

Is SMEs Ready to Manage Intellectual Capital?

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Abstract: Intellectual Capital is crucial for high tech modern enterprises. There are various challenges faced by the SME's in intellectual capital management but the main challenges faced by the SME's are human capital management. The purpose of the study is to examine various challenges faced by the SME's in intellectual capital management. Purposive sampling technique has been used in the study. The main eight manufacturing sectors of SME's were targeted in the study. The sample data was collected from different state of Punjab. Out of 1200 SME's only 945 SME's fill the questionnaire. Frequencies are used for analysis. The finding of this paper was that the two major challenges faced by the SME's in Intellectual Capital (IC) management are 'lack of entrepreneurial traits' and 'training and development is considered as expense in the organization' This research will provide a valuable framework for entrepreneurs, executives, managers and policy makers in managing intellectual capital within the SME's. This paper will also helpful for the researcher, academicians and SME's entrepreneurs about the application of intellectual capital to improve the firm performance.

Key Words: Intellectual Capital, Small-Medium-sized Enterprises

I. INTRODUCTION

Intellectual Capital (IC) is the collective knowledge of the firm such as technologies, information, skills, intellectual property, expertise, team management, customer loyalty, and intellectual power which can be used to generate value for the products and services in the organizations. Identifying valuing reporting and managing IC plays a crucial role in the current ever-challenging and aggressive business environment for sustainable performance (Bollen et al., 2005). In 21st century, organizations cannot survive without Knowledge assets. Most of the researcher considers the intellectual capital (IC) as the backbone of knowledge-based economy. Therefore, only those organizations will stay alive who have knowledgeable workers and abilities to explore or utilize their IC effectively. Intellectual Capital (IC) is heterogeneous knowledge base resources. It is necessary to split IC into dimensions and analyze each component separately. IC is the main tool for the management and improves the company's performance. IC is consider as primary strategic source of organizational effectiveness (Ahmad and Mushraf, 2011; Cohen and Kaimenakis, 2007).

IC dimensions are the important resources of firm competitiveness and superior wealth creation. Most of the researcher defines only three components of IC that is human, structural and relational capital (Isa et al., 2008; Ntayi et al., 2010; Jardon and Martos, 2012; Mura and Longo, 2013; Albertini and Remy, 2019; Yediati et al., 2019).

Ismail, (2005) broaden the model of IC and he introduces three more component of IC that was social and spiritual and technological capital (Cabello and Kekale, 2008). Khalique et al., (2011) propose an IC Model which includes major six dimension of IC such as human, structural, relational, social, spiritual and technological capital (Khalique and Isa, 2014). There is one more important component of IC that was renewal capital (Tovstiga and Tulugurova, 2007; Rasekh et al., 2012). Renewal capital refers that how organization respond to future challenges in the market. Ahangar, (2010) stated IC as intangible assets which is used to achieve business competitiveness.

In changing economic scenario the small and medium enterprises (SME's) face both the opportunity and challenges. The support given by the governments and non government intuitions to the SME's is inadequate to solve their problems. SME's sector is not fully utilizing its potential resources, therefore the entrepreneurs along with the government need to take necessary steps for the development of SME's. SME's put significant contribution to economy of India. Despite of their significant contribution still small and medium enterprises face various challenges such as: poor infrastructure, inadequate economic resources, lack ability among workers, outdated production facilities, insufficient management skills, low technical capability, lack of government support, complex taxation system, various legal formalities, difficulty to get loans from financial institution, mismanagement of intellectual assets and lack of access to networks (Khalique et al., 2012; Khalique et al., 2015). So that there is need for promoting the knowledge capital for economic growth of the SME's. IC is the vital resource that drives economic growth in SME's.

This paper highlights the various challenges faced by the SME's in Intellectual Capital management. This paper organize in five major sections: introduction; literature regarding the various challenges faced by SME's in IC management, research methodology; discussion of result, finally conclusion and implication for strategic decision maker in emerging cluster of SME's. This research is focused on only those small and medium-sized manufacturing companies whose investment in plant and machinery were more than 25 lakh but less than 10 crore rupees (As per the definition of MSME act, 2006).

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II. LITERATURE REVIEW

In Knowledge based economy Intellectual Capital (IC) management was an important and critical resource for an organization to achieve competitive advantage. Various governmental institutions and agencies established the support programs for the promotion of SME's. But SME's face various challenge in Intellectual Capital development such as lack of technology, lack of managerial capabilities, lack of productivity, lack of social and professional business network, lack of good contacts with others international and local enterprises were the major challenges faced by SME's in Intellectual Capital management (Bernnan and Connel, 2000; Aroa Aarti, 2014; Iheriohanma and Chukwuma, 2009; Abosedel and Onakoya, 2013). Intellectual Capital development was the major challenges faced by the entrepreneur.

For the entrepreneur it was difficult to manage personality and traits implementing change management and legal protection of intellectual property rights, creating business culture and R&D and Innovations and all these challenges were the major problem for Intellectual Capital development (Abosedel and Onakoya, 2013). Therefore there were various program and schemes designed by the government to develop IC in SME's. Most of the studies concluded the major challenges faced in IC management were human capital management (Abdalla and Homoud, 2012; Ghosh et al., 2009; Aarti Aroa, 2014; Abosedel and Onakoya, 2013). In modern and high tech environment SME's has to pay full attention on marketing channels, products innovation services, get better the research and development capability on market to deal with IC challenges. Recently, Intellectual Capital is gaining popularity among the researchers and Indian researchers more emphasis on the valuation of Intellectual Capital for accounting purposes only. Earlier, most of the studies focus on only three dimensions of intangible assets that were human, structural and relational. Very few numbers of studies try to explore the new challenges regarding IC.

III. RESEARCH MEHODOLOGY

A. Study Area

The sample data was collected from the different districts of Punjab state in India. Purposive sampling technique was used in the study. Eight main manufacturing SME's sectors were targeted on the basis of number of units according to the Annual report of MSME's 2013 -2014 and these sectors are Textiles sector, Rubber and Plastic products, Food Product and beverages, Non Metallic Mineral products, Furniture, Wearing apparels/ dressing & dyeing, Fabrication of metal products, Machinery and equipments. A total 1200 SME's were taken as sample and 150 SME's were considered from each sector. Only those SME's were targeted who have investment in plant and machinery ranges from 25 lakh to 10 crore as per MSME regulation act, 2006. The present study's sample comprised 1200 manufacturing SME's out of which only 945 SME's able to fill the questionnaire. The list of SME's collected from the district industrial centre of different cities of Punjab.

B. Sampling design

The research was conducted through quantitative survey. The primary data was collected from the SME's owner,

executive managers, directors and senior managers and business partners who were responsible for the organizational performance. The respondent was interviewed by using questionnaire at their home and office. All the questionnaires were distributed and collected personally. The secondary data was composed from the books, journals, annual report of ministry of SME's. The list of the manufacturing SME's collected from district industries centers. Various government records and websites of chamber of industrial and commercial undertakings and website of district industrial centre have been used for the selection of SME's. CRISIL rated SME's annual reports has been used to select the sample. Some of the SME's sample selected from the list of CICU and JCIC. Frequencies are used for the analysis and rank the items.

C. Sample Profile

Table1. Sample Profile of Respondents

Criteria	Category	No of Respondents	%age
Types of Firm	Sole proprietorship	124	13.12
	Partnership	28	2.96
	Private Company	759	80.31
	Other Specify	34	3.59
Type of Industry	Wearing Apparels	141	14.9
	Textile	147	15.5
	Food Product and Beverages	116	12.27
	Rubber and Plastic	122	12.91
	Furniture	74	7.83
	Non- Metallic Mineral Product	68	7.19
	Fabricated Metal Products	149	15.76
	Machinery And Equipments	128	13.54
On the basis of Investment in Plant and Machinery	Small	878	92.9
	Medium	67	7.1
Position in the Firm	Owner	400	42.32
	Co-Owner	72	7.61
	Partner	50	5.29
	Senior Managers	150	15.8
	Supervisor	260	27.51
	Others	13	13.75

IV. ANALYSIS AND DISCUSSION

Following table highlight the various intellectual capital challenges faced by the SME's.

Table1. Challenges Faced by SMEs in Intellectual Capital Management

Dimensions	Statements	%age	Rank
Human Capital	Lack of entrepreneurial traits	76.7	1
	Problem to retain specialized work force	31.2	18
	Training and development is considered as expense in the organization	68.4	2

	Non availability of skilled labor at affordable cost	36.5	14
Structural Capital	Inadequate infrastructure facilities	48.1	10
	Lack of sound organizational culture	32.3	17
	Difficulty in legal protection of the firm	42.4	13
	Difficult to maintain the record of manual database	33.4	16
	Various taxes and laws increase the administrative cost	54.7	4
Relational Capital	Difficult to satisfy all the requirements of customers	51.4	8
Social Capital	Lack of distribution networks	53.4	5
	Problem to access the international market	50.1	9
	Lack of unity among employees of the firm	52.1	7
Technological Capital	Non availability of suitable technology at affordable cost	53	6
Others	Difficulty to obtain finance	47.3	11
	Lack of incentives to improve the firm efficiency	34.5	15
	Lack of information about the various schemes announced by the government	45.7	12
	Unrealistic expectation of employees	31.2	18
	Deficiency in the company resources which restrict to the target opportunities	56.7	3

Source: Calculation through SPSS

From above table it is evident that 76.7% SME's face major challenge in the Intellectual Capital management was the 'lack of entrepreneurial traits'. Second major challenges was 'Training and development is considered as expense in the organization' faced by the 68.4% SME's. Third major challenges faced by 56.7 % SME's were 'Deficiency in the company resources which restrict to the target opportunities'. These three major challenges faced by the SME's in Intellectual Capital management. In KBE, Intangible assets appeared to be the most significant critical factor for organizational success. Therefore there is need to focused on these challenges for improving performance of SME's.

Only 31.2% SME's very less number SME's face these two challenges 'Unrealistic expectation of employees' and 'Problem to retain specialized work force in IC management ranked as 18. From above analysis we know that what kind of major challenges faced by the SME's in Intellectual Capital management. There is need to focus on these challenges for improving performance of SME's.

V. DISCUSSION AND CONCLUSION

Our finding also consistent with the finding of Abosedel and Onakoya, (2013) they also concluded that creativity and knowledge was an important for successful intellectual entrepreneurship (Djilali, *et al.*, 2012). Training helps to improve the skills of new recruits. Training and education help to create share and use of knowledge to improve the organization performance (Abdalla and Homoud, 2012). In knowledge based economy there is need to strengthen the company resources for achieving global competitiveness (Abosedel and Onakoya, 2013; Djilali *et al.*, 2012; Khaliq *et al.*, 2011).

While interacting with the SME's respondents we found that SME's employees were less educated but highly experienced and innovative. In SME's very less opportunity has been given to the employees to use their knowledge freely. Therefore there was need to provide proper dynamic environment to the workers where they discuss their business ideas with all over Firm.

This study reveals the three major challenges faced by SME's in intellectual capital management are 'lack of entrepreneurial traits' and 'Training and development is considered as expense in the organization' and 'Deficiency in the company resources which restrict to the target opportunities'.

Overall the major problem face by the SME's is lack of finance and availability of resources. Finance is the starting point of every business. Due to various financial problems SME's not able to access the suitable technology at affordable cost (53%). Most of the SME's not aware about the various schemes and programs to support SME's. According to the study (45.7%) SME's suffer from Lack of information about the various schemes announced by the government and (34.5%) face lack of Incentives.

VI. IMPLICATIONS

A. Implication for Mangers and Owners

The managers of SME's know that how to apply these indicators in the business. This Intellectual Capital measures also help SME's owners and managers to know that where they were lacking and which indicators need strengthen in the firm. This research may develop a new attitude of company toward the IC. Managers and owners need to strengthen the relational capital through improving relation with customers and suppliers and developing global networks. Renewal capital is most important components for strengthening the firm capabilities because it encourage new ideas, innovation capability, adopt changing business environment. Spiritual capital components very rarely examined by researcher but spiritual capital also important for OP. Effective spiritual capital help to create the sense of belongingness and honesty among the employees. For optimum utilization of knowledge resources organizations need to develop an efficient and effective organizational routines, processes intellectual assets which could help to improve the organisation performance.

So that to deal with these challenges SME's need to pay full concentration to the maximum use of information and technology, access to international market, develop strong communication system, give professional training to the employees. For the adequate availability of resource and for the access of international market SME's need to develop cooperative environment in the business, strategic collaboration with their competetitors, develop good relation with competetitors and government institution.

B. Importance for the Government

Government and policy makers know what kind of major challenges faced by the manufacturing SME's. Therefore government can come up with various schemes and programs for the development of SME's such as training of workers and entrepreneurs, formalization of production processes, technology up gradation and technology acquisition.

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There is need to aware the SME's about various schemes and programs so that they can take the advantage of these schemes to enhance intangible resources in their business.

C. Future Research

This study focused only on manufacturing sector only in SME's. This study also provides future opportunities for extending similar research in different countries with same scale in different sector. Research on similar lines can be conducted by taking the set of large sample industries for greater generalization of results. Future researchers also use same scale to test the sector wise comparison.

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1. ANNEXURE

Table2. Self Developed Scale used for Measuring the Intellectual Capital Challenges

	Statements	Source
Human Capital	1 Lack of entrepreneurial traits	Abdalla and Homoud, 2012; Aarti Aroa, 2014; Iheriohanma and Chukwuma, 2009; Khalique et al., 2011; Khalique et al., 2012; Ford et al., 2007; Costea, 2005; Djilali et al., 2012; Abosedel and Onakoya, 2013
	2 Problem to retain specialized work force	
	3 Training and development is considered as expense in the organization	

Structural Capital	4	Non availability of skilled labor at affordable cost	Khalique <i>et al.</i> , 2012; Ford <i>et al.</i> , 2007; Abosedel and Onakoya, 2013	
	5	Inadequate infrastructure facilities		
	6	Lack of sound organizational culture		
	7	Difficulty in legal protection of the firm		
	8	Difficult to maintain the record of manual database		
Relational Capital	9	Various taxes and laws increase the administrative cost		
	10	Difficult to satisfy all the requirements of customers		
	11	Lack of distribution networks		
	12	Problem to access the international market		Thraymbakam, 2013; Khalique <i>et al.</i> , 2012; Ford <i>et al.</i> , 2007; Bernnan and connel, 2000
Capital	13	Lack of Unity Among Employees of the Firm		Abosedel and Onakoya, 2013; Ford <i>et al.</i> , 2007
	14	Non availability of suitable technology at affordable cost		
Others	15	Difficulty to obtain finance		Ghosh <i>et al.</i> , 2009; Bernnan and Connel, 2000; Abdullah and Homoud, 2012; Abosedel and Onakoya, 2013
	16	Lack of incentives to improve the firm efficiency		
	17	Lack of information about the various schemes announced by the government		
	18	Unrealistic expectation of employees		
	19	Deficiency in the company resources which restrict to the target opportunities		

Source: Self Developed Scale used for measuring Intellectual Capital Challenges

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