

See discussions, stats, and author profiles for this publication at: <https://www.researchgate.net/publication/328102968>

INTELLECTUAL CAPITAL STATEMENT (INCAS). AN ASSESSMENT INSTRUMENT FOR MALAYSIAN SMALL AND MEDIUM ENTERPRISE (SMEs).

Conference Paper · October 2018

CITATIONS

0

READS

91

2 authors, including:



[Hussien Nasir](#)

Universiti Malaysia Perlis

13 PUBLICATIONS 14 CITATIONS

[SEE PROFILE](#)

Some of the authors of this publication are also working on these related projects:



THE INFLUENCE OF INTELLECTUAL CAPITAL EFFICIENCY TOWARDS ISLAMIC FINANCIAL INSTITUTIONS PERFORMANCE [View project](#)

INTELLECTUAL CAPITAL STATEMENT (INCAS). AN ASSESSMENT INSTRUMENT FOR MALAYSIAN SMALL AND MEDIUM ENTERPRISE (SMEs).

Hussen Nasir
School of Business
University Malaysia Perlis, 01000, Kangar, Perlis, Malaysia
Email: hussennasir@unimap.edu.my

Abdullah Osman
School of Management
Abu Dhabi University, abu Dhabi, UAE
Email: Abdullah.binosman@edu.ac.ae ,

ABSTRACT

Intellectual Capital (IC) is a knowledge-base equity of organizations has attracted many researcher during last decade. IC is based on the soft assets or tangible assets of the organizations that will help for organizations to create value added products and services. IC is also being increasingly viewed as a key determinant of business performance. Therefore organizations need to identify the analysis of the IC assessment practices that may be the drivers of the traditional indicators of business success. The purpose of this paper is to address this gap by investigating the effects of Intellectual Capital Statement (InCas) and its components on business performance in Malaysian Small and Medium Enterprise (SMEs). The study will be using a triangulation method that involves questionnaire, interview and expert opinion. The questionnaire will be randomly distributed to SMEs. These findings will help SMEs to utilize more of their internal resources to compete and survive the intensely competitive business environment. The implementation of InCaS from the findings of this research may contribute a new paradigm in the field of business strategies. This study is considered a first step in the knowledge-based research concerning intellectual capital in the Malaysian SMEs.

Keywords—Intellectual capital, Human Capital, Structural Capital, Relational capital, SME

Introduction

Intellectual capital (IC) is widely acknowledged as the most critical resource of modern organizations. Nevertheless, empirical evidence on its actual contribution to the dynamics of the value creation process remains scarce, especially within certain sectors and geographic regions. Today's economy is characterized by continuous globalization of markets. SMEs are recognized as important components in much of Western economies. In Malaysia, SMEs have to face several challenges, especially in the light of challenging and volatility of the global market. This includes the abilities of the SMEs to compete globally.

Intellectual capital is a knowledge-based research field that still faces some lack of cumulative theoretical development, presenting challenging opportunities to explore this concept further. From the practical view, this paper will offer evidence that SMEs intellectual capital influences its performance. Thus, it provides a rough guide to help SMEs owner prioritize their efforts in regard to the assessment of InCas used in this research, to support their business performances.

The Malaysian economy has recorded an average 7 per cent growth over the last three decades (Bank Negara Malaysia, 2001). This strong growth was generated by massive inflows of foreign direct investment (FDI) since the 1970s. Most of these FDI are in the manufacturing sector that depends heavily on labor. However, due to increasing labor cost, Malaysia could lose its competitiveness if it continues to depend solely on the production of labor-intensive goods and eventually, this would affect future economic growth. Recognizing the urgency of promoting sustainable economic growth, Malaysia began to promote the development of knowledge-driven economy in the early 2000s. The Knowledge Economy Master Plan, published in 2001, consists of strategies to transform Malaysia from an input-driven to a knowledge-driven economy. Malaysian companies need to change and require a higher level of knowledge mainly in terms of competence and skills, a high degree of technological innovation, and a high degree of interaction between personnel and clients to generate competitive differentiation strategies based on the level of service and assistance provided to the clients (Veltri and Silvestri, 2011). Therefore, it is necessary for the SMEs to invest in their development of human capital, organisational processes and corporate knowledge base in order to make competitive advantage sustainable and durable. Hence, company's intellectual capital is now seen as a major part of its operational resources which showcase competitive advantage. Evidence abound that company's success can be partly explained by its IC efficiency and disclosure (Alipour, 2012; Hamzah & Ismail, 2008).

Intellectual capital (IC) had become the most important source on creating values and competitive advantages (Drucker 1993; Grant 1996). As a result of a higher IC recognition, researchers are also keen to assess its impact on the companies' business performance in companies. IC components as viewed by Edvinsson and Malone (1997) are human capital, relational capital and structural capital. IC performance in the context of this study encompasses the performance of these three components. Published intellectual capital statements (InCas) are rare documents. Several authors (e.g Bontis et al, 1999; Petty & Guthrie, 2000) discuss new forms of reporting systems, which include "non-financial" indicators. Rarely, however, were these reporting systems specifically developed as InCas. There is still a lack of research about firm that set out to develop InCas. Therefore, there is little analysis of situation where intellectual capital statements are seen as answers, just as there is little evidence about question that makes an intellectual capital statement an interesting answer. This study is systematically focusing the influence of intellectual capital components such as human capital, structural capital and relational capital as a tool for competitive advantage on performance of the SMEs, in Malaysia. Among the objectives of this study is to fill the gap by investigating the affects of Intellectual Capital Statement (InCas) and its components on business performance of the Malaysian Small and Medium Enterprises (SMEs).

LITERATURE REVIEW

Malaysia SME's Performance Scenario

SMEs are crucial to the development of the Malaysian economy. SMEs have long been recognized as the backbone to the economy as they account for more than 90% of total establishment and are important generators of employment and growth. A highly skilled and competent workforce is integral to Malaysia's economic growth. While improving profitability should be the goal for the companies, organizations should also pay attention to human capital

development as its workforce is the key to their success. With a significant role to play in helping the country realize its goal of becoming a high income nation and boost the sector's contribution to the country's GDP, SMEs must be willing to adopt latest technology and incorporate innovation as part of their business strategies moving forward. Considerable studies in literature show the important roles that SMEs play in the national economy and development (Hashim, 2007 and Janiunaite, 2010). The significant contributions to the economy can be seen in terms of creating opportunities for jobs and providing considerable amounts to the gross domestic product (GDP) and these factors have been accepted worldwide. Additionally, SMEs provide valuable contributions to the economy and society through the creation of the entrepreneurial spirits, innovations and new business ventures that is crucial for fostering competitiveness, fighting poverty and contributing to a stable family income. The contribution and improvement of firms' performance is primarily through the ways that they use the more valuable external resources wisely. The ability to compete in a dynamic market depends on innovation practice and more intellectual capital which can provide SMEs with support to sustain the solution of the issues of weak performance. SMEs are chosen since they make up 97.3 percent of business establishments in Malaysia but in economy they contribute only about 32.5 percent of GDP and 19 percent of total export value (Economic Census, 2011).

Intellectual Capital

"Knowledge-based economy" is a term which has been widely used to describe the situation in today's world. Knowledge-based resources are described as the main source in sustaining competitive advantage of a company (Ting & Lean, 2009), and knowledge production has been regarded as part of the value creation process (Pulic, 2008). This transformation created a new perspective in viewing company resources. In the knowledge based economy, Intellectual Capital (IC), which affects business performance, is critical in value creation (Edvinsson, 1997; Lynn, 1998; Pulic, 1998). As a result of a higher recognition of IC, researchers are keen to assess its impact on the business performance in companies. Various attempts have been made towards developing a widely accepted definition of IC, until most authors finally agreed on its basic parameters. Klein & Prusak (1994) contributed to the creation of a universal definition by defining IC as the intellectual material that can be formalised, captured and leveraged to produce a higher value asset. In the same vain, Edvinsson and Malone (1997) defined IC as the knowledge that can be converted into value. Stewart (1997) argued that intellectual resources such as knowledge, information and experience, are the tools for creating wealth and defined IC as the new wealth of organizations. Sullivan (2000, p. 17) defined IC as "knowledge that can be converted into profits". Thus, there is a need to examine more closely the specific dimensions of intellectual capital that are crucial to the firm performance. Although there is a variety of IC definitions, mostly due to the fact that both knowledge- based and economic-based approaches exist (Burr & Girardi, 2002; Walsh et al., 2008), a considerable number of scholars and practitioners identify three basic components of IC; human capital, structural capital and customer (relational) capital (Bontis, 1998; Edvinsson, 1997; Holton & Yamkovenko, 2008; Mavridis & Kyrmizoglou, 2005; Tayles et al., 2007; Yang & Lin, 2009; Zerenler & Gozlu, 2008; Wall, 2007; Walsh et al., 2008).

Human Capital.

Human capital is the collection of intangible resources that are embedded in the members of the organization consisting of competencies (including skills and know-how), attitude (motivation, leadership qualities of the top management), and intellectual agility (innovation and entrepreneurship, etc). Human capital represents the individual knowledge stock of an organization as represented by its employees⁴. Employees generate IC through their competence, their attitude, and their intellectual agility (Roos, 1997). Competence includes skills and education, while attitude covers the behavioral component of the employee's work. Intellectual agility enables one to change practices and to think of innovative solutions to problems.

Structural Capital

Structural capital represents the organization's capabilities to meet its internal and external challenges. It includes infrastructures, information systems, routines, procedures, and organizational culture. Structural capital is the skeleton and the glue of an organization because it provides the tools (management philosophy, processes, culture) for retaining, packaging, and moving knowledge (Bontis, 1999 and Roos, 1997) . Structural capital in this study is made up of systems and processes (such as company strategies, computers, tools, work routines, and administrative systems) for codifying and storing knowledge from individual, organization, and external supply chain partners.

Relational Capital.

Relational capital involves a thorough understanding of the knowledge embedded in customer preferences and market channels, including suppliers and relationships with government or related industry associations (Steward, 1991). It can be defined as “the actual and potential resources in individual obtain from knowing others, being part of a social network with them, or merely being known to them and having a good reputation. Relational capital involves the firm’s ongoing relationships with the people or organizations it services, like market share, customer retention, defect rates, and per customer profitability. Relational capital in this study is defined as the network resources of a firm. It result from interactions between individual, organization, and external supply chain partners.

IC is a term that has grown in popularity in the last decade. The term intellectual capital was first coined by economist John Kenneth Galbraith in 1960s (Steward, 1991). This article that recovers the term intellectual capital after more than three decades has bring and impact and influence the management and research agenda. IC research provides a theoretical bridge for exploring the linkage between the static notion (i.e., knowledge stocks) and the dynamic notion (i.e., knowledge flows) of the firms’s resourced-based view. The resource and the knowledge-based view of the firm are the frameworks for the theoretical development of intellectual capital. The intellectual capital literature also provides holistic perspective of value creation for strategic management of the firm (Cabrita, 2008).

Earlier researcher (Riahi, 2003) proved that intellectual capital is essential in the firm survival and competitive success as there is significant link between intellectual capital and firm performance. The competitive success of companies depends more on the strategic management of intellectual capital and less on the strategic allocation of physical and financial resources. The fact that intellectual capital underpins firm future value (Riahi, 2003), relevant to this understanding on how intellectual capital can translate into higher organization. Hence, the intellectual capital statement towards business performance can be hypothesized as:

H₁: The human capital assessment in InCas has positive relationship with the business performance.

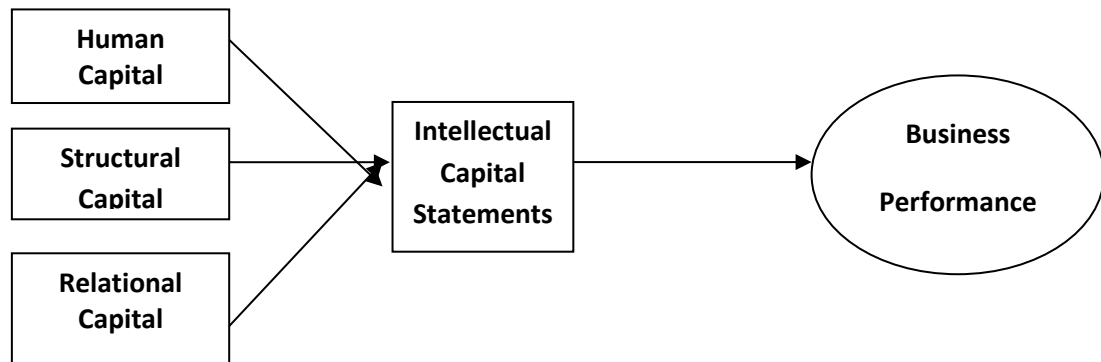
H₂: The structural capital assessment in InCas has positive relationship with the business performance.

H₃: The relational capital assessment in InCas has positive relationship with the business performance.

H₄: Business performance level will improve by adapting Intellectual Capital Statement (InCas) .

THEORETICAL FRAMEWORK

Based on the previous reviews, the proposed framework can be proposed as Figure 1 below:-



METHOD AND MEASUREMENT

The study will be using a triangulation method that involves questionnaire, interview and expert opinion. The questionnaire will be distributed to Malaysian SMEs listed under SME Corporation in order to gain the information on the implication of implementing Intellectual Capital Statement (InCaS) in Malaysia. Then, the data again will be supported by the interview session. The interview will be conducted to the several Head of Department in that particular SMEs. The analysis of the data will be using SPSS for the quantitative data while qualitative data gained from interview will be using NVIVO.

CONCLUSION

It is concluded that SMEs must work hard to promote modern business practices such as innovation and intellectual capital. There are plenty of growing opportunities for SMEs. With the growing economic activities, SMEs which are unable to keep up with the trends will face the risk of being left behind. This study aimed at shedding light on the existing body of knowledge related to the Intellectual capital statement.

This conceptual paper will contribute to new findings in term of assessment of IC component which will impact for developing Intellectual capital statement (InCas). InCas will offer great chances for SMEs which are the backbone of the country economy. Intellectual Capital Statement (InCas) will provide knowledge management tools and techniques that enables SMEs detect their intellectual capital and to communicate it before practicing its improvement and innovative application. InCas has already been moving forward in European counties with Intellectual Capital (Incas)-Made in Germany, Incas-Made in Sweden and Incas-Made in Europe. Noteworthy, with this in mind and proper future planning will then be able to develop Intellectual Capital Statement (InCas)- Made in Malaysia.

REFERENCES

- Alipour, M. (2012). The effect of intellectual capital on firm performance: an investigation of Iran insurance companies. *Measuring Business Excellence*, 16(1), 53-66.
- Bontis, Nick, "Managing Organizational Knowledge by Diagnosing Intellectual Capital: Framing and Advancing the State of the Field," *International Journal of Technology Management*, 18:5-8 (1999), pp.433-462.
- Bontis, N. (1998), "Intellectual capital: an exploratory study that develops measures and models", *Management Decision*, Vol. 36 No. 2, pp. 63-76.
- Burr, R. and Girardi, A. (2002), "Intellectual capital: more than the interaction of competence & commitment", *Australian Journal of Management*, Vol. 27, special issue, pp. 77-87.
- Cabrita, Maria do Rosario, Jorge Landeiro de Vaz, and Nick Bontis, "Intellectual Capital and Business performance in the Portugese Banking Industry," *International Journal of Technology Management*, 43:1-3(September 2008), pp.212-237.
- Drucker, P. F. (1993). The rise of the knowledge society. *Wilson Quarterly*, 17(2), 52-71.
- Edvinsson, L. and Malone, M.S. (1997), *Intellectual Capital: Realizing Your Company's True Value by Finding Its Hidden Brainpower*, Harper Business, New York, NY.
- Edvinsson, L. (1997) "Developing intellectual capital at Skandia", *Long Range Planning*, Vol. 30 No. 3, pp. 366-73.
- Grant, R. M. (1996). Toward a knowledge-based theory of the firm. *Strategic management journal*, 17(S2), 109-122.
- Holton, E.E. and Yamkovenko, B. (2008), "Strategic intellectual capital development: a defining paradigm for HRD?", *Human Resource Development Review*, Vol. 7 No. 3, pp. 270-91
- Hashim. M. K. (2007). *Small and Medium-Sized Enterprises Development in Malaysia; Program and Evaluation an Overview*. Universiti Utara Malaysia. Sintok, Malaysia.
- Janiunaite, B., & Petraite, M. (2010). The relationship between organizational innovative culture and knowledge sharing in organization; the case of technological innovation implementation in a telecommunication organization. *Socialiniai mokslai*, 3 (69), 14-23.
- Klein, D. A., & Prusak, L. (1994). Characterizing intellectual capital. *Center for Business Innovation, Ernst & Young LLP*.
- Mavridis, D.G. and Kyrmizoglou, P. (2005), "Intellectual capital performance drivers in the Greek banking sector", *Management Research News*, Vol. 28 No. 5, pp. 43-62.
- Maditinos D, Chatzoudes D, Tsairidis C and Theriou G (2011), "The Impact of Intellectual Capital on Firms' Market Value and Financial Performance", *MIBES Transactions*, Vol. 5, No. 1, pp. 58-72.

- Petty, R., & Guthrie, J. (2000). Intellectual capital literature review: measurement, reporting and management. *Journal of intellectual capital*, 1(2), 155-176.
- Stewart, T. (1997), *The New Wealth of Organizations*, Doubleday, New York, NY.
- Roos, J., Roos, G., Edvisson, L. and Dragonetti, N. C. (1997) *Intellectual Capital. Navigating in the New Business Landscape*. London Macmillan Press Ltd.
- Riahi-Belkaoui, A.(2003) “Intellectual Capital and Firm Performance of US Multinational Firms. A Study of the Resource-Based and Stakeholder Views.” *Journal of Intellectual Capital*, 4, 215-226.
- Steward, Thomas, “Brainpower,” *fortune*, 6 (June 1991), pp. 44-57
- Sullivan, P.H. (2000), *Value-driven Intellectual Capital: How to Convert Intangible Corporate Assets into Market Value*, John Wiley & Sons, Toronto.
- Tayles, M., Pike, R. and Sofian, S. (2007), “Intellectual capital, management accounting practices and corporate performance”, *Accounting, Auditing & Accountability Journal*, Vol. 20 No. 4, pp. 522-48.
- Veltri, S. and Silvestri, A. (2011), “Direct and indirect effects of human capital on firm value: evidence from Italian companies”, *Journal of Human Resource Costing & Accounting*.
- Wall, A. (2007), “The measurement and management of intellectual capital in the public sector”, *Public Management Review*, Vol. 7 No. 2, pp. 289-303.
- Walsh, K., Enz, C. and Canina, L. (2008), “The impact of strategic orientation on intellectual capital investments in customer service firms”, *Journal of Service Research*, Vol. 10 No. 4, pp. 300-17.
- Wei Kiong Ting, I., & Hooi Lean, H. (2009). Intellectual capital performance of financial institutions in Malaysia. *Journal of Intellectual capital*, 10(4), 588-599.
- Yang, C.C. and Lin, C.Y.Y. (2009), “Does intellectual capital mediate the relationship between HRM and organizational performance? Perspective of a healthcare industry in Taiwan”, *International Journal of Human Resource Management*, Vol. 20 No. 9, pp. 1965-84.
- Zerenler, M. and Gozlu, S. (2008), “Impact of intellectual capital on exportation performance: research on the Turkish automotive supplier”, *Journal of Transnational Management*, Vol. 13 No. 4, pp. 318-41.
- Economic Census.(2011). Department of statistics, Malaysia (DOSM). Kuala Lumpur: Malaysia Government.
- UNDP (2007) *Malaysia Small and Medium Enterprise-Building an Enabling Environment*. Available