

Intellectual Capital and its Importance to the Non-Profit Organizations Sector



Ebrahim Farhan Mubarak Busenan

Abstract: *The importance of intellectual capital becomes one of the main subjects that have been recently tackled by various studies for its importance to almost all organizations, industries, sectors and countries. Intellectual capital by the non-competitive feature encourages non-profit organizations to take benefit through knowledge exchange in the knowledge economy. In contrast, there are limited efforts focused on non-profit organizations from the perspective of intellectual capital. Thus, the major goal of this paper is to disseminating more research papers that relevant in the field of organizations sector that nonprofit through critical review of literature. The results of this paper adds a new addition in the field of intellectual capital in the non-profit organizations sector, through the embraces an eclectic mix of methodologies and topics.*

Keywords: *Intellectual Capital, The Sector of Non-Profit organizations.*

I. INTRODUCTION

Usually the non-profit organizations are working in a competitive environment to deal with the society which is characterized through increasing the request of the services (Ramia, & Carney, 2003). Moreover, according to, Kong (2007) the importance of intellectual capital to nonprofit organizations it helps them to concentration their aims on the dimensions of social and not only to purpose avoid displacement of objectives. Furthermore, the focus is on intangible assets in non-profit organizations in order of enhancing the welfare of stakeholder or customer more than importance of financial.

II. INTELLECTUAL CAPITAL

According to, Kong, and Thomson, (2009), nowadays, in the knowledge economy are considered the collective knowledge a very necessary. Also, in the modern period organizational resources especially intangible ones are most probably to contribute in maintaining eminent attitude.

2.1 Intellectual Capital Definitions

According to, Engström, Westnes, and Westnes, (2003) there is no standard definition of intellectual capital. Basically the most definitions consist of the similar words: knowledge, skills, intangible assets, processes, value creation, information, and experiences. Hence, intellectual capital as a concept means various things to various people. Table 1 below shows some definitions of intellectual capital.

Table 1. Intellectual capital definitions

Author (Year)	Definition
Cortini and Benevene (2010)	Intellectual capital is refers to resources and the assets of non-tangible that consists of patents, innovation capacity and processes, besides, network of collaborators, contact and tacit knowledge for the members in an organization.
Bontis (2001)	It is defined as intangibles or knowledge assets or intangible assets.
Stewart (1997)	Refer to a mix of information, knowledge, experience owned by everyone in an organization and intellectual assets that used to enhance and create competitive advantage.

III. COMPONENTS OF INTELLECTUAL CAPITAL

According to Toth and Jonas (2012) the vast majority of academic research approves that intellectual capital include of three wide dimensions, such as structural capital, relational capital and human capital. In contrast, different dimensions are also mentioned by researchers Zhou and Fink (2003), for example customer capital, organizational capital, process capital, innovation capital and social capital. Further they added all of these dimensions, in one way or another is interrelated with the three main components. The models of these components are shown below 1 in Figure

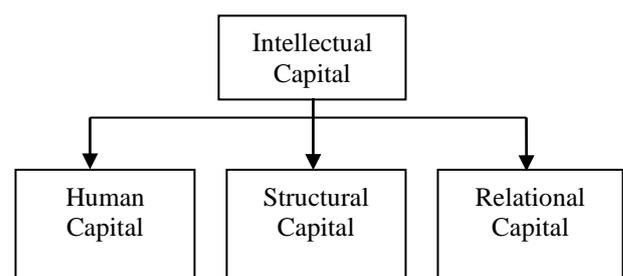


Figure 1 Components of Intellectual Capital

3.1 Human Capital

The basic of intellectual capital is human capital, a major element to implement intellectual capital work. It include to skill, knowledge, attitudes, capability and employees with respect to enhance performances to customers (Chen, Zhu, and Yuan Xie, 2004).

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According to, Komnencic and Pokrajic (2012) human capital consists not only implicit and explicit knowledge of employees, but also efficiency of staff's and abilities and structuring by achieving knowledge and skills to activities.

3.2 Structural Capital

Structural capital contain of all the nonhuman storeroom of knowledge organizations that include the process manuals, routines, strategies, organizational charts, databases, and anything higher than its material value, for the firm (Ghosh, & Mondal, 2009). Structural capital consists of two groups and contains the products and outcomes of conversion of knowledge, for example, process descriptions, databases, documents and the properties of company intellectual, for instance, patents, trade and service marks and trade secrets copyrights (Kianto, Hurmelinna-Laukkanen, & Ritala, 2010).

3.3 Relational Capital

According to, Kianto, et al. (2010) relational capital indicates to the ability of an organization to interact in a positive manner with the external stakeholders. Also indicated, it includes resources related to the company external relationships, for example its connections with customers, suppliers, partners, and the local community, and the knowledge involve in these relationships.

IV. ELEMENTS OF INTELLECTUAL CAPITAL

The major three components of the intellectual capital includes: relational, human and structural capital and each component consists of many elements (Toth, & Jonas, 2012). See Figure 2.

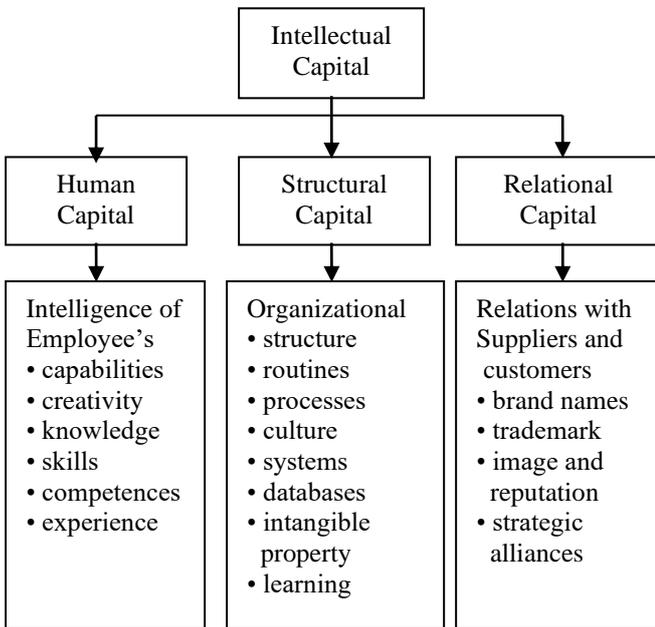


Figure 2. Elements of Intellectual Capital

V. BENEFITS OF INTELLECTUAL CAPITAL

Recognize of strategically growth and hidden assets are considered the main benefit for measuring intellectual capital in order to achieve organizational objectives, Benefits also include, increase in innovation, motivation of the organization, as well as creates of oriented culture performance and employee self-perception (Kannan, & Aulbur, 2004).

VI. THE SECTOR OF NON-PROFIT ORGANIZATIONS

Nowadays the non-profit organizations usually working in a very competitive environment, through increasing the desire of services from the society, and at the same time faces a decreasing in support of volunteer also mostly stricter funding source from government. Therefore, these non-profit organizations need to use their resources correctly, meanwhile, to create a new resources and opportunities for using them effectively. Accordingly, the non-profit organizations need new skills, human resources management, formulation of strategies and knowledge. Consequently, some scholars have suggested that intellectual capital and its components provide a framework for management strategic to non-profit organizations (Kong, 2010).

VII. THE IMPORTANCE OF INTELLECTUAL CAPITAL IN THE NON-PROFIT ORGANIZATIONS SECTOR

In the present day the non-profit organizations working in competitive environment through rising demand of services from the society, this require skills, new knowledge, human resources, management, public relations and strategy formulation (Kong, 2010). Further added, intellectual capital and its components provides conceptual framework for management strategic of non-profit organizations. In addition, non-profit organizations focused on the intangible aspects, which is considered improve the well-being of customers and other interest groups are more important than the financial aspects (Kong, 2007 & Kong & Prior, 2008). Besides, the importance of intellectual capital to nonprofit organizations it helps to concentration aims on the social dimensions and not only to purpose avoids displacement of objectives (Kong, 2007). He further the intellectual capital helps to transform the strategic focus of the non-profit organizations to intellectual resources consists of skills, experience and knowledge.

Moreover, study by Kong (2007) tested five main strategic management concepts: resource-based view (RBV), industrial organization (I/O), balanced scorecard (BSC), knowledge-based view (KBV) and intellectual capital (IC), concluded that the intellectual capital is an important resource and at the same time the most suitable for the non-profit organizations to gain sustained strategic advantage.

VIII. THE MEASUREMENT OF INTELLECTUAL CAPITAL

There are many reasons to measure intellectual capital as following: through the literature review have been determined five main reasons to measure intellectual capital. First, intellectual capital can be used to help formulate business strategy, as well as order to gain the competitive advantage. Second, intellectual capital measuring may lead to the development of basic performance indicators to help assess the implementation of the strategy.

Third, intellectual capital resources build on the intellectuality for the purpose of formulation the strategy. Fourth, incentives and compensation of an organizations can linked and plan by using nonfinancial measures of intellectual capital. These four reasons are the internal to the organization. The fifth reason is external to communicate measures with external stakeholder what intellectual property the organization owns (Marr, Gray & Neely 2003).

IX. LITERATURE REVIEW

Based on the literature review about previous studies or various point of views for relation between intellectual capital and its components and non-profit organizations, the findings concluded that the intellectual capital is able to make non-profit organizations benefit from their resources and characteristics effectively. In addition, intellectual capital is considered important factor, effective tool and strong avenue that affect direct and positive in various kinds of the non-profit organizations. For instance: study on elderly care non-profit organizations that conducted in Finland and study on non-profit organizations that conducted in Italy (Kong, 2007; 2010; Kong, & Thomson, 2006).

X. CONCLUSIONS

In general the organizations of non-profit are working in a competitive environment through the society and this leads to increasing the demand of the services. The non-profit organizations play a necessary role in providing of services as well as the welfare social. Also, the non-profit organizations are considered as a third element between the private markets and public sector. Moreover, intellectual capital is one of the important topics that have been recently tackled by various researchers in different organizations, industries, sector and countries and at the same time, intellectual capital it helps the non-profit organizations to more focus their goals on the social environment and dimensions. Therefore the intellectual capital indicators can become a main instrument to gaining competitive advantage. Moreover, the results of this paper adds a new addition in the field of intellectual capital in the non-profit organizations sector, through the embraces an eclectic mix of methodologies and topics.

RECOMMENDATIONS

To all policy makers in non- profit organizations in various countries must be focus the important role of intellectual capital as a main variable that lead to help non- profit organizations in various sector to get competitive advantage in order to improve the well-being of customers, volunteer participation and other interest groups.

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AUTHOR PROFILE



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