

An Approach to Human Capital Management in Mauritian SMEs

A Suggested Model to Sustain Creativity and Innovation

Nirmal Kumar BETCHOO

Dean: Dept. Management and Business
Université des Mascareignes, Udm
Pamplemousses, Mauritius
nbetchoo@udm.ac.mu

Abstract—To address the current challenge of small and medium enterprises in Mauritius (SME) regarding creativity and innovation, following a research forum organised by the Mauritius Research Council in October 2017, the relevance of human capital management (HCM) needs to be seriously addressed. This concept might partly respond to SME challenges given that their survival rate following their initial years of operation is weak. In this context, the concept of HCM is underestimated, with the assumption in mind that finance and low returns on investment are key impediments to their growth. Based on a think-tank review, HCM through knowledge management, change management, strategic human resource management, human resource development and HR metrics might be suitable approaches for the sustainability of SMEs in a challenging scenario of change and uncertainty in their business environment.

Keywords—SMEs, Human Capital Development, knowledge management, change management, Human Resource Development, Strategic HRM, HR Metrics

I. INTRODUCTION

The main argument for developing this research paper follows a think-tank that the Mauritius Research Council (MRC) organised on 12th October 2017 with the theme 'Overcoming barriers to Innovation in SMEs' where sub-themes were developed [1]. One among them was the relevance of education, skills and human capital development among Mauritian SMEs to address the innovation issue. In line with the workshop, a presentation was made by two researchers from Empretec, a not-for-profit organisation, that presented its findings from an unsolicited research grant scheme. Based on the presentation made, the researcher decided to contribute his insight into the theme [2].

The human capital management concept was an interesting one to consider taken from the fact that SMEs are small-sized businesses that might not really invest in human capital and remain more concentrated on the financial motive. Based on the prowess of

managers who invest financially and physically in the development of such enterprises, little is said of human capital development to address the medium and long-term growth of such organisations.

II. PROBLEM STATEMENT

Seen from the data presented in the MRC workshop, there was a clear statement that human capital management (HCM) could be a propeller of growth in Mauritian SMEs. This is due to the fact that such organisations base their very existence on production and productivity-related factors with some emphasis on quality. The argument is that innovation is a must in today's changing business scenario and the fact that such organisations open up to international business make it a necessity to consider HCM as a vital tool for survival. Then what could be HCM key elements? Are they merely training and development with short-term goals? Do they just mean training for managers of SMEs only?

In fact, the question of HCM might itself be a long-repeated rhetoric in the Republic of Mauritius given that during its first phase of industrialisation (1983-1990), stakeholders like government, private sector and related authorities claimed that there was an urgency of training the workforce to achieve international production quality standards. The setting up of the Industrial and Vocational Training Board (IVTB) in 1988 addressed the general issue of skill-based training. Notwithstanding such efforts, development in the industrial sector continued to be impinged by shortage of both general and specific skills [3].

In the contemporary context, the definition of HCM is vital as it could be a potential solution to the current problem of SMEs that might be stagnating in creativity and innovation. This comes from a proper understanding and definition of HCM in the present challenging context.

III. LITERATURE REVIEW

Human Capital Management (HCM) gained international recognition when Nobel Prize Winner Schultz (1961) developed the concept of human capital for the first time in the early 1960s, with the idea that it includes abilities, knowledge, skills and qualifications possessed by individuals [4]. According

to Fisher's theory (1896) effective application of human capital benefited all levels of society: individuals, firms, communities, nations, and regions [5]. Mincer (1962) related the relevance of on-the-job training investments to certain patterns of income and employment behaviour. [6] Since that time, human capital theory created over the years a fairly consistent theoretical model containing a complete set of tools and concepts applicable to human capital. This led to strong and convincing results and provided considerable illuminating influence both for micro and macro-economic concepts [7].

Considering capital solely as linked with the money incentive was a wrongful concept because there were difficulties in accepting how to put monetary values on a company's human resource [8]. Prahalad and Hamel (1990) rather analysed the competitiveness of organisations and attributed them to the possession of core competencies [9]. They hypothesised that organisations can possess unique competence factors that allow them to be competitive with human capital being one of these. Eminent scholars like Brookings (1996), Lev (2001), Roos et al. (1997) committed their arguments regarding success to the valuable intangible assets. They defined intellectual as the interaction of three elements: human, social and organisational capital [10,11,12].

In the new millennium, human capital again received more recognition as a way of looking at the human resource function from an economic point of view [13]. In today's knowledge society era human capital is further emphasised. The realisation that people with their knowledge, experience, education, personality and behaviour constitute the only resource that generates and retains organisational value leading to the human capital concept in business disciplines [14].

IV. EVOLVING THOUGHTS OF HUMAN CAPITAL MANAGEMENT OVER TIME

Snell and Dean (1992) viewed employees' knowledge, skills and capabilities were of economic value to organisations [15]. Edvinsson and Malone (1997) considered HCM as a primary component of the intellectual capital construct while Sveiby (1997) referred to HCM as a capacity to act in different situations to create both tangible and intangible assets [16,17]. From an accounting perspective, Bontis (1999) considered HCM as the individual stock of knowledge embedded in the firm's collective capability to extract the best solutions from its individual employees [18].

Regarding competences, skills and knowledge, several scholars considered these as the core elements of HCM. For instance, Mayo (2000) posited HCM as a capability, knowledge, skill, experience, and networking, with the ability to achieve results and the potential for growth [19]. The OECD (2001) attributed HCM to the knowledge, skills, competences and other attributes embodied in individuals that facilitate the creation of personal, social and economic well-being [20].

Recent contributions to HCM favour the competence and competitive advantage of the concept to the organisation. Gates and Langevin (2010) related human capital to the knowledge, competencies, experience, and creativity of the workforce as well as their attitudes and motivation [21]. By structuring the management and sharing of this knowledge, the business thereby develops key competencies that are difficult to imitate, and thereby gain a sustainable competitive advantage. Other contributors like Santos-Rodrigues et al. (2010) considered HCM as the value of the knowledge and talent embodied in the people who make up the organisation. It represented the knowledge, talent, competence, attitude, intellectual agility and creativity [22].

V. BRIEFING ON MAURITIAN SMES

A briefing on Mauritian SMEs can better make the reader understand the current scenario in Mauritius. According to Empretec findings, there are 27,000 SMEs operating in the island-nation. 56% of such organisations have between 1-5 employees. More than half of the number of SMEs have an annual turnover of less than Rs 2 million (€500 000). Around 46% of the SMEs are relatively young organisations which have between 3 to 5 years of existence [23].

Since the workshop focused on the need for innovation and creativity of SMEs in Mauritius, there were additional findings that illustrated their growth challenge.

Table 1 below outlines the challenges and obstacles of Mauritian SMEs.

TABLE I. GROWTH CHALLENGES AND OBSTACLES FOR MAURITIAN SMES

GROWTH CHALLENGES	
Cash flow	54%
Operating Costs	46%
Qualified personnel	39%
OBSTACLES	
Talented labour	36%
Lack of funding	54%
Competition	32%

Seen from the above table, although finance remains at the core of the challenges and obstacles of Mauritian SMEs, there are questions arising from the fact that there are only 39% of qualified employees working in such a sector while talented labour is just 36% [24]. A quick estimate reveals that nearly 1 out of every 4 employees in SMEs is either skilled or talented. A majority does not fulfil the basic requirements that needs to address the sustainability of SMEs in the coming future.

VI. RESEARCH QUESTIONS

From the secondary research findings, research questions needed to be asked regarding Human Capital Management of Mauritian SMEs.

1. Is there a need to develop HCM among Mauritian SMEs?
2. If Yes, what are the suggested areas for developing HCM in Mauritian SMEs?

VII. BRAINSTORMING FINDINGS

A first hand evaluation came from the brainstorming session held at the seat of the MRC on the 12th October 2017. The researcher, at this level, just sums up a few ideas developed during the session while claiming that these do not necessarily form part of the actual research analysis made by him. Some of the quick responses are revealed below.

The Need for Innovation and Creativity

Creativity and innovation were recommended from the focus group in the brainstorming session. To expect Mauritian SMEs to make the move forward, employees should unleash their workers' creativity by allowing them develop such talent wherever appropriate. There should be a governmental effort to develop creativity and innovation in various SME sectors.

The Relevance of Training

Training is an essential component in developing creativity and innovation. Such training should be specially geared to the needs of the SMEs. This depends on the type of training to be provided. Ideally, demonstrations, role play and trainer's experience could be helpful in developing employee competences.

The Role of Universities and Training Institutions

Universities and training institutions were called upon to devise programmes that could be of high relevance to SMEs. It was clearly advocated that developing singular courses in Innovation and Creation like in MBA courses were not enough. Universities should come ahead with programmes that are dedicated to the development of competences in a concrete way regarding SMEs.

The Importance of Empowerment

The relevance of empowerment was not underestimated by the members of the session. Very often, learning and training tended to be directed with institutions taking the responsibility to develop training programmes. Employees' voices should be heard while they could input their ideas in the training that they wanted. By encouraging employees to become more critical about themselves, there might be higher opportunities for learning.

Quality Assessment of training

In line with learning opportunities, the importance of quality was stressed in the brainstorming session. At the current level of

economic development of Mauritius, quality was a must as it would be a yardstick for effective implementation of high quality programmes that would prompt the development of creativity and innovation in the most appropriate way.

VIII. CRITICISM OF BRAINSTORMING FINDINGS

Without being adversely critical of the brainstorming findings, certain reservation could be made.

Firstly, the brainstorming session was undertaken in parallel with other sub-groups having different areas to criticise. By definition, a brainstorming session upholds ideas but never presents them in the form of a recommendation. In so far, the findings were general and more based on research findings presented at the Conference.

Secondly, since the sessions had a mentor and an assessor, it was imperative to think of any previous research or preliminary literature review done on human capital development before clearly stating what should be discussed in essence.

Nevertheless, the findings brought food for the thought with regards to the development of effective HCM among Mauritian SMEs.

IX. A SUGGESTED MODEL TO EFFECTIVE HUMAN CAPITAL DEVELOPMENT IN MAURITIAN SMEs

In a seminal work developed by Afiouni (2013), the author advocated certain interesting aspects that HCM might cover and these could be applied to the Mauritian case [25].

Firstly, knowledge management strategies leverage the cognitive component of HC and allow both tacit and explicit knowledge to be created and shared among employees. This leads to an increase in employees' knowledge, skills and ability to perform the current required tasks, which leads to the development of critical knowledge, skills and attitudes [26].

Secondly, change management initiatives leverage the behavioural component of HC and can improve employees' motivation and willingness to deploy their KSAs to achieve stated objectives [27].

Next, strategic human resource management (SHRM) ensures the fit component of HC and can ensure that employees' KSAs and behaviours are aligned with the company's strategic objectives [28].

Fourthly, human resource development ensures the flexibility component of HC and can ensure continuous learning and employee adaptability to different business strategies [29].

Lastly, HR metrics ensure the measurement component of HC and ensure that proper control mechanisms are in place to monitor HC's contribution to value creation [30].

When the five dimensions of the HCM framework are properly applied, HCM might be considered as a source of a sustainable competitive advantage. An

application of selected practices is proposed in the next section.

X. A SUGGESTED APPROACH TO EFFECTIVE HUMAN CAPITAL MANAGEMENT IN MAURITIAN SMES

From the model chosen, there needed to be an adaptation to the Mauritian context based on the research findings of Empretec.

KNOWLEDGE MANAGEMENT

Firstly, given that less than 25% of SME employees at the operational level are untrained, it becomes imperative to develop knowledge management in the local companies. The knowledge management perspective developed by Nonaka et al (2001) speaks on the development of tacit and implicit knowledge at work. The development of knowledge ensures that employees are trained and have the potential of better learning and understanding work practices [31]. New knowledge earned through training in the appropriate areas like production, quality, creation and innovation are likely to boost the human capital of SMEs. There is an urgency to continuously think about, develop and instil knowledge management principles at work.

CHANGE MANAGEMENT

Change Management developed by Lewin (1947) could be another important concern for SMEs in Mauritius [32]. Change is a process that requires the need to unlearn past and obsolete practices and learn new practices. In a changing environment where technology has a dominant role in business, change remains a challenge. Managers will have to understand the need to review work practices and methods. Employees might need to learn about new technology and smarter production. The change in mind-set is also important with adaptable and flexible timetables at work. Very often, it was seen in Mauritius that SMEs were risk averse and the same might apply to change. Effort should be guided in the change process.

STRATEGIC HUMAN RESOURCE MANAGEMENT

Strategic Human Resource Management (SHRM) ensures that organisations need to consider HRM practice at the core of their operations. It focuses on longer-term resourcing issues within the context of an organisation's goals and the evolving nature of work, and informs other HR strategies, such as reward or performance, determining how they are integrated into the overall business strategy [33]. Small companies might not need HR managers but the practice of strategic HRM depends upon strategic leadership from managers. While SMEs grow and have a larger number of employees, it becomes evident that better recruitment, placement, transfer, deployment and upgrading of human resources contribute to better HCD and encourage such businesses to become

better prepared in human skills and competences. This practice cannot be overlooked in the present situation.

HUMAN RESOURCE DEVELOPMENT

The practice of human resource development entails the development of knowledge, skills and abilities that employees need to develop at work [34]. SMEs should incorporate this element which, in turn, exploits issues like organisational development and employee development. Possibly, in the case of Mauritian SMEs, the need to focus on employees through effective and appropriate training and learning strategies should not be under-emphasised. Believing that one-off induction training is enough to set SMEs on the track is a pathetic argument. A well-planned approach to HRD will be most desired for local SMEs.

HR METRICS

Human Resources (HR) metrics are different measurements that are used to show the value that the human resources function provides to the organisation. These measurements demonstrate how effective the efforts of the human resources department are to the overall success of the organisation. HR metrics: measure the effectiveness of the human resources function, assess the efficiency of the human resources department as well as the effectiveness of the employees within the organisation [35]. Some of the more common effectiveness metrics that could apply to Mauritian SMEs might include: Turnover rate—which measures how often employees leave the company and need to be replaced, Absentee rate—which measures how many unscheduled absences are taken by employees and Employee morale—which measures the level of satisfaction that employees have with their jobs and with the company.

XI. CONCLUSION

The national workshop on Creativity and innovation in Mauritian SMEs offered food for the thought regarding the need to properly address human capital development issues. The brainstorming session paved the way for initial thoughts on how HCM might address the need for such category of businesses. However, a proper study of HCM in its true perspective supported by scholarly work and references made it clear how the problem was better focused on human resource issues that emphasised knowledge management, change, strategic HRM, human resource development and the identification of HR metrics as applicable to local SMEs. In this context, a concerted HCM approach based on sound principles better addresses the current problems of Mauritian SMEs. It is hoped that further discussion on this area with a structured philosophy of HCM partly addresses the immediate problems but, evidently, a combination of other practices like financial accountability, regulatory framework for SMEs, entrepreneurship, thematic

innovations and disruptions, as key success factors pre-identified at the MRC workshop and deeply discussed will help.

ACKNOWLEDGMENT

The author would like to acknowledge the Mauritius Research Council (MRC) to having offered him an invitation to the highly stimulating conference on Creativity and Innovation of SMEs in Mauritius. He would also thank the team of some 20 members who formed part of the brainstorming session where various insightful ideas were discussed and that prompted him to give his critical thought on the issue.

REFERENCES

- [1] Mauritius Research Council (2017) national Workshop on Creativity and Innovation for SMEs, 12th October 2017, Ebène heights, Mauritius.
- [2] G. Mungur and I. Boodheea (2017) Unsolicited Research and Innovation Grant Scheme (URIGS) on SMEs Challenges to Creativity and Innovation, Empretec Mauritius.
- [3] UN Org (2002) Developing competitive industrial strategy for Mauritius Island, un.org/esa/agenda21/natinfo/country/mauritius/industry.pdf, Retrieved on 27th October 2017.
- [4] T. Schultz (1961) 'Investment in human capital', *The American Economic Review*, Vol. 11, No. 1, pp.1–17.
- [5] I. Fisher (1896) *What is Capital?* *Economic Journal*, Vol. 6, No. 24 (Dec., 1896), pp. 509-534 Published by: Wiley on behalf of the Royal Economic Society, DOI: 10.2307/2957184, URL: <http://www.jstor.org/stable/2957184>, Accessed on 15th October 2017.
- [6] J. Mincer (1962) 'On-the-job training: costs, returns, and some implications', *The Journal of Political Economy*, Vol. 70, No. 5, pp.50–79.
- [7] I. Nerdrum and T. Erikson, (2001) 'Intellectual capital: a human capital perspective', *Journal of Intellectual Capital*, Vol. 2, No. 2, pp.127–135.
- [8] R. Bechtel (2007) 'Calculating human capital: the market-based valuation of the human resource', *Zeitschrift fur Personalforschung*, Vol. 21, No. 3, pp.206–231.
- [9] C. Prahalad. and G. Hamel (1990) 'The core competence of the corporation', *Harvard Business Review*, Vol. 68, No. 3, pp.79–91.
- [10] A. Brooking (1996) *Intellectual Capital*, International Thomson Business Press, London.
- [11] B. Lev (2001) *Intangibles: Management, Measurement, and Reporting*, Brookings Institution Press Washington, DC.
- [12] J. Roos, G. Roos, N. Dragonetti, and L. Edvinsson (1997) *Intellectual Capital: Navigating the New Business Landscape*, Macmillan Press, London.
- [13] C. Scholz (2007) 'Editorial: human capital management—A long and winding road', *Zeitschrift fur Personalforschung*, Vol. 21, No. 3, pp.203–205.
- [14] D. Lepak and S. Snell (1999) 'The human resource architecture: toward a theory of human capital allocation and development', *The Academy of Management Review*, Vol. 24, No. 1, pp.31–48.
- [15] S. Snell and J. Dean (1992) 'Integrated manufacturing and human resources management: a human capital perspective', *Academy of Management Journal*, Vol. 35, No. 3, pp.467–504.
- [16] L. Edvinsson and M. Malone (1997) *Intellectual Capital*, Harvard Business School Press, Cambridge, MA.
- [17] K. Sveiby (1997) *The New Organizational Wealth: Managing and Measuring Knowledge-Based Assets*, Berrett-Kohler, San Francisco, CA.
- [18] N. Bontis (1999) 'Managing organizational knowledge by diagnosing intellectual capital: framing and advancing the state of the field', *International Journal of Technology Management*, Vol. 18, Nos. 5–8, pp.433–62.
- [19] A. Mayo (2000) 'The role of employee development in the growth of intellectual capital', *Personnel Review*, Vol. 29, No. 4, pp.521–533.
- [20] Organization for Economic Cooperation and Development (2001) *The Well-being of Nations: The Role of Human and Social Capital*, Organization for Economic Cooperation, Center for Educational Research and Innovation, Paris, France.
- [21] S. Gates and P. Langevin (2010) 'Human capital measures, strategy, and performance: HR managers' perceptions', *Accounting, Auditing and Accountability Journal*, Vol. 23, No. 1, pp.111–132.
- [22] H. Santos-Rodrigues, P. Dorrego and C. Jardon (2010) 'The influence of human capital on the innovativeness of firms', *International Business and Economics Research Journal*, Vol. 9, No. 9, pp.53–63.
- [23,24] Ibid 2.
- [25] F. Afiouni (2013) *Human capital management: A new name for HRM*, *International Journal of*

Learning and Human Capital, Vol 10. No.1, DOI: 10.1504/IJLIC.2013.052081

[26] T. Ng and D. Feldman (2010) 'Human capital and objective indicators of career success: the mediating effects of cognitive ability and conscientiousness', *Journal of Occupational and Organizational Psychology*, Vol. 83, No. 1, pp.207–235.

[27] R. Isaac, I. Herremans and J. Kline (2009) 'Intellectual capital management: pathways to wealth creation', *Journal of Intellectual Capital*, Vol. 10, No. 1, p.99, pp.81–92.

[28] A. Baronand M. Armstrong (2007) *Human Capital Management*, Kogan Page Limited, London and Philadelphia.

[29] J. Gilly and A. Maycunich (2000) *Organizational Learning, Performance, and Change: An introduction to Strategic Human Resource Development*, Perseus Books, Cambridge, MA.

[30] P. Kearns (2005) *Human Capital Management*, Reed Business Information, Sutton, Surrey.

[31] I. Nonaka, R. Toyama & P. Byosière (2001). A theory of organizational knowledge creation: Understanding the dynamic process of creating knowledge.

[32] K. Lewin (1947) *Change management, Human Relations*, Vol 1. No 1. page(s): 1-2, Issue published: June 1, 1947
<https://doi.org/10.1177/001872674700100102>

[33] CIPD (2017) *Definition of Strategic Human Resource Management*, Chartered Institute of Personnel and Development.

[34] S. Heathfield (2016) What is human resource development? <https://www.thebalance.com/what-is-human-resource-development-hrd-1918142>, Retrieved on 27th October 2017.

[35] A.Gifford (2016) What are HR metrics? <http://study.com/academy/lesson/what-are-hr-metrics-definition-types.html>, Retrieved on 27th October 2017.