



INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT AND MANAGEMENT

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THE EFFECT OF INTELLECTUAL CAPITAL ON THE ORGANIZATIONAL PERFORMANCE

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ABSTRACT

Today, Experts believe that the organizations' performance is not only evaluated by financial issues. They believe that there are other factors affecting on the financial and non-financial performance of the organizations. Researchers (including economists, accountant and organization s managers) believe that the performance of each organization is the total reflection of its intellectual capital (human capital, structural capital and customer capital). In fact, the improvement of each factor demonstrates the financial and non-financial performance of the organization. Therefore the first hypothesis is as follow: the desired condition of intellectual capitals cause to improve the effectiveness, the market place, customer satisfaction, competence and suitable operation of the organization. In this survey, data analysis was based on the descriptive and comprehensive methods and SPSS software and multiple regressions were used in order to test the hypotheses. The population included all managers and assistants of Tehran's Sepah banks. In this regard, some procedures were presented in order to use intellectual capital and to improve it efficiently.

KEYWORDS

Intellectual capital, human capital, structural capital, client capital, organizational performance.

INTRODUCTION

In order to simplify the interpretation of intellectual capital, three main categories are presented as follow: Human capital , Structural capital , Client capital. These categories are increasingly emphasized by the authors. The first one includes the knowledge of an organization s member relative to the capabilities and viewpoints. The second is referred to the non human knowledge of an organization including the data bases, organizational charts, processes and strategies. These factors increase the organizational values. The third refers to the knowledge achieved from the marketing channels and the relationship between the client and the organization (Bontis et al, 2000). In reality, intellectual capital is mainly described as an art instead of a science, and it includes the mental factors, creativity and behavioral studies (Lim et al.2004). The use of intellectual capital makes the organization capable to compete with an external resource (Bontis, 1999) without regarding the definition of this factor, some authors manage and report intellectual capital in financial notes. Much of these researches have been done without regarding their exact meanings (Bontis, 2001; Chen et al, 2004). Intellectual capital is regarded as one of the key factors used in knowledge – based economy. Intellectual capital makes the intangible and mental assets valuable. Although in past periods some factors such as machines, buildings, earth, money and materials were considered as the factors affecting on the organizations' permanence, in recent years organizations are mainly based on the creativity and innovation. It is hypothesized that knowledge – based organizations need a higher degree of innovation. Therefore, considering the performance of intellectual capital as the method of all organizational crises could be regarded as a reaction to dissatisfaction from financial prosperity rate.

LITERATURE REVIEW

DEFINITION OF INTELLECTUAL CAPITAL

In past, organizations could account the value of their production factors by use of accounting methods. But today the above mentioned methods are not used because in past the organizations had tangible assets and today, much of organizational assets are intangible (Sullivan et al, 2000).

All of these viewpoints are related to the intellectual capital (Edvinson&Malon, 1997; Bontis et al, 2000; Abdolmohamadi, 2005). Generally, it could be said that the main part of intellectual capital is human capital. In fact, they could not develop without human capital (Chen et al, 2004). Up today, most of organizations have perceived the importance of their intangible assets management and have considered the development of marks, shareholders' relationships and

organizational culture as the main resources of their business. Economically, creativity and use of these intangible assets leads to create the organizational capability (Kannan et al, 2004). Intellectual capital is referred to the difference between the values of an organization (Seetharaman et al, 2002).

Intellectual capital includes some parts named intellectual capital, structural capital and client capital (Bontis, 2000). Intellectual capital provides a new resource by which an organization could compete with other organizations (Moshabaki, 2005). Stewart believes that intellectual capital includes knowledge, information, mental assets and experience which could be used in order to make money (Stewart, 1994b). Intellectual capital is simply referred to the difference between market value and clerical value of company's assets (Seetharaman et al, 2002).

Due to another definition, intellectual capital is referred to all processes and assets which are not reflected in balance sheet (Edvinson, 1997; Bontis et al, 2000). Some terms relative to intellectual capital include: knowledge management, learning organization, intangible assets, intangible outcomes, organizational learning, and etc. intellectual capital could be regarded as an umbrella which covers all of these words (Zahedi& Lotfizadeh, 2007)

BACKGROUND OF THE PROBLEM

Today, knowledge is more important than production factors including land, capital and machines. Economically, knowledge is a production factor and is mentioned as the main comparative factor of the organizations (Seetharaman et al, 2002). Intellectual capital is the basic power of organizational performance by which the real value of an organization is reflected (Chaharbaghi&Cripps, 2006). It is a very important factor for the knowledge – based firms because their main resources are intangible assets

(KujanSivu&Lnnqvist, 2007). In past, organizations could account the value of their products by use of accounting methods, but today these methods are not used; because in past most of organizational assets were tangible (Shun et al,2006;Sullivan,2000).

Therefore, the main issue of this research is the effectiveness of intellectual capital in organizational performance. As mentioned above, in past authors believed that organizational performance is based on the financial and expense management. Today this procedure has missed its meaning and has proved that 80% of organizational performance is related to the correct management of intellectual capital. Some authors believe that organizations' financial success is based on the success of intellectual capital. On the other hand, there is a kind of interaction between internal parts of intellectual capital which affect positively on each other. Therefore, this survey is aimed to answer following questions:

1. Is there any positive and meaningful relationship between the parts of intellectual capital?
2. Can these parts improve the organizational performance of Sepah banks?

RESEARCH NECESSITY AND IMPORTANCE

As mentioned before, intangible assets are regarded as the main part of organizational assets and they could not be measured by use of accounting methods (Sullivan, 2000). On the one hand, organizational success is based on the ability to manage these intangible assets. Mar (2003) believes that intellectual capitals are measured to:

- 1- Help the organizations regulate their strategies.
2. Evaluate the enforcement of strategies
3. Help the decision making
4. Use the results of intellectual capital measurement as a base for servicing.
5. Declare these assets to the organizations' external beneficiaries

Evaluation of intellectual capital can determine the performance of the firms because knowledge is the main part of a company's value (kannan et al, 2004; Chen et al, 2004). Although we could not measure these assets, we could determine the importance of investing capital with regard to the quality of them and their effect on the organizational performance.

There are some questions mainly asked by the masters of the universities. In short, there is a little evidence relative to the measurement of real influences of intellectual capital of the firms. Therefore, the advantages of the evaluation of intellectual capital for the internal managers are as follows:

- The ability of the firm in order to achieve its goals
- The ability of the firm in order to planning and investing capital
- The opportunity to make decisions
- The evaluation of the firm's values in order to compare some factors
- The development of organizational recollection by key resources

Intellectual capital is mainly measured in order to recognize the intangible assets and develop their strategies to achieve organizational goals. The measurement of intellectual capital and knowledge management performance is the main advantage of organization. There are some advantages relative to the measurement of intellectual capital:

1. Recognition and planning of intangible assets
2. Recognition of inter organizational knowledge patterns
3. Giving the priority to the main issues of knowledge
4. Acceleration of inter organizational learning patterns
5. Recognition of the best performance of the company by use of the best business
6. Continual control of assets and finding some ways in order to increase the values
7. Understanding the way through which the knowledge makes interactive relationship
8. Understanding the social networks of the organization
9. Increasing the innovation and creativity
10. Developing cooperative activities in order to know the advantages of knowledge management
11. Self-understanding of the staffs
12. Creating performance-based culture

RESEARCH OBJECTIVES

The research is aimed to achieve the following goals:

1. Examining the relationship between the elements of intellectual capital
2. Determining the relationship between intellectual capital and the performance of Sepah bank
3. Understanding the condition of the elements of intellectual capital in sepah bank
4. Presenting various procedures in order to improve the level of intellectual capital in Sepah bank and other banks.

RESEARCH HYPOTHESES AND MEAINFUL MODEL

Due to the meaningful model of the research, the level of intellectual capital (including human capital, structural capital and client capital) improves the level of organizational performance.

Secondary hypothesis 1: There is a meaningful and positive relationship between human capital and organizational performance of Sepah banks.

Secondary hypothesis 2: There is a meaningful and positive relationship between structural capital and the performance of Sepah banks.

Secondary hypothesis 3: There is a meaningful and positive relationship between client capital and performance of Sepah banks.

Some authors believe that there is a meaningful relationship between the elements of human capital.

Therefore, four other secondary hypotheses could be stated relative to the main hypothesis 2.

Main hypothesis 2: There is a meaningful and positive relationship between the elements (human, structural and client) of intellectual capital.

Secondary hypothesis 4: There is a meaningful and positive relationship between human capital and client capital of Sepah banks.

Secondary hypothesis 5: There is a meaningful and positive relationship between human capital and structural capital of Sepah banks.

Secondary hypothesis 6: There is a meaningful and positive relationship between structural capital and client capital of Sepah banks.

Secondary hypothesis 7: There is a meaningful and positive relationship between human capital, structural capital and client capital in Sepah bank.

FIGURE 1: MEANINGFUL MODEL OF THE RESEARCH

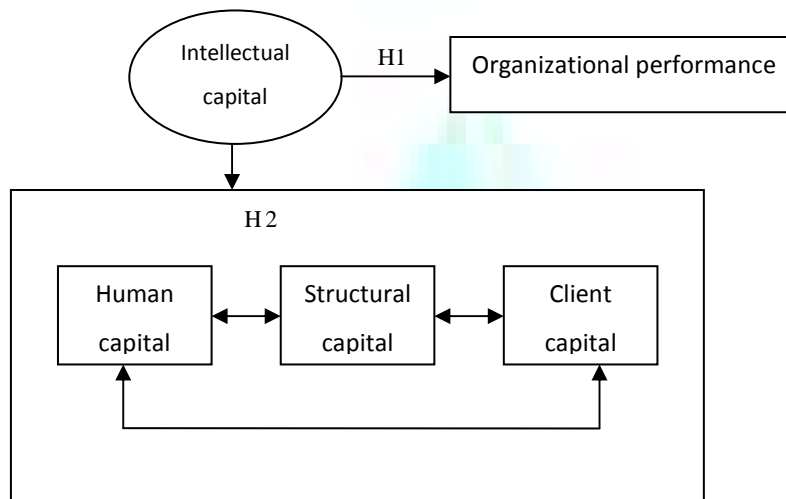
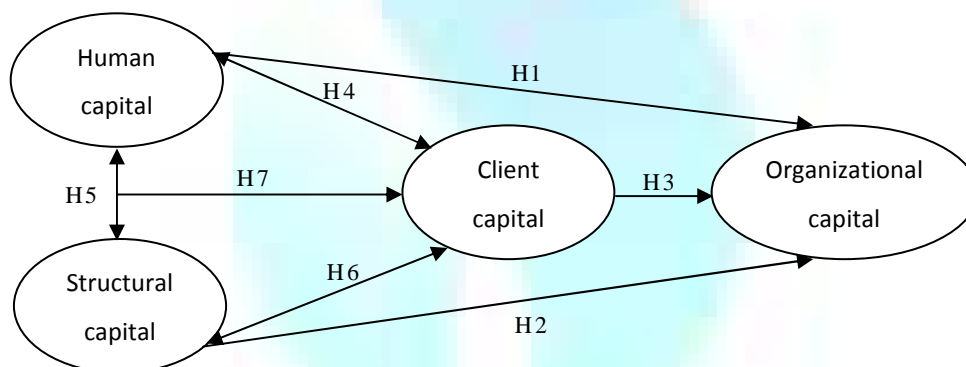


FIGURE 2: MEANINGFUL MODEL OF THE RESEARCH



RESEARCH METHODOLOGY

This survey is theoretical and descriptive-analytic which generalizes all of the findings to the population by use of a logic sample.

The tool used in this survey is a questionnaire designed by Nick Bontis in order to evaluate the individuals' attitude toward the intellectual capital of the organizations.

The population includes all of the managers and assistants of the Sepah banks in Tehran. Cochran formula was used in order to calculate the sample volume (221).

In this survey, the banks were randomly selected because the sample's number was clear. In addition, SPSS software and multiple regressions were used in order to test the hypotheses.

DATA ANALYSIS

It could be said that data analysis is referred to the determination of demographic variables' condition. In the survey, the following variables were used to analyze demography: age, gender, education, work experience and organizational post.

AGE

The first variable of this survey is age. Due to the results, 24, 36, 88 and 84 persons were selected between ages 25 to 30, 31 to 35, 36 to 40 and 41 to 45, respectively. Also, it could be said that the average of the age ranged between 36 to 45 years.

GENDER

The sample was composed of 205 men and 56 women. It is clear that the number of the men is four fold the number of the women.

EDUCATION

Educationally, they had diploma, associate of arts, B.A and M.A degrees. Respondents were asked to determine their education levels based on the above framework. 109, 47, 101 and 4 persons had diploma, associate of arts, B.A and M.A degrees, respectively. It was clear that most of them had diploma (about 41/8 percent of the respondents).

WORK EXPERIENCE

Due to this variable, respondents were asked to make clear their work experience. 10, 20 and 43 persons had between 3 to 6, 7 to 10 and 11 to 14 years of work experience, respectively. 14 other persons had more than five years of experience. Also, most of them had 11 to 14 years of work experience (49/4%).

ORGANIZATIONAL POSITION

The last variable of the survey is organizational position. The sample was composed of 135 governors and 126 assistants of the Sepah banks in Tehran.

DEDUCTIVE ANALYSIS OF ELEMENTS AND VARIABLES

As mentioned before, this survey is aimed to determine the relationship between the elements of intellectual capital and organizational performance of the Sepah banks in Tehran. Correlation test is a criterion used in order to determine the relationship between the two variables. Two main criterios used in the test are determination coefficient and correlation coefficient.

- Hypothesis 1: Based on the results Pearson's correlation coefficient is 0/502 ($P < 0.01$) and it shows that there is a positive and relatively strong relationship between human capital and performance.
- Hypothesis 2: Based on the results, Pearson's correlation coefficient of the two variables is 0/691 ($P < 0.01$) and it shows that there is a highly strong relationship between human capital and client capital.
- Hypothesis 3: Due to the results, the Pearson's correlation coefficient of the two variables is 0.720 ($P < 0.01$) and it shows that there is a strong relationship between human capital and structural capital.
- Hypothesis 4: According to the results, the Pearson's correlation coefficient is 0.517 ($P < 0.01$) and it shows that there is a strong relationship between structural capital and performance.
- Hypothesis 5: Due to the results, Pearson's correlation coefficient of the two variables is 0.718 ($P < 0.01$) and it shows that there is a strong relationship between client capital and structural capital.
- Hypothesis 6: Results show that the Pearson's correlation coefficient of the two variables is 0.558 ($P < 0.01$) and it shows that there is a highly strong relationship between client capital and performance.
- Hypothesis 7: Based on the results, the Pearson's correlation coefficient for the relationship between human capital and structural capital with the client capital is 0.759 ($P < 0.01$). It shows that there is highly strong relationship between human capital, structural capital and client capital.
- Hypothesis 8: Results reveal that Pearson's correlation coefficient of the two variables is 0.588 ($P < 0.01$) and there is a strong relationship between human capital and organizational performance in Sepah banks.

TABLES3: PEARSON'S CORRELATION COEFFICIENTS OF THE VARIABLES

| | 1 | 2 | 3 | 4 |
|----------------------------|-------|-------|-------|---|
| Structural capital | 1 | | | |
| Client capital | 0.718 | 1 | | |
| Human capital | 0.720 | 0.691 | 1 | |
| Organizational performance | 0.517 | 0.558 | 0.502 | 1 |

CAUSALITY TEST OF MODEL

Because there are some independent variables in the survey (the elements of intellectual capital) whose effect on the dependent variable (performance of Sepah banks) should be examined, it is necessary to use multiple regresion technique.

HUMAN CAPITAL AND ORGANIZATIONAL PERFORMANCE OF SEPAH BANKS

The coefficient of human capital in the equation is 0.297. Therefore, it could be accepted that the variable human capital affects positively on the organizational performance of Sepah banks.

STRUCTURAL CAPITAL AND ORGANIZATIONAL PERFORMANCE OF SEPAH BANKS

The coefficient of human capital is 0.339. Therefore, it could be said that the variable structural capital affects positively on the organizational performance of Sepah banks.

CLIENT CAPITAL AND ORGANIZATIONAL PERFORMANCE OF SEPAH BANKS

The coefficient of client capital is 0.508.

Therefore, it could be accepted that the variable client capital affects positively on the organizational performance of Sepah banks.

CONCLUSION

Based on the above findings the followings are correct:

Secondary hypotheses 1: Due to the results of Pearson's test, the higher human capital, the more the organizational performance is increased and vise versa. If organizational capital improves the human capital will improve too. Regarding the human capital and organizational performance as the independent and dependent variable, respectively, the results show that about 15% of the changes related to the organizational performance of Sepah banks in Tehran are belonged to the human capital variable.

Secondary Hypothesis 2: Based on the results, there is a relatively strong relationship between the two variables. i.e. by increase of structural capital, the organizational performance will be increased. On the other hand, by improvement of organizational performance, structural capital will be improved. Regarding the structural capital as the independent variable and organizational performance as the dependent variable, it is clear that about 17 percent of organizational performance changes in Sepah banks are related to the structural capital.

Secondary hypothesis 3: Due to the results of the Pearson's test, there is a relatively strong relationship between the two variables. The higher level of client capital, the more degree of organizational performance is increased. On the other hand, the client capital will be improved by the improvement of organizational performance. Regarding the client capital and organization al performance as the independent and dependent variables, respectively, it is clear that about 17 percent of the changes are related to the client capital variable.

Secondary hypothesis 4: Based on the results, it is clear that there is a higher strong and positive relationship between human capital and client capital of Sepah banks.

Secondary hypothesis 5: Due to the results, there is a strong and positive relationship between human capital and structural capital of Sepah banks.

Secondary hypothesis 6: Due to the results, there is a strong and positive relationship between structural capital and client capital of Sepah banks.

Secondary hypothesis 7: Results show that there is a strong and positive relationship between human capital, structural capital and client capital in Sepah banks.

Main hypothesis 1. The elements of intellectual capital affect positively and meaningfully on the performance of Sepah banks.

Based on the above mentioned, it is hypothesized that there is a positive and strong relationship between the intellectual capital and organizational performance. It could be said that the level of intellectual capital will be increased by the increase of organizational performance.

Meanwhile, among the mentioned elements, client capital has the highest effect. Therefore, it is hypothesized that the firm's intellectual capital is determined by the market.

Main hypothesis 2. There is a meaningful and positive relationship between the elements of intellectual capital. In added, the strongest relationship is related to the human capital and structural capital.

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