Measuring & Managing Organizational Capital: Innovativeness Changing the Dynamics of SME’s working in Khyber Pakhtunkhwa

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ABSTRACT
Organizational capital plays an important role. Organizational capital can be measured through system and program. The purpose of this study is to determine the buffering impact of innovativeness on system and program and entrepreneur’s performance. Small and medium enterprises were the population of this study while sampling size of 384 was selected. Data was cross-sectional and primary data was collected using self-administered scale. For moderation process file was used. Reliability of scale was checked using alpha values and to test moderating affect hierarchical multiple regression as run with 5000 resample rate. Findings indicate that the relationship between systems and programs and an entrepreneur’s performance is moderated by innovativeness. Entrepreneurs can enhance their business performance by bringing innovativeness in their business using novel system and programs.

KEYWORDS
SMEs, Innovation, Performance, Organizational Capital, KPK

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1 | INTRODUCTION

Organizational capital is related with growth rate, performance and it is not easy to recognize. Organizational capital plays its important role in policies and operations of the organizations. (Dessein & Prat, 2022). Growth in capital is very slow. Even changes are not easy. (Kaplan et al., 2004); organizational capital is getting attention of scholars and researchers now a day. It brings innovation, creativity, novelty and has direct influence on performance of organizations. (Guiso et al., 2015). Intellectual capital has three dimensions one of the important is organizational capital. It includes databases, knowledge, management information system, etc. (Khaliq et al., 2011). In other words, traditions set in organizations, such as values, norms and culture (Pena, 2002). Organizational capital helps firms to attain competitive advantage and sustainable business performance. It helps firms to produce quality products and services for customers, using its knowledge, patents, etc. (Rahim et al., 2011). System and program is one of the firm’s resource which remains within the firm and no one can easily copy it. It refers to a proper layout of different organized schemes and procedures by following which one can manage firm’s structure efficiently. In other words, it is a constructive story of an organization’s set up and its procedural guidelines. It further classified each and every aspect of business operations like management hierarchy, communication channel, work principles, culture, information technology, general admin functions etc. It helps employees to know about their area of responsibility and reporting channels. Business owners select system and programs as per their own requirement as it vary firm to firm may be one system better workout for a firm but didn’t for the other firm (Chelsea, 2018).

Innovation can be of different types, it might be procedural, managerial, fundamental, product or additive. Majority of authors focused on procedural, Hi-Tech and promotional innovation. Innovation comes after lot of research and experiment it incurs huge cost to organizations. Overall innovation brings several benefits such as cost efficient, better performance and time saving (Centobelli et al., 2019).

Performance can be measured by time, completion of task, cost effectiveness, comparison of actual performance with standard performance. The current study used entrepreneur performance as criterion variable and it is measured through market trends, access to finance, research and innovation (Kirca et al., 2005) supported by Hussain et al., (2016). On the other hand, those entrepreneurs who are never disclosed their financial statement their performance can be judged by indicators like satisfaction of customers and employees, etc. (Jabeen & Mahmood, 2014) (Kirca et al., 2005). Sebikari, (2014) elucidated that entrepreneur’s performance is the process through which one can reach out to attain predefined objectives. Furthermore, performance always helped to enhance human resource work efficiency by employing existing business resources and create value. During routine entrepreneurial operations there is certain risks involved, which must be checked and looked after by entrepreneurs. Some key elements like goals attainment, risk anticipation do also interlink with internal control (Wardana et al., 2020). The entrepreneurial performance always strives the need for effective utilization of organizational resources to boost up business. According to (Sebikari, 2014) entrepreneurial performance can be quantified by investment return ratio, market contribution, financial worth, and sales development.

1.1 | Rationale of the Study

This study is conducted in KP state which is contributing ten percent to Pakistan’s’ GDP and it is third largest state as per population. Youth of this state has lot of innovative ideas and potential to for startup. Government of Pakistan is trying to empower youth by initiating different program such as EHSAS program etc. Through this study those youths who have limited financial resources can start their own enterprises and run them efficiently.

1.2 | Problem Statement

According to Van and Romme, (2012) a problem can be treated as a real life challenge and an opportunity which demands practical solution to sum up and proceed further. Small and Medium Enterprises (SMEs) are one of the major and the most vital part of an economy. They play significant role in economic growth, generate employment, and make strong societal structure by wealth creation further leads to improved living standard Shah and Syed, (2018). The province Khyber Pakhtunkhwa is enriched in natural resources and having active human resource, but still deprived economically and failed to excel especially in Small and Medium Enterprises purely because of some main factors like lack of business plan, lack of finance, no regular government awareness programs for SME’s at district level to guide peoples to start their own businesses, lack of intellectual ability, and main thing is fear of loss in new business. This research work has been structured to diagnose the actual issues facing Small and Medium Enterprises locating in Khyber Pakhtunkhwa first and address them afterwards.
1.3 | Main Objective of the Study

- To identify the moderating effect of innovativeness on the relationship between system & programs and entrepreneur’s performance.

2 | LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 | Knowledge Based View Theory

Knowledge is a significant source of human wellbeing. Besides tangible resources, current era also does belong to intangible resources as well. Intellectuals create and follow a best mix of available knowledge resources to attain maximum benefits among business arena. Top management can’t deny the importance of knowledge while going via different work routines. Research scholars also affirm the reliance of organizational structure on knowledge and its efficient management (Krstic & Sekulic, 2016).

2.2 | Knowledge Management and its Enablers

Fresh literature emphasized on knowledge attainment and its management. Many scholars are of the view that knowledge and its management is really important for an organization to run routine as well as expand in long run (Obeidat et al., 2016). According to Shahzad et al., (2016), knowledge is an organized path way which leads towards valuable information, right approach, meaningful thought, abilities and specific areas know how. Furthermore, authors highlighted that knowledge resource presence didn’t fulfill the purpose instead its efficient management by following a sequential road map can bring positive results. Palacios et al., (2009) defined knowledge management as an instrument which is responsible to have a deliberate control mechanism while following set theories, practices and procedures. The primary objective of this instrument is to generate, modify, publicize and use knowledge resource. In organizations; due to knowledge management process’s complexity group of individuals introduce, implement, manage, monitor and evaluate knowledge management. Besides human involvement there are many other elements which support knowledge management to initiate and develop gradually (Alaarj et al., 2016) these elements are called knowledge enablers (Ho, 2009). In recent years many studies explained knowledge enablers comprise of leadership, high ups guidance, human resource policies and procedures, organizational norms, internal environment and use of updated technology (Koohang et al., 2017).

2.3 | Organizational Capital

Organizational capital as a part of intellectual capital which means a lot; therefore; both micro and macro economy have the tendency to absorb it if we deliberately control and manage it? We knew it is the utmost precious asset among some others that the firms have, as it is not simply copied by rivals, hence always providing an edge to its users. Here a question arises i.e. why do some firms outclass their rivals in short and long time span?? The answer is they have a strong network of tangible and intangible resources which their competitors don’t have. High level officials always gone through a dilemma that what attributes of organizational capital are more significant and why? When to put forth a certain texture of a resource and in how much quantity? In addition, once implemented best mix of these resources, step by step monitoring and then evaluation is mandatory. All these things must need special attention and skills of an executive who is responsible for the ultimate success or failure (MNO, 2016).

Initial part of the last century was fully based on monetary mechanism which revolved around productivity, as the time advanced it slowly shifted from tangibles to tangibles plus intangibles. Kim et al., (2006) emphasized that in late 90’s world positively shifted from manual to digital resources. Recent age has further advanced deeper in the same area besides discover more resources, as it not only helps individuals, groups, firms but entire economic system. Knowledge economy is the main source of earning these days, it is sub divided into three parts i.e. explicit, implicit and tacit knowledge. First one is the kind of knowledge which the fundamental part of knowledge i.e. one can easily learn, organize, analyze, record and pass on. e.g. firm’s employee induction pack, relevant forms and data sheets used in routine operations. While implicit knowledge is practical presentation of explicit knowledge. e.g. Monitoring and evaluation of staff different work activities. Whereas tacit knowledge is one which we obtained through learning and personal involvement. Hence it is tough to write down, pass on, or also difficult to practically present. e.g. grandmother’s different recipes. Although she gave you the written card but still you are unable to cook as she did Smith, (2001).
2.4 Innovativeness and Small & Medium Enterprises Performance

Innovativeness is worthwhile when it comes to entrepreneur’s performance. There is positive and meaningful bond between these two terms. Before this work many scholars chalked out the significance of innovativeness as it achieves newness which more positively applied to attain huge financial share. Innovation is the procedure that individuals or group of individuals attempted to achieve new goods, processes, services to reached out set milestones; as these activities broadly responsible to thriving strength to SME’s (Sidek et al., 2019) Various past studies numerically proven the solid impact of innovativeness on performance (Grissemann et al., 2013; Domi et al., 2019). Tajeddini & Trueman (2012) are of the view that those top and mid-level employees who have strong believe on innovation can produce flourishing trends over the years.

2.5 Small and Medium Enterprises

In Pakistan majority of business activity have been taken place through SME’s; hence expansion in this sector is directly contribute in the economic development. As per government’s estimates there are approx. 5.2 million SME’s in the country. Human resource stats show that 72% of nonagricultural labor is linked and employed in these SME’s. This sector makes an estimated contribution of 40% to GDP & 25% to exports. Major export sectors are textile, IT, agro, food processing, surgical goods, light engineering, sports goods, leather goods, foot wear and furniture. While inland trade involves wholesale, retail business, hospitality industry, ceramics and construction industry etc. IJK, (2021).

Economic affairs mainly run around Small and Medium- Sized Enterprises. No doubted it provides a boom to the entire economies as 90% are SME’s or micro setups. Those businesses who are strong enough to have flourishing motion always followed best practices like efficient production (ISO certified), certified mechanism for routine operations, right human resources according to the demand of the firm Fritsch & Storey, (2014). These new born babies i.e. SME’s, at one side are free from big issues which large scale firms faces but on another side they have certain specific issues which can cause serious damage to them or even in some cases they can be dissolved. But instance they still have strong enough to positively contribute in the economic development of a country by employing best their practices (Wiklund et al., 2011). Competition at hand on small scale is dependent upon three components i.e. country’s macro-economic condition, existance and structure of a particular firm and firm’s own atmosphere Rauch et al., (2009). Managers often do practice these particular components to get success (Dobbs & Hamilton, 2007).

H1: The relationship between systems and programs and an entrepreneur's performance is moderated by innovativeness.
H2: Entrepreneur’s performance and organizational capital have a favorable, significant link.
H3: Entrepreneur’s performance and entrepreneurial orientation have a favorable, significant link.

![Conceptual Framework](Image)

**Figure 1** Conceptual Framework (Researcher’s Constructed)

3 MATERIAL AND METHODS

3.1 Research Design

This study is quantitative in nature; hence deductive survey approach was employed to test the hypotheses. Adoption of such a common method simplified the work procedure as its advantages are well known like, it has specified and pin point nature, it ensures accuracy, it is a sequential technique to check the basic justification and essence of the
problem at hand. First hand data i.e. primary data was collected to employ cross sectional analysis. Self-administered questionnaire was adopted from past studies measured at five scales.

3.2 | Population and Sampling

All SMEs sole proprietors in KP state were included in Population of the study. snow ball non-probability sampling was used to select the sample. While Yamane (1967) formula and Krejcie and Morgan (1970) table was used to select sample size.

4 | RESULTS

Table 1
Respondent’s Profile

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Characteristics</th>
<th>n</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience</td>
<td>20 Above</td>
<td>60</td>
<td>15.63</td>
</tr>
<tr>
<td></td>
<td>16_20</td>
<td>45</td>
<td>11.72</td>
</tr>
<tr>
<td></td>
<td>11_15</td>
<td>64</td>
<td>16.67</td>
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<tr>
<td></td>
<td>6_10</td>
<td>88</td>
<td>22.92</td>
</tr>
<tr>
<td></td>
<td>1_5</td>
<td>127</td>
<td>33.07</td>
</tr>
<tr>
<td>Sex</td>
<td>Female</td>
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<td>0.52</td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>382</td>
<td>99.48</td>
</tr>
<tr>
<td>Position</td>
<td>CEO</td>
<td>254</td>
<td>66.15</td>
</tr>
<tr>
<td></td>
<td>Manager</td>
<td>109</td>
<td>28.39</td>
</tr>
<tr>
<td></td>
<td>Clerk/Supervisor/Assistant</td>
<td>21</td>
<td>5.47</td>
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<tr>
<td></td>
<td>60+</td>
<td>9</td>
<td>2.34</td>
</tr>
<tr>
<td></td>
<td>51-60</td>
<td>36</td>
<td>9.38</td>
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<tr>
<td>Age</td>
<td>41-50</td>
<td>102</td>
<td>26.56</td>
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<tr>
<td></td>
<td>31-40</td>
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<td>39.84</td>
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<tr>
<td></td>
<td>15-30</td>
<td>84</td>
<td>21.88</td>
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<td>Master /Master of Philosophy</td>
<td>91</td>
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<td>Education</td>
<td>Bachelor</td>
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<tr>
<td></td>
<td>Intermediate</td>
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<td>21.35</td>
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<tr>
<td></td>
<td>S.S.C</td>
<td>80</td>
<td>20.83</td>
</tr>
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</table>

Table 2
Reliability Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Type</th>
<th>Alpha (α)</th>
</tr>
</thead>
<tbody>
<tr>
<td>System &amp; Program</td>
<td>I.V</td>
<td>0.846</td>
</tr>
<tr>
<td>Innovativeness</td>
<td>M.V</td>
<td>0.819</td>
</tr>
<tr>
<td>Entrepreneur’s Performance</td>
<td>D.V</td>
<td>0.916</td>
</tr>
</tbody>
</table>

Sekaran, (2003) emphasized that if (α) value > 0.90, so it is excellent and (α) value > 0.80 is good, and (α) value =0.70 is acceptable while (α) value < 0.60 is poor
From the above Regression table, it is cleared that entrepreneur’s performance is parallel utilized with organizational capital and entrepreneurial orientation respectively. First outcome indicated that variance $R^2 = 0.20$, shows 20% variance and $R = 0.45$, $p<0.05$, depicts that 1% rise in organizational capital show 45% rise in entrepreneur’s performance and vice versa if organizational capital reduces. As per analysis work the outcome is in agreement with (Ali & Ali, 2011).

Second outcome indicated that variance $R^2 = 0.16$, shows 16% variance and $R = 0.41$, $p<0.05$, depicts that 1% rise in entrepreneurial orientation show 41% rise in entrepreneur’s performance and vice versa if entrepreneurial orientation reduces. As per analysis work the outcome is in agreement with (Wiklund & Shepherd, 2005). Therefore, it is proved that with highest beta value leading variable of this study is organizational capital.

Above table shows moderation analysis by employing model 1 of Andrew F Hayes process file. Whenever a new variable is presented in the regression equation so we need to utilize hierarchical multiple regression Field, (2013). Here scholar multiplied innovativeness and system & programs to form interaction term earlier presented by Aiken and West, (1991) and added it in the model. From above table $R^2$ depicts 0.24, i.e. 24% variance in entrepreneur’s performance. While $R^2$ change is .025 i.e. 2.5% change in system & programs and entrepreneur’s performance. Last but not the least it is also evident that interaction term is also significant i.e. $p = 0.0006$, so it clearly shows that innovativeness is a true moderator in the connection among system & programs and entrepreneur’s performance.
By checking and ascertaining each variable numerically now it is time to draw a plot. The process of drawing a true sketch of the above statistical procedure first a group was established with the names of low, moderate and high innovativeness respectively. Here x-axis represents system and programs and y-axis represents entrepreneur’s performance. From the very right side of the graph blue line i.e. in the middle of the three shows low innovativeness $R^2$ is 0.111, while its under root is $r = 0.33$, red bottom line shows moderate innovativeness $R^2$ is 0.043, while its under root is $r = 0.21$, while green upper line shows high innovativeness $R^2$ is 0.228, while its under root is $r = 0.47$. Henceforth it shows that high levels of innovativeness are strongly connected with systems and programs, and entrepreneur’s performance.

5 | FINDINGS AND DISCUSSION

Three main hypotheses were established. All the three hypotheses results are up to the mark as suggested earlier in hypotheses stage. In first hypotheses we need to find out the bond among innovativeness, system and programs and entrepreneur’s performance variables. From the final outcomes i.e. $R^2 = 0.24, p<0.05$, it shows that when system and programs rises it also rise the entrepreneur’s performance while reduction in system and programs also drops the entrepreneur’s performance. These results are extracted as (Schillo, 2011) emphasized to use entrepreneurial orientation as a moderator, thus in our case we took its facet i.e. innovativeness. When we checked and ascertained the interaction effect from the model; so we came to know that $r^2$ changes and it depicts .025 i.e. 2.5% change in system & programs and entrepreneur’s performance. Same time interaction effect is also showed significant value i.e. $p = 0.0006$, so it is obvious that innovativeness as a moderator have a strong impact on the association among independent and dependent variable. In second hypotheses we hypothesized the connection (either positively significant or not) among organizational capital and entrepreneur’s performance; from the final outcome i.e. $R = 0.45, p<0.05$, depicts that rise in organizational capital show rise in entrepreneur’s performance and vice versa if there is reduction in organizational capital. As per analysis work the outcome is in agreement with (Ali & Ali, 2011). In third hypotheses we hypothesized the connection (either positively significant or not) among entrepreneurial orientation and entrepreneur’s performance; from the final outcome i.e. $R = 0.41, p<0.05$, it depicts that rise in entrepreneurial orientation also rise entrepreneur’s performance and vice versa if there is reduction in entrepreneurial orientation. As per analysis work the outcome is in agreement with (Wiklund & Shepherd, 2005).

6 | CONTRIBUTION OF THE CURRENT STUDY

Small and medium enterprises is the top priority of more than 90% of the population when it comes to starting a new business, because most of us don’t have the enough investment to setup a large scale firm. Beginning with administrative, financial, marketing, selling, promotion, political and social issues; besides routine issues SME’s have also to face many uncertain situations as well which needs to answer smoothly by paying attention. Macro economy is mostly dependent on small and medium enterprises business activity. Current research work highlighted the positive role of SME’s working in Khyber Pakhtunkhwa by employing independent variable organizational capital i.e. system and programs and dependent variable entrepreneur’s performance with an added touch of innovativeness as moderator variable. SME’s often passed through various crucial stages where they tend to face issues like lack of no business plan, funds arrangement, no government proper monitoring of SME’s; owners often leads towards destruction, hence current study worked on to provide a roadmap to pass on smoothly. Last but not the least few numeral studies verified the positive and significant role of all above mentioned variables in this study.

7 | LIMITATIONS

This study is limited to Khyber Pakhtunkhwa province only; we can stretch it down to other province as well. Furthermore, we know that apart from utilized variables like organizational capital and innovativeness; there are other factors that can bring change in entrepreneurial activities like political, economic, social, cultural, information technology based etc. So it is pertinent that future scholars need to focus on these mentioned variables as well. Lastly, this study is based on SME’s only; here researcher ignored the large size enterprises.

8 | CONCLUSION

Small and medium enterprises act as the driving force of economic development, as it can get started at a lower cost. SME’s are not only responsible for adding financial value in the economy but they do also contribute in job creation,
poverty alleviation, wealth generation, fair wealth distribution etc. (Riaz & Chaudhry 2018). SME’s generally improves in two ways i.e. it enhances the spectrum of macro economy and it also improve the life style of an individual. Besides all these significance SME’s provide a reason to investors with small financials to build up small scale ventures by studying organizational structures (Sharafat et al., 2014). Subject under discussion has huge scope these days as its positive role in the economic wellbeing of our country is evident because governments its relevant officials and even relevant peoples working in private sector headlong accept its success (Mohammed et al., 2020). According to UNDP, (2022) with the passage of time business world explored in a different way; as businessmen not only utilize tangibles but they do also utilize intangibles for their success. UNDP with the help of United Kingdom established an entity that deploy new comers in the field of entrepreneurship in an efficient manner. In current study hence it is numerically proven that system and programs and innovativeness has a strong meaningful impact on entrepreneur’s performance; in addition, it is also confirmed that innovativeness acts as a moderator. Therefore, on the basis of above discussion all the three hypotheses H1, H2 & H3 are accepted.

9 | FUTURE DIRECTION & RECOMMENDATIONS

In the light of SME policy 2021; SMEDA must ensure smooth regulation of all the SME’s. SMEDA should arrange awareness programs through the print, electronic and social media to educate entrepreneurs about their work patterns and extract more valuable variables like organizational capital and different facets of entrepreneurial orientation to boost up business. Expansion of current subject under discussion to large scale enterprises. Change the variables or its quantity to testify the results in a different way. Future scholar should not only use different variables but he/she should also use different geographical boundaries as well. In this study primary data is utilized, future studies can obtain secondary data for analysis. Before starting a successful business, an entrepreneur must study entrepreneurship, innovativeness and organizational capital in detail and opt best mix of these resources for his own business

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DOI:10.1108/14691930210424716
https://doi.org/10.1108/13552550710780885


