

## Intellectual Capital and Firm performance

### Capital intellectuel et performance de l'entreprise

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## **Abstract**

The aim of this study is to demonstrate if there's any relationship between the intellectual capital and first performance and also examine the impact that might be through the mediating role of innovation using a comparison between previous researches. This study contributes to the literature on IC by examining the role of realized and potential absorptive capacity in the relationship between IC components and firm performance. This research also helps practitioners recognize the importance of transformation and the exploitation of knowledge for business performance.

## **Keywords**

Intellectual Capital, Firm performance; innovation

## **Introduction :**

The capital represents a good part of the foundation of firm development, when knowledge and technology are the main sources of innovation as regards of big innovation, the operative correlation of IC and propose capital not just upgrading the integration of knowledge, technology and capital with a company but also give out relevance on developing firm performance, Additionally, it is also conducive to innovation and sustainable development of emerging economies. The firms focused on the IC because of the changes and improvements in the business industries, the firms believe that the IC has become a crucial asset in evaluating and measuring firm performance, various organizations and companies had changed their evaluation and measurement of financial performances in numerous sectors, such as construction, manufacturing, and banking. IC became the lever for sustainable corporate performances and maintaining a competitive advantage for the organizations and companies, the performances of the business industries are more dependent on IC than physical assets in the modern economy. A number of studies explored that the efficiency of IC had a direct impact on firm performance.

## 2- Keywords definition:

**The concept of Intellectual Capital (IC):** According to (Brooking, 1996) IC is the term given to the combination of intangible market assets. It means according to (Edvinsson, 1997) "the possession of knowledge, concrete experience, organizational technology, customer relationships and professional skills that confer a competitive advantage in the market." (MHEDHBI Imen, 2010, pp 30-31).

The three components of (IC) are then as follows:

### 2.1- Human capital:

Human capital includes what "is in the heads of people". It includes knowledge, skills, professional experience, intelligence, know-how, innovation capacity, creativity, work style, motivation, satisfaction, employee flexibility, employee loyalty, educational level, and learning capacity (GIGREF, 2006, P 33).

### 2.2- Structural capital:

Sometimes also referred to as "organizational capital". It refers to the non-human assets held by the firm such as intellectual property (patents, trade secrets, brands...), infrastructural assets (information systems, processes, databases, software...), internal organization (values, corporate culture, management philosophy, quality of social relations within the firm...), as well as manuals, quality control standards...

### 2.3- Relational capital:

It includes everything that connects the organization to its environment (GIGREF, 2006). This includes external relationships with customers, suppliers, business partners, shareholders, and others. Business partners, shareholders, investors, financial entities, and the government. .... Being Given that human, organizational and relational capital is often intertwined in organizations, the organizations. Thus, their interrelationships also play an important role in strengthening or transformation of existing knowledge to progressively influence the innovative capacities of employees.

### 2.4- Company performance

For a long time, the notion of performance has been limited to the financial dimension alone (Bourguignon, 1998), and its definition is determined by indicators of financial efficiency such as return on investment and return on capital, and profit measures such

as gross margin, net profit, and sales (Ab Rahman & Ramli, 2014). Towards the end of the eighties, performance became a complex and multifaceted concept (Mathé & Chagué, 1999). The complexity of the economic environment pushed managers to take into account aspects other than the financial aspect for the management of the company (Barillot, 2001).

### **3- Intellectual capital and firm performance:**

The Intellectual Capital approach is an innovative concept that brings a new and complementary on the value of companies, this concept seeks to identify a company's hidden assets, i.e. everything that enables it to create value and that cannot be detected by reading the balance sheet.

Intangible capital is therefore associated by definition with the difference between the real or market value of the company and its book value. Eccles (1999, p. 40) points out that "the key indicators of corporate performance cannot be found in performing companies cannot be found in financial data alone. Quality, customer satisfaction quality, customer satisfaction, innovation, market share: such measures better reflect the economic conditions and economic conditions and growth prospects of a company than its published earnings.

The methods for valuing intangible capital are not without some difficulty. An accurate valuation is not without risk: a measure may need to include an element of subjectivity, such as subjectivity, for example, in the rating of the qualities and characteristics of intangible assets. Would it, therefore, be illusory to claim to arrive at a scientific result on the value of intangible assets? It is sometimes necessary to supplement aim indicators (rate of absenteeism, number of contracts won by a salesperson, number of contracts won by a salesperson, the number of annual computer system breakdowns, etc.), etc.) With an estimate (management is good/fair/bad; this salesperson does better than the others in terms of customer accounts or not, etc.). When management has a consensus approach to the performance of an asset, this can be considered, giving credibility to its objective measurement. Valuing a company is a strenuous exercise. Balance sheets, income statements, and notes only

give a fragmented view of the company. Valuation based on intangible capital offers the value a new method that complements those he usually uses. It also provides him with in-depth analysis tools because, in order not to limit himself to the tip of the iceberg, he must

know how to dive deep into the value creation process. The valuation of intangible assets is becoming a key issue in M&A and will become a real area of research and methodological development. Indeed, for the moment, apart from the valuation of brands and patents, measurement methods are rare and, for those that exist, have not yet been tested in many cases.

In order to achieve competitive advantage intellectual capital basis on all the resources of the firm , three dimensions makes the overall in IC of the firm such as : human, structural/organizational, and relational/social capital , starting by human resources that refers to the firms' employee and the knowledge , education , skills and capabilities then Structural/organizational capital takes over the IC that retain and remains by the company despite the fact that employees leave work Relational/social capital represent the value place in and procure from interconnection with clients , partners , institutions and many corresponding elements for that reason dimensions like resumption capital and entrepreneurial capital have been put forward to be involve as one of the components of IC .

On the other hand knowledge management dispense with the procedure and the implementation that allow to achieve knowledge-based competitive advantage conducive to generate knowledge-based competitive advantages and firm performance outcomes utilizing the purposeful organizational and managerial practices so that Intellectual capital, knowledge management practices, and firm performance is one mechanism design competitive advantage progressively result from knowledge resources and their use and development as argued by the knowledge management consequently overall firm performance is expected to benefit from together an important knowledge base and carry on toward the set strategic goals using purposeful knowledge management practices.

Intellectual capital for companies, particularly manufacturing firms in the third millennium can be considered as a competitive advantage. The purpose of the research is to examine the role of innovation capital in the creation of value for business organizations. Intellectual capital (IC) disclosure has been receiving an increasing amount of attention among the

companies around the world such as Australian companies, Italian companies and others. This is due to the new economy driven which is knowledge-based economy where value creation become one of the crucial issues in the world and tends to be based on intangible rather than tangible assets. In this study, a questionnaire was distributed among

manufacturing companies have tried to collect statistical information. Questionnaire was divided between manufacturing firms and financial operations managers. The result shows that a company's IC in general has a significant positive impact on its financial and market performance.

The link between organizational performance and intellectual capital is becoming more and more an interesting issue, especially in times of severe economic turbulence, when companies are seeking for new solutions in order to survive and develop their business. This paper analyses the structure of the intellectual capital and its influence on the economic performances based on the VAIC model. The results were obtained by applying certain regression models and suggest that, in crisis time, the development of companies is influenced by the human and the structural capital, while profitability is additionally linked to the financial capital through the value added intellectual capital coefficient.

According to Veltri (2010), this research studies the intellectual capital, innovation, organizational strategy and how they impact on the firm performance. The purpose here is to examine the relationship between intellectual capital and the firm performance by comparing previous researches on the same field.

Chen and Al (2005) affirm that the intellectual capital has a positive impact on the market value and the financial performance of a firm and it could be an indicator of the future financial performance. The three elements of the intellectual capital including the human, structural and the relational capital might be affected by the R&D which increases the profitability.

The intellectual capital has a direct impact on a firm performance that can be measured in three different ways; the financial performance including the returns on investments, product performance such as product reliability and numbers of unique product features, and the market performance (market share and customer satisfaction). Speaking about innovation, firms who have the capacity of innovating are capable of developing a competitive advantage and reach a higher level of performance; taking for example a firm releasing a new innovative product in a new market is going to increase its profitability.

The business performance according to Wang and Chang (2005) is affected positively by all the elements of the intellectual capital but the human capital that influences it differently based on three components: innovation capital, process capital and customer capital.

An article named Intellectual Capital and Firm Performance: A Dynamic Relationship in

Crisis Time Published by Elsevier B.V tried to find the link between organizational performance and intellectual capital and to analyse the structure of the intellectual capital and its influence on the economic performances based on the VAIC model.

Regression models were applied to conclude that the human and the structural capital influence companies' development and the financial capital is linked to profitability through the value added intellectual capital coefficient.

The main hypotheses that were tested are the following:

The more a company is able to use human capital, the more profitable a company becomes  
The more a company is able to use structural capital, the more profitable a company becomes  
The more a company is able to use financial capital, the more profitable a company becomes

Information on operating profit, turnover, staff costs, net profit and depreciation were collected as well as financial data related to assets and liabilities for analysed companies in order to test hypotheses.

And to identify the influence that VAIC and its three components have on the financial performance of companies, they developed and tested multiple regression models.

The findings show that human capabilities, knowledge, skills and experience represent an explicative factor of organisational procedures seem to make the difference in the turbulent business environment, as the negative coefficient of structural capital shows.

The link between the profitability and intellectual capital is confirmed once more, because even in time of crisis the performance must rely on human ability to adapt to changes and learn.

## Conclusion

This research studies the intellectual capital and its the effects on firm performance.

Assessing the effect of intellectual capital on company performance is another key topic because it allows companies to perform well and generate profits.

This study demonstrates the importance of intellectual capital in the new economy, and more particularly its influence on the performance of companies through the mediating role of innovation. The study noted the need for a high level of intellectual capital in order to improve the performance of companies.

Intellectual capital is often associated with the difference between a market value and a book value. In the conditions of a new knowledge economy, the traditional production resources - physical capital and in the conditions of a new knowledge economy, traditional production resources - physical capital and labor - are merely commodities.

What differentiates firms is the level of intellectual capital, and the increase in the quality and efficiency of its use to improve the profitability of a improve the profitability of a company

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**The possession of knowledge, concrete experience, organizational technology, customer relationships and professional skills that confer a competitive advantage in the market.**

(Edvinsson, 1997)

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