

INTELLECTUAL CAPITAL THEORY OF ENTREPRENEURSHIP**Dr. Karanja Ngugi****Department of Accounting and Finance****Kenyatta University****KENYA**

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At the end of the 20th Century, the World economy started to undergo certain changes that have a decisive impact on aspects such as the generation of wealth and economic growth (Andriessen 2004; Chaharbaghi & Cripps 2006). Recent years have been marked by the increasing importance of the role of intangible assets in firms (Becker et al. 2001; Lev, 2001; Kannan & Aulbur 2004; Augier & Teece, 2005). Thus, authors like Bontis (2002) declare that the current trend is for organisations to focus less on material assets and more on intangible assets when seeking competitive advantages and that those firms with adequate intellectual capital have a better chance of survival (Daley 2001).

Many different scholars analyzed and tried to define intellectual capital and now there are different conceptions of this phenomenon. Intellectual capital can thus be defined as the relationships with customers and partners, innovation efforts, the infrastructure of the firm and the knowledge and skill of the members of the organisation (Edvinsson & Malone, 1999). Similarly, Sullivan (1999) indicates that intellectual capital is that knowledge that can be converted into future profits and comprises resources such as ideas, inventions, technologies, designs, processes and informatic programs. Stewart (1991) indicates that intellectual capital is everything that cannot be touched but can earn money for the firm. On the same line, Lev (2001) considers that intangible resources are those that can generate value in the future but have no physical or financial form.

Entrepreneurship must be fostered as intensive as possible that it could bring all prosperity that is needed. An entrepreneur by himself can use his own potential in order to foster entrepreneurial activity. He can use his own intangible assets known as intellectual capital. Intellectual capital consists of three components: human, structural and relational capitals, and that it is intellectual material – knowledge, information, intellectual property, experience – that can be put to use to

create wealth (Stewart, 2004). Other scientists explain that intellectual capital consists of two main parts, it is human and structural capitals, and that it is all the processes and the assets which are not normally shown on the balance sheet, as well as all the intangible assets which modern accounting methods consider (mainly trademarks, patents and brands) (Roos et al, 2001).

Kaish and Gilad (1991) pointed out that entrepreneurs were more aware of risk cues in markets than managers. This shows how domain knowledge, which especially entrepreneurs have, enhances competitive scanning of risks in markets. Hills, Lumpkin and Singh (1997) propose that entrepreneurs see competitive scanning to be important in opportunity discovery, and this to be affected by the level of domain knowledge. Christensen and Peterson (1990) suggest as well that domain knowledge is very important to able to understand markets and competitors in it.

In a knowledge- based economy, knowledge and intellectual capital is re and cognized as the most important source of competitive advantage (Daud & Yusoff, 2010; Khalique, Shaari, Isa & Ageel (2011). The knowledge-based economy is based on sharing of knowledge and intellectual capital. In this economy competitive advantage will go to those countries that having the capacity to deliver fast and innovation in their work and services (Wickramansinghe & Sharma, 2005). In a Knowledge-based economy intellectual capital appeared as the critical component for the success of organization. Ramezan (2011) argued that organizational knowledge is the base of intellectual capital therefore, it is considered as the heart of organizational capabilities. Many researchers such as Bernhut, (2001); Luthy, (1998); Marr, (2008); Steenkamp & Kashyap, (2010) argued that intellectual capital is one of three critical resources (the other two being physical and financial capital/assets) of organizations. In the same way, previous studies indicated that intellectual capital is positively and significantly associated with entrepreneurial performance (Bontis, 1998; Bontis, Chua & Richardson 2000; Huang & Wu 2010). Ngah & Ibrahim, (2009) found that intellectual capital is the most important resource for the success and survival of enterprises.

Managerial skills are the source of innovation (Bontis et al., 2000; Webster, 2000) and improvement; it generates innovation by new products and services or improving business process (Stewart, 1997). Companies should recruit and manage employees who have higher degrees of intellectual capital in exchange for better innovation (Shipton *et al.*, 2005). According to Lefebvre and Lefebvre (2002), innovation, knowledge management and intellectual capital are strongly correlated.

According to Roos *et al.*, (2007) in their study on measuring company's intellectual growth, they stated that customer capital is the relationship between firms and their customers. The study

concluded that knowledge of marketing channels and customer relationships is the main theme of customer capital. Frustrated managers often do not recognize that they can tap into a wealth of knowledge from their own clients. Kohli and Jaworski (2000) indicates that understanding what customers want in a product or a service better than anyone else is what makes someone a business leader as opposed to a follower.

In the longitudinal study of Subramaniam and Youndt (2005), they examined how aspects of intellectual capital which consists of human capital, organizational capital and social capital influenced various innovative capabilities (incremental and radical) in companies. In a longitudinal study of 93 companies in various industries, they found that human capital, organizational capital and social capital and their interrelationships selectively influence incremental and radical innovative capabilities. Organizational capital positively influenced incremental innovative capability, while human capital interacted with social capital and to positively influence radical innovative capability. Human capital itself was negatively associated with radical innovative capability. Social capital played a significant role in both types of innovation, as it positively influenced incremental and radical innovative capabilities. Zerenler, Hasiloglu and Mete (2008) made a research in the Turkish automotive supplier industry in order to investigate the influence of intellectual capital and its components—Employee capital, structural capital and customer capital- upon their innovation performance. 117 questionnaires were sent to managers of marketing department, R&D department and production department. Main conclusion from this study is: Three components of intellectual capital which are human capital, structural capital and customer capital had significantly positive relationships with innovation performance.

Wu *et al.* (2008) explored the mediating effect of intellectual capital on innovation. The research was made in Taiwanese manufacture and non-manufacture industries. Seven hundred survey questionnaires were mailed to firms. The response rate of the study is 22.71%. They found that effects of intellectual capital including human capital, customer capital and structural capital, on innovation exist at significant levels, suggesting a perfect mediating effect of intellectual capital on innovation.

Chen, Lee, Tung and Kao (2008) aimed to explore the influences of innovative activities, intellectual capital towards corporate development in Taiwanese publicly listed IT corporations. During the study, from total of 800 questionnaires, 301 were returned. The response rate of the study is 36.63%. In the study, innovative activities have three sub categories which are Research & Development, managerial innovation and knowledge innovation. Intellectual capital involves human, structure and relationship capital. Corporate development has also three sub-categories

as corporate value, corporate growth and corporate sustainability. They found that, there is a mutually positive correlation between innovative activities and intellectual capital. Accumulation of intellectual capital of Taiwanese IT corporations has positive influences on their operation and development. This suggests that the more the intellectual capital, the more added value contributed to corporations.

Ngugi (2013) explored the influence of intellectual capital on the growth of SMEs in Kenya using managerial skills, entrepreneurial skills, innovativeness, structural capital and customer capital as the study variables. The study revealed that managerial skills of the owner/managers positively influence the growth of Small and Medium sized Enterprises in Kenya (SMEs) in Kenya. Seventy eight decimal nine per centum (78.9%) of the corresponding change in growth of SMES can be explained by a unit change in managerial skills. The study also found that entrepreneurial skills have a great positive influence the growth of SMEs in Kenya. Entrepreneurship skills of the owner/manager was revealed to be part of intellectual capital which include knowledge management that helps an entrepreneur in undertaking risk-taking propensity initiatives that is a crucial characteristics an entrepreneur should possess for the growth of SMEs. According to the findings, fifty six decimal six per centum (56.8%) correspondence on growth of SMES can be explained by a unit change in entrepreneurial skills. The findings of the study also indicated that innovativeness influences the growth of SMEs in Kenya. This meant that the tendency of owner/manager to engage in and support new ideas, novelty, experimentation and creative processes results in new products, services or technological processes which has a great influence on the performance of SMEs. According to the findings, Seventy four decimal six per centum (74.6%) correspondence on growth of SMES can be explained by a unit change in innovativeness.

Lastly, the study found out that structural capital influence the growth of SMEs in Kenya which are a pointer to the critical role that structural capital such as reduction in transaction cost have great influence on the growth of SMEs in Kenya, According to the findings, fifty two decimal four per centum (52.4 %) correspondence on growth of SMES can be explained by a unit change in structural capital (Ngugi, 2013).

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