

## Chapter 16

# Exploring the Components of Intellectual Capital in Electrical and Electronics SMEs in Pakistan

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### ABSTRACT

*This chapter identifies the existence of the major components of intellectual capital in Small and Medium Enterprises (SMEs) operating in the electrical and electronics manufacturing sector in Pakistan. This study has been designed with the aim of selecting 6 major components of intellectual capital, namely human capital, customer capital, structural capital, social capital, technological capital, and spiritual capital. A structured questionnaire was utilized to conduct a survey of 247 respondents from 106 SMEs to identify the existence of these components of intellectual capital. This study confirms the existence of the major components of intellectual capital in SMEs operating in electrical and electronics manufacturing sector in Pakistan. The findings of this study provide valuable insights on the generalizability of the components of intellectual capital in a novel research setting in Pakistani. The findings of the study allow SMEs practitioners a better understanding about the existence of the components of intellectual capital on which they ought to focus their management efforts in order to take competitive advantage. This study is among only a few to investigate the existence of the components of intellectual capital in Pakistani SMEs and the first to SMEs operating in the electrical and electronics manufacturing sector.*

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## 1. INTRODUCTION

In a knowledge-based economy the term intellectual capital has received overwhelming attention from researchers, academicians, practitioners and managers. Undoubtedly, intellectual capital is considered as the crucial asset for a long term profit and performance of organizations in a competitive environment. Nonaka and Takeuchi (1995) argued that future society is a knowledge-based society in which knowledge storage and application are the basis of economic growth and capital accumulation. Intellectual capital is mainly based on the soft assets of organizations and it is considered as a nucleus of a knowledge-based economy. This phenomena highlights the importance of intellectual, how to identify, create, manage and evaluate the intellectual capital. In the present economy, knowledge is considered as the backbone and major source for organizational competitive advantage (Daud and Yusoff, 2010; Hashim and Taib, 2012; Khalique, 2012).

Previous studies such as Bontis et al., (2000); Ismail (2005); Bueno et al., (2006); Hsu & Fang (2009); Sharabati et al., (2010); Ngugi et al., (2012) argued that it is rarely examined the existence of the major components of intellectual in SMEs. Moreover, most researchers applied the major components of intellectual capital namely human capital, customer capital, structural capital, social capital, technological capital and spiritual capital separately in their studies. Therefore, this study attempts to fill the research gap by exploring the existence of the major components of intellectual capital in Pakistani SMEs. This study examines the existence of the major components of intellectual capital including human capital, customer capital, structural capital, social capital, technological capital and spiritual capital.

Pakistan is a Muslim country and is passing through a developing stage. It has a population of more than 160 million of which 96% are Muslim and 4% are made up of Christians, Hindus, Sikhs and Buddhists. Pakistan is also a multiethnic and

multi cultural state located in the Indo-Pak sub-continent. It covers an area of 796,096 square kilometers, consisting of 4 provinces, Punjab, Sind, Khyber Pakhtun Khwa and Baluchistan. The distribution of population with reference to ethnic groups in Pakistan is as follows: Punjabi 48%; Pashtun 13%; Sindhi 12%; Saraiki 10%; Urdu Speaking 8%; Balochi and Muhajir 9%. The national language is Urdu but the official language is English. However, other languages like Punjabi, Pashtu, Sindhi, Saraiki etc. are also widely applicable (Mullick, 2001; Fayyaz et al., 2009; Statistic Bureau of Pakistan, 2009).

Pakistan's economy is mainly based on SMEs. In Pakistan, small and medium enterprises (SMEs) are considered a foundation of the economy. In Pakistan's economy, 3.2 million SME business units are functioning and providing 80% of employment in the non agriculture sector. Its contribution in GDP is approximately 40% and its share of total export value is 30%. SMEs are playing a critical role in the economy in provision of output, value addition, uplifting life styles, employment and exports (Ahmed et al., 2010; Rohra & Panhwar, 2009; SMEDA, 2005, 2010). In Pakistan, SMEs also face tremendous problems. Bari et al., (2005) provides evidence that the SMEs in Pakistan currently perform below their potential and have low growth performance. Rohra et al., (2009) and Memon et al., (2010) pointed out that the role of SMEs is very important to generate employment and reduce poverty but SMEs serving on breathing apparatus are becoming a major issue.

Kureshi et al., (2009) argued that the performance of SMEs is dismal and contributed to the low performance of larger businesses. The SMEs' health has a direct relationship with the overall strength and growth of the economy. Ullah et al., (2011) pointed out that the failure rate of SMEs is estimated at 90% to 95% in the initial stage. Therefore, the poor performance of SMEs is the main reason for poor industrial performance. The poor performance of the industrial sector contributes to escalating trade deficits, unem-

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