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Intellectual Capital Development and Competitive Advantage

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Abstract: *This study examined the relationship between intellectual capital development and competitive advantage. the objectives of the study were to examine how the various dimensions of intellectual capital development relates with the measures of competitive advantage. The various concepts on which the study was founded were extensively reviewed. Based on the review, it was observed that the dimensions of intellectual capital development (human capital, relational capital and structural capital) relates significantly with cost leadership and innovativeness. The study thus concluded that a vested interest in boosting intellectual capital development will lead to enhanced competitive advantage of organization. Among others, it was recommended that the employees in organizations should be allowed to acquire self-development in order to enhance their competences in the workplace and thus improve the organizational competitiveness.*

Keywords: Cost Leadership, Human Capital, Innovativeness, Relational Capital, Structural Capital.

INTRODUCTION

Organizations are always looking for strategies to stay flexible and relevant in the market in current period that is marked by a high level of competition. The organization's competitiveness will improve the company's standing in the market. It is crucial to make sure that these businesses can compete favorably with other large, international corporations in order to survive the turbulent movement, given the undeniable significance that organizations play in the development of nations. Market leaders in their respective industries are those whose organizations are able to compete favorably and outperform rivals. It is important to remember that without the ability to compete in a market that is always evolving, no organization can endure or stand the test of time. In line with the aforementioned claim, Anton, Muzakan Muhammad, Sudin, and Sidiq (2015) suggested that an organization's competitiveness improves its standing in the international business world. According to Tambunan (2019), businesses must be competitive in order to retain millions of workers. Additionally, organizations don't operate in a vacuum; they continually engage with the outside world, which offers both unpredictability in terms of hazard and opportunity to the organization. Given this undeniable fact, businesses must establish pertinent tactics that could raise their level of market competitiveness.

According to Ifungu and Arasa (2017), organizations need to be able to quickly and effectively respond to opportunities and impediments in the market if they want to remain competitive. When a company can increase client attraction and manage market volatility, it can gain a competitive advantage over its rivals. According to Manole, Nisipeanu, and Decuseara (2014), a firm's competitiveness is its ability to maintain a place in the market by delivering a high-quality product on time and at a price that is more favorable than the competition. Quick responsiveness to changes in demand and successful management of product diversification through fostering an innovative culture and effective marketing system are examples of how this ability is demonstrated. Uncompetitive businesses are more likely to fail quickly given the current worldwide trend. Competitive advantage is the capacity of an organization to execute in a way that makes it challenging for rivals to copy both now and in the future (Kotler, 2000). Competitive advantage has gained popularity as a management concept in recent management literature. This is brought on by the quick change that businesses must deal with today, the complexity of the business environment, the effects of the unstructured market and globalization, the liberation of trade across borders, the shifting needs of consumers, competition, and the revolution in communications and information technology. To improve a company's fortune, however, requires an organization's intellectual capital, which may have an effect on the firm's competitiveness. Organizational intellectual capital development is crucial since it boosts a company's productivity and success. In accordance with the aforementioned claim, Stewart (2010) made the case that intellectual capital is the total of a firm's hidden asset that gives the business an advantage over competitors.

According to Ruiz, Navarro, and Pena (2011), the current knowledge-driven economy has resulted in a paradigm shift away from tangible assets like money and property toward intangible ones that can weather the ups and downs of the corporate world. The fundamental driver of development and expansion in modern organizations is not labor or raw commodities, but rather primarily intellectual capital (Marcin, 2013). The author went on to say that investing in intangible assets like intellectual capital can improve an organization's performance and provide a source of long-term competitive advantage. This suggests that businesses that can improve their intellectual capital are more likely to succeed or prosper in the future. The value of any nation or organization is directly correlated with its intellectual capital (Edvinson and Bounfour, 2004).

Therefore, the growth of intellectual capital can act as a "rock base" for businesses looking to increase their worth over the long term. Human, relational, and structural capital can all be used to quantify intellectual capital (Abualoush, Masadeh, Bataineh & Alrowwad, 2018). This study seeks to examine how intellectual capital relates with competitive advantage of organizations.

STATEMENT OF THE PROBLEM

The fierce competition among businesses in numerous industries has become concerning, and several of these businesses have failed because they were unable to compete with one another. Because it has decreased the amount of economic activity and increased the unemployment rate, the issue of organizational competitiveness has had a negative impact on the economy. Increased competition and pressure to deploy human capital as efficiently and productively as feasible are results of globalization (Hiles & Bunnell, 2006).

According to the Bureau of Statistics in Nigeria for the year 2020, there have been a significant number of company deaths during the last ten years as firms have struggled to survive. Eight out of every 10 start ups in Nigeria, according to the Bureau, barely survive the second year. Strong industry competition, where bigger enterprises with more resources make life exceedingly difficult for rivals, may be to blame for this failure.

It has been noted over time that the majority of firms struggle with how to establish a competitive edge over rivals in their worldwide market. Particularly in Nigeria, businesses operate in a challenging climate and compete with global corporations that might use their technology advantages to increase their competitiveness. Furthermore, these companies' long-term success has suffered as a result of their failure to become more competitive. As a result, it is essential to address the problem of these businesses' competitiveness. The country's economic activity and growth have decreased as a result of the enterprises' poor level of competitiveness, which has gradually led to their liquidation. Irrespective of previous work to address this issue of low competitiveness, yet the problem still persists. Thus, this study examined how intellectual capital development relates with organizational competitiveness.

CONCEPTUAL FRAMEWORK

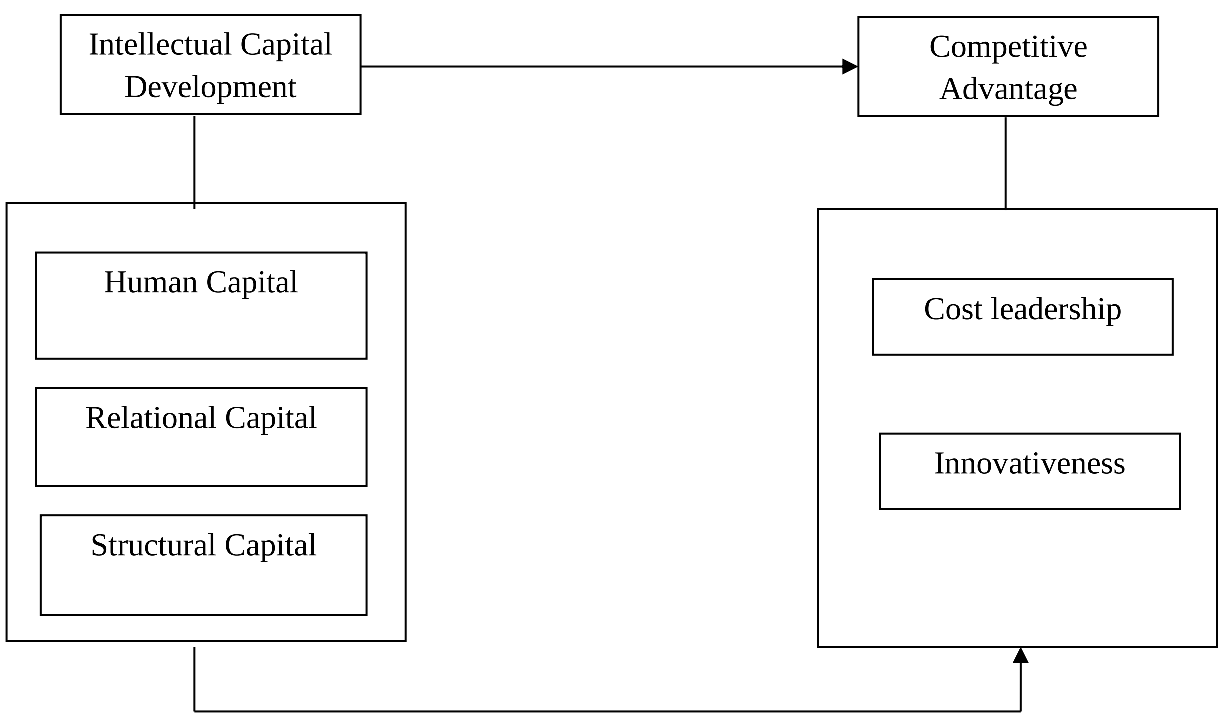

Figure 1. Conceptual framework showing the link between intellectual capital development and competitive advantage.

Source: Adapted from Chahal and Bakshi (2016); Barros (2001).

AIM AND OBJECTIVES OF THE STUDY

The aim of this study is to examine the relationship between intellectual capital development and competitive advantage. The specific objectives are to;

I. Examine the relationship between human capital and cost leadership.
II. Determine the relationshipbetween human capital and innovativeness.
III. Ascertain the relationship between relational capital and cost leadership.
IV. Examine the relationship between relational capital and innovativeness.
V. Determine the relationship between structural capital and cost leadership.
VI. Ascertain the relationship between structural capital and innovativeness.

REVIEW OF RELATED LITERATURE

Concept of Intellectual Capital Development

Intellectual capital is the capacity to transform knowledge and intangible assets into wealth, and its management is the process of deriving value from the same information (Cabrita, Machado, & Grilo, 2012). The International Federation of Accountants (IAFC, 1998) developed intellectual capital as a type of knowledge-based capital resource. Physical capital is less significant and advantageous for organizations and enterprises in today's knowledge-based economy, so intellectual capital can be viewed as a strategic tool for all organizations. According to Steward (2000), intellectual capital is knowledge, information, intellectual property, and experience that may be used to produce profit. The following definitions highlight intellectual capital's significance in the same manner; according to Hugh McDonald, intellectual capital displays the knowledge that an organization possesses and may be utilized to create a competitive advantage. The ability to translate knowledge into value is another point made by Edvinsson and Malone (1998). In actuality, the ability to transform oneself into a group of organizational, active elements into technical and managerial processes that are able to generate value and be incorporated into an organization's final tangible and intangible products is intellectual ability, which includes knowledge in various forms.

The following points are important, according to Edvinsson and Malone (1998), in order to define intellectual capital precisely:

1. Intellectual capital is the sum of all the knowledge that exists within a company, giving it a competitive edge in the market. Although it is regarded as valuable by most organizations, it is not measured or calculated in the financial statements of any other organization, with the exception of the market value realized on the stock exchange.

2. Intellectual capital is the formalized, preserved, and used to produce more valuable properties intellectual content.

3. It produces knowledge that can be converted into values.

Intellectual capital is considered a hidden treasure which, in this age of technology and knowledge, helps the organization to grow. Intellectual capital's conceptual development was carried out in two separate directions: the first was geared towards the need for organizational growth, development and, at the same time, the ability to compete on the market, using the advantages of the valuation of intangible assets. The second path is related to the rise in success of companies, owing to investment in intellectual capital.

Human Capital

Human capital includes the partners, partners who are tied to the organization, their skills, abilities, expertise, inspiration, imagination, innovation, etc (Cabrita, Machado & Grilo, 2012). Human capital is defined as a collection of traits, skills, abilities, creativity, and energy that people bring to their work (Weatherly, 2003). Human capital is a human resource investment made to increase productivity. This investment's cost is actually given for speculative purposes. Because people are valuable human capital with a variety of traits, the learning organization decides to invest in them (Burund & Tumolo, 2004). According to Choudhury and Mishra (2010), human capital refers to the skills, knowledge, and experience of an individual that would ultimately enable a business to operate successfully. The combination of intelligence, skills, and information that gives the company its unique personality is known as human capital, or the human factor (Mayo, 2001). If appropriately motivated, the human elements of the organization are the ones who can comprehend, enhance, innovate, and provide the creative energy necessary to assure the system's long-term existence. Expertise, knowledge, and experience of certain people within a business are referred to as human capital (Bontis, 2002). According to Bontis (1999), human capital is also crucial for companies as a source of creativity and strategy renewal. Bontis (1998) defined human capital as an organization's collective potential to extract the best solutions using the expertise of its members. The competence, attitude, and intellectual agility of employees are assumed by Roos, Edvinsson, and Dragonetti (2007) to be the sources of intellectual capital. Here, the term "competence" refers to both the skills and education of employees as well as their attitude as a behavioral component of their work. Employees that are intellectually flexible can alter their thought patterns and viewpoints to consider new methods to problem-solving. Human capital is the core component of the process of developing intellectual capital (Yang & Lin, 2009). Since it is inherent in people, it cannot be directly held by a company (Edvinson & Malone, 1997). Technical expertise, employee engagement, and leadership potential are all examples of what employees provide to the value-adding activities (Halim, 2010). Human capital, according to Kavida and Sivakumar (2009), is a description of an employee's skills, knowledge, experience, education, and attitude toward their job and the firm. Diverse capabilities, including education and training, knowledge and skills, creativity, employee attitude, and hiring and training, are crucial for the development of human capital (Lings & Greenley, 2005; Sharabati et al., 2010). Workers who are motivated, educated, skilled, and trained can work more productively and build organizational capital as a result. The link between jobs protects human capital rather than allowing the firm to keep it. People bring human capital to the company, which is later developed through experience and training. According to Davenport (1999), people have inherent skills, dispositions, and vigor, which together make up the human capital they contribute to their work. Furthermore, rather than their employers, they are the owners of this capital and are the ones who choose when, how, and where to donate it. In other words, decisions will be made by them. Work is not its owner's one-sided exploitation of an item; rather, it is a two-way value exchange. The traits, life experience, talents, ingenuity, resources, and excitement that an organization's employees wish to put into their work make up its human capital asset. Human capital refers to the skills, expertise, inventiveness, aptitudes, and general competency of personnel. It depicts how employees create goods and services that generate revenue when their knowledge, talents, and other abilities are put to use (Issac, Herremans & Kline 2010).

Relational Capital

According to the literature on the topic, correctly established relationships have an effect on life and the level of organizational growth (Edvinsson & Malone, 2001), contribute to each party's gain and the creation of a relative rent, and provide access to significant and rare resources (Ford, Gadde, Hakansson, Lundgren, Snehota, Turnbull, 1998). This means that by actively minimizing operating costs, sharing risks, developing specialized knowledge, gaining market access, and passing technology, organizations can benefit from collaboration. Relationships are assumed to be described as order impact, which includes generally long-term transactions, resource flow, and other contacts between two or more organizations as well as between a specific organization or groups of organizations and their surroundings. Relationships serve as a binder that includes the extra resources that a business partner may possess, boosting their innovation and competitiveness. Therefore, it can be concluded that a relationship is a specific resource created based on knowledge held, and that its unique characteristics are influenced by factors like time, realization, progress, and satisfaction. Participation of resources in order to attain goals as well as taking of specific measures are results of the choice to develop cooperation (Kale, Singh, Perlmutter, 2000; Uzzi, &Ryoon, 2003). Relational resources have the ability to build and use relationships as the foundation for organizational collaboration. They are distinguished by the fact that they exist on the periphery of an organization and their environment. Therefore, the ability to forge and cultivate enduring relationships is what leads to relational capital. Mutual trust, responsibility, openness, social ties, and shared institutional values are necessary. Stewart claims that relationship capital leverages commercial acumen to attract and keep stakeholders; in other words, relationship capital is the future potential that an entity gains through external, intangible influences. Although Hubert Saint-Onge coined the term "relational capital," it eventually took on the meaning "relational capital" as a result of the formation of new connotations. The updated definition takes into account all corporate interactions with stakeholders, competitors, vendors, unions, and the government (Bontis, 1999). This capital is made up of all the assets that the business uses to manage its connections with its customers, shareholders, suppliers, the federal and state governments, and rival businesses. Customer capital is the most crucial component of relational capital, however only this component should be disregarded. Relational capital, as a component of intellectual capital, exists in conjunction with structural capital as well as human capital (managerial capital and employee capital). Relational capital develops as a result of carefully considered actions; it is dependent upon deliberate choices and well-coordinated acts. The establishment of circumstances that would permit bonds to be begun, created, developed, and maintained between members of a specific organization and between the organization and its environs constitutes a large portion of the creation and development of relational capital. Relational capital entails forming alliances and imparting expertise to the many firm stakeholders.

Structural Capital

Institutionalized knowledge that is owned by an organization is referred to as structural capital. Such capital may materialize as databases, orders, and other things. Instead of structural capital, the phrase "structural capital" is frequently used. However, according to Yang and Lin (2009), the phrase "structural capital" is more appropriate because the term "organizational" just indicates that the organization owns the knowledge. All non-human knowledge sources, including strategies, databases, organizational charts, operational procedures, outcomes, and everything else crucial to the company, are included in structural capital (Roos et al., 1997). They also assume that structural capital can include anything that is remained in the organizations after the workers are gone. The knowledge that stays in the business "after the employees live in the evening" is referred to as structural capital. Additionally included are organizational structures, procedures, systems, organizational culture, and data bases. According to Roos et al. (1997), structural capital includes organizational capital (such as intellectual properties, creativity, procedures, and cultural assets), as well as renovation and development capital (such as patent rights of products and educational efforts). Additionally, according to Brooking, structural capital includes both infrastructural assets like technology, processes, and working techniques as well as intellectual assets like technological know-how, trademarks, and product patent rights. Stewart defines structural capital as knowledge applied to information technology, product patents, trademarks, and designs. According to Chen et al. (2004), structural capital refers to an enterprise's framework, structure, and ongoing business activities. They also assume that structural capital can be characterized in terms of organizational culture, organizational learning, operating procedures, and information systems. In an organization with insufficient structures and procedures, intellectual capital cannot function to its full potential, according to Bontis (1998).

Concept of Competitive Advantage

In this day of never-ending competition in business, the importance of maintaining competitiveness cannot be overstated. All businesses must work toward gaining a competitive edge in order to surpass rivals in the market. Golob and Podnar (2007) defined competitive advantage as gaining an edge over rivals by giving customers more value, either by delivering more advantages and services or by charging less. The concept of competition has recently taken on an unprecedented amount of significance in the globalized society. Competition is a crucial instrument and a significant aspect of economic life. Its significance derives from the meaning of the word "competition," which is "to seek together." As a result, it elevates human aspirations, enabling you to obtain the best outcomes and serving as the catalyst for technical advancement and productivity growth (Lesniewski, 2014). Competition is characterized as an action by people who try to get the advantages that others desire at the same time and under the same circumstances (Grzebyk, Krynski, 108). The fundamental idea behind it is the removal of rival businesses that are vying for the same clients. The competitiveness strategy is attracting more attention as global rivalry rises. Competitiveness stems from the idea of competition. Numerous schools of economic thinking have developed various ways to conceptualize, observe, and interpret competition. For classical economists, competition was characterized as rivalry; but, for neo-classicists, it is more appropriately understood as a market circumstance. It is seen as a process for selection in an evolutionary economics competition. The term of competitiveness has several dimensions, which reflects the various perspectives on competition and its nature. It is difficult to define the concept of competition, especially due to its complexity and multi-dimensionality.

Cost Leadership

One of Porter's five general strategies, cost leadership is one that an organization can use to get a sustained competitive edge over its rivals in the market and boost profits. The three fundamental categories of the five strategies cost leadership, distinctiveness, and focus are intended to target either a wide or a specific market niche (Porter, 1980). Porter argues that rather than attempting to adopt two or more of the general strategies, a corporation should concentrate its resources on pursuing just one of the strategies. A company that employs multiple strategies will end up "trapped in the middle" (Porter, 1980). Due to the inconsistencies in these strategies, a company may overextend its resources and fall short of establishing a seamless corporate strategy in line with one of the generic strategies. Cost minimization is required for cost leadership, whereas differentiation depends on the creation of distinctive characteristics and traits, which frequently entails higher research and production costs. When a company is unable to differentiate its goods or services from those of a rival, it runs the danger of losing its competitive edge. This frequently leads to subpar financial performance (Porter, 1980). Being the lowest cost producers and service providers within their organization allows companies who use a cost leadership strategy to gain a reasonably sizable market share. Because they can drop their prices to compete with or even under those of their competitors', businesses using the cost leadership strategy can achieve profits above average. Companies can function more effectively by not only chasing low costs but also being an effective price leader. By winning the price war and undercutting competitors' profits, a company is then able to provide cheaper pricing, superior quality, or both (Spulber, 2009). A company will perform above average in its business if it can attain and maintain overall cost leadership and command prices that are at or close to the industry average. The low cost position of a cost leader results in higher returns at low prices or rivals that are comparable.

Innovativeness

All functional areas, including sales, manufacturing and operations, distribution, information technology, customer relationship management, and human resources, must be receptive to the idea that innovation keeps the company's brand relevant to its customers (Gerzema & Lebar 2009). By managing the company so that it focuses on identifying the need for fresh ideas and initiatives within the business, this openness to innovation can be achieved (Van de Ven 1986). Consistently delivering innovation requires first creating a culture of innovation via persistent strategic focus. Additionally, the success of the company greatly depends on how it executes its innovative culture through its organizational structure and formal processes. Hence, Hurley and Hult (1998) assert that innovativeness can be attained through "cultures that promote learning, development, and participatory decision making." While it is true that being innovative is not a prerequisite for innovation, it frequently acts as a catalyst for innovations to happen because it fosters an environment within a company that encourages the investigation of customer data or novel operational procedures (such as the creation of new relationship structures with supply chain partners) in ways that address current unmet and/or anticipated future needs.

Gap in Literature

There are numerous studies on competitive advantage and how it relates to different organizational outcomes. Research by Mohammad, Feras, and Walaa (2013) examined talent management and competitive advantage. But Mohammad, Feras, and Walaa's (2013) research was done in Jordan. In Malaysia, the relationship between six components of intellectual capital and organizational success was examined by Hashim, Osman, and Alhabshi in 2015. There is a gap in the literature since there is little information on how the growth of intellectual capital affects competitive advantage.

Conclusion

The competitiveness of firms is relevant for firms that must last the test of time. Competitiveness of organizations enable the organization to withstand turbulence in an ever-changing business domain. Drawing from the various review of scholarly works, one can maintain that intellectual capital development is relevant in enhancing the competitiveness of firms. Boosting the human capital of the organization is vital because it will help in enhancing cost leadership of firms and increase the innovativeness of the organization. Enhancing the innovativeness of firms is a function of the capacity of the human capital in the organization to create an environment which encourages innovativeness. When these human capitals of the organization are well developed, such will increase their skills and thus increase the competitiveness of the entire organization. Furthermore, relational capital or organizations is paramount because it helps improve and enhance cordial relationship with different stakeholders and in creating values for the firm. Relational capital also enhances clients and stakeholder's loyalty and trust which thus enhances their competitiveness in the industry. Again, the structural capital which is also a dimension of the intellectual capital is vital in increase and improving the competitive stand of organizations in the industry. it is clear that the ability of an organization to effectively identify relevant talent and attract them to the work place will enhance the human capital skills which will give them a competitive edge over rivalries. Organizations are social system which constantly interact with both immediate and external environments. When organizations fail to ensure continuous development of their human capital, relational capital and structure capital, such organizations may likely suffer poor competitiveness and may affect their competitive position in the industry. Conclusively, a vested interest in boosting intellectual capital development will lead to enhanced competitiveness of organization.

Recommendations

1. The employees in organizations should be allowed to acquire self-development in order to enhance their competences in the workplace and thus improve the organisational competitiveness.
2. The management and staff of organizations should be sent for training periodically to update their knowledge with recent realities in the banking industry and as such boost the competitiveness of the organisation.
3. The employees in the organizations should ensure they maintain good and cordial relationship with all stakeholders as such will enhance their competitiveness in the organization.

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