

Human capital and export performance of small and medium enterprises in Pakistan

Human capital and export performance of SMEs

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Abstract

Purpose – This study examines the influence of human capital, overall and by dimensions, on the export performance of small and medium enterprises (SMEs) in the manufacturing sector of Pakistan. The study also investigates the role of absorptive capacity in the relationship between human capital dimensions and export performance.

Design/methodology/approach – Data from 586 manufacturing sector SMEs were collected for analysis. The study applied covariance-based structural equation modeling (SEM) to estimate the hypothesized relationships.

Findings – As a whole, human capital was found to exert a direct and indirect impact on export performance, particularly for the medium-sized firms and for firms with medium to high levels of export intensities. Nevertheless, not all dimensions of human capital mattered for export performance. Education and training were found to pose the greatest influence on export performance of those firms.

Research limitations/implications – The results suggest that when devising appropriate policies for SMEs, the impact of different dimensions of human capital need to be considered for addressing challenges related to the internationalization of firms. In short, developing the right human capital is essential for SMEs to compete at the international level.

Originality/value – Unlike previous studies, this study decomposed the influence of different dimensions of human capital on export performance and assessed the mediating role of absorptive capacity. The study is also among the pioneering studies in SMEs sector of Pakistan to analyze the role of absorptive capacity in the relationship between various dimensions of human capital and export performance.

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Paper type Research paper

1. Introduction

Human capital, defined as the productive knowledge, skills and abilities of employees, has been identified as a key driver of firm performance. Numerous studies (Hitt *et al.*, 2001; Acs *et al.*, 2007; Baptista *et al.*, 2014; Bhattacharya *et al.*, 2014) acknowledge human capital as a source of competitive advantage. Nevertheless, most of the studies considered human capital as a single construct, taking into consideration only specific dimensions of human capital. Different elements of human capital may indeed be relatively more important for different aspects of firm performance. Carpenter (2001) further affirmed that the bundling of human capital with organizational contexts is important. Yet, the literature on human capital and firm performance is mostly focused on large organizations. There are limited studies based on rigorous empirical analyses of the links between human capital and the performance of small and medium enterprises (SMEs) (Antlova, 2009; Dessler, 2001).

The research emphasis on firm performance is important as a majority of SMEs struggle to achieve both growth and survival (Okpara and Okpara, 2011). More than 50%

