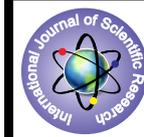


Functionality of Intellectual Capital in Banking Sector



Commerce

KEYWORDS : Intellectual Capital, Banking sector, Human Capital, Relational Capital, Organisational structure and value system capital and Relational Capital

Priti Sharma

Assistant Professor, Department of Commerce, M. D. University, Rohtak-124001

Rohit Kumar

Assistant Professor, Department of Commerce, Arya P. G. College, Panipat

ABSTRACT

In today's scenario, there has been greater focus on Intellectual Capital in the realm of service sector than ever before and it, therefore, requires much more sophisticated management of the same. But for effective management, its measurement is required and which further needs the identification of its typology. In this paper an attempt has been made by the authors to determine the functionality of intellectual capital constituents in banking sector. With the help of this analysis, the researcher has been able to dig out which variable/es played noteworthy role and vice-versa. This facilitates in knowing and detecting to which variable/es should be paid more attention or not in that banking sector in order to excel in the market.

Introduction

It has been very well proved that real value enhancer of a firm lies in the intangibles or intangible assets of that organization. No firm can stand for long in the market the basis of other assets (financial or material assets). And when it comes to service sector then role of intangibles becomes significant or momentous. This paper is divided into four parts, first part delineates the role of Intellectual capital in banking sector, second part explains various components of Intellectual Capital extracted from literature review, third part consists of research methodology, and fourth part includes analysis and discussion.

Intellectual Capital and Banking Sector

Banks happen to be one service sector that uses ample amount of human capital and relational (customer basically) capital for its survival in the market. The differences among the state-owned, private-owned and foreign-owned banks is apparent from the differences in the number of offices/branches (structural capital), the number of employees (human capital), and the number of customers (relational capital). The term Intellectual Capital comprises of two words- Intellectual and Capital. In English, intellectual conveys the general notion of a literate thinker. Its earlier usage, such as in The Evolution of an Intellectual (1920) by John Middleton Murry, connotes little in the way of public rather than literary activity. However, according to their linkage and contribution for certain businesses, their importance for stakeholders is irrefutable as stated by Lopes and Rodrigues (2007). According to Oxford English Dictionary, Intellectual means having a highly developed ability to think logically and understand things; relating to a person's mental powers. The term 'intellectual capital' was first used in a publication by John Kenneth Galbraith in 1969. Intellectual capital includes the skills and knowledge that a company has developed about how to make its goods or services; individual employees or groups of employees whose knowledge is deemed critical to a company's continued success; and its aggregation of documents about processes, customers, research results, and other information that might have value for a competitor that is not common knowledge. Thomas Steward (2001) defined IC as "Intellectual capital is the sum of everything everybody in a company knows that gives it a competitive edge. In other words it can also be defined as Collective knowledge (whether or not documented) of the individuals in an organization or society. This knowledge can be used to produce wealth, multiply output of physical assets, gain competitive advantage, and/or to enhance value of other types of capital. Intellectual Capital includes customer capital, human capital, intellectual property and structural capital. Sullivan defines Intellectual Capital as the non-financial and non physical resources used by and within a company; it is the knowledge which can be converted into profits (1999:210).

Banking sector which mainly works on the basis good relations with the customers, providing quality of service and efficiency, knowledge and skills of human resources. It becomes mandatory to ascertain the role of intellectual capital constituents in banking sector, so that necessary action could be taken on time in order to increase the market share of the bank in the market

because it has been well proven many a times that real value drivers lies in the intangibles not in tangibles.

Constituents of Intellectual Capital

Karl-Erik Sveiby first proposed a classification for IC, dividing it into three broad areas of intangibles, viz., human capital, structural capital and customer capital (Sveiby, 1997)—the classification that was most accepted and which was later modified and extended by replacing customer capital with relational capital by Nick Bontis, (1996). Classification of Intellectual Capital, IFAC, (1998), Source: ICS, Research Reports:

Human Capital = Know-how, Education, Vocational qualification, Work-related knowledge, Occupational assessments, Work-related competencies, Entrepreneurial élan, innovativeness, proactive and reactive abilities, and changeability.

Organisational Capital (Structural Capital) = Intellectual Property, Patents, Copyrights, Design rights, Trade secrets, Trademarks, Service marks.

Relational (Customer) Capital = Brands, Customers, Customer loyalty, Company names, Backlog orders, Distribution channels, Business collaborations, Licensing agreements, Favourable contracts, Franchising agreements. This classification has almost included all the aspects besides, organisational culture, process and procedure, value system etc.

In another classification made by Guilding and Pike (1990) divided intangibles into three groups taking marketing view: value creator; marketing assets and value manifestations. Mortensen et. al. (1997) classified Intellectual Capital, from financial perspective, into innovation capital, structural capital, executory contracts, market capital and goodwill. In another taxonomy given by Roos et. al. (1997), Intellectual capital yields two classes: human capital and structural capital. This division is based on the principle of the location of particular capital. According to Bontis (2001, 2002), the generative intangibles, like human capital, internal capital and external capital, also called Intellectual Capital. In this, he classified IC into three categories namely: human, internal, and external capital.

In another categorisation, Leliaert et. al. (2003) defined four base classes of IC:

- (1) Human;
- (2) Customer;
- (3) Structural capital; and
- (4) Strategic alliance (or partner) capital.

According to Edvinsson and Malone (1997), IC consists of three basic components: human capital, structural capital, and customer capital.

1. Human capital includes knowledge, skills, and abilities of employees. It is an organization's combined human capability for solving business problems.

2. Structural capital is everything in an organization that supports employees (human capital) in their work. It is the supportive infrastructure that enables human capital to function. Because of its diverse components, Edvinsson and Malone, (1997) further classified structural capital into organizational, process, innovation and intangible capital.
 - Organizational capital includes the organization 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 capital. Intellectual properties are protected by commercial rights, such as patents, copyrights and trademarks.
 - Intangible capital is all of the other talents and theory by which an organization is run.

3. Customer capital is the strength and loyalty of customer relationships. The relationship with customers is distinct from other relationships either within or outside an organization.

In taxonomy, Seetharaman et al. (2004) illustrated IC components in each subcategory as following:

- Human capital
 - Employee competence and knowledge
 - Innovativeness
- Relational capital
 - Brand
 - Customers (customer relationships)
- Structural capital
 - Company culture
 - Patents
 - Internal database

LOGICAL CATEGORISATION OF INTANGIBLE ASSETS (With their Codes)

CONSTITUENTS OF INTELLECTUAL CAPITAL AFTER DESCRIPTIVE ANALYSEES (Extracted From Literature Review)	HUMAN CAPITAL	1. Employee's understanding of target market (HC1) 2. Consistent best performance (HC2) 3. Employee's competency (HC3) 4. Highly motivated, energetic and enthusiastic employees (HC4) 5. Employee's satisfaction (HC5)
	STRUCTURAL CAPITAL	1. Self Sufficiency of all kind of Softwares and E Resources (SC1) 2. Research and Development (SC2) 3. Adaptability towards new ideas (SC3) 4. Information system(SC4) 5. Grievance Redressal Mechanism (SC5) 6. Database (SC6) 7. Coordination (SC7) 8. Organization structure (SC8)
	RELATIONAL CAPITAL	1. Relationship with suppliers(RC1) 2. Relationship with partners/alliances (RC2) 3. Relationship with customer (RC3) 4. Continuous interaction with customers (RC4) 5. Care for customer's/ client's need (RC5) 6. Customer's confidence towards continue their association with organization (RC6) 7. Loyalty and goodwill enjoyed among customers (RC7) 8. Image/ Market share (RC8)
	ORGANISATIONAL CULTURE AND VALUE SYSTEM CAPITAL	1. Provision for succession training programme (OC1) 2. Recognition to employee's efforts (OC2) 3. Up-gradation of employee's skill and knowledge when they require (OC3) 4. Comprehensive recruitment policy and dedicated towards hiring best candidate (OC4) 5. Quality of service (OC5) 6. Foster development and maintenance of internal relationship (OC6) 7. Feedback from customer/client (OC7) 8. Organisation's preparedness towards employee's attrition (OC8) 9. Receptiveness towards employee's innovative ideas (OC9) 10. Supportive and conducive atmosphere (OC10) 11. Continuous on schedule (OC11) 12. Prevalence of fraternity values

Research Methodology

In the process of doing research work, the tailor-made methodology makes the work well-directed and interiorized. Keeping this point into mind, this part has been devoted to the research methodology adopted for the present research project. Descriptive research design has been used by the researcher. Sample size of 38 Banks has been used. In this study, the researcher has developed a well-structured questionnaire on five point Likert scale, from "Strongly Agree" to "Strongly Disagree." 33 statements, concomitant with the constituents of Intellectual Capital. Questionnaires were filled through personally as well as through on-line mode by preparing a questionnaire on Google Doc. (On-line survey).

It intends to apprehend the status of each variable/constituent in banking sector taken under study. This descriptive kind of analysis has been done by the researcher. With the help of this analysis, the researcher has been able to dig out

which variable/es played noteworthy role and vice-versa. This facilitates in knowing and detecting to which variable/es should be paid more attention or not in that banking sector in order to excel in the market or in the industry to which that sector belongs. The data in this table have been analysed on the basis of percentage analysis (means how much percentage of respondents were: strongly agree, agree, neutral, disagree and strongly disagree on each statement pertaining to every variable) through range and mean or averages.

In the context of mean, the variables whose mean value was greater than '3' have been treated as the active variable in that particular sector because as per the 5 point likert scale used in this study for data collection, 5 stands for strongly agree, 4 for agree, 3 for neutral, 2 for disagree, and 1 for strongly disagree, which indicates that the mean value below 3 means that variable is not active or influential in that particular area undertaken in the study.

Analysis and Results

Table No. 2: SECTOR-WISE ANALYSIS OF IC CONSTITUENTS: BANKING SECTOR

Items	N	Range	Min.	Max.	SA	A	N	DA	SDA	Sum	Mean	S. D.
RC3	38	1	4	5	(87 %) 33	(13%) 5	0	0	0	185	4.87	.343
HC5	37	1	4	5	(87%)32	(14%) 5	0	0	0	180	4.86	.347
RC2	38	1	4	5	(81.5%)31	(18.5) 7	0	0	0	183	4.82	.393
HC3	38	1	4	5	(76%) 29	(24%) 9	0	0	0	181	4.76	.431
SC4	38	1	4	5	(73.6%)28	(24.4%)10	0	0	0	180	4.74	.446
RC6	38	1	4	5	(68.4%)26	(31.6%)12	0	0	0	178	4.68	.471
SC6	38	2	3	5	(76.3%)29	(15.7%)6	(8%)3	0	0	178	4.68	.620
RC1	38	2	3	5	(71.4%)27	(23.6%)9	(5%)2	0	0	177	4.66	.582
OC10	38	1	4	5	(65.7%)25	(34.2%)13	0	0	0	177	4.66	.481
OC5	38	2	3	5	(68.4%)26	(28.9%)11	(2.6%)1	0	0	177	4.66	.534
SC3	38	2	3	5	(57.8%)22	(39.6%)15	(2.6%)1	0	0	173	4.55	.555
SC2	38	2	3	5	(63.1%)24	(24.4%)10	(10.4%)4	0	0	172	4.53	.687
RC4	38	3	2	5	(65.7%)25	(23.6%)9	(8.1%)3	(2.6%)1	0	172	4.53	.762
OC3	37	2	3	5	(64.8%)24	(21.6%)8	(13.1%)5	0	0	167	4.51	.731
SC1	38	3	2	5	(65.7%)25	(23.9%)9	(5.2%)2	(5.2%)2	0	171	4.50	.830
RC7	38	3	2	5	(63.1%)24	(28.9%)11	(2.6%)1	(5.4)2	0	171	4.50	.797
SC7	38	2	3	5	(52.6%)20	(42,1%)16	(5.4%)2	0	0	170	4.47	.603
SC5	38	2	3	5	(52.6%)20	(36.8%)14	(10.6%)4	0	0	168	4.42	.683
HC2	38	3	2	5	(60.5%)23	(26.3%)10	(8.1%)3	(5.2%)2	0	168	4.42	.858
OC4	36	2	3	5	(57.8%)22	(18.4%)7	(18.4%)7	0	0	159	4.42	.806
HC1	38	3	2	5	(55.2%)21	(28.9%)11	(13.1%)5	(2.6%)1	0	166	4.37	.819
OC11	38	2	3	5	(52.6%)20	(31.5%)12	(15.7%)6	0	0	166	4.37	.751
OC7	38	2	3	5	(50%)19	(34.2%)13	(15.7%)6	0	0	165	4.34	.745
OC2	38	4	1	5	(39.4%)15	(44.7%)17	(10.5%)4	(2.6%)1	(2.6%)1	158	4.16	.916
RC8	38	4	1	5	(18.4%)7	(42.1%)16	(15.7%)6	(21%)8	(2.6%)1	134	3.53	1.109
OC8	38	4	1	5	(13.1%)5	(44.7%)17	(18.4%)7	(21%)8	(2.6%)1	131	3.45	1.058
OC1	38	4	1	5	(15.7%)6	(18.4%)7	(18.4%)7	(34.2%)13	(13.1%)5	110	2.89	1.311
OC12	37	4	1	5	(18.4%)7	(5.2%)2	(5.2%)2	(44.7%)17	(10.5%)4	102	2.76	1.300
SC8	38	4	1	5	(10.5%)4	(5.2%)2	(26.3%)10	(39.4%)15	(18.4%)7	95	2.50	1.180
OC6	38	4	1	5	(7.89%)3	(10.5%)4	(10.5%)4	(50%)19	(21%)8	89	2.34	1.169
OC9	38	3	1	4	0	(5.2%)2	(7.89%)3	(63.1%)24	(23.68%)9	74	1.95	.733
RC5	38	2	1	3	0	0	(2.6%)1	(55.2%)21	(42.1%)16	61	1.61	.547
HC4	38	3	1	4	0	(2.6%)1	(5.2%)2	(39.4%)15	(52.6%)20	60	1.58	.722

Explanation:

Table No. 2 decipheres that the variables named OC1, OC12, S8, OC6, OC9 and RC5 have not been found to be as active variables in banking sector (because Mean score is less than three, i.e. 2.89, 2.76, 2.50, 2.34, 1.95, 1.61, and 1.58 respectively), RC8 and OC8 have been found moderately active and rest of the variables have been found very active or influential. The highly influential variables are RC3 (sound relationship with customers), HC5 (Employee satisfaction), RC2 (relationship with alliances), HC3 (competencies of employees), SC4 (Information system), RC6 (Customer’s confidence towards continue their association with the organization), SC6 (updated database), RC1 (healthy relationship with suppliers), OC10 (Conducive atmosphere), OC5 (Quality of service or product), SC3 (Adaptability towards innovative ideas), SC2 (Research and Development), RC4 (Continuous interaction with customers/clients), OC3 (Upgrading skills and education of employees when they require it), SC1 (self-sufficiency of all kinds of software and E-resources), RC7 (Loyalty and Goodwill among customers/client), SC7 (Structure is Imbided with proper coordination skill), SC5 (Grievance Redressal Mechanism), HC2 (Consistence performance of employees), OC4 (Comprehensive recruitment policy and dedicated towards hiring the best candidate), HC1 (employee’s capability of understanding target market), OC11 (Continually on schedule), and OC7 (feedback from is disseminated in organisation), their

mean score were: 4.87, 4.86, 4.82, 4.76, 4.74, 4.68, 4.68, 4.66, 4.66, 4.55, 4.53, 4.53, 4.51, 4.50, 4.50, 4.47, 4.42, 4.42, 4.37, 4.37, and 4.32 respectively. These have been found very active variables of Intellectual Capital in banking sector. In nut shell it can be stated that out 33 constituents of Intellectual Capital 26 were found momentous in value creation and value generation in Indian Banking Sector.

Concluding Remarks

In the prevailing business environment, variables like employee knowledge, relationship capital (with all stakeholders) and the culture of innovation and changes generates success for an organization. Thus, the intellectual capital is the key to long-term success in today’s business world. The strength of intellectual capital manifest in the valuations is quite visible in modern organizations. In the past two decades, the share of intellectual capital has virtually doubled from 38 per cent. From the study also, it has been proved that out of 33 only 26 constituents are momentous in Indian Banking Sector. In order to excel in the market or to increase its market share, banks have to work upon the momentous constituents of Intellectual Capital. Banks should have to pay all due attention and consideration to all the factors specially to those which are having mean value greater than 3 because they are proved very momentous in the value generation and creation.

REFERENCE

Bontis, N. (1996), "There's a Price on your Head: Managing Intellectual Capital Strategically", *Business Quarterly*, summer, pp. 40-47. | Bontis, N. (2001), "Assessing knowledge assets: a review of the models used to measure intellectual capital", *International Journal of Management Reviews*, Vol. 3 No. 1, pp. 41-60. | Bontis, N. (2002), "World Congress on Intellectual Capital Dealings, Butterworth-Heinemann/ KMCI Press, Boston. MA. | Edvinsson, L. and Malone, M. S. (1997), "Intellectual Capital: Realizing Your Company's True Value by Finding Its Hidden Brainpower", Harper Business, New York Guilding, C., Pike, R. (1990), "Intangible Marketing Assets: A Managerial Accounting Perspective", *Accounting and Business Research*, Vol. 21, No. 18, pp. 41-49. | IFAC (1998), "Measurement and Management of Intellectual Capital", IFAC. | Leliaert, P. J. C., Candries, W. and Tilmans, R. (2003), "Identifying and managing IC: a new classification", *Journal of Intellectual Capital*, Vol. 4, No. 2, pp. 202-214. | Mortensen, J. Eustace, C., Lannoo, K. (1997), "Intangibles in the European Economy", Paper presented at the CEPS workshop on intangibles in the European economy, Brussels. | Roos, J., Roos, G., Dragonetti, N.C. and Edvinsson, L. (1997), "Intellectual Capital: Navigating in the New Business Landscape", London: Macmillan. | Seetharaman, A., Lock Teng Low, K., Saravanan, A. S. (2004), "Comparative Justification on Intellectual Capital", *Journal of Intellectual Capital*, Vol. 5, No. 4, pp. 522-539. | Stewart, T. A. (2001), "The wealth of knowledge: Intellectual capital and the Twenty-first century organization", Doubleday, New York, NY. | Sullivan, P. (2000), "Value-driven Intellectual Capital: How to convert intangible corporate assets into market value, Wiley. | Sveiby, K.E. (1997), "The New Organizational Wealth: Managing and Measuring Knowledge-Based Assets", Berrett-Koehler, San Francisco, CA. |