

INTELLECTUAL CAPITAL, ISLAMIC WORK ETHICS AND THE PERFORMANCE OF BUMIPUTERA SMALL AND MEDIUM ENTERPRISES (SMES): EXPERTS' VIEWS

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Abstract: Despite numerous efforts initiated by Malaysian government, Bumiputera entrepreneurs are still considered as incapable to compete with other groups in realizing business success. This study seeks to examine the intellectual capital (IC) and Islamic work ethics (IWE) that contribute to higher performance of SMEs among Bumiputera in Malaysia. In doing so, the measurement instruments are developed based on previous literature reviews and refined by expert validation. Informal interviews were held individually with 13 experts with the aims of gaining relevant and insightful information for IC, IWE and business performance cohesion. From a pilot study of 49 Bumiputera SME entrepreneurs, the findings indicate that intellectual capital components and Islamic work ethics are vital for performance management practices in the firm. Contribution/ Originality: Theoretically, this study generalizes intellectual capital and Islamic work ethics in SME setting and is a preliminary impetus for exploring Bumiputera intellectual capital, Islamic work ethics and business performance. Practically, it provides valuable references for entrepreneurs, giving a prioritized array of crucial resources that allows Bumiputera SMEs to sustain the competitive advantage.

Keywords: Intellectual capital, Islamic work ethics, Bumiputera, SME

1. Introduction

Considered as important, imperceptible and distinctive resources for competitive advantage of a firm, intellectual capital has extended great attention from the academicians, researchers and practitioners. Many scholars like Abbasi, A. S., Rehman, K. U., & Bibi, A. (2011); Abeng, T. (1997); hmadi, F. (2011) asserted that intellectual capital is essential intangible resources that will aid organizations to attain sustainable competitive advantages, particularly in knowledge-intensive industries. Small and medium enterprises (SMEs) are considered as knowledge-based establishments, founded on knowledge resources i.e. intellectual capital (IC).

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This study links the IC perspective and Islamic work ethics (IWE) with SMEs' performance. Realizing as a basic driver to development in Malaysia, SMEs have provided 33.1% to the national Gross Domestic Product (GDP), 57.7% to employment and 19% to exports. (Baker, T. L., & Risley, A. J. (1994), 41% to GDP, 62% to employment and 25% to exports (Bataneh, M.T. and Al Zoabi, M. (2011). 97.3% (645,136) business creations in the country are SMEs. (Bölenius, K., Brulin, C., Grankvist, K., Lindkvist, M., & Söderberg, J. (2012).

Malaysian government has introduced various policies and efforts to fortify the rights of Bumiputera (son the soil) in the country. The exertions have been described in the national New Economic Policy (NEP) Malaysia which was presented by the late Tun Abdul Razak in 1971 and sustained by all his successors including the present Prime Minister, Dato' Sri Najib Razak Tun Razak. (Bontis, N. (1999). One of the initiatives is to uphold Bumiputera SMEs' in entrepreneurs, specially concerning to equity ownership. Although Bumiputera is roughly two third of the total population, its economic situation is still smaller than other races, specifically the Chinese. (Bontis, N., Chua Chong Keow, W., & Richardson, S. (2000). Economic Planning Unit (EPU) (Congleton, R. D. (1991) highlights minor economic participation of Bumiputera entrepreneurs in the country. To make the matter worse, Bumiputera lags behind other group of people in all aspects. (Conroy, J.D. (2002). Not only Bumiputera entrepreneurs have difficulties in competing in a global economic onslaught (Curado, C., & Bontis, N. (2007) but SMEs in Malaysia also are incapable to compete in such a turbulent market. (Dato' Sri Najib Razak Tun Razak, (2014).

Against this background, this paper seeks to widen and develop the analysis of the effect of interior capitals of SMEs on entrepreneurship. In particular, the research question posed here sets out to investigate the relationship among IC, IWE and Bumiputera SME business performance. With a view whether IC and IWE affect Bumiputera SME business performance, the paper is structured as follows: First, review of literature describing the concept of IC, IWE and business performance is presented. Second, the views from the experts and data collection are outlined. Lastly, discussion and conclusion are drawn by expounding the managerial implications related to the study.

2. Literature Review

2.1 *Intellectual Capital (IC)*

From its introduction in 1969 by Galbraith, IC has been asserted as an intellectual contribution offered by individuals and become a source of competitive advantage for the success of knowledge-based organizations (Dato' Hafsa Hashim, (2015). Managers and researchers acknowledged IC as the vital strategic resources in assessing firm business performance in the developing and under developed nations. (Department of Statistics Malaysia (DOSM) and SME Corporation Malaysia. (2013), (Bontis et. al., (2000), (Economic Planning Unit (EPU) (2014) agreed that IC is an important contributor to the organizational performance regardless of diverse types of industry. In fact, Bontis et. al., (2000) underlined on the dissimilar mechanisms of intellectual capital which indicate an inconsistency in affecting performance of different industry in Malaysia. IC subdomains actually relate to one another significantly and affect company business performance, specifying the existence of a cause-effect relationship among the IC components (Faizal, P. R. M., Ridhwan, A. A. M., & Kalsom, A. W. (2013). IC is characterized as the intellectual substance that has been captured, formalised and leveraged for wealth creation by generating a greater-valued asset (Gaskill, L. R., & Van Auken, H. E. (1994). In general, IC subdomains consist of human capital, organizational capital and relational capital (Ghazanfar, S. M., & Islahi, A. A. (1998), (Grbac, B., & Loncaric, D. (2009). As an extension of these researches, this study attempts to include additional two components of IC namely, spiritual capital and technological capital.

2.2 Islamic Work Ethics (IWE)

With reference to the spiritual aspect, IWE is a coordination concerning work and considers work as a virtue in human lives. (Hashim, M. J., Osman, I., & Alhabshi, S. M. (2015). It establishes Islam's anticipations on an individual's comportment at work comprises of his or her determination, commitment, accountability, cooperation, social relations and creativity. (Hayati, K., & Caniago, I. (2012). Principally, a close relationship with Allah s.w.t would lead to one's attitudes and behaviors which are in accordance with the guidelines and requisites of the religion. (Hoque, N., Mamun, A., & Mohammad Ahshanul Mamun, A. (2014). IWE is initially founded on the Qur'an, the teachings of Prophet Muhammad s.a.w who conveyed that hard work instigated sins to be pardoned and the legacy of the four Caliphs of Islam. (Ismail, M.B., 2005)

Previous scholars agree that the positive significant relationship among IWE, intrinsic motivation, job satisfaction, organizational commitment and job. (Kamaluddin, A., & Rahman, R. A. (2013), (Khairunnisa, M., Zaimah, D., & Mohd Radzuan, R. (2012). Moreover, work ethics contributes to business economic development (Khalique, M., Bontis, N., Abdul Nassir bin Shaari, J., & Hassan Md. Isa, A. (2015), besides influences organizational success (Khalique, M., Isa, A. H. B. M., Shaari, N., Abdul, J., & Ageel, A. (2011). Hence, many companies endeavor to observe ethics and morality in the workplace due to the positive consequences (Khalique, M., Shaari, N., Abdul, J., Isa, A. H. B. M., & Samad, N. B. (2013). Supported by Abeng (1997), companies may be more efficient and successful if they uphold and ethical outline that monitors and helps to organize their effort. Indeed, the outlooks of IWE are not for life repudiation but for life contentment and embrace business purposes for the success of people. (Matricano, D., & Matricano, D. (2016). Supported by Amilin (2016) in her study on management accountants in Indonesia claimed that IWE can reduce the stress and intention to quit the job. The findings are useful for organization's leaders to empower the workforce to achieve organizational goals.

Furthermore, Abbasi, et al. (2011) suggest that the integration of ethics in business decision making would increase strategy development and implementation, thus augmenting company profits. The scholars also assert that IWE promotes ethically strong leadership with professional aptitudes and special character which ultimately create conducive environment for good business performance. Specifically, IWE has a significant positive relationship to business performance. (Nunally, J. C. (1978). Most importantly, Muslim scholars agreed that entrepreneurs must carry out Islamic teachings and assimilate them in their entrepreneurial activities in order to realize Allah's pleasure and attain the betterment in this world and hereafter. (Patel, S., Tang, D. P. H., & Elliot, G. (2006), Polit, D. F., & Beck, C. T. (2006), (Rahman, N. M., Muhamad, N., & Othman, A. S. (2006).

2.3 Business Performance Measurement

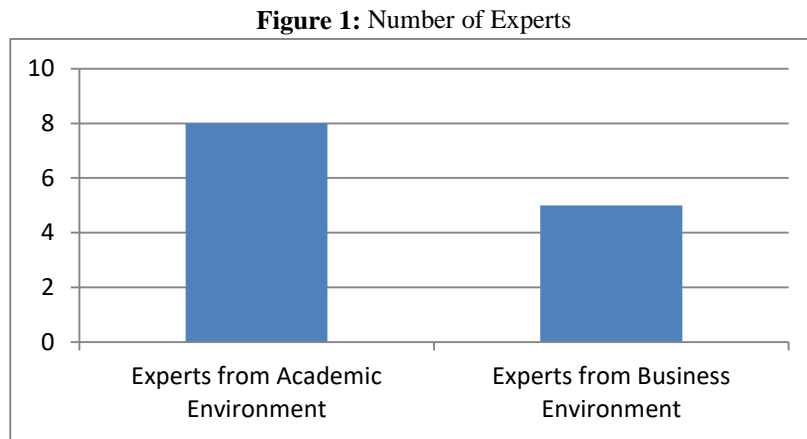
This study concentrates on seven elements of the entrepreneurs' business performance, such as sales, profit, business growth, an increase in the number of employees, customer satisfaction, and net asset value. Subjective measurement is used in which Bumiputera SME entrepreneurs are required to answer objectively the questions about their satisfaction with the outcome of those seven aspects of the business, portraying their perception on the success of organizations. This kind of measurement has been commonly utilised by preceding studies. (Samirah, A. (2016). Moreover, subjective measures (using seven-point Likert scale) are employed in appraising Bumiputera SMEs business performance because usually SMEs are reluctant to openly reveal their financial statement. (Sa-U, S., Rahman, N. S. N. A., & Nordin, M. S. (2008). On the other hand, subjective measurement of business performance is frequently vulnerable to errors. To solve this problem, additional items in questionnaires are used and thus the authenticity of the measurement is substantiated. (Saudah, S. (2005)

3. Experts' Views

In the preliminary investigation, researchers pursued the views of those who might be considered as experts in the area of IC, Islamic values and entrepreneurship. Apart from that, the

researchers also would like to understand other intangible capitals that might also be taken into consideration when entrepreneurs are endeavoring to enhance their business value creation. Informal interviews were held individually with 13 experts with the aims of gaining relevant and insightful information for IC, IWE and business performance cohesion. These experts are key informants because they can offer specific, specialized knowledge on this particular issue that researchers wish to understand. Nastasi (1998) asserted that the requirement for interviewing key informants is approximately five people. So, 13 are more than enough. Key informant interview promotes flexibility to researchers to discover new ideas and relevant issues pertaining to the study (Saunders, M., Lewis, P., & Thornhill, A. (2009).

Figure I shows the number of experts interviewed, in which eight of them are from academic environment and five are from business environment.



An IC expert, whose name is recognized internationally and recurs in any IC reading list, has mentioned that the integration of IC and work ethics among Malaysian Bumiputera SME entrepreneurs is an important area of research. Specifically, researchers might want to consider how ethics plays a role in individuals' propensity to share or hoard their knowledge from colleagues. A Vice Chancellor of a research-intensive entrepreneurial university had also approved on the factors. He added on positive qualities to become successful entrepreneurs such as knowledge on the financial management, ability to manage risks and change, integrity, right attitude and mindset, discipline, hardworking and 'Doa'. This view is supported by a Malaysian successful entrepreneur, who highlights on good ethics as honesty, integrity, justice to customers, avoidance of profiteering, hardworking, and at the same time helping the poor and needy.

Agreeing with the notion above, a prominent successful entrepreneur concluded that universal ethics are all covered in Islamic ethics and should be implemented as work ethics in order to become successful entrepreneurs. Furthermore, an Islamic motivational expert has defined success as the attainment of happiness in the world and the hereafter. Therefore, Bumiputera entrepreneurs must apply Islamic work ethics to obtain the blessings from Allah (SWT), means of everlasting prosperity and excellence in the hereafter.

In essence, Bumiputera entrepreneurs should possess Islamic work ethics in order to be successful and sustainable. The statement is forwarded by an Islamic finance expert, who has been recognized internationally. He has the opinion that entrepreneurship is not just about knowing what to do to be successful, but more importantly knowing what it takes to be successful. Correspondingly, a former professor of a private university underlines that all entrepreneurs require multi skills and interdisciplinary approach to make strategic business decisions. As such, they can create more value to build sustainable business.

However, a professor in Islamic development management studies questions on the issue of entrepreneurial success or business performance, whether it refers to development or economics. Hence, there is a need for a consistent and effective business performance measurement which allows

entrepreneurs to manage performance proactively and offers employees a clear understanding of what success looks like and the priority that the management gives to intellectual capital and ethics. Instead, another professor from the same field has used ethico-economic approach to study ethics in the development process in which ethics should be viewed as endogenous phenomenon and not exogenous occurrence. Ethics are regarded as an endogenous element because Islamic economic system is founded on the religious teachings that form a perpetual ethical configuration. Specially, this economic system is administered by Islamic rules and principles which aim at achieving the well-being for all people and community.

Above all, opinions of the experts were rather similar. The dissimilarities appear because the experts from business environment focused more on profitability and justice to customers, whereas those from academic environment have put forward theoretical point of view. However, in principal, all experts agreed on the same factors, i.e. intellectual capital and Islamic work ethics influence business performance. Thus, this study was intended to uncover the relationship among these factors. Having this clear understanding of the purpose of the survey, researchers attempt to identify the relevant information to be collected in order to meet the research objectives.

4. The Survey Questionnaire

Survey questionnaires are typically used for data collection in business and management researches. Survey questionnaires should be made up of a combination of present surveys which are generally known in organizational theory study so as to test the research hypotheses. Accordingly, the hypotheses regarding relationships between intellectual capital components (human capital, organizational capital, relational capital, spiritual capital and technological capital), Islamic work ethics and performance of Bumiputera SMEs would be tested. In principle, the objective of the survey was to collect and measure the information, as well as to test the hypotheses as follows:

H1 Intellectual capital components have positive relationships with Bumiputera SME business performance.

H2 Islamic work ethics has a positive relationship with Bumiputera SME business performance.

This study used a self-administered questionnaire survey which was mailed to the respondents requiring them to rate their thoughts based on specified statements via a 7-point Likert Scale ranging from 1 (strongly disagree) to 7 (strongly agree). The same method had also been used in IC research by Bontis (1999), Saudah (2005).

5. Face Validity and Content Validity

Bölenius, et al. (2012) and Sangoseni, et al. (2013) explained face validity as the expert review on the questionnaire items and his deduction that the instrument is a valid measure of the conception but only on the face. Face validity is principally a rudimentary gauge of content validity. However, it increases its acceptance and becomes the most regularly exercised technique of validity in developing countries. (Sekaran, U., & Bougie, R. (2010). The preliminary process of defining face validity of the survey questionnaire was done by a professor from Faculty of Economics and Management Sciences, Universiti Sultan Zainal Abidin. Constructively, he ascertained that the instrument had measured the characteristics of interest.

To increase validity strength of the questionnaire, this study has combined face validity and content validity as proposed by Anderson, et al (2002). Content validity relates to the magnitude of the instrument totally measures the construct. For content validity, two more experts on the research subject were approached to evaluate the instrument. One of them is a professor from School of Management, Universiti Sains Malaysia and another is an expert in Human Capital Area from Xenel, Jeddah, Saudi Arabia. In detail, these raters revised all of the questionnaire items for clarity, precision of instructions, readability, item representativeness, suitability of the scale and understandability. After that, the questionnaire was all set to pilot test.

6. Pilot Test

Prior to the distribution of final questionnaire, a pilot test was administered concerning 49 owners/managers (15% of 327 samples) of SMEs in Kota Bharu, Kelantan. 10% - 20% of the sample size for the actual study is suitable in deciding the number of pilot test participants [65]. This helped to evaluate the questionnaire, improve it and avoid errors emerged from respondents' misinterpretation of the questions. As suggested by Nunnally (1978), Cronbach's alpha was used to measure the reliability of the consistent measurement of various items in the survey instrument. Sekaran & Bougie (2010) stated that the closer Cronbach's Alpha to 1, the higher the reliability. Further, these scholars proposed that Cronbach's Alpha of 0.6 is poor, 0.7 is acceptable and 0.8 is good.

Table 1: Summary of Total Number of Items for Each Instrument and Their Reliability Coefficient

Constructs	Number of Items	Cronbach's Alpha
Human Capital	8	0.866
Organizational Capital	8	0.864
Relational Capital	8	0.876
Spiritual Capital	7	0.866
Technological Capital	9	0.864
Islamic Work Ethics	11	0.867
Business Performance	12	0.866

In the present study, Cronbach's alpha was measured for every set of survey question indicators using SPSS version 22.0 Windows. A satisfactory level of reliability is subjected to how a measure is being used. The results of the pilot test exhibited that all measures indicate excellent reliability coefficients ranging from 0.864 to 0.876 (see Table I). In the early phases of research on predictor tests or hypothesized measures of a construct (as is this exploratory pilot test), instruments with reliabilities of 0.7 or greater will be sufficient. Therefore, all the items were considered reliable and needed no correction. In consequence, the items can be utilized directly for survey administration for the remaining sample.

7. Discussion and Implications

This study reviewed the pertinent literature and included the opinions of 13 experts, whose opinions were categorized into IC, Islamic values and entrepreneurship. The experts comprise of conspicuous academics and prominent entrepreneurs who have vast knowledge and experience in the subject matter. As such, their opinions are realistic for this preliminary study. Furthermore, they have given useful information of understanding the factors that make the existing entrepreneurs become successful. In actual fact, understanding the experts' view allowed the researchers to compare and match the factors that influence to SME business performance. Fascinatingly, the outcomes of the interviews denote that a good research in the area of IC, IWE and Bumiputera SME business performance is necessary and undoubtedly will contribute to the existing literature on sustainable entrepreneurship and strategic HRM. Moreover, empirical research is necessary in understanding the concept of IC and IWE to offer a better explanation of their impact on firm performance, later will add to the body of knowledge in entrepreneurship literature. This is relevant to Malaysian context as the government has put vigorous efforts in enhancing Bumiputera entrepreneurs' economic opportunities and expanding their wealth ownership in this current knowledge-based economy.

Knowledge-intensive economic activities promote productive investment that is based on economic sustainability and socio-ethical interest. Hence, business undertakings cannot be separated from ethics, specifically IWE. Ethics is in fact an imperative part of the Islamic philosophy of life since Islam is principally an ethical message from Allah SWT to all human beings. As mentioned by the Prophet Muhammad (pbuh): "I have been sent just to complete the moral values". Therefore, it is suggested that Bumiputera SMEs pay more attention to IWE and IC so that organizational efficiency would be increased and organizational goals are accomplished. In other words, SMEs should concentrate on

developing and utilizing their internal resources like IWE and IC of the workforce and translating them into competitive advantage and profitability.

For the theoretical implications, not many researchers have previously explored IC and IWE of Bumiputera SMEs. So, this study had to collect Islamic and foreign theories along with the literature on IC and IWE. Compared to the study of IC from some scholars, this study emphasized on the components of IC and details of IWE and expounded their contents, which resulted in further improvements. For that reason, the study reinforces the establishment of internal capitals (IC and IWE) in Bumiputera SMEs. In other words, it would inspire prevailing consideration of taking a broad view IC and IWE into industries of SMEs.

Looking at the practical implications, Bumiputera SMEs can utilize the IC and IWE of entrepreneurs to increase business competitiveness besides establishing cooperative cooperation relations and fortify research and innovation to react to market demand. Moreover, policy makers will be able to comprehend the issues of IC and IWE better and offer support for SMEs in their effort to stimulate those internal resources. Insights obtained from this research will help SMEs to achieve value creation by investing in IC and Islamic knowledge. The detailed components of IC, IWE and business performance measurement provide practical references for SME entrepreneurs to manage IC and IWE efficiently and effectively towards achieving organizational competitive edge.

8. Conclusion

Although this study has identified Bumiputera SME intellectual capital (IC), Islamic work ethics (IWE) and business performance, the association among those factors has not been tested. However, this preliminary view attempts to provide brief conception into SMEs in outlining their appreciation of IC and IWE which influence business performance. Besides focusing on the attainment of organizational objectives, SMEs should recognize and capitalize their capabilities and internal strengths. The potential contribution of this study is that the proposed framework applied by SME entrepreneurs in prioritizing an array of indispensable resources for long-term competitive advantage and business performance. This study is a starting point for exploring Bumiputera SME IC, IWE and business performance using the suggested components from the preliminary study. The subsequent phase is to conduct a survey on Malaysian Bumiputera SME entrepreneurs by examining not only the significance of, but also the relationship among IC, IWE and performance. In this way, Bumiputera SME entrepreneurs can show their employees, customers and other stakeholders that, through promoting IC and IWE, they not only take on accountabilities towards related benefactors but also improve business competitiveness and performance.

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Dr. Nick Bontis, award-winning professor and pioneer in the field of intellectual capital, DeGroote School of Business, McMaster University. 22 November 2016 at 01.21 pm.

Tan Sri Dato' Sri (Dr.) Mohd Nadzmi Mohd Salleh, Executive Chairman, NADICORP Holdings Sdn.Bhd. 20 November 2016 at 11.37 pm.

Professor T. Ramayah, School of Management, Universiti Sains Malaysia. 5 May 2016 at 9.56 pm.

Professor Dr. Zainudin Awang, Faculty of Economics and Management Sciences, Universiti Sultan Zainal Abidin. 21 April 2016 at 11.57 pm.

Dr. Jiwa Mohd Isa, Human Capital Area Expert, Xenel, Jeddah, Saudi Arabia. 21 April 2016 at 7.22 pm.

Pn. Samirah Ahmad, the Manager of Kelantan Malay Chamber of Commerce, Malaysia (DPMMK), Kota Bharu, Kelantan. 5 January, 2016 at 10.30 am.

Professor Masudul Alam Choudhury, Department of Shari'ah and Economics, AIS, Universiti Malaya. 17 November 2016 at 7.47 pm.

Dr. Syed Omar Syed Agil, former Professor of Universiti Tun Abdul Razak. 19 November 2016 at 4.39 pm.

Datuk Wira (Dr.) Hj Ameer Ali b Mydin, Managing Director, Mydin Mohamad Holdings Berhad. 21 November 2016 at 10.30 am.

Dato' Dr. Haji Mohd Fadzilah Kamsah, Managing Director, Excel Training & Consultancy (M) Sdn. Bhd. 21 November at 1.04 pm.

Prof. Datuk Dr. Syed Othman Alhabshi, Deputy President Academic, International Centre for Education in Islamic Finance (INCEIF). 21 November 2016 at 2.07 pm.

Emeritus Professor Dato' Dr. Hassan Said, Vice Chancellor of Universiti Teknologi MARA. 21 November 2016 at 1.02 pm.

Professor Dr. Muhammad Syukri Salleh, Director, Centre for Islamic Development Management Studies (ISDEV), Universiti Sains Malaysia. 18 November 2016 at 09.59 am.

Somehow, all remaining errors and vagueness are authors' own responsibility and should not impair the reputations of these respected people.

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