HUMAN CAPITAL AND KNOWLEDGE SHARING IN ENTREPRENEURSHIP: SOME EMPIRICAL EVIDENCE

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ABSTRACT

Theory exists that entrepreneurs are ‘jacks-of-all-trades’ who may not excel in any one skill, but are competent in many. Individuals with balanced skills appear to be more likely than others to become entrepreneurs. This paper focuses on the influence of human capital, knowledge sharing and the perceptions of entrepreneurs on entrepreneurship; entrepreneur’s required skills and their contribution to the economy as was found in his study and reported on by Erasmus (2006). The data collected was sorted and categorised to determine respondent’s skills needs with respect to areas such as negotiation, leadership, social skills, creativity, etc. In conclusion; certain skills are important in the make-up of entrepreneurship.

INTRODUCTION

Entrepreneurs are believed to be ‘jacks-of-all-trades’ according to some theory. Some entrepreneurs who achieved really high profiles have been recognised through awards globally. Richard Branson (the Virgin Group) and Dick Smith (electronic business) are very good examples of entrepreneurs that have set up small businesses globally and one can say that the highly competitive business environments depend on entrepreneurship. New, creative and exciting ideas result in approaches that can bring a business to life through energy, creativity and enthusiasm.

Today's global market is one where people and their assets have come to the fore and where knowledge is more than power, it is the difference between success and failure according to Bradford (2005). To keep up with the competition, organisations need to be flexible and responsive, capitalising on the diversity in their teams to foster innovation and creativity. To achieve this, human capital is required and this is where Human Resource Management (HRM) knowledge and experience is critical. HRM is challenged by the need to change their management model from cost focused to value added, to ensure that retention of skilled high performers (human capital) is attained, and that talent management and succession planning is robust and strategically aligned. An audit of the organisation's value added activities, behaviours and roles allow management to generate performance measures and training needs to support them in the value added focus.
Knowledge is regarded as the key to the future, its intangible aspects defining characteristics of economic activities and prime sources of competitive advantage (Aghazadeh, 2003). Global challenges call for evolutionary learning and learner empowerment as appropriate responses to changing organisational environments. Laszlo & Laszlo (2002) are of the opinion that we have to learn to think in a new way to apply knowledge ethically, to channel communication and operationalise the growing body of knowledge.

Organisational performance is also enhanced through the acquisition, integration, and sharing of knowledge resources. Knowledge resources, in the form of human capital, are directly related to an organisation’s ability to stand out from the competition and attain competitive advantage (Palekar, 2006; Haesli and Boxall, 2005; Camuffo and Comacchio, 2005). Palekar (2006) reports further that it is because of the unique combination of human resources and the knowledge they embody through the complex relationships within organisations that organisations develop their own specificity. However, knowledge must be adequately incorporated into the organisation for it to provide value, rather than simply purchased in the style of a commodity. Knowledge acquisition is complete only when the obtained knowledge can be successfully transferred and integrated with the existing knowledge resources of the organisation, thus creating value for the obtained knowledge. Selection of new members from outside the organisation and strategic alliances with other organisations provide the means to achieve this.

Human Resource (HR) practitioners advising entrepreneurs must also be aware of how organisational management, organisational culture and job structures can either help or hinder the interaction of employees and the transfer of information and knowledge within an organisation.

In the next section a literature review is undertaken where different views of researchers are discussed followed by the problem statement, objectives and aim of this study. The methodology, empirical results and the analysing thereof form the next section. Implications for entrepreneurship and some recommendations are discussed before the conclusions.

**LITERATURE REVIEW**

**Entrepreneurs and entrepreneurship**

It is important to define certain terminology. Entrepreneurship, as defined by Schermerhorn, Campling, Poole and Wiesner (2004), is dynamic, risk-taking, creative and growth-oriented behaviour. On the other hand they regard an entrepreneur as willing to pursue opportunities in situations others view as problems or threats. In the business concept an entrepreneur starts new ventures that bring life to new product or service ideas. The theory exists that entrepreneurs are ‘jacks-of-all-trades’ who may not excel in any one skill, but are competent in many. Individuals with balanced skills appear to be more likely than others to become entrepreneurs (Erasmus, 2006). A different view is from Du Plessis (2007) that entrepreneurship is not a natural process in some countries and it should be managed until it becomes a more ordinary part of the daily existence.

**Human capital**

Human capital is defined by Stone (2008) as the knowledge, skills and abilities of an organisation’s employees. He explains that knowledge management aims to exploit the intellectual capital residing in an organisation. Intellectual capital includes human capital, renewal capital, structural capital and relationship capital. An organisation’s knowledge - its intellectual capital – is its major source of competitive advantage. Usually intellectual capital has an impact on the organisation’s share price and economic success.

Human capital resources are the training, experience, judgment, intelligence, relationships, ability to assess and insights of the entrepreneurs and the workers in the business. Human capital also includes the knowledge, skills and experience of the entrepreneur. Fisher et al (2006) explain how entrepreneurs have been hurt financially by inadequate enforcement of legislation prohibiting illegal usage, copying or counterfeiting of their intellectual property. It could have been avoided if the entrepreneur had the financial management, negotiation and legal skills to protect their intellectual property rights or to negotiate dispute settlements. Human capital is also the brain power, skills, abilities or knowledge of the entrepreneur and their workforce that can be used to create value, while intellectual capital is the knowledge that exists within an organisation.
Knowledge management
Stone (2008) summarises knowledge management as the ability to collect, store, share and apply knowledge in order to enhance its survival and success. While traditional knowledge management emphasis was placed on technology or the ability to build systems that efficiently process and leverage knowledge, the new model of knowledge management involves people and actions. It aims at creating an environment where power equals sharing of knowledge rather than keeping it. This new model is ideal for the emerging entrepreneur as long as the skills to apply the model are obtained or developed.

MacNeil (2003) views knowledge sharing (knowledge transfer) as enabling the exchange of collective knowledge which can be transformed into innovation and change. Collective knowledge exchange and sharing of knowledge should lead to the outcomes of ongoing and continuous improvement in the business’ performance. It cannot be assumed that all entrepreneurs possess the skills to transfer knowledge or to have the required leadership skills to lead or to facilitate the team in sharing (transferring) knowledge; neither can it be taken for granted that entrepreneurs should know how to negotiate the best prices for example, or to do a proper assessment of issues.

Schremmerhorn et al (2004) point out that there are indications that entrepreneurs tend to share certain attitudes and behavioural tendencies, they are very self-confident determined, resilient, adaptable and driven to excel. The above authors further refer to certain myths such as that entrepreneurs are born, not made. The truth is that talent gained and enhanced by experience is a foundation for entrepreneurial success. They are not gamblers but informed and calculated risk takers. It is this sharing of knowledge, attitudes and behaviours that the authors of this paper is referring to in the title. Although entrepreneurs usually have unique and deeply embedded life interests, they also have strong interests in creative production, according to Schermerhorn et al (2004).

Skills needed by entrepreneurs
Today's global market is one where people and their assets have come to the fore and where knowledge is more than power, it is the difference between success and failure (Bradford, 2005). To keep up with the competition, entrepreneurs need to be flexible and responsive, capitalising on the diversity in their teams to foster innovation and creativity. To achieve this, human capital is required and HRM could be the tool to assist the organisation to utilise their human resources (HR) (skills) to the full. HRM is challenged by the need to change their management model from cost focused to value added, to ensure that retention of skilled high performers is attained, and that talent management and succession planning is robust and strategically aligned. Entrepreneurs need these skills to be successful. An audit of the organisation’s value added activities, behaviours and roles will allow management to generate performance measures and training needs to support them in the value added focus. Measuring staff on a behavioural level is a relative new concept and will likely require staff training. All entrepreneurs are expected to take on a HR capability building function with their staff, and themselves to ensure they are abreast of the changing marketplace where recruiting and selecting skilled staff is expected to become increasingly difficult. Employee involvement in decision making processes supports an employee value added approach.

According to Pfeffer (2005) competitive advantage is what distinguishes an organisation from their competitors, provides positive economic benefit and is not readily duplicated. People are the common factor in all competitive advantage tactics as people (entrepreneurs) are responsible for designing, implementing and managing new technologies, production processes, quality management systems and service models. Galloway (2007) advises entrepreneurs that by focusing on their most important asset - people - and by exploring innovative ways of thinking, organisations can position themselves well. The traditional areas of HRM including the management activities of recruitment, selection, retention, training and development, succession planning, talent, and performance management require a fundamental shift from viewing these activities as costs to be managed by the entrepreneur.

Doolin (2007) is adamant that anyone (entrepreneur) who wants to run a successful business has to first figure out its purpose, the difference it is trying to make in the market place nationally or even internationally. Armstrong’s (2006) view is that HRM’s strategic planning and objectives must complement the organisation’s objectives and values. Environmental and contextual changes present a number of
competitive challenges to organisations that means HR has to be involved in helping to build new capabilities. To ensure capability building activities are value adders an understanding of how and where human capital can provide returns is needed by entrepreneurs.

Deloitte has developed a Human Capital Management Value Map as a structured method for a company to examine the components that drive shareholder value and identify improvement initiatives (Symons, 2005). This model aims to provide a clear means in which entrepreneurs (managers) can identify where their human capital adds value in relation to the financial drivers such as revenue growth, operating margin, and asset efficiency. Another tool to evaluate where human capital should be invested is a predictive analysis where the customer retention issue is considered from every force or factor that might affect it, according to Fitz-enz (2006). The outcome identifies the key areas impacting customer retention which are considered from a human capital perspective, weighting them and identifying remedies which can be used in setting strategic objectives and performance measures. With a sound knowledge of HR, the entrepreneur should be able to track the effects of HR services on production, sales or service that is accountable for strategy delivery against the strategic objectives and measures. The question can well be asked: do they have these skills? Entrepreneurs should know that HR traditionally has focused on cost factors, such as recruitment costs, skills acquired from training, and employee attitudes. Entrepreneurs should shift their focus to quality and talented decisions and not just implement any decision but improve it to the benefit of their organisation (Boudreau and Ramstad, 2005). To improve decision making, knowledge is required.

Worldwide markets have increased global competition and created new business opportunities for entrepreneurs. Global trade issues, volatile political situations and fluctuating exchange rates have inspired alternative and critical views aiming to innovate with new ideas from far and wide (Carrillo, 2002; Aghazadeh, 2003). Entrepreneurs need to have a sound knowledge of international business and varied cultures (Bartol, Tein, Matthews and Martin, 2003). Combining strong cultures with the latest technology creates a boundaryless organisation that values knowledge as a critical resource for competitive advantage. Applied knowledge and value-driven cultures emphasising knowledge sharing, teamwork, participation and leadership are currently utilised to achieve competitive innovation, improvement and human development.

**Competitive advantage**

Gloet (2006) postulate that learning environments gain core competencies and competitive advantage whilst acquiring, sharing and disseminating knowledge within the organisation. A similar view is claimed from Du Plessis (2007) that knowledge created through social interactions is embedded in social structure, is constantly changing, is becoming obsolete and subject to rapid shifts yet it may be the only sustainable source of competitive advantage. They state further that a fit between corporate, HRM and knowledge management strategy improves knowledge management effectiveness in terms of process, learning capability, and organisational performance.

Six years ago Carter & Scarbrough (2001) raised the issue that knowledge is managed by linking development of corporate and individual core competencies. HRM and knowledge management policies influence behavioural responses and the availability of human and social capital, therefore alignment with organisational strategy is fundamental for competitive advantage. The importance of managing the employment relationship generates valuable links to recruitment and retention of staff. Reward systems, career paths and quality improvement initiatives, all develop employee skills and competencies.

**Learning organisations**

Knowledge can be captured, manipulated and leveraged as resources or processes however inability to value new information, assimilate and apply it impedes the transfer of knowledge. Dessler, Griffiths and Lloyd-Walker (2004) suggest that learning organisations are adept at transferring knowledge; spreading the knowledge quickly and efficiently throughout the organisation. Training and development plays an important role in cultivating such expertise. Knowledge work ultimately depends on the behaviours, motivations, and attitudes of those who undertake and manage it. Dessler et al (2004) concludes by saying that the best way an organisation can transfer knowledge effectively is to hire smart people and let them talk to each other. For the entrepreneur who lacks certain skills, the ingredients are the clever people and the processes are the interaction, the context and a culture of knowledge sharing, or finding effective ways to let people talk and listen to one another.
PROBLEM STATEMENT

Although difficult to regard legal, human resources management, ethical and social issues as skills, the authors are of the opinion that emerging entrepreneurs should also have a sound knowledge regarding these issues. Sharing of knowledge is not always going to solve their legal problems or human resources issues because there are professionals making a living out of “selling” their knowledge such as lawyers and human resource practitioners.

The research hypotheses are:
- People who had entrepreneurship education are more successful than those who did not
- Entrepreneurs’ teaching is useful
- Certain skills improve entrepreneurship.

The problem therefore lies in the issue that entrepreneurs should have certain skills to be successful in their operations. If they don’t have a sound knowledge about HR, legal matters and so forth they must have a network of professionals (clever people) that they can involve to advise them. For the purpose of this paper the authors discuss only the third and last hypothesis, while the other two are dealt with in other papers.

OBJECTIVES OF THIS STUDY

The contribution to practice of this study is that the investigation shed light on the needs in respect of skills as perceived by successful entrepreneurs in New Zealand. Recommendations are made how entrepreneurs could obtain certain skills (as pointed out below) and the benefits thereof.

The purpose of this paper is to report only on the third hypothesis (of the three mentioned above), that is the perceived skills that emerging entrepreneurs should have to be more successful in business. Skills identified in the study to be a pre-requisite for engaging successfully in new ventures are:
- Leadership
- Problem solving
- Negotiating
- Financial management
- Communication
- Social networking
- Critical thinking and
- Assessment

METHODOLOGY

The research method had an exploratory qualitative approach, aimed at a more in-depth understanding of the entrepreneur’s perceived skill needs. A total of 24 interviews were conducted with successful entrepreneurs who also completed a questionnaire. Interviewees were selected from the databases of nominees for awards in Waitakere Enterprise (hosted by Bank of New Zealand) and Enterprise North Shore (Westpac Bank) in Auckland. More than one third of New Zealand businesses are situated in the cosmopolitan city of Auckland and therefore the findings of this research should be representative of the majority of business owners in New Zealand.

The questionnaire comprised of two parts; first the respondents had to rate each of the statements (skills) in four categories in terms of what they perceive emerging entrepreneurs should have; secondly, respondents were requested to list any other skills what they believe new and upcoming entrepreneurs should have or learn. The questionnaire was built on skills identified in the literature as part of the entrepreneurial skill set.

A response rate of 100% was achieved. The data collected were sorted and categorised to determine the respondent’s needs for certain skills. The findings were used to compare and critique literature and to propose what skills emerging entrepreneurs should have. Emerging entrepreneurs have not yet realised what skills should be required whereas successful entrepreneurs have formed views on what skills are required to be successful.
EMPIRICAL RESULTS

The questionnaire was completed by the respondents during the interview; therefore a response rate of 100% was achieved. Each respondent had to rate each of the items listed on the questionnaire in terms of their importance. The average (mean) for each item was calculated from the data obtained by using an Excel spreadsheet. The respondents identified the items with the highest (10) and lowest (1) ratings which were compared with the priorities allocated to each item to verify whether there was any correlation between the item with the highest mean and the highest priority and the lowest mean and the lowest priority. By calculating the mathematical average, the average score was determined.

In Table 1 and 2 below the skills, according to the respondents, that are important for emerging entrepreneurs to have are listed in order of mean score. The six skills with the highest score are in Table 1 and the six skills that are less important in Table 2.

Table 1: Results of the six most important skills required

<table>
<thead>
<tr>
<th>SKILLS</th>
<th>ORDER OF IMPORTANCE</th>
<th>MEAN SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negotiation</td>
<td>1</td>
<td>7.17</td>
</tr>
<tr>
<td>Leadership</td>
<td>2</td>
<td>7.08</td>
</tr>
<tr>
<td>Communication</td>
<td>3</td>
<td>6.50</td>
</tr>
<tr>
<td>Problem solving</td>
<td>3</td>
<td>6.50</td>
</tr>
<tr>
<td>Assessment</td>
<td>4</td>
<td>6.08</td>
</tr>
<tr>
<td>Critical thinking</td>
<td>5</td>
<td>6.33</td>
</tr>
</tbody>
</table>

Table 2: Results of the six less important skills required

<table>
<thead>
<tr>
<th>SKILLS</th>
<th>ORDER OF IMPORTANCE</th>
<th>MEAN SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social networking</td>
<td>6</td>
<td>5.92</td>
</tr>
<tr>
<td>Time management</td>
<td>7</td>
<td>5.75</td>
</tr>
<tr>
<td>Financial</td>
<td>8</td>
<td>5.67</td>
</tr>
<tr>
<td>Raising capital</td>
<td>9</td>
<td>5.50</td>
</tr>
<tr>
<td>Creativity</td>
<td>10</td>
<td>5.33</td>
</tr>
<tr>
<td>Administration</td>
<td>11</td>
<td>4.92</td>
</tr>
</tbody>
</table>

ANALYSIS OF THE RESULTS

The data collected was sorted and categorised to determine respondent’s skills needs with respect to areas such as negotiation, innovation, leadership, networking, social skills, creativity, self-confidence and so on. The interviews enabled entrepreneurs to share their experiences during the planning stage, start-up stage and growth stage of a business; they provided information, either positive or negative on those experiences. The findings were used to compare with and critique literature and to propose what emerging entrepreneurs should know and what skills they should have to be successful. There are certain links between successful and emerging entrepreneurs because the latter have not yet realised what skills should be acquired. On the other hand successful entrepreneurs have, through their own experiences, formed views on what skills are required to be successful.

For the purpose of this paper and due to the extensive study, only the six most important (Table 1) skills are discussed and critiqued against relevant literature.

Negotiation skills (rated number 1)
Negotiation skills are rated number one to successful entrepreneurial activity according to the respondents. The respondents all agree that this is the most important skill to boost the self-confidence of emerging entrepreneurs in New Zealand. Schermerhorn et al. (2004) also regard this as an important skill for entrepreneurs. All aspects of new venture creation require entrepreneurs to negotiate with employees, financial institutions, suppliers, investors, governments, and competitors to name a few. HR practitioners can fill this gap if necessary because they are usually trained negotiators.

Leadership skills (rated number 2)
This result surprisingly achieved the second highest score in terms of the literature where Bradford (2005) refers to the competition that entrepreneurs face. Leadership skills therefore are important to stay one step ahead of the competition. Although respondents said during the interview process that it is important to have this skill, they scored it in number two in comparison with other skills during the questionnaire part of the interview. It is deduced, based on these results, that the small business owners are to lead their employees, motivate and encourage them, and “leading” from the front. Among entrepreneurs in larger businesses, leadership relates to decision making capabilities. Entrepreneurs should be comfortable with leading their workforce if they intend to create wealth.

Communication skills (rated number 3)
The results show that communication is a skill that is regarded as critical in the make-up of entrepreneurs. It did become clear, however, that a general knowledge of more communication issues may be very beneficial. These include the two sides of communication; on the marketing side where communication plays an important role and where entrepreneurs could “buy experience”; and secondly entrepreneurs need to communicate with self-confidence. Galloway (2007) is adamant that people are their greatest asset and that good communication can retain employees, because potential problems are solved before it really becomes a problem.

Problem solving (also rated number 3)
When the respondents were asked how they rate the skill or ability to solve problems, both the small business owners as well as the bigger groups said that this is one skill that entrepreneurs should have. It appears that high growth is not possible without the ability to solve problems and as in the previous section, communication, potential problems should be solved before it escalates with catastrophic results. It was eminent that entrepreneurs need the self-confidence to communicate with people (their employees), to solve problems in their businesses. The respondents relate this skill very closely to communication skills and said that this skill, together with skills like critical thinking and assessment of issues, as a package, prepare them for excellent negotiations and fruitful conversations.

Assessment of issues (rated number 4)
Entrepreneurs need to assess any situation very quick and must be able to make a decision sometimes within seconds. These issues may include mergers, supply chain contracts, acquisitions or the process to begin any of these issues. Respondents suggested that this is one of the six critical skills (see Table 1 above), that are not only to enter into agreements, but this skill will enhance the confidence of the entrepreneur when in discussions with others. The assessment of issues is supported by Boudreau and Ramstad (2005) where they also link the ability to assess to knowledge that can improve the entrepreneur’s decision making.

Critical thinking (rated number 5)
Not surprisingly, critical thinking was also recorded as an important skill, although rated in the fifth place it is still very important to be able to think fast and to make the correct decisions instantly. Again, there was basically no difference between small businesses and larger businesses. Both these categories of businesses (respondents) expressed the view that through evidence of critical thinking their employees should have the confidence to approach them with creative ideas and scenarios that, when implemented, could add value to the operations of the business. Some literature (Pfeffer, 2005) regards competitive advantage as what distinguishes an organisation from their competitors; people are responsible for designing, implementing and managing new technologies, production processes, quality management systems and service models to have successful businesses.
The main findings and results of the research are for the entrepreneur to have sound skills in the above mentioned six areas. Additional skills such as social networking, time management and a few others (see Table 2 above) were also identified as a result of this study but discussed in other papers.

**IMPLICATIONS FOR ENTREPRENEURSHIP**

Potential barriers for entrepreneurs to be successful have been discovered in this study. The success of knowledge sharing initiative is highly dependant on the willingness of entrepreneurs and their employees to share their knowledge. It is the duty of each entrepreneur to create this willingness in their business; it could be by implementing incentives to employees to share knowledge and enhance the contents of the organisational knowledge base. It is the entrepreneur’s role to facilitate this. The entrepreneur should also be well aware of the organisational culture in sharing knowledge and what impact it may have on knowledge sharing. If there is a lack of skills, the entrepreneur should have knowledgeable people on their networking data base to get the necessary professional help.

While the human capital drive appears to be the latest fad, management of it is not. When human capital is valued as demonstrated in the organisation's culture and strategically managed it is a source of competitive advantage which is hard to replicate. Commitment from the entrepreneur and their employees is required; if a value culture is present this should be a given. To this end the authors admit that while it is a return to the familiar view of the importance of people, the value added approach offers a more reflective and strategic means for entrepreneurship in which to optimise the returns, manage and allocate skills and plan for the future. A value added approach in the six categories as discussed above should generate the greatest returns for entrepreneurs, relevant stakeholders and customers.

**RECOMMENDATIONS**

The following are recommended as a means to achieve a value added approach in entrepreneurship: The entrepreneur must undertake an organisational audit of practices and survey key customers to identify the desired value adders (behaviours). This knowledge is required so that it can become the basis for prioritising the skill sets and remuneration rates when recruiting and key performance indicators (KPI) for ongoing knowledge management. It will also provide a valuable insight as to where investments should be made to generate the greatest return. Employee involvement in this process will also initiate the value attributes of this approach; identify the skills and attributes currently employed and what will be necessary in future. Entrepreneurs should manage all HRM functions (recruiting, selection etc) with a human capital value added approach.

**CONCLUSIONS**

It is concluded that certain skills are most important in the make-up of entrepreneurship and of emerging entrepreneurs. The six most important skills needed to be successful were indicated by the respondents: negotiation, leadership, communication, problem solving, assessment and critical thinking. Table 1, above, shows these six skills in order of importance.

People unite to share common problems, exchanging ideas and information. This knowledge sharing brings attitudes and behaviours that influence commitment. Entrepreneurs that fail to share information find it difficult to access appropriate knowledge therefore investment in accessing and gaining of knowledge is critical. Knowledge-intensive environments tend to gain greater investment in knowledge development ensuring organisational renewal and growth.

Knowledge sharing occurs within an organisation both formally and informally. Negotiation, leadership and communication skills are therefore of the utmost importance as they were also pointed out by the respondents (rated first, second and third respectively). Problem solving, assessment of issues and critical thinking followed also in third, fourth and fifth place. Employees need to be given the necessary incentives to share their knowledge, whether by a formal or informal reward system or even informal acknowledgement. Successful knowledge management increase staff retention.

To what extent therefore does knowledge sharing occur between employees? Is it just during formal training, meetings, team discussions and so forth or are informal office chats/lunches together and using
each other as sound boards also considered to be knowledge sharing? The findings as well as the literature, in the literature review section above, answered these questions and supported the third hypothesis of Erasmus (2006) in his study that entrepreneurs need certain skills to be successful.

After analysing the data collected it is concluded that entrepreneurs should have a wider skill base (than only the six items discussed above) that would help them understand and interpret also legal, human resources, social and ethical issues. The respondents have indicated that certain skills are necessary for entrepreneurs to be successful in their businesses. They also reflected on their own experiences and the lessons they learned through problems they had to overcome.

REFERENCES


