DOES HUMAN CAPITAL DRIVE PERFORMANCE? IN SEARCH OF MISSING LINKS (INTERACTIVE PAPER)

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Principal Topic

Ever since Becker’s (1962, 1964) salient work on human capital, management scholars aim to determine whether and how human capital affects firm performance. While a positive link has been established between different dimensions of human capital and firm performance (Unger et al., 2009), this empirical work has added only limited insight into how and why these performance effects substantiate. Moreover, a documented difference between the impact of education and work experience on firm performance raises many questions about the mechanisms that link human capital and performance. In search of the missing link(s) between human capital and firm performance, we analyze the fundamental approach individuals follow to determine a course of action and organize their managerial work i.e., whether and to what extent they engage in business planning (Brinckmann et al. 2010). We argue that individuals with greater work experience deploy a planning approach in a more contingent fashion than those with education-based human capital who primarily focus on business planning. Following these arguments, we study whether the business planning approach mediates both the education and the experience based SME performance relationship.

Method

We employ a meta-analysis following an evidence based research tradition (Hedges and Olkin, 1985) and identified more than 100 individual studies encompassing over 35,000 SMEs. We apply both bivariate, multivariate meta-analysis techniques and analyses of mediation effects.

Results and Implications

We find support for Becker’s arguments concerning an overall positive effect of human capital on firm performance, especially when human capital is based on experience. Comparing the effect strength between education and experience on business planning, we observe that compared to experience, greater education frames people stronger to engage in business planning. Our findings extend human capital theory beyond its focus on human capital investments and knowledge stocks to encompass cognition and the wide variety of information and knowledge in action to produce human performance. Further, the evidence presented in this study helps us move towards an improved understanding of the still-controversial business planning - performance relationship in new and established small firms.

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