	Total Annual Turnover (less than)
Medium 250	25,000,000.00
Small 50	5,000,000.00
Micro 10	1,000,000.00

There are many empirical research relating to the impact of social capital, human capital and financial capital on firm performance in literature. Park and Luo (2001) and Anderson et al. (2002) found a significant positive relationship between social capital and firm performance. Van Praag and Cramer (2001), Bosma et al. (2004) found a positive relationship between human capital and firm performance. Other empirical studies e.g. Shiu (2006), Appuhami (2007) and Chan (2009) found insignificant relationship between human capital and firm performance.

SMEs need external finance to decrease the effect of cash flow problems. In addition, SMEs need external finance to begin and expand their operations, develop new products, invest in new staff or production facilities. The availability of finance for investment is very important to the sustainability and viability of SMEs. Clarke et al. (2010) show that access to financial capital positively affects the firm performance (Fatoki, 2011).

Based on this empirical evidence, the main aim of this research is to investigate the impact of social capital, human capital and financial capital on the performance of SMEs in Turkey.

Theoretical framework

SMEs should seek to optimize and develop their human capital, social capital and financial capital to achieve their business goals, increase performance and live long-term, and sustainability. To achieve this, SMEs need to invest resources to ensure that employees have the knowledge, skills, and competencies they need to work effectively in a complex and rapidly changing environment.

Today organizational, intellectual, environmental and many other capitals are added to the natural, physical and financial capitals. For many writers, social capital is defined in terms of networks, norms and trust, and the way these allow agents and institutions to be more effective in achieving common objectives. The most common measures of social capital look at participation in various forms of civic engagement such as membership of voluntary associations, clubs, non-governmental organizations or at levels of expressed trust in other people. The economistic interpretations give greater importance to the institutions and rules governing economic activities at both micro and macro levels. Social capital has been dispersed to explain a wide range of social phenomena, including general economic performance, levels of crime and disorder, immigrant employment and health trends. In spite of some ambiguity, social capital is generally understood as a matter of relationships, as a property of groups rather than the property of individuals (Schuller, 2001).

Capitals can be summarized simply as follows. Human capital focuses on the economic behavior of individuals, especially on the way their accumulation of knowledge and skills enables them to increase their productivity and their earnings-and in so doing, to increase the productivity and wealth of the societies they live in. The underlying implication of a human capital perspective is that investment in knowledge and skills brings economic returns, individually and therefore collectively (Schuller, 2001).

Bosma et al. (2002) argued that the performance is determined by firm founder's talent, the circumstances, good luck and firm's human, social, and financial capital (Bosma, Praag, Thurik and Wit, 2002). We measure the impact of human, social and financial capital on the performance of SMEs operating in Antalya, Turkey.

Small and medium-sized enterprises (SMEs)

SMEs play a particularly important role in the Turkish economy, because of their number and large share of the workforce involved (OECD, 2004). According to the definition of the Small and Medium Industry Development Organization's (KOSGEB) Incentive Decree No: 2429 (Jan 18, 2001), an SME that employs 1-9 employees is categorized as a micro, 10-49 employees as a small, and 50-250 employees as a medium-sized enterprise (Mert, 2007).

According to the most recent estimates, the SME sector, including services, counted in 2013 for 99.8 % of the total number of enterprises, 78 % of total employment, 50 % of capital investment, 55 % of value added, roughly 60.1 % of exports and 24 % of bank credit (Ergun, 2012). Therefore, while SMEs dominate the economy in terms of employment and firms, they operate with comparatively less capital equipment, generate relatively low levels of added value, make only a small contribution to Turkish exports and receive only a marginal share of the funds mobilized by the banking sector (OECD, 2004).

According to SIS data, on 1 January 2001 there were around 210,000 SMEs (1-250 workers) in manufacturing sector (99.6 %). Just over 1 million persons (64.3 %) are employed by these SMEs and they accounted for 34.5 % of the manufacturing sector's value added. Manufacturing sector SMEs are broken down across industries as follows: Metallic goods (26.1 %), textiles, clothing and leather goods (25.6 %), wood and furniture (24.3 %), food and drink (12.7 %), paper (3.9 %), other sectors (7.4 %). The average number of people employed by SMEs in manufacturing sector is 4.8, but for the 95 % of SMEs with employment of between one and nine, the average is 3.1 (OECD, 2004).

In geographical terms, the distribution of SMEs reflects that of the population as a whole. They are concentrated in the coastal regions along the Marmara (38 %) and Aegean Seas (17 %), and in Central Anatolia (16 %). The Mediterranean coastal region (11 %), the Black Sea region (9 %), south-eastern Anatolia (6 %) and eastern Anatolia have far less organized formal economic activity (OECD, 2004).

On human capital, Bourdieu (1986) considers capital in its social, cultural, economic and symbolic forms. Cultural capital includes matters such as culture, language and academic qualifications. Economic capital is directly convertible into money and may also take the form of property rights. Another form of resources is social capital, which refers to personal networks and relationships. Finally, symbolic capital refers to reflected power that gives individuals the ability to deploy other types of capital (Ariss and Syed, 2011).

Human capital

Human capital includes education, relevant employment experience and skill. It also includes family background, and the direct presence of the owner(s)/partners in the business. Bhartesh and Bandyopadhyay (2005) and Edvinsson and Malone (1997) defines human capital as the knowledge, skills, and abilities of employees.

On the Theory of Action Bourdieu refines his relational philosophy and the philosophy of action, using his concepts of distinction, different forms of capital, habitus, and the field. The book is organized into six different chapters. In the first Bourdieu defines the social and symbolic space, which maps out social and economic groups, situating them in their respective social positions and space of lifestyles in the context of their economic and cultural capital, as well as the volume of their capital endowments. In the second chapter, 'The New Capital' provides a critical perspective into school education and its contribution to the redefinition and restructuring of social and cultural capital. Critiquing the homologous tradition of human capital theorists such as Becker (1993), Bourdieu (1986) identifies several forms of capital, such as economic, social, and cultural capital, that individuals draw on and deploy to pursue their life choices (Ozbilgin and Tatli, 2005).

Today, human capability is defined as capital; capable persons carry with them, in their knowledge and expertise, important aspects of the means of production. Firms' capacity to compete is placed in founder's capability, education, and experience. Intellectual capital includes inventions, ideas, general knowledge, design approaches, computer programs and publications. Stewart (1997) defines intellectual capital as packaged useful knowledge. Sullivan (2000) defines it as knowledge that can be converted into profit. Roos et al. (1997) describe intellectual capital as the sum of knowledge of its members and practical translation of this knowledge into brands, trademarks and processes. Edvinsson and Malone (1997) define it as the ownership of knowledge, experience, organizational technology, customer relations and professional skills that provide a company with a competitive advantage in the market. The Saint-Onge, H. (1996) model developed in the early 1990s, classifies intellectual capital (IC) into three parts: Human capital, structural capital and customer capital (Ahangar, 2011).

Entrepreneurship literature has identified human capital as the most important factor that determines the growth or success of the small firms. Human capital makes the founder more efficient in managing and operating the business. Human capital acts as a resource and it is created by changes in persons that bring about skills and capabilities that enable them to act in new ways (Sriyani, 2010).

Human capital is identified as the largest and the most important intangible asset in an organization. At last, it provides the goods or services that customers require or the solutions to their problems. It includes the collective knowledge, competency, experience, skills and capability of people within an organization. It also includes an organization's creative capacity and its ability to be innovative (Ahangar, 2011).

Human capital refers to the knowledge, skills, competencies and attributes embodied in individuals, which facilitate the creation of personal, social and economic favor. It includes motivation, moral behavior and attitudes, knowledge and skill that is tacit and inter-personal in nature, such as the knowledge and information shared at work between colleagues (Cote, 2001).

Abeysekera and Guthrie define human capital as a combination of factors owned by individuals and the collective workforce of a firm. It can cover knowledge, skills and technical ability; personal features such as intelligence, energy, attitude, reliability, commitment; ability to learn, including capability, imagination and creativity; desire to share information, participate in a team and focus on the goals of the organization (Ax and Marton, 2008).

Schultz (1993) defines human capital as a key element in improving a firm assets and employees to increase productivity as well as sustain competitive advantage. To carry on competitiveness in an organization human capital becomes an instrument used to increase productivity. Human capital refers to processes that relate to training, education and other professional initiatives 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 (Marimuthu, et al., 2009).

Table 2. Human capital measures (Stiles and Kulvisaechana, 2003)

Human Capital Activities	Possible Measurements
Recruitment	Time, cost, quantity, quality, meeting strategic criteria.
Retention/turnover	Reasons why employees leave.
Employee attitude/engagement	Attitude, engagement and commitment surveys.
Compensation	Wage level and differentials, equity assessment, customer satisfaction, employee satisfaction, diversity.
Competencies/training	Measuring competency levels, skills inventory, tracking competencies and training investments.
Workforce profiles	Age, diversity, promotion rate, participation in knowledge management activities.
Productivity measures	Revenue per employee, operating cost per employee, real added value per employee.

The literature has shown two or three types of human capital: general human capital, industry-specific human capital, and entrepreneurial human capital. Bruederl et al. (1992) separated between general human capital as years of schooling and years of work experience; and specific human capital as industry specific experience, self-employment experience, leadership experience, and self-employed father. According to Cooper et al. (1997), general human capital relates to factors expected to increase the individual's productivity for a wide range of job alternatives where as specific human capital factors are related to the factors which applicable to a specific domain (Sriyani, 2010). Isaksen, E.J., (2006) has combined in his study the attributes that have been discussed by previous researchers under the label of general human capital and specific human capital. Accordingly he listed (i) age of the entrepreneur, (ii) years of work experience, (iii) management experience, (iv) supervisory experience, and (v) level of education/years of education under the label of general human capital. Specific human capital includes (i) business start-up experience, (ii) business ownership experience, (iii) parental business ownership, (iv) industry specific experience, and (v) business similarity (Sriyani, 2010). Ganotakis (2010) divided human capital into general human capital and specific human capital. General human capital for the case of the entrepreneur is usually measured by the educational qualifications and by the total number of years of working experience. Specific human capital includes specific business education, specific skills, industry related experience and managerial experience (Fatoki, 2011).

Previous studies consistently state that human capital plays a role in the profitability and growth of small business (Coleman, 2007; Bosma et al., 2004; Bates, 1990). Human capital is not only the result of formal education, but also includes experience and practical learning that takes place on the job, as well as non-formal education, such as specific training courses that are not a part of traditional formal educational structures (Davidsson and Honig, 2003). SMEs rely heavily on this resource and human capital value over other types of capital because it has a direct impact on SME productivity. Compared to large firms, the size of SMEs can be advantageous in terms of human capital because it allows for more interactions, promotes a friendly atmosphere, and encourages creativity and cooperation among employees (Daou, Karuranga and Su, 2013).

Social capital

After the introduction of social capital by Loury (1977), there has been a growing interest evidenced by the increasing number of empirical studies (Coleman, 2007; Anderson and Miller, 2003; Davidsson and Honig; 2003; Florin, Lubatkin, and Schulze 2003; Glaeser, Laibson, and Sacerdote, 2002; Unger, Rauch, Frese and Rosenbusch, 2011) focusing on the idea of social capital over the last decades.

Although social capital was originally described as a relational resource of personal links which individuals use for development, a wide conceptualization has emerged that presents social capital assets of resources placed in relationships (Anderson and Miller, 2003).

Like human capital, social capital is also an intangible resource asset, being embodied only in the structure of relations between actors and among actors, and has no existence independent of this framework. Social capital originates through the changes in relations among persons that facilitate action, and thus like human capital, is vital in the resource-getting strategies required for new enterprise creation and success (Anderson and Miller, 2003).

While human capital is embodied in individuals, social capital is embodied in relationships. Social capital is increasingly seen as a useful concept tool for understanding the role of relations and networks in social and economic development. Although social capital notions are not new, the popularization and growing mainstreaming of this concept have called attention to the importance of social and civic traditions and to the ways in which public policy can supplement and strengthen these traditions (Cote, 2001).

There are some facts in which social capital does not share the same characteristics of economic types of capital. First, even though it might depreciate with non-use, it does not depreciate with use, unlike physical capital. In fact, as human capital, it normally grows and develops with use. Second, social capital is a common good in that it is not the private feature of those who benefit from it. Third, it is located not in individual actors but in their inter-relationships, so that no one has exclusive rights to it (Leitch et al., 2013).

Social capital is often operationalized through the identification of networks and network relationships, sometimes defined by the strength of links, recurrent group activity such as the frequency of meetings and other formal interactions, as well as informal meeting and other social activities, and social and family relationships (Davidsson and Honig, 2003).

Social capital has become a recent focus of interest in the effects of capital on entrepreneurship. Essentially two types of social capital networks are discussed: The family network and the network formed by friends and/or other contacts. Chrisman, Chua, and Steier (2002) suggested that understanding the effects of family on new enterprise creation could possibly be more important than any other cultural factor. Davidsson and Honig (2002) found a strong correlation to exist between being an entrepreneur and having parents who were also in business for themselves. Within the same study, it was also found that having encouraging, close friends or neighbors in business for them also had a positive effect on an individual participating in the entrepreneurial process. Social capital theoretically includes much more family relationships, business contacts, etc. Within the theoretical constructs of social capital, both community attachment and reciprocity are included (Marshall and Oliver, 2005).

The importance of social capital is increasingly accepted in the SME literature (Anderson et al., 2007; De Carolis et al., 2009; Lee and Jones, 2008; Liao and Welsch, 2005; Neergaard et al., 2005; Ramos-Rodríguez et al., 2010; Totterman and Sten, 2005).

There is satisfactory evidence that social capital plays a significant role in a networked society, where reliability, trust, standardization and efficient inter-actor operations are the keys to success and competitive performance. Socio-economic interaction in networks and confidence and trust among network actors are closely related facts (Nijkamp, Stough and Sahin, 2009).

Moreover, social capital is often defined in terms of trust, information flows, and norms between individuals, both inside and outside a business. Also, social capital has been categorized into structural, relational, and cognitive dimensions. Social capital factors that have been

found or proposed to affect new enterprise performance (positively and negatively) include interaction with local and foreign business networks (Nijkamp, Stough and Sahin, 2009).

SMEs develop their social capital more easily than do large firms and they use the available knowledge from relationships more readily to achieve high performance. In addition, Wong and Aspinwall (2004) added that SMEs' closeness to their customers enables them to get knowledge through a more direct and faster way than in large organizations. There is also a large literature about factors affecting performance of new enterprises. Cooper (1993) suggested a model that includes social capital and human capital of the entrepreneurial environmental conditions, installing processes and initial firm characteristics, and in which entrepreneurial characteristics and environmental conditions influence installing processes and initial firm characteristics. All these factors are seen to affect business performance (Nijkamp, Stough and Sahin, 2009).

Sanders and Nee (1996) define human capital as possession of skills, work experience, knowledge, and other useful characteristics e.g., motivational incentives, leadership style and locus of control (Nijkamp, Stough and Sahin, 2009).

According to Putnam (2001), the central idea of social capital is that networks and the corporated norms of reciprocity have value. They have value for the people who are in them, and they have, at least in some instances, demonstrable externalities, so that there are both public and private faces of social capital (Putnam, 2001).

Financial capital

Since human capital is measured in terms of knowledge, skills, and behavior that prove valuable to a particular firm, Harding (2002) suggests that human capital has a direct effect on the ability of the entrepreneur to secure financial capital for the new enterprise. Financial capital for a firm starts-up most often comes from debt capital, equity capital, business angels, or formal venture capitalists (Marshall and Oliver, 2005).

Financial capital provides a buffer against unexpected difficulties which may arise from environmental changes, poor management etc. (Castrogiovanni, 1996; Cooper et al., 1994). Financial capital also provides organizational financial slack, facilitating necessary changes in response to changing conditions and increasing the willingness of the firm to innovate and change (Castrogiovanni, 1996; Zahra, 1991)

According to Van Praag (2003), financial capital includes debt and equity. This is known as capital structure. Sogorb Mira (2002) indicates that the most relevant capital structure theories that explain the capital structure of SMEs are those related to static trade off, adverse selection and moral hazard (agency theory) and the pecking order theory. Andree and Kallberg (2008) state that the creation of modern capital structure theory lies in the work of Modigliani and Miller (1958) in their famous suggestion I-often referred to as the 'irrelevance theorem'. The theorem suggests that, under certain perfect market assumptions, such as absence of taxes, bankruptcy costs, agency costs and asymmetric information, the value of the firm is unaffected by how the firm is financed. This means that the choice of capital structure does not affect a firm's market value. It is the assets of a firm that determine the value of the firm and not the way by which these assets are financed. The initial perfect market assumptions were later reviewed in 1963 with the introduction of the tax benefits of debt. This is referred to the fact that a perfect market does not exist in the real world. Since interest on debt is tax-deductible, thereby creating tax savings for the borrower, it becomes possible for firms to minimize their costs of capital and maximize shareholders' wealth by using debt. This is known as the leverage effect of debt (Modigliani and Miller 1963).

Performance

Performance can be defined as the results of activities of an organization or investment over a given period. Lumpkin and Dess (1996) indicate that it is essential to recognize the multidimensional nature of the performance construct. Thus, research that only considers a single dimension or a narrow range of the performance construct (for example, multiple indicators of profitability) may result in misleading descriptive and normative theory building. Research should include multiple performance measures. Such measures could include traditional accounting measures such as sales growth, market share, and profitability. In addition, measures such as overall satisfaction and non-financial goals of the owners are also very important in evaluating performance, especially among private firms. This is consistent with the view of Zahra (1993) that both financial and non-financial measures should be used to estimate organizational performance.

Performance has primarily been measured with relying on two general approaches. These approaches involved the use of objective or subjective measures of performance. The objective approach uses the absolute values of quantitative performance measures such as profitability, cash flow and market share. The subjective approach uses nominative measures of performance on criteria like profitability and market share relative to that of their competitors (Zehir, Altindag and Acar, 2011).

The measurement of organizational performance is associated with traditional, financial and economic measures such as, return on investment, profit, growth (Smith et al. 1987) and return of sales (Chong 2008). Covin and Slevin (1989), Chong (2008) suggest that organizational performance can be better able to reach efficient objectives and goals than economic results. The successful performance of SMEs depend on good economic performance, and the way the entrepreneurs and employees work together and perform their activities and objectives in a joint and coordinated basis.

Previous research on growth of Small Scale Enterprises (SSEs) used several measures like number of employees, sales turnover, capital investment, expansion of product line, product diversification, market diversification etc. in defining the growth. Nicher and Goldmark (2005) define the growth of SMEs as an increase in the number of employees over time (Sriyani, 2010).

Financial performance measures are percentage of sales resulting from new products, profitability, utilized capital and return on assets. Besides, return on investment, earnings per share and net income after tax can also be used as measures of financial performance.

Becker distinguishes firm-specific human capitals from general-purpose human capital. Examples of firm-specific human capital cover expertise obtained through education and training in management information systems, accounting procedures, or other expertise specific to a particular firm. General-purpose human capital is knowledge gained through education and training in areas of value to a variety of firms such as common skills in human resource development (Marimuthu, Arokiasamy and Ismail, 2009).

According to Richard et al. (2008), the goal approach diverts the owners-managers to focus their attentions on the financial and non-financial measures. Financial measures contain profits, revenues, return on investment, return on sales and return on equity, sales growth, and profitability growth. Non-financial measures contain overall performance of the firm belonging to competitors, employment of additional employees, customer and employee satisfaction, customer loyalty, brand awareness and owner's satisfaction with way the business is progressing. The combinations of these two measures help the owners-managers to gain a wider perspective on measuring and comparing their performance (Fatoki, 2011).

Corporate performance measures used in this analysis are profitability, employee productivity, and growth in sales (Ahangar, 2011).

Empirical review

The objective of this study is to gain a greater insight into the relative impact of factors with regards to human, social, and financial capital on performance of SMEs.

Human capital and performance

There is a large and growing body of evidence that shows a positive link between the development of human capital and organizational performance (Stiles and Kulvisaechana, 2003).

The general trend indicates a small positive relationship between human capital and business survival. Bruderl et al. (1992) explain that there is a general believe of entrepreneurs with human capital donation will be more likely to own surviving firms. Even economists suggest that firm performance and personal success are determined to an important rate by human variability rather than pure exogenous factors such as product differentiation, barriers to entry, or economies of scale (Sriyani, 2010).

In response to the changes, most firms have embraced the notion of human capital has a good competitive advantage that will improve performance. Human capital development becomes a part of an overall effort to achieve cost-effective and firm performance. Therefore, firms need to understand human capital that would increase employee satisfaction and improve performance (Marimuthu, Arokiasamy and Ismail, 2009).

Human capital investment is an activity which improves the quality (productivity) of the employees. 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 (Marimuthu, Arokiasamy and Ismail, 2009).

Leitao and Franco (2008) state that empirical research has obtained a range of results regarding the relationship between human capital and performance, but those results are not consensual. Shiu (2006), Appuhami (2007) and Chan (2009) find unimportant relationship between human capital and firm performance. In view of the evidence provided in the review of empirical literature, hypothesis of this research is that the human capital is positively related with the performance of SMEs.

Social capital and performance

Okten and Osili (2004) study the impact of social capital on the growth of SMEs. The results suggest that social capital has an effect on the growth of an SME, especially through contacts with other entrepreneurs.

Social capital helps SMEs to make contact for resources in external environment successfully and enter into new markets. Ngoc et al. (2009) agree that networks also help a firm learn appropriate behavior and therefore obtain necessary support from key stakeholders and the environment. Hayer and Ibeh (2006) find that social capital helps SMEs to internationalize. Kiggundu (2002) and Barr (2002) discuss that networks contribute to business success and permanence.

Roxas (2008) notes that on the empirical level, the links between social capital and other variables such as economic development, organizational performance, and particularly innovation performance are not clear. Acquaah (2008) agrees that the effect of social capital on business activities and performance is complex and evidence exists to suggest that social capital does not always benefit the outcomes of business activities by improving performance. Rowley et al. (2000) and Atieno (2009) find that not all measures of social capital increase firm business performance. Based on the empirical evidence, this study hypothesizes that social capital is positively related with the performance of SMEs.

Financial capital and performance

Wiklund and Shephered (2004), Zhou and Chen (2008) identify that SMEs need financial capital to obtain physical resources in order to take advantage of business opportunities. Deficiency of physical resources is a critical failure factor for SMEs. Bolingtoft et al. (2003) explain that to establish and maintain an SME, the entrepreneur needs to have different types of resources such as human capital, physical capital and financial capital; each playing different, but equally important roles during the life cycle of a new SME. Garcial-Teruel and Martinez-Solano (2007) indicate that unavailability of working capital is a major constraint for the survival and growth of new SMEs.

According to Pretorius and Shaw (2004), financial capital can be internal or external. A wide range of SMEs depend on internal finance. Internal finance is often insufficient for SMEs to survive and grow. Carpenter and Petersen (2002) find that the dependence on internal finance constrains the growth of SMEs. The strong competition due to globalization, rapid technological development, shorter product cycles, and innovation requirements has put pressure on SMEs to increase and accelerate their development investments. However, it is increasingly difficult to keep the costs within the constraints of self-financing. Therefore, SMEs need capital from external sources. Consequently, it is hypothesized that there is a positive relationship between financial capital and the performance of SMEs.

Research methodology

The purpose of this research is to develop a model showing the relationship between human capital, social capital, financial capital and firm performance. As argued in the earlier discussions, human capital, social capital and financial capital increase performance. Based on the literature reviews, they lead to greater performance in SMEs. Performance can be viewed in two different perspectives; financial performance and non-financial performance. Financial performance includes sales growth and profitability, whereas, non-financial performance includes number of employees. The details are given in Figure1.

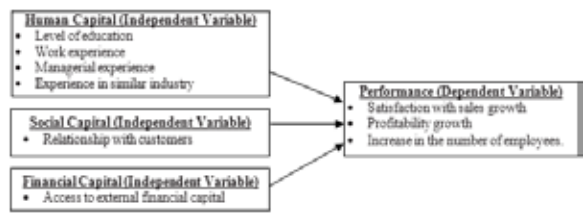

Figure 1. Conceptual model linking human capital, social capital, financial capital and performance

In this research; human capital, social capital and financial capital are independent variables, and performance is dependent variable. In this way, the relationships between dependent and independent variables have been searched and examined. With regard to this research, some hypotheses have been developed and their accuracy was tested. Mainly, correlation and multiple linear regression analyses were used.

H_1: Human capital has a positive effect on performance of SMEs.
H_2: Social capital has a positive effect on performance of SMEs.
H_3: Financial capital has a positive effect on performance of SMEs.

Sample and data collection

The empirical approach consists of data collection with the use of questionnaires in a survey. This paper focused on SMEs in three sectors: Manufacturing (53.6 %), trade (33.8 %) and service (12.6 %). The population of SMEs was provided by Antalya Chamber of Commerce and Industry. The number of employees was used to determine firms that are SMEs. The population of SMEs registered KOSGEB data base was 10,293. Creative Research Systems (CRS) Sample Size Calculator was used to determine the sample size. CRS takes into consideration the confidence level, the confidence interval, and the population in arriving at the sample size required. The minimum sample size using CRS was 370. However, 400 questionnaires were distributed because of the limitations associated with questionnaire such as unresponse and 302 were returned. The response rate was 75.5%. The question items were developed after a review of literature related on human and social capital and performance such as Fatoki (2011).

The sample includes 302 small and medium size manufacturing, trade and service enterprises located in Antalya, Turkey. Data collected from questionnaires were entered into the computer and analyzed with SPSS 21. First, missing data were identified by making missing value analyses and missing values were completed by using mean of nearby point's method with replace missing values.

Each variable is linked to various numbers of questions, whereby the respondents answered on a 5-point Likert scale: Strongly disagree, disagree, neither agree nor disagree, agree, strongly agree. Based on their answers, the respondents score points varying between 1 and 5.

Analyses and results

Data was analyzed by using the SPSS.21 statistical analysis software program. Statistical analysis included descriptive statistics, reliability, factor, correlation and regression analysis. The Cronbach's alpha was used as a test of reliability. The number of responders was greater than 30. Therefore, Kolmogorov-Smirnov test was used to measure the normality of the data. According to the 5 % significance level, the values of significance were greater than 0.05. As a result, we could say that data were normally distributed.

Table 3. Test of normality

Concepts	Kolmogorov-Smirnov Values	Sig.
Human Capital	0.142	0.110
Social Capital	0.108	0.190
Financial Capital	0.102	0.200
Performance	0.154	0.140

First the 'Descriptive Statistics' test was applied to obtain descriptive information about SMEs. The values obtained from the test are given in Table 4.

Table 4. Some descriptive and statistical information about SMEs

Subjects	Frequencies (%)				
Age	21-30	31-40	41-50	51-60	Above 60
	71 (23.5)	178 (58.9)	51 (16.9)	2 (0.7)	0
Gender	Male	Female			
	242 (80.1)	60 (19.9)			
Sector	Manufacturing	Trade	Service		
	162 (53.6)	102 (33.8)	38 (12.6)		
Legal Status	Ltd. Co.	Inc. Co.	Others		
	198 (65.6)	73 (24.2)	31 (10.3)		
Year of Operation	1-3	4-7	8-11	12-15	Above 15
	23 (7.6)	105 (34.8)	103 (34.1)	53 (17.5)	18 (6.0)
Level of Education	Primary School	Secondary School	High School	Short Cycle	First Cycle
	2 (0.7)	9 (3)	121 (40.1)	107 (35.4)	63 (20.9)
# of Employees	1-10	11-50	51-100	Above 100	
	162 (53.6)	112 (37.1)	22 (7.3)	6 (2.1)	

The reliability coefficients for variables are given in Table 5.

Table 5. Cronbach's alpha values

Concepts	# of Items	A	Sig.	F
Human Capital	8	0.752	0.000	199.010
Social Capital	9	0.620	0.000	79.695
Financial Capital	3	0.625	0.000	63.610
Performance	6	0.779	0.000	54.060

Alpha coefficients were accepted because they were higher than 0.50, as defined by Bagozzi and Yi (1988), and 0.70 as defined by Nunnally (1978), respectively.

Kaiser-Meyer-Olkin (KMO) value is 0.639 and Sig. is 0.000. This KMO value is greater than 0.50. Therefore, data set is suitable for factor analysis. The cumulative percent in rotation sums of squared loadings is 71.765. According to this result, the four factors resulted in factor analysis explained 71.765% of the total variance. All communalities values are greater than 0.50.

Table 6. Rotated component matrix

Factors	Q	1	2	3	4	α
Human Capital	HC2	0.801				.752
	HC3	0.796				
	HC1	0.740				
	HC4	0.580				
Social Capital	SC6		0.858			.620
	SC7		0.781			
	SC8		0.591			
Financial Capital	FC1			0.772		.625
	PF5			0.760		
	FC3			0.626		
Performance	PF3				0.815	.779
	PF2				0.805	
	PF6				0.740	
	PF1				0.721	

Human capital was measured by using some factors such as education, working experience, related experience and managerial experience. Social capital was measured by using the some elements like social interaction, relationship with customers. Financial capital was also measured by using reach to external debt capital and equity. In addition, performance was measured with financial and non-financial methods. Financial measures focused on satisfaction with growth of sales and profitability. Non-financial measures focused on increase in number of employees and satisfaction with overall business performance.

The Pearson correlation was used to examine the relationship between the whole measures of human, social and financial capital and performance of SMEs. The results, $r = 0.162$ and $\rho < 0.01$ for human capital, $r = 0.093$ and $\rho < 0.05$ for social capital, and $r = 0.272$ and $\rho < 0.01$ for financial capital indicate that all these variables significant correlate with the performance of SMEs (Table 7).

Table 7. Pearson correlation results for human capital, social capital, financial capital and performance of SMEs

Variables		HC	SC	FC	PF
HC	Human Capital	1.000	.434** .000	.180** .002	.162** .005
SC	Social Capital	.434** .000	1.000	.133* .021	.093* .016
FC	Financial Capital	.180** .002	.133* .021	1.000	.272** .000
PF	Performance	.162** .005	.093* .016	.272** .000	1.000
Pearson Correlation and Significance ** Correlation is significant at the 0.01 level (2-tailed) * Correlation is significant at the 0.05 level (2-tailed)					

Regression analysis was used to determine the direction and strength of the relationship between human, social and financial capital and performance of SMEs. The results indicate that human capital (parameter estimate 0.226, ρ value less than 0.01), social capital (parameter estimate 0.092, $\rho < 0.05$) and financial capital (parameter estimate 0.465, $\rho < 0.01$) have strong positive relationships with the performance of SMEs (Table 8).

Table 8. Extract of regression results for human capital, social capital, financial capital and performance of SMEs

Model B		Unstandardized Coefficients		Standardized Coefficients		Sig. (ρ)
		Std. Error	Beta	t		
	Constant	6.807	2.098		3.244	.001
HC	Human Capital	.226	.052	.218	4.354	.000
SC	Social Capital	.192	.048	.196	2.923	.025
FC	Financial Capital	.465	.074	.283	6.275	.000
$R^2 = .419$ F = 53.506 Dependent Variable "Performance"						

Hypotheses proposed in the model were tested by using multiple linear regression analysis. As a result of findings, the equation considered as a mathematical model is given numerically below:

PF = 6.807 + .465 * FC + .226 * HC + .192*SC

The results of multiple linear regression analyses belonging to performance, human capital, social capital and financial capital were shown schematically in a collective manner in Figure 2 below. The relationships accepted were shown by arrows with thick lines.

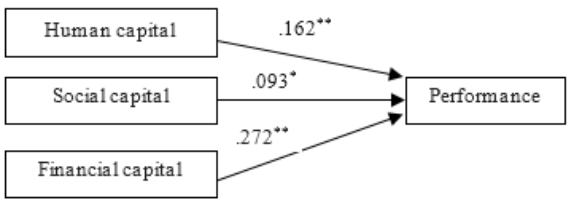

Figure 2. Conceptual model linking human capital, social capital, financial capital and performance

Discussion

Table 4 demonstrates the descriptive and statistical information of the respondents. Most of the respondents are in the 31-40 age groups (58.9 %). Males dominate (80.1 %) and most of the respondents are in manufacturing sector (53.6 %). Ltd. Co. (65.6 %) is the most common form of business and all businesses are small-medium sized enterprises.

Within the literature review it was determined that three sources of capital called human capital, social capital and financial capital, have a positive effect on SMEs in their performance. Within this analysis, the mentioned factors were explored to determine their effects on performance in SMEs.

The results regarding the hypotheses are shown in Table 9. Totally 3 hypotheses are ranked in this Table. With regard to the results; Beta coefficients (β), Significance (ρ) and Accepted/Rejected (A/R) status are also given in Table 9. According to these results; 3 hypotheses was accepted at significance level of 0.01 and 0.05 level.

Table 9. The results belonging to hypotheses

Number	Hypothesis	(β)	Sig. (ρ)	A/R
HC	Human capital has a positive effect on performance of SMEs.	.226	.000	A
SC	Social capital has a positive effect on performance of SMEs.	.192	.025	A
FC	Financial capital has a positive effect on performance of SMEs.	.465	.000	A

The empirical findings of this research show that there are positive relationships between social capital, human capital and financial capital and the performance of SMEs. This is consistent with the theories of human capital by Schultz (1961) and Becker (1964) that investment in human capital leads to an increase in human performance. In addition, the resource dependency theory of social capital developed by Pfeffer and Salanick (1978) demonstrates that successful performance of firms depends on their external networks. Modigliani and Miller (1963) and Myers (1984) suggest that firms should use debt before external equity. Carpenter and Peterson (2002) indicate that the growth of SMEs is constrained by dependence on internal finance. This suggests that utilization of external debt finance can improve firm performance.

Okafor (2012) suggests that performance of small firms in Nigeria is essentially driven by all three factors called human capital, financial capital and social capital.

Segal, Borgia and Schoenfeld (2009) examined the effect of founders' human capital on the performance of their small firms. Their study demonstrates that the human capital of entrepreneurs affects significantly the performance of their firms.

This study explored the literature on human capital, social capital, financial capital and their effect on performance in SMEs. The conceptualization of human capital, social capital and financial capital is related to performance. The literature reviews show that there is reasonably strong evidence to show that human capital, social capital and financial capital in SMEs promotes greater performance. Studies also clearly demonstrate that performance is positively affected with human capital, social capital and financial capital.

Implications

Successful performance of SMEs depends on their social capital. Therefore, to improve social capital, SME owners should always ensure that they maintain strong relations with customers, suppliers, commercial banks and government agencies. SME owners need to take responsibility to improve their relations. Entrepreneurs need to attend seminars and trade fairs and also join trade associations. Government agencies such as Small and Medium Enterprises Development Organization (KOSGEB) can organize training for new SMEs. Awareness should be created for training programs with advertisements in local and national media.

Investment in human capital leads to an increase in performance of SMEs. For this reason, to improve human capital, there is a necessity for personal development by SME owners in the area of business and financial management skills through training. SME owners need to create a positive attitude towards entrepreneurship and training. Entrepreneurial education should be introduced and strengthened by educational institutions. When scholars are oriented into entrepreneurship from an early age, it becomes easier to develop successful enterprise. Today, entrepreneurship is predominantly been introduced to scholars in management, business and economic related courses and not to scholars in all the faculties in the universities in Turkey. The government should expand its efforts to ensure that a high level of financial literacy is universal to entrepreneurs. Furthermore, learning from peers or mentorship approach can be instituted by government agencies to help new SMEs. New SMEs should look at using non-executives at an early stage to bring external expertise and guide investment decisions.

To improve attainment to financial capital, SMEs need to get investment ready by providing collateral or contact with government agencies that can provide guarantees. Commercial banks can create awareness of their funding requirements especially the importance of collateral with advertisements and communication with trade associations. KOSGEB has addressed business plan preparation for new SMEs. Moreover, it is important to provide awareness to new SMEs that such facilities exist. Government agencies such as KOSGEB can subsidize the cost of computers to new SMEs and also offer training on how to use the internet. Awareness needs to be created with advertisements in national and international media. Subsidies should also be provided by government to help the owners of SMEs to obtain the professional advice they require to make them business ready.

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