

## **Determinants of Small and Medium Scale Enterprises (SMEs) Performance in Nigeria: Does Employee Experience and Skills Matter?**

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**Abstract:** *This paper investigated the determinants of small and medium scale enterprises (SMEs) so as to see if employee experience and skills matter for Nigerian SMEs. The cross-sectional research design was adopted and questionnaire was the major instrument of data collection administered to three hundred and fifty-three (353) respondents from three (3) states of south-south geopolitical zone of Nigeria namely Edo, Akwa-Ibom and Bayelsa. The data obtained were analyzed by means of both descriptive and inferential statistical techniques. Findings revealed that employee experience and skills matter for the performance of small and medium scale enterprises in Nigeria. Given the fact that experience of employees has significant role to play in SMEs performance, management should further engage employees in coaching and mentoring programmes. This can be achieved by ensuring that inexperienced employees work under experienced personnel so that they become informed on the operations of the organization as well as to effectively discharge their job responsibilities. Also, SMEs management should engaged employees in skills acquisition program in order to enhance the level of skills of employees in collaboration with the government. Besides, the government at all levels can provide a supporting hand by engaging SMEs in skills acquisition program on a regularly basis.*

**Keywords:** *Employee skill and experience; small and medium scale enterprises; performance; south-south geopolitical zone*

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### **I. Introduction**

Small and medium scale enterprises (SMEs) occupy a place of pride in practically every nation due to their momentous roles in development and growth of diverse economies. Pertinently, they have been referred to as the engine of growth and catalysts for socio-economic transformation of any given nation. As observed by Basil (2005), SMEs represent a genuine vehicle for the accomplishment of national economic objectives in aspects of employment generation, poverty diminution (at low investment cost) and development of entrepreneurial potentials together with indigenous technology. Hatch and Dyer (2004) repute that in today's knowledge economy, SMEs performance and competitive advantages are attained more from experience and skills possessed by the workforce.

According to Ojukuku and Sajuyigbe (2015), the experience and skills possessed by the workforce of SMEs permit them to stay ahead of others. This view is further supported by Rogers (2003) that the ability to build a successful SME and harness performance depends largely on the experience and skills of workforce. In the same way, the above positions have been well elaborated by the Resource-Based Theory (RBT). According to the RBT view, the more viable resources a firm has, the stronger its competitive advantage and performance. These resources could be the workforce experience, skills, and talents (Zander &Kogut 1995; and Maran, Lawrence&Maimunah, 2009). In response to this, most SMEs have clinched the idea of retaining an experienced and skilled workforce as a way of gaining competitive edge so as to boost or advance performance (Mohammed &Sadegheh, 2016). Consequently, employee experience and skills have now become divisions of attempts to accomplish a cost-effective and augmented firm performance.

In the world where knowledge and communication have gained mounting import, human capital, which shows the degree of knowledge, practical skills and experiences, and resourcefulness, is measured as dynamic assets of an organization (Hendricks, 2002). Moreso, Davenport (1999) observes that people possess instinctive capabilities, experience, skills and that these elements make up human capital. A well-skilled and experienced workforce could boost SMEs performance (Yahya, Othman &Shamsuri, 2012). Thus, in order for SMEs to have a sustainable performance, they must focus on factors such as experience and skills of employees in order to increase competitive edge and boost their survival.

## **II. Problem Statement**

Research interest in SMEs has been predicated on their recognized economic contributions and benefits, particularly in the areas of employment creation and poverty alleviation. It has indeed been postulated that SMEs are the panacea for the economic problems of the less developed and developing countries (Ojokuku&Sayuyigbe, 2015). In Nigeria today, a lot of awareness is aimed at SMEs because of the expected involvement they could make in providing a breeding ground for the development and growth of indigenous entrepreneurs. However, the longevity of SMEs is not guaranteed.

Onugu (2005) stated that in Nigeria, most SMEs die within their first five years of existence with a smaller percentage going into extermination between the sixth and tenth year and only about five to ten percent of the SMEs survive, thrive and grow to adulthood. The implication of this is that the survival rate of SMEs in Nigeria is less than 5% in the first five years of existence. This also implies that SMEs in Nigeria have not been able to play a fundamental role in the economic development as anticipated. Empirical observations revealed that efforts aimed at boosting SMEs' growth and performance has mostly been targeted at the aspect of financing and provision of infrastructure, with significant disregard of human capital development (Yahya, Othman &Shamsuri, 2012).

Studies have shown that most of the SMEs in developing countries have performed poorly relative to what appear to be their counterparts in developed countries (Abdul, 2011; Guisan 2005; and Benhabib&Spigel 1994). The areas of neglect of human capital development are in their levels of experience and skills (Oyedijo, 2005). Basil (2005) also identified the problems of SMEs to include low level of entrepreneurial skills and experience, poor management practices, controlled access to money and capital markets, low equity participation from the promoters because of insufficient personal savings due to their level of poverty and low return on investment, inadequate impartiality capital, poor infrastructural facilities, high rate of enterprise mortality, shortages of skilled manpower, multiplicity of regulatory agencies and overbearing operating environment, societal and attitudinal problems, truthfulness and simplicity problems, constrained market access, lack of skills in international trade; bureaucracy and deficiency in the area of access to information.

Studies have highlighted the fact that employee experience and skills among others play a critical role in promoting the performance of SMEs. However, this has not been the case of SMEs in developing countries like Nigeria. More worrisome is the fact that while most studies on determinants of SMEs performance were conducted in other countries, much has not been done in south-south geopolitical zone of Nigeria; hence, there is dearth of empirical evidence on the determinants of SMEs performance in Nigeria. In the light of this, the study hypothesized as follows:

***H<sub>01</sub>: Experience of employees has no significant relationship on the performance of SMEs in South-South geo-political zone of Nigeria.***

***H<sub>02</sub>: The skill of employees has no significant impact on the performance of SMEs in South-South geo-political zone of Nigeria.***

## **III. Review of Related Literature**

### **Performance Measures of SMEs**

SMEs performance indicators can be measured by financial and non-financial. In traditionally term of an accounting, firm performance was includes sales growth, market share and profitability. The measures of financial performance among others are percentage of sales emanating from new products, profit after tax (PAT), return on capital employed (ROCE), return on equity (ROE) and return on asset (ROA). Interestingly is the fact that researchers also tend to benchmark managerial accounting variants against financial measures in six (6) dimensions like workers' compensation (i.e. expenses of workforce compensation divided by total sales), quality (i.e. number of errors in production), shrinkage (i.e. loss of inventory, defects, sales return), productivity (i.e. payroll expenses divided by manufacturing outputs), operating expenses (i.e. total operating expenses divided by total sales).

SMEs performance can be measured via perceived performance approach (also known as subjective performance measures) where Likert-scale is used to measure performance from perspectives of top management. Datta, Guthrie and Wright (2005) also stated that human capital schemes have been found within a number of diverse establishments to positively affect firm performance. The finding of Bosma, Van Prag, Thurik, and Wit (2004) is also consistent with other researchers that human capital development has positive relationship with SMEs performance. In the same vein, the study of Hisrich and Drnovsek (2002) revealed that managerial skills, start-up experience and knowledge of the industry positively affect the performance of new SMEs.

The conventional archetype in SMEs performance assessment places emphasis on financial measures as the most significant drivers of firm performance. This archetype has of late come under disparagement from academics and practitioners for its failure to encapsulate fundamental areas of corporate performance when

wealth creation is connected with intangible and non-financial resources within vigorous markets. Critics of the conventional measures advocated for performance measures that are associated with firm's strategy. The emergent paradigm in performance evaluation places emphasis on combining financial with non-financial measures. Non-financial variants like customer satisfaction, productivity, innovation, operating efficiency, and so on are sneered as the solution to resolve some of the flaws of the conventional non-financial performance variants. Non-financial variants are by themselves with no hullabaloo. Many studies regard performance as firm growth (Davidsson et al. 2003; Kolvereid 1992; Rodriquez et al. 2003) and also consist of sales growth, growth of SMEs assets and profit.

### **Determinants of SMEs Performance**

In this study, two (2) determinants of SMEs performance were identified namely employee experience and skills.

#### **a. Employee Experience as Determinants of SMEs Performance**

Work experience is conceivably one of the most commonly encountered concepts in personal research and practice. Work experience is germane for many human resource functions like selection (Ash and Levine 1985). McDaniel, Schmidt and Hunter (1988) study on the association between experience and job performance reveals an overall significant positive association.

The persistently dwindling business environment requires firms to strive for better competitive advantage through dynamic business plans which integrate creativity and innovativeness. This is essentially important for their long-term sustainability. Undeniably, human resource input plays a deep-seated role in improving firm's competitiveness (Barney, 1995). At a glance, substantial studies have been carried out on human capital and their implications on firm performance: results show that, human capital enhancement will result in greater competitiveness and performance (Guthrie et al., 2002).

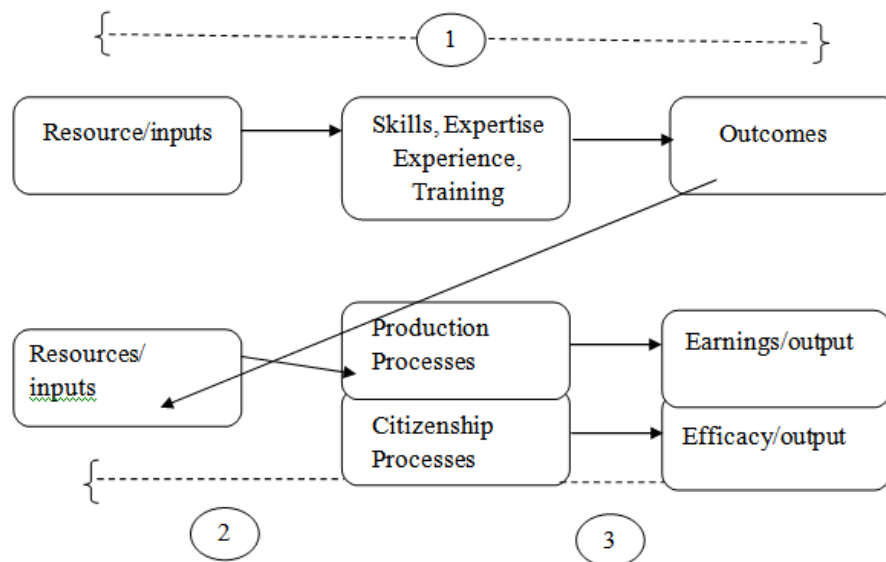
#### **b. Employee Skills as Determinants of SMEs Performance**

Higher skills levels support innovation and more sophisticated production processes and were associated with the production of higher quality products. Studies have sought to segregate whether high skills are a causative factor behind successful and higher performing firms. Taken together, these studies have identified a significant association between a highly skilled workforce and organizational performance, most commonly measured by the level of employees' productivity. Employee development uses an employee's existing skill set and expands on it to help that employee perform his job more efficiently. When an employee has sufficient skills, he/she is better equipped to plan each day's tasks so that he/she can reach her production goals. To maintain the skill set needed to reach corporate goals, employer of labour helps to develop employee development programme.

Employers do expect a higher level of skills from their employees. Studies have concluded that the long-term drift away from unskilled to highly skilled jobs will persist in many nations. However, notwithstanding this ever-increasing requirement for highly skilled employees, there is evidence that the skills gap in most nations is widening with a growing shortfall in core skills, which does not augur well for the future.

### **Theoretical Framework**

The theoretical framework of this paper is anchored on the Human Capital Theory (HCT). The HCT is rooted from the field of macroeconomic development theory (Schultz, 1993). From the viewpoint of classical economic theory, human capital sees labour as a commodity that can be traded in terms of purchases and sales. This classical theory focuses on the exploitation of labour via capital. However, unlike the meaning conventionally connected with the term labour, human capital refers to the knowledge, expertise and skills individuals accumulate via education and training. Buttressing the social and economic import of human capital theory, Becker (2002) noted that the most valuable of all capital is investments in humans.



**Source:** Swanson and Holton(2001)  
 Figure 1:A Model of Human Capital Theory.

In this model, relationship 1 is of import to this current study; relationship 1 represents the concept of production functions as applied to skills, expertise, experience and training. The key assumption underlying this relationship is that investment in training results in increased skills. On the basis of the above, it can be seen that human capital in the form of experience and skills contributes to organizational advantages and profitability. The human capital theory is a fundamental agent for enhancing firm performance. Consequently, this present study is anchored on the human capital theory arguing that human capital is a fundamental element in SMEs performance.

The premise in the human capital theory, according to Armstrong (2006) is that people and their collective skills, abilities and experience, together with their ability to organize these in the interest of the organization are now recognized as making a momentous contribution to organizational success and performance. The theory emphasizes the association between investments in education to improve knowledge, skills and abilities, and human productive capacity. The human capital theory was adopted for this study in that the determinants of SMEs performance of the study such as experiences and skills are all embodied in the human capital theory.

**Empirical Studies**

There is avalanche of empirical evidence on the impact of employee experience and skills on SMEs performance in other countries while there are scanty studies in Nigeria. For instance, Maduagwu et al (2017) examined the impact of human capital management on the growth of small and medium scale enterprises. The study employed descriptive survey design and the population was made up of 84 personnel drawn from 5 SMEs. A sample of 69 respondents was selected from the population using Taro Yamane’s formula and data were gathered using a five point Likert scale. Data was analyzed using one sample Kolmogorov Smirnov statistic (K-S) and the study found that most SMEs do not give adequate attention to staff skills and experience and this reduces the capability of their employees to deliver on the task for which they are hired.

Gogan et al (2016) investigated the relationship between intellectual capital in the form of skills, training and experience of employee and organizational performance using four companies operating in the distribution of drinking water, between 2010 and 2014. Findings revealed a significant association between skills, training, experience of employees and organizational performance.

Muhammad (2015) studied the role of human capital (employee skills and experience) and performance of small and medium enterprises (SMEs) in the manufacturing sector of Pakistan. The study utilized 750 SMEs in the Pakistan manufacturing sector. The one-way analysis of variance (ANOVA), multivariate analysis of variance (MANOVA), and t -tests were applied to ascertain the variations in the levels of HC across SMEs, by industry, size and ownership. The result revealed the significant positive impact of HC on firm performance.

Similarly, Ojokuku and Sajuyigbe (2015) examined the relationship between human capital development indicators of employee skills, talents and experience and the performance of SMEs in Nigeria by means of a survey of 80 randomly selected SMEs operating in Ibadan. The research instrument employed is a

structured questionnaire. The Pearson Product Moment Correlation Coefficient and multiple regression analysis were utilized to analyse the data obtained in the field survey. The result revealed that human capital development variables have significant relationship with the performance of SMEs in Nigeria.

Paul, Sam and Barnabas (2014) studied the effect of human capital development on the performance of small and medium family enterprises in Nigeria. A survey technique was used in ascertaining the effect of skills, training and experience of employees on the performance of SMEs. The sample size was fifty entrepreneurs operating in Plateau State. The Likert 5- point scale was used in the quantification of responses. The multiple regression tools were used in analyzing the effect of human capacity development indices on the performance index. Results of the study revealed that enhanced human capital development leads to a significant improvement in organizational performances.

Abdul, Al-Huda and Shabbir (2012) examined the elements of human capital that promotes sustainable industrial development in Malaysia. A regression technique was used and data obtained covered the period 1981 to 2010. The findings showed that human capital has the most significant elasticity contributing to share of gross domestic product (GDP), accompanied by labour productivity. Moreover, the study found that increase in labour productivity diminishes production costs while investments in education and health programmes assist in amplifying the skills, knowledge and capabilities of workforce in the sector.

Khan (2010) conducted an investigation on HRM practices and organizational performance among oil and gas industry in Pakistan. Data was obtained via self-reported questionnaires and factor and regression analyses were done. Results of the study revealed that HRM practices have positive relation with organizational performance.

#### IV. Research Method

In this paper, the cross-sectional research design was adopted and the population of the study comprised of all registered SMEs in three south-south geopolitical states of Nigeria namely Edo, Akwa-Ibom and Bayelsa. Given the large nature of the SMEs in the selected states of Nigeria, a purposive sampling technique was adopted by selecting three hundred and fifty-three (353) respondents as the sample size of study. Questionnaire was the major instrument of data collection which was designed to elicit information from respondents on employee experience, skills and SMEs performance.

The questionnaire items were designed using a 4-point Likert-style of 1=strongly disagree, 2=disagree, 3=agree and 4=strongly agree. The reliability of the research instrument was done using Cronbach Alpha and result of the pilot test revealed *Cronbachalpha* of 0.814 which is found to be consistent, hence the instrument was deemed reliable. The data obtained were analyzed by means of both descriptive and inferential statistics. In line with the above, the following regression models were estimated:

$$PERF = f(EXPE, SKIL) \quad \text{eq. 1}$$

**Model 1: Employee Experience and SMEs Performance**

$$PERF_i = \alpha_0 + \beta_1 EXPE_i + \mu_i \quad \text{eq. 2}$$

**Model 2: Employee Skills and SMEs Performance**

$$PERF_i = \alpha_0 + \beta_1 SKIL_i + \mu_i \quad \text{eq. 3}$$

**Variable Description:**

*PERF* = Performance (proxied by financial and non-financial performance); *EXPE* = Employee experience; *SKIL* = Employee skills;  $\alpha_0, \beta_1$  = Regression coefficients; *i* = Individual SMEs;  $\mu$  = Error term.

#### V. Results and Discussions

**Table 4.1: Descriptive Statistics of Employees' Experience and SMEs Performance**

S/N	Items	Mean	Std. Dev.
1	I recruit employees on the basis of experience in my organization	1.960	1.373
2	I ensure that there is a strong collaboration among employees in my organization	2.020	1.423
3	I ensure that employees are given the opportunity to learn from each other in my organization	2.504	1.421
4	In my organization, employee experience is a prerequisite as it assists in the execution of job tasks	2.456	1.475
5	I ensure that there are more experienced employees in my organization,	1.737	1.275
6	In my organization, the experience possessed by employees has a better chance of improving SMEs performance	2.167	1.423
<b>GRAND MEAN/STD. DEV.</b>		<b>2.141</b>	<b>1.398</b>

Source: Field Survey, 2018

Table 4.1 presents the questions on employee experience (EXPE) among the selected registered SMEs in south-south region of Nigeria (Edo, Akwa-Ibom and Bayelsa). The result showed that out of the six (6) items on employee experience, four (4) items scored above 2.00 cut-off point of the mean while two (2) items were

below the cut-off point of the mean. This suggests that the four (4) items that scored above the cut-off point determines employee experience among the selected registered SMEs while the other two (2) items below the cut-off point of the mean are not fundamental to employee experience. On the overall, the grand mean (2.141) which is above the cut-off point of mean is an indication that the selected registered SMEs consider employee experience as a driver of performance.

**Table 4.2:** Descriptive Statistics of Employee’s Skill and SMEs Performance

S/N	Items	Mean	Std. Dev.
1	In my organization, I ensure that employees have increased knowledge on job content	2.089	1.444
2	In my organization, I ensure that new learning methods are provided for employees	2.694	1.435
3	In my organization, the new learning methods i provide improves the skills and technical-know-how of employees	2.612	1.386
4	In my organization, I ensure that employees are committed to do their work due to improved skills acquisition	3.00	1.402
5	In my organization, employee job performance has improved significantly due to innovations acquired from facilitators	1.793	1.310
6	Employee skills contributes to improved SMEs performance	2.079	1.414
<b>GRAND MEAN/STD. DEV.</b>		<b>2.378</b>	<b>1.399</b>

Source: Field Survey, 2018

Table 4.2 presents the questions on employee skills (SKIL) among the selected registered SMEs in south-south region of Nigeria (Edo, Akwa-Ibom and Bayelsa). The result showed that out of the six (6) items on employee skills, five (5) scored above 2.00 cut-off point of the mean while one (1) is below the cut-off point of the mean. This suggests that the five (5) items determines employee skills among the selected registered SMEs. On the overall, the grand mean (2.378) which is above the cut-off point of mean is an indication that the selected registered SMEs consider employee skills as a driver of performance.

**Table 4.3:** Regression Results for Employee Experience and Performance of SMEs

Source	SS	df	MS	Number of obs = 353		
Model	2446.61968	1	2446.61968	F( 1, 351) =	199.11	
Residual	4312.91001	351	12.2874929	Prob > F =	0.0000	
				R-squared =	0.3620	
				Adj R-squared =	0.3601	
Total	6759.52969	352	19.2032093	Root MSE =	3.5054	

perf	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
expe	.765022	.0542154	14.11	0.000	.6583942	.8716498
_cons	10.54045	.6258245	16.84	0.000	9.309617	11.77129

Source: Field Survey, 2018

Presented in Table 4.3, is the regression result for employee experience (EXPE) and Performance (PERF) of SMEs in South-South geo-political zone of Nigeria. The R-squared for EDUC is 0.3620, suggesting that the independent jointly explains about 36.2% of the systematic variations in PERF for the selected SMEs in South-South geo-political zone of Nigeria. The f-ratio indicates that human capital variant (EXPE= 199.11 Prob< f = 0.0000) is significantly affected by the experience of employee. Also, the p-value of EXPE (0.000) is an indication that Experience of employees has significant relationship on the performance of SMEs in South-South geo-political zone of Nigeria. Hence, the null hypothesis was rejected and alternate hypothesis was accepted.

**Table 4.4: Regression Results for Employee Skills and Performance of SMEs**

Source	SS	df	MS	Number of obs = 353		
Model	477.145708	1	477.145708	F( 1, 351) =	26.66	
Residual	6282.38398	351	17.8985298	Prob > F =	0.0000	
				R-squared =	0.0706	
				Adj R-squared =	0.0679	
Total	6759.52969	352	19.2032093	Root MSE =	4.2307	

perf	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
skil	.3371549	.0652999	5.16	0.000	.2087266	.4655832
_cons	14.75742	.8463523	17.44	0.000	13.09286	16.42198

Source: Field Survey, 2018

Presented in Table 4.4, is the regression result for employee skills (SKIL) and Performance (PERF) of SMEs in South-South geo-political zone of Nigeria. The R-squared for SKILL is 0.0706, suggesting that the independent jointly explains about 7.06% of the systematic variations in PERF for the selected SMEs in South-South geo-political zone of Nigeria. The f-ratio indicates that human capital variant (SKIL= 26.66; Prob< f = 0.0000) is significantly affected by the skills of employee. Also, the p-value of SKIL (0.000) is an indication that the skill of employees has significant impact on the performance of SMEs in South-South geo-political zone of Nigeria.

## VI. Conclusion

This paper investigated the determinants of small and medium scale enterprises performance in Nigeria so as to see if employee experience and skills matter. Based on the analysis of data, the study revealed some insightful revelations. First, it was found that experience of employees has significant relationship with the performance of SMEs. This result was validated by the f-ratio (F=199.11 Prob.<f= 0.000). This finding is in agreement with a study conducted by Ojokuku and Sajuyigbe (2015); Paul, Sam and Barnabas (2014) Boris and Micheal (2015) who found out that employee experience significantly affect SMEs performance. Second, it was revealed that skill of employees has significant impact on the performance of SMEs and this result was supported by the f-ratio (F=26.66; Prob.<f=0.000) . This finding complements a study conducted by Khan (2010); Arora and Badge (2008), who found that skill of employees is a fundamental factor that affects organization's performance.

Given the fact that experience of employees has significant role to play in SMEs performance, management should further engage employees in coaching and mentoring programme. This they can achieve by ensuring that inexperienced employees work under experienced personnel so that they become informed on the operations of the organization as well as to effectively discharge their job responsibilities. In addition, SMEs' operators should be aware that employee development uses employee's existing skill set and they (SMEs operators) must expands on it so as to help employees perform their jobs more efficiently. Thus, SMEs management should engaged employees in skills acquisition program in order to enhance the level of skills of employees. Besides, the government at all levels can provide a supporting hand by engaging SMEs in skills acquisition program on a regularly basis.

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