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## Effect of Intellectual Capital on Organizational Performance

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### Abstract

The purpose of this empirical study is to investigate the relationship between six elements of intellectual capital such as human capital, structural capital, customer capital, social capital, technological capital and spiritual capital with organizational performance in Malaysia. The study was conducted using a structured questionnaire distributed to higher-level management working in various organizations in Malaysia. Sample size will be 187 respondents out of 311 questionnaires distributed and selected randomly based on non-probability convenience sampling. Data collected will be analyzed using the Multiple Regression Analysis Model. The results revealed that intellectual capital has significant influence on the organizational performance in Malaysian.

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*Keywords:* Intellectual Capital; Human Capital; Structural Capital; Customer Capital; Social Capital; Technological Capital; Spiritual Capital; and Organizational Performance.

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### 1. Introduction

In this millennium, less people will do physical work and more people will do brain work. This is called intellectual capital (IC). It does not appear on the company balance sheet but it has more value for organizations than physical assets. Economic wealth is driven more by knowledge and information than the production process (Akpınar & Akdemir, 1999). Intellectual capital (IC) is also known as the new invisible asset and the most widely used definition of intellectual capital is “knowledge that is of value to an organization.” From this definition it is suggested that the

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management of knowledge (what is known) generate IC. In addition, Bayburina and Golovko (2009) explain that IC includes human capital, process capital, client capital, innovation capital and network capital. The complexity of these characteristics represents the competitive advantage originated inside and within the company. Therefore, survival and competitive success of a firm depends highly on the strategic management of its IC as compared to financial resources. Unfortunately, one of the challenges in managing IC is when the managers are not clear that their firms possess valuable resources, which could lead to success of new strategies.

Nevertheless, Malaysia, which is in its transformation process to k-economy, requires investments in the knowledge infrastructure. In knowledge-based economy, to be a developed nation and to maintain the developed status, high quality human capital is a priority. Furthermore, to increase the competitiveness of an organization, workforce must be more knowledgeable, adaptable and proficient. Thus, Government of Malaysia, realizing the urgency, has identified the development of human capital, upgrading the mentality and intellectual capacity of its people as one of the main agenda under the Ninth Malaysia Plan (Badawi, 2006) and the New Economic Model 2010 (National & Council, 2009).

According to Bontis, Keow and Richardson (2000), there are three main elements of IC which are human capital, structural capital and customer capital. This study is an extension of research done by Bontis et al. (2000), by including additional three independent variables that consist of social capital, technological capital and spiritual capital. Therefore, this study is intended to determine the association between the independent variables; human capital, structural capital, customer capital, social capital, technological capital and spiritual capital with the dependent variables; organization performance.

## **2. Literature Review**

Most organizations have their own definition of IC. One of the definitions by Skandia Insurance Company is “the possession of knowledge, applied experience, customer relationship, organizational technology and professional skills which contribute competitive advantage to the firm in the industry (Sofie, 1999). It has been acknowledged by many researchers that IC is the most important strategic assets in evaluating the performance of an organization in the developing and under developed countries (Khalique, Abdul Nassir Shaari, Md. Isa & Ageel, 2011; Amrizah & Rashidah 2013 and Ngah & Ibrahim, 2012). For instance, Bontis et al. (2000), in their study done in Malaysia approved that IC is a significant contributor to the performance of organization despite of different type of industry. The concept of IC is broad and is normally split into a few characteristics, which are human capital, customer capital, structural capital, social capital, technological capital and spiritual capital.

### *2.1. Human Capital (HC)*

There are vast studies that have investigated and proven that IC is significant towards organizational performance. One of them is human capital. Human capital is an amalgamation of genetic inheritance, attitude, education and people experience in their life and business. The most valuable asset in any business is human resources as compared to other capitals or equipment. However, it was also believed to be the most ignored asset by the firms. Human can be considered valuable asset or liability to an organization (Khan, Farooq & Hussain, 2010). Human capital refers to experts or employees skills, knowledge and experience shared with their organization in order to add value (Baron, 2011).

### *2.2. Customer Capital (CC)*

Customer capital, also known as relational capital or external capital consists of relationships with customers and suppliers, the government or related industry associations, brand names, trademarks and reputation. According to Akpinar and Akdemir (1999), it refers to the “organization’s relationships or network of associates and their satisfaction with and loyalty to the company”.

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