

# Effect of Intellectual Capital on perceived performance of Small Scale Enterprises (SSEs) in Maiduguri Metropolis

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**Abstract:** *The study examines the effect of Intellectual Capital on perceived performance of Small Scale Enterprises (SSEs) in Maiduguri Metropolis. The objectives of the study are to assess the effect of intellectual capital on perceived performance of small scale enterprise (SSEs) as human capital, structural capital and relational capital. The study was carried out in Maiduguri, primary source was used as the source of data, the population of the study comprises of two hundred and thirty-nine (239) respondents. The sample size is one hundred and fifty respondents (150) selected in the study population using Yamani (1967) formula. The data was collected by used of structured questionnaire, the data collected was analyzed using simple regression analysis. The major findings of the study reveals that there is significant effect between human capital and profitability, structural capital and sells growth, relational capital and market share in selected (SSEs) sectors in the study area. The study recommends that the management of (SSEs) should design a training manual to enhance employee's skills and knowledge to ensure competence, experience and skilled work force.*

**Keywords:** *intellectual capital, small scale enterprise, business performance.*

## INTRODUCTION

Small Scale Enterprises play a critical role in the economic growth and development of any nation. It is a well-known fact that Small Scale Enterprises are critical to the economy especially in a developing country like Nigeria. Small Scale Enterprises help in generating employment which contributes to rapid growth and transformation of indigenous resources. They are spread all over the country and are being located in both rural and urban centres. Small Scale Enterprises (Small Scale Enterprises) in Nigeria are business oriented organisation characterised by low capital, low sales volume, low profit, low level of education by owners and high debt ratio (Bilal & Akoorie, 2016). In Borno State, it is obvious that Small Scale Enterprises have been worst affected by the prolonged presence of insurgency which resulted in declined of business performance. In emerging economies, Small Scale Enterprises are major contributor to the national economic and also a major source of the employment generation (Dundon & Wilkinson, 2018).

Scale Enterprises used intellectual capital as critical resources to enhance their performance (Ekwe, 2013). The value creation of the business will not only perform by the physical assets, but also successfully managed by the intellectual capital.

Hence, the increasing number of Small Scale Enterprises in Nigeria affected the non-physical capital in the current business environment. Due to the innovation and subsequent improvement in businesses, the Small Scale Enterprises construe that non-physical capital become an important

component in measuring and evaluating business performance in Nigeria. In this regard Small Scale Enterprises are not only influenced by the physical assets of the business environment, but also influence by direct and indirect effect towards the intangible asset to create value from business activities in terms of profitability, sales growth, market share and capital employed which measured the performance of Small Scale Enterprises through intellectual capital (Ahuja & Ahuja, 2012).

Similarly, the intellectual capital which encompasses human capital are restricted to individual skills, knowledge, ability and creativity. In addition, human capital is the central and critical dimension of intellectual capital. Apart from tangible asset, organisation should invest on such complex and intangible resources through training to employees and also motivate them to share knowledge as well as experience, which lead to organisational efficiency and effectiveness (Waseem & Beh, 2018). Whereas structural capital is considered as the continuation of human capital which appeared as organisations process, systems and intellectual property. Furthermore, structural capital is a platform for employees to be creative in the organisation. It also provides an environment for organisational innovative learning, codification of information to knowledge growth, which lead to highly firms' performance (Gracia, 2015). Lastly, the relational capital is connected to the relationship between the Small Scale Enterprises and customers, but all this factors have influence on the stakeholders. Relational capital connects organisations with the external environment and obtains information regarding customers' needs and wants (Leitner, 2015). Consequently, this study focuses on the effect of intellectual capital on the performance of Small Scale Enterprises in Maiduguri Metropolis.

### **Objectives of the Study**

The main objective of this study is to assess the effect of intellectual capital on the performance of Small Scale Enterprises in Maiduguri Metropolis. The specific objectives of the study are to;

- i. Assess the effect of human capital on Small Scale Enterprises Performance in Maiduguri Metropolis.
- ii. Examine the effect of structural capital on Small Scale Enterprises Performance in Maiduguri Metropolis, and;
- iii. Assess the effect of relational capital on Small Scale Enterprises Performance in Maiduguri Metropolis.

### **Research Hypotheses**

The following hypotheses are formulated to serve as a guide to the study.

- Ho<sub>1</sub>: Human capital has no significant effect on Small Scale Enterprises Performance in Maiduguri Metropolis.
- Ho<sub>2</sub>: Structural capital has no significant effect on Small Scale Enterprises Performance in Maiduguri Metropolis.
- Ho<sub>3</sub>: Relational capital has no significant effect on Small Scale Enterprises Performance in Maiduguri Metropolis.

## **Literature Review**

### **Concept of Performance**

Performance has been defined as the resultant of efforts in form of activities of the business enterprises which include its strategy and operational activities, management of all segments of business enterprise such as the human resources, finance, production, marketing (Babafemi, 2015). Small medium enterprises performance is the effort expended by an enterprise so as to reach and achieve its stated objectives which could include its employee's satisfaction, its customer's satisfaction, the societal satisfaction, its survival, sales growth, and return on investment, employment, and ultimately profitability. This means that performance is actual output as against expected output (Mark & Nwaiwu, 2015). Furthermore, Mark and Nwaiwu (2015), added that Small Scale Enterprises performance entails how well the enterprise is managed in terms of the value perceived by customers in relation to the organisation's delivery and other stakeholder should be acknowledge when defining performance.

According to Olarewaju (2009), performance reflects the attainments of objectives set in a small and medium enterprise that are reflected in the financial indicators. Olarewaju (2009), further explained performance based on financial indicators as an indicator of financial performance such as earnings for each share, sales growth, profitability, return on equity, return on investment, and return on sale, and market share. In addition, Kennerley and Nelly (2003), explained performance looking at the nonfinancial indicator that is operational performance indicator, and these nonfinancial performance indicators are employee satisfaction, value of the company, market share, customers' satisfaction, new product introduction, market effectiveness, product quality, technology and manufacturing value-added. Performance was equated with organisational effectiveness.

However, Ogbojafor and Olamitunji (2011), asserts that performance can be explained as the state of competitiveness of an enterprise, which means the level of proficiency and efficiency reached by an enterprise that provides a sustainable market. Ogbojafor and Sulaimon (2011), also added that performance is how a manager effectively and efficiently utilizes the organisation's resources so as to achieve the organisational goals and satisfy the stakeholders. Performance entails how an enterprise identifies with their customers' needs and expectations, and it reflects in what way an enterprise makes use of its resources in order to ensure its objectives achievement and the attainment of its set goals. An enterprise is effective when it attains an assigned market share or sales growth goals in an efficient manner, and thus, the organisation is referred to as effective if it makes the most of its resources in order to achieve high performance level (Adeleye & Oyenuga, 2008).

In the same vein, Akinleye and Fasogbon (2010), opine that sales growth or sales revenue aspect of enterprise performance measurement represents an increase in sales which has been considered as the lifeblood of successful Small Scale Enterprises. This has been further expressed in the sense that a boost in sales augments profit (Babafemi, 2015).

Furthermore, Ishaya (2014), stated that operational performance concerns with growth and expansions in relations to sales and market value. An organisation's performance can be measured based on the variables that are involved in the productivity, returns, growth or even customer satisfaction. Financial performance (reflected in profit maximisation, maximising return on assets

and maximising shareholders return) is based on the return on investment, residual income, earnings per share, dividend yield, price/earnings ratio, growth in sales and market capitalization.

### **Small Scale Enterprises Performance**

Small Scale Enterprises (Small Scale Enterprises) performance refers to the outcomes of firms' business activities (Kotane & Kuzimina-Merlino, 2017). It can be measured using various criteria. Firm growth indicators are among important Small Scale Enterprises' performance measures. Shepherd and Wiklund (2009) identified five common firm growth measures that have been used in past studies; these are growth in sales, employees, profit, assets, and equity. There is no doubt that Small Scale Enterprises' performance measures have been developed in western countries and continuously use in Nigerian and other developing countries.

Similarly, Small Scale Enterprises owners in western world are motivated by availability of opportunities to be exploited while Small Scale Enterprises (Small Scale Enterprises) in least developed countries are motivated by necessities (Eijdenberg, 2016). While earnings from Small Scale Enterprises in western countries can solely be used to foster firm growth, part of earnings from least developed countries go to personal expenses to support the lives of the business owners. This reality has raised a need to measure Small Scale Enterprises' performance using personal wealth indicators as suggested in Eijdenberg (2016). Since use of personal wealth to measure Small Scale Enterprises' performance in least developed countries like Nigeria is a new approach to research paradigm.

In the same light, Small Scale Enterprises (Small Scale Enterprises) is said to be performing when it achieved its overall objectives with effective and efficient utilization of its resources (Aminu, & Mahmood, 2016; Semrau et al., 2015; Sorooshian et al., 2016). This study intends to measure the performance of Small Scale Enterprises in line with intellectual capital that can strengthen the variables in relation to human capital, structural capital and relational capital of Small Scale Enterprises in Nigeria.

### **Small Scale Enterprises Performance Measurement**

The concept performance is a subject open to wide variation as it is a somewhat indefinite word when it functions as a placeholder in research (Sorooshian, Aziz, Ahmad, Jubidin, & Mustapha, 2016). The lack of consensus on the meaning generates misperception and obviously limits the potential for overview and comparability of studies in the area (Franco-Santos, Kennerley, Micheli, Martinez, Mason, Marr, Gray, Neely, 2007; Sorooshian et al., 2016). Dictionary of management sciences defines performance as the accomplishment of a given task measured against pre-set known standards of accuracy, completeness, cost, and speed (Sorooshian et al., 2016).

Accordingly, to perfectly assess how well an organisation is performing, there is a need to develop some assessable measures. This can attain by recognizing those aspects of the business procedures that need modification for improvement and those that are working well (Aminu & Mahmood, 2015). The firm's productivity for a certain period of time can be measured by this process and accurate result of output combined with actual inputs determines the performance of a firm (Al-Dhaafri, Al-Swidi, & Yusoff, 2016; Shehu & Mahmood, 2014). Ringim (2012) asserted that SME performance is measured by using different indices or indicators such as competitiveness, market share, liquidity, profitability and sustainability of Small Scale Enterprises among others.

Furthermore, Benjamin and Friday (2011) related performance to the level of productivity, optimal and perfect application of resources in an effective and efficient manner.

However, Minai and Lucky (2011) agree with the view that firm performance can be measured using two dimension of financial and non-financial indicators (Sorooshian et al., 2016). Small Scale Enterprises can be assessed in terms of their size, number of employment, turnover and strength of working capital (Al-Dhaafri et al., 2016; Shehu & Mahmood, 2014).

### **Concept of Small Scale Enterprises**

Many writers internationally and nationally have produced both published and unpublished findings on the issues relating to the concept called small scale enterprises. Small Scale enterprises have no common definition; it depends on the environment of operation as well as the purpose or the parameters used in defining it. Mba and Cletus (2014), defines small and medium scale enterprises as an enterprises employing between five and one hundred workers with an annual turnover of about four hundred thousand Naira (N400, 000). The Federal Ministry of Commerce and Industry (2009), defines Small Medium Enterprises (Small Scale Enterprises) as firms with a total investment (excluding cost of land but including working capital) of up to N750, 000, and paid employment of up to fifty (50) person. Similarly, Small Scale Enterprises, small and medium scale industries and small and medium scale businesses are used interchangeably to mean a small and medium scale companies. In Nigeria and worldwide, there seems to be no specific definition of small and medium businesses. Different authors and scholars have different ideas as to the differences in capital, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development (Ajozie & Umukoro, 2013). In the same vein, Onugu (2005), asserts that country such as USA, Britain and Canada, small and medium scale businesses are defined in terms of annual turnover and the number of paid employees. In Britain for instance, small and medium scale businesses are categories as that businesses with annual turnover of 2 million pound or not less than two hundred (200) paid employees. It is conceptualized in Japan as a type of industry with a paid up capital and number of employee (Bakare & Babatunde, 2014).

In the same light, the federal Ministry of Industries (2012), defines a small and medium-scale enterprises as any company with operating assets less than N200 million and employing less than 300 persons. Small-scale enterprises, on the other hand, is one that has total assets of less than N50 million, with less than 100 employees. Annual turnover will not be given consideration in the definition of Small Scale Enterprises. The National Economic Reconstruction Fund (NERFUND), defines Small Scale Enterprises as one whose total assets are less than N10 million, but makes no references either to its annual turnover or the number of employees. These and other definitions of the National Association of Small Scale Industries (NASSI), the National Association of Small Scale Enterprises (NASME), the Central Bank of Nigeria (CBN). The Small and Medium Industry Equity Investment Scheme (SMIEIS), defined SME as any enterprises with a maximum asset base of N500 million, excluding land and working capital and with the number of employees not less than 10 or more than 20 (Eniola & Sakariyau, 2013).

Similarly, Bakare and Babatunde (2014), asserts that Small Scale Enterprises (Small Scale Enterprises) as any enterprises employing less than 250 employees, and went further to break down the Small Scale Enterprises into micro (less than 10 employees, small (from 10 to 49 employees) and medium (between 50 to 249 employees). Small Scale Enterprises as defined by the National



Council of Industries in Nigeria refers to business enterprises whose total costs; excluding land, is not more than two hundred million naira (N200,000,000.0) only (Onugu, 2005).

In addition, Small and medium scale enterprises (Small Scale Enterprises) can be defined based on certain criteria including, turnover, number of employee, profit, capital employed, available finance, market share and relative size within the industry. The definition can be based on either some quantitative or qualitative variables. Quantitative definition mainly expresses the size of enterprises, mainly in monetary terms such as turnover, asset value, profit, as well as quantitative index like number of employees (Etuk & Baghebo, 2014). The 1975 Companies and Allied Matters Act of the United Kingdom stated that an enterprise with a turnover of less than £1.4 million was small, those with turnover between £1.4 and £5.7 million were medium, while those enterprises having turnover above £5.7 million were large. It also went further to classify the enterprises based on number of employees-those with fewer than 50 workers being small, between 50 and 250 workers being medium and those employing above 250 workers were described as being large (Etuk & Banghebo, 2014).

Similarly, Ahangar (2011), further asserts that human capital produces the goods or services that customers require and also provides solutions to their problems. He concludes that human capital includes experiences, collective knowledge, skills, competency, the talents of management and employees within an organization, the organization's creative capacity as well as its ability to be innovative. Although investment in human capital is growing, there is still no standard measure to report its effectiveness in a firms' balance sheet today (Amah, 2006). Human capital is defined as the knowledge, qualifications, experiences, and skills of employees that they take with them when they leave the firm (Zeghal & Maaloul, 2010). Performance of Small Scale Enterprises is related with the ability employees to produce goods and services that will meet customers' specification and wants. In the same vein, experience employee's skills, knowledge, competencies lead production of quality goods or services which contribute to Small Scale Enterprises profitability. Therefore, Human capital is human ability for problem solving. Bontis (2002) defines human capital as the skills, knowledge and experience of individual employees within an organization. Bontis (1998), defined human capital as the collective capabilities of an organisation in extracting the best solutions using the knowledge of its individuals. Brooking also believes that human assets of an organization include skills, expertise, problem- solving ability, and leadership practices.

According to Chen (2005), human capital as the basis of intellectual capital includes the factors (such as knowledge, skills, capabilities and attitudes of employees) leading to improvement of clients expected performance and company's profitability. In fact, they believe that each employee has a type of skills and knowledge which are an integral part of that employee's mind; if the knowledge and skills are not activated, the employee cannot be used to create value for organization. Although the most important asset of a learning organization is its employees, they cannot be owned by the organization for ever (Stewart, 1997). In the knowledge-based economy the responsible party for the achieved market results is definitely the employees. Human capital is the heart of intellectual capital. It represents the human factor in the organisation, it relates to employees' knowledge, competencies, skills capability and innovation (Isaac, 2010). In the same light, worker capability such as education level and level of skills in the Small Scale Enterprises were important intermediate factors in the relationship between human capital and profitability.

### **Research Design**

The research design used in this study was descriptive survey method. Descriptive Survey method was appropriate to assess, describe, interpret and analyze the effect of intellectual capital on the perceived performance of SMEs in addition the researcher used quantitative data were structured questionnaires was used to gather information in the field from the respondents.

### **Sources of Data**

The data used for this study was generated through the primary source. In the same vein, data were sourced from the employees of selected small Scale Enterprises Sectors in Maiduguri Metropolis. This source of data is to obtain first-hand information about the views of respondents from the selected SSEs. This will be achieved by way of comparing the data from different respondents.

### **Population of the Study**

The population of this study comprises of two hundred and thirty-nine (239) employees of selected small Scale enterprises in Maiduguri Metropolis. It will be difficulty and unrealistic to cover the employees of all SSEs in the study area, hence the need for selecting a reasonable sample size that will adequately captured the views of the entire population of the study become necessary.

### **Results of Regression Analysis (Hypothesis Testing)**

Regression is a statistical technique use to ascertain the relationship between independent variables and dependent variable. Sekaran (2003) pointed out that regression analysis provides the extent to which the dependent variable is explained by the independent variables in a research work. Therefore, Table 4.11 the regression analysis shows the effect of human capital on Small Scale Enterprises Performance ( $\beta = 0.205$ ,  $t = 2.321$ ,  $p = 0.022$ ). This indicated that there is significant effect of effect of human capital on Small Scale Enterprises Performance in Maiduguri Metropolis. Hence, the hypothesis that state that Structural capital has no significant effect on Small Scale Enterprises Performance in Maiduguri metropolis is rejected.

Similarly, the regression analysis shows the effect of Structural Capital on Small Scale Enterprises Performance ( $\beta = 0.256$ ,  $t = 3.366$ ,  $p = 0.001$ ). This indicated that there is significant effect of effect of Structural Capital on Small Scale Enterprises Performance in Maiduguri metropolis. Hence, the hypothesis that state that Structural Capital has no significant effect on Small Scale Enterprises Performance in Maiduguri Metropolis is rejected.

Additionally, the regression analysis shows the effect of Relational Capital on Small Scale Enterprises Performance ( $\beta = 0.223$ ,  $t = 2.456$ ,  $p = 0.015$ ). This indicated that there is significant effect of effect of Relational Capital on Small Scale Enterprises Performance in Maiduguri metropolis. Hence, the hypothesis that state that Relational Capital has no significant effect on SSBs Performance in Maiduguri Metropolis is rejected.

***Table 1: Hypothesis Testing***

<b>Variables</b>	<b>B</b>	<b>Std. Error</b>	<b>T. Stat.</b>	<b>Sig.</b>	<b>Decision</b>
H01: Human Capital	0.205	0.088	2.321	0.022	Rejected
H02: Structural Capital	0.256	0.076	3.366	0.001	Rejected
H03: Relational Capital	0.223	0.091	2.456	0.015	Rejected

a. Dependent Variable: Small Scale Enterprises Performance

Source: Field Survey (2022)

The R square indicate the variance of the dependent variable as explained by the model of the research. In other words, the R square provide information on the extent to which the independent variables in a model predict changes in the dependent variable. Therefore, table 4.12 depict the R square result of the research model. Where  $R = 0.408$ ,  $R \text{ square} = 0.166$ ,  $\text{adjusted } R \text{ square} = 0.149$  and the standard error = 2.03608. This indicate that the combination of the independent variables resulted in 17% changes in the dependent variable. Consequently, table 4.12 depict the R square of the research model.

**Table 2: R Square**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.408 <sup>a</sup>	0.166	0.149	2.03608

Source: Field Survey (2022)

a. Predictors: (Constant), Relational Capital, Structural Capital, Human Capital

b. Dependent Variable: Small Scale Enterprises Performance

### **Discussion of Findings**

Intellectual capital recognized as a set of intangible assets, such as resource competences and capabilities which increase not on small and medium enterprise performance, but also lead to Small Scale Enterprises value creation. To begin with the first hypothesis which postulate that human capital is significant on the profitability of selected Small Scale Enterprises in Maiduguri metropolis. It is evident that employees get innovative knowledge that boost their performance. More so, employees' skills have aided profitability through production of quality goods. The findings also indicate that employees' level of competencies as a result of high investment in talent has led to profitability of the Small Scale Enterprises. The findings of this study is in line with the finding of Kvalite and Primarantly, (2012), conducted an empirical investigation on the basis of the intellectual capital of the banking sector in the -United State during fiscal year of 2000 and 2010. The study aimed to examine the empirical relationship between intellectual capital and productivity, profitability and investor reasons. The finding revealed that there is a positive significant relationship between intellectual capital and productivity, profitability and investors reaction.

In the same vein, hypothesis also indicates a significant effect between structural capital and sales growth in the study area. Based on the finding managements technical influenced the growth of small and medium enterprise, most followed by managerial experience. The study confirmed the findings of Michael (2012) carried out a study on the intellectual capital and Small Scale Enterprises performance in an emerging economy. An empirical investigation of a Small Scale Enterprises, the finding of the study, reveals that there is a positive relationship between Small Scale Enterprises intellectual capital and its Small Scale Enterprises performance. It also showed that efficient utilization of physical and intellectual capital lead to better Small Scale Enterprises performance. Similarly, John and Robinson (2012), also conducted a study on the influenced of intellectual capital on the growth of Small Scale Enterprises in Kenya. The findings reveal that there was significant relationship between structural capital and sales growth. The result is also consistent with the study of Zara and Bagher (2015) on the effect of intellectual capital on Small Scale Enterprises performance of Small Scale Enterprises listed in Tehran Stock Exchanges. The finding shows that structural capital efficiency has positive and significant effect on profitability, Sales growth and market share. Also, Emmanuel and Nnorom (2016), established that intellectual



capital and performance sustainability of Small Scale Enterprises. The finding of this study revealed that there is a significant relationship between intellectual capital and performance sustainability of small and medium scale enterprise. Relational capital may reduce organizational cost in many ways. The knowledge derived from employees, customers and suppliers may result in process innovations that remove bottlenecks, increase output and reduce variation. The third hypothesis postulates that relational capital is a good predictor of market share. As predicted by the hypothesis, the finding demonstrate that relational capital has a significant effect on market share. The results further show that the organizations are statistically different in both the intellectual capital and Small Scale Enterprises performance indicators. It also shows that the organization with high Small Scale Enterprises performance such as profitability, sales growth and market share as indicator of Small Scale Enterprises performance.

The finding of this study is in conformity with Sedeaq (2018) in his study on the impact of intellectual capital on firm performance. The finding of the study revealed that relational capital efficiency considers as a key that play a role of value creation in companies where a positive significant relation with market share. Also, Alayu and Ofarum (2018) also confirmed that relational capital significantly affects Business performance in Quoted Small Scale Enterprises in Maiduguri. However, Law and Adam (2018) conducted a study on intellectual capital and Business performance of Small Scale Enterprises in Malaysia. The finding revealed that the components of intellectual capital have their influence towards the Small Scale Enterprises performance indicators over the six (6) years and ten (10) years periods capital employed efficiencies has the significant relationship on profitability.

Therefore, Small Scale Enterprises may increase market share through structural capital development in the market which competitors in the other sectors are yet to offer. Furthermore, the positive significant relationship between relational capital and market share testified in this study confirmed the research hypothesis and give an answer to the research question. This study further elaborates that high level of intellectual capital is an significant factor in improving Small Scale Enterprises performance in terms of profitability, sales growth and market share. In summary, the result advocates that Small Scale Enterprises in Maiduguri Metropolis need to improve the level of intellectual capital which lead to high performance. This also contributes to the field of knowledge by clarifying the relationship that exist between intellectual capital and Small Scale Enterprises performance.

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