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Malaysian Academy of SME and
Entrepreneurship Development

A Conceptual Framework of Human Capital, Self-Efficacy and Firm Performance among SMEs in Malaysia

Abstract

In many developed countries, it is proved that SMEs contribute significantly to their countries as they stimulate economic growth and increase employment rates. It is noteworthy that the Malaysia SMEs' contribution to the GDP is considered low as compared to other developed countries and even the neighboring countries. Hence, SMEs in Malaysia need to further improve themselves in order to increase their contribution to the country's GDP. It is undeniable that there are numerous studies on human capital that prove it is able to increase the performance. Conversely, there are entrepreneurs who still fail in conducting a business. It is noteworthy that the failure rate among SMEs in Malaysia is recorded high at 60 percent. The question arises whether human capital really does not have any significant impact to the firm performance or it does not incorporate extensive measures of self-efficacy which constitute a factor that may amplify or mitigate human capital outcomes. This paper goes on to analyze two internal factors via human capital and self-efficacy that play a significant role in development and improvement of SMEs in Malaysia. It is believed the combination of both of these internal factors would enhance the contribution of SME to the economy as well as the performance of the entrepreneur increase. Lack of study on these three variables as a cohesive framework has created a literature gap. Hence, this conceptual paper tries to discuss the effects of these internal factors on SMEs' firm performance in Malaysia.

Keywords: Human capital, Self-efficacy, firm performance, conceptual framework