THE RELATIONSHIP BETWEEN INTELLECTUAL CAPITAL, INNOVATION CAPABILITY WITH FIRM AGE AND FIRM PERFORMANCE

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ABSTRACT

The recognition of intellectual capital and innovation capability as a key success factor in an increasingly competitive, global economy has the groundwork for researchers to explore new practices of management. Intellectual capital is defined as a combination of human, structural and relational capital that creates value and consequently determines the performance of a firm whilst innovation capability refers to the ability of a firm to transform an idea into something new which carries an economic value. The study focuses on small and medium enterprises because they make up the bulk of firms in the Malaysian economy and the Government has spent a lot of money, time and effort to develop them. The study begins with an extensive literature review concerning the research problems and issues, theoretical concept, definition and measurement of intellectual capital, human capital (HC), structural capital (SC), relational capital (RC), innovation capability, firm age and firm performance. Next, using the survey data collected from small and medium enterprises, it provides a comprehensive set of empirical evidence that look into the mediating role of innovation capability and the moderating role of firm age in the relationship between intellectual capital, HC, SC, RC and firm performance. There are three conclusive findings of the study. First, intellectual capital, RC and innovation capability have influence on performance; second, intellectual capital and SC have influence on innovation capability; and third, innovation capability mediates the effect of intellectual capital and SC on firm performance. Based on these findings, the researcher lists several recommendations in the form of management science that can be used by policy-makers and business owners to improve business performance. Finally, this study highlights the limitations of the study and suggests directions for future studies.

Keywords: intellectual capital, innovation capability, firm age, performance

Kata kunci: modal intelek, keupayaan inovasi, umur firma, pencapaian
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LIST OF OPERATIONAL DEFINITIONS

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<th>Construct</th>
<th>Latent concept that the researcher can define in conceptual terms but cannot be directly measured.</th>
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<tr>
<td>Indicator</td>
<td>Items that form a composite measure. A construct is measured by multiple indicators.</td>
</tr>
<tr>
<td>Human capital</td>
<td>The knowledge, abilities, experiences and attitudes possess by the organizational members.</td>
</tr>
<tr>
<td>Incremental innovation</td>
<td>A significant extension of existing products or process characteristics either improvement or refinement of the product or process.</td>
</tr>
<tr>
<td>Intellectual capital</td>
<td>A combination of human, structural and relational capital that creates value and consequently determines performance of a firm.</td>
</tr>
<tr>
<td>Innovation</td>
<td>New outcomes either incremental or radical generated from implementation of creative ideas.</td>
</tr>
<tr>
<td>Innovation capability</td>
<td>The ability of a firm to transform an idea into a something new which carries an economic value.</td>
</tr>
<tr>
<td>Performance</td>
<td>How well a firm does something.</td>
</tr>
<tr>
<td>Radical innovation</td>
<td>The outcome of totally a new product or process into the market.</td>
</tr>
<tr>
<td>Relational capital</td>
<td>All the knowledge embedded in the relationships with external parties which include alliances, customers, investors, distribution networks, partners and suppliers.</td>
</tr>
<tr>
<td>Structural capital</td>
<td>A collection of knowledge in an organization embedded in systems, databases and program.</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<td>--------------</td>
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<tr>
<td>BSC</td>
<td>Balance Scorecard</td>
</tr>
<tr>
<td>CEE</td>
<td>Capital Employed Efficiency</td>
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<td>CR</td>
<td>Composite Reliability</td>
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<tr>
<td>EVA</td>
<td>Economic Value Added</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HC</td>
<td>Human Capital</td>
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<td>HCE</td>
<td>Human Capital Efficiency</td>
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<td>IAM</td>
<td>Intangible Assets Monitor</td>
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<td>IPRs</td>
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<td>MaGIC</td>
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<td>MPC</td>
<td>Malaysia Productivity Corporation</td>
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<td>MyIPO</td>
<td>Intellectual Property Corporation of Malaysia</td>
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<td>PLS</td>
<td>Partial Least Square</td>
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<td>PNS</td>
<td>Perbadanan Nasional Berhad</td>
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<td>RBV</td>
<td>Resource Based View</td>
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<tr>
<td>NEAC</td>
<td>National Economic Advisory Council</td>
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<td>NSDC</td>
<td>National SME Development Council</td>
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<td>RC</td>
<td>Relational Capital</td>
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<td>RI</td>
<td>Residual Income</td>
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<td>R&amp;D</td>
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<td>Small and Medium Enterprise</td>
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<td>Acronym</td>
<td>Full Form</td>
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<td>SMECorp</td>
<td>Small and Medium Enterprise Corporation</td>
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<td>SMIDEC</td>
<td>Small and Medium Industries Development Corporation</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package for Social Science</td>
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<td>Strategic Reform Initiatives</td>
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<td>TNA</td>
<td>Training Need Analysis</td>
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<td>VA</td>
<td>Value Added</td>
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<td>VAHC</td>
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<td>VAIC</td>
<td>Value Added Intellectual Coefficient</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Rapid changes are taking place, be it in social, technological, political and economic context occasioned by the effect of globalization. Globalization implies a borderless world where borders are disappearing with unprecedented movement of people, goods and services as well as capital. In a borderless world, without adequate knowledge it is difficult for firms to assess potentials and threats of the global business. Those people with wide knowledge and skills in most aspects of business and technical areas such as in human resource, accounting, information technology and engineering will have more mobility and are widely accepted around the globe than those with less knowledge. To some extent, what makes them different from others is that the former possess greater ability to adapt to new knowledge and new environment and create value. Value is something that is relatively worth which determine wealth creation.

In addition, a firm should be capable of developing new ideas, employ new processes, manufacture new products, deliver new services and develop a more efficient supply chain in order to stay competitive and be a step ahead. Similarly, they should have the capability to innovate, thus being an important reason for firms to employ people with passion and commitment towards work and foremost, people with sufficient knowledge. A study by Marr, Schiuma and Neely (2004) stressed that the foundation of firm’s capability is based on knowledge. It is knowledge that distinguishes amongst firms as knowledge of each firm varies. Firms with more knowledge will be less
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REFERENCE


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