Chapter 6

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

Muhammad Khalique
Universiti Malaysia Sarawak, Malaysia

Shazali Abu Mansor
Universiti Malaysia Sarawak, Malaysia

Abu Hassan bin Md. Isa
Universiti Malaysia Sarawak, Malaysia

Jamal Abdul Nassir bin Shaari
Universiti Malaysia Sarawak, Malaysia

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
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, & Rich-
ardson (2000), de Pablos (2005), Ghosh & Mondal
(2009), Khalique, Shaari, Isa, & Ageel (2011a),
and Kujansivu & Lönnqvist (2007) reported that
intellectual capital has significant positive con-
tribution towards enhancing the performance of
organizations. Intellectual capital is recognized as
the most important success factor for the sustain-
ing 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 Wick-
ramansinghe & Sharma (2005) have drawn their
attention to highlight the importance of intel-
lectual capital in a knowledge-based economy.
The findings of the various studies conducted by
university researchers, consultants and practitio-
ners 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 intel-
lectual 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, manage-
ment 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 advan-
tage, technological development and economic
growth. The various characteristics that explain
a knowledge-based economy, first it is focused
on intangible resources rather than tangible re-
sources (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 advance-
ment 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 organiza-
tions 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,

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-
Related Content

Effective Virtual Project Management Using Multiple E-Leadership Styles
www.igi-global.com/chapter/effective-virtual-project-management-using/67197?camid=4v1a

Challenges Enhancing Social and Organizational Performance
www.igi-global.com/chapter/challenges-enhancing-social-and-organizational-performance/171736?camid=4v1a

Work Practices to Curb Attrition in the Indian Hi-Tech Software Development Industry: A Structurational Analysis
Anuradha Mathrani and Sanjay Mathrani (2013). Enhancing the Modern Organization through Information Technology Professionals: Research, Studies, and Techniques (pp. 68-82).
www.igi-global.com/chapter/work-practices-curb-attrition-indian/72521?camid=4v1a

Location Value
(2012). Valuing People and Technology in the Workplace: A Competitive Advantage Framework (pp. 87-100).
www.igi-global.com/chapter/location-value/65655?camid=4v1a