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Rethinking Intellectual Capital in Professional Service Firms: A Triple Bottom-line Perspective on Value-creation

Research in Progress

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Abstract

In contemporary business environment, the formulation of an effective strategy aimed at driving and sustaining value requires effective management of the intellectual resources as a basis for achieving strategic advantage. Given the paradigm shift in the factors of productivity within the knowledge landscape, it's crucial for the Professional Service Firms (PSFs) to be mindful of their Intellectual Capital (IC) potential as a basis for the competitive advantage and value-creation. Drawing upon Resource-Based-View of the firm, this research attempts to revisit value-creation concept and investigate how IC resources can be integrated and utilized to achieve broader value outcomes for various organizational stakeholders. In view of that, the proposed research aims to develop a methodological value-creation framework in the service firms by epistemologically reflecting on the IC-derived value outcomes in the multi-stakeholder context.

Keywords: Multi-stakeholder Value Creation, Intellectual Capital, Knowledge assets, Professional Service Firms

1 INTRODUCTION

The urge to have a competitive edge over the competitors is a strategic priority of the modern service firms that can be achieved through unique knowledge assets and intellectual capabilities possessed by the firms (Empson et al. 2015). Given this rule of global competitiveness, successful firms utilize a blend of tangible & intangible capabilities to propose their value offerings and stay competitive in the global market (Marr et al. 2003). However nowadays, there is more focus on the utilization of intangible capabilities, being the unseen assets in the modern service firms. This in fact represents a hidden value that is not even reflected on the firms' financial statement. Quin (1994) underscored that a firm creates more value because of its intellectual capital than by any other physical asset and this in-house intellectual capital serves as a crucial factor in the value chain of its activities & processes (Bchini 2015).

The role of Intellectual Capital (IC) is crucial to the development of knowledge economies in general and growth of service firms in particular (O'Cass and Sok 2013). Today, a firm's intellectual capabilities form the basis of its innovation and market competitiveness. Hence, it is increasingly important for a firm to capitalize on its intangible assets as the key elements of its competitive strategy, leading to organizational growth and profitability (Rehman et al. 2018). Given the rapid creation of new knowledge in the wake of information & communications technologies, the competitiveness of service firms is reliant on strategic management of its intangible assets as opposed to the physical assets and how effectively they are leveraged as part of its competitive strategy. This is because effective IC strategy execution paves the way for utilizing intellectual knowledge and resources in the better attainment of value creation goals. Accordingly, the key research objective is to revisit intellectual capital dynamics in the Professional Service Firms (PSFs). This leads to investigating the research question - how does IC contribute as value driver for multi-stakeholders in the service firms?

2 THEORETICAL BACKGROUND

2.1 Intellectual Capital

An organizational Intellectual Capital (IC) is comprised of its employees' knowledge & skills, routine work processes, IT systems, patents and customer-related information which are formally utilized by the organization to create value (Bontis 2001; Roos et al. 1998). In the views of Stewart (1997), IC is the knowledge capabilities possessed by a firm that help it achieve long-term competitive advantage. Occasionally, the term IC is used to represent intellectual capabilities, knowledge assets or intellectual property that drives value for the firm (Nazari 2010). According to Cheng et al. (2010), IC is a vital organizational resource and performance driver that offers a perspective to understand value-resource nexus and how maximum value can be reaped from the available resources. This viewpoint is consistent with the views expressed by Edvinsson and Malone (1997) that IC is an organizational knowledge asset that is capable of being transformed into a sustainable business value. When it comes to the division of intellectual capital, while there exist some differences on the viewpoints of the researchers in the field of IC, most of the researchers such as Bontis (2001), Roos et al. (1998); Stewart (1997) including MERITUM guidelines divide IC into Human, Structural and Relational capitals.

Human Capital: It covers knowledge, skills, experience, attitude, innovation and learning capacity of the employees in an organization. Edvinsson and Malone (1997) relate it to the intellectual heart & soul of the organization. In the present business environment, the knowledge and skills of the individuals in an organization are considered critical drivers of value creation. Hence, hiring the individuals with right set of skills, imparting trainings and encouraging them to adapt to new work environment & technologies have become an inevitable organizational necessity not only for improved business processes but also to differentiate from its competitors (Cheng et al. 2010).

Structural Capital: Structural capital of a firm denotes the organizational records, information systems, management processes and its intellectual property (Bontis 2001; Stewart 1997). Although, it covers both tangible & intangible organizational assets but the emphasis is more on the explicit knowledge of an organization that is stored in the form of databases, procedures & processes, organizational culture, technological infrastructure such as information systems, KM tools, communication technologies and the intellectual property such as licences, patents, trademarks, copyrights etc (Cheng et al. 2010; Roos et al. 1998). Although it primarily represents a firm's structural capabilities, however, when it comes to the strategic focus of the firm, structural capital portrays how a firm capitalizes on its systems, processes, tools & technologies in a manner to support creation, storage

and application of organizational knowledge, aimed at easing business processes and activities (Rehman et al. 2018).

Relational Capital: According to MERITUM guidelines (2002), Relational Capital constitutes all the company resources associated with its external relationships. However, in a strategic context, it refers to a pool of organizational resources and capabilities dedicated to establishing, maintaining and continually improving its relationship with the external stakeholders such as clients, customers, suppliers, partners, end-users etc. In principle, it denotes the intangible assets and elements of a firm that establish a linkage with its external stakeholders, thereby facilitating the collection and utilization of the knowledge external to an organization (Cheng et al. 2010). It is because of these reasons that relational capital is being eyed today as a key element of IC in customer value proposition.

2.2 Value Creation

The concept of value-creation has been conceived as latent variable and dealt with in a diverse set of perspectives from time to time. In organizational context, the emphasis of value creation has been more on achieving firm performance (Bebchuk and Fried 2003). Besides, the extant literature on value-proposition and value-capture has kept an underlying focus on customers as firm's external stakeholders being the unit of analysis, emphasizing less on the employees as the internal organizational stakeholders (Bowman and Ambrosini 2010). On the other hand, some scholars maintain that the members of an organization should be the focal point when it comes to capturing and creating value (Miller 2016).

Considering the above stakeholder-specific focus and given the mixed empirical evidence governing value creation concept, the proposed research views value-creation from a multi-stakeholder organizational perspective. It not only takes into account the firm performance perspective (such as market competitiveness, innovative capabilities, brand image and reputation etc.) but also captures insights on Employee Advantages (such as engagement, satisfaction and professional growth) and Customer Outcomes (such as better service quality, efficiency and value for money) along with a consideration on supplier and partner relationships and the implications of these stakeholders on overall success of the firm.

2.3 Resource Based View - A Linkage Mechanism on IC and Value Creation

Resource Based View (RBV) propounds that the utilization of a firm's resources leads to market competitiveness because of uniqueness, rarity and inimitability of the resources (Barney 1991). Much of the RBV literature considers all intellectual assets, capabilities, processes and knowledge of an organization as its resources, nevertheless, the term "resources" is perceived differently by a few scholars. According to Wu et al. (2008), a firm's resources are comprised of assets and capabilities, meaning that both assets and capabilities represent same resources. Conversely, O'Cass and Sok (2013) claim that "resources" & "capabilities" are dissimilar in a manner that the "resources" represent tangible & intangible organizational assets. Tangible assets are the ones that can be touched and quantified, whereas intangible assets are the ones ingrained in organizational employees and work practices, which also help protect its intellectual property. In contrast, "capabilities" represent a unique pool of interconnected processes utilized to undertake specific set of firm activities (Jeon 2015). Overall, RBV maintains that intangible and firm-exclusive resources form the most significant part of firm's intellectual capital and help sustain long-term advantage (Todericiua and Stanit 2015; Marr et al. 2003).

2.4 Professional Service Firms – An IC Context

Professional Service Firms (PSFs) offer knowledge-intensive services to their clients and customers. The most common examples of PSFs include legal, accounting and management consultancies including engineering and IT service firms. The success of these firms is predominantly reliant on the skills and expertise of the staff and to what extent their knowledge and competencies are utilized to enhance service value proposition (Empson et al. 2015). While staff knowledge and competencies are considered vital assets for continuous service innovation, continuous professional development of the staff is critical for generation of new ideas and concepts (O'Cass and Sok 2013; Pfeffer 1994). The core capabilities, knowledge competencies coupled with the strategic focus on creating new knowledge and driving innovation make them become market leaders among other type of firms (Rehman et al 2020).

Professional Service Sector has gained enormous growth both at macro-economic and micro-economic levels, in particular, within the developed economies (Kaiser and Ringlstetter 2011). This ever-increasing growth of service sector has enhanced the significance of PSFs as the key drivers of growth

in the knowledge-based economies. This, however, comes at an expense of continuous knowledge management and strategic development in these firms. Hence, in the wake of global service sector growth, it is indispensable for the service firms to review and realign their intellectual capital resources in a manner to make most of these strategic assets, thereby continue to deliver high-quality services to their clients (O'Cass and Sok 2013). Accordingly, PSFs must be able to market their services to the targeted clients and customers and convince them to continue to use their value-creating offerings (Kaiser and Ringlstetter 2011).

2.5 Towards Multi-stakeholder Value Creation - Rethinking Intellectual Capital

IC, when viewed in the strategic perspective, refers to the knowledge assets and intellectual resources that create and enhance value for the organization. This viewpoint serves as a key rationale behind IC existence and development, thus it is increasingly being used as strategic planning tool, particularly in the effective management of intangible resources (Miller 2016). IC offers a perspective on the firms' value driving strategy, making value creation an outcome of a successful strategy execution. Nevertheless, IC literature mostly considers firm as value creation focus by examining how IC can be leveraged to achieve firm performance, ignoring its untapped potential as an additional value driver for other stakeholder groups such as employees and customers (Nazari 2010). So, an increasing interest nowadays is on reconsidering firm's IC priorities to deliver additional value for other organizational stakeholders. Hence, contemporary firms are now rethinking value-creation concept far beyond mere financial indicators, it is considered more in terms of intangible outcomes focused on value-proposition for its own people and customers (Grace and Iacono 2015). However, achieving this triple bottom-line necessitates successfully strategy execution, centered on developing, nurturing and subsequently utilizing IC resources to the fullest of their potential.

3 RESEARCH MODEL AND HYPOTHESES DEVELOPMENT

3.1 Research Model

A review of literature makes it evident that much of the IC literature underscores its importance as key organizational resource for driving competitive advantage, however, there is still lack of empirically-tested model or even a theoretical framework that could elaborate in clear-cut terms on how to effectively utilize IC resources to create value for multi-stakeholders in PSFs. To address this gap, we propose follow research model.

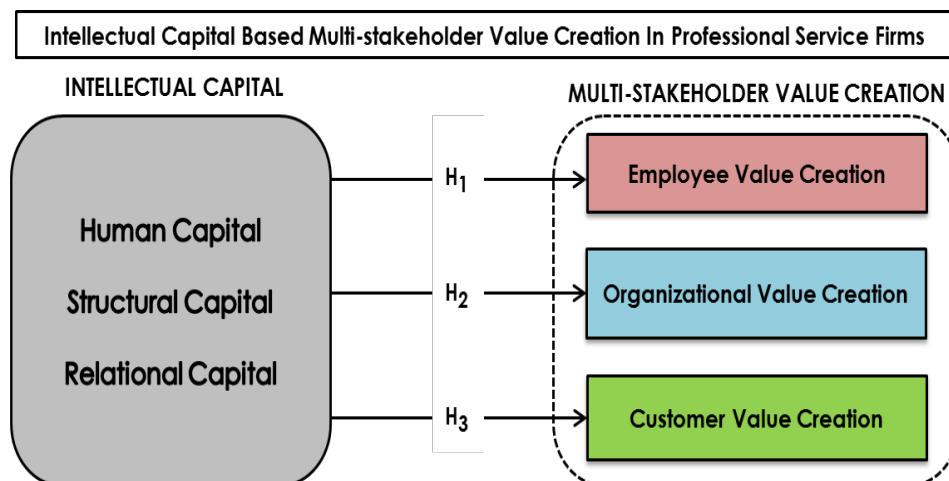


Figure 1: Proposed Research Model

3.2 Hypotheses Development

3.2.1 Intellectual Capital and Employee-Value-Creation

Employees of an organization have gained little attention as a stakeholder in the value creation process. This is because of the traditional value creation focus on firm itself and the customers as the key stakeholder groups. While little attention was paid to the employees as an important stakeholder, the primary emphasis was on achieving firm performance benchmarks and satisfying the needs of the customers (Nazari 2010; Bowman and Ambrosini 2010). Given the fact that customer satisfaction is

linked to employee satisfaction, ignoring value dimension for employees as a firm strategy is surprising (Grace and Iacono 2015). Hence recompensing employees through collaborative work environment, job autonomy and flexibility would help build their knowledge, skills and expertise, subsequently leading to the firm's IC development, enabling the achievement of positive employee outcomes such as employee engagement, satisfaction, career growth, development of professional network etc. We therefore hypothesize that:

H1: Intellectual Capital Supports Employee-Value-Creation in PSFs.

3.2.2 Intellectual Capital and Organizational-Value-Creation

An organization through continuous knowledge development and performance improvement tends to build capabilities for meeting needs and expectations of its stakeholders. The ability of an organization to put in place effective processes and systems is crucial to achieving set performance outcomes (Grace and Iacono 2015). This can be accomplished by continually developing organizational resources such as its intangible assets and knowledge capabilities which are embedded in its intellectual capital (Todericiua and Stanit 2015; Jeon 2015). In addition, the effective management of intangible resources would enhance organizational governance by supporting strategic planning process, making these strategic resources a cornerstone for stimulating creativity and achieving firm value benchmarks (Carlucci and Schiuma 2005). Hence, we hypothesize that:

H2: Intellectual Capital Supports Organizational-Value-Creation in PSFs.

3.2.3 Intellectual Capital and Customer-Value-Creation

The increased recognition of value proposition for customer is at the heart of capturing the voice of customers and consequently sustaining a competitive advantage. Customer value is usually measured by how customers perceive benefits. This makes customer value perception a purely subjective matter. The market edge of a firm lies in its ability to deliver superior value to the target customers as compared to the value delivered by its competitors, enabling customers to choose cost-effective alternatives based on their value perception (Jeon 2015). However, achieving this competitive advantage necessitates optimal utilization of the intellectual assets in order to transform into customer value. Needless to say, these firm resources have a potential to enhance value-proposition ability by delivering superior customer value and serving as the basis for sustained market competitiveness. Accordingly, we may hypothesize that:

H3: Intellectual Capital Supports Customer-Value-Creation in PSFs.

4 PROPOSED RESEARCH METHODOLOGY

4.1 Data Collection

This research would employ mixed methods. Sample population would be drawn from Australian Professional Service Firms (PSFs). In the first phase of data collection, a self-administered online survey questionnaire would enable quantitative data collection from the employees of the PSFs. The measures for the survey questionnaire would be adapted from the prior studies. To smoothly assist the online survey administration process, Qualtrics software tool would be utilized for the purpose. The survey datasets to be gathered would enable statistical testing and validation of the relationship between various constructs of the proposed research model. In phase-II, qualitative data would be gathered using face2face semi-structured interviews from the senior managers and executives in the chosen service firms. The qualitative data would help serve two purposes i.e. confirm the quantitative findings and gain new insights from the same data. This methodological choice within mixed methods would enable holistic consideration of the research problem by capturing the depth and breadth of the phenomenon under investigation, leading to simultaneous fulfillment of the methodological objectives (Venkatesh et al. 2013; Creswell 2003).

4.2 Data Analyses

The quantitative data to be collected in phase-I would undergo a multivariate statistical analyses involving descriptive data analysis as a first step in order to ensure readiness of data for the multivariate data analyses. The next step would involve Structural Equation Modelling along with confirmatory and exploratory factor analyses, aimed at examining the causal relationships between the different variables of the model (Hair et al 2006). The statistical software package SPSS would be utilized to aid the quantitative data analyses. In Phase-II, the qualitative interview data would be

analysed via thematic analysis technique to be aided by NVivo text analysis tool wherein queries would be run to draw upon emergent themes (Creswell 2003).

5 DISCUSSIONS

These days, maintaining and sustaining a competitive advantage is not the only focus of contemporary service firms, in fact, it is their unique knowledge and intellectual capabilities that create a bottom-line effect in these firms. Therefore, it is up to the firms if they choose to invest in building intellectual strengths and reap the benefit or just allow their competitors to exploit their weaknesses. This ever-increasing competitiveness at global business landscape has made IC an inevitable organizational reality. IC would continue to dominate strategic priorities of the firms as it alone can guide the value creation dynamics of the firms. This is to say, IC alone has an ability to tick the value bottom-line by the virtue of knowledge and talent of the people (human capital), quality & inimitability of the organizational systems (structural capital) and engagement with the external stakeholders (relational capital).

5.1 Expected Research Contribution

As a whole, this research would offer an empirically-validated framework on Multi-stakeholder Value Creation in the context of Professional Service Firms (PSFs). Theoretically speaking, the framework would help understand the needs and expectations of the key organizational stakeholders and guide on how to best meet those needs through improved perspective on value creation concept. Practically speaking, it would offer managers in PSFs a set of recommendations coupled with a renewed perspective on optimal utilization of intellectual assets and taking into account the overlooked aspects in value creation, thereby proposing a value added perspective.

6 CONCLUSION

In the wake of stiff competitiveness among the global knowledge economies, the effective management of organizational intangible assets and resources serve as the cornerstone of success in the contemporary service firms. Being knowledge-intensive firms, the Professional Service Firms must realize and utilize to the fullest the true potential of their intellectual capabilities that are ingrained in their human minds, work culture, innovative systems and external relationships. As a whole, PSFs by redirecting their focus on utilizing and developing in-house Intellectual Capital (IC), would be able to fully realize their strategic goals and objectives. In short, investment in IC would potentially support organizational flexibility, adaptability & transformation, leading to success and longer-term sustainability of the firms.

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