

Intangible Factors Affecting the Success of Small and Medium Enterprises (SMEs)

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ABSTRACT: *Since SMEs play a vital role in the development of a nation, it is important to gain a better understanding of the success factors involved. Authors have categorized the factors that influence enterprises success into tangible and intangible factors. Quite a number of studies have therefore investigated the tangible factors and how they affect enterprises success. However, intangible factors have not been given considerable attention despite their importance in determining enterprise success. Thus, this indicates that studies focusing on intangible factors are rare and limited. Due to this, the paper explores intangible factors and how they affect enterprise success. The paper then provides a conceptual framework to look into intangible factors in relation to enterprises success in Malaysia.*

Keywords: Tangible factors, Intangible factors, Enterprises success, SMEs, Factors

Tangible success factors (TSFs) have often dominated discussions of SMEs success factors in the recent times. Also, organizations have always attributed organizational **success** solely to tangible success factors (TSFs). However, it is becoming clear that such hard-and-fast **factors** explain only part of the outcome, and for complete comprehension, organizations need to consider intangible success factors (ISFs). TSFs are considered to be the measurable „hard factors“, whereas ISFs are the not-so-easily quantifiable „soft factors“ (Lönnqvist, 2002; Williams, 1998). Therefore, by acknowledging these two types of factors, organizations can obtain a complete picture for making comparisons and improvements in performance.

With respect to above, studies on SMEs success factors are fast shifting emphasis from tangible to intangible factors due to the realization of the tremendous potential of intangible resources (Hall, 1992; Zigan & Zeglát, 2010). However, the shift towards valuing intangible assets and their contribution to an organization's economic growth is still on the pipeline yet attracting attention of broader audiences (Heffes, 2001). Atkinson, Waterhouse, and Wells (1997) highlighted that intangible factors will play a more crucial role in organizations when the relationships with employees, customers, suppliers, and other stakeholders have changed substantially.

The management of intangible capabilities is crucial for achieving a competitive advantage (Turner, 2007). In new business ventures, for example, there has been an attempt to include intangible factors in the business plan for full assessment of the potential (Diaz De Leo & Guild, 2003). Most organizations now leverage key ISFs to build core competencies and lay strong foundations for future success. Spitzer (2007) observed that intangibles, such as partnerships, suppliers, collaborations, skills, knowledge, innovation, and patents and other intellectual property, leadership, reputation, and culture are now becoming the essence of a competitive advantage. However, despite the increasingly importance of intangible factors in the recent times in determining enterprise success, authors have failed to give a considerable attention. Thus, this indicates that studies focusing on intangible factors are rare and limited. As a result, this paper explores intangible factors and how they affect enterprise success. The paper then provides a conceptual framework to look into the intangible factors in relation to enterprises success in Malaysia.

Literature Review

According to Webster's Online Dictionary (2012), intangible factors are defined as those factors that affect a decision, but that cannot be expressed in monetary terms. The Free Dictionary (2012) describes it as an

asset that cannot be perceived by the senses. In other word, intangible factor can be described as an asset of the firm which cannot be translated into a monetary term. Within the context of SMEs, intangible factors are seen as assets that are not physical which affect SMEs or enterprise success. Such intangible asset is known as invisible asset (Business & Management Dictionary, 2007). And the intrinsic value of SMEs“ intangible assets are sources of competitive advantage.(Martin & Hartley, 2006, p. 39 Past studies (Bones, 2007; Brooking, 2010; Watson, 2010; Reynosa, 2008) have provided abundant list of intangible factors and advocated the need to consider intangible factors for enterprise success for SMEs.

They contended that doing so would provide the opportunity to clearly present and understand more complete integrated factors that affect enterprise success. The study conducted by Bones (2007) noted that intangibility otherwise known as intangible factor is one of the four key drivers of economic and social change which has just emerged and has the capacity to define the management role. Jarvis, Meyrick and Mirkovic (2006) revealed that intangible assets such as: human capital, reputation, customer relationships and intellectual property has so much important due to the increase in the knowledge-based economy. The authors further noted that over 90% of SMEs which are in the service sector generate incomes from the intangible assets.

Reynosa (2008) examines the intangible factors in the success of SME 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 organizational learning. Similarly, Durst (2008) affirmed that although intangible assets are of a moderate relevance in the SMEs, majority of organizations 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. Also Bohusova and Svoboda (2011) asserted that intangible factors are very important and relevant in the financial report of the SMEs. Brooking (2010) noted 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. 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.

Realizing the importance of intangible asset to companies in France, Germany, Italy and UK , the Italian Associate of Financial Analysis (AIAF) report

published by Zambon and Bergamini (2007), has categorized intangible factors into six dimensions of; strategy, customer and market, human resources, organization, innovation and intellectual property rights and corporate governance. Accordingly, the study by Bounfour (2003) provided several justifications why intangible assets should be measured by the firms. These reasons include: the rapid growth of service activities; the dematerialization of manufacturing activities; the industrialization of service activities; the recognition of knowledge as the main source of competitive advantage; the disequilibrium between market value and book values for most listed companies; and lastly, the demonstration by recent research and survey on the role of intangibles, and the question of value creation. Another study conducted by Boulton, Likert and Samek (2000) found that about 85 percent of the executives recognize the importance of investment in intangibles but yet, less than 35 percent of the executives actually act accordingly.

Institutional research on intangibles has also proved that intangible assets crucial for the enterprise success. For instance, the European Commission (EC), Organization for Economic Cooperation Development (OECD), United Nations and Brookings Institution have been found to be in the forefront of promoting the role of intangibles in enterprise success and wealth creation (Zambon & Marzo, 2007). Similarly, the report by the Department of Trade and Industry (DTI) UK report (2001) provided the list of intangible assets such as: relationships, knowledge, leadership and communication, culture and values, reputation and trust, skills and competencies, and processes and systems. The body asserted that these lists of intangible asset are the essential ingredients upon which company's future success would be built. Also 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).

In another dimension, the study by Lonnqvist (2004) went a bit further to classify critical success factors using two separate approaches of "financial and non-financial", and "tangible and intangible" for the key purpose of performance planning and management. The table below provides a clear picture of the classification. 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	
		Financial	Non-Financial
Tangible & Physical	Financial	Economic growth Liquidity Product/service costs Profitability Capital adequacy	Delivery time Quality of products Production volume Productivity Stock turn time Service volume
	Intangible & Non-physical	Brand value Goodwill Value of immaterial properties	Competencies Customer satisfaction Customer retention Innovation Motivation Personnel satisfaction

Source: Lonnqvist (2004)

In Malaysia SMEs sector, a similar research has also been conducted, although with emphasis on tangible assets. For instance, the recent survey by the Central Bank of Malaysia on SMEs in 2003 as reported by SME Corporation Malaysia indicated that only tangible factors were considered. The survey provided the list of the following critical success factors: cost of financing, economic policy uncertainty, macro-economic instability, sound management capability and integrity; sound business culture and entrepreneurial spirit; prudent financial management; high quality products and services; good program for human resource development; strong support from financial institutions in terms of lending and advisory services; strong marketing strategies (including good network with suppliers) (Central Bank of Malaysia, 2003; SME Corp Survey, 2010). The above scenario provides the platform for this paper to look into the intangible factors which Malaysian SMEs may be lacking as the factors have been noted to play a key role in success of SMEs particularly in Malaysian.

Enterprises Success

Authors have measured success using several criteria and dimensions. This indicates that there are many viewpoints and approaches in measuring success particularly in field of entrepreneurship and business management (Lucky, 2011). For instance, in a study of structural interventions for favorable sociocultural influences on India entrepreneurs by Shivani, Mukherjee and Sharan (2006), the authors, although adopting the works of Kumar (1990), Akhouri (1979) and Rao (1986), measured success using three main parameters: average percentage of net per annum achieved during the last three years, rate of growth of turnover during the last three years, and level of diversification (amount innovation and risk exhibited). Accordingly, Gorgievski, Ascalon, and Stephan (2011) employ ten (10)

dimensions to assess success. These dimensions include: personal satisfaction, profitability, satisfied stakeholder (client and employees), balance between work and private life, innovation, firms survival/continuity, utility/usefulness, contributing back to society, public recognition, and growth. Furthermore, Ahmad, Wilson, and Kummerow (2011) adopted four dimensions of; satisfaction with financial performance, satisfaction with non-financial performance, performance relative to competitors, and business growth to measure enterprise success. Within the banking context, many authors (Jayaraman, 2011; Montagno, Kuratko, & Scarcella, 1986; Nieuwenhuizen & Kroon, 2003; Thomas III & Evanson, 1987) measured success using factors such as: financial ratios, good business planning, track record, human capital capability (branding, marketing, distribution, and managing), and the perceived entrepreneur success characteristics which was jointly examined to predict profitability potential and the chance for survival.

Conceptual Framework

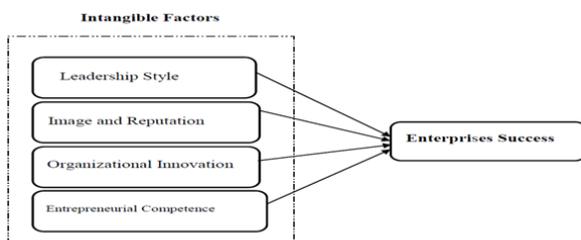


Figure 1: Proposed research model

The research model above indicates four (4) independent variables group under intangible factors and one (1) dependent variable. It demonstrates that organization that builds on intangible factors such as leadership style, entrepreneur image and reputation, organizational innovation and entrepreneurial competence will achieve better enterprise success. Therefore, the better the leadership style adopts by the organization, its reputation and the degree of its innovation then coupled with their entrepreneurial competence, then the better the enterprise success to be achieved by the firm. The way firms develop and utilize these intangible factors will go a long way to influence the enterprise success either in a positive or negative direction. Here, it is theorized that leadership style, image and reputation, organizational innovation and entrepreneurial competence will affect enterprise success and explain the variance in the dependent variable.

Conclusion

The major objective of this paper is to explore the impact of intangible factors on the enterprises success, and then provides a conceptual framework to examine

the relationship between the key intangible factors and the enterprise success in Malaysia. The paper argued on the importance of intangible factor for a better enterprise success. It argued that intangible factors play a crucial role for organizations by contributing to the organization's economic growth. Therefore, it is noted here that dynamic organizations should lay a foundation for future success by building both tangible and intangible factors for organizational success. In this case, they can properly deploy resources to develop key intangible factors to increase competitive advantage, enhance performance and excel in market and product development which would eventually assist them to drive transformational change for business sustainability. Therefore, organization must develop and utilize intangible factors in such that both the management and employees will have the opportunity to leverage the potential.

With respect to above, it would be very important for businesses and SMEs in Malaysia to integrate these intangible factors into their business plan and activities in order to enable them have better knowledge and control too effectively and efficiently manage growth via improvements that will make sustainable organizational success possible (Ng, Kee, & Brannan, 2011). Again, by leveraging such factors as value drivers, SMEs can focus on taking the initiatives to enhance competitiveness, boost total participation in technology-based areas, and strengthen management as well as address ongoing challenges in product design, operational inefficiencies, and market share. Finally, if these intangible factors: leadership style, image and reputation, organizational innovation and entrepreneurial competence are properly harnessed and utilized by SMEs and businesses in Malaysia, they could serve as the needed driver for better enterprise success.

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