Chapter 12

A Study on the Effect of Intellectual Capital on the Organizational Performance of Banking Sector in Malaysia

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ABSTRACT

In the twenty first century, intellectual capital appears as one of the most important strategic assets for the success of knowledge-intensive organizations. The aim of this chapter is to examine the effect of intellectual capital on the organizational performance of banking sector operating in Kuching Malaysia. In this study, Integrated Intellectual Capital Model (IICM) is used to test the role of intellectual capital in banking sector in Kuching. This model is based on human capital, customer capital, structural capital, social capital, technological capital, and spiritual capital. This study uses a sample of 300 participants employed in banking sector to examine the role of intellectual capital. A convenience sampling technique is used to select the respondents. To achieve the objective of this study, seven research hypotheses are constructed. Multiple regression analysis is used to test the proposed research hypotheses. The findings demonstrate that all the proposed research hypotheses are not supported. The findings of this study are contrary to the previous studies. However, this study opens a new discussion in intellectual capital field. This study demands further empirical researches to affirm the role of intellectual capital in the knowledge-intensive organization.

INTRODUCTION

In business management field, intellectual capital has secured overwhelming response from practitioners, researchers and academicians. Many researchers such as (Amiri, Jandaghi, & Ramezan, 2011; Bontis, 1998; Bontis, Keow, & Richardson, 2000; de Pablos, 2002, 2003; Egbu, Botterill, & Bates, 2001; García-Muiña & Pelechano-Barahona, 2008; Khalique, 2012; Ngah & Ibrahim, 2009; Subramaniam & Youndt, 2005) have claimed that intellectual capital plays crucial role in today’s
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Knowledge based economy and it performs a vital role in innovation, productivity and growth of organizations. Intellectual capital is mainly based on intangible or soft assets. It encompasses the following areas: human capital, customer capital, structural capital, social capital, technological capital and spiritual capital (Bueno, Salmador, Rodríguez, & De Castro, 2006; Khalique, Shaari, Isa, & Alkali, 2012; Khalique, Shaari, & Isa, 2011a; Khalique, Shaari, & Isa, 2013). Management of intellectual capital is necessary for innovation, productivity, growth, sustainability, competitive advantages and the success of organizations. Intellectual capital management refers to use creativity, intelligent people, new management methods, new information technologies and new ways of conceiving organization in the new post-industrial knowledge economy (Zehri, AbdelBaki, & Bouabdehalah, 2012).

In Malaysia intellectual capital plays a vital role in the development and growth of national economy. In a knowledge-based economy, intellectual capital is considered as the nucleus of competitive organizations. In contemporary business environment, the global economy has seen a rapid shift in recent years from industrial based economy to knowledge based economy. The performance of organizations is mainly based on knowledge based assets. There is no doubt that the survival of organizations lies in the utilization and capitalization of knowledge assets such as intellectual capital. Malaysia also has a great desire to become a knowledge based economy in order to meet the competitive business challenges. The effective management of intellectual capital can lead to the increase of Malaysia Gross Domestic Product (GDP). It helps organizations in Malaysia in term of profit gain through practice of excellent management. The effective management of intellectual capital is very important for a nation in order to create a value for an organization. Identification and management for intellectual capital is required to make sure that an organization is on the right track. Many researchers such as (Bontis, Keow, & Richardson, 2000; Daud & Yusuf, 2008; de Pablos, 2004; Gallato et al., 2012; Hormiga, Batista-Canino, & Sánchez-Medina, 2011; Khalique, 2012; Khalique, Shaari, & Mansor, 2014) have argued that intellectual capital is a vital asset for the success of knowledge intensive organizations in manufacturing and services sectors.

Banking sector is a one of the most important service sectors which is mainly constituted on knowledge workers. Every nation has realized the importance of financing system in the development and growth of economy. There is no doubt that the development of strong financing system is prerequisite for incredible growth and development. Banking sector acts as a tool for a country to transform common business into a global business. Malaysia is one of the nations that have developed their financing systems effectively, keeping in view its importance in creating value for the national revenue. Malaysia has developed various institutions to meet the need of domestic and global demands. Malaysian financing system consists of two components which are financial institutions and financial market. Financial institutions can be divided into two groups which are banking system and non-bank financial institutions.

Although intellectual capital is important as a strategic asset but there is a lack of study on this topic. Intellectual capital is very important for every business including high technology business, electronic, health care, insurance, small medium enterprises and banking as well. More specifically, the impact of intellectual capital on the organizational performance of banking sector is still poorly defined. Therefore, there is a need to explore the role of intellectual capital in banking sector operating in Kuching Malaysia.

**Intellectual Capital**

Related literature on intellectual capital indicate that several studies have been conducted to give a precise definition of intellectual capital especially to find an exact measurement but it is difficult to