A METAPHORIC BASED PERSPECTIVE ON INTELLECTUAL CAPITAL AND FIRM PERFORMANCE

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Abstract

The aim of this article is to evaluate the metaphor perspective to understand the effect of intellectual capital on the firm’s performance. This is a conceptual paper in which a three dimensional model of human, structural and relational capital is used as a conceptual framework of intellectual capital. This article examines the Morgan’s metaphor organization as an organism to gain insight regarding the significance effect of intellectual capital on the firm’s performance. The metaphors insight and extensive literature review suggests that intellectual capital can be a crucial element in effecting the firm’s performance.

Keywords: Intellectual capital, Human capital, Relational capital, Structural capital, Metaphor, Firm’s performance
Metaphor is a valuable fantasy tool used by organizations to provide clarity to complex issues: finding new ways of insight about circumstances that we want to arrange and administer. The use of metaphor is beneficial where we endeavor to understand one aspect of experience in terms of others. Metaphor is a characteristic of persuasive discourse but its worth is much greater than this. The use of metaphors provides new insight to gain understanding of the situations which we subject to maintain. Although metaphor provides one sided view while describing a phenomenon and their use may be biased, incomplete and potentially misleading, but the beauty of metaphor is that they invite us to see similarities while ignore differences between two phenomena. Metaphor provides prolific grounds to start investigation about abstract complex issues (Morgan, 2006).

Metaphor is not only a tool of persuasive discourse that describe similarities, further role of metaphors is that they are valuable invented tools that are the basis of most of our concepts and conceptual reasoning would be rather unfeasible without them (Pearse, 2009). Metaphor plays a crucial role in the creation and understanding of human thought and action. Their significance is supported by the growing number of scholar from humanities to administrative sciences investigating the richness of metaphorical forms in a variety of organizational settings (Smith & Eisenberg, 1987). Metaphor used in organizational analysis is beneficial to the extent that they provide prolific grounds to start investigations about complex issues (Morgan, 2006). While discussing about organizational change, music metaphor was used to conceptualize organization change process (Saku et al., 2007).

While moving toward our discussion, intellectual capital is generally perceived to submit the intangible assets of an organization (Dean & Kretschme, 2007). Intellectual capital is the
summation of the individual knowledge and the transformation of this knowledge to organization action (Reinhadt et al., 2003). When the word knowledge come under investigation it is if not impossible, will hard to avoid the use of metaphor. Knowledge is an abstract concept which is hard to measure (Andriessen, 2005). Metaphors play a pivotal role in strengthening our understanding, by liberating orientation toward fresh insight and help in decision making process (Andriessen, 2008). Intellectual capital is the collective knowledge, which can be put to productive use and thereby increasing the value of an organization (Dean & Kretschmer, 2007).

The consideration and significance of intellectual capital progress with the expansion of the information or knowledge age (Guthrie, 2001). In today’s knowledge intensive and volatile business environment, more firms are focusing their attention towards value-based knowledge, firms are investing more in intangible factors such as intellectual capital (Juma & Payne, 2004). As argued by Stahle & Hong (2002) the capital according to standard finance theories capital such as properties, labor and financial capital are no longer effective to maintain the existence of the firm effectively. There is an agreement among researcher that intangible assets are more critical in the value creation of the firm (Ahmadi, Habibi, & Khodamoradi, 2011). The changing trend from traditional economy to knowledge intensive economy during the last two centuries, have made the service industry to take a major part in value creation process of the firm (Sofian, Rasid, & Mehri, 2011). Further more intellectual capital plays a key role in the firms overall competence and become the main source of attaining competitive edge over competitors (Sofian et al., 2011). Intellectual capital therefore have a great potential for competitive advantage and this competitive advantage lead to improve the performance of the firm (Moon & Kym, 2006).

Previous studies show a lack of completeness and coherence while delineating the relationship between intellectual capital and the firm’s performance. The main purpose of this
literature based paper is to describe the relationship between intellectual capital and the firm’s performance, by using metaphor perspective. While examining the relationship between IC and the firm performance, several assumptions are made. The first most obvious assumption is that the firm’s performance is treated as separate, to the extent that it is not only limited to the IC which have an effect on the firm’s performance. The firm’s performance as it also embraces other aspects such as working capital and its effect on the firm’s performance (Raheman & Nasr, 2007). Board composition is an important dimension of corporate governance and has a significant effect on the firm’s performance (Shah, Butt, & Saeed, 2011). Secondly the metaphor perspective is used to gain insight regarding the relationship between IC and the firm’s performance. The metaphor point of view allows us to make further insight about complex phenomena but at the same time make serious distortion. Metaphors are inherently paradoxical giving one-sided view while describing a phenomenon. The metaphor use may be biased, incomplete and potentially misleading, each metaphor has its own strengths and weakness (Morgan, 2006).

**Literature Review**

Although many studies (Tovstiga & Tulugurova, 2009; Moon & Kym, 2006; Bontis, & Stovel, 2002; Edvinsson,& Sullivan, 1996), agreed that IC contains human capital, relational capital and structural capital, but there is a lack of agreement about the specific definition of intellectual capital and structure or components of IC. Such nomenclature allow researchers, to describe IC as ownership of knowledge and experience, professional knowledge and skills, goals relationships and technological competences, who’s synergic effect can enhance the firm’s performance (Sofian, Tayles, & Pike, 2008). Intellectual capital is generally perceived to submit the intangible assets of an organization (Dean & Kretschmer, 2007).
2.1 Human Capital

Human capital due to its unique characteristics is most pivotal in effecting the performance of the firm positively (Royal & O'Donnell, 2008). The combination of human knowledge, skills and experiences contributes positively to the firm’s resources and capabilities (Coff, 2002). Human capital as an individual level construct, consist total capabilities of individual employees of an organization (Youndt & Snell, 2004). Organizations that make intensive investments in superior human capital result higher firm’s performance (Tovstiga & Tulugurova, 2009). Human capital consists of employee’s capability, contentment and sustainability (Moon & Kym, 2006). The professional competence, social competence and leadership abilities of an employee is perceive as human capital, which reflect in the firm’s performance (Halim, 2010). Human capital includes various expertises, knowledge and capabilities of employees which are central to the sustainable development of the firm performance (Ding & Li, 2010).

The performance of the firm is significantly related to the human capital, the view that the firm’s performance is positively related to knowledge as capital is further strengthen by the previous studies such as (Nonaka, Toyama & Nagata, 2000). The knowledge-based view posit that employees efficiency and capabilities determine performance of the firm, the resource-based view does acknowledge the role of human capital which is embedded in routines and in organizational success (Coff, 2002).

2.2 Relational capital

One of research focusing on relational capital and its effect on student performance advocate that, the positive relationship between students and teachers is important, because students are the product of university and their future success is central to the image of the
university (AL, Pop, Tantau, Pelau, & Bena.I, 2011). Relational capital is forming network of partnerships by the organization, and hold close relationships with the stakeholder and stockholder of the organization (Moon & Kym, 2006). Goodwill of the organization is generated by these networks of social relations as these relations generate new ideas and mobilize the resources of the firm (Kamath & Bharathi, 2008). Relational capital is advocate as trust, collaboration, reciprocity, coordination and team orientation that developed around organizational environment (Nahapiet & Ghoshal, 1998).

Relational capital is based on the idea that firms cannot be considered as individual systems, they rely on the relations with their stakeholder and stockholder to make a best fit in their environment (Pablos 2002). These networks of relations are not only with customers, but also with the all interest holder both internal and external (Bontis, 1996). While, Davidsson & Honig, (2003) argued that relational capital is an important element in organizational success because it make it easy for firm’s to make profits.

2.3 Structural capital

Structural capital is proprietary and not self-renewing in nature both human and relational capital assists to strengthen structural capital (Kamaluddin & Rehman, 2009). Structural capital is a composite of competitive intelligence, formulas, information and systems, resulted from the products or systems the firm has created over time (Maheran & Khairu, 2009). The firm performance is positively related with structural capital, which was supported by the research conducted within a variety of Malaysian industries (Bontis et al., 2000). Structural capital is the most important element of intellectual capital due to its significance impact on the firm’s performance (Pablos, 2004). Although the human capital and relational capital are the
most important dimension of intellectual capital but the significance of the structural capital is more prudent to the fact that it influence the firm’s performance (Li and Wu, 2004).

The importance of knowledge-based resources has grown due to the reason that knowledge has become a significant constituent for gaining a competitive edge (Bontis, 1996). Innovation that may be instrumental to the firm’s performance, provide the prolific grounds for competitive advantage, is strongly linked to knowledge (Khazanchi, Lewis, & Boyer, 2007). It is also revealed that a firm can not effectively compete solely on the basis of physical assets; therefore there is an increasing attention on intangible assets such as intellectual capital (Juma & Payne, 2004). Organization attains and sustains competitive advantage through its human resources, as human resources are unique in nature and difficult to imitate and non substitutable (Perez, & Falcon, 2002). Intellectual capital is the antecedent of innovation, therefore the intellectual capital has a potential to serve as a basis for gaining competitive advantage (Moon & Kym, 2006). The Intellectual capital due to its unique features positively related with the innovation performance of the firm (Hermans & Kauren, 2005). Therefore to gain the competitive edge and innovation capabilities the management of the firm should pay a close attention to develop and sustain effective intellectual capital (Narvekar & Jain, 2006).

Discussion

A word of caution from above literature review it is deduced that intellectual capital, due to its unique and competitive characteristics have a significant effect on the firm’s performance. Besides the prudent evidence from literature review that IC has an impact on firm performance, the aim of the study is to look this phenomena metaphorically.

While moving toward the first component of IC i.e. human capital, is largely an individual level construct mainly containing skills and knowledge of the individual employee.
Knowledge is capital which is created by human minds. Metaphorically it is argued that “knowledge as an organism”. The metaphor knowledge as an organism is advocated by (Andriessen, 2005). It is hard to think about knowledge without using metaphor. Knowledge is an abstract concept which is hard to measure, it has no referent in the real world (Andriessen, 2005). By observing human capital in the context of organization as organism as advocate by the (Morgan, 2006), it is assumed that organization should be open systems to develop human capital which will ultimately result in distinctive competitive advantage that reflect an organizational performance. This view also turned our attention toward the idea that employees are people with complex needs that must be satisfied to lead healthy lives and to perform effectively in the workplace so that this effectiveness and satisfaction leads to greater firm performance. Job satisfaction defined as the positive feeling about the job. The more satisfied people are those which are happier with their job. Human capital as consisting of employee-capability, satisfaction and sustainability (Qureshi, Hayat, Ali, Sarwat, 2011; Moon, & Kym 2006). These three components of human capital describe the ability and motivation of and individual to perform within the organization. Beside ability and motivation, there is another best element which describes the will of the employee, is commitment to perform within the organization. Organizations where all these attribute; mainly job satisfaction, motivation and commitment prevails have higher performance than others. So it is advocated that management of an organization should pay a close attention to motivation, job satisfaction and commitment to build effective human capital which is compulsory to firm survival.

A second focus of the open systems approach defines the organization in terms of interrelated subsystems. Organization, like organism can be conceived of as sets of interacting subsystems. Human subsystem has a distinctive prime position in organizational subsystems (Morgan, 2006).
Organizational subsystem turn over attention toward another aspect for which it is assumed that knowledge as sub organism of the organization as organism. Firms as an economic entity depended on adequate supply of resources to sustain their existence. Same with the human subsystem to be depended on resources to fulfill there needs, to survive and serve the organization effectively as whole. The organism metaphor give an important insight regarding human capital by assuming that firm performance can often be improved through systematic attention to the needs that must be satisfied . The organism metaphor emphasizes survival as the key aim or primary task facing any organization and the role of knowledge as organism is a giant to this survival. Although the organization as interacting processes have many other dimensions such as strategy, structure, technology and the managerial subsystem but the human knowledge has its own value in this interaction. Therefore to maintain the health of the overall system the management of the organization pay close attention to human capital. By using metaphors perspective knowledge as an organism, the conceptualize antecedents of human capital are Job satisfaction, motivation and employee commitment. The argument that knowledge as an organism, improve the firm performance is further strengthen by the previous researches such as (Nonaka, Toyama, & Nagata, 2000; Spender, 1996). Knowledge-based view advocates that resources and capabilities determine an organization’s strategy and performance.

Relational capital is bring into being by forming network of partnerships by the organization and holds close relationships with customer, business, industry and community relations (Moon & Kym, 2006). These relationships are the root for the foundation of the organization’s relational capital. The assumed metaphor for relational capital to enrich our discussion regarding IC and firm performance is “capital as a reciprocal altruism”. Inter organizational relations are relative enduring transactions, flows, and linkages that occur among
or between an organization and one or more organizations in its environment. Reciprocity, motives of reciprocity emphasize cooperation, collaboration, and coordination among different interacting subsystem of organization to sustain there existence (Oliver, 1990). Altruistic behavior is advocated as behavior that benefits another organism, benefit and detriment contribution to inclusive fitness (Trivers, 1971). Organization like organism can be conceived as sets of interacting subsystems (Morgan, 2006). Organizational subsystem as mention by Morgan environmental ,technological ,structural human cultural and structural subsystem are immense importance to have a positive reciprocity altruism to benefit the whole organization. The effective collaboration among all these subsystem has a substantive effect on the firm’s performance. One of the research focusing on relational capital and its effect on student performance advocate that one of the most important aspects for the development of the intellectual capital of a university is the quality of its human capital and its capability to build relations. One of these relations is the one between the students and the professors. This relationship is important because only by a good communication between these parties, the students can increase their performances both at university and in their future job and contribute by this to the image of the university (AL et al., 2011). Firms as an economic entity depends on adequate supply of resources to sustain there existence and the continuous supply of these resources depends on the positive relation among different stakeholder of the firm. So management of an organization should pay close attention to relational element of IC.

Structural capital is the compound of four components namely organizational culture, information system and organizational processes that facilitate the use of available knowledge resources and intellectual property such as patents or trademarks (Moon & Kym., 2006). This is assumed that trademarks and patents are the product of intellectual capital rather being the
knowledge transfer factor. Metaphorically patents and trademarks can be seen as by quoting “Knowledge as product”. To look metaphorically about structural capital it is argued as “Capital as process”. Structural capital is argued as process because discussing human and relational capital it is analyzed that both are abstract phenomena’s and to utilize these intangible resources organization needs efficient processes that facilitate the use of available knowledge resources and intellectual property such as patents or trademarks. This process of transformation is necessary because until and unless a technology is transfer from laboratory to workplace it is useless. Same is the case with IC. Structural capital is process, in which control is designed to administer and co-ordinate organizational activity so that employee interaction are effectively channeled to produce high levels of performance.

Conclusion

In this conceptual paper which follows the general, three dimensional approaches to the intellectual capital construct (Moon & Kym, 2006). This literature base paper offers a metaphor approach to interpret, evaluate the intellectual capital and its effect on the firm’s performance. Through substantive literature review and metaphor argumentation it is deduced that intellectual capital due its unique and competitive characteristics can be a considerable effect on firm performance. Moreover metaphor discussion delineate that by considering each element of IC as an organism open to its environment, management can develop such unique and hard to imitate intangible resources which are prolific for the firm performance. Further more it is observed through literature review that organization having substantive IC lead to improved innovation performance of the firm. Innovations which are instrumental in the success of organization are solely possible through human capital.
The paper adopts a limited range of metaphor perspectives in exploring the relationship between intellectual capital and the firm’s performance. It is recommended that alternative metaphor be further implied to gain further fresh insight regarding the prudent effect of intellectual capital on the firm’s performance. Further more a single conceptualization of intellectual capital was adopted here for illustrative purposes. Understanding of this relationship may be further enhanced by examining alternative definitions and configurations of intellectual capital.
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