THE RELEVANCE OF INTELLECTUAL CAPITAL IN BUSINESS ORGANIZATION

SAMUEL ABRAHAM ADEGBILE[1] ZAHRADDEEN ABBAS BELLO[2] PETER IRMIYA YAKURA[3]
Department of Accountancy, Federal Polytechnic Mubi, P. M. B. 35, Mubi, Adamawa State.

Abstract
The paper assessed the relevance of intellectual capital in business organization. Intellectual capital is one of the most critical factors that bring about development and competitiveness in organizations. Intellectual capital represents a non-physical claim to future benefits. Although the research work is a non-survey. The researchers conclude that for intellectual capital items to be recognized in financial statements, they must be identifiable and measurable. Hence, intellectual capital items such as employees' skill and competencies cannot be measured and hence, they are not shown fully in financial statements. Therefore, proper utilization of intellectual capital may change organizations from being ordinary businesses to being the industry leaders.

Keywords: Intellectual Capital, Innovation, Value Creation and Business Performance

Introduction
There are increasing evidence that the drivers of value creation in modern competitive environments lie in an organization intellectual capital rather than its physical and financial assets because it brings about future benefits. Intellectual capital is important that scholars consider it as more important than production factors such as land, capital and machines. La Rocca, La Rocca and Cariol (2008), stated that the most valuable resources of a firm are the unique talents of the human capital involved in the firm's activities that build up complementarities with the asset in place and a create unique combination that cannot be instantaneously replicated outside. Similarly, knowledge is

a production factor and main comparative factor of organizations (Seetharaman, 2004). To Chaharbaghi and Cripps (2006) intellectual capital is the basic power of organizational performance by which the real value of an organization is reflected.

In the business environment of today, intellectual capital is one of the most critical factors that bring about development and competitiveness in organizations. Intellectual capital tends to be intangible in nature and there tend to be challenged when it comes to determining its value. Commonly used ways of defining and describing intellectual capital include in terms of creating value and enhancing the competitive advantage and the success of an organization (Obeidat, Tarhini, Masa'deh & Aqqad, 2017). The intellectual capital assists in creating wealth and in the production of other high valued assets. Intellectual capital in a business includes the wealth of the ideas and the ability for innovation which highly determines the future of the firm. In the past, individuals believed that organizational performance dependent on the financial and expense items. However, this approach no longer holds, researchers have come to the assumption that the success of organizations is highly dependent on the intellectual capital items which contribute to organizational performance.

According to Yang and Lin (2009), intellectual property has three main elements which include the human capital, the structural capital and the relational capital. Human capital includes the skills and the creativity of the workers which is increased through investments in the training programs. Human capital includes the skills and expertise of the employees in an organization. If the employees are more efficient, they are likely to boost the performance of the business. Structural capital is also a component of intellectual capital which includes the nonhuman assets in an organization (Daum, 2003). It consists of the copyrights, the patents, procedures and rules, and policies that aid in decision making. Relational capital refers to the relationship of the firm with the external stakeholders (Subramaniam, 2005). This includes the trust, the experience and the knowledge which forms the critical relationship between a business and the customers. It's the relational capital that prevents external stakeholders such as customers from abandoning the commercial relationship (Daum, 2003). Lastly, the main objective of this study is to assess the relevance of intellectual capital in business organization.

Concept of Intellectual Capital

The terms Intellectual Assets, Intellectual Capital and Intangible Assets are used interchangeably as they all represent a non-physical claim to future benefits. Economists called it Knowledge Assets, Management experts refer it as Intellectual Capital and Accountants called it Intangible Assets or Intellectual Assets (Kavida & Sivakoumar, 2008). However, there is no consensus regarding definition of intellectual capital. In fact, generally accepted definition of intellectual capital according to Tayib and Salman (2011) is yet to be arrived at because scholars define it in accordance with their own perception of the term. Brooking (1996) defined intellectual capital (IC) as the combination of all intangible assets which enable the company to function. It is the possession of knowledge, applied experience, organizational technology, customer relationships and professional skills that provide a firm with a competitive edge in the market (Edvinson, 1997). Petty, Cuganesan, Finch and Ford (2009) report that the Organisation for Economic Cooperation and Development (OECD, 1999) describes intellectual capital as the economic value of two categories of intangible assets of a company, that is, organizational/structural capital and human capital. Further, Verguwen and Alem, 2005 as captured by Kavida and Sivakoumar (2008) that IC covers three main capitals, that is, human capital, structural capital and relational capital.

Human capital has to do with skills/competences, training, education, experience and value characteristics of an organization's workforce (Petty etal, 2009). Human capital also encompasses how effectively an organization uses it people resources as measured by creativity and innovation (Kavida & Sivakourmar, 2008). Structural capital on the other hand, has been viewed by Boisot (2002) in form of system, process, practice and procedure of organization utilized by employees of that organization. It can be also be in form competitive intelligence, formulas, information systems, patents, policies and others which resulted from the products or systems the company has created over time (Maheran & Khairu, 2009) reported by Tayib and Salman (2011). Relational capital /customer capital can be seen according to Stewart (1997) as the strength and networking of organization through its customers and external environments.

Accounting for Intellectual Property

In general, intellectual property is accounted for on the basis of whether they have been acquired internally or externally. For those intangible assets that have been acquired externally, it's quite easy to determine the costs since its equal to the amount of acquiring such an asset. For example, goodwill is recognized at its cost which is included in the statements of financial position. However, there is difficulty involved in recognizing the intangible assets that are developed internally. Many of the internally acquired intangible tends to be expensed. This includes the intangibles such as the advertising costs, the training costs, the research costs and the goodwill that is developed internally. Due to the difficulty in measuring the internally developed intangibles, many of them are not included in the statements of financial position. The acquired intangible assets tend to be stated at their fair value.

According to Subramian (2005), the intangible assets can either be capitalized if they can be easily matched with future revenues or they can be expensed in the year in which they are created. For example, when creating the patents, there are costs involved such as legal and documentation costs. The future revenues likely to be generated from the patents cannot be easily determined. If this is the case, then the costs are accounted for as expenses and the patent is not recognized in the balance sheet. When acquiring intangible assets such as goodwill, future revenues can be estimated due to loyal customers. Good reputation among others. In such a case, the goodwill is capitalized and included in the balance sheet as an asset (Daum, 2003).

Roles of Intellectual Capital in Business Organization

Innovation

Intellectual property contributes to innovation and innovation process in the business organizations. For example, research contributes to ideas which are further developed to bring about new products and improve the existing ones. Improvement and development of new products lead to commercialization where the products or services are sold in the markets. Each component of intellectual capital contributes to the innovation process. For example, human capital contributes to professional competence and motivation that allows the employees to be innovative and have the drive to turn ideas into products. Human capital has contributed to processing innovation where the organizations are able to perform their activities by using imaginative means.

According to a study by Nahapiet (2000) intellectual capital is seen to have a positive impact on innovative capacity. Hence, human capital tends to contribute to the incremental and radical innovation. In the competitive environment of today, organizations cannot create wealth unless they actively get involved in innovating which is achievable through intellectual capital. Therefore, the better the human capital the more the ability to innovate in order to bring forth superior output.

Competitive Advantage

In current business environment, intellectual capital gives a competitive advantage to the business organizations. Through intellectual capital, it's possible for businesses to have successful strategies that cannot be copied easily. For instance, businesses can register trademarks, patents and even copyrights which hinders competitors from imitating the products and the works of the business. Human capital brings about a competitive advantage since employees are able to add value to the organization through unique skills acquire through experience and training. Competence of the employees brings forth innovation and product development (Stewart 1998).

The management of an organization should strive towards recruiting as well as grooming the best team in an organization so as to get a competitive advantage in the organization. In addition, it's important to ensure that knowledge is appropriately stored through intellectual assets which can further improve the competitive position of an organization. Intellectual assets of an organization create value and also increase the financial worth in the organization.

Research and Development

Intellectual property facilitates research and development. These days through human capital, organizations are able to invest in research and development which helps improve the current products and develop new products. Research and development contribute to more revenues, profitability and improved processes in an organization.

The more the ability to invest in research and development, the more the potential that an organization can add value to its growth. Organizations with highly skilled and competent employees are able to engage in research and developments since the human capital can engage in research to discover ideas and areas of improvement. Without intellectual capital such as the skills and expertise of employees, it's difficult to engage in research and development and efforts investments in this area cannot be fruitful (Choong, 2008).

Business Performance

Intellectual capital brings forth better business performance both in qualitative and quantitative terms. In quantitative terms, intellectual capital contributes to more profitability, return on assets and investments. Another quantitative aspect in business that increases due to intellectual capital includes the customer retention rate and the market share. Quantitative aspects include customer loyalty and satisfaction and employee satisfaction. An exploratory study by Bontis (1998) shows that the organizations that are able to manage their intellectual capital well are able to perform better and higher than others; Organizations that have better management, functionality, a better culture, and better training programs are also seen to make higher profits. Many businesses, especially in the developed countries, have leaned towards better intellectual capital management to boost their profitability (Swart 2006). In the past, the organizational performance was more dependent on the financial and expense items. However, this approach no longer holds researchers have come to the assumption that the success of organizations is highly dependent on the intellectual capital items which contribute to organizational performance (Youndt, 2004).

Value Creation

According to Swart, (2006) the value that is created by the intellectual capital has become more than that created by the tangible assets. The service sector, for example, has been able to significantly grow and even exceed other sectors due to investments in intellectual capital. Intellectual capital contributes to changing an organization from an ordinary business to being a leader in the field and in the industry. Through proper utilization of the intellectual assets, an organization can grow into the status of being the industry leader. Managers that are able to effectively manage the intellectual capital are able to come up with better strategies, processes and even methods of running the businesses to enhance the financial and non-financial performance of the business.

Competence and Capability

Intellectual capital enhances competence and capability within an organization. Employees that are well endowed with capabilities are able to share their expertise with others which increases the competence within an organization. Information sharing among the employees helps them to work towards achieving common goals. Interactions among the employees create transformed knowledge and through information sharing, an organization is able to achieve the predetermined goals (Daum, 2003). Organizations need to create an environment that allows information sharing to allow the transfer of knowledge among the employees. Transfer of knowledge allows the development of capabilities which eventually lead to better processes and structure within the organization (Bontis, 1998).

Research Methodology

The study utilized non-survey research method. Data for the study were obtained from secondary sources, that is, books, journals and relevant information from the internet.

Conclusion

Intellectual capital has been considered as one of the key elements to a business organization. For intellectual capital items to be recognized in financial statements, they must be identifiable and measurable. Hence, intellectual capital items such as employees' skill and competencies are not recognized in financial statements because they cannot be measured. The measurable items are recognized as intangible asset (that is goodwill). Therefore, business organizations that are in position to manage their intellectual capital in a better way are able to perform well than others. Similarly, organizations that have better management, functionality, better culture and better training programmes may achieve its goals and get higher profits. Lastly, proper utilization of intellectual capital may change organizations from being ordinary businesses to being the industry leaders.

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