

Chapter 6

Intellectual Capital and Challenges of Organizations in the Twenty–First Century

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ABSTRACT

In the present century, intellectual capital is recognized as the most important and strategic asset for organizations. Intellectual capital is mainly based on knowledge and useful information. Intellectual capital is playing a critical role to create value from the combination of tangible and intangible assets to enhance the performance of organizations. This chapter looks at the concept and application of intellectual capital and its associated challenges of organizations in a competitive environment. More specifically, this chapter highlights the relationship of intellectual capital with the performance of organizations of various sectors. The relationship of intellectual capital was supported by empirical studies which were done by various renowned researchers in the intellectual capital field. In addition, this chapter discusses the various major components and models of intellectual capital.

INTRODUCTION

Over the past two decades, the concept and applications of intellectual capital have got overwhelming attention from academicians, researchers and practitioners. Nowadays, intellectual capital has

become a critical asset for organizations to manage and utilizes its resources in order to gain a sustainable competitive edge. Intellectual capital appears as one of the principal asset in the current and future success of the organizations, particularly in high-tech sector. The multidisciplinary nature of

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intellectual capital demonstrated that an increasing the value of the various components of intellectual capital such as human capital, customer capital, structural capital, social capital, technological capital and spiritual capital are playing critical role to enhance the performance of organizations. Many researchers such as Bontis, Keow, & Richardson (2000), de Pablos (2005), Ghosh & Mondal (2009), Khalique, Shaari, Isa, & Ageel (2011a), and Kujansivu & Lönnqvist (2007) reported that intellectual capital has significant positive contribution towards enhancing the performance of organizations. Intellectual capital is recognized as the most important success factor for the sustaining the competitive advantages of organizations in a knowledge-based economy.

In addition, many researchers such as de Pablos (2002), Khalique, Isa, & Shaari (2012), Rafiei, Ghaffari, & Parsapur (2012), and Wickramasinghe & Sharma (2005) have drawn their attention to highlight the importance of intellectual capital in a knowledge-based economy. The findings of the various studies conducted by university researchers, consultants and practitioners yielded that intellectual capital has a vital role for the survival and competitive advantages of organizations in a knowledge-based economy. Undoubtedly intellectual capital is a critical component of a knowledge-based economy. In supporting the argument that intellectual capital is a nucleus of knowledge-based economy, many researchers such as Kim, Yoon, Kim, Lee, & Kang (2006), Matos, Lopes, Rodrigues, & Matos (2010), Rehman, Rehman, Rehman, & Zahid (2011), and Xiaohong & Jingsheng (2009) argued that intellectual capital is one of the most crucial ingredients for the success of the organizations.

Knowledge-based economy is based on three important pillars: First, knowledge has become what we buy, sell and do. Second, knowledge-based assets have become more important to an organization. Third, in order to prosper, management techniques, technologies and strategies are needed to explain the knowledge-based assets such as intellectual capital (Stewart, 2002). The

term knowledge-based economy referred to the full recognition of the knowledge and intellectual capital in order to get the competitive advantage, technological development and economic growth. The various characteristics that explain a knowledge-based economy, first it is focused on intangible resources rather than tangible resources (Edvinsson & Malone, 1997), second it has a powerful technological leading force, for example the rapid growth of information and technologies, third, it is stimulated by the rapid growth of Information and Technology, and fourth, the knowledge has become an independent force and the most crucial factor in social, economic, technological, and cultural transformation (UN-ECE, 2002). The precise definition of knowledge based was coined by OECD (1996) and that the knowledge-based-economy is directly based on the production, distribution, and use of knowledge and information.

In a knowledge-based economy, organizations are facing multifarious and complex challenges to stay in a competitive environment. The emerging or high-tech organizations are facing very serious threats from globalization, technological advancement and innovation. These challenges and threats are compelling organizations to adopt and apply the concept and application of intellectual capital in more rigorously (Khalique, 2012; Rafiei et al., 2012; Robinson, 2010; Sheikh, 2008). The world is witnessing a great transformation in which the primary resource will no longer be the traditional production of input factor such as tangible assets, but that the prime resource for both the organizations and the economy will be knowledge (Drucker, 1993). The tremendous technological advances, information flow, innovation and the incredible importance of knowledge and intellectual capital as a source of wealth has reshaped the global economic environment (Drucker, 1993; Grant, 1996; OECD, 1996a).

Nowadays organizations are facing a new competitive paradigm which is associated with the capability to create, employ, combine, and manage intellectual capital (Cabrita, 2009). The competi-

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