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**ENHANCING THE PERFORMANCE OF SMES IN SAUDI ARABIA THROUGH HUMAN CAPITAL AND SOCIAL-MEDIA TECHNOLOGY: A CONCEPTUAL MODEL**

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**ABSTRACT**

Small and medium enterprises (SMEs) are one of the critical components of national economic growth and development in both developed and developing economies. However, the performance of SMEs in developing countries is lower than expected; therefore, it is crucial to understand the factors that improve performance. This study aims to develop a conceptual model to explain the relationship between the organizational performance of SMEs, human capital, social media technology use in Saudi Arabia. The author proposes a model in which human capital and social media technology use may positively influence organization performance in SMEs in Saudi Arabia context.

**KEYWORDS:** Human capital; Social media technology use; SMEs performance

**INTRODUCTION**

Small and Medium Enterprises (SMEs) sector is among the main factors to the open economy in Saudi Arabia, whereby this sector can generate economic growth and create employment opportunities (Al-namlah, 2017). In Saudi Arabia context, SMEs contribute 21% of the country's GDP and 53% of the total employment in 2016. Besides, Nakhleh (2017) reported that SMEs in Saudi Arabia represents around 90% of business enterprises. However, in developing countries such as Saudi Arabia, the performance of SMEs is still weak and lower than expected and leads to firms' failure (Apulu, and Ige, 2011; Muthana, 2018). Therefore, the low performance of SMEs has attracted both governments and researchers to study the reasons behind the phenomenon considering many factors such as management, education, technical skills, experience, business, personal skills, training, weakness in human relations and technology use (Ahmadzadeh, Etemadi, and Pifeh, 2011). In this case, a study by Sitharam and Hoque (2016) among owners or managers of SMEs in South Africa investigated the internal and external factors influencing the performance of SMEs. The findings of the study indicated that several factors might affect the performance of SMEs, such as technological capabilities, managerial capabilities, and managerial competency. Furthermore, to enhance the performance of SMEs, understanding its drivers is vital. There are six performance levers highlighted in the SME Masterplan 2012-2020. Among them, human capital and technology use are the most challenging for SMEs (NSDC, 2012b).

According to the resource-based view (RBV), a firm's resources consist of all assets tangible and intangible, human and nonhuman, that the firm possesses and that allows the firm to create and

apply value-enhancing strategies (Wernerfelt, 1995). The resources of a company can be considered as all its assets, including competencies, capabilities, organizational processes, company attributes, technology, information and knowledge, all of which must be controlled by the company and assist it in visualizing and applying strategies that can be used to improve its efficiency and effectiveness (Wernerfelt, 1995). McIvor (2009) mentioned that the primary concern of RBV theory is how a company's resources, such as human capital and technology use affect its performance. Therefore, this study discusses the potential influence of human capital and using social technology on the organizational performance of SMEs in Saudi Arabia context.

Human capital resources comprise the “experience, training judgment, intelligence, relationships, and insight of individual managers and workers in a firm” (Wernerfelt, 1995, p.101). In this case, Human capital theory suggests that organizations with a higher degree of human capital developed through access to employees with higher education and broad personal experience achieve higher performance (Wernerfelt, 1995). Many studies conducted in the Western economies offer empirical support for the positive influence of human capital on SMEs performance (Patterson & Cicic, 1995; Ruzzier, Antoncic, Hisrich, andKonecnik, 2007) but less research has focused on the impact of human capital on the performance of SMEs in emerging economies such as Saudi Arabia.

Zafar, Almaleh, Alshahri, Alqahtani, andAlqahtani (2015) indicated that for SMEs in Saudi Arabia mushroom, they should be aware of the available technologies for better business uses. Similarly, the development of information technology use is crucial for SMEs to improve performance and be globally competitive. SMEs in developing countries need to be more creative and innovative in technology usage to help increase the national economic growth of these countries(Soon and Zainol, 2011).

Previous studies mentioned that the social media technology phenomenon of creating, adjusting, sharing, and deliberating Web-based content about firms and products has the potential to influence organization performance (Kietzmann, Hermkens, McCarthy, and Silvestre, 2011).It is an essential instrument for all businesses because it permits firms to connect with, listen to, and learn from their customers in a way they have never been able to do before (Grewal and Levy, 2009). In this case, Jones, Borgman, Ulusoy(2015)stated that social media technology has the potential to offer opportunities for new channels for marketing communication and cost reduction in SMEs. Although social media technology can improve the performance of SMEs, research conducted on the SMEs' use of social media technology is lacking (Brown, Broderick, and Lee, 2007; Jung, Ineson, and Green, 2013). Therefore, this study provides a conceptual model that can help to explain the relationship between human capital, social media technology use and organizational performance of SMEs in the Saudi Arabia context.

## **2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

### **2.1 HUMAN CAPITAL AND ORGANIZATION PERFORMANCE**

Organization performance is the ability to recognize objectives of the firm such as good financial results, high profits, quality products and services, a significant market share, and long-term survival, by relevant strategies for action; it is an indicator of how well a firm recognizes its objectives (Ho, 2008). To improve the performance of an organization, RBV theory suggested that owners/ managers should focus on their internal resources such as human capital and technology use.

Sullivan and Sheffrin (2003) defined human capital as the stock of competencies, knowledge, and personality attributes embodied in the ability to accomplish labor to produce economic value. Hessels and Terjesen (2008) also mentioned that entrepreneurial human capital refers to an individual's knowledge, skills, and experiences related to an entrepreneurial activity. In this study, human capital defined as the combination of knowledge, innovativeness, expertise, and capability of employees to perform their duty. It involves entrepreneurs' age, gender, level of education, work experience and the ability to accomplish a specific task in the business (Bontis, 2001).

Human capital is vital to entrepreneurial development, in this case, Ganotakis and Love (2010) used the Resource-Based Theory (RBT) to explain the importance of human capital to entrepreneurship. According to RBT, human capital is considered a source of competitive advantage for entrepreneurial firms. The results from a meta-analysis review of human capital and entrepreneurial success of seventy independent samples by Unger, Rauch, Frese, and Rosenbusch (2011) show a significant association between human capital and entrepreneurial success. In the same vein, Augusto Felicio, Couto, and Caiado(2013) assess the human capital and social capital and performance of small and medium firms from Portuguese. The results reveal that human capital influence social capital and organizational performance is strongly affected by human capital. Furthermore, previous studies demonstrated the significant influence of human capital on business performance (Samad, 2014; Lin, Huang, Du, and Lin, 2012). Based on the previous discussion, the study proposes the following hypothesis:

H1. Human capital has a significant positive influence on the organization performance of SMEs.

### **2.2 SOCIAL MEDIA TECHNOLOGY USE AND ORGANIZATION PERFORMANCE**

Generally, information technology use is a critical factor for business productivity, and it contributes to organizational performance (Yao, Liu, and Chan, 2010; Laudon and Laudon, 2007). In this case, Cortez and Johnston (2017) mentioned that social media technology (e.g., social networks, online communities, blogs, video sharing, podcasts, and wikis) has the potential to change business

processes, enhance customer relationships, and increase operational performance. Therefore, to maintain their effectiveness, firms must manage social media technology to execute their strategies and raise business performance (Wang and Kim, 2017). In this study, the social media technology use referred to how an organization can utilize the using of social media to share content, create a conversation with customers, build a social relationship with customers and manage communities (Trainor, Andzulis, Rapp, and Agnihotri,2014).

The usage of social media technology enables interactions, facilitates the relationship between business partners and customers, and builds new business models and new ways of creating value(Nath, Nachiappan, and Ramanathan, 2010). Thus, organizations use social media technology to create awareness, attract and strengthen the relationship with customers, to spread word-of-mouth, to improve brand image, and to develop a leadership role within the industry (Järvinen, J., Tollinen, A., Karjaluoto, H., and Jayawardhena, 2012; Quinton, and Wilson, 2016). The evidence provided by numerous prior empirical studies has proved the positive influence of social technology use on organization performance. For example, Rapp, Beitelspacher, Grewal, and Hughes (2013)found that social media technology use has a positive influence on brand performance and retailer performance, while Foltean, Trif, and Tuleu (2018) demonstrated that social media technology use is positively associated with increased firm performance. Furthermore, Agnihotri, Dingus, Hu, and Krush (2016) concluded that social media technology use has a positive impact on customer satisfaction by improving sales representatives' responsiveness, while Ainin, Parveen, Moghavvemi, Jaafar, and Shuib (2015)indicated that social media use has a strong positive influence on the financial and non-financial performance of organizations. In accordance, the author proposes the following hypothesis: H2. Social media technology use has a significant positive influence on the organization performance of SMEs.

### **3. CONCEPTUAL MODEL: A PROPOSAL**

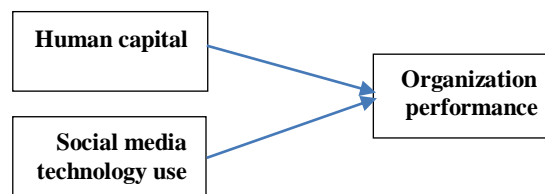
The model of this study conceptualizes the relationship between human capital, social media technology usage and organizational performance of SMEs. Resource-Based View (RBV) theory becomes the underpinning theory which suggests that its internal resources and capabilities influence a firm's performance; thus, a firm achieves better performance by more effective use of its resources than its competitors. In this case, previous studies stated that human capital and social media technology usage could act as an internal resource that can utilize to improve firm performance (McIvor, 2009; Ganotakis, and Love, 2010; Cortez, and Johnston, 2017).The model involves two independent variables (human capital and social media technology use) and one dependent variable (organization performance) (See Fig.1).

### **4. CONCLUSION AND FUTURE RESEARCH**

This study provides a theoretical model to show the relationship between human capital, social

media technology use, and organization performance. It contributes to the body of knowledge through a comprehensive model to explain the influence of two primary resources in an organization (i.e., human capital and social media technology use) on organization performance of SMEs in Saudi Arabia context. The paper gives insights to the SME owners/managers into the importance of human capital and social media use in enhancing organizational performance. In terms of human capital aspects such as qualification, age, skills, and working experience, there is a significant association with organization performance. Owners/ managers of SMEs should be more focused on human capital in enhancing their performance than competitors in the market.

Consequently, policymakers in Saudi Arabia's context should give more focused on human capital to increase SMEs' performance. Additionally, SME owners/ managers should use social media as a potential vehicle to help their businesses to create better brand awareness, develop relationships with customers, and increase sales through these mechanisms. Further empirical studies are suggested to investigate the proposed model by collecting data from significantly abundant sources and further examining the hypothesized relationships.



**Fig. 1.** The Conceptual Model

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