International Journal of Academic Research in Business and Social Sciences
December 2012, Vol. 2, No. 12
ISSN: 2222-6990

Development of Intangible Factors for SME Success in a Developing Country

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Abstract

The paper reviews the concept of Intangible Success factors (ISFs) and Tangible Success Factors (TSFs) which are essential for enterprise success for Small and Medium-sized Enterprises (SMEs). Since SMEs play a vital role in the country's economic development, it is important and significant to gain useful insights into the critical success factors that affect their future success and development. Evidently, research findings have revealed that reasons for enterprise *success* have to do with the intangible factors. Recent researches reveals more organisations are paying more attention on ISFs than TSFs as the reasons for enterprise success have to do more with the intangible factors. And the most important ISFs are leadership, innovation, entrepreneurial competencies, image and reputation, and organisational culture. In the face of globalisation, SMEs companies need to transform themselves into highly competitive and resilient organisations to stay ahead of the curve and on the forefront of their industries. Hence, it makes sense for organisations to identify and leverage on the ISFs for a sustainable competitive advantage in today's challenging economy.

Keyword Organisational Culture, Leadership, Innovation, Entrepreneurial Competence, Image and Reputation, Innovation, Enterprise Success, SMEs

Introduction

This research investigates the significant impact of the ISFs on enterprise success. Until recently, organisations would put enterprise success down solely to tangible success factors (TSFs). Increasingly, though, it is becoming clear that such hard-and-fast *factors* tell only part of the story and to know fully the whole story, organisations need to look at ISFs. TSFs are considered the measurable 'hard factors', whereas ISFs the not-so-easily quantifiable "soft factors" (Lönnqvist, 2002 & Williams, 1998). Therefore, by seamless integrating the two factors, organisations will get a complete comparable picture of an organisation's performance for making improvement.

At present, there is a significant shift of emphasis from developing tangible to intangible factors to realise tremendous potential of intangible resources (Hall, 1992; Zigan & Zeglat, 2010). Indeed, the shift towards valuing intangible assets and their contribution to an organisation's economic growth and success is gaining momentum and the attention of broader audiences (Heffes, 2001). Atkinson, Waterhouse and Wells (1997) highlights that intangible factors will play a more crucial role in organisations when which the relationships with employees, customers, suppliers, and other stakeholders have changed substantially. Managing intangible capabilities are crucial for achieving competitive advantage (Turner, 2007). In new business ventures, there is also tendency to include intangible factors into business plan for full assessment of potentials (Diaz De Leo & Guild, 2003). Most organisations now leverage on key intangible success factors to build core competencies and lay strong foundations for future success. Spitzer (2007) observes intangibles such as partnerships, suppliers, collaborations, skills, knowledge, innovation, patents and other intellectual property, leadership, image and reputation, and culture, are now becoming the essence of competitive advantage.

An Overview of Malaysian SMEs

SMEs are considered enterprises operating in manufacturing and services industries with an annual sales or less than RM 25 million and with less than 150 full time employees. SME sector is now clearly recognised as being the backbone of the country's economy with tremendous potential to become a catalyst and an important source of growth in the new economy. In fact, SMEs constitute of 99% of total business establishments in Malaysia, provide 56% of the total employment, account for 19% of the total country export, and contribute to 31% of GDP (NSDC, 2009/ 2010). Efforts are intensified to raise its contribution to GDP from 31% to at least 50% (Nesa, 2011).

Specifically, SMEs play a major role in outsourcing services and specialised contract manufacturing for parts and components to large enterprises and Multinational Corporations (MNCs). The strong industrial linkage between MNCs and SMEs are crucial not only in marketing SMEs' services and products abroad but also pushing SMEs quality to be on par with world standards. In fact, some local SMEs have successfully made inroads in world markets with their niche products.

Institutional Policy towards Malaysian SMEs

Malaysian government is remodelling its economy through the New Economic Model (NEM). Under the GTP and ETP roadmap, six NKRA and 12 NKEA are implemented to change the Malaysia economic landscape to become a high-income nation by 2020. This is in line with the tagline of 1Malaysia: People First and Performance Now (PEMANDU, 2010). Various government ministries or agencies like MITI, SME Corp, MIDA, MNC, Matrade, MTDC, MNC, SIRIM, MIGHTY, MIDF, SME Bank and private agencies like FMM, SMI Association of Malaysia are introduced to facilitate SME development.

The Malaysian SME Masterplan, spanning from 2011 to 2020, was finally launched recently with a vision to create globally competitive SMEs that enhance wealth creation, and contribute to the social well-being of the nation. This was endorsed by the National SME Development Council to chart the policy direction of SMEs in all sectors through innovation-led and productivity-driven growth towards achieving a high income nation by 2020. In line with NEM, there are four strategic goals namely i) increase business formation, through a constant stream of new entrants into the market, ii) intensify formalisation to incentivise innovation, growth, iii) promote fair competition, and increase in productivity of SMEs to boost income and raise standard of living and expand the number of high growth and innovation firms. And the six focus areas, which will generate the desired Keynesian multiplier effect for the country's economy, are i) Access to Financing, ii) Green Lane Procurement, iii) Skill Upgrading, iv) Bumiputera Development Agenda: New Approach, v) Social Justice Policy, and vi) Labour Market Efficiency. These strategic are embodied in the Tenth Malaysia Plan (2011-2020) to further unlock the growth potential of SMEs to create domestic players that can eventually become region and global champions (Malaysia SME, 2011).

In the Ninth Malaysian Plan (2006-2010), the Malaysian government worked on the SME development plan to assist the SMEs to meet the new business challenges in the competitive global business environment. Despite the challenges faced by SMEs during the plan, value added of SMEs grew at a faster pace than the overall product to 31.5 % in 2009 from 29% in 2005.(Muhammad, Char, Yasoa, & Hassan, 2010). Under the Budget 2011, the Government has earnestly worked toward building a dynamic and productive SME sector by taking four measures namely i) entrepreneurship and capacity building, ii) cost of doing business, iii) access to financing technology and, iv) promoting new areas of growth (Kadir & Sulaiman, 2010).

Finally the involvement of Malaysian Government in the SME development culminated with the launch of the Masterplan (2011-2020) in two phases by Malaysia Prime Minister himself. The objective of the plan is to create globally competitive SMEs through innovation-led and productivity-driven growth and to accelerate the growth of SMEs towards achieving a high income economy. The first phase was launch in 29 April 2011 which comprises the new SME development framework and the broad policies and strategies. The second phase was launched in 23 Nov 2011. The second phase specifically details the translation of policies and strategies into 32 key initiatives. The Masterplan aim to achieve (a) increasing the contribution of SMEs to GDP from 32% in 2010 to 41% in 2020; (b) increasing the employment share from 59% to 62%; and (c) increasing the export share from 19% to 25% (NSDC Masterplan, 2012).

Literature Review

FMM Malaysia (2008) highlights the key issues and challenges facing SMI organisations. They are access to finance, globalisation and liberalisation, embracing new technologies, productivity improvement, information awareness, initiatives to enhance SMEs performance, financing start-ups, market access, improving information awareness, and deepening industrial linkages,

Indeed, SMEs are often confronted with emerging issues which stifles the high growth potentials and compromising competitive advantage (Hashim, 2008). SMEs frequently have difficulties in obtaining capital core credit, particularly in the early start-up phase (Armstrong, Craig, Jackson, & Thomson, 2010). Their restricted resources also reduce access to new technologies or innovation. While it is a high risk venture, there is also a very high potential for growth especially in technology-based areas. SMEs have a key role in developing national economies, but are often limited by lack of development support in financing business (Badulescu, 2010).

It can be witnessed the diverse reasons why good organisations with good resources fail or organisation with limited resources can succeed. Weak organisations fail to make it through difficult periods, let alone to effectively develop and grow for business opportunities. This study intends to investigate the intangible success factors and the research results will confirm the literature findings which can be used to guide the healthy and successful development of SMEs industries in Malaysia.

In today's globalization era, more and more firms are striving to have an international presence, even though they face pressing challenges (Zain & Ng, 2006). Pangarkar (2008) find degree of internationalisation positively impact performance for SMEs. And significance of government aids, grants and incentives contribute to the success of these businesses in internationalisation process (De Chiara & Minguzzi, 2002; Hashim, Ahmad, & Zakaria, 2010). In the Ernst & Young globalisation index, Malaysia rank from 33rd in 2009 to 27th 2010 along with global emerging economies (The Star Online, 2012). The latest HSBC Small Business Confidence Monitor survey shows that currently, 42% of SMEs in Malaysia are involved in cross-border trade or international business activities and number of SMEs worldwide conducting international business activities is expected to expand from 29% to 40% by 2013 (Dhesi, 2011).

International investors will be keen and interested in those companies which can compete well in the wake of globalisation. Therefore, it is crucial for organisations to determine the most intangible factors which have bearing on future success of organisations. Maintaining top competitiveness and expanding business horizons are going to get tougher and more challenging. Competition in the global market and rising expectation of customers will continue to drive transformation in SMEs industries to become technologically-savvy, more efficient and resilient, and later sustain the momentum. Therefore, organisations should be capable of discerning its core strengths and weaknesses, opportunities and threats and then responding resiliently for survival, growth and development.

SME Enterprise Success

Dynamic organisations should be concerned with long term strategic plans for success in competitiveness and profitability (Fitzgerald , Johnston , Brignall , Silvestro , & Voss 1991). Maltz (2003) states that measuring enterprise success is a continuous challenge due to the selection of either traditional financial measures and non traditional financial measures and proposes five major success dimensions i.e. financial, market, process, people, and future to assess enterprise success depending on industry type and industries.

Friedman (1988) proposes a framework of enterprise success which encompasses the marketing concept, good management approaches and organisational ethics to satisfy the needs and wants of the various public organisations and, in the long run, ensure the satisfaction of the needs of the organisation itself. Flamholtz and Aksehirli (2000) find that there is a statistically significant relationship between the development of the six critical success factors i.e. markets, product and services, resource management, operations systems, management systems and corporate culture, and overall financial success of organisations. Vanghan (1999) deploys business performance as a variable to measure business success. Among the questions in the questionnaire are concerned changes in cash flow, gross profit, sales growth, return on sales, market share, return on investment and return on equity.

Tangible Success Factors (TSFs) and Intangible Success Factors (ISFs)

The following authors highlight diverse tangible and intangible success factors to predict future enterprise success and performance excellence:

1. Business performance, financial capability, management capability, production capacity, technical capability, quality system and innovation, The SMEs Competitiveness Rating for Enhancement, SME Corp (Ghazali, 2011).
2. Innovation and technology, advancement of production value chain, deployment of ICT for operational efficiency, investment in training and aggressive marketing for competitiveness (FMM, 2008).
3. Leadership, management, finance, organisational culture and skills and expertise (Pius, Esam, Rajkumar, & Geoff, 2006).
4. Leadership and job satisfaction (Hashim, 2008).
5. Organisational culture (Montago, Kuratko, & Scarcella, 1986).
6. Organisational culture and innovation practices (Hashim, Mahajar, & Zakaria, 2006; Zakaria & Fawzi, 2005).
7. Networking, product, ability to focus on market, customer, supportive management, and leadership (Kee, Abdullah-Effendi, Talib, & Abdul-Rani, 2004).
8. Strong market orientation and relevant capability, effective management in terms of strong management commitment and support, strong organisational capability and management cohesiveness, access to broad base support and resources through networking (Ghosh, Tan Wee Lang, Tan Teck, & Ben Chan, 2001).
9. New product development, financial performance, objective market acceptance, subjective market acceptance, product-level measures, customer acceptance, customer satisfaction, product performance, and quality (Huang, Soutar, & Brown, 2004).
10. Products and services, the way of doing business, management know-how, and external environment (Islam, Mian, & Ali, 2009).
11. Design products more quickly, reduce waste and re-work, and introduce continuous improvement (Dave & Shirley, 2003).
12. Technical procedures and technology, structure of the firm, financial structure, marketing and productivity, and human resources structure (Al-Mahrouq, 2010).
13. High-technology ("Success Factors For High-Technology SMEs: A Case Study From Australia," 2000).
14. Technologically upgrading knowledge and resources to engage in training programs (Paul, 2003).
15. Science and technology (S&T), management skills and innovations (Cooper, 2001).

16. Technology, organisational structure, business strategy, strategic thinking (Hashim, 2000; Hashim, Zakaria, & Malaysia, 2007; Sulaiman, Hashim, & Wafa, 2003).
17. Corporate entrepreneurship and operations control (Goodale, Kuratko, Hornsby, & Covin, 2011).
18. Entrepreneurial learning, entrepreneurial competencies and venture success (Sony Heru & Iman, 2005).
19. Entrepreneurship and luck (Barney, 1986).
20. Financial performance (Ahmad, Ramayah, Wilson, & Kummerow, 2010).
21. Satisfaction with financial performance, satisfaction with non- financial performance, performance relative to competitors, business growth (Ahmad *et al.*, 2010).
22. Resources and capabilities, entrepreneurship and luck, entrepreneurial traits development in the education curriculum to inculcate these characteristics among our future business leaders, flexible and adaptive organisational structure (Jeen Wel, Hishamuddin Bin, & Gerald Guan Gan, 2010).
23. Managing knowledge development, the ethical ideologies of owner-managers, internationalization process technological sourcing and internet adoption (Harvie & Lee, 2005)
24. Knowledge innovation potential, managing "intellectual capital" (IC) (Mertins, Wen-Huan, & Will, 2007).
25. Knowledge management (Kuan Yew, 2005).
26. Marketing capabilities and market orientation like customer orientation and market intelligence (Reijonen & Komppula, 2010).
27. Sales growth, market share, and return on investment, quality of goods/ services, new product development, employee satisfaction (Alpay, Bodur, Yilmaz, Çetinkaya, & ArIkan, 2008).
28. Strategic alliances, “soft” facts such as trust, “hard” facts such as strategic compatibility and appropriate governance mechanisms (Hoffmann & Schlosser, 2001).
29. Self-commitment as a coordination mechanism and operationalization (Fink, Harms, & Kraus, 2008).
30. Commitment mentoring and employees’ job satisfaction (May-Chiun & Ramayah, 2011).
31. Indigenous management systems, styles and practices (Jackson, Amaeshi, & Yavuz, 2008).
32. Indigenous HRM approaches, and formalization (Saini & Budhwar, 2008).
33. Indigenous management practices such as internationalization process and hybridization process (Tung & Aycan, 2008).
34. Professional HR supports (Roberts, 2004).
35. Quality, management commitment, process prioritisation, control charting, teamwork, measurement system evaluation (Selvan, Jiju, & Sid, 2002).
36. TQM success though effective top management commitment, effective steering committee, employee involvement, employee rewards and skills development (Rahman & Tannock, 2005).
37. Enterprise Resource Planning (ERP) (Somers, 2001).
38. Accounting information systems (Ismail & King, 2005).
39. Information systems, firms' performances and operations efficiency (Kharuddin, Ashhari, & Nassir, 2010).

40. Inter-organisational relationships on the adoption of e-business in the supply chain (Alain Yee-Loong, Keng-Boon, Binshan, & Shu Yi, 2009).
41. High growth E-commerce ventures (Feindt, Jeffcoate, & Chappell, 2002).
42. E-business competencies (Eikebrokk & Olsen, 2007).
43. E-business adoption via technological, environment and organisation characteristics (Zailani, Dahlan, & Jallaludin, 2009).
44. Information on co-operation and innovation success (Gemünden & Heydebreck, 1995).
45. Information-acquisition decisions (Makadok & Barney, 2001).
46. IT integration to boost performance efficiencies in all functions (Jusoh, Razak, & Simun, 2004).
47. ICT adoption for effectiveness (S. S & Ahsan, 2007).
48. Internet-based information and communications technology (ICT) adoption (Khong Sin, Siong Choy, Binshan, & Uchenna Cyril, 2009).

The Importance Of Intangible Factors For Enterprise Success

The following authors advocate the need to consider intangible factors for enterprise success for SMEs. By seamlessly integrating the tangible and intangible factors, organisations will have the opportunity to examine and present a more complete and comparable picture of an organisation's performance.

1. Bones (2007) reports that one of the four key drivers of economic and social change have emerged that have defined the management role today are intangibility. Other drivers are globalisation, digitalisation, and the way of organisations are restructured.
2. Jarvis, Meyrick and Mirkovic (2006) state that the rise in the knowledge-based economy has led to an increase in the importance of the intangible assets i.e. 1) human capital, 2) reputation, 3) customer relationships, and 4) intellectual property. This is particular relevant considering more than 90% of SMEs are in the service sector, which generate incomes from the intangible assets.
3. Brooking (2010) states that companies can fast track to high valuation by strategically growing the intangible assets such as customer tribes, brands, and intellectual property, comparing those strategies to larger companies and describes the strategic methods to achieve the strategic goals.
4. Watson (2010) provides the first conceptual review of the relevant intangible assets to the SME sector, and reports that the challenges and benefits associated with identifying and valuing, reporting and management of intangible assets in the balance sheet.
5. Reynosa (2008) examines the intangible factors in the success of SMEs business and confirms that intangible assets are relevant in the establishment and maintenance of a competitive advantage, and also suggests that such intangible assets are a consequence of organisational learning.
6. Durst (2008) states that although intangible assets are of a moderate relevance in the SMEs, majority of organisations expect their intangible assets to be of greater relevance in the future and highlights that intangibles do have a great impact on the decision-making process of an investor.

7. Bohusova and Svoboda (2011) report the importance of intangible assets in financial reporting for SMEs. IFRS for SMEs was adopted in July 2009 as a result of efforts to harmonize financial reporting for SMEs. The objective is, compared to full IFRS reporting of these businesses, to significantly simplify, mainly from the reason that the strict application of the principles of the full standards does not excessively burden smaller accounting entities.
8. Zambon and Bergamini (2007) report that the Italian Associate of Financial Analysis (AIAF) publish information on intangibles in France, Germany, Italy and UK based on company reports. The intangibles are categorised into six dimensions i.e. 1) strategy, 2) customer and market, 3) human resources, 4) organisation, 5) innovation and intellectual property rights, and 6) corporate governance.
9. Bounfour (2003) lists down six reasons to justify the measurement of intangibles i.e. 1) the rapid growth of service activities; 2) the dematerialization of manufacturing activities; 3) the industrialisation of service activities; 4) the recognition of knowledge as the main source of competitive advantage; 5) the disequilibrium between market value and book values for most listed companies; (6) recent research and survey demonstrated the role of intangibles, and the question of value creation.
10. Boulton, Likert and Samek (2000) find that 85 percent of executives recognise the importance of investment in intangibles but yet, less than 35 percent executives acted accordingly.
11. The preliminary results of the Policy making, Reporting and measuring, Intangibles, Skills development and Management (PRISM) research initiative reveals that there is a clear shift from tangible to intangible factors in order to create, maintain or invade monopolies founded on intangibles (Eustace, 2003).
12. International institutions like European Commission (EC), Organisation for Economic Cooperation Development(OECD), United Nations and Brooking Institution are promoting the role of intangibles in enterprise success and wealth creation (Zambon & Marzo, 2007).
13. The Department of Trade and Industry (DTI) UK report (2001) stresses intangible assets like Relationships, Knowledge, Leadership and Communication, Culture and Values, Reputation and Trust, Skills and Competencies, and Processes and Systems, are the essential ingredients upon which company's future success would be built.
14. Lonnqvist (2004) classifies critical success factors based on not only on financial and non-financial but also tangible and intangible dimensions for performance planning and management in Table A below. The two upper boxes are easily measured and related to aspect of tangible assets. The lower boxes are difficult to be measured, take non-physical forms and related to intangible assets, as Learning and Growth perspective of a Balanced Scorecard.

Success Factor

Success Factor	**Financial**	**Non-Financial**
Tangible	Economic growth Liquidity Product/service costs Profitability Capital adequacy	Delivery time Quality of products Production volume Productivity Stock turn time Service volume
Intangible	Brand value Goodwill Value of immaterial properties	Competencies Customer satisfaction Customer retention Innovation Motivation Personnel satisfaction

Table A: Classification of common success factors (Lönnqvist, 2004)

Discussion

The above literature summarises the various TSFs and ISFs such as accounting, business performance, financial capability, management capability/ know-how/ skills/ expertise, production capability, design/ technology/ technical capability, quality/ TQM system, knowledge, innovation, operations control/ ERP, organisational culture, entrepreneurship, luck production value chain, ICT/ Information/ e-commerce/ e-business, indigenous HRM and training/ learning, marketing and market orientation, knowledge development, internationalisation, productivity/ efficiency, networking, product and services, new product performance, ability to focus on market, customer satisfaction, supportive management, leadership, environment, continuous improvement, reputation and commitment.

This research will make in-depth studies the areas of leadership, innovation, image and reputation, entrepreneurial competencies, and organisational culture as they are considered critical success factors for SMEs. In the past decades, a major concern has been the failure of SMEs to remain in business and in transforming themselves into large firms both regionally and globally. Therefore, researches have been keen to discover ways in which small business growth can be successfully simulated and nurtured (Li & Tan, 2004).

This study will contribute significantly to the body of knowledge in SMEs sector. For academics, this research will provide a common language for them to discuss and study the factors crucial for the success in SMEs. It gives valuable information, which will help SMEs sector to explore new competitive advantage and accomplish greater success. The results of this research will reinforce the resource based view that underscore the importance of development of firm's resources to achieve competitive advantage. Firm resources should be nurtured and harnessed to the full potentials to ensure firm success (Olavarrieta & Friedmann, 1999). Similarly, for intellectual capital perspective, this study will shed lights on the intellectual capitals such as innovation.

Indeed, organisations need to have leadership foresight and vision to develop the intangible factors and allow management and employee to leverage the potentials. It is certainly required for every member of organisations to work as a team with common goals, to overcome imperfection and live up to the rising expectations of customer. Nevertheless, it is easy said than done. The journey to enterprise success will be full of sweats, bloods and joys. Strong organisations will not rest on its laurels but continue to nurture innovation develop themselves with core competencies and articulate a entrepreneurial culture which holds high the spirit of achieving bottom line targets (Prahalad & Hamel, 1990).

In summary, dynamic organisations will lay a foundation for future success by building both tangible and intangible factors for enterprise success. Without wastage, organisations can properly deploy resources to develop key intangible factors for competitive advantage, enhance performance, excel in market and product development, and drive transformational change for business sustainability. By leveraging on such factors as value drivers, SMEs organisations can focus and take initiative to enhance competitiveness, boost total participation of SMES in technology-based areas, to strengthen the management, address ongoing challenges in product design, operational inefficiencies and market share. More importantly, this research will develop a framework and relevant approaches to help the emergence of SMES. In a dynamic competition process, private organisations need to capture market share and strive for profitability. It is crucial for them to ensure efficiency and total improvement in their entire value chain operations.

Conclusion

The development and expansion SMEs will play a major role in helping the transformation of Malaysia from a middle-income economy to a high income and innovation-led economy. SMEs will remain a source of growth to drive economic development. With globalisation and liberalisation, the business terrain is heading into steeper and more challenging. With the rise of India and China, the work of developing and integrating SMEs in the global economy becomes more even more significant. Hence it is definitely crucial to understand, develop and leverage the key ISFs to further develop and nurture SMEs into dynamic, globally competitive and resilient organisations for long term strong performance and enterprise success in business and growth. SMEs are encouraged to improve productivity through established techniques, and innovation through technology and research and development.

Acknowledgement

This is part of the research work on SMEs in Malaysia, conducted at School of Management, University Sains Malaysia, Malaysia.

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