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## The importance of intellectual property for SMEs; Challenges and moving forward

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### Abstract

Intellectual property (IP) and its value often not adequately appreciated. In the increasingly knowledge-driven economy, IP is a key consideration in day-to-day business decisions. New products, brands and creative designs appear almost daily on the market and are the result of continuous human innovation and creativity. Therefore, this paper will look into the importance of IP for Small Medium Enterprises (SMEs) and product development specifically on agro-based products. This paper further demonstrates how IP can become an economic tool and the challenges faced by SMEs in implementing IP system. In addition, this paper offers useful insights to policy makers and SMEs in utilizing IP by drawing lessons from other countries.

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### 1. Introduction

Intellectual Property (IP) should be seen as a power tool for economic growth instead of an obscure legal concept. The protection of IP rights plays an important role in inducing technological change and facilitating economic growth. The value of IP is often not adequately appreciated and its potential for providing opportunities for future profit is widely underestimated by SMEs. However, when IP is legally protected and there is demand for the IP-protected products and/or services in the marketplace, IP can become a valuable business asset.

IP is a bundle of legally recognized rights when ideas or inventions are protected (Mohd Noo, March 2011). The protection of intellectual property rights (IPRs) is said to be the main motivation for inventors to create new

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inventions. It encourages commercialization, technology transfer and it promotes international trade. IP is an important component in a country's economic development where a continuous creation of intellectual property from time to time will increase the investment and trading activities (Gee, 2007).

Malaysian IP includes Patent, Trade Mark, Copyright, Industrial Design, Geographical Indication and Layout-Designs of Integrated Circuit. Plant Variety is another component of IP which is under the purview of Ministry of Agriculture and Agro-based Industry (MoA). The protection system of IP gives exclusive rights to IP owners to control and exploit their IP. This includes the rights to make, use, distribute, sell and import. They can also commence legal action against the parties infringing their rights.

However, many are unaware of the importance of IP. In a recent survey, it was clearly evident that the percentage of public awareness about IP is very low and only understood by parties with interest or institutions and organizations which are involved in the field (Perbadanan Harta Intelek Malaysia, 2013). Thus, the objective of this paper is to discuss the significance of IP to entrepreneurs or to be specific SMEs which often to be neglected as business assets. In addition, the paper is highlighting issues and challenges faced in implementing IP among the SMEs. This paper further suggests some recommendations for policy makers and SMEs in fully utilizing IP to the maximum in the business and overcoming the challenges faced.

## **2. IP and SMEs**

### *2.1 Significance of IP for SMEs*

IP and its value often not adequately appreciated. In the increasingly knowledge-driven economy, IP is a key consideration in day-to-day business decisions. New products, brands and creative designs appear almost daily on the market and are the result of continuous human innovation and creativity. Small and medium-sized enterprises (SMEs) are often the driving force behind such innovations (Saleh, 2008). Their innovative and creative capacity, however, is not always fully exploited as many SMEs are not aware of the intellectual property system or the protection it can provide for their inventions, brands, and designs (WIPO Magazine, 2005).

If left unprotected, a good invention or creation may be lost to larger competitors that are in a better position to commercialize the product or service at a more affordable price, leaving the original inventor or creator without any financial benefit or reward. Adequate protection of a company's IP is a crucial step in deterring potential infringement and in turning ideas into business assets with a real market value. Taking full advantage of the IP system enables companies to profit from their innovative capacity and creativity, which encourages and helps fund further innovation. Its potential for providing opportunities for future profit is widely underestimated by the SMEs. IP can become a valuable business asset if it is legally protected and there is a demand for the IP related products or services in the marketplace. IP may generate income for the SME through licensing, sale or commercialization of the IP products or services that may significantly improve SME's market share or raise its profit margin (Idris, 2003).

Furthermore, IP rights may enhance the value or worth of SME in the eyes of investors and financing institutions. Hence, in the event of sale or merger or acquisition, IP assets may significantly raise the value of the enterprise. Traditionally, physical assets have been responsible for the bulk of the value of a business entity and largely responsible for determining the competitiveness of an enterprise in the market. However, these scenarios have changed as a result of the revolution of the information technologies, intangible assets ranging from human capital such as know how to ideas, brands, designs and other intangible assets from the creative and innovative capacity are often today become more valuable than the physical assets (Idris, 2003).

The strategic utilization of IP assets can, therefore, substantially enhance the competitiveness of SMEs. SMEs should make sure that they are ready to face the challenge and take measures to exploit their IP and protect it wherever possible. Like physical assets, IP assets must be acquired and maintained, accounted for, valued,

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