Do Malaysia and Pakistan are suitable for a comparative study of SMEs: an intellectual capital perspective?

Muhammad Khalique
PhD Student
Faculty of Economics and Business
University Malaysia Sarawak

Abstract

Intellectual capital appears as the most important and vital component of a knowledge-based economy. Present economy is known as a knowledge-based economy where, knowledge, information and soft assets have more importance rather than the physical assets. The role and importance of SMEs in a knowledge-based economy has been highly appreciated and acknowledged. Moreover, in the present economy, SMEs are facing tremendous challenges and threats to survive in a competitive environment. In a competitive environment the high-tech SMEs need to upgrade their intellectual capital including knowledge, database, technological advancement and innovation in order to stay in a competitive environment. Therefore, SMEs need to focus on the exploitation and application of their intellectual capital.

Keywords: Malaysia; Pakistan; Suitable; Comparative study; SMEs; Intellectual Capital perspective

Introduction

The role of small and medium enterprises has historically been recognized as a critical catalyst towards contributing to the economic development and growth of many countries around the world. In fast changing competitive global market, SMEs have strong influence on the economics of many countries especially through their ability to innovate new products and process (Bruque and Moyano, 2007; Zeng, Xie and Tam 2010). Small and medium enterprises are the engine of innovation, economic growth, employment growth, revenue generation and technological advancement in most advanced economies (Acs and Audretsch, 1990; Neck and Dockner, 1987; Kotey and Meredith, 1997; Butta and Asad, 2008). Moreover, the contribution of SMEs in emergent economies had also been acknowledged to have played crucial role in the development of economy (Schlogl, 2004). There is no doubt that most of large size businesses start as a small business or at micro level. Many researchers agreed that the SMEs are the backbone of economic development and growth. Feeney and
Riding, (1997) and Fida (2008) argued that SMEs play a vital role in the development of a country in various ways, such as job creation for growing labor, providing desirable sustainability and innovation in the economy as a whole. Further they argued that a significant numbers of people rely on the small and medium enterprises directly or indirectly for employment. Hall and Harvie (2003) argued that small and medium enterprises play an important role in creating jobs, social uplifting and building a flexible and adaptable base for an internationally competitive economy. In addition, they stipulated that the contribution of SMEs attract significant attention from policy makers in terms of industrial renewal, employment creation, export growth and productivity in the economy of the country. The contribution of SMEs in developed countries is also very important and it considered as the main source of employment and income generation. Similarly, the SMEs also has critical role in developing countries. In developing countries, a significant proportion of population is directly or indirectly dependent upon the SMEs. Therefore, the contribution of SMEs is highly recognized at the global level and this has alerted authorities around the world to give more focus on SMEs.

Globalization is pushing the countries to cooperate with each other in order to acquire competitive advantage and becoming more innovative. It is indispensible for countries to understand the similarities and differences among their culture, social, economic, religious beliefs and technological development to materialize their interests. Developed and developing countries are considered to have inherited different cultures and values (Waheed, Schuck, Devreese and Neijens 2011). Developed countries are economically richer and are associated with individualistic cultures (Hofstede 1983; Matsumoto 1990), while developing countries are economically poorer and are associated with collectivist cultures (Hofstede 1983). In Asia, most governments are encountering two major policy problems, namely, creation of jobs and the creation of an internationally competitive industrial structure (Hall and Harvi, 2003). Small and medium enterprises (SMEs) can play a significant role to address these issues. SMEs are generally considered as being good at job creation and providing a major source of competitive renewal for an industrial structure. SMEs are dynamic in nature and are also playing significant role in exports. SMEs are participating and playing critical role in all the Asian economies, normally contributing over 99% of enterprises, over 60% of private sector employment, about 30% of the exports (Hall (2002).
Malaysia and Pakistan are the two major Muslim developing countries in Asia. The economy of both countries is mainly based on SMEs (Khalique, Isa & Shaari, 2011b; Khalique, Shaari, Isa & Ageel, 2011d). These two countries are enjoying their strong relationship in trading, economics development, consultancy services and social and cultural benefits. Malaysia and Pakistan present a motivating comparison because both countries are sharing their common values in social, cultural and religious beliefs. Malaysia and Pakistan are multi-cultural, multi-ethnic and multi-linguistic countries. Both countries obtained independence from Britain -Pakistan in 1947 and Malaysia in 1957 (Arifeen, 2010). In addition Arifeen (2010) also reported that, (Hofstede, 1983) Malaysia and Pakistan are in same cultural group. Therefore, both countries have many things in common to share and exchange, in order to achieve their selected vision such as Malaysia vision 2020 and Pakistan’s Vision East Asia.

SMEs in Malaysia

Small and medium enterprises are playing critical contribution in the development and growth of Malaysian economy. Malaysian economy is mainly based on SMEs. The government took many steps such as establishing various agencies, polices and departments to strengthen SMEs (Abdullah et al., 2006; Khalique et al., 2011a). The commitments of the government concerned for the development of SMEs are highly acknowledged. The evidence showed that, from the early 1970s especially with the beginning of the New Economic Policy in 1971, which was aimed to improve people’s welfare and to restructure ethnic economic imbalances. In the same way, the dedication of the government to strengthen SMEs was also stressed in the second Industrial Master Plan (IMP2), which was ended in 2005. The Third Industrial Master Plan (IMP3) which was introduced from 2006-2020, was formulated in order to achieve the selected targets with the country’s vision of a developed nation for 2020 (MITI, 2005). In the same magnitude Jamil and Mohamed (2011) indentified that in New Economic Policy (NEP), SMEs have secured pivotal position from the government. In addition, they argued that SMEs have long been recognized as the backbone to any economy and it is vital for the generation of employment and growth. SMEs account for about 99% of total business establishments and contribute to 31% to 47.3% of the GDP (SME Annual Report 2009/10; Thurasamy, Mohamad, Omar and Marimuthu 2009; Khalique et al., 2011d). Moreover, the contribution of SMEs in job creation is also highly significant. SMEs
employed 65.3% of the national workforce in Malaysia for the year 2006 (Thurasamy et al., 2009)

There is no doubt, that the contribution of SMEs in all sector of economy is very critical and productive. Moreover, SMEs are also playing very crucial role in the manufacturing sector of the Malaysian economy (Kassim and Sulaiman, 2011). The contribution of SMEs in manufacturing sector is amounting to 20% of the GDP, in 1991, while the contribution to total employment in the manufacturing sector is 31.2%, and it is expected to rise significantly in the future (Kassim and Sulaiman, 2011, Khalique et al., 2011d). Many researchers stressed that SMEs are playing a vital role in the development of growth of Malaysian economy.

SMEs in Pakistan

Like other developing countries, Pakistani economy is also primarily based on SMEs (Khalique et al., 2011b). Nowadays in Pakistan, the importance of SMEs is increasingly being recognized as a focal point for prosperity and growth of economy and engagement of workforce. The government is using SMEs as a tool to strengthen national economy and creating jobs. SMEs are widely recognized as the main sources of job creation and poverty reduction. According to the Economic Survey of Pakistan (2008-09) (Government of Pakistan - Ministry of Finance, 2009), SMEs have the most critical contribution to the economic growth in 2008-09. SMEs appeared as lifeblood of Pakistan’s economy. It comprises nearly 99.06% of all economic establishments and providing 80% of the non-agricultural labor force. These SMEs primarily are in the following sectors: wholesale & retail trade and restaurant & hotel (53%), manufacturing (20%), and community, social and personnel services (22%). These establishments are jointly responsible for 30% of the GDP, 25% of the total export, and 35% of the manufacturing value addition (Hussain, Si, Xie and Wang, 2010).

Vital contribution of SMEs in the economic development, poverty reduction, social standard uplifting, growth in employment and technological innovation are widely recognized and acknowledged in developed as well as in developing economics. Pakistan government has realized the significant importance of SMEs and has consequently established a Small and
Medium Enterprise Authority (SMEDA) in (1998) with the spirit of establishing, developing and strengthening SMEs. The two banks namely, SME’s Bank and Khushali Bank were also subsequently established with the same motive.

**Challenges of Malaysian and Pakistani SMEs in a Knowledge-Based Economy**

At the beginning of the 21st century, the knowledge-based economy has attracted significant attention in the world. Popescu, Chivu, Ciocârlan-Chitucea, Curmei, Popescu (2011) argued that the economic activities are enhanced when they apply the intensive use of knowledge and technology to increase production and employment particularly in high-tech sectors. The success of organization in the knowledge-based economy is mainly dependent on the capability to innovate. Prusak and Matson (2006) pointed out that the characteristics of knowledge-based economy is mainly based on the fact that the: “Physical distances represent no longer an obstacle to economic development, communication, education, successful implementation of projects and integration into society, economic system is open the world”. In a knowledge-based economy many researchers argued that the contribution of SMEs in the development and growth of economy is critical and significantly acknowledged.

Besides the importance of SMEs, the failure rate of SMEs in developed and as well as in developing countries is at alarming position. A large number of studies pointed out that the significant numbers of new SMEs disappear within the first five years of their operation (Zimmerer, Searborough and Wilson 2008; Hodgents and Kuratko 2004). For example in Malaysia the estimated failure rate of SMEs is approximately about 60% within the first five years of operation (Portal Komuniti 2006; Ahmad and Seet 2009), while in Pakistan is about 90-95% at the initial stages of operations (Ullah, Shah, Hassan and Zaman 2011, Khalique et al., 2011d).

The literature showed that SMEs in Malaysia and Pakistan face high threats of failure in a competitive environment. In a competitive environment, SMEs need to explore and apply their intellectual capital in order to enhance their organizational performance. The knowledge based economy is dependent on more on intangible assets such as intellectual capital, innovation and creativity. In a knowledge-based economy the exploration of idea is more important rather than the physical elements of the assets. Existing literature such as Saleh &
Ndubisi (2006); Samad (2007); Harvie (2004); Wang (2003); Stuti (2005); Wafa et al. (2005); Ritchie & Brindley (2000); Decker et al. (2006); Khalique, Isa and Shaari (2011c); Foon (2006); Muhammad, Char, Yasoa and Hassan (2010) pointed out that SMEs are facing various challenges in a globalized environment, for example having difficulty in facing recession, barrier from global sources, low productivity, lack of managerial skills, shortage of financing, difficulty in accessing management and technology expertise, heavy regulatory burden from government agencies. Teoh & Chong (2008) argued that the barriers to entrepreneurship namely lack of access to credit and lack of access to formal business and social networks are also putting the question marks on the survival of SMEs in global competition. However, in a knowledge-based economy mostly SMEs are still underestimating the exploration and applications of intellectual capital. The concept of intellectual capital is still at embryonic stage particularly the SMEs in Asian countries such as in Malaysia and Pakistan. Only few studies in Malaysia and Pakistan have highlighted the importance and application of intellectual capital in SMEs. However, there is no any evidence of a comparative study between Malaysia and Pakistan which are focusing on the applications of intellectual capital in the SMEs between the two countries.

**Conclusion and Future Research Avenues**

The role of SMEs in the economy of both Malaysia and Pakistan is significantly vital. The economy of both counties mainly based on SMEs. Consequently, the impact of SMEs on the economy of two countries leads towards poverty reduction, reducing unemployment, economic growth, political stability and social standard uplifting. If the downfall of the SMEs continues adverse effect on the economy may occur. This may results in high poverty rate due to increased unemployment. High rate of unemployment may tackle countries towards social unrest and political instability.

The governments of the two countries need to understand the importance of SMEs and must be willing to provide major resources to strengthen the SMEs. The governments can launch the different programs such as introducing the concept and applications of intellectual capital, capacity building that focused on entrepreneurship, human capital development, marketing, promotion, and provision of advisory services to SMEs. Regarding supportive infrastructures for SMEs, the governments can provides more business premises, factories, business stalls
and incubation centers. In order to improve the efficiency and productivity, SMEs are encouraged to undertake various measures to modernize and upgrade their machineries, equipments and operation procedures, as well as utilize energy-saving devices (Muhammad et al., 2010).

Moreover, in a knowledge-based economy there will be a great need for highly educated especially scientists, entrepreneurs, businessmen, (knowledge works/intellectual workers in SMEs. In the present economy the SMEs will be more knowledge intensive and innovative entities therefore, there will be a great demand for knowledge workers/intellectual workers. In this connection the governments of the two countries should devise policies and instruct as well as facilitate their higher education institutions for providing knowledge workers/intellectual workers who can lead the country in order to meet the stage of knowledge-based economy in high tech and knowledge intensive organizations in Asian countries particularly in Malaysia and Pakistan.

In order to enhance the organizational performance and take competitive advantage in a knowledge-based economy the SMEs need to understand and the exploration and applications of intellectual capital with full spirit. They may need to recruit the knowledge/intellectual workers as compared to conventional or unskilled workers. The intellectual workers would be able to create new ideas and they will also be able to materialize the concept in order to get the benefits. Moreover, the intellectual workers would be useful for innovation and creativity, because the innovation and creativity primarily based on intellectual capital of the organizations. In the last the researchers would like to invite the future researchers to do a comparative empirical research between Malaysia and Pakistan in the field of intellectual capital, where intellectual capital should be incorporated all of its major components such as human capital, customer capital, structural capital, social capital, technological capital and spiritual capital. The empirical study of intellectual capital between Malaysia and Pakistan would be helpful for SMEs to open new avenues and opportunities in order to gain competitive benefits. Furthermore, the empirical study will also provide a better understanding and help to Malaysia and Pakistan to strengthen their economic and social relationship bilaterally.
References


Thurasamy, Ramayah, Mohamad Osman, Omar Azizah, and Marimuthu Malliga, 2009. Technology Adoption among


About the author

Muhammad Khali que is a doctoral candidate at Faculty of Economics and Business, Universiti Malaysia Sarawak. He is pursuing his PhD in Business Management (Entrepreneurship). He is the first author to champion the concept of intellectual capital to Pakistani SMEs and has put forward the concept of “integration” for all major components of intellectual capital namely human capital, customer capital, structural capital, social capital, technological capital and spiritual capital. His research interests include intellectual capital management, knowledge management, entrepreneurship innovation and organizational performance. He is an author of several articles and conference papers on intellectual capital and organizational performances. He is a member of editorial board and reviewer of several national & international journals.