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Effect of Organisational Intellectual Capital on Employee Development in Commercial Banks in Kaduna State of Nigeria

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Abstract

The banking industry in Nigeria is an important segment of the financial sub-sector of the country's economy like most of such systems elsewhere. Most service organizations like Nigerian commercial banks have not fully realized that the management of intangible resources such as organizational intellectual capital can enhance the performance of organizations, because most of them believe that the attainment of their objectives depends on how well other (tangible) organizational resources are effectively managed. Thus, the objective of this study is to empirically investigate the effect of organizational intellectual capital on employee development. An ex-post facto survey design method was adopted using a sample size of 291 respondents from three (3) out of eighteen commercial banks operating in the area of study. As such, the study employed the use of standard multiple regression analysis. The study found out that all three but one element of organizational intellectual capital had made unique contribution in explaining employee development in commercial banks. Thus, the study concludes that there is significant and positive relationship between organizational intellectual capital and employee development. To enhance employee development which invariably leads to increased organizational performance, the paper recommends amongst others that employees should be granted liberty to familiarize themselves with the systems, structures, procedures and fellow work-colleagues in the bank.

Keywords: *Intellectual capital, employee development, banking organizational performance.*

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Background to the Study

Most management theories have largely and traditionally focused on the external environment in which a firm can achieve greater performance. However, recent literature on management has been refocused towards the more controllable internal resources within the firm (Barney, 1991). It has almost become axiom in the literature that in order for a firm to gain a greater performance, it must look within its organization as its internal resource pool and utilize these assets. These resources can take the form of tangible and intangible assets and relate to the stocks of available factors that are owned or controlled by the firm.

However, the ownership of these types of assets is inadequate to deliver sustained greater performance. They can only confer a temporary competitive advantage for the firm due to their vulnerability to imitation and substitution by competitors (Grant, 2007). According to Rooset. al (1997) intangible assets are the only forms of resources that have the ability to be valuable, rare, inimitable and non-substitutable and are therefore a source of competitive advantage.

One of the intangible assets deemed to be relevant is Organizational Intellectual Capital. Organizational Intellectual capital is the soft and intangible part of the value of the organization in addition to its financial balance sheet. Organizational Intellectual capital is the difference in value between tangible assets (physical and financial) and market value. This contrasts with physical and financial forms of capital; all the three make up the value of an enterprise. Measuring the real value and the total performance of organizational intellectual capital's components is essential for any corporate head who knows how high the stakes have become for corporate survival in the knowledge and information age (Sullivan, 2000). If there is one distinguishing feature of the new economy that has developed as a result of powerful forces such as global competition, it is the ascendancy of intellectual capital. A shift is clearly perceptible from a manufacturing to a service-oriented economy; Firms that are thriving in the new strategic business environment see themselves as learning organizations pursuing the objective of continuous improvement in their knowledge assets (Senge, 1990). Knowledge production and knowledge innovation are the elements of knowledge economy and the source of innovation is intellectual capital (Bontis, 2004). He further illustrated that if knowledge economy is a huge tree, innovation will be flourishing branches and intellectual capital will be the indispensable nutrition provider – roots. Therefore, theorists and practitioners are increasingly moving their attention from physical capital to intellectual capital.

Now that we have entered the “knowledge age”, intellectual capital and knowledge management should be an issue of widespread concern to every organization. Organizations that want to remain viable will have to maximize their efforts to retain their intellectual capital. Today, firms rely more and more on their employees' expertise and technical ability and less on manual labour. Succinctly, intellectual capital is what makes an organisation worth more than the sum of its countable parts (Edwinsson and Malone, 2007). Thus, an organisation's brains, the know-how, relationships, secrets and collective knowledge of its employees define its competitive advantage today.

There is a general agreement that training and development increases employees' productivity and this invariably results in greater organizational performance. Employee development is a joint, on-going effort on the part of an employee and the organization for which he or she works to upgrade the employee's knowledge, skills and abilities. Everyone goes through several stages of development as they move from being a career beginner to a full expert in their field. Employee Development programs make positive contributions to organizational performance (Sullivan, 2000).

From the aforesaid, it is inferable that employee development is central to continuous impressive performance of every business organization. Organizational Intellectual capital, which is not a new topic in the West, appears to be relatively unexplored in Nigeria. It is against this background that this study attempts to assess the effect of Organizational Intellectual Capital on Employee Development in Commercial Banks operating within Kaduna State of Nigeria. To achieve this objective, the paper is divided into five sections: introduction, literature review, methodology, discussion of findings, conclusion and recommendations.

The Concept of Intellectual Capital

Like many concepts in management, there is no consensus in literature as to how Intellectual Capital should be defined. Edvinsson and Sullivan (1996) define intellectual capital as "knowledge that can be converted into value". Edvinsson and Malone (1997) suggest that intellectual capital is knowledge capital, nonfinancial assets, intangible assets, hidden assets, or invisible assets. Subramaniam and Youndt (2005) broadly defined Intellectual Capital as the sum of all knowledge firms utilize for competitive advantage. It can also be seen as a tool to achieve targets. Stewart (2007) defines intellectual capital as the intellectual materials that can be used to create wealth, knowledge, information, intellectual property, and experience.

Ulrich (1998) suggests that intellectual capital comes from employees' competence and commitment. Intellectual capital would enhance growth if both conditions exist simultaneously. Roos, et. al (1997) point out that intellectual capital is a kind of thinking and language used to drive a company's future surpluses. Al-Ali (2003) suggests that intellectual capital is employees' knowledge, experience, and brainpower, as well as organizations' databases, systems, processes, and philosophy.

The term organizational intellectual capital (OIC) collectively refers to all resources that determine the value and the competitiveness of an enterprise. As such, it includes as subsets the attributes that concur to building all financial statements as well as the balance sheet. The value of an enterprise is made of physical assets, various financial assets and finally, intangible assets (Oaykim 2002). The intangibleness refers to the fact that OIC is not easily translatable in financial terms. All other assets of a company, such as a piece of real estate or a credit note, can be monetized i.e. there exists standard criteria for expressing their value in currency (Cullioary, 2000). OIC, instead is mainly made of elements (such as the quality of employees or the reputation of a brand among consumers) for which there is no consensual model for monetary expression. A more precise name for OIC would therefore be "non-financial assets". (Stewart, 2007; Sveiby, 2007).

Taxonomy of Intellectual Capital

Scholars in the field have generally identified three main dimensions of IC which include human capital, structural capital and relational capital(Martinez-Torres, 2006; Longo & Mura, 2007; Schiuma et. al., 2007).

Human Capital

Human Capital represents the individual knowledge stock of an organization as represented by its employees (Bontis& Fitz-enz, 2002). The value that employee of an organization provides through the application of skills, know-how and expertise. Human capital is an organization's combined human capability for solving business problems. Human capital is inherent in people and cannot be owned by an organization. Therefore, human capital can leave an organization when people leave. Human capital also encompasses how effectively an organization uses its people resources as measured by creativity and innovation

Structural Capital

Structural capital consists of mechanisms and organizational procedures which support the employees in completing their tasks, and includes all non-human storehouses of knowledge in organizations like databases, process manuals, routines, strategies, and anything whose value to the company is higher than its material value (Bontis et al., 2000). The supportive infrastructure processes and databases of the organization that enable human capital to function. Structural capital includes such traditional things as buildings, hardware, software, processes, patents and trademarks. In addition, structural capital includes such things as the organization's image, organization, information system, and proprietary databases. Because of its diverse components, structural capital can be classified further into organization, process and innovation capital. Organizational capital includes the organizational philosophy and systems for leveraging the organization's capability. Process capital includes the techniques, procedures, and programs that implement and enhance the delivery of goods and services. Innovation capital includes intellectual properties and intangible assets. Intellectual properties are protected commercial rights such as copyrights and trademarks. Intangible assets are all of the other talents and theory by which an organization is run (Sveiby, 2007).

Relational Capital

Relational capital is associated with the network of relations that the organization and its members are able to establish both inside and outside the working environment. The resources that emerge and that are transferred with these multifarious relations constitute the relational capital of the organization (Adler & Kwon, 2002). Relational capital consists of more identifiable items such as trademarks, licenses, franchises, but also the less definable, such as customer interactions and relationships. The notion that customer capital is separate from human and structural capital indicates its central importance to an organization's worth. Goodwill is also part of relational capital.

The Concept of Employee Development

Employee development is a joint, on-going effort on the part of an employee and the organization for which he or she works to upgrade the employee's knowledge, skills, and abilities. Successful employee development requires a balance between an individual's career needs and goals and the organization's need to get work done. Employee development programs make positive contributions to organizational performance. A more highly-skilled workforce can accomplish more and a supervisor group can accomplish more as employees gain in experience and knowledge (Longo and Mura, 2007).

***H_1*: There is significant causal relationship between organizational intellectual capital elements (human capital, structural capital and relational capital) and employee development.

Methodology

The objective of this study is to investigate the effects of the three dimensions of Organizational Intellectual Capital (human capital, structural capital and relational capital) on employee development in commercial banks operating within Kaduna State of Nigeria. For the purpose of this study, out of the eighteen identified commercial banks operating in the state, three were randomly selectedfrom each of the three senatorial districts which are Kaduna North, Kaduna Central and Kaduna South. About 22 percent (291) employees of the total employees of all the commercial banks in the state were selected for the administration of the questionnaire. The Krejcie and Morgan's table of sample selection was consulted to arrive at the needed sample size based on the population of the employees of the commercial banks operating within the state.Out of the 291 questionnaires distributed to the employees, 250 were received and considered usable which represent 86 per cent response rate.

Instrumentation

The three dimensions of the independent variable, organizational intellectual capital (human, structural and relational capital) were measured by 8, 8 and 7 items respectively.

Data Analysis

The standard multiple regression technique as contained in the SPSS package version 18 was employed to determine whether there is a causal relationship between the three dimensions of organizational intellectual capital and employee development. Preliminary analyses were initially conducted to ensure no violation of the assumptions of normality, linearity, multicollinearity and homoscedasticity. As depicted in Table 1 below, moderate correlation exists between the three independent variables indicating absence of multicollinearity.

Table 1: Multicollinearity Test of independent variables

Model		Collinearity Statistics	
		Tolerance	VIF
	Human capital	.712	1.405
1	Structural capital	.976	1.025
	Relational capital	.724	1.382

a. Dependent Variable: Employee Development

Table 2: Model Summary of the relationship between Organizational Intellectual Capital and Employee Development

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.551[a]	.742	.697	.27380

a. **Dependent Variable: Employee Development**

From table 2 above, with *R(0.551)* it depicts that there is strong positive relationship between the collective (or joint) independent variables (human capital, structural capital, and relational capital aspect of intellectual capital) and the dependent variables (employee development in commercial banks in Kaduna State) hence the $R^2(0.742)$ implies that 74.2% of the variability in the employee development in commercial banks in the area studied is explained by the joint independent variables (human capital, structural capital, and relational capital aspects of intellectual capital) with a standard error of (0.27380).

Table3: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.694	.342		7.889	.000
Human capital	.460	.054	.272	4.708	.000
Structural capital	-.135	.042	-.158	-3.212	.001
Relational capital	.386	.048	.462	8.071	.000

a. Dependent Variables: Employee Development

As indicated in table 3, human capital is significantly related to Employee Development (β = .460, $p < 0.05$); therefore it has a strong positive influence on employee development. This implies that, a high rate of variability in employee development could be explained by the presence of human capital in the commercial banks. This is in line with Bataineh& Al-Zoabi (2011).

There is a weak negative relationship between Structural Capital and Employee Development (β = -.135, $p > 0.05$), hence, structural capital has less impact on employee development inthe commercial banks.
There is a strong statistical positive relationship between relational capital and employee development of the commercial banks. With β = .493, $p < 0.05$, relational capital has much impact on the variability of employee development in the commercial banks.

Discussion of Result

The result from this study as presented above indicates causal effects between the three but one dimensions of independent variable (organizational intellectual capital) and the dependent variable (employee development).

However, it is discovered that all the three independent variables (Human capital, Structural capital and Relational Capital) put together collectively impact positively on Employee Development. This corroborates the results of Longo & Mura (2007) study that found positive relationship between intellectual capital and competitive advantage.

Conclusion

The evidence generated by this study supports the conclusion that if organizations manage their intellectual capital effectively their employees' skill, knowledge, experience and ability will be developed and invariably improved their performance and increase the organizational competitive advantage.

Recommendations

For improvement in employee development and improved organizational performance, the paper recommends the following:

1. Employees should be encouraged to familiarize themselves with the systems, procedures, and structures of the organization irrespective of their areas of duties.
2. Organization's partners (such as suppliers, importers, stakeholders, etc) should be accorded more consideration in their deals with the organization.
3. Individual cross-fertilization of ideas among employees should be encouraged through periodical get-together of both management level employees and lower level employees.

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