Chapter 17
Intellectual Capital in Malaysian SMEs:
A Case Study of the Food Sector in Kuching

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ABSTRACT

The aim of this chapter is to shed light on the concept and application of intellectual capital in the food industry in Kuching, Malaysia. There is no doubt that intellectual capital is a most important strategic asset for the success of organizations. In a competitive business environment, intellectual capital has been a vital element of success, particularly in Small and Medium Enterprises (SMEs). The purpose of this study is to examine the role of intellectual capital in order to enhance the business performance of SMEs operating in the food industry in Kuching, Malaysia. In this chapter, three components of intellectual capital, namely human capital, customer capital, and structural capital, are employed to examine the role of intellectual capital in SMEs. A structured questionnaire with a five-point Likert Scale was used to gather the data from the targeted respondents by using a convenience-sampling technique. A total of 200 questionnaire sets were distributed to the targeted respondents. From the total distributed questionnaires, a total of 194 respondents gave their feedback. Four research hypotheses were addressed to find the objectives of this study. To test the proposed research hypotheses, multiple regression technique was used. The findings of this study show that the three components of intellectual capital collectively and individually have positive and significant relationships with the business performance of baking SMEs. Subsequently, the four hypotheses of this study were supported. This chapter is a preliminary study about the baking SMEs operating in the food sector in Malaysia.

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1. INTRODUCTION

In contemporary business environment the term intellectual capital has secured an overwhelming response from researchers, academicians and entrepreneurs. Intellectual capital refers to the intangible assets which contribute to create value added products and services that would lead to enhance the performance of organization (Edvinsson & Malone, 1997; Khalique, Mansor, Isa, & Shaari, 2014; Ordonez de Pablos, 2004; Roos & Roos, 1997; Stewart, 1997). In the business domain capital refers to any form of the assets that help to generate future cash flow. In agro based economy and production based economy tangible or physical and financial assets of the organization were very important. Now the world economy is going to shift from production based economy to a knowledge based economy. Primarily knowledge-based economy is mainly based on intellectual capital. The idea of intellectual capital has gained overwhelming response from many organizations in developed world. Many researchers such as (de Castro & Sáez, 2008; de Pablos, 2003; Isaac, Herremans, & Kline, 2010; Kozak, 2011; Diez, Ochoa, Prieto, & Santidrián, 2010; Ordonez de Pablos, 2004; Stewart, 1997; Subramaniam & Youndt, 2005; Sullivan, 2000; Tovstiga & Tulugurova, 2007) highlighted the concept and applications of intellectual capital in organizations to take a competitive edge in contemporary business environment. However, in developing economics the role of intellectual capital in organizational performance is still unexplored. There in depth research is required to explore the role of intellectual capital in SMEs operating in developing economics to encounter today’s business challenges.

Presently the Malaysian economy is based on production based economy. The factors creating values in the production are physical asset such as land, labor, and capital. Economy in Malaysia in the late 1970s and 1980s was based on production that brings attention to activities that make the calculation which forced employer to update workforce skill (Bontis, Chua and Richardson, 2000). Malaysian food industry is rich in terms of agricultural and tropical resources reflecting various cultures in Malaysian society. Improvement of performance in the manufacturing sector also reflects the spreading of the industrial sector’s output, sales value and productivity (MIDA, 2012). With the increasing worldwide rivalry and higher standard of living, food industry have to ever more offer valued added products and services. Therefore, this study attempted to cover food industry and focus on the bakery sector to examine the role of intellectual capital to take a competitive edge. In order to meet the coming challenges, and to gain competitive advantage, and enhance the business performance, food industry needs to improve their efficiency by using all resources and more specifically their intellectual capital. Ong et al. (2011) argued that it is critical for all the organizations to be aware of the intellectual capital which could create value and enhance the performance. Intangible assets are initial to give a better portion of the value earned surrounded by the food sector. Food industry has major concern about the Halal issue. Halal is a primary concern for Muslim consumers to buy food products. The Muslim population around the world is around 2 billion and it reflects a substantial and fragile market for Halal food. Ong et al. (2011) claimed that Malaysia has been recognized as Halal Food Hub and it’s a great opportunity for food industry to capitalize this opportunity by using their intellectual capital wisely.

2. INTELLECTUAL CAPITAL

Intellectual capital is considered as the most important strategic asset for the success of the