

MALAYSIAN ACCOUNTING REVIEW

Volume 15 No. 1
June 2016

SOCIAL CAPITAL AND INNOVATION CAPITAL: ACCOUNTABILITY TOWARDS SMALL MEDIUM ENTERPRISES' (SMEs) SUSTAINABLE PERFORMANCE

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ABSTRACT

SMEs have the potential role to substantially contribute to the current and future economy. In today's complex business environment, SMEs are facing various challenges in surviving and sustaining their operations. The sudden economic changes and globalization have seen many small enterprises failed in managing their business. In this innovation capital and social capital are two main intangible resources in the organization, which are vital for sustainable performance in any organization. Hence, in discharging their accountability towards the relevant stakeholders, SMEs should deploy their intangible resources. In this regard, the main aim of this study is to investigate the relationship between innovation capital and social capital with SMEs performance. Data were captured via questionnaires, which were distributed to eighty SMEs companies in four states in Malaysia. The results of the study provide evidence that innovation capital and social capital influence the performance of SMEs. In addition, all the dimensions under innovation capital and social capital which are innovation capabilities, innovation culture, structural and relational are significantly positive related with SMEs performance. This reflects that intangible resources in SMEs being capability, culture in working environment, social interaction within organization, network, and the strength of ties among the employee are crucial to influence the efficiency of SMEs organization. Thus, the results of this study offer guidelines and evidences for SMEs in

ARTICLE INFO

Article History:

Received: 5 October 2015

Accepted: 21 March 2016

Published: 23 June 2016

managing their intangible resources in order to be competitive and sustainable in business.

Keywords: *Innovation capital, social capital, SMEs, SMEs performance, sustainable performance*

INTRODUCTION

The recent years have seen Small and Medium Enterprises (SMEs) plays an active role in contributing to the economic development, social uplifting and political stability globally. The aftermath of the global downturn of 2008 and 2009 has somewhat pushed SMEs to become the backbone of the global economy (ACCA, 2010) as SMEs have contributed significantly to the income, output and employment opportunities which are often derived from business activities in the urban or rural area. They exist in various sectors, including the manufacturing, services, consumer goods and other industries. In Malaysia, the government has taken the initiatives to develop a group of diverse and competitive SMEs in achieving a sustainable economic growth. This is important as these enterprises contribute to the economic growth process and therefore, play an important role in the country's overall production network. According to Khan (2014), reports from other countries have shown SMEs as a fundamental part in the economy, as they comprise of over 98 percent of the total establishments, and contributing to over 65 percent of employment opportunities and over 50 percent of the gross domestic products. It is likely that Malaysia would have the same statistics. Therefore, SMEs have the potential to contribute substantially to the economy and consequently, provide a strong foundation for growth of new industries, as well as strengthening the existing SMEs for the country's future development.

In realisation of SMEs' contribution, the government, politicians and various agencies have put efforts in promoting and highlighting the importance of SME, by conducting various/multiple entrepreneurship development programmes (Dugguh, 2013), including programmes and facilities to enhance SMEs' performance and competitiveness (Khalique, Isa, Shaari & Ageel, 2011).

PROBLEM STATEMENTS

In today's complex business environment, SMEs are facing various challenges in surviving and to sustain their operations. The sudden economic changes and globalization has seen many small enterprises failed in managing their business. A large number of studies have reported that majority of small companies vanished within the first five years of their operations. Globalization has also exposed SMEs to the on-going changes and competitive environment which calls for SMEs to compete effectively in order to survive.

Most literature suggest that to compete and sustain locally and globally, SMEs requires to grab the opportunity to search for new ideas and strategy in order to improve their survival and performance and ultimately, become a global performer. In an effort to capture these opportunities, SMEs need to exploit all of their available resources that could assist the organization to achieve competitive advantage and in turn will improve their performance as well. Thus, to ensure the sustainability of organization's growth, SMEs ought to thoroughly understand key success factors that may influence their performance. The available resources in SMEs will include tangible and intangible resources. However, since the competitors will be able to imitate the advantages of tangible resources, for example, physical and financial resources, researchers and practitioners have shifted their focus to unique, intangible resources including innovation capital and social capital as factors that could lead to sustainable competitive advantage for an organization (Cooke & Wills, 1999). The demands for SMEs to identify valuable resources for competitive advantage is crucial for their long term success and sustainability. Consequently, SMEs need to realise their full potential and their valuable resources such as innovation and social capital, as well as competitive advantage in improving their business performance. SMEs also need to position themselves in facing the changing needs and expectations of new and improved products from their customers (Akhtar, Ismail, & Hussain, 2013). In this regard, the objective of this study is to examine whether innovation capital and social capital may influence SMEs performance.

LITERATURE REVIEW

Small Medium Enterprises in Malaysia

The last few decades have seen the shift of Malaysian economy from an agricultural based economy to an industrial based economy. The advent of globalization sees the Malaysian economy to once again shift from an industrial based economy to a knowledge based economy. The objective of such movement is to achieve Vision 2020 and to become a fully developed economy (Ong, Ismail & Yeap, 2010). As SMEs in Malaysia constitutes a majority of the business activities in Malaysia, their contributions to this country are deemed to be significant. Various efforts have been done to ensure that SMEs remain competitive while coping with the uncertainties and the rapidly changing environment. The success of SMEs allows these organizations to face a dynamic, competitive and challenging global environment and ultimately, achieve Vision 2020.

There is no doubt that the success of the current Malaysian economy depends on the role of SMEs as it acts as the backbone to the economy. SMEs in Malaysia often operate in small industry with small capital and produce goods for domestic consumption by utilizing labour intensive technology. According to Ali and Huseyin (2006), SMEs are regarded as the ultimate impetus for employment, innovation, entrepreneurship and prosperity. This is because SMEs provide employment opportunities for people and improve the standard living of the communities, as a whole. In Malaysia, the role of SMEs in providing employment opportunities is evident as in 2006, SMEs employed 65.3 per cent of the national workforce in this country, an indication on the importance of SMEs to the economy (Thurasamy, Mohamad, Omar & Marimuthu, 2009).

According to the CEO of SME Corporation Malaysia, Hafsa (2013), SMEs have become the backbone of the Malaysian economy since these enterprises form a large proportion of businesses in the country. They represent 97.3 per cent of companies (645,136), including 77 per cent of microenterprises that have less than five employees, 19 percent of small enterprises and 3 percent of medium and large enterprises. SMEs in Malaysia are involved several sectors including service, manufacturing, construction, agriculture, and mining and quarrying (Economic/SME Census, 2011).

SMEs are grouped based on two characteristics namely, the numbers of employees and the total sales or revenues generated by the organization in a year (Mazidah, Hayati & Burairah, 2014). Most of these enterprises are involved in the service sector, including wholesale and retail, food and beverage, and transportation. Currently, SMEs have contributed to not only 57 percent of the employment opportunities, but also 32.5 percent of the Gross Domestic Product and 19 percent of the total exports to other countries.

In sum, to guarantee SMEs sustainability, these enterprises need to have adequate funding and they need to complement the funding with the development activities particularly in the area of innovation and financial resources in order to compete with larger organizations. Being innovative and productive is necessary in order for them to gain entry into international markets.

Resource-Based Theory

Resource-based view (RBV) was first introduced by (Wernerfelt, 1984) based on his concerns on the transformation of valuable resources in an organization to achieve organizational goals. This theory explains the competitive advantage where an organization depends on its tangible and intangible resources to achieve short term competitive advantage and consequently, organizational performance success and sustainability (Clulow, Barry & Gerstman, 2007). In other words, upon gaining its competitive advantage through key intangible assets and capabilities, the organization would gain superior organizational performance in terms of high profit, high customer satisfaction, increased sales and market share (Fahy, 2002; Hunt & Morgan, 1995).

However, not all resources have the potential to provide a sustainable competitive advantage to an organization; RBV focuses on the resources inside which are acquired within the organization. The organization will obtain competitive advantage when its tangible and intangible resources and capabilities to fulfil four characteristics namely, value, rare, imperfect imitable and non-substitutable. According to Clulow, Gerstman and Barry (2003), a tangible asset is determined not to fit the construct “key resources” since it is found imitable and does not satisfy the criteria to

achieve sustainable competitive advantage. In this study, innovation capital and social capital are considered as internal resources for SMEs.

Innovation capital and social capital are classified as intangible assets and valuable resources that become the drivers to foster greater than average performance and enhance organizational ability to implement value creating strategic decision in SMEs. These valuable resources influence SMEs performance in the long run, consistent with the resource based theory.

Innovation Capital and Organizational Performance

The concept of innovation capital introduces two stages of development. In the first stage, innovation capital is seen as the decisions and activities that occur from the identification of a need or a problem through R&D and the commercialisation of an invention (Rogers, Singhal & Quinlan, 2003). The second stage sees innovation capital, consisting of the introduction process of a new product or significantly improving existing product, service, process, marketing system or work practices (Namvar, Fathian, Akhavan & Gholamian, 2010). These resources are utilized in the organizational practice within the organization, at work place and/ or in foreign affairs (OECD, 2005).

The earliest definition of innovation capital was given by Edvinsson (1997). They defined innovation capital as the renewal capabilities and intangible resources or implicit R&D abilities such as internal research and development used to create new products and services to the market in the form of intellectual property. Another element in innovation capital is the intangible assets that are not technological based. This is inculcated in the organizational practices and employees' thoughts and ideas in the work place. This element can be described as innovation capabilities relate with the potential to generate new ideas, identify new market opportunities and implement innovation by utilizing existing resources and capabilities (Hill & Neely, 2000).

Innovation culture represents intangible resources in an organization that contributes to an increased level of innovation (Higgins & McAllaster, 2002). It also provides a way of thinking and acting that aids innovation (El Harbi, Anderson & Amamou, 2014).

In the last decade, there are several researchers who have provided other definitions by including new concepts to technology approach. For example, Chen, Zhu and Xie (2004) defined innovation capital as organizational competency in implementing and conducting research and development, which bring forth new technology, products and services to meet and satisfy customers' demand. It engages not only the new product and new technology, but also the new market, new material and new combination (Duran & Gogan, 2014).

Therefore, innovation capital can be regarded as an element of the intellectual capital. It constitutes of a dimension of intellectual capital (Chiou & Chen, 2012), that reflects the ability of an organization to create new knowledge, generate and use innovative solutions and any related results in regards to intellectual property rights and other tangible, intangible and financial assets (Edvinsson, 1997). This includes the conversion of knowledge into valuable assets (Kok, 2007) and commercialising such assets (Kijek, 2012). Innovation capital acts as a vital asset to assist organizations in creating value in the present economy and motivate employee to become innovative.

Furthermore, innovation capital is an important component of intangible assets since it triggers for organizational reformation (Wang, 2011). Innovation capital can also become the core of intellectual capital since it is frequently established by value creation from the positive effect on deferred performance. In addition, it also provides a powerful drive for obtaining and sustaining competitive advantage (Sullivan, 1999).

Apart from that, innovation capital can also be derived from R&D activities that benefit the organization (Wang, 2011). This is because innovation capital represents organizational capabilities in creating value creation in future through business design, business process techniques, patent, copyright and trade secret (Hsu, 2006). Thus, each enterprise should be aware on the importance of its own ability to protect its intelligent properties and intangible assets that would be utilized to create new products and services (Edvinsson, 1997).

In this manner, innovation capital is crucial for the survival of SMEs. This is because SMEs are facing high competition in the industry

which forces SMEs to distinguish their products and services from their competitors. Such competition requires SMEs to exploit their innovation capital in order to offer attractive products and services. This in turn will strengthen their performance and competitiveness.

A body of literature on intellectual capital investigated the relationship between innovation capital and organizational performance; Chen, Zhu and Xie (2004) examined the relationship between intellectual capital and financial performance of listed Taiwanese companies using the VAIC method. They found that innovation capital has a positive effect on market value and financial performance and has become the main indicator for future financial performance. The evidence shows that R&D expenditure is a part of innovation capital and has positive effect on organizational value and profitability. A case study by Duran and Gogan (2014) examined the impact of innovation capital on an IT organization, which supplies various computer tools and services and is a digital distributor of media contents. The findings of Duran's study show that there are developments in this organization which contributed to the debate on the importance of innovation capital in explaining the potential for organizational wealth creation.

Thus, based on the above discussion, it is hypothesised that:

H₁: There is a positive, significant relationship between innovation capital and SMEs performance.

Social Capital and Organizational Performance

The concept of social capital has been applied in the literature about intellectual capital in the context of inter and intra organizational relationship. Unlike other forms of intellectual capital, social capital focuses on the value of relationship between people in organizations, between organizations or within other organizations. Social capital is also different from other forms of capital since it is intangible, hence, it could not be located in some specific place. This capital is embedded in relationship between people in the social networking (Kontinen & Ojala, 2012). Social capital is also concerns with confidence, solidarity and has been found to facilitate the running of a business. Meanwhile, for family ownership,

social capital is often derived from various attributes such as relationship involving family, friends, and workmates.

Coleman (1988) defined social capital as a process that facilitates the creation of human capital and the maintenance of group solidarity. It refers to the accumulation of resources that exist in the family relationship and in community. This resource is useful in cognitive or social development of a young person. Each person has different resources that can provide potential advantages to the children and teenagers in developing their human capital. There are also several forms of social capital including obligations and expectations, authority relations, appropriate social organization and informal potential norms and effective sanctioning.

On the other hand, Nahapiet and Ghoshal (1998) defined social capital as the actual and potential resources that are available, or exist from the networking relation possessed by the group unit or individual. It facilitates the actor's specific activities in the social network, hence, social capital can be regarded as the most complex intellectual capital since it depends on the combination of experience as well as knowledge from various parties in creating new knowledge.

Resources from the capital perspective provide access to valuable resources, such as information, influence and solidarity which enable action (Kontinen & Ojala, 2012). In an organization, social capital is needed to avoid opportunistic behaviours among the employees and to build long term relationship. It defines the combined value of relationship with markets, suppliers, industry and customers. Thus, social capital represents the potential benefits that an organization will have as a result of external intangibles (Bontis, 1998).

Social capital can also secure benefits for the organization through networking; there are three dimensions of social capital namely, structural, cognitive and relational. The first dimension is the structural dimension. This dimension comprises of social interactions including patterns and strength of ties, promoting collectivism among members and exists within and outside the organization (Nahapiet & Ghoshal, 1998; Bolino, Turnley & Bloodgood, 2002; Chang, Chiang, Chu & Wang, 2006). The second dimension is cognitive dimension that refers to the resources that provide

shared representations, interpretations and system of meaning among the members. Apart from that, cognitive dimension explains the same vision and purpose that had been shared by the groups as well as unique language and culture.

Thus, employees in an organization should have the same perspective and more understanding of one another. Consequently, the third dimension is relational dimension. This dimension concerns with the resources created through personal relationships that focus on the establishment and interaction of long relationship (Chang, Chiang, Chu & Wang, 2006). This includes trust, norms, obligations and identity (Camps & Marques, 2014) that often exists inside and outside an organization (Akhtar, Ismail & Hussain, 2013).

Hence, a better communication process among employees would improve organizational performance and they will become more competent and efficient. Apart from that, social capital will assist SMEs in knowledge acquisitions which refer to the ability to identify and acquire new knowledge that can be utilized in SMEs operation.

In the meantime, there are studies that examined the relationship between social capital and organizational performance. Pratono and Mahmood (2014) examined the relationship between social capital and organizational performance by adding moderating effect of environment turbulence. This study sampled 700 SMEs in Indonesia and found that there is a positive impact of social capital and organizational performance under the low environmental turbulence. The construct of social capital refers to the source of competitive advantage in generating income and is crucial in achieving organizational performance and survival. This is because social capital entails the actual and potential resources accessible through an actor's network of relationship. As a consequence, such resources generate goodwill for the organization and indirectly mobilised towards achieving the mission and vision of the organization (Stam, Arzlanian & Elfring, 2014). Roxas and Chadee (2011) conducted a study using 175 small export firms in the Philippines, and investigated the relationship between social capital and export knowledge; export knowledge is associated with entrepreneurial orientation which then correlates with export performance. According to their study, the results show that social capital has a positive relationship

among social capital, export knowledge, entrepreneurial orientation and export performance. They conclude that social capital acts as a channel that could acquire and improves export knowledge and small organizations that are likely to be more knowledgeable and innovative since they have a stronger social capital.

In Malaysia, Akhtar, Ismail and Hussain (2013) conducted a study on 335 SMEs from the service and manufacturing sectors. They examined the relationship between social capital and organizational sustainability by using questionnaire survey. The study found that social capital is important and has a significant positive effect on the sustainability of small and medium enterprises, as social capital creates strong networks that assist the organizations to sustain as well as providing resources much needed by the smaller organizations. Therefore, based on the previous study, social capital has played a significant role in determining the performance of the organization.

Thus, based on the above discussion, it is hypothesised that:

H₂: There is a positive significant relationship between social capital and SMEs performance.

RESEARCH DESIGN

This study examines the relationship between innovation capital, social capital and SME performance. Innovation capital and social capital are assumed to have a positive relationship with SME performance. In other words, SME performance is predicted to possess positive impact based on the existence of internal resources represented by innovation capital and social capital.

The dependent variable is SMEs performance and cost reduction, profitability and customer satisfaction are the proxies for SMEs performance (Cabanero, Cruz & Ros, 2012; Carey, 2015; Raymond & Pierre, 2005; Saunila, 2014). In the meantime, cost reduction is related to achievement of an organization's annual budgeted cost reduction and revenue, profitability refers to the improvement of profitability and sales

of the organization whilst customer satisfaction refers to the quality of services and products offered to customers.

Meanwhile, the independent variables are innovation capital and social capital. Innovation capital is measured based on the innovation capabilities and innovation culture in SMEs; here it is defined as the ability to come up with new ideas that in turn, will create new products and services and will indirectly deliver short or long term profits to the organization. Meanwhile, innovation culture is defined as the environment in the organization that would support the managers and employees to increase the level of innovation and provide a way of thinking creatively. The measurement of the innovation capital constructs were adapted from previous studies (Peters & van Pottelsberghe de la Potterie, 2003; Chen, Zhu & Xie, 2004; Martín-de Castro, Delgado-Verde, Navas-López & Cruz-González, 2013). The annual revenue and number of employees in SMEs serve as the proxies for the size of SMEs which subsequently become a control variable in this study. It is believed that firm size may influence a firm's performance (Mohamad & Sidek, 2012). This study used questionnaire survey to collect information related to the impacts of innovation capital and social capital on organizational performance. The questionnaire survey was adopted from Chen, Zhu and Xie (2004); Peeters and van Pottelsberghe de la Potterie (2003); Martín-de Castro, Delgado-Verde, López-Saez and Navas-López (2011); Maurer, Bartsch and Ebers (2011); Fatoki (2011); Sorenson, Goodpaster, Hedberg and Yu (2009) with some modifications to fit the context of this study. The questionnaire comprises of 60 items that were divided into four main sections; section A required the respondents to respond to 19 items related to social capital while in Section B, the respondents responded to 20 items related to innovation capital. In Section C, the focus was on the information related to organizational performance and the respondents were required to respond to 11 items. The last section, Section D asked the respondents to complete 10 items related to their demographic profile. The questionnaire used 5-point scale ranging from "1" which indicates strongly disagree to "5" which indicates strongly agree.

The simple random sampling method was utilized in the sample selection process to choose enterprises registered with SME Corporation Malaysia as the sample study, since all of the information related to the background of SMEs are obtained from SME Corporation

Malaysia. This study used the individual unit of analysis and data were collected from one hundred seven (107) respondents from eighty (80) SMEs in Malaysia from Kedah, Kelantan, Selangor and Sarawak. The respondents comprised of SMEs owners or employees that are engaged in productivity and management, as normally social capital emerges from the interaction between individuals representing their organizations. Such selection was made due to their job specification that may relate with managerial level of the organization.

RESULTS AND DISCUSSION

Table 1 presents the results of the reliability test. The reliability coefficients result shows that the value was above 0.7. Hence, it indicates that the data used in this study meets the levels of reliability which were required for a significant analysis. In the meantime, the Cronbach's Alpha coefficients of innovation capital, social capital and SMEs performance were between the ranges of 0.849 to 0.904. This table also highlights the reliability result for the dimensions of the independent variable, which included innovation capabilities, innovation culture, structural capital and relational capital. Each of them indicates good internal consistency reliable for the scale since the range was between 0.732 and 0.827, and both values were above 0.7.

Table 1: Reliability Statistics

Items	Cronbach's Alpha	Cronbach's Alpha	
		Based on Standardized Items	No. of Items
Innovation Capital	0.87	0.899	20
Innovation Capabilities	0.827	0.874	15
Innovation Culture	0.817	0.819	5
Social Capital	0.849	0.864	17
Structural Capital	0.842	0.843	6
Relational Capital	0.732	0.76	11
SMEs Performance	0.904	0.905	11

A multivariate analysis was performed on the SMEs performance and its explanatory variables. This analysis was conducted to investigate the relationship between innovation capital and social capital constructs towards SMEs performance. The summary of multiple regression results is presented in Table 2.

Table 2: The Relationship between Innovation Capital Dimensions and SMEs Performance

Variable	Unstandardized Coefficient	Standard Error	t-value	p-value
Constant	0.752	0.319	2.355	0.020
Emp	-0.068	0.088	-0.772	0.442
Rev	-0.016	0.032	-0.512	0.609
IC_Cap	0.591	0.096	6.174	0.000
IC_Cul	0.204	0.082	2.496	0.014
R ²	0.494			
Adjusted R ²	0.474			
Standard Error of Regression	0.40203			
F-statistics	24.924			
Probability (F-Statistics)	0.00			

Notes: *, ** is significant at 5 per cent and 1 per cents levels respectively whereby: Emp: Employee; Rev: Revenue; IC_Cap: Innovation Capital (Capabilities); IC_Cul: Innovation Capital (Culture)

Table 2 explains the relationship between elements of innovation capital, which consists of innovation capabilities and innovation culture on SMEs performance. The regression result of Table 2 explains 47.4% of the variance in the SMEs performance. The regression result indicates the first dimension of innovation capital, which is innovation capabilities is a positive and significant relationship to SMEs performance at 1% significant level (t -statistics =6.174; p-value= 0.000). A positive relationship signifies that SMEs with high innovation capital, in terms of innovation capabilities would perform better and achieve high performance.

As for the second dimension of innovation capital, which is innovation culture, the result explains that there is a significant positive relationship with SMEs performance at 1% significant level (t - statistics =2.496; p-value=0.014). Both dimensions in innovation capital signify that SMEs with high innovation capital consisting of innovation capabilities and innovation culture would perform better and achieve high performance. Hence, the dimensions of innovation capital are considered strong contributors to SMEs performance. It is consistent with the prediction of Hypothesis 1, which states *“there is a positive significant relationship between innovation capital dimension (innovation capabilities and innovation culture) on SMEs performance”*. Based on the results, Hypothesis 1 is accepted.

This finding is consistent with Chiou and Chen (2012) who had suggested that innovation capital has a significant positive relationship with return on investment (ROI) and return on asset (ROA) as proxies of firm performance. Furthermore, Mc Elroy (2001) suggested that an increase in recognising innovation capital would not only assist managers in measuring and valuing their firm’s capacity to innovate, but also in enhancing their outputs in terms of their capacity to innovate and create innovation. Indirectly, the firms can improve the quality of their products and their competitive standing in practice. These findings are supported by Jing (2004) which found that that coefficient for R&D capability as a proxy of innovation capital was significant at 1% level with $\beta = 0.048$. This shows that there is a positive relationship between innovation capital and firm performance.

Ismail, Wan Omar, Soehod, Senin and Akhtar (2013, in a survey of 870 respondents SMEs Malaysia found that managers of manufacturing and services companies have positive opinion regarding innovation for their firms’ growth. Based on the measurement provided, most respondents agree that innovation is essential for the growth of SMEs and for them to become more competitive, irrespective of their national and international competitors.

Table 3: The Relationship between Social Capital Dimensions and Performance

Variable	Unstandardized Coefficient	Standard Error	t-value	p-value
Constant	1.213	0.359	3.376	0.001
Emp	-0.039	0.088	-0.447	0.656
Rev	-0.062	0.032	-1.943	0.055
SC_Str	0.424	0.079	5.378	0.000
SC_Rel	0.341	0.102	3.358	0.001
R ²	0.486			
Adjusted R ²	0.466			
Standard Error of Regression	0.40512			
F-statistics	24.156			
Probability (F-Statistics)	0.000			

Notes: *, ** is significant at 5 per cent and 1 per cents levels respectively whereby: Emp: Employee; Rev: Revenue; SC_Str: Social Capital (Structural); SC_Rel: Social Capital (Relational)

Table 3 explains the relationship between social structural and relational capital dimensions with SMEs performance. The regression result of Table 3 shows the overall explanatory factors of SMEs performance statistically significant at 1% significant level, with R² and adjusted R² were at 0.486 and 0.466, respectively. (F-value=24.156; p-value=0.000). Such results show that the independent and control variables explains 46.6% of the variance in SMEs performance. As for the first dimension which is structural social capital, the result shows a positive and significant relationship to SMEs performance at 1% significant level (t -statistics = 5.378; p-value=0.000). On the other hand, the regression result for the dimension of relational social capital also explains that there is a significant positive relationship with SMEs performance at 1% significant level (t - statistics = 3.358; p-value= 0.001). Both dimensions have a positive relationship with SMEs that indicate high social capital (structural and relational) would perform better and achieve high performance. Therefore, such results are consistent with the prediction of hypothesis 2 that states that “*there is positive significant relationship between social capital dimensions*

(*structural and relational*) and SMEs performance”, an indication that social capital dimensions are strong contributors to SMEs performance. In addition, the results are also consistent with previous studies such as Pratono and Mahmood (2014); Stam, Arzlanian and Elfring (2014); the result shows that both dimensions of social capital are positively related with SMEs performance, and the effects of network diversity, tie strength and trust are valuable in SMEs since the results show positive relationship with SMEs performance. However, the findings show a structural element of social capital plays a vital role compared to relational in SMEs since the coefficient shows a higher value compared to the relational element.

The results in this study support the results in Moran (2005) that examined the structural and relational elements of social capital in 170 operating companies worldwide. Moran also observed that structural dimension of social capital plays a stronger role compared with relational. The findings suggest that the structural dimension brought advantage in terms of information sharing. This is because interactions with each other would create more possibility for access to non-redundant information and knowledge. Hence, managers with less-redundant contacts would have access to a broader range of people who typically have access to more diverse information and knowledge. The valuable information permits the manager to have more opportunities to learn and work more efficiently which will indirectly lead their organizations to perform better. However, such results contradict the findings of Batjargal (2003) which statistically found that structural dimension is not significant in determining firms’ effectiveness.

Table 4: The Relationship between Innovation Capital, Social Capital and Firm Performance

Variable	Unstandardized Coefficient	Standard Error	t-value	p-value
Constant	0.518	0.352	1.471	0.144
Emp	-0.062	0.081	-0.766	0.445
Rev	-0.034	0.030	-1.142	0.256
IC	0.479	0.106	4.498	0.000

SC	0.446	0.106	4.198	0.000
R ²	0.569			
Adjusted R ²	0.552			
Standard Error of Regression	0.40512			
F-statistics	33.633			
Probability (F-Statistics)	0.000			

Notes: *, ** is significant at 5 per cent and 1 per cents levels respectively whereby: Emp: Employee; Rev: Revenue; IC: Innovation Capital; SC: Social Capital

Table 4 explains the relationship between innovation capital, social capital and SMEs performance. The regression result of Model 5 shows there is a positive significant relationship between innovation capital, social capital and SMEs performance. The overall explanatory factors of SMEs performance were statistically significant at 1% significant level with R² and adjusted R², respectively were at 0.569 and 0.552 (F-value = 33.633; p-value = 0.000). Hence, this condition revealed that the independent and control variables explain 55.2% of the variance in SMEs performance. The Positive relationship signifies that SMEs performance with a high innovation capital and social capital would perform better and achieve higher performance.

CONCLUSION

In the current study, there are two dimensions under innovation capital, namely, innovation capabilities and innovation culture. The results indicate that both dimensions have a positive relationship towards SMEs performance. This indicates that creating new products, constantly updating work practices and always seeking new services and processes can contribute to improving SMEs performance. All these variables show SMEs' capability to become more competitive. However, innovation will only develop rapidly and successfully if the work environment is supportive of these efforts, thus, in ensuring SMEs can produce creative products and services, they need to be given opportunities to explore, investigate and do some research as argued by Fauzi, Svensson and Rahman (2010), as cited in Halim, Ahmad,

Ramayah and Hanifah (2014). Hence, the findings in this study show that innovation culture has a significant positive relationship with SMEs performance. Such finding is also in agreement with the study conducted by Uz Kurt, Kumar, Kimzan and Eminoglu (2013) that confirmed a positive association between innovation culture and firm performance. In this light, in order to inculcate and encourage the innovation among SMEs, the government has introduced SMEs Master Plan (2012-2020) which is included in 10th Malaysia Plan. The SMEs Master Plan will look into the specific actions that could expand number of high growth and innovative SMEs.

The results also depict that social capital and SMEs performance also have a significant positive relationship. Such results indicate that high level strength of ties, trust, and good relationship with customers and also network recorded in SMEs would lead to better SMEs performance. This is attributed to the characteristics of social capital that facilitate the process of information transfer, and the process to innovate new ways to create business opportunities, as well as, to solve problems in the working environment. In this light, the findings show that under social capital, structural and relational dimensions have a significant and positive link with SMEs performance.

The result indicates that strong structural dimension, derived from strong ties among employees and better communication assist the employees in the process of sharing knowledge and provide an opportunity for them to work together for mutual benefits. In addition, strong relational capital such as broader network, high level of trust in the internal and external environment assists SMEs to improve their performance by facilitating the collaboration between individuals towards the achievement of increased output and productivity. It is compulsory for SMEs to have high quality of employees such as knowledgeable, adaptable and proficient employees that always help each other in assisting SMEs to become more competitive.

The findings also provide support to the Resource-Based Theory that highlights innovation and social capital which benefits future performance of an organization. All these intangible aspects are crucial, valuable and could not be exchangeable or transferable with other things.

On the other hand, there is still a lack of current study which examined the impact of social and innovation capital in improving SME performance. Hence, this study is relevant for SMEs in supporting Malaysia's aspiration to achieve its written agenda to become a high income and developed country by 2020. The findings of this study signify the importance of recognising intangible aspects, such as innovation and social capital in improving and sustaining SMEs performance.

LIMITATIONS OF STUDY

The findings drawn from this study are not without their limitations. Basically, this study was conducted using questionnaire survey involving 107 respondents from various SMEs in Malaysia. This study used survey questionnaire to collect information from SMEs owners/ partners, managers and employees that are engaged in productivity and management in SMEs. However, most SMEs approached did not give full cooperation in answering the questionnaire. Perhaps, this is due to the fact that the time duration allocated to the respondents to answer the questionnaires was not sufficient. In addition, the weaknesses of this study is that it the data were only conducted from four states, Kelantan, Kedah, Selangor and Sarawak. Hence, the findings in this study could not be generalised to represent all SMEs in Malaysia.

Recommendations for Future Research

Future research in this study should include a larger sample of SMEs in Malaysia from various industries. This is to provide more robust and reliable results that can be used to validate the findings in this study. Furthermore, this study only examined two dimensions; innovation capital and social capital. As a result, future research in this area could be extended to other dimensions apart from innovation capital and social capital. In addition, this study suggests that future research could extend this study by including other types of companies, such as public listed companies.

ACKNOWLEDGMENT

We would like to thank Accounting Research Institute (ARI), Universiti Teknologi MARA, in collaboration with the Ministry of Higher Education Malaysia (MOHE) in providing the financial support for this research project. This research is funded through Fundamental Research Grant Scheme (FRGS). We are indeed very grateful for the grant, without which we would not be able to carry out the research.

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