

The Relationship of Intellectual Capital with Knowledge Management in Sustaining Organization's Performance

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Abstract: Intellectual capital has increasingly become one of important key driver of competitive advantages in the organization. It has been recognized as a framework to analyze the value contribution of intangible assets in an organization. At the same time, to ensure the competitiveness of organizations, knowledge management is also very crucial as a fundamental activity. This may help the organization to derive their best business value from their existing knowledge assets and attempt to establish competitive advantages asset where that is necessary. Based on Karl to stay competitive and successful, experience shows that organizations must create and sustain a balanced intellectual capital portfolio. This study discusses about the role of intellectual capital in managing the knowledge in the organization. It discusses the concept of knowledge management and intellectual capital in order to assist the readers to understand about the topic. The researchers also attempt to describe how the components of intellectual capital that consisted of four components which are human capital, structural capital, customer capital and competitor capital are linked to manage the organization assets.

Key words: Knowledge management, intellectual capital, human capital, structural capital, customer capital, competitor capital

INTRODUCTION

Now a days, we can see that there is a lot of people are doing the brain work that considered as the intellectual capital. This capital is intangible and cannot be seen but it gives the vital value in the development of the organization. Organizations create their wealth and the profit through the precious knowledge that available among the workers.

According to Zhou and Fink (2003) the knowledge and talent that owned by the workers can improve their productivity in work performance. Besides that, their skills can contribute to the creativity and innovation of the product or services that have been offered by the organization.

Today's the organizations rely on the knowledge in reaching the success and achieve the goals compared to the previous that depend to other resources in creating the value to the organization.

As we know, the knowledge is very important as the source of prosperous for organization. The competitive advantage will arise when there are management of knowledge and intellectual capital exist in an organization. The earnings will be attained when

they are able to manage the knowledge and intellectual capital within their organization effectively and efficiently.

Literature review

Defining knowledge management: Program that have been developed in order to create and disseminate the knowledge in achieving the organization goals are defined as knowledge management. There are two types of knowledge that have been managed in the organization which are tacit and explicit knowledge. Tacit knowledge is knowledge that entrenched in the mind of people unless it has been documented. Another one is explicit knowledge that can be seen and touched by the person. Besides that, knowledge can be managed in many ranges in the organization which are training and research and development. Communication between the workers can be enriched by the knowledge management when the workers are sharing and disseminating the knowledge for each other in completing the task and elucidate the problems. There are a lot of benefits in managing the knowledge in the organization which are improve the level of creativity and innovation among the workers in producing the products, the increasing of profit and save

the cost. According to Marr and Schiuma (2001) knowledge management is the basic or root in gaining, rising and nourishing the intellectual capital in the organizations.

Defining intellectual capital: Stated by Bhatti and Zaheer (2014) that the intellectual capital is the important thing that drives the creativity and innovation as well as competitive advantage in k-economy. In intellectual capital, there are four components which are human, structural, customer and competitor capitals. According to Teece (2000) by having intellectual capital, the organization can make the decision and estimate the allocation of the resources. Apart from that, in order to win the rivalry among the competitors, the organizations have to handle their intellectual capital correctly and wisely and also need to know the clear picture about such capital so that everyone in the organization are manage to overcome the problem that will occur in the future.

Indicated by Edvinsson and Sullivan (1996) that as the companies today having the obstacles in making their knowledge useful, the intellectual capital will become the solution. Besides that, workers that capture the knowledge that exist in the company are considered as intellectual person. There are the varieties of resources that cannot be seen and touched that contain in the intellectual capital such as the skills, talents, education and knowledge.

COMPONENTS OF INTELLECTUAL CAPITAL

Human capital: The human capital is the foremost component of intellectual capital and it is defined as the knowledge, talents, skills and experience that owned by the workers in organization. These knowledge and experience are embedded in the human mind and usually organization will lose this kind of capital when the expert or talent workers decide to leave the organization or retired. Besides that, this capital or knowledge is very unique as it exists in certain workers such as education and creativity. This capital cannot be had by the company or organization unless the knowledge has been documented earlier before the workers live their current organization. Organization can gain this capital through the interview, story-telling and training program with the talented workers so that they will share their knowledge and skills with other workers. Thus, it can be seen that without human capital, the organizations will collapse and unable to produce the creative and innovative products and services.

Structural capital: The knowledge that have been used in daily task of organization is been called as the

structural capital. It deals with the structure and system that available in the organization. The elements that involve in this capital are system and culture. According to Roos *et al.*, (2001), the companies that have the excellent structural capital will allow their workers to learn, make mistake and learn from mistake in doing their task and at the end of the day, they will contribute to the growth of their companies. Some of this capital is protected under legal and right. In addition, this capital can be purchased and disseminated everywhere by the organization. This capital also helps the organization in generating the creative items to the customers.

Customer capital: According to Zhou and Fink (2003), the customer capital is the capital that connected to the relationship between the company and their customers or clients. It is very essential to the companies in having the great connection with their customers because they are able to meet the competitive advantage in their business. This capital is regarding to the knowledge that kept in the customers itself. The examples of customer capital are loyalty and satisfaction of the clients towards the products and services that have been manufactured by the company. Hence, the organizations need to produce the best items or products that meet the customer's needs so that the customer pleasure and capital can be preserved in the organization.

Competitor capital: The competitor capital is the basic thing in the competitive situation of the organization. Each of the companies will have their own competitor in producing and selling the same products and services to the clients. Whether they are come from big or small company, they will have at least one competitor in their business. The competitor capital is very important to the organization in making the strategic planning. By having such capital, the organization can know on how to improve their products, what can be done and how much need to be allocated in order to reach the goals. Besides that, the competitors play their role in monitoring the activities and programs in our organization.

Relationship between Intellectual Capital (IC) and Knowledge Management (KM): Intellectual capital and knowledge management serve in the different purpose even though they have something in the similarities. Even different but the fact that we cannot deny is actually IC and KM is complement and relate to each other. The use of IC and KM is covering all aspects and factors in the organizational activities and processes. It starts from the process of knowledge creation to the leverage

part. According to Wiig (1997) knowledge management focus on the tactical and operational implementations of knowledge related activities. This process or step is concerning with the activities which will facilitate the knowledge creation, capture, transformation and lastly the use of the information. Intellectual capital and knowledge management is vital to an organization. The relationship will make the use of it to work together by aligning the knowledge management process and the intellectual capital elements (Salina and Fadzillah, 2010).

In addition, knowledge management also important in the process of intellectual capital developments and manipulation. Organizations need to fully understand the priorities in managing intellectual capital with the respect of managing the corresponding effective knowledge processes. The use of intellectual capital can only be implementing and achieve if the process is managed systematically. The most systematic KM approach must has exceed the lame limits of the management area and must also consider several factors that have impact towards the intellectual capital use and KM activities that has been implemented. Basically, the process will require the use or combination of people, systems and the technologies. To stress more on this statement, ¹³ also mentioned the systematic approach requires management and measurement which is the pointers that roles as the indicators that organizations should be looking at.

MODEL FOR MANAGING INTELLECTUAL CAPITAL

There are lot of model exist in the topic of managing intellectual capital. Most well-known model is:

- Sullivan’s Model (Khan, 2015)
- Skandia Intellectual Capital Value Scheme (Roos and Roos, 1997)
- Brooking’s Model (Canizares *et al.*, 2007)
- Roos and Roos’s categorisation (Roos and Roos, 1997)
- St Onge’s Model (Shaari *et al.*, 2011)
- Sveiby’s Model (Canizares *et al.*, 2007)
- Wiig’s Model (Wiig, 1997)

As showed in Fig. 1, we focus on Skandia Intellectual Capital Value Scheme. Intellectual capital is made up of the human and structural capital. The former refers to the knowledge, know-how, skills and expertise of the employees of an organization. The employee creating experts and value by using and apply their skills, knowledge and resulting in creating or invent with a new idea. However, the knowledge and skills of the employee are only utilized if they are willing to contribute to the

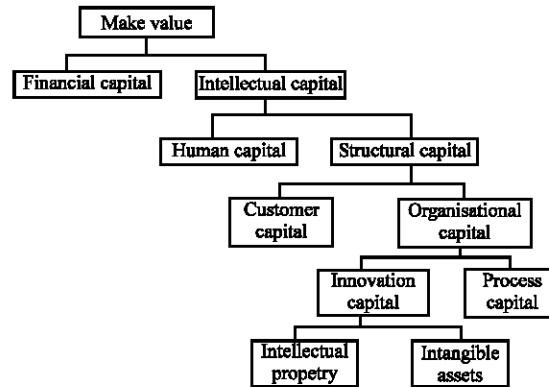


Fig. 1: Skandia Intellectual Capital Value Scheme Model (Edvinsson and Sullivan, 1997)

organizations. According to Canizares *et al.* (2007) human capital consist of three core elements namely, values, attitudes and habits of the components of the organization. The human capital management process and factors, they not only concern on method to maintain the knowledge base worker but also have the idea on how to motivate or encourage their worker to turn their tacit to explicit knowledge.

For structural capital, it made up of organizational and customer capital where it is the base that supports human capital (Canizares *et al.*, 2007). Customer capital can be defined as the relationship of outside parties such as stakeholders and suppliers or loyal customers with the organizations while the organizational one consists of innovation capital which includes those intellectual property and knowledge culture. It also combines the process capital like database and information systems. These capitals will represent the organizations on their capabilities to meet the internal and also external challenges. In a simple sentences, intellectual capital not only talk or includes the traditional intangible assets but also new ones such as the value of technology, knowledge and also not to forgot the good relationship with the customers (Edvinsson and Sullivan, 1996) stated that, knowledge will become subsequently part of intellectual capital after it has been capitalized and as such Knowledge Management lies within the wider processes of ICM.

The relevance and importance of managing intellectual capital will lead to the impact on innovation and business performance improvement. To get and grab the benefits the organization itself must be able to transform their knowledge, information and expertise into products and service that will bring profits to them and to merge with their capabilities in handling an organization. The continuous process of identify, acquire, organize and

apply the knowledge must be sure. The full possible of knowledge and information resources is recognized when they are efficiently and effectively known with easy models and framework with the proper knowledge and process.

CONCLUSION

As we know, the knowledge is very important as the source of prosperous for organization. The competitive advantage will arise when there are management of knowledge and intellectual capital exist in an organization. It is no doubt that organization's performance capacity is relies on these assets, knowledge and intellectual capital. Not only this, knowledge of organization and intellectual capital may facilitate their activities and generate income by using their critical resources, which is knowledge of its people, in order to sustain their performances, thus, effectively increase the organization knowledge assets. The earnings will be attained when they are able to manage the knowledge and intellectual capital within their organization effectively and efficiently. The relevance and importance of managing intellectual capital will lead to the impact on innovation and business performance improvement.

ACKNOWLEDGEMENTS

The researcher thank to all individual who directly and indirectly assisted in completing this study. Deep appreciation also goes to the Faculty of Information Management, University Teknologi MARA for the encouragement and good natured support.

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