

The Strategic Management of Intellectual Capital:
A Case study in the Banking and Financial Services Sector
in Zambia

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ABSTRACT

Fundamental changes in the global economy are changing the basis of organisational competitive advantage. The challenge in attaining a competitive advantage is characterised by factors such as increased competition, market volatility, geographically dispersed operations, customer awareness, raising workforce diversity and stringent regulatory regimes. These factors have driven, and in turn have been driven by, an increasing complexity of products, services and the processes that create value, resulting in changes in the structural and functional dimensions of the organisation. Business executives and academics recognise the shift in value creating assets from the traditional land, labour and capital to intangible assets such as knowledge and information becoming the most important resources an organisation can muster. The combination and integration of intangible assets such as human resources, structural and relational resources has been grouped under the umbrella of intellectual capital.

This study comprises of a single descriptive case study analysis to ascertain how intellectual capital is managed strategically to gain a competitive advantage in an organisation in the banking and financial services sector in Zambia. Based on document review and semi-structured interviews, this thesis investigated the extent to which an organisation in the banking and financial services sector in Zambia leveraged intellectual capital to gain competitive advantage.

In this study it was found that there is a low level appreciation of the intellectual capital phenomenon as a strategic management tool in the participating organisation. However, the organisation has adopted aspects of intellectual capital and has implemented them successfully accounting for the organisation's competitive edge in the market.

DEDICATION

To my dear wife Miriam, greatest friend, supporter and source of inspiration. And to the girls, (Kumbutso, Kondwani and Baby Mwaka) for always giving me a reason to continue.

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ABBREVIATIONS AND ACRONYMS

AAT	Association of accounting technicians
ACCA	Association of chartered certified accountants
ACIB	Associate of the chartered institute of bankers
ATM	Automated teller machines
CIMA	Chartered institute of management accountants
CRM	Customer relationship management
FCCA	Fellow of the association of chartered certified accountants
FCIMA	Fellow of the chartered institute of management accountants
FEDEX	Federal Express
HCR	Human capital respondent
IBM	International Business Machines
IC	Intellectual capital
ICR	Intellectual capital respondent
IDP	Institutional development plan
IMIS	Institute for the management of information systems
K	Kwacha (Zambian currency)
KSA	Knowledge, Skills and Abilities
LAN	Local area network
NATEC	National accounting technicians
NGOs	Non-governmental organisations
RCR	relational capital respondent
SCR	Structural capital respondent
SRM	Supplier relationship management

TQM	Total quality management
VW	Volkswagen
WAN	Wider area network
ZUFIAW	Zambia union of financial institutions and allied workers

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CHAPTER ONE

INTRODUCTION, PURPOSE AND BACKGROUND

1.1 INTRODUCTION

Fundamental changes in the global economy are changing the basis of organisational competitive advantage. The challenge in attaining a competitive advantage is characterised by factors such as increased competition, market volatility, geographically dispersed operations, customer awareness, raising workforce diversity and stringent regulatory regimes (Teece, 2000:3; Suresh and Mahesh, 2006:3; Von Krogh, Nonaka, and Nishiguchi, 2000: 13) These factors have driven, and in turn, have been driven by an increasing complexity of products, services and the processes that create value, resulting in changes in the structural and functional dimensions of the organisation. The decreased cost of information flows and increases in the number of markets, the liberalisation of product and labour markets in many parts of the world, and the deregulation of international financial flows have eroded the traditional sources of attaining a competitive advantage, exposing a new way for wealth creation (Teece, 2000:3; Suresh and Mahesh, 2006:3; Von Krogh, *et al.*, 2000: 13).

Roos, Roos, Dragonetti and Edvinsson (1997:1), Teece (2000:5) and Bontis (2002:15) agree with the notion that intangible assets are increasingly becoming a source of competitive advantage and profitability among organisations in developed economies and have gained popularity among business executives and academics. Roos, *et al.*, (1997:1) suggest that executives and academics recognise the shift in value creating assets from the traditional land, labour and capital to knowledge and information becoming the most important resources an organisation can muster. Quinn (1992: 241) asserts that the economic and production power of a modern organisation is located in its intellectual and service capabilities rather than in its hard assets, such as land, plant, and equipment. Quinn (1992: 241) goes a step further by pointing out that value of most products and services depends primarily on how knowledge-based intangibles, such as technological know-how, product design, and marketing presentation, understanding of the customer, personal creativity, and innovation can be developed. Neuland (2006 cited in Louw and Venter, 2006:471) suggests that the emergence

of a knowledge based society has been characterised by far-reaching changes in production factors, with the focus increasingly on intangible assets such as knowledge, creativity, innovation, human skills and organisational culture. Boisot (1999:2) avers that organisations reflect a continuous, systematic and concentrated application of expanding knowledge to an increasing range of physical processes. In many areas, knowledge has become more valuable than the physical substrate that carries it (Boisot, 1999:2).

Considering the increasing importance of intangible assets within the twenty first century knowledge economy, it has been asserted by Kaplan and Norton (1996:3) that the ability of an organisation to mobilise and exploit its intangible assets has become far more significant than investing in and managing physical tangible assets. This notion is supported by Neuland (2006 cited in Louw and Venter, 2006:471) who observed that the key factors of production reside in human and organisational capital. Firer and Williams (2003:348) further support the viewpoint that intangible assets are becoming recognised as the pivotal driving force behind wealth creation, while Stewart (2006:1) suggests that wealth is the product of knowledge in the twenty first century.

Intangible assets enable an organisation to develop customer relationships that retain the loyalty of existing customers and enables new customer segments and market areas to be served effectively and efficiently. Kaplan and Norton (1996:3) indicate that intangible assets facilitate the introduction of innovative products and services desired by targeted customer segments. Intangible assets thus provide a source of competitive advantage to organisations as it is difficult for competitors to imitate and provides a basis for sustaining competitive advantage over a longer term (Kaplan and Norton, 1996:3).

The combination and integration of intangible assets such as human resources (competencies, organisational values, incentive and reward systems), structural resources (processes and routines, organisational structure, patents and trademarks and data bases) and relational resources (customers, suppliers, competitors, brands and other stakeholders (government, banks, residents, and alliances) has been grouped under the umbrella of intellectual capital (Swart, 2006:136; Bernard, Gupta, Pike, and Roos, 2003; Suresh and Mahesh, 2006:3; Teece,

2000:3). The interrelationship between knowledge and intellectual capital is discussed in detail in Chapter 3.

While developed economies are devising ways of measuring and presenting intellectual capital in financial reports (Edvinsson and Malone, 1997:18), the archival evidence of the development and management of intellectual capital concepts within organisations in developing countries including Zambia is still in its infancy as evidenced by the lack of literature on the subject (Bontis, 2002:15; Firer and Williams, 2003:349). The effects of globalization coupled with the liberalization of the economy in Zambia have directly and indirectly affected organisational performance (FSDP, 2004:1). Among the most affected are organisations in the banking and financial services sector in Zambia (FSDP, 2004:1). However, studies have argued that the financial sector is vital for the socioeconomic development of a country. For example studies by De Gregario and Guidotti (1995), Levine and Zervos (1998), Rousseau and Wachtel (1998), and Levine (2003) among others, suggests that a well developed and sound financial system can contribute significantly to economic growth by recognizing the important role financial intermediaries play in bridging the disequilibrium between savings and investment needs within an economy. These authors argue that economic growth can be sustained only if scarce resources are mobilized efficiently and transformed effectively into productive investments and this function is efficiently conducted by the financial intermediaries.

In recognition of the assertion made by De Gregario and Guidotti (1995), Levine (2003), Levine and Zervos (1998), and Rousseau and Wachtel (1998), the Zambian government introduced the Financial Sector Development Plan (FSDP) in 2004. This plan provided a vision for the financial services sector which is to have a stable, sound and market based financial system that support the efficient mobilisation and allocation of resources necessary to achieve economic diversification, sustainable growth and poverty reduction (FSDP, 2004).

While recognising that the financial service sector is a key catalyst for sustainable development of a country (De Gregario and Guidotti, 1995; Levine, 2003; Levine and Zervos, 1998; and Rousseau and Wachtel, 1998), Zambia is grappling to keep up with the forces of globalization and liberalization that are transforming the global financial outlook (FSDP, 2004:1). The

business environment in Zambia has undergone a rapid transformation from a command economy, where government controlled organisations from 1964 to 1990, to a free market economy from 1991 where, as asserted by Chaharbaghi and Lynch (1999:46), organisations compete under free market conditions (FSDP, 2004:1). The change to a free market economy has posed challenges in organisations in the Banking and Financial services sector where a few banks operated as near monopolies under the command economy. Furthermore, competition at cross-border scale requires that local banks adjust their competitive position to sustain their competitive edge. Banking is also one of the most knowledge-intensive industries within the service sector (Kubo and Saka, 2002).

One way in which banks in Zambia could improve their competitive position and create value would be to focus more on the strategic management of their intellectual capital. It has been asserted by Bontis (2002:17); Nickerson and Silverman (1998:321) that often managers may not be aware of the value of an organisation's intellectual capital, nor do they know if they have the right people, resources, or business processes in place to effectively achieve a new strategy. Klein (1998:2) asserts that to manage its intellectual capital more systematically, an organisation must devise an agenda for transforming from comprising knowledgeable individuals to a knowledge-focused organisation that encourages the creation and sharing of knowledge with and across internal business functions and that orchestrates the flow of know-how to and from external organisations. The fabric of such an agenda comprises of many threads - people, incentives, technology, processes, and other elements – that need to be woven together carefully in a fashion commensurate with the organisation's particular strategy, culture, capabilities, and resources (Klein, 1998:2). As indicated previously in this Chapter, the combination and integration of these intangible assets (people, incentives, technology, processes, and other elements) has been grouped under the umbrella of intellectual capital (Bernard, Gupta, Pike, and Roos, 2003; Suresh and Mahesh, 2006:3; Swart, 2006:136; and Teece, 2000:3).

The strategic management of intellectual capital is therefore instrumental for organisations in the banking and financial services sector to gain competitive advantage. Porter (1985:3) affirms that competitive advantage grows out of value an organisation is able to create for its

buyers that exceeds the organisation's cost of creating it. Building on Porter's definition, Ma (1999:1) defines competitive advantage as the asymmetry or differential in any organisation attribute or dimension that allows one organisation to better serve the customers than others and hence create better customer value. Chaharbaghi and Lynch (1999:46) asserts that the concept of competitive advantage describes where the organisation currently derives the ability to add more value than its competitors and the degree to which the organisation, under free market conditions, meets the demand of a product market while simultaneously maintaining and growing its profit levels. Given the importance of effective strategic management of intellectual capital within the banking and financial services sector in Zambia, this study will determine how a participating organisation, (a bank), in the banking and financial services sector in Zambia employs the strategic management of intellectual capital to gain competitive advantage and compete with other banks.

1.2 PURPOSE OF THE RESEARCH

Against the brief background of the banking and financial services sector in Zambia provided in section 1.1 (a detailed discussion on the banking and financial services sector in Zambia is provided in Chapter 5), the purpose of this research is to determine the extent to which the strategic management of intellectual capital is being promoted and used in a participating bank in the banking and financial services sector in Zambia, to gain a sustainable competitive advantage. A cover letter inviting an organisation to participate in this study is included as annexure A: The study will also review whether the participating organisation in the banking and financial services sector in Zambia has the strategy for transforming knowledge asserts into intellectual capital and whether it encourages the creation and sharing of knowledge with and across internal business functions and how it orchestrates the flow of know-how to and from external organisations (Klein, 1998:2).

This study intends to contribute to a deeper understanding of managerial perspectives of the intellectual capital phenomenon in the banking and financial services sector in Zambia. In essence, this study aims to contribute to Zambian management research in the field of intellectual capital. Following an intensive literature search on the subject, and as highlighted in the next section 1.3.1 of this Chapter, it was ascertained that no similar study had previously

been undertaken in Zambia. However, the banking and financial services sector, in general, offers an ideal management research field in intellectual capital because:

- i. the sector has reliable data in the form of published reports and operational manuals;
- ii. the nature of business in the sector is “intellectually intensive” (the sector relies more on intellectual abilities of staff and processes than plant and machinery) and
- iii. employees are more homogeneous than in other sectors (Mavridis, 2004; Kubo and Saka, 2002)

The organisation selected for this study has undergone restructuring programmes where aspects of intellectual capital have been re-engineered to retain or gain competitive advantage following it being placed under receivership by the Bank of Zambia (Central Bank) in 1998. The bank was, however, allowed to continue operating in the same year under a new management team following the restructuring exercise (IDP, 2004:14).

The findings of this research, even though not generalisable, could be of interest to numerous stakeholders within the banking and financial services sector as well as policy makers capable of influencing the direction and nature of the business environment within the sector in Zambia. The research will also, to some extent, highlight the changes that have taken place in the organisation following its restructuring exercise aimed at improving the bank's operations. Lessons learnt by this organisation would be of relevance to other banks in a similar situation in Zambia.

In achieving the purpose of this research, the following research questions were formulated:

- i. Does the organisation have an intellectual capital management strategy and what is the nature of such a strategy?
- ii. How does the organisation define and construct its intellectual capital?
- iii. What is the nature of the organisation's intellectual capital in terms of the following selected intellectual constructs, namely human, structural and relational capital?
- iv. How does the organisation use each of the selected intellectual constructs to support key organisational processes and functions in gaining a competitive advantage?
- v. How does the organisation use selected intellectual capital constructs to engage with stakeholders to gain a competitive advantage?

- vi. How does the organisation generate intellectual capital for future competitive advantage?

1.3 RESEARCH DESIGN AND METHODOLOGY

To realise the purpose of this study, the study was divided into two main components namely the primary and secondary sources. The research design and methodology appropriate to this research is discussed in detail in Chapter 4. In the next section an overview of the secondary and primary sources used in this study is provided.

1.3.1 Secondary sources

The secondary study concentrated on consulting business management literature sources related to intellectual capital and knowledge management. Relevant national and international data bases on business management were consulted through the services of Rhodes University main library and the Bank of Zambia library. Information relevant to the selected organisation was obtained from management reports, internal journals, magazines and operational manuals produced in the organisation under study. Data searches were also conducted at the Zambia Institute of Bankers and the Bankers Association of Zambia. As previously mentioned, no similar study had previously been undertaken in Zambia based on extensive search of Zambian, South African and international databases on intellectual capital management in Zambia which did not yield results. However, the following studies on the banking and financial services sector in Zambia were found:

- Chisunka (2000), banking rescues and insolvency in Zambia.
- Chiumya (2006), the regulation of Micro Finance Institutions: A Zambian case study.
- Fundanga (2007), Financial sector challenges and progress in Zambia.
- Kashinga (2007), an evaluation of the performance of Zambia's banking sector post financial liberalisation.
- Maimbo (2001), the regulation and supervision of the commercial banks in Zambia: A study of the design, development and implementation of prudential regulations by the bank of Zambia between 1980 and 2000.

- Maimbo, and Mavrotas (2003), Financial Sector Reforms and Savings Mobilization in Zambia.
- Martínez (2006), Access to Financial Services in Zambia.
- Ministry of Finance and National Planning (2004), Financial sector development plan for Zambia 2004-2009.
- Simpasa (2010), performance of the Zambian Commercial Banks in the Post-liberalisation period – Evidence on cost efficiency, competition and market power.

The following journals articles, reports and thesis on intellectual capital management and related subjects were found:

- Mohiuddin, Najibullah and Shahid (2006), An Exploratory Study on Intellectual Capital Performance of the Commercial Banks in Bangladesh.
- Hummayoun, and Muhammad (2010), Employee empowerment and customer satisfaction - Empirical evidence from the banking sector of Pakistan.
- Puntillo (2009), Intellectual Capital and business performance. Evidence from Italian banking industry.
- Kamukama, Ahiauzu, and Ntayi (2010), Intellectual capital and financial performance in Ugandan microfinance institutions.
- Cabrita, and Vaz (2006), Intellectual Capital and Value Creation: Evidence from the Portuguese Banking Industry
- Mavridis (2005), Intellectual Capital Performance Drivers in the Greek Banking Sector.
- Vaithilingam, Nair, and Samudra (2006), Key drivers for soundness of the banking sector - lessons from the developing countries.

- Dauda (2010), Strategic Management Practice and Corporate Performance of Selected Small Business Enterprises in Lagos Metropolis.

Several empirical studies have however been conducted to ascertain the relationship between intellectual capital and business performance in the banking sectors in a number of countries in the world, among them; the Japanese banking sector (Mavridis, 2004); the Turkish banking sector (Yalama and Coskun, 2007); the Croatian banking sector (Pulic, 2001); the Portuguese banking sector (Cabrita and Bontis, 2008); Malaysian banking sector (Goh, 2005); the Bangladesh banking sector (Naibullah et al., 2006); and the Greek banking sector (Kyrmizoglou, 2003). For Zambia, there does not appear to be any published study that empirically analysed the correlation between intellectual capital and business performance, either in the banking sector or other productive sectors.

Based on the relevant previous research, as provided in the previous section, it is evident that most of the studies pertaining to intellectual capital focused on measuring the value added to organisations in terms of profitability rather than the strategic management of intellectual capital through which a competitive advantage could be gained. Bontis (2002:23-24) suggests that much of the literature on intellectual capital stems from an accounting and financial perspective. In such research, many of the researchers are interested in answering the following two questions: (1) what is causing organisations to be worth so much more than their book value? And (2) what specifically is in the intangible asset? Apart from a few cited studies having been conducted in Africa (South Africa, Uganda and Nigeria) most of the quoted studies were carried out in Western and Asian countries.

1.3.2 Primary sources

To achieve the purpose of this study and to answer the research questions outlined in section 1.2 of this Chapter, an exploratory case study was used in which semi-structured interviews were used as well as document analysis. An organisation in the banking and financial services sector agreed to participate in the study and provided a sample of 10 managers to participate in the study. The selection of the participants was done by the Human resources department of the organisation as follows:

- four senior and four middle level management officials from the human resources, operations and marketing departments; and
- two junior managers from the operations and marketing departments

The sample had a gender dimension of four women and six men. The researcher pre-assumed that the managers selected to participate in this study would have a good understanding of the practice of management in general and management theories in particular.

1.4 STUDY DELIMITATIONS

This study attempted to explore the extent to which the strategic management of intellectual capital is being promoted and used in a participating organisation, within the banking and financial services sector in Zambia, to gain sustainable competitive advantage. Although several factors could be identified from secondary sources as contributing to building competitive advantage that would be sustainable, this study focused on three factors that constitute the intellectual capital of an organisation namely human, structural and relational capital. Furthermore, the purpose of this study was not to measure intellectual capital within the selected organisation or to determine which tools are used by the organisation to measure intellectual capital. The purpose was rather to determine how the organisation is using intellectual capital to strategically align its self in conformity with the knowledge era (Edvinsson and Malone, 1997:18).

Even though the single unit of analysis was restricted by time constraints, it allowed for a holistic case study. The case study method was deemed appropriate because the researcher desired to define the topic broadly and covered contextual conditions and relied on multiple and not singular sources of evidence (Yin, 1993:xi, Eisenhardt 1989:534). The case study method was used within an exploratory paradigm and focused on understanding the dynamics present within the unit of research while being sensitive to the context in which management behaviour takes place with regards to intellectual capital management (Collis and Hussey, 2003:68; Yin, 1993:5).

1.5 PLAN OF THE STUDY

Chapter 1 introduced the topic of this study namely “The Strategic management of intellectual capital in the banking and financial services sector in Zambia”. The research purpose and research questions were provided together with the rationale for this study. An overview of the research design and methodology was given, in which the participation of a single organisation in the banking and financial services sector in Zambia as a unit of study was provided.

Chapter 2 provides an overview of the concept of Intellectual capital. In Chapter 2 the conceptualisation of intellectual capital, and its different constructs, namely human, structural and relational capital, are discussed.

In Chapter 3 the focus is on the strategic management of intellectual capital and how it can be used to build a sustainable competitive advantage. In Chapter 3 suggestions by different authors on how to manage the various constructs of intellectual capital and how each construct in turn can be used as a strategic management tool to achieve a competitive advantage that is sustainable is presented.

In Chapter 4, the research design and methodology is presented. The Chapter begins by discussing the research paradigm within which the study was conducted. The research design, methodology, research method and data collection process is also explained. In addition the documentation and storage of data, data analysis and aspects pertaining to the reliability and validation of data is discussed.

The research findings are given in Chapter 5. In this Chapter the findings are presented according to the research questions and the intellectual capital constructs as suggested in this study in Chapter 2 and section 2.4. Findings from documents reviewed are presented followed by findings from the semi-structured interviews.

The research findings are discussed in Chapter 6. The Chapter compares the literature reviewed in Chapters 2 and 3 where the conceptualisation of intellectual capital and strategies that facilitate organizations to leverage intellect capital are discussed respectively. The

discussion in Chapter 6 will ascertain whether the participating organisation in the banking and financial services sector in Zambia has the strategy for managing intellectual capital to gain competitive advantage.

A summary of this research will be given in Chapter 7. Thereafter conclusions will be given and recommendations based on the findings in Chapter 5 and the literature review in Chapters 2 and 3 will be made. Lessons learnt from the participating organisation in this study on how to identify and leverage intellectual capital for competitive advantage which could be of interest to other similar organisations in the banking and financial services in Zambia will be presented.

CHAPTER TWO

AN OVERVIEW OF INTELLECTUAL CAPITAL

2.1 INTRODUCTION

As discussed in Chapter 1, an organisation needs to manage its intellectual capital more systematically, and in a manner that encourages the creation and sharing of knowledge across internal business functions to orchestrate the flow of know-how within and from external organisations. The fabric of such an agenda comprises many threads - people, technology, processes, and other elements such as relationships – that need to be woven together carefully in a fashion commensurate with the organisation's particular strategy, culture, capabilities, and resources (Klein, 1998:2). As indicated in Chapter 1, the combination and integration of these intangible assets (people, incentives, technology, processes, and other elements) has been grouped under the umbrella of intellectual capital (Swart, 2006:136; Bernard, Gupta, Pike, and Roos, 2003; Suresh and Mahesh, 2006:3; Teece, 2000:3). The purpose of Chapter 2 is to provide an overview of the concept of intellectual capital, by conceptualising the intellectual capital constructs, as introduced in Chapter 1, namely human capital, structural capital and relational capital. An overview of the development of intellectual capital will also be given. Finally, a summary of the Chapter will be provided.

2.2 CONCEPTUALISATION OF INTELLECTUAL CAPITAL

It is asserted by Roos, *et al.*, (1997: 4) and Firer and Stainbank (2003) that there has been little attempt to identify and give structure to the nature and role of intangible resources in the strategic management of an organisation until recently. As asserted in Chapter 1, most of the previous research on intellectual capital stems from an accounting and financial perspective as many researchers are interested in answering the following two questions: (1) what is causing organisations to be worth so much more than their book value? And (2) what specifically is in the intangible asset? However, Johnson and Kaplan (cited in Bontis, 2002:19) argue that “an organisation's economic value” is not merely the sum of the values of its tangible assets, whether measurable at historic cost, replacement cost, or current market value prices. It also includes the value of intangible assets; the knowledge of flexible and high-quality processes,

employee talent and morals, customer loyalty and product awareness, reliable suppliers, and efficient distribution networks.

Following the work of Edvinsson and Malone (1997), Edvinsson and Sullivan (1996), Roos, *et al.*, (1997), Saint-Onge (1996), as well as Sveiby (1997), among others, intellectual capital is defined as encompassing (1) Human Capital, (2) Structural Capital, and (3) Relational Capital. These sub-phenomena encompass the intelligence found in human beings, organisational routines, and network relationships, respectively (Bontis, 2002:23-24). For purposes of this study, the definition of intellectual capital as “encompassing human capital, structural capital, and relational capital” is adopted (Edvinsson and Malone, 1997; Edvinsson and Sullivan, 1996; Roos, *et al.*, 1997; Saint-Onge, 1996; Sullivan and Edvinsson, 1996; as well as Sveiby, 1997). Before the constructs of intellectual capital are conceptualised, an overview of the development of intellectual capital is given.

2.3 AN OVERVIEW ON THE DEVELOPMENT OF INTELLECTUAL CAPITAL

In the past four decades, organisations have realised that competitive advantage is often short-lived. New products, modern plant and equipment, as well as breakthrough technologies are all too easily copied by competitors or rendered obsolete by environmental change (Stewart 2002: ix). To counter such rapid loss of competitive advantage, organisations had to continuously redefine themselves by implementing two major management strategies (Stewart 2002: ix - x) namely, Total Quality Management (TQM) and Reengineering. Firstly, TQM, pioneered by Edwards Deming and Joseph Juran in the 1950s and 1960s (Stewart 2002: ix), is the cultivation and practice of quality in every person's tasks throughout the organisation. The TQM philosophy is devoted to continual improvement responding to customer needs and expectations. The term customer in TQM includes anyone who interacts with the organisation's products or services, internally or externally. It encompasses employees and suppliers as well as the people who purchase the organisation's goods and or services. Total quality management was a departure from earlier management approaches that were based on the belief that keeping costs low was the only way to increase productivity (Robbins and Coutler 1999:47:48) In its broader sense and application, TQM embraces the organisation's internal process, its suppliers and most important, its customers. The Total quality management focus

on customer-defined quality became pivotal in sustaining competitive advantage during the 1960s (Pitts and Lei, 2003:498).

The second management strategy that organisations have undertaken to renew their competitive advantage is Reengineering - conceived by Thomas Davenport (Stewart 2002: ix - x). Reengineering is a complete rethinking and redesign of the way business activities are performed. Organisations rethink and reinvent the steps, procedures and processes for all of their activities. Reengineering attempts radical changes to obtain breakthrough results in performance. The essence of reengineering is to force the organization to select those activities it can do best and reinforce core processes that contribute to its distinctive competence (Pitts and Lei, 2003:498).

In implementing the two management strategies however, organisations come to the realisation that to stay ahead of their competitors, they must continuously redefine their sources of competitive advantage. At the centre of managing and sustaining such strategies is knowledge (Teece, 2000:6). While knowledge assets are grounded in the experience and expertise of individuals, organisations provide the physical, social, and resource allocation structure so that knowledge can be shaped into competencies. Teece (2000:12) asserts that proper structures, incentives, and management can help organisations generate innovation and build knowledge assets. Klein (1998:1) observes that while Reengineering involved doing more with less by working smarter; TQM and continuous quality improvement derived from learning how to do things better and better over time, and therefore giving rise to the concept of a learning organisation as introduced by Senge (1990) in his seminal book "The fifth discipline: The art and practice of a learning organisation".

Key sources of knowledge, skills, technologies and insights that would facilitate a sustainable competitive advantage are embedded in people, processes and databases. The organisation is therefore best thought of as a repository of knowledge – the knowledge being in the business routines and processes (Teece, 2000:6). The organisation's knowledge base includes its technological competences as well as its knowledge of customer needs and supplier capabilities. These competences reflect individual skills and experiences as well as distinctive

ways of doing things inside the organisation. To the extent that such competences are difficult to imitate and are effectively deployed and redeployed in the marketplace, they can provide the foundations for competitive advantage (Teece, 2000:29). And so, within the wisdom and knowledge era it can be asserted that the new core competencies entails building fresh organisational know-how – Intellectual Capital (IC) – an essential source of competitive advantage that should be managed more systematically (Pitts and Lei, 2003:496; Stewart 2002: ix)

The development of intellectual capital management as a discipline has however followed a pattern that is detectable in hindsight as presented in Table 2.1. There are three distinctly different origins of what has become the intellectual capital management movement (Sullivan, 2000:238-244). The first was in Japan with the ground breaking work of Hiroyuki Itami, who studied the effect of invisible assets on management of Japanese organisations (Sullivan, 2000:238-244). The second was based on the research of a group of economists seeking a different view or theory of the organisation. The views of these economists were put together by David Teece in his seminal 1986 article on technology commercialisation (Sullivan, 2000:238-244). This research was instrumental in demonstrating the economists' view of technology commercialisation and contained several ideas that were key to a management capability for extracting value from innovation. The third was the research by Karl-Erick Sveiby in 1986 in Sweden which was published originally in Swedish in which the human capital dimension of intellectual capital was addressed. The research by Sveiby in 1986 provided a rich view of the potential for valuing the organisation based on the competences and knowledge of its employees (Sullivan, 2000:238-244). However, despite this original research, Drucker (1993:5) was one of the earliest researchers who noted the paradigm shift from tangible to intangible resources and invented the terms 'knowledge work' or the 'knowledge worker' around 1960. Drucker (1993:7) indicated that in the knowledge society knowledge workers would be more important than the basic economic resources such as capital, natural resources or labour. Table 2.1 and Figure 2.1 provide a detailed trail of Intellectual Capital Management movement.

Table 2.1: Intellectual Capital Research Contributions

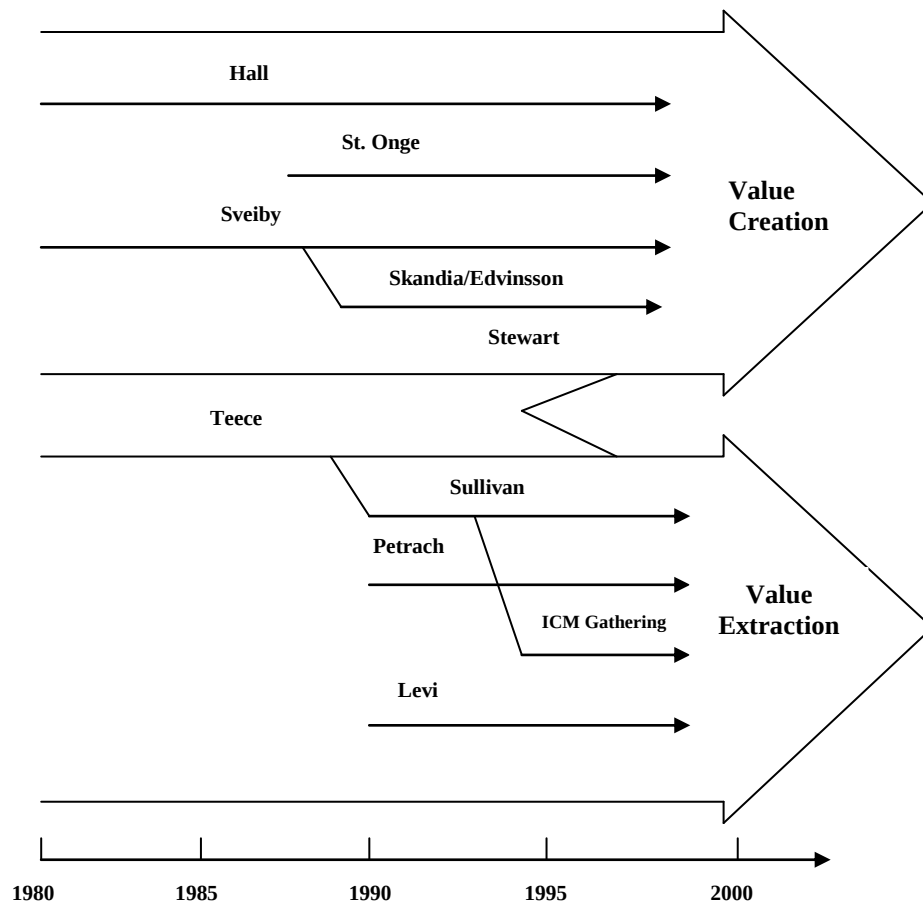
YEAR	AUTHOR	RESEARCH CONTRIBUTION TO THE DEVELOPMENT OF THE CONCEPT INTELLECTUAL CAPITAL
1980	Hiroyuki Itami	Itami's groundbreaking research on the value of invisible assets to the organisation was originally published in Japanese in 1980 while the English publication appeared in 1987. The contribution of this research was the effect invisible assets have on management of Japanese organisations as well as its prescience and clarity of insights into intangible assets and their importance to the organisation
1981	Brian Hall	For more than 25 years Hall has studied human values. In collaboration with Benjamin Tonna, he developed a hierarchy of human values as well as several instruments for measuring and describing the value sets of individuals and corporations. Hall founded Omega Associates in 1981 to commercialize his research. This company transitioned into Values Technology in 1989. Values Technology works with firms to identify their values, analyze how those values aid or impede firms' achievement of their business goals, and change the values, if necessary, to make them more supportive of the firms' business goals.
1986	Karl-Erik Sveiby	Founded in 1986 the early Swedish movement in knowledge management and intellectual capital. Sveiby published his first book In 1986, (in Swedish) in which he explored how to manage the rapidly growing field of knowledge organisations that have no traditional production, only knowledge and creativity of their employees.
1986	David Teece	Published the article "profiting from Technological Innovation". The article brought together much of the work done by academic researchers and economists leading towards a resource-based theory of strategy. This research was instrumental in demonstrating the economists' view of technology commercialisation and contained several ideas that were key to a management capability for extracting value from innovation. In this research, sources of value in technological innovation were identified; the mechanisms for converting value to profits and steps necessary for commercialisation were explained.
1989	Patrick Sullivan	Patrick Sullivan began researching into "commercialising innovation". The focus of his work has been the extraction of value from intellectual capital.
1989	Karl-Erik Sveiby	Published the results of a working group on intellectual capital in the book "The invisible balance sheet" proposing a theory for measuring knowledge capital by dividing it into three categories: customer capital, individual capital and structural capital.
1990	Karl-Erik Sveiby	In 1990, Sveiby published <i>kunskapledning (Knowledge management)</i> , the world's first book dealing with knowledge management. Sveiby was the first to recognise the need to measure human capital and he pioneered accounting practices for intangible assets.
1991	Thomas Stewart	Stewart published the article "Brain power" in Fortune magazine. Stewart began his association with intellectual capital when, as a feature writer for Fortune Magazine, he wrote a brief article in 1991 about new ideas in business.
1991	Leif Edvinsson	Skandia, a Swedish company organises first corporate Intellectual Capital function and appointed Leif Edvinsson Vice President. Edvinsson was one of the many people inspired by Sveiby's concepts and he went on to re-label the intangible assets as intellectual capital when he produced Skandia's first annual report supplement on intellectual capital in 1995.
1993	Hubert St. Onge	Hubert St. Onge is considered to be one of the most creative thinkers in the field of learning and knowledge management. He is responsible for developing learning programmes for the Canadian International Bank of Commerce. He was interested in how to translate learning into both human and structural capital. He began by exploring the relationship between human and structural capital and the organisation's financial capital. He realised that in order to be commercially successful in the long term, the first two capitals must focus on customer related interests. In so doing, the organisation creates a reserve of capital around its customers which he dubbed customer capital. The St. Onge model shows that long-term profits are created at the confluence between human, structural and customer capital.
1995		Skandia, a Swedish company publishes the first report on intellectual Capital
1997	Karl-Erik Sveiby	Karl-Erik Sveiby publishes the book "The New Organisational Wealth" in 1997

YEAR	AUTHOR	RESEARCH CONTRIBUTION TO THE DEVELOPMENT OF THE CONCEPT INTELLECTUAL CAPITAL
1997	Edvinsson and Malone	Edvinsson and Malone (1997) published a book "Intellectual Capital". As corporate Director of Intellectual Capital at Skandia AFS, a Swedish insurance company, Edvinsson was responsible for creating ways to describe what Skandia called "the hidden values" and developed an intellectual capital management model for the organisation. Edvinsson built upon the concept pioneered by Sveiby of reporting on external or relational capital. Skandia has so far issued six intellectual supplements to its annual reports, outlining the organisation's intellectual capital and the ways in which this hidden value is used for the benefit of customers and shareholders
1997	Thomas Stewart	Published a book "Intellectual Capital: The new wealth of organisations in 1997. This was a follow up publication to "Intellectual Capital" published in 1994.
1998	Patrick Sullivan	Published a book "Profiting from Intellectual Capital".
2000	Intellectual Capital Conference	Academics and management practitioners meet for the first time to deliberate on intellectual capital

Source: Researcher's own construction adapted from Sullivan 2000 (238 - 244)

Before discussing the intellectual capital constructs, Sullivan (2000) provides a timeline which demonstrates a step by step movement of the intellectual capital phenomenon from a value creation phase in the early 1980s to a value extraction phase at the beginning of the 21st century. Figure 2.1 below presents the history of the discussion of intellectual capital which is captured as a two stage process; firstly, the focus was on the outcomes of value creation: how to manage the assets of a given stock of intellectual capital (knowledge assets). In the second phase, the focus shifted towards processes of knowledge creation and how to tap into the flow of knowledge and leverage the conversion from tacit knowledge to intellectual capital (explicit to tacit knowledge) presented as value extraction in Figure 2.1. The value extraction phase is what has come to be known as intellectual capital management. Intellectual capital management is the strategic leverage of intellectual capital assets (intangible assets) to create a competitive advantage.

Figure 2.1: The intellectual capital discussion time line



Source: Adapted from Sullivan (2000)

2.4 INTELLECTUAL CAPITAL CONSTRUCTS

Roos, *et al.*, (1997:28-29) argues that although intellectual capital can be defined, most of the definitions given in Section 2.2 are too general to be of practical significance in effective strategic planning and implementation. There is need to distinguish between the different constructs which comprise the concept of intellectual capital, as has been done for the purpose of this research. The identification of these constructs would improve the understanding of what intellectual capital is and will enable the manager to take the concept down to a strategic management and even operational level (Roos, *et al.*, 1997:28-29). Table 2.2 presents intellectual capital constructs as suggested by different authors.

Table 2.2: Intellectual capital constructs

AUTHORS	HUMAN CAPITAL
Edvinsson and Malone (1997: 34 - 36)	❖ Knowledge, skills, innovation, and ability of organisation's individual employees ❖ Organisational values, culture and philosophy.
Brooking (1997:12)	❖ Collective expertise, creative and problem solving capability, leadership, entrepreneurial and managerial skills
Maria and Mart (2003:2)	❖ Employee's education, experience, know-how, knowledge, skills and values and attitudes
	STRUCTURAL CAPITAL
Edvinsson and Malone (1997: 34-36)	❖ Hardware, software, databases, organisational structure, patents, and trademarks
Brooking (1997:12)	❖ Technologies, methodologies and processes. ❖ Corporate culture, methodologies for assessing risk, methods of managing a sales force, financial structure, databases of information on market or customers, communication systems. ❖ Know-how, trade secrets, patents, and various design rights as well as trade and service marks (Intellectual Property Assets)
Maria and Mart (2003:2)	❖ Formal and informal organisation structure, work methods and procedures, software, databases, research and development systems and culture.
	RELATIONAL CAPITAL
Edvinsson and Malone (1997:34-36)	❖ Customer satisfaction, longevity, price sensitivity, financial well-being of long term customers.
Brooking (1997:12)	❖ Various brands, customer and their loyalty, repeat business, backlog, distribution channels, contracts and agreements, licensing, franchises.
Maria and Mart (2003:2)	❖ Portfolio of customers, relationships with suppliers, banks and shareholders. ❖ Cooperation agreements, and alliances, commercial brands and its image.

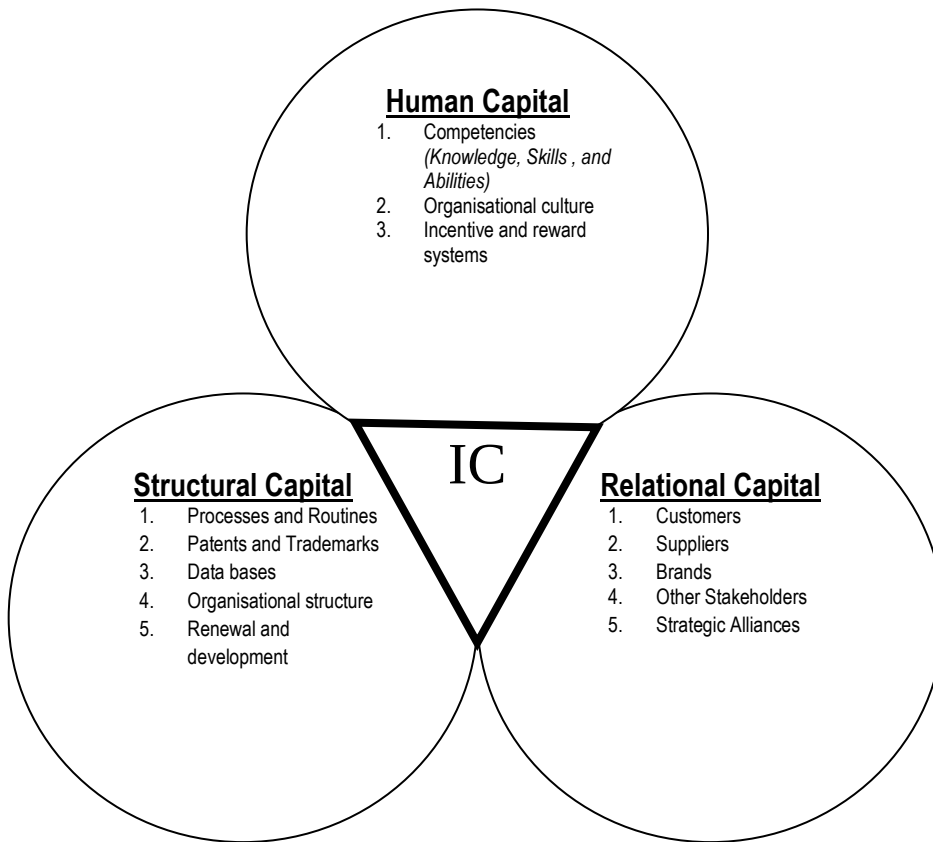
Source: Researcher's own construction

Following the research of Bontis (1996a: 1998), Edvinsson and Malone (1997), Edvinsson and Sullivan (1996), Roos, *et al.*, (1997), Saint-Onge (1996), as well as Sveiby (1997), as illustrated in Table 2.2, intellectual capital is known to encompass the constructs referred to as human, structural and relational capital. However, Brooking (1997:12-16) has a slightly different grouping of intellectual capital which divides the concept into four categories of market assets, intellectual property assets, human-centred assets, and infrastructure assets. In recognising these differences Roos, *et al.*, (1997:34) agree that the four categories Brooking (1997:12-16) identified are indeed important to defining and understanding the concept of intellectual capital.

For purposes of this study the classification of intellectual capital into human capital and structural capital as modelled by Edvinsson and Malone (1997:34-36) is adopted, while the relational capital construct as modelled by Maria and Mart (2003:2) is adopted. The adoption of

these constructs is motivated by their conformity to the strategic management view of an organisation. Figure 2.2 represents the categorisation of intellectual capital according to these three main constructs. In Figure 2.2, human capital includes competencies, organisational culture and incentive and reward systems. Structural capital is composed of processes and routines, patents and trademarks, data bases, and renewal and development, while relational capital constitutes customers, suppliers, brands, stakeholders, and alliances. This conceptualisation of intellectual capital forms the basis upon which Intellectual Capital is discussed throughout this research. The three intellectual capital constructs are discussed in detail in the following sections.

Figure 2.2: Intellectual capital constructs



Source: Researcher's own construction of the different intellectual capital constructs as adapted from Edvinsson and Malone (1997:34) and Maria and Mart (2003:2)

2.4.1 HUMAN CAPITAL

Human capital comprises of the collective expertise, creative and problem solving capability, leadership, entrepreneurial and managerial skills embodied by the employees of the organisation (Brooking, 1997:15). The human elements of the organisation are those that are capable of learning, changing, innovating and providing the creative thrust which if motivated can ensure a long lasting competitive advantage (Bontis *et al*, 1999:3). Edvinsson and Malone (1997:34-35) suggest that individual capabilities, knowledge, skills, and experience of an organisation's employees and managers, is included in the term human capital, as shown in Table 2.2). Bontis *et al* (1999:12), on the other hand, define human capital as the collection of intangible resources that are embedded in the members of the organisation. These resources can be of three types namely; competencies (including skills and know-how), attitude (motivation, leadership qualities of top management) and intellectual agility (the ability of the organisational members to be innovative. Brooking (1997:15) like Bontis *et al* (1999) define human capital as comprising of the collective expertise, creative and problem solving capability, leadership, entrepreneurial and managerial skills embodied by the employees of the organisation. The composition of human capital (competencies, organisational culture and incentives and reward systems) as shown in Figure 2.2 is discussed in the next section.

2.4.1.1 Competencies (*Knowledge, Skills , and Abilities*)

Competencies are knowledge, skills, abilities (KSA) and experiences that allow an organisation to perform better than another in a particular setting. Competencies are what yield competitive advantage. Such competencies must be difficult for competitors to imitate or obtain if competitive advantage is to be sustained (Louw and Venter 2006:24). Knowledge, skills and abilities include the requisite expertise and know-how necessary to run the organisation efficiently and effectively in order to retain a competitive edge (Louw and Venter 2006:428).

However, Edvinsson and Malone (1997:34-35) argue that human capital must be more than competencies (the knowledge, skills and abilities of employees) as shown in Figure 2.2, but rather, it also must capture the dynamics of an intelligent organisation in a changing competitive environment. For example: are employees and managers constantly upgrading their competencies? Are these new competencies recognised by the organisation and

incorporated into its operations? And are these new competencies, as well as the experiences of the organisation's veterans, being shared throughout the organisation? Likewise Brooking (1997:15) promotes a view point that human capital is not only looking at an individual and their ability to perform a particular job function, but to view the individual as a dynamic entity who may fit into a variety of jobs over time and suggest that it is the task of an effective manager to ensure that each human asset has access to opportunity and mechanisms which enable the employee to achieve their full potential within the organisation. Organisations need to know how vocational qualifications, work related knowledge and personality profiles come together and are used within the context of its own business. Work related competences can best be thought of as a merged set of skills, creative profiles, personality attributes and vocational qualifications (Brooking, 1997:56). By focusing on work related competences instead of jobs, teams of individuals can be pulled together or disbanded in order to suit a client need or an emerging market situation (Brooking, 1997:56).

2.4.1.2 Organisational culture

Culture constitutes the norms, values, beliefs and attitudes that are pervasive in the organisation and results in a language, symbols, and habits of behaviour and thought, binding organisational members together. As such, an organisation's culture serves to underscore the drivers of process, laying the foundation for the type of structure or system adopted (Louw and Venter, 2006:431). Organisations that have a culture that supports and encourages cooperative innovation understand what it is about their culture that gives them a competitive advantage and develop and nurture those cultural attributes. Increasingly an organisational culture is recognised as the conscious or unconscious product of the senior management's belief (Bontis, 2002:38).

Knowledge and skills in the absence of an organisational culture (attitudes and values) fall short in supporting the organisation in developing a competitive advantage. Attitudes capture the thoughts and feelings of organisational members about their specific jobs, while values describe what the organisation is trying to achieve through work and how organisational members think they should work (George and Jones, 2006: 50). George and Jones (2006:51), aver that values often lead to the formation of norms, or informal rules of conduct, for

behaviours considered important by most members of the organisation, such as behaving honestly or courteously.

Bontis (2002:38) further suggests that in most organisations that have pursued formalised intellectual capital management initiatives, the common component that drives the programme is value alignment. Values are the key to any successful organisational transformation because values are basically a quality information system that, when understood, tell about what drives human beings and organisations and causes them to be exceptional. The achievement of an organisation's strategy and the success of its operating level intellectual capital initiatives must therefore be enabled by a culture that values and rewards the creation and sharing of intellectual capital (Klein, 1998:5).

2.4.1.3 Incentive and reward systems

In the management of intellectual capital it should be realised that people are investors of their own human capital and that this provides the main source of competitive advantage for the organisation (Ingham, 2007: xvi). Therefore, how organisations reward employees is singularly important in the implementation of processes and ultimately, the achievement of strategic outcomes (Louw and Venter, 2006:424). Brooking (1997:15) suggests that the optimal position for the organisation is to be able to derive maximum benefit from individual employees which is balanced by way of compensating employees in monetary, professional, personal development and opportunity terms. Klein (1998:6) avers that in tandem with the cultivation of an appropriate organisational culture, management should incentivise employees to contribute to the organisation's base of intellectual capital by supporting such contributions with explicit transactions.

As a contemporary work-force is knowledge based, such a work-force is participatory, understands the goals of the organisation and receives satisfaction from knowing the part it plays in achieving the goals (Brooking, 1997:44). It has been asserted that organisations that are intellectual capital sensitive emphasise sharing, involving, empowering and showing an appreciation for individuals' contributions to the organisation (Brooking, 1997:44). The human elements of the organisation that are capable of learning, changing, innovating, and providing

the creative thrust, if properly motivated, can ensure a long-run competitive advantage of the organisation (Bontis, 2002:27-28).

2.4.2 STRUCTURAL CAPITAL

Structural capital identifies all the value coming from the structural layout, as well as from all the intellectual property assets of the organisation (for example, patents, trademarks, brands,). As such it represents the hardware, the tools and other enablers an organisation uses in its daily operations to produce results. The ideal structural capital would be flexible enough to evolve with its environment, connecting employees at all levels (facilitating information sharing) and being replicable, to enhance connectivity and save costs (Roos, *et al.*, 1997:48). Bontis, *et al.*, (1999:12) and Brooking (1997:16) assert that the essence of structural capital is the knowledge embedded within the routines of an organisation and suggest that structural capital are those technologies, methodologies, and processes that enable the organisation to function. Examples include methodologies for assessing risk, methods of managing a sales force, databases of information on the market or customers, communication systems such as e-mails and teleconferencing. Edvinsson and Malone (1997:35) hold similar views to Bontis, *et al.*, (1999:12) and Brooking (1997:16) and suggest that structural capital might best be described as the empowerment and supportive infrastructure of human capital. Patents, trademarks, and databases are also part of structural capital as illustrated in Table 2.2. Structural capital is what bonds the organisation; it provides strength and cohesion between the organisations' people and its processes (Brooking, 1997:16). Figure 2.2, shows the structural capital construct for the purpose of this study which includes processes and routines, organisational structure, patents and trademarks, data bases and renewal and development. Each of these will subsequently be discussed.

2.4.2.1 Processes and routines

Processes and routines are an important part of an organisation's structural capital. Processes are connected sets of actions or operations that are performed in order to reach a particular result or as a part of an official system or established method of doing something, while routines are regular ways of working or doing things in an organisation (Roos, *et al.*, 1997:48).

Processes and routines can be considered as the software of structural capital, that is, the operations that make the organisation work. Processes and routines are normally transmitted through oral tradition, but organisations are formalising them into documents and manuals. Any activity inside the organisation is a process and contributes to the creation of structural capital. Processes and routines are varied; however the organisation must share the learning that comes from each process. The creation of databases for best practices, for example, is the transformation of processes and routines into structural capital which allows the organisation to replicate the specific process when needed (Roos, *et al.*, 1997:48-49).

2.4.2.2 Patents and trademarks

A patent is a property right which is granted by the state to its inventor. Brooking (1997:36) asserts that the right is exclusive, which means that the owner has monopoly for a period of time and the right to exclude others from making, copying or selling the invention. In order for a patent to be granted, the invention must be disclosed or put into public domain. Ownership of a patent is valuable, if the owner asserts the rights to the patent. Organisations sometimes choose to protect new products with multiple patents, one for each component or part – referred to as a thicket (Brooking, 1997:36-37). This prevents other organisations from infringing on the patents.

A trademark is a registered mark which is associated with the organisation or its products, which distinguishes them from those owned by others. The mark can be a word such as a name, picture or a logo or a combination. Exclusive rights to trademarks are obtained by continual use and may be registered by the patent office. Trademarks are used to protect brands and can become valuable assets which live for a long time, increasing in value over the years (Brooking, 1997:40).

2.4.2.3 Data bases

Knowledge management programmes have focused on the creation of databases to share best practices and to map the competencies of an organisation and its members (Roos, *et al.*, 1997:45). For organisations that choose a management philosophy which requires the organisation to be customer focused, the organisations use technology to communicate with

customers and deliver products and services. Databases inform the organisation on which products and services to sell to a particular customer and record the customer's buying history and product preferences. (Brooking, 1997:2) Customer databases are market assets which need to be constantly updated if they are to be of any value to the organisation (Brooking, 1997:28). Some organisations keep operational information in a form of codified knowledge which is stored in databases or digital and traditional libraries. The databases are a source of knowledge and information for experts within the organisation (Suresh and Mahesh, 2006:69).

2.4.2.4 Organisational structure

Pitts and Lei (2003:362), suggest that employees working within an organisation must be able to understand how their actions interrelate with the actions of others to support and execute the organisation's strategy. An organisational structure provides the means for employees and their managers to interrelate. Organisational structure is vital in clarifying the roles of managers and employees that hold the organisation together. Designing an appropriate structure that fits and supports the organisation's strategy is a senior managements' task and it is concerned with relationships among organisational activities (Pitts and Lei, 2003:362). A well designed structure facilitates the execution of the organisation's value adding activities and can assist management to build and extend the organisation's competences. However, an organisation's strategy is the driver of how management chooses to organise and group the key value adding activities and tasks (Pitts and Lei, 2003:362).

2.4.2.5 Renewal and development

The last component of structural capital is the renewal and development value. Renewal and development capital includes all items that have been built or created and that will have an impact on the future value, but have not manifested that impact yet. New product development, re-engineering and restructuring efforts, development of new training, research and development are all examples of renewal and development value (Roos, *et al.*, 1997:51). Thus, investments in new plants and machines are part of renewal and development value as long as they are in the planning phases, but become financial assets when they get to realisation. Similarly investments in training employees are included in renewal and development capital

only as far as the planning stages; afterwards, they become a flow of financial capital to human capital (Roos, *et al.*, 1997:51).

Projects are also part of renewal and development value only as far as their realisation; afterwards, they become new value of the chosen form. Organisations strive to create renewal strategies that are consistent with the present situation of the organisation, the future as the organisation envisions it and the goals the organisation has set for itself (Roos, *et al.*, 1997:51-52).

In summary, structural capital is important because it brings order, safety, correctness and quality to the organisation. It also provides a context for the employees to work and communicate with each other. An organisation with strong structural capital has a supportive culture that allows individuals to try new things, to fail, to learn, and try again (Brooking, 1997:16). This construct therefore contains elements of efficiency, transaction times, procedural innovativeness, and access to information for codification into knowledge (Bontis, 2002:33-34), (Edvinsson and Malone, 1997:35-36). In the next section the third construct on intellectual capital namely, relational capital, will be discussed.

2.4.3. RELATIONAL CAPITAL

Relational capital is defined as the knowledge embedded in the relationships established with the external environment of the organisation (Edvinsson and Sullivan, 1996:20). At an inter-organisational level, relationships are typically considered as institutionalised, their existence not depending on the actions of single human beings. While human beings carry out those activities that initiate, build and maintain relationships, organisations are considered as partners in relationships. Interorganisational relationships can be formalised through contractual or legal bonds, or they can be informal. Some involve exchange of products (goods, services, knowledge etc.) for monetary compensation, such as exchange relationships. Others are based on competitive pressure or regulative frameworks (Agndal and Nilsson, 2006:91).

Relational capital includes relationships with customers, producers and suppliers, distributors, shareholders and other stakeholders such as the government. Nonaka and Takeuchi (1995:5-6) assert that Japanese organisations have continually turned to their suppliers, customers, distributors, government agencies and even competitors for new insights or clues they may have to offer. Knowledge that is accumulated from external relationships is shared widely within the organisation, stored as part of the organisation's knowledge base, and utilised by those engaged in developing new technologies and products. Collaborations between organisations are also a form of relational capital. Incongruence between organisations' product domains and their knowledge domains offers opportunities to improve the efficiency of knowledge utilization through collaborative alliances (Grant and Baden-Fuller, 2004).

There is a trend in industry for organisations to come together to solve a problem or make a new product. This trend reflects the inability of organisations to solve large problems and also an interest in extending the barriers of the organisation to include the supply chain (Brooking, 1997:67). For purposes of this study, the relational capital construct is composed of customers, suppliers, brands, stakeholders and strategic alliances as shown in Figure 2.2. Each of these will subsequently be discussed.

2.4.3.1 Customers

A customer is an individual who has bought products or services. Customers can be very expensive to acquire, depending upon the sales cycles for the product or services. It has been asserted that gaining a sale with a new customer is much more expensive than gaining the same sale with an existing client (Roos, *et al.*, 1997:44; Brooking, 1997:23-26). With the raise in customer expectations throughout the world, Customer Relationship Management (CRM) strategies have become important in managing these changes in expectations from customers as well as changes in the nature of markets. Customer relationship management is a managerial philosophy that seeks to build long term relationships with customers. CRM can be defined as "the development and maintenance of mutually beneficial long-term relationships with strategically significant customers" (Buttle, 2000 cited in Berndt, Herbst and Roux, 2005: 1). Customer satisfaction (that is, relationship value originating from the customer) can increase the life expectancy of the relationship, reduce price elasticity, reduce the efficiency of

the competitors' effort, lower the cost of attracting new customers and enhance the reputation of the organisation. The ability of an organisation to retain customers is essential to its long-term profitability and this can be exploited through brand extension, where customers are naturally prone to trust the brand name and try out the new product (Roos, *et al.*, 1997:44). An elaborate discussion on how CRM can be used to leverage intellectual capital will be presented in Chapter 3 Section 3.2.3.1.

2.4.3.2 Suppliers

With the recent orientation towards a greater focus on the core competencies of an organisation, reliance on external parties for important parts of the 'supply and demand chain' process has increased considerably. Suppliers are, in many cases, considered an integral part of the business system of an organisation (Quélin in Sanchez and Heene, 1997:149). It is not uncommon to find employees of the supplier based in the client's headquarters. These relationships aim at reducing costs through co-marketing, joint training and similar activities, thereby enhancing the value for both organisations. The cooperation can in fact show possible improvements of the product or service offered.

To develop closer and better relationships, organisations are resorting to mono-client supply relationships in which competition tends to be more chain versus chain, and less organisation versus organisation (Roos, *et al.*, 1997:44). As Information technology is making traditional business borders obsolete especially between organisations, creating a "global village", the phenomenon has created a new business environment in which organisations no longer compete as a single legal entity, but as supply chains in which information has become the most valuable asset, which has to be managed and distributed to their stakeholders (Eulálio, Campelo and Stucky, 2007:105). This statement is especially true in the management of organisations' relationships with their suppliers, a trend which has come to be known as "Supplier Relationship Management" (SRM). Supplier relationship management is the part of the supply chain management, which deals with aspects of the business relationship between organisations and their suppliers. SRM promotes transaction systems such as electronic sourcing, electronic procurement and supplier enablement. Supplier enablement is the synchronisation of business processes with trade partners, by connecting their organisations

directly or indirectly with the back- and front-end electronic systems of both organisations, using an appropriate gateway to exchange commercial and marketing information. Supplier enablement is the channel that organisations use to integrate with their trade partners and realize their e-sourcing and e-procurement activities in a competitive way (Eulálio, *et al.*, 2007:106; Roos, *et al.*, 1997:43).

2.4.3.3 Brands

Branding denotes ownership and identity of products and services. The rapid growth of communications and computer technology has had a homogenising effect on the world markets enabling organisations to undertake global branding strategies. Such strategies give organisations the option of customising products and services for local markets (Brooking, 1997:20). Brands are reminders to customers to buy the products and services of one organisation in preference to another. There are several types of brands, all of which are market assets. These include product, service, and corporate brands (Brooking, 1997:20). A product brand is used to distinguish one brand from the other – Nescafe from Maxwell, Martin form Cinzano and so on. Service brands inform customers about a service. Examples of service brands include American Express, Hertz and FEDEX. Corporate brands, on the other hand, are those where the organisation name has a presence, indicating value in the market-place. Examples include General Motors, VW, IBM, Coca Cola and Nestle (Brooking, 1997:21).

2.4.3.4 Stakeholders

Organisations face the interest and the impact of different people and groupings. Contemporary organisations are not only responsible for meeting the needs of their shareholders, but also the needs of their stakeholders such as employees, public interest groups such as environmental organisations, strategic partners, journalists and or public monitoring bodies and governments (Recklies, 2001:1). Stakeholders of any organisation are those groups of people who have a vested interest in the running of the organisation, because they are in some way affected by the outcomes of its activities (Louw and Venter 2006: 401). Stakeholder relations can be the hardest form of relations to build up, because most organisations' actions are bound to displease one or other interest group around the

organisation. Louw and Venter, (2006:401) aver that stakeholders of the organisation are impacted by strategic direction an organisation takes, and in fact shape strategy to varying degrees, as well as being impacted by the results, again in varying degrees. As indicated previously in this section, organisations can have various groups of stakeholder, however for purposes of this study, shareholders, employees, customers, and suppliers are deemed the primary stakeholders, while the community at large are the secondary stakeholders (Louw and Venter, 2006:402).

Roos, *et al.*, (1997:45) and Louw and Venter (2006:401) suggests that stakeholders can be a good tool in achieving an organisation's strategy, however, when it comes to important corporate decisions, organisations must know about the expectations of different stakeholders and to determine, to what extent they could and would exert an influence. Recklies (2001:1) suggest that organisations must assess and evaluate stakeholders in order to adjust strategic directions with corporate objectives. Recklies (2001:1) further avers that organisations should ask the following questions in determining relationships with stakeholders:

- i. How do key stakeholders view their relationship with our organisation?
- ii. What do customers, employees, business partners, shareholders and the general public expect from our organisation?
- iii. How can the organisation manage these key stakeholder relationships profitably?

The most profitable organisations have strong relationships with stakeholder groups. In the contemporary competitive business environment, stakeholder management is decisive in determining whether or not an organisation is and will remain successful. Consequently, sound relationships with customers and business partners, a healthy corporate reputation, committed employees and efficient internal processes define competitive advantage for organisations (Roos, *et al.*, 1997:45).

2.4.3.5 Strategic alliances

Business arrangements between organisations have been referred to as 'strategic alliances, Alliances can have different degrees of formalisation, from official joint venture or any type of agreement to hand-shakes and long-term supply relationships which do not need a written

contract. Alliances can be formed with competitors (to develop a new product) or between suppliers and clients (Roos, *et al.*, 1997:44-45). Common features of emerging organisational alliances are collaborations (Quélin in Sanchez and Heene, 1997:149). Collaborative arrangements cover a diversity of relationships from vertical supplier-buyer partnerships, technology and know-how exchanges, joint product development, co-operative research, collaborative marketing arrangements and franchise agreements. Collaboration here adopts a generic approach and the term 'interorganisation collaborative arrangements', or 'alliances' refers to both horizontal and vertical relationships between organisations which are characterised by the following features:

- i. Stability – the relationship involves multiple transactions, typically extended over a significant period of time.
- ii. Reciprocal resource sharing – the relationship involves some form of investment by the participants in terms of the transfer or pooling of resources such as information, technology, distribution channels, trademarks, and even physical assets; and
- iii. Informality – the relationship is not fully determined either by ownership or formal, complete contracts (Agndal and Nilsson 2006:91).

In some cases the arrangements are informal; in other cases they include ownership links (such as interlocking directorships) and formal contracts (for example, licensing and sourcing agreements (Grant and Baden-Fuller, 2004).

2.5 CHAPTER SUMMARY

In this Chapter intellectual capital was conceptualised. The origins and development of the intellectual capital concept was outlined and the different constructs therein were explained. The intellectual capital constructs selected for this study include the human capital construct, the structural capital construct and the relational capital construct. These constructs are associated with strategies that facilitate managers to leverage intellectual capital for competitive advantage. These strategies that enable managers to manage for a sustainable competitive advantage will be discussed in detail in Chapter 3.

CHAPTER THREE

STRATEGIC MANAGEMENT OF INTELLECTUAL CAPITAL

3.1 INTRODUCTION

The search for a competitive advantage that is sustainable challenges organisations to become more effective in leveraging their existing resources. Organisations possess immense unstructured and informal know-how, which in the absence of intellectual capital management, could be distributed in a haphazard fashion across individuals and recording media such as memos, books, manuals and databases (Klein, 1998:3). As indicated in Chapter 1 in section 1.1, to manage intellectual capital, an organisation must devise an agenda for creation and sharing of knowledge within and across internal business functions and orchestrating the flow of know-how to and from external organisations (Klein, 1998:2).

The strategic management of intellectual capital therefore necessitates a fundamental shift in thinking and understanding the operational roles of intellectual capital and the links between its different constructs. Ultimately the organisation's strategy for managing intellectual capital would need to answer the following questions:

- What kind of know-how would improve the organisation's products and services?
- What intellectual capital is required to support its key processes, routines and functions more effectively?
- How can the organisation share selected intellectual capital with customers and suppliers to create cost and performance advantage?

As introduced in Chapter 1 in section 1.1, executives and academics recognise that the shift in value creating assets from the traditional land, labour and capital to knowledge and information are becoming the most important resources an organisation can muster (Roos, *et al.*, 1997:1; Quinn, 1992: 241; Louw and Venter, 2006:471; Boisot, 1999:2; and Klein, 1998:2). In this Chapter the strategies that facilitate organisations to leverage intellectual capital will be discussed. The discussion focuses on leveraging the three constructs of intellectual capital namely human, structural and relational capital as identified for this study in Chapter 2 and

section 2.4. At the centre of the discussion in this Chapter is knowledge and how it can be used to leverage Intellectual Capital.

3.2 LEVERAGING INTELLECTUAL CAPITAL

By definition, strategic management is the pattern or plan that integrates an organisation's major goals, policies and action sequence into a cohesive whole. A well formulated strategy helps to marshal and allocates an organisation's resources into a unique and viable posture based upon its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents or competitors (Louw and Venter, 2006:10). While there are many other similar definitions of strategic management, this Chapter will focus on the strategic management of intellectual capital and as such the definition of strategic management of intellectual capital entails developing a plan whose internal focus is to coordinate the transformation of intellectual material generated by individuals, data bases and process into intellectual capital (Kaplan and Norton 2004:3; Quélin in Sanchez and Heene, 1997:141). To provide a better product or service offering, the organisation must search for the best practices, techniques, and ideas that other organisations have used to improve their own operations and products (Pearce and Robinson, 2005:321). This is the external focus of strategic management of intellectual capital which promotes the seeking out of opportunities to form and leverage such capital in the organisation (Pitts and Lei, 2003:500, Klein, 1998:3).

At the core of strategic management of intellectual capital should be a determination that products and services that the organisation offers match and exceed the offerings made by competitors (Kaplan and Norton 2004:4). Ultimately the organisation's strategy for managing intellectual capital should be in its portfolio of management and technology initiatives that leverage human, structural and relational capital (Klein, 1998:3, Kaplan and Norton 2004:5; Quélin in Sanchez and Heene, 1997:142). As discussed in Chapter 1 in section 1.1, banking being one of the most knowledge-intensive industries, it applies that intellectual capital may be a critical source of building and sustaining competitive advantage for the organisation participating in this study. Strategies for leveraging human, structural and relational capital will subsequently be discussed.

3.2.1 HUMAN CAPITAL

In order to improve performance, organisations need to develop underlying skills and know-how and channel these into process improvements. As explained in Chapter 2, Figure 2.2, human capital is capable of learning, changing, innovating and providing the creativity which ensures a long lasting competitive advantage (George and Jones, 2006: 529; Bontis *et al*, 1999:3; Sharkie, 2003:22-23). The internal human capital capabilities result in sustainable competitive advantage because of the difficulty in coping competences based on knowledge, skills and abilities built into processes and developed over time into working combinations in a particular organisational context (Sharkie, 2003:22-23). In the following sections a discussion on how the sub-components of human capital can be leveraged, based on Figure 2.2 in Chapter 2, will be discussed.

3.2.1.1 Competencies (*Knowledge, Skills, and Abilities*)

Organisations operate in all areas through people and it is their contribution which determines success and their knowledge, Skills and abilities that need to be cultivated and then leveraged to create competitive advantage (Sharkie, 2003:21). As indicated in Chapter 2 and section 2.4.1.1, for purposes of this study, competencies include knowledge, skills and abilities (KSA). Knowledge in this classification indicates the technical or academic knowledge. It is related to the level of education of a person like technical know-how, vocational qualifications, and work-related knowledge. Where knowledge covers the theoretical side, skills are its practical counterpart (Roos, *et al.*, 1997:35-36, Brooking 1997:56; Quélin in Sanchez and Heene, 1997:145). Horibe (1999: xiii) suggests that value creation and competitive advantage are created by the knowledge and skills that employees apply to their work. Louw and Venter, (2006: 428) have broken KSAs into three types:

- *Basic* knowledge - skills and abilities are building blocks considered necessary to maintain the organisation's functionality on a day-to-day basis;
- *Specific* knowledge - skills and abilities relate to performing core competencies and key operations in the organisation. These KSAs are crucial elements of strategy, and relate, for instance to know-how pertaining to efficient operating systems, expertise in innovation and new product development;

- *Distinctive* knowledge - skills and abilities are specific in that they provide competitive advantage because they are unique and superior to what competitors have.

Louw and Venter (2006:428) further assert that market leaders in particular industries enjoy strategic advantage of distinctive KSAs. While their competitors may have similar KSAs, market leaders possess something unique which provides them with the competitive edge. In Chapter 2, Edvinsson and Malone (1997:34-35) argued that human capital must be more than simply competencies (the knowledge, skills and abilities of employees) as shown in Figure 2.2, but rather, it also must capture the dynamics of a learning organisation in a changing competitive environment. This requires redefining strategic advantage which has two aspects; continuous improvement of the existing sources of competitive advantage and building new sources of competitive advantage. Improvement in both areas depends on how effectively people can learn and change with the environment (Pitts and Lei, 2003:520; Roos, *et al.*, 1997:35-36; 39). Training and development help to ensure that organisational members have the knowledge and skills needed to perform jobs effectively, take on new responsibilities as well as adapt to the changing competitive environment (George and Jones, 2006: 543). Training on one hand primarily focuses on teaching organisational members how to perform their current jobs and helping them acquire the knowledge and skills they need to be effective performers while development on the other hand focuses on building the knowledge and skills of organisational members so that they are prepared to take on new responsibilities and challenges (George and Jones, 2006: 543; Brooking, 1997:8-9).

3.2.1.2 Organisational culture

In Chapter 2 and section 2.4.1.2, culture was defined as a system of norms, values and beliefs which bind the organisation's members together, unifying them in purpose. Cultures are unique to each organisation but when cultures manage to bind organisational members effectively and are sufficiently wide-spread, accepted and entrenched, they become a key influence on both the strategic alignment and strategic implementation (Louw and Venter, 2006:431). An organisational culture that is aligned with strategy is one that fosters employee development and encourages highly competent employees to exercise their talents to impact positively on the organisation. A successful culture provides a work environment in which employees are

engaged, challenged, motivated and rewarded in a positive way for their performance and contribution to the organisation's effective strategy implementation (Sharkie, 2003:21). Brooking (1997:10) avers that organisational culture is a valuable corporate asset, while Sharkie (2003:21) suggests that success for an organisation depends on the degree to which the corporate culture fosters and maximises organisational capability.

Organisational culture can influence the management style (creating social norms for managers to follow) and the motivation of its employees, through continuous encouragement to strive for organisational goals (Roos, *et al.*, 1997:49-50). Louw and Venter (2006:433) suggest that for culture to contribute toward the attainment of a competitive advantage (building distinctive competencies); it has to share common principles which include the following:

- Organisational culture needs to create a shared identity for employees. In doing so, a sense of commitment and loyalty to the organisation is engendered;
- Organisational cultures which focus on high performance, output, quality and superior service are necessary. Rewarding desired strategic outcomes is a good way of entrenching such a culture;
- Organisational culture should legitimise the role of management in organisations through folklore, heroes and the like;
- Organisational culture should serve to guide 'how things are done' through shaping work processes, work environments, employee behaviour and customer orientation;
- Fit should occur between new employees and the organisational culture; and
- Ethical business practices and strong values should infuse the organisation's culture.

Collectively, organisational culture is determined by the leadership and employees of the organisation, and can provide a valuable source and protection against competition and value erosion (Louw and Venter, 2006:157).

3.2.1.3 Incentives and reward systems

In order to retain the commitment and loyalty of employees, and to direct their behaviour towards the achievement of the organisational goals, managers should provide financial and non-financial incentives to employees (Louw and Venter, 2006:424; Brooking, 1997:15; and Klein, 1998:6). Such incentives should include a combination of both financial and tangible rewards. Bonuses, performance related pay, shares and share options, as well as benefits can make up the rewards an organisation can reward its employees (Louw and Venter, 2006:424). Pitts and Lei, (2003:520) suggest that organisations need to ensure that they design incentive, performance measurement and reward systems that support their employees efforts. Rewards must tie in closely with the organisation's overall strategy and mission as well as the employees' unique set of skills and insights. A key part of the reward system must be to encourage and cultivate new skills and ideas that result from continuous learning (Kingsmill, 2003a cited in Ingham 2007: 4). Louw and Venter (2006:424) avers that rewards related to the job itself (new skills and ideas) include ways to improve overall job satisfaction through making work more challenging (using techniques of job enrichment and job enlargement) as well as making the work environment more stimulating, friendly, pleasant and accommodating. The organisation that pays a royalty or otherwise recognises the author of a frequently referenced model work product, for example, provides greater incentive for the author to make that work product widely available. Such an organisation views its employees as inherently capable of learning new skills and interested in personal improvement (Klein, 1998:6). Louw and Venter (2006:424) suggest an ideal reward system to incorporate the following:

- Financial reward and pay should be internally equitable, and acceptable to employees;
- Reward should be market related. This ensures that employees are not lost to competitors who offer more for the same job;
- Reward should comprise a mix of financial and non-financial rewards
- Financial incentives should always be linked to output and performance, and not merely to doing the job;
- Performance-related rewards should be directly linked to the attainment of only those goals and objectives which are strategically aligned;

- Performance-related reward system should be explained to and understood by all employees and apply to all levels including senior management.

3.2.2 STRUCTURAL CAPITAL

In Chapter 2, structural capital was defined as the empowerment, and supportive infrastructure of human capital and that it bonds the organisation, providing strength and cohesion between the organizations' people and its processes (Brooking, 1997:16). The structural capital construct includes organisational structure, processes and routines, data-bases, organisational charts, process manuals and patents and trademarks (intellectual property). Structural capital is usually owned by an organisation, as opposed to human capital (Roos, *et al.*, 1997:42). Brooking, (1997:16) asserts that structural capital identifies all the value coming from the structural layout of the organisation, as well as from all the intellectual property assets of the organisation for example patents and trademarks. As such structural capital represents the hardware part that enables an organisation's operations to produce results (Quélin in Sanchez and Heene, 1997:145).

The perfect structural capital would be flexible enough to evolve with its environment, connecting employees at all levels (facilitating information sharing) and being replicable, to enhance connectivity and save costs (Roos, *et al.*, 1997:48). Like human capital, structural capital can be leveraged from both the internal and external sides of the organization. Internally the organisation could make use of TQM, reengineering, new product development, research and development, fine tuning processes and routines, as well as training and re-training of employees. Externally, organisations can use structural capital by employing patents and trademarks to protect its competitive advantage (Roos, *et al.*, 1997:51). The following discussion focuses on leveraging the components of structural capital as presented in Chapter 2 and Figure 2.2. These are processes and routines, patents and trademarks, data bases, organisational structure and renewal and development.

3.2.2.1 Processes and routines

Processes and routines are an important part of an organisation's structural capital and can be considered as the software of structural capital, that is, the operations that make the

organisation work (Roos, *et al.*, 1997:48). Processes are responsible for the production of an organisation's goods and services through the conversion of inputs into outputs (Louw and Venter, 2006:404). Evans and Dean, (2003:18) agrees with Louw and Venter and aver that while processes are often associated with the context of production – the collection of activities and operations involved in transforming inputs – (physical facilities, materials, capital, equipment, people, and energy) into outputs – (products and services), nearly every major activity in the organisation involves a process that crosses traditional organisational boundaries. For example, an order fulfilment process might involve a salesperson placing the order; a marketing representative entering it on the company's computer system; a credit check by finance; picking; packing, and shipping by distribution personnel; invoicing by finance and installation by field engineers (Evans and Dean, 2003:18). This illustration links all necessary activities together and increases an organisation's performance.

Routines achieve the integration of knowledge through patterns of interaction among different specialists. Thus, in any productive process which involves a team of employees with different tasks and skills, co-ordination is achieved through ordered sequences of activity in which individual contributions are coordinated through signals and responses. Routines involve some degree of sequencing, but what characterises a routine is the close interaction between individuals involving complex patterns of coordination that have been melded through mutual adjustments over a period of time. Such routines permit the efficient integration of specialists; knowledge without the need either for extensive communication or for expensive cross-learning (Grant and Baden-Fuller, 2004). The discussion below focuses on two processes and routines management systems; total quality management and reengineering.

Total quality management is a comprehensive, organisation-wide effort to improve the quality of the products and services. TQM does not only carefully measure and control the organisation's operations; it also ensures that all the activities satisfy the customer (Evans and Dean, 2003:5). Customer focus drives quality improvement programmes in the organisation (Pitts and Lei, 2003:497). TQM requires continuous, ongoing efforts to stay ahead of competitors in satisfying and anticipating customers' needs. TQM also requires managers and

employees from every part of the organisation to look for competencies to better the organisation's competitive advantage (Pitts and Lei, 2003:497).

Manufactured products have several quality dimensions including performance, features, reliability, conformance, durability, serviceability and perceived quality. However as this study is focused on the service industry and the banking sector in particular, the following dimensions of service quality should be the focus of a service organisation:

- Time – how much time must a customer wait?
- Timeliness – will a service be performed when promised?
- Completeness – are all items in the order included?
- Courtesy – do frontline employees attend to each customer cheerfully?
- Consistency – are services delivered in the same fashion for every customer, and every time for the same customer?
- Accessibility and convenience – is the service easy to obtain?
- Accuracy – is the service performed right the first time?
- Responsiveness - can service personnel react quickly and resolve any expected problems? (Evans and Dean, 2003:14).

Evans and Dean (2003:14) further suggest that in TQM, the customer is the judge of quality and therefore understanding customer needs; both current and future, and keeping pace with changing markets requires effective strategies for listening to and learning from the customers, measuring their satisfaction relative to competitors, and building relationships.

Having made the case for TQM as a source of intangible competitive advantage, reengineering on the other hand is the fine-tuning of production processes and attempting radical changes to obtain breakthrough results in performance. Organisations that engage in reengineering their processes and routines invest continuously in developing process and employee competencies so that they become difficult for competitors to imitate thereby preserving the long term competitive position (Quélin in Sanchez and Heene, 1997:143). The more unique the organisation's competencies and technologies, the more difficult it is for competitors to copy

and imitate. The unique competencies will enable the organisation to lower the costs, enhance differentiation, or accelerate learning in ways faster or better than its competitors (Pitts and Lei, 2003:218). Organisations that reengineer their processes start from the perspective of the customer and ask the following questions:

- What activities do we perform?
- Are there inefficiencies that can be prevented?
- How do we build quality into the process?

In answering the above questions, business processes crucial to the design, manufacture and delivery of product or service to the customer are reviewed for possible improvement. In reengineering as in TQM, managers undertaking reengineering address three key issues; (1) defining purpose and need, (2) organizing around results and outcomes and (3) linking with suppliers and customers (Pitts and Lei, 2003:498). In answering the these questions, managers realise that activities that concern workflow, information flow, decision making, facilities layout and distribution channels must receive most of the reengineering efforts, while employees' efforts are focused on the desired end result (product or service). Employees' jobs in a reengineered organisation demand multiple skills and talents as opposed to functionally defined tasks for a single repetitive purpose or job (Kaplan and Norton, 2004:43).

In linking up with suppliers and customers, a reengineered organisation has formal or informal alliances of supplier-buyer relationships. As indicated in 3.2.2 above, Customers and suppliers become more involved in decision making processes concerning the organisations operations, product development and distribution (Quélin cited in Sanchez and Heene, 1997:148; Pitts and Lei, 2003:517). Reengineering in essence improves time – how much time must a customer wait; timeliness – will a service be performed when promised; completeness – are all items in the order included; consistency – are services delivered in the same fashion for every customer, and every time for the same customer; and accuracy – is the service performed right the first time? Such benefits contribute to competitive advantage (Evans and Dean, 2003:14).

3.2.2.2 Patents and trademarks

As defined in Chapter 2 and section 2.4.2.2, a patent is a property right which is granted by the state to its inventor (Brooking, 1997:36). Ownership of a patent is valuable, if the owner asserts the rights to the patent. One of the reasons for organisations to pursue a patenting strategy is because patents provide an impetus for innovation, development and commercialization of new ideas. Patents increase the opportunity for inventors to benefit financially from their inventions. Furthermore, in exchange for being granted the right to exclude others from practicing their inventions, inventors must provide enough detail on making, building, or using the invention that a person working in the field of the invention would be able to reproduce or use it. Excluding competitors from practicing an invention and collecting monopoly rents where a license has been granted helps the organisation to sustain its competitive advantage. Licensing an invention to others including competitors creates a reliable revenue stream for the inventor (Williams and Bukowitz, 2001: 102). Organisations sometimes choose to protect new products with multiple patents, one for each component or part – referred to as a thicket (Brooking, 1997:36-37). This prevents other organisations from infringing on the patents.

Trademarks are used to protect brands and are valuable assets which live for a long time, increasing in value over the years (Brooking, 1997:40). Organisations that venture beyond exporting but are not ready to establish an equity position in a foreign country can use contractual arrangements. The contractual arrangements can be in form of licensing or transfer of some industrial property rights from the organisation's licensor to a licensee (Pearce and Robinson, 2005:136). This transfer is usually in form of patents, trademarks or technical know-how granted to the licensee for a particular period of time in return for a loyalty (Pearce and Robinson, 2005:136). Such arrangements are recognition of the fact that no company has sufficient resources and skills to dominate everywhere. The parent organisation is able to focus on its core businesses without the additional risk and investment of supplying all of its own requirements (Louw and Venter, 2006:226).

3.2.2.3 Data bases

The databases are a source of knowledge and information for experts within the organisation (Suresh and Mahesh, 2006:69). However if an organisation chooses a management

philosophy which requires the organisation to be customer focused, the organisation uses technology to communicate with customers and deliver products and services. Organisations create databases on customers, gathering information from previous purchases or inquiries which enable an organisation to develop its marketing strategies around what the customer currently wants but also projecting what the customer may want in the near future (Goodman, 1992:1). Goodman (1992:2) further suggests that a customer database is a strategic tool designed not only to attract new customers to a business, but to strengthen the relationship among existing customers.

Customer databases are market assets which need to be constantly updated if they are to be of any value to the organisation (Brooking, 1997:28). Organisations that are able to reshape and redefine their marketing direction based on information derived from their customer database hold a distinct competitive advantage over those who have either waited too long to build their database or who have not been able to integrate this information into their entire marketing mix. The marketing database is a key corporate asset and every customer-driven business needs to leverage this resource (Goodman, 1992:1).

3.2.2.4 Organisational structure

Organisational structure is vital in clarifying the roles of managers and employees that hold the organisation together. An organisation's structure specifies the work to be done and how to do it, given the organisation's strategy or strategies (Ireland, Hoskisson and Hitt, 2009:309). A well designed structure facilitates the execution of the organisation's value adding activities and can assist management to build and extend the organisation's competencies. However, an organisation's strategy is the driver of how management chooses to organise and group the key value adding activities and tasks (Pitts and Lei, 2003:362). Ireland, *et al.*, (2009:309) suggests that an effective organisational structure provides the stability the organisation needs to successfully implement its strategies while maintaining its current competitive advantage. The structure can also simultaneously provide the flexibility to develop advantages the organisation will need in future. However, Ireland, *et al.*, (2009:309) indicate that developing an organisational structure that effectively supports the firm's strategy is difficult especially

because of the uncertainty in the external environment and rapid changes in the global economy.

While organisations will continue with TQM and reengineering to introduce new products to the market, managing intellectual capital requires organisations to develop horizontal organisational structures where flexible cross functional teams and close relationships with customers and suppliers replace the separation of design, manufacturing, marketing and other related activities (Pitts and Lei, 2003:516). Horizontal organisational structure consists of a chief executive officer, and a limited corporate staff, with functional line managers in dominant organisational areas such as production, accounting, marketing, research and development and human resources (Ireland, *et al.*, 2009:309)

3.2.2.5 Renewal and development

In Chapter 2 and section 2.4.2.5, the definition of renewal and development capital included all items that have been built or created and that will have an impact on the future value, but have not manifested that impact yet. New product development, re-engineering and restructuring efforts, development of new training, research and development are all examples of renewal and development value (Roos, *et al.*, 1997:51). Central to renewal and development is the entrepreneurial mindset. The entrepreneurial mindset encourages and supports the organisation's ability to engage in continuous product or service innovation. Increasingly, the ability of the organisation to engage in innovation makes the difference in gaining and maintaining a competitive advantage (Ireland, *et al.*, 2009:368).

Most innovation comes from efforts in research and development (R&D). Research and development often leads organisations to filing patents to protect their innovative work (Patents and Trademarks were discussed in detail in section 3.2.2.2 of this Chapter). Organisations seeking innovations through research and development use the available knowledge and skills within the organisation. Ireland, *et al.*, (2009:373) suggest that research and development leads to two types of innovations – incremental and radical innovations. Incremental innovation is building on current product or service lines using existing knowledge bases and providing small improvements in the current product or service. In contrast to incremental innovations,

radical innovations usually provide significant technology breakthroughs and create new knowledge. Ireland, *et al.*, (2009:373) further suggests that both incremental and radical innovation can create value and competitive edge for the organisation, however, radical innovations have the potential to contribute more significantly to an organisation's ability to earn above average returns.

3.2.3 RELATIONAL CAPITAL

In Chapter 2, relational capital was defined as the knowledge embedded in the relationships established with the external environment of the organisation. At inter-organisational level, relationships are typically considered as institutionalised, their existence not depending on the actions of single employees (Agndal and Nilsson, 2006:91). These relationships aim at reducing costs through co-marketing, joint training and other similar activities (Roos, *et al.*, 1997:44).

With the orientation towards a greater focus on the core competencies of an organisation, reliance on external (outsourcing) parties for important parts of the 'supply and demand chain' process has increased considerably (Roos, *et al.*, 1997:43). Outsourcing is an emerging source of strategic alliances where a manufacturer works closely with a supplier or suppliers to ensure quality and to share technology (Louw and Venter 2006:226). Quélin cited in Sanchez and Heene (1997:148) avers that the external integrative capability (outsourcing) concerns the management of technologies and relationships with suppliers, commercial networks and partners involved in co-operations. This requires the ability to identify and transfer knowledge and know-how of clients, suppliers, competitors and even organisations with similar businesses (Quélin cited in Sanchez and Heene, 1997:148).

The importance of external relationships is making organisations to lengthen their relationships not through spot transactions, but through long-term exchanges of information and goods. Networks of relationships and contracts both in the internal and external sides of the organisation present an ability to create knowledge routines, and to respond to market changes. Suppliers are now considered an integral part of the business system of an organisation. It is not uncommon to find employees of the supplier based in the client's

headquarters (Pitts and Lei, 2003:506; Roos, *et al.*, 1997:44). For example, South African Breweries' relationships with its distribution channel of wholesalers and retailers provide it with a competitive advantage that cannot be easily duplicated by competitors (Louw and Venter, 2006:160). Certain organisations have the ability to communicate favourable information about themselves to customers. This ability to enhance reputation is particularly beneficial in long term relationships that take time to build and are difficult to imitate.

Furthermore certain organisations have built their success on innovation. Their ability to innovate builds on their structure, culture, procedure and rewards (Louw and Venter, 2006:160). The rewards for this effort are considerable cost savings and the possibility of instituting just-in-time policies, as well as, very often, higher quality output through higher quality components. Honda has built its success partly on its ability to have dedicated suppliers who were willing to learn with the company. As highlighted in Chapter 2, Figure 2.2, the most important sources of relational capital are customers, suppliers, brands, stakeholders and strategic alliances (Roos, *et al.*, 1997:43 - 44). The leveraging of these sub-components of relational capital is discussed in detail in sections 3.2.3.1 up to 3.2.3.5 below:

3.2.3.1 Customers

People or organisations that buy an organisation's goods and or services are its customers. Organizations that maintain a relationship with its customers after a sale are implementing a strategy known as Customer Relationship Management (CRM) (Brooking, 1997:23-26; Buttle, 2000 cited in Berndt, Herbst and Roux, 2005:1). Buttle, 2000 cited in Berndt, Herbst and Roux, (2005:1) suggests that customer relationship management (CRM) strategies have become important due to changes in expectations from customers as well as changes in the nature of markets. CRM seeks to build long term relationships with customers. The implementation of CRM is regarded as desirable by organisations due to the benefits that accrue from these strategies among their customers, such as greater loyalty and resulting profits. The focus of a CRM strategy is the acquisition, retention and overall customer profitability of the specific group of customers (Buttle, 2000 cited in Berndt, Herbst and Roux 2005:1). Customer loyalty is an asset, as loyalty leads to repeat business (Brooking, 1997:26-27). Valuable brands such as Coca Cola spend large sums of money on advertising to ensure that their market positions are

maintained. Maintaining a position is measured by repeat business and the percentage of the customer base. Industries such as airlines, insurance companies, financial services organisations rely on repeat business to retain their competitive advantage (Brooking, 1997:26-27).

Acquiring of customers refers to the need for organisations to find new customers for their products. This means they are required to develop strategies to attract potential customers to purchase the product or service. The cost of attracting a new customer is estimated to be five times the cost of keeping a current customer happy (Kotler, 1997 cited in Berndt, Herbst and Roux, 2005:2).

Customer relationship management is recognized to be a strategy for managing and nurturing an organisation's interactions with clients and sales prospects. It involves using technology to organise, automate, and synchronise business processes—principal sales activities, but also for marketing, customer service and technical support (Kotler, 1997 cited in Berndt, Herbst and Roux 2005:2). The overall goals are to find, attract, and win new clients, nurture and retain those the organisation already has, entice former clients back, and reduce the costs of marketing and client service (Roos, *et al.*, 1997:44).

3.2.3.2 Suppliers

Partnering with suppliers and customers may involve formal strategic alliances or close internet-based supplier-buyer relationships that evolve over time. Suppliers become more involved in decision making processes concerning the organisations' operations, product development and distribution (Pitts and Lei, 2003:517). The involvement of suppliers substantially reduces waste, cycle time and development time of new products and services. Greater involvement by suppliers means that the employees of such organizations often serve on the organizations' cross functional teams (Pitts and Lei, 2003:506; Roos, *et al.*, 1997:44).

In other situations, suppliers send key personnel to work on-site with their customers (organisation) to handle all their requests. This type of relationship in which suppliers work directly with customers at the latter's location is becoming commonplace in all industries (Louw and Venter 2006:226; Pitts and Lei, 2003:506). The proximity helps the customer to get

immediate attention and helps suppliers to determine future needs of their customer and it also helps the suppliers to improve their quality of products and streamline their processes (Pitts and Lei, 2003:517;(Norton and Kaplan 2004:9). Louw and Venter (2006:226) assert that this practice is widespread and prevails in the motor industry where organisations are surrounded by dependent suppliers like spokes in a wheel. Advantages accrue to organisations that combine their competencies and resources in a way that yields larger profits than if the organisation operated singly (Louw and Venter, 2006:226).

3.2.3.3 Brands

Brands are reminders to customers to buy the products and services of one organisation in preference to another (Brooking, 1997:20). Keeping customers and connecting them with a brand and the organisation require creating a sustainable dialogue with customers. As a first step, organisations should define what they want their brand to represent (brand identity). Once the organisation has a clear idea of the brand's identity, they can use marketing tools to build the brand. Using a 4 P's framework (product, price, place, promotion), organisations can create a promotional strategy that utilizes both traditional advertising and inventive approaches. The product itself should, through customers' experiences with it, build and solidify desired perceptions (Stanković and Djukić, 2006:128)

The question of identifying brands considers:

- What does the brand mean to customers?
- What product associations do customers have and what are their attitudes toward the brand?

An organisation should also consider the non-product associations that accompany the brand and consider the following:

- What colours are associated with the brand?
- What is the brand's personality and
- What are the perceptions of the brand's country of origin?

Monitoring customer's impressions of all these important elements of the brand plays an important role in brand management. It is important to identify what a brand is and how it changes over time so it can be successfully leveraged (Stanković and Djukić, 2006:128).

Stanković and Djukić (2006:128) further suggest that for brands to have value to the organisation, it has to be protected. Traditionally, protection come from legal teams whose work with trademarks remains an element of protecting the brand but is, by no means, the entire protection needed. Organisations should also institute policies to avoid the dilution of brands.

3.2.3.4 Stakeholders

In an effort to leverage relational capital with stakeholders, Louw and Venter (2006:401) suggest that an organisation has to choose on the overall strategic thrust and may thus allocate resources accordingly. Louw and Venter (2006:401) hypothesize that should an organisation choose to follow a total quality improvement strategy (a strategy which seeks to increase customer satisfaction through the commitment of all players in the organisation), then:

- Shareholders should enjoy higher returns on their investment through increased wealth;
- Employees would enjoy greater job autonomy as well as skills and knowledge empowerment;
- Customers would enjoy better products and or services;
- Suppliers would enjoy better contracts based on symbiotic relationships with the organisation and
- The community would enjoy the benefits of a more responsive organisation, providing better, more socially responsive products and or services, as well as increased job opportunities through the growing organisation.

In implementing strategy, organisations find that the claims of different stakeholders tend to conflict. Claims such as return on investment, higher wages, better products and or services, better contracts, community service, equal employment opportunities, health and safety

regulations may be desirable ends but the organisation cannot pursue them with equal emphasis (Pearce and Robinson, 2005:46). As indicated in Chapter 2 and section 2.4.3.4, Stakeholder relations can be the hardest form of relations to build up, because most organisations' actions are bound to displease one or other interest group around the organisation. Louw and Venter (2006:401) avers that stakeholders of the organisation are impacted by strategic direction an organisation takes, and in fact shape strategy to varying degrees, as well as being impacted by the results, again in varying degrees.

3.2.3.5 Strategic alliances

Strategic alliances have become a common corporate strategy among multinational organisations because value creation in many industries involves product, service and technology breakthroughs that are often beyond the means and capability of a single organisation. A strategic alliance is a partnership in which organisations collaborate commercially to achieve shared goals for defined period (Thompson, Gamble and Strickland 2004:131 cited in Louw and Venter 2006:225). Alliances are an organisational form that may facilitate the process of gaining access to resources and competencies that the organisation does not currently possess. This requires that the organisation be involved in a co-operation that links its own competencies and resources to those of its partners (Quélin in Sanchez and Heene, 1997:149). As such, organisations in the same industry like the airline industry are working closely with one another (Roos, *et al.*, 1997:44-45). Organisations work with a number of other organisations to share knowledge, costs and risks (Pitts and Lei, 2003:332). An example in the airline industry is the STAR ALLIANCE that a number of airlines worldwide are affiliated to provide a global service to their customers. South African Airways is a STAR ALLIANCE member and boasts alliances with Lufthansa, Air France, British Airways, Cathay Pacific and others which makes it possible for South African Airways to serve over 500 destinations worldwide (www.flysaa.com). In the banking and financial services sector, alliances have been formed among banks and other financial institutions to facilitate a global payment system using VISA and VISA electron, Maestro and a network of automated teller machines (ATMs).

Alliances can have different degrees of formalisation, from official joint venture or any type of agreement to hand-shakes and long-term supply relationships which do not need anything written. Alliances can be started by competitors, for example the Star Alliance involving airlines that are competing in the same market or to develop a new product or between suppliers and clients (Roos, *et al.*, 1997:44-45). Alliances are more effective when focusing on specified value chains activities and building competitive strengths. Louw and Venter (2006:227) asserts that many strategic alliances take place with foreign partners, partly as an entry strategy in a bid to gain access to established markets and products. Alliances with foreign partners further provide an understanding of economic, social cultural, legal and other domains (Louw and Venter, 2006:227). Strategic alliances can be leveraged by outsourcing, whereby a manufacturer works closely with a supplier or suppliers to ensure quality and to share technology. Synergies also accrue to alliances that combine their competencies and resources in a way that yields larger profits than if the organisations operated singly (Louw and Venter, 2006:226)

3.3 CHAPTER SUMMARY

This Chapter presented strategies that facilitate organisations to leverage the three constructs of intellect capital namely, human capital, structural capital and relational capital. Using the theoretical discussion on how to leverage intellectual capital in this Chapter, a comparison with the findings in Chapter 5 on the management of intellectual capital in the participating organisation in the banking and financial services sector in Zambia will be made. The research design and methodology appropriate to this study will be presented in Chapter 4.

CHAPTER FOUR

RESEARCH DESIGN AND METHODOLOGY

4.1 INTRODUCTION

This Chapter explores the systematic and methodical research procedures and techniques used in this study. It has been asserted by Mayer (2008) that there are two fundamental reasons for scientific research. On the one hand, research is an attempt to better understand the world in its complexity and, on the other, an attempt to solve practical problems. The purpose of this Chapter is to provide an overview of the research design and methodology. In this Chapter the phenomenological research paradigm and its main assumptions will be discussed. The research methodology with the main research method being the case study is also discussed. Data collection methods, triangulation, reliability and validity, ethical issues and data analysis are also explained in this Chapter.

4.2 Research paradigm

A paradigm is a fundamental framework of reference. Paradigms provide logical frameworks within which theories are created (Babbie, 2004: 33). The research paradigm for this study is based on the phenomenological approach which is rooted in qualitative research methods. A phenomenological study describes the meaning of the lived experiences for several individuals about a concept or phenomena. This approach aims to understand and interpret the meaning that subjects give to their everyday lives (Creswell, 1998:51). For the purpose of this research, constructivist assumptions are reflected in the theoretical and methodological approach where representatives of a constructivist approach postulate an objective world, constructed through the individual's views as well as through social interaction (Mayer, 2008). As this study is primarily concerned with human subjects and their subjective experiences within a specific context and how these experiences inform the subjects, Collis and Hussey, (2003:48) asserts that the constructivist approach is subjective and involves examining and reflecting on perceptions in order to gain an understanding of a phenomenon.

Different assumptions that are associated with the phenomenological research paradigm includes ontological, epistemological and methodological assumptions which deal with the

questions of the nature of reality, the relationships between the researcher and the researched, and the research processes, respectively (Collis and Hussey, 2003:49). The methodological assumptions of ontology and epistemology will be further discussed below.

Regarding the ontological question, this study assumes that reality is subjective and multiple and constructs itself through the eyes of the participants. This approach to reality, referred to as constructivist approach, views the reality as a construct created by the individual, the environment, and their interaction (Mayer 2008; Applefield, Huber and Moallen, 2000), while the epistemology of the constructivist approach is that of a dual assumption where it is possible to approximate reality (Denzin and Lincoln, 1994:10). Qualitative researchers acknowledge that social 'realities' are embodied within the social actors themselves. Accordingly, when doing qualitative research, the researcher and the research instrument are often inseparable, with the researcher being the interviewer, or observer. Research methods in the phenomenological paradigm are multiple and include techniques that seek to describe, translate and bring meaning to naturally occurring phenomena in the social world (Collis and Hussey, 2003:53).

4.3 Research methodology

Research methodology is the overall approach to the research process, from theoretical foundation to the collection and analysis of the data (Collis and Hussey, 2003:55). Qualitative research was the most significant research methodology to adopt for this study because it affords the researcher the opportunity to fully explore diverse human feelings, views, subjective positions and experiences (Bryman, 1988: 13-15). In order to fully understand qualitative research methodology, there is need to briefly contrast it to quantitative research methodology.

Quantitative research methodology derives its epistemological underpinnings from the natural sciences, which are informed by positivism. Positivism asserts that scientific knowledge informs all knowledge and even "the social and cultural life, must be based on empirical data produced by direct observation" (Deacon, Pickering, Golding, and Murdoch, 2007: 3). The philosophical foundation of quantitative research has its roots in modernism. This quantitative approach is exemplified by philosophers like Descartes and Locke, who underscore the

orderly, quantifiable nature of the world hence the need for the systematic enquiry into it (Hughes and Sharrock, 1990: 8-9). Positivism also claims that social 'reality' is 'out there' and exists outside the researcher and the social actors themselves (Deacon *et al.*, 2007: 6).

Qualitative research methodology, conversely, rejects these assertions and foregrounds social experiences as essential to understanding social 'reality'. The application of quantitative techniques such as "surveys and experiments fail to take into account the differences between people and objects of the natural world" (Bryman, 1988: 3). On the other hand, qualitative research methodology generally acknowledges the essential difference between the social world and the scientific one, recognising that human experiences comprise a range of subjective views, feelings, observations and attitudes which constitute social meaning (Babbie and Mouton, 1989: 270-272; Deacon, *et al.*, 2007: 5-6). Thus in employing qualitative research methods, this study was, as indicated in section 4.2 above, concerned with exploring these social meanings and how they influence the social world of the research subjects within the participating organisation in the banking and financial services sector in Zambia.

Qualitative researchers have always been concerned with studying human actions from the perspective of the social actors themselves within a specific context (Babbie and Mouton, 1989: 270). The major advantage of qualitative research for this study lies in its ability to provide complex data of how people experience a given research issue within a given context (Babbie and Mouton, 1989: 270). For the purpose of this research, the knowledge and experience of participants with regard to strategies used to leveraging and transforming knowledge assets into intellectual capital, which in turn, facilitates the achievement of a competitive advantage of a participating organisation in the banking and financial services sector in Zambia, will be ascertained.

Qualitative research is conducted in the natural setting of social actors and there is a great emphasis on the process of data collection, whose primary objective is to obtain in-depth, descriptions and understanding of actions and events contextually (Babbie and Mouton, 1989: 270). The strength of qualitative research methodology is that it allows the researcher to gain an in-depth perspective and understand social phenomena from the perspective of the

subjects (Babbie and Mouton, 1989: 270). Qualitative research techniques primarily highlight the way that people “understand and interpret their social realities” (Bryman, 1988: 8). Positivism espouses that ‘reality’ is a fixed truth. Conversely, qualitative research insists that people construct and reconstruct social realities through routine social practices and the conceptual categories that underpin those realities (Deacon, *et al.*, 2007: 6).

A number of key principles are important in business management research regarding qualitative research methodology, such as:

- understanding the objective of the research;
- viewing the researcher as the main research instrument;
- focusing on interpretation rather than on quantification;
- focusing on subjectivity rather than objectivity;
- focusing on process orientation rather than on outcome orientation;
- flexibility in the process of conducting the research; and
- emphasising the contextualisation of the research study (Cassel and Symon, 1994; Fourie, 1996:248)

As previously highlighted and considering the above-mentioned principles, the qualitative methodology is the most appropriate to achieve the purpose and answer the research questions of this study, because it proposes to gain a deeper understanding of the Intellectual Capital management phenomenon. Furthermore, this study emphasises the process rather than the measurable outcome. Gaining greater understanding of the perspectives of participating managers is the focus of this study; with the aim of being able to understand and explain the data from the interviewees’ frame of reference and context (Mayer, 2008:94). Leedy (1997:105) and Collis and Hussey (2003:68) suggest that an exploratory research or interpretative research question is more readily addressed by a qualitative design and is used in areas where there are a few theories or a deficient body of knowledge. In this regard Firer and Williams (2003:349) point out that emerging economies has little or no archival evidence of the understanding and development of intellectual capital phenomenon. Leedy (1997:105) and Collis and Hussey (2003:68) indicate that where the literature base is weak, underdeveloped or missing, a qualitative design can provide a researcher with the flexibility needed to explore a

specific phenomenon so that important variables might be identified. Apart from the intellectual property aspects of intellectual capital, a literature search on the subject of intellectual capital management in the Banking and Financial services sector in Zambia indicated that additional research in this regard would contribute towards further development of the literature. As indicated in Chapter 1, data searches were conducted at the Zambia Institute of Bankers, Bank of Zambia library, the Bankers Association of Zambia, national and international data bases in Zambia and South Africa, no similar study had previously been undertaken in Zambia.

4.3.1 Case study approach

With regards to the qualitative research methodology in the phenomenological research paradigm, the focus of this study is on a single case study. This case study uses a descriptive design which aims to cover the depth and scope of the case under study (Creswell, 1998:61 and De Vos, Strydom, Fouche and Delport, 2002:27). As this study investigated one participating organisation as the unit of analysis, it is regarded as a single exploratory case study aimed at creating understanding and rich descriptions. An exploratory case take place through detailed, in depth data collection methods, involving multiple sources of information that are rich in context (De Vos *et al.*, 2002:275) The single unit of analysis allowed for a holistic case study approach (Gummesson, 1991:74) and defined the topic broadly and not narrowly, covering contextual conditions and not just the phenomenon of study, and relied on multiple and not singular sources of evidence (Creswell, 1998:61; Gummesson, 1991:74; and Yin, 1993:xi). Document review and semi structured interviews are the sources of evidence used in this single case study (De Vos *et al.*, 2002:275) and are discussed in detail in section 4.4 below.

As indicated in Chapter 1 and section 1.2, the purpose of this research is to assess the strategic management of intellectual capital. Creswell (1998:61) asserts that the context of a case involves situating the case within its setting, which may be a physical setting, or social, historical, and or economic setting for the case. The situating of the case in this study is an economic setting. The case selected for the study is in the Banking and Financial Services Sector in Zambia. According to Collis and Hussey (2003:69), case studies follow specific

stages, namely selection of the case, preliminary investigations, data collection and data analysis. In this regard, the following discussion is shaped on these stages.

The initial step in selecting a case in the sector was based on the researcher's interest and previous experience. The researcher's interest in the banking and financial services sector stems from observing the impact of the implementation of the liberalisation economic policies that the Zambian government introduced in 1991. Most financial institutions closed down, while others were merged or acquired by stronger institutions. A few organisations remained resilient and endured the economic transformation. The participating bank in this study is among those that continued to exist after the economic transformation period.

The researcher's interest in the participating organisation is in understanding what strategies the organisation used to overcome the difficulties that followed the liberalisation policies in 1991. However, in inviting the organisation to participate in the study, the researcher was conscious of the proximity of the organisation to the researcher's own location. The head office of the participating organisation is in the same town as the researcher's permanent residence. Creswell (1998:119) asserts that convenience purposeful sampling can also be used in case study. Convenience purposeful sampling saves time, money and effort, but at the expense of information and credibility. Credibility, a criteria used to evaluate qualitative data, will be discussed in detail in section 4.5.3 below.

4.4 Data collection

As this study employs the phenomenological paradigm, the process of data collection is linked to the epistemological assumption that the process is created by the researcher and the researched and their interpersonal relationships as introduced in the beginning of this Chapter (section 4.2). Against this background, the systematic understanding of text which was collected by the researcher and created by both the researcher and the researched, contributed towards a new level of understanding (Mayer, 2008:96). In terms of the data collection procedures, the following will be explained, namely the sample, data collection methods, validity and reliability, ethical considerations and data analysis.

4.4.1 Sample and sampling procedure

Purposeful sampling was used to choose a single organisation in the Banking and Financial services sector in Zambia. Purposeful sampling denotes selecting a sample on the basis of knowledge of a population, its elements, and purpose of the study (Babbie, 2004:183). As indicated in section 4.3.1 above, the researcher's interest in the banking and financial services sector stems from observing the impact of the liberalisation economic policies on the banking and financial services sector that the Zambian government implemented in 1991. Further, the theory of this study "The Management of Intellectual Capital" influenced the selection of the case. As indicated in section 4.3.1 above, convenience purposeful sampling was used for purposes of saving time and money as the organisation participating in the study is situated in the same town as the researcher's permanent residence (Creswell, 1998:119). The participating organisation in this study was chosen due to its dependence on intangible rather than fixed assets management to gain competitive advantage (De Vos, Strydom, Fouche and Delport, 2002:334).

Natural sampling procedures were used in this study to select the managers who would participate in the semi structured interviews. According to Collis and Hussey (2003:158), natural sampling is commonly used in business research and mainly occurs when the researcher has little influence on the composition of the sample. In the case of this study, natural sampling was implemented through the human resources department who selected ten managers and encouraged the selected managers to participate in the study. The selection of managers to participate in the study was influenced by the subject of the study and the intellectual capital constructs selected by the study namely; human capital (human resources department), structural capital (operations department) and relational capital (marketing department).

As indicated above, a total of 10 top and middle level managers were selected by the human resources department to participate in the study, however, only seven managers participated in the study, representing 70 percent response rate as follows: three senior managers from human resources department, one senior manager from operations department, one senior

manager from marketing department and two middle level managers from marketing and operations departments, respectively.

4.4.2 Data collection methods

At the data stage, the researcher established how, where and when data would be collected. In conjunction with the head of the human resource department in the participating organisation, it was agreed that the data collection methods used in the organisational setting would be based on document analysis and semi structured interviews. As such, the data for this study was collected using triangulation of data collection methods (Collis and Hussey, 2003: 78) by means of documentary analysis (published) and semi-structured interviews.

4. 4.2.1 Document analysis

The first step in collecting data for this study was to gain access to relevant formal documents from the organisation. The formal documents for the organisation were obtained from the Human resources department. De Vos, *et al.*, (2002:324) suggests that the validity and reliability of the documents need to be evaluated as there is often a time between the document being written and the event occurring and this could lead to inaccuracies. The main document used for this study is the organisation's Institutional Development Plan (IDP). The IDP was published in 2004 and is still the valid document guiding the organisation's overall management strategy.

There are different ways in which the validity and reliability of documents can be tested. Babbie and Mutton (2001:285-286) recommend, *inter alia* the following:

- if the author is still living, the author can be requested to read the whole document and present an auto critique;
- compare the relevant document with other documents or data collected in other ways;
- verify data by interviewing other informants, persons in the same roles or persons knowledgeable on the subject, or who were personally involved in the event. The content of the document is therefore compared with an external source.

In this study the authenticity of the document was verified by confirming data contained in the IDP with the respondents during the interview process. The head of human resources department and the head of the operations department were interviewed to verify the IDP.

Document review has advantages and disadvantages as a data collection method. De Vos, *et al.*, (2002:235) lists the following as advantages of a document review:

- relatively low cost – document study is relatively more affordable than, for example conducting a comprehensive survey;
- non-reactivity – unlike surveys or experiments where respondents are aware of the fact that they are being studied, producers of documents do not necessarily anticipate the analysis of their documents at a later stage; and
- inaccessible subjects – researcher does not need to make personal contact with the respondent(s).

De Vos, *et al.*, (2002:235) lists the following as disadvantages of a document study:

- incompleteness – some documents are often incomplete which means that there are gaps that cannot be filled in any other way; and
- bias – since documents were not intended for research purposes, there are factors that can influence their objectivity.

De Vos, *et al.*, (2002:236) further includes failure to preserve documents, lack of availability of documents, lack of linguistic skills on the part of the writer to write and to formulate clearly and meaningfully, lack of standard format and bulk of documents as among the disadvantages of document study. The disadvantages indicated above were overcome in this study by limiting the number of documents to be reviewed to the most important document that guides the organisation's strategic plan.

The Institutional Development Plan (IDP) of the participating organisation in this study was analysed by means of content analysis which focused on key words and important information

on the organisation. Content analysis represents a formal approach to qualitative data analysis. The approach is considered as a diagnostic tool for researchers when faced with a mass of open-ended material to make sense of. The analysed material is classified into various coding units which are pre-constructed by the researcher. (Collis and Hussey, 2003:255). The pre-constructed coding units for this study include the following key words and phrases:

- intellectual capital
- human capital
- structural capital
- knowledge management
- competencies
- skills
- attitudes
- organisational culture
- incentives
- rewards
- processes
- routines
- organisational structure
- renewal and development
- customers
- suppliers
- brands
- stakeholders
- strategic alliances

4. 4.2.2 Semi-structured interviews

Semi structured interviews with open-ended questions are the main research instrument used for the qualitative interviews in this study. Semi-structured interviews are defined as interviews organised around areas of particular interest, while still allowing considerable flexibility in scope and depth. The particular interest in this study is the strategic management of

intellectual capital to gain competitive advantage. Semi- structured interviews are also referred to as open-ended or guided interviews (De Vos, *et al.*, 2002:298).

In using the semi-structured interviews, the researcher prepared a set of open-ended questions which were carefully worded and arranged for the purpose of minimising variations in the questions posed to the participants. The same set of questions was used for interviewees from the same department (De Vos, *et al.*, 2002:297). An interview schedule (attached as Annexure B) provided the researcher with predetermined questions guided by the intellectual capital management themes (constructs as selected in Chapter 2 and section 2.4 (Collis and Hussey, 2003:69; De Vos, *et al.*, 2002:302). Semi-structured interviews provide a thread of questions along which conversations may loosely develop and interviewees may freely verbalise. The individual semi-structured interviews helped to clarify and structure the main questions in an explorative way (Mayer, 2008:99). Rae and Carswell (2001:150) suggest that semi structured interviews contribute to gaining an understanding and more personal insights into the interviewees perceptions and interpretations of reality constructions. On average the semi structured interviews for this study lasted between one hour and one and half hours. All the interviews were conducted at the participating organisation's offices.

King (1994:33) presents various advantages of qualitative interviews such as the option to address focussed questions; examining different levels of meaning; and a high level of acceptance among interviewees. The main advantage however of semi-structured interviewing is the richness and vividness of information that researcher obtains through personal interviewing (Gillham, 2000:10). Furthermore, this format was desirable because the researcher did not know all possible answers to the questions; range of possible answers was so large that the question would have become bulky in multiple-choice format. The researcher also wanted to avoid suggesting answers to the respondent but wanted answers in the respondents own words (Sommer and Sommer, 1980:65; De Vos, *et al.*, 2002:303).

Having made the case for semi structured interviews, there are however some limitations and disadvantages connected to the use of qualitative interviews in general, which according to King (1994:33-35) can be summarised as follows:

- Type of interviewing is highly time-consuming;
- Demands high concentration on all sides; and
- Generates an overload of data that must be categorised.

In this study however, an overload of data is not regarded as a disadvantage because it provided the research with a 'thickness' of data which is a necessary aspect in qualitative research to represent the complexity of the issue researched (Mayer, 2008:100 and Babbie and Mouton, 1989: 270).

The structure of the semi-structured interviews followed the following order: At the beginning of the interviews, biographical information with regards to gender, age, nationality, level of education, nationality, and duration of service in the organisation, current position in the organisation, department and branch in which the interviewee worked, were obtained. The interview then developed along the following six research questions:

Question 1: *Does the organisation have an intellectual capital management strategy and what is the nature of such a strategy?*

The question served the function of introducing the topic of the interview – Intellectual capital management.

Question 2: *How does the organisation define and construct is intellectual capital?*

This question sought to find out whether the organisation had grouped the different aspects of intellectual capital according to the constructs identified in the literature review as presented in Chapter 2.

Question 3: *What is the nature of the organisation's intellectual capital in terms of the following selected intellectual constructs, namely human, structural and relational capital?*

The question sought to discover how the organisation constituted the different constructs of intellectual capital.

Question 4: *How does the organisation use each of the selected intellectual constructs to support key organisational processes and functions in gaining a competitive advantage?*

This question was intended to explore strategies that the organisation used to leverage intellectual capital to gain competitive advantage.

Question 5: *How does the organisation use selected intellectual capital constructs to engage with stakeholders to gain a competitive advantage?*

This question sought to ascertain how the organisation derives a competitive advantage through its stakeholders.

Question 6: *How does the organisation generate intellectual capital for future competitive advantage?*

This question sought to find out the organisation's strategy for generating intellectual capital for improving and sustaining its competitive advantage.

In order to gain a deeper understanding of the different constructs of intellectual capital, the semi-structured interviews included open-ended questions pertaining to the intellectual capital constructs (themes) namely human capital, structural capital and relational capital. The formulation of the interview questions drew on previous research by Brooking in her seminal work on "Intellectual Capital: Core Asset for the Third Millennium Enterprise published in 1998. The following are specific interview questions that were asked relating to the four intellectual capital constructs in this study:

Human capital - How does the organisation use human capital to support key processes and functions in gaining competitive advantage?

- i. How does the organisation define its human capital?
- ii. How does the organisation promote organisation culture and values among its employees?
- iii. How does the organisation promote skills development among its employees?
- iv. How does the organisation share knowledge among its employees?

- v. How does the organisation develop competencies among its employees?
- vi. Does the organisation have an incentive and reward system for its employees?
- vii. How does the organisation use its human capital to engage with its customers?
- viii. How does the organisation use its human capital to engage with its suppliers?
- ix. How does the organisation use its Human capital to engage with its stakeholders in general?

Structural capital - How does the organisation use structural capital to support key processes and functions in gaining competitive advantage?

- i. How does the organisation define its structural capital?
- ii. How does the organisation manage its processes and routines to gain competitive advantage?
- iii. How does the organisation use its Structural capital to engage with its customers?
- iv. How does the organisation use its Structural capital to engage with its suppliers?
- v. How does the organisation use its structural capital to engage with its stakeholders in general?
- vi. How does the organisation use its patents and trademarks to gain competitive advantage?
- vii. What type of organisational structure does the organisation use?
- viii. What type of data bases does the organisation maintain?
- ix. What is the organisation's renewal and development strategy?

Relational capital - How does the organisation use relational capital to support key processes and functions in gaining competitive advantage?

- i. How does the organisation define its Relational capital?
- ii. How does the organisation use its Relational capital to engage with its customers?
- iii. How does the organisation use its Relational capital to engage with its suppliers?
- iv. How does the organisation use its Relational capital to engage with its stakeholders in general?

- v. Does the organisation have alliances with other organisations?
- vi. What type of alliances does the organisation have?
- vii. How does the organisation derive competitive advantage from its alliances?
- viii. How does the organisation manage the conflicting claims on it from different stakeholders?
- ix. How does the organisation use its brands to gain competitive advantage?

4.5 Data Analysis

As qualitative research depends on the presentation of solid descriptive data, qualitative content analysis was preferred for this study as it extends beyond simple word counts to examine meanings, themes and patterns that may be manifest so that the researcher leads the reader to an understanding of the meaning of the experience or phenomenon being studied (De Vos, *et al.*, (2002:339). The data is analysed in terms of qualitative data analysis process. The data transcription and analysis process is subsequently discussed.

4.5.1 The transcription process

In the first level, the interviewee experiences an intellectual capital management process in the selected organisation. At level two, the interviewee narrates the experience during the interview. At level three, the researcher transcribes and categorises the transcribed text using descriptive coding based on themes, topics, concepts, phrases and or keywords found in the data (Collis and Hussey, 2003:255). The researcher's bias is minimised in the coding and categorisation process by linking the analysis and interpretation of data with the theoretical background and literature review in Chapters 2 and 3. The priori codes generated for this research were based on the intellectual capital constructs suggested in Chapter 2 and section 2.4 as follows:

- Intellectual capital management
- Human capital management
- Structural capital management
- Relational capital management

The following sub-headings under the priori codes were used to organise the data within headings:

- Intellectual capital
 - i. Competencies
 - ii. Organisational culture
 - iii. Incentive and reward system

- Structural capital
 - i. Process ad routines
 - ii. Patents and trade marks
 - iii. Organisational structure
 - iv. Renewal and development

- Relational capital
 - i. Customers
 - ii. Suppliers
 - iii. Brands
 - iv. Stakeholders
 - v. Strategic alliances

Data coding was done manually. The coded transcripts are viewed as selective constructions that reproduce aspects of the conversations. These are transcribed in a manageable way which is simple to write, easy to read, easy to learn and interpret (Mayer 2008). The transcription procedure focuses on the verbal aspects of the communication. After the transcription of texts, the analytical data evaluation is implemented at level four discussed below.

4.5.2 Qualitative content analysis

At level four, the researcher employed a case-oriented analysis or a direct interpretation through content analysis which is based on a systematic approach to produce an in-depth description of a case (Mayer, 2008). A direct interpretation was used to produce an in-depth

description of a case. The researcher looked at a single instance and drew meaning from it without looking for multiple instances. The researcher also established patterns and looked for correspondence between categories. Data analysis began while the interviews were underway. The preliminary analysis helped in redesigning the questions to focus in on the central theme of intellectual capital management (Babbie, 2004:371; Creswell, 1998:153-154; De Vos, *et al.*, 2002:275; Collis and Hussey, 2003:69-70; Rubin and Rubin 1995:201:226).

4.5.3 Reliability and validity

Reliability refers to the design, the quality of the study and the analysis of the results (Patton, 2002:55), while validity in methodology refers to the question whether the data collection instruments measure the chosen concept, and whether the concept has been measured accurately (De Vos and Fouche, 1998:83). These two concepts are important in qualitative research to gain credible, valid, reliable, accurate and confirmable findings (Patton: 2002:55).

Reliability in everyday English means dependability or trustworthiness (Gay, 1996:144). De Vos and Fouche (1998) avers that dependability is the alternative to reliability in which the researcher attempts to account for changing conditions in the phenomenon chosen for study, as well as changes in the design created by an increasingly refined understanding of the setting. For an instrument to be defined as reliable in qualitative methodology, it has to produce similar results after independent administrations (De Vos and Fouche, 1998:85). Tuckman (1999:400) suggests that qualitative research is required to develop a kind of confirmability which implies that other researchers, using the same procedures in the same setting, would note similar contents, keywords, patterns and conclusions. In addition to confirmability, Poggenpoel (1998:348) suggests that the worth of qualitative research can be measured through the concepts of credibility, transferability and dependability. Riege (2003) refers to these concepts as core concepts of reliability in qualitative research.

Credibility involves the process of establishing whether the results are credible or believable. Research gains credibility through the research design, the interviewees, the researcher and the context (Mayer, 2008). Credibility in this study is gained through the accurate planning of the research and its design, the credibility of the researcher in the field, and the establishment

of a trustful relationship between the researcher and the interviewees as well as the organisation under study.

Transferability includes the possibility to transfer results to other contexts or environments. The concept and its applicability refers to the possibility of generalising the results of the study to another group or in another setting (Mayer, 2008). Validity and reliability in this study are therefore viewed as social constructs that are situational and changeable according to the interactions of human beings and their environment (Crotty, 1998). While the findings of this study may not be generalised to other organisations, the results would be valuable to the organisation at hand and other similar organisations could learn from them or benchmark against the findings in this study (Collis and Hussey, 2003:55). Dependability in this study was enhanced by ensuring consistency in the interviewing process, data categorisation and the data analysis process.

The concept of validity is described by a wide range of terms (Aguinaldo, 2004; Patton, 2002), but according to Winter (2000:1), the concept is not a single, fixed or universal one, but a contingent construct, inescapably grounded in the processes and intentions of particular research methodologies and projects. Creswell and Miller (2000) assert that validity is influenced by the researcher's perception and definition of validity. Thus, validity as a concept is affected by the researcher's choice of the methodological paradigm and the leading theoretical and methodological assumptions which are part of the researcher's own construction. In an attempt to address the concern of validity in this research, triangulation of data was used. Collis and Hussey (2003:79) indicate that triangulation of data is a process in which data are collected from different sources. The different sources of data in this study included document analysis and semi-structured interviews. Patton (2002:55) insists that triangulation in qualitative research strengthens validity. The use of two different sources of information helped both to confirm and improve the clarity, or precision, of the research findings. A tape recorder was used during interviews to allow a much fuller record than notes taken during the interview (Ritchie and Lewis, 2003:275-276; and De Vos, *et al.*, 2002:304).

4.5.4 Ethical considerations

Because the data that was collected could be commercially sensitive, the declaration was made by the researcher not to use the information to profit or to have others profit at the expense of the organisation being researched. The ethical norm of voluntary participation was implemented throughout the study and accordingly, the researcher was responsible for informing the interviewees about the nature of the research project and its purpose and objectives, and assured an informed voluntary consent (Patton, 2002; Strydom, 1998). The consent form is attached as Annexure C. The informants and participants in this study were made aware of exactly why the evidence was required and what will be done with it once the research was completed. All information collected from the organisation and individuals will remain anonymous and confidential and would only be used for academic purposes. Anonymity in this study means that participants were assured that they will not be identified with any of the opinions they express (Collis and Hussey, 2003: 35; and Remenyi, 1998:110). Confidentiality in this study entails that data collected is treated with the strictest of confidence. Confirmation was given to the organisation participating in the study that the data collected will be used in such a way that it is not traceable to any particular individual and that the study will not name the organisation in the report (Collis and Hussey, 2003:36).

4.6 CHAPTER SUMMARY

This Chapter explained the chosen research paradigm, research methodology, and research methods that were used in this study. The methodological approach adopted was the qualitative research methodology and reasons have been advanced to justify the adoption of this approach. An overview was given with regard to data collection and data analysis. Data collection methods used included document analysis and semi-structured interviews. Data was analysed by means of content analysis according to the theme, keys words and phrases. The researcher also highlighted the importance of validity and reliability and ethical considerations pertaining to this research. Chapter 5 presents the findings of the study while the discussion of the findings relative to the theory is presented in Chapter 6.

CHAPTER FIVE

FINDINGS

5.1 INTRODUCTION

In Chapter 3 the strategies that facilitate organisations to leverage the three constructs of intellect capital (human capital, structural capital and relational capital) were discussed. The discussion in Chapter 3 also presented the theoretical basis against which it can be ascertained whether the participating organisation in the banking and financial services sector in Zambia has the strategy for leveraging intellectual capital to achieve competitive advantage. The findings in this regard are given in this Chapter. In section 5.2.1 the findings from the document review are provided, while section 5.2.2 presents findings from the semi-structured interviews. A direct interpretation of the case is used to produce a description of the participating organisation in this study in section 5.2.1.

5.2. FINDINGS

As indicated in Chapter 4 and section 4.4.2, the data for this study was collected by means of data triangulation which consisted of documentary review (published) and semi-structured interviews. Documents of and on the organisation were analysed focusing on themes, key words and important information on the organisation. The themes and key words were presented in Chapter 4 in section 4.4.2.1 and 4.5.1

5.2.1 DOCUMENT REVIEW

As this study used the phenomenological paradigm, the process of data collection was linked to the epistemological assumption that the process is created by the researcher and the researched and their interpersonal relationships as introduced in Chapter 4 and section 4.2. Against this background, the systematic understanding of text which was collected by the researcher and created by both the researcher and the researched, contributed towards a new level of understanding of the organisation. This understanding is presented in this section following a sequential approach of four levels guided by the priori codes identified in the data analysis process based on the intellectual capital constructs identified for this study in Chapter 2 and section 2.4. The priori codes include Intellectual capital management, Human capital

management, Structural capital management and Relational capital management. The summary of findings from the document review was obtained from the Institutional Development Plan (IDP, 2004:2) which articulates the bank's objectives and strategic direction. Many of the findings in the document review were confirmed by the semi structured interviews with senior management

The participating organisation in this study is a government owned bank established in 1972 by an Act of Parliament. The Act gives the bank the power to administer funds on behalf of any person or agency, accept deposits, operate savings schemes, making out loans and to carry on any form of banking services. The main purpose of this bank was to provide banking and financial services to the low and medium income population and especially to the rural areas.

The bank is also required to play an active role in stimulating economic activity among the marginalised sectors of the economy through the provision of innovative credit and savings services. As such the bank operates as a vehicle for effecting social and economic change (IDP, 2004). The vision of the organisation is to be Zambia's leading financial institution in providing financial services for wealth creation while its mission is to promote increased access of financial services in rural and urban areas through mobilisation of savings and offering of prudent credit to foster economic growth (IDP, 2004:2).

As indicated in Chapter 1 and section 1.2, the organisation in this study has undergone restructuring programmes where aspects of intellectual capital have been re-engineered to retain or gain competitive advantage following its being placed under receivership by the Bank of Zambia (Central Bank) in 1998. The bank was however allowed to continue operating in the same year under a new management team following the restructuring exercise (IDP, 2004:14).

Management undertook restructuring measures and made proposals aimed at improving the operations of the organisation. The efforts made in this regard have recorded an improvement in the performance of the bank in terms of deposit mobilisation and general image of the organisation in the past few years (IDP, 2004). The IDP (2004:19) indicates that the management team constituted after the restructuring programme of the bank have the

necessary skills and experience to face the challenge of moving the organisation towards attaining the projected positive growth and of realising its vision and mission. In order to ensure that management standards are maintained, the Board of Directors has instituted management skills improvement policies. Human resource specification policies have also been adopted by the Board that specify the minimum qualifications and experience required for every managerial position in the organisation. Table 5.1 presents the human resource specifications.

Table 5.1: Human resource specifications

Department	Job title	Qualifications	Work experience
Human Resources	Human Resources Manager	Bachelors Degree and Fellow of the Zambia Institute of Human Resources Management	7 years
	Assistant Human Resources Officer	Bachelors Degree and Associate of the Zambia Institute of Human Resources Management	5 years
	Legal officer	LLB Degree, advocate of the high court of Zambia	3 years
	Procurement officer	Bachelors degree and professional diploma in purchasing	3 years
	Administrative officer	Bachelors degree and diploma in management studies	3 years
	Human resources officer	Bachelors degree and diploma in human resources management	3 years
Operations	Operations manager	Bachelors degree – FCIB	7 years
	Assistant operations manager	Bachelors degree – ACIB	5 years
	Branch Manager	Bachelors degree – ACIB	5 years
	Operations officer	Bachelors degree	3 years
	Accountant	ACIB	3 years
	Clerks	GCE	1 year
Finance and Accounts	Finance Manager	Bachelors degree – FCCA or FCIMA	7 years
	Chief accountant	Bachelors degree – ACCA or CIMA	5 years
	Management Accountant	Bachelors degree – ACCA or CIMA	3 years
	Assistant accountant	AAT or NATECH	2 years
	Accounts clerk	Part qualification – NATECH	1 year
Internal Control Audit	Manager – internal control and audit	Bachelors degree – FCCA or FCIMA	7 years
	Assistant Manager – internal control audit	Bachelors degree – ACIB	5 years
	Inspector	Bachelors degree – ACCA Part II	3 years
	Investigations officer	Bachelors degree – Police training	3 years
Business Development	Business development manager	Bachelors degree and diploma in marketing	7 years
	Marketing officer	Bachelors degree and diploma in marketing	5 years
Advances	Advances manager	Bachelors degree – FCCA or FCIMA	7 years
	Assistant advances manager	Bachelors degree – ACIB	5 years

Department	Job title	Qualifications	Work experience
	Credit officers	Bachelors degree – ACIB	3 years
Information technology	Manager – information technology	Master of science – computer science – member of IMIS	7 years
	Senior systems analyst	Bachelor of science degree – Member of IMIS	5 years
	Systems analyst	Bachelor of science degree – computer science – member of IMIS	3 years

Source: IDP (2004:93), Manpower Specifications

The organisation aims at achieving the following long term strategic objectives:

- i. “To be the main provider of banking and financial services to low income groups country-wide”;
- ii. “To be a consumer driven financial institution”;
- iii. “To create and maintain a viable branch network that will ensure the provision of banking and financial services”;
- iv. “To maintain and enhance government’s recognition of the organisation as an important agent of economic and social development”;
- v. “To achieve and maintain compliance with the requirements of the banking and financial services Act”;
- vi. “To improve the equity position of the bank”;
- vii. “To achieve and maintain good quality earnings from all the liquid assets available to the bank”;
- viii. “To improve on the information communication technology systems for both the accounting and banking processes”;
- ix. “To acquire and maintain adequate infrastructure and equipment including transport facilities”;
- x. “To recruit, develop and maintain well trained, skilled and a motivated workforce”;
- xi. “To contribute to rural development and poverty alleviation in general with particular attention to small and medium scale enterprises; and,
- xii. To strive to be the best managed financial institution” (IDP, 2004:20-21).

The organisation participating in this study has developed the Institutional Development Plan as indicated in section 5.2.1 above which outlines the strategies to be used in achieving the

objectives listed above. The discussion below is derived from the findings of the document review. The findings are presented as per intellectual capital constructs introduced in Chapter 2 and section 2.4 and Figure 2.2. These are human capital, structural capital and relational capital. However, the documents reviewed in this study do not use these terminologies; intellectual capital, human capital, structural capital and relational capital. The intellectual capital constructs were only identified under the departmental headings of Human resources (human capital), Operations (Structural capital) and Marketing (Relational capital). As indicated in Chapter 3 and section 4.5.1, the interpretation of the information took on a sequential approach of four levels guided by the priori codes identified in the data analysis process based on the intellectual capital constructs identified for this study in Chapter and section 2.4. These are:

- Intellectual capital management
- Human capital management
- Structural capital management
- Relational capital management

The presentation of findings below follows the same pattern.

5.2.1.1 INTELLECTUAL CAPITAL

The IDP 2004 does not mention the concept of intellectual capital nor does it refer to the intellectual capital constructs as suggested by in Chapter 2, section 2.4 and Figure 2.2.

5.2.1.2 HUMAN CAPITAL

Based on the document analysis it was evident that the majority of employees of the organisation do not have tertiary education. Most of the employees joined the organisation soon after completing secondary education and have risen through the ranks to middle and senior management positions. The IDP does not provide statistical data on the employees' levels of education. The employees identified in the IDP as having no tertiary education are unable to appreciate certain strategic concepts. The organisation has introduced a specialised skills development programme to improve the skills of employees without tertiary education

alongside a gradual replacement by employees with university education and a high level of skills (IDP, 2004:45).

The organisation has established staff complement levels for each branch. The organisation has a target of establishing four branches every year. The organisation has established 28 branches from an initial 15 in 2004. However, some branches are not operating at full staff complement. A recruitment programme designed to employ university graduates has been introduced, but the organisation has experienced a problem in retaining university graduates because it is not able to offer competitive remuneration as offered by competitors (IDP, 2004:45). The organisation has no specific incentive and reward system.

5.2.1.3 STRUCTURAL CAPITAL

The organisation's documents reviewed gave no indication of the organisation's position on the management of structural capital rather the Institutional development plan outlines the physical infrastructure requirements such as office buildings, computer equipment and vehicles as paramount on acquisition agenda to improve the organisation's competitive advantage.

The IDP (2004:5) outlines the following as priorities:

- To create and maintain a viable branch network that will ensure the provision of banking and financial services to all the districts in the country. The organisation targeted increasing the branch network from 15 to 50 branches countrywide. At the time of data collection for this study, 28 branches had been established from the initial 15 in 2004.
- To acquire and maintain adequate infrastructure and equipment including transport facilities.

In view of this study and the composition of the structural capital construct, the organisation has an internal control and audit department whose function covers the review of the risk management system of the organisation. A manual for undertaking a full audit of the banking operations, accounting systems and other asset protection arrangements is in place. The other departments also have operational manuals that guide daily operations of departments (IDP,

2004:50). The IDP however identifies areas under processes and routines that require attention including the following:

- To improve on the information communication technology systems for both the accounting and banking processes. As a matter of urgency the organisation embarked on replacing the computer software for the banking and accounting operations. The organisation operated banking software called Micro-Banker - a database platform (Dbase 3) which was designed to manage basic desktop applications and not high volume and complex applications. The installation of new computers and systems was on going at the time of this study. The organisation did not offer online and real time banking services nor did it operate Automated Teller Machines (ATMs) at the time of this study;
- As the need for timely and accurate information is particularly acute in the organisation, management has undertaken a programme of procuring a new computer system with software that can manage Local area networks (LANS) and wide area networks (WAN); as indicated above, the installation of these systems was on-going at the time of this study.
- Migration of information technology know-how to the end users via intensive training programmes; and
- Become a member of the clearing house which will enable the organisations to provide current account services and cheque savings accounts. The organisation was still using another organisation to conduct its cheque clearing business in the clearing house at the time of this study.

The document review did not yield results on Patents and Trademarks, databases, organisational structure and renewal and development.

5.2.1.4 RELATIONAL CAPITAL

The organisation has redefined the market in which it is operating following the withdrawal of large retail banks from rural and some urban areas. The market available to the organisation is rural and peri-urban savers. The withdrawal of retail banks from these areas has created an

opportunity for the organisation as it is the only large bank operating in the peri-urban and rural areas (IDP, 2004:32). The high demand for banking services in rural areas has prompted the organisation to open new branches, however the IDP 2004 cautions against the fast pace of opening branches. The organisation is targeting civil servants in rural departments, NGOs and farmers as the clients for the new branches. The organisation identifies its low-cost banking services and easy access due to its network of branches as its major sources of competitive advantage (IDP, 2004:37). The organisation also identifies a range of tailor made products and services as another source of competitive advantage. As indicated in section 5.2.1.3 above, 28 branches had been established from the initial 15 in 2004 at the time of data collection for this study.

The IDP 2004 records the supervisory and regulatory actions taken by the Bank of Zambia (Central Bank) as impeding its ability to achieve its goals. These actions include the restrictions on the opening of branches, advertising and soliciting for new deposits. The organisation is also not allowed to provide loans of more than K50 million (about US \$10 thousand) (IDP, 2004:28). The organisation has devised a new way of reaching out to its customers in rural areas called village education camps where rural communities are invited to a central place (chief's palace), where they are educated on savings and other bank services. This process creates awareness and provides information on the organisation's products and services (IDP, 2004:66).

The IDP 2004 does not indicate how the organisation uses relational capital to engage with suppliers but it recognises the alliances that the organisation has effected with other banks. The organisation has formed alliances with large retail banks to handle the cheque clearing process for the organisation in the clearing house. The organisation has also formed alliances with large companies that provide mobile phone services in rural areas. The organisation handles the distribution of phone scratch cards. It also collects sales on behalf of the mobile phone companies (IDP, 2004:37).

In dealing with stakeholders the organisation, identifies government as a major stakeholder and in delivering banking services to peri-urban and rural areas is considered as fulfilling the

needs of their largest stakeholder – government – who want see rural communities accessing banking services (IDP, 2004:65). The organisation has also increased its participation in the social services sector by supporting the delivery of services to rural areas through providing financing for construction of rural schools, clinics and agriculture scheme centres. The organisation has orchestrated a public relations agenda that ensures that its stakeholders including customers, business associates, political leaders and the general public are well informed on its activities. The IDP 2004 indicates that this is to ensure that the organisation averts any inadvertent miss-information and miss-interpretation which erode the good image the organisation is striving to build (IDP, 2004:75).

5.2.2 SEMI-STRUCTURED INTERVIEWS

Semi structured interviews with open-ended questions are the main research instrument used for the qualitative interviews in this study. As discussed in Chapter 4 and section 4. 4.2.1, the individual structured interviews were focused, and standardised, and helped to clarify and structure the main questions in an explorative way. The semi structured interviews contributed to the researcher's gaining an understanding and a more personal insight into the interviewees; perceptions and interpretations of reality constructions. As indicated in Chapter 4, section 4.4.1, a total of ten top and middle level managers were selected by the human resources department to participate in the study. However, only seven managers participated in the study.

The biographical information of the respondents, including gender, age, nationality, level of education, and duration of service in the organisation is given in Table 5.2. Thereafter the findings pertaining to the intellectual capital constructs will be provided. From Table 5.2 it is evident that 57 percent of the interviewees are above 40 years old, while 43 percent are below 40 years old. Only 28 percent of the interviewees are female. 57 percent of the interviewees have a bachelor's degree and 42 percent have a diploma, while 1 percent has a school certificate. All the interviewees are Zambian nationals.

Table 5.2: Biographical information of interviewees

	Symbol	Age	Gender	Nationality	Education	Duration of service
1	HCR 1	45	M	Zambian	Bachelors degree	7 years
2	HCR 2	38	F	Zambian	Diploma	5 years
3	SCR 1	40	M	Zambian	Bachelors degree	5 years
4	SCR 2	43	M	Zambian	Diploma	15 years
5	RCR 1	48	M	Zambian	Certificate	20 years
6	RCR 2	30	M	Zambian	Bachelors degree	5 years
7	RCR 3	35	F	Zambian	Diploma	12 years

The findings pertaining to the concept of intellectual capital and the intellectual capital constructs are subsequently provided. As indicated in section 5.2.1 above, the presentation of the finds below takes after a sequential approach of four levels guided by the priori codes identified in the data analysis process based on the intellectual capital constructs identified for this study in Chapter 2 and section 2.4. These are:

- Intellectual capital management
- Human capital management
- Structural capital management
- Relational capital management

The responses for the semi structured interviews on intellectual capital were obtained from the two senior managers from among the participating seven respondents here denoted as ICR 1 and ICR 2 (Intellectual capital respondents 1 and 2 respectively)

5.2.2.1 INTELLECTUAL CAPITAL

1. Does the organisation have an intellectual capital management strategy and what is the nature of such a strategy?

ICR 1: The organisation has intellectual capital in form of its employees. Our intellectual capital management is by way of managing our employees efficiently. Worth of mentioning is that the industrial relations in the bank have been cordial so far. Generally the workers in the bank are positive

about their work and the future of the bank and are expected to contribute positively to the overall performance of the bank.

ICR 2: I am not sure whether we have a specific programme on intellectual capital management. We do however value the knowledge and skills of our employees.

2. How does the organisation define and construct its Intellectual Capital?

ICR 1: We do not have a definition as a bank for intellectual capital.

ICR 2: There is no standard definition for intellectual capital in the organisation.

3. What is the nature of the organisation's intellectual capital in terms of the following intellectual constructs?

i. Human capital

ICR 1: Employees of the organisation

ICR 2: All the people that work for the bank

ii. Structural capital

ICR 1: Branch network across the country, computers and printers.

ICR 2: Our infrastructures are the buildings that the bank owns – the physical assets including motor vehicles, computers and printers.

iii. Relational capital

ICR 1: Goodwill with customers and stakeholders. We relate very well with our customers and our major stakeholder – the government.

ICR 2: We have very good relationships with our customers and other banks. We also have a good relationship with the government.

4. How does the organisation use each of the selected intellectual constructs to support key organisational processes and functions in gaining a competitive advantage?

ICR 1: Our structure is designed in such a way that all departments contribute to the profit making process. For example: It is the responsibility of the human resources department to provide the best people to work for the organisation, while the marketing department makes sure that we meet our sales targets

ICR 2: Departments work in different ways but for a common goal. Departmental heads are always consulting each other on their respective operations.

5. How does the organisation use selected intellectual capital constructs to engage with stakeholders to gain a competitive advantage?

ICR 1: The head office is responsible for all corporate relationships where we engage with government and other stakeholders like the community and other banks. The marketing department is mainly responsible for engaging with our customers.

ICR 2: As our stakeholders are many, departments share the responsibility of engaging with different stakeholders. For example, the operations department is responsible to attending to the needs of other banks that we do business with, while the HR department is responsible for community development programmes. In a way each department deals directly with stakeholders that have demands on that particular department

6. How does the organisation generate intellectual capital for future competitive advantage?

ICR 1: We believe that what we do well today will have a positive impact on our future profitability. So we invest in today's activities so that we can reap benefits in the future. For example, if we provide good services to our customers today, we believe that they will come back for more business with us in future.

ICR 2: The bank has embarked on an improvement programme of staff, equipment and opening new branches. These improvements are intended to improve our competitive position in future.

5.2.2.2 HUMAN CAPITAL

1. How does the organisation use human capital to support key processes and functions in gaining competitive advantage?

HCR 1: We train our employees to be effective and efficient when dealing with our customers.

HCR 2: Our employees are efficient in handling customers and managing the bank equipment.

2. How does the organisation define its human capital?

HCR 1: Our human capital is our employees. They are very valuable to the bank because they are the ones that deal with our customers on a daily basis.

HCR 2: The skills of our employees are what I think make up the human capital of the bank.

3. How does the organisation promote organisational culture and values among its employees?

HCR 1: Our organisation has a legacy of having operated under the Post Office and the type of "Human Resource" that the bank inherited from that arrangement did not meet with the skills, knowledge and attitude requirements of a commercial bank. In this regard, the bank inherited a working culture that was not progressive and the historical poor performance is proof of this legacy.

HCR 2: The culture among employees is not very good but over the years the bank has taken deliberate steps to upgrade the quality of the work culture. A great deal has been achieved in this regard but there is a lot still that needs to be done.

4. How does the organisation promote skills development among its employees?

HCR 1: Most of our staff was inherited from the post office bank days as I have already alluded to. The skills were quite low. We have embarked on a programme to upgrade the employee skills.

HCR 2: The situation with human resources is basically characterised by three factors. The first is that the skills levels are low and need to be improved to meet the challenges that the bank is facing. Secondly, the bank has created new positions as a result of the expansion programme which need to be filled with appropriately qualified and experienced staff and thirdly, the bank needs to retain the qualified and experienced staff if it is to realise its mission.

5. How does the organisation share knowledge among its employees?

HCR 1: We usually conduct internal workshops where different departments make presentations on their operations. That way, employees get to know what the other departments are doing.

HCR 2: The Bank has developed operational manuals for some departments. For example we have a credit manual which has been distributed to all branches. All branch managers are supposed to learn it and apply it to the latter. The bank also conducts training of all lending managers on the basics of lending and security admission.

6. How does the organisation develop competencies among its employees?

HCR 1: We encourage employees to share their knowledge and skills. The operational manuals are also used to develop competencies of the employees. We are also hoping to employ a trainer. This person will have responsibility of doing induction programmes to new staff and impart skills such as customer care, general banking and ensuring that all manuals, disciplinary code and general conditions of service are communicated to the employees. We also have a programme whereby employees that attend training outside the bank

are required to facilitate seminars for internal training purposes. They share what they learnt with other employees.

HCR 2: The bank uses external training providers that have courses pertinent to the bank such as risk management, treasury management and corporate governance, general supervisory skills and agriculture lending and technology to train the employees. We ensure every employee attend at least a training seminar in a year. Those employees studying are provided with study loans.

7. Does the organisation have an incentive and reward system for its employees?

HCR 1: We do pay bonuses at the end of the year depending on the performance during the year.

HCR 2: We don't have a specific reward system at the moment but every employee gets a bonus every year. We also distribute Christmas gifts every December to all employees.

8. How does the organisation use its human capital to engage with its customers?

HCR 2: We engage our customers at a personal level. We make sure that our services across the counter are efficient and effective.

HCR 2: We encourage our employees to respond to the needs of individual customers. That is why we have embarked on a skills training programme so that our staff at the counters that deal with customers are efficient and understand the needs of every customer.

9. How does the organisation use its human capital to engage with its suppliers?

HCR 1: We try to maintain the same suppliers all the time so that we retain the same quality in the equipment we buy. This also makes it possible for us to negotiate the prices.

HCR 2: We have a purchasing department that deals with our suppliers. We try as much as possible to procure good quality goods and services at reasonable prices.

10. How does the organisation use its human capital to engage with its stakeholders in general?

HCR 1: Our major stakeholder is the government. They are our largest shareholder and the organisation rides on the strength of the government. Our customers never worry about losing their money because we have government back up. As an organisation that works with and within communities, we make sure that we respond to community needs. We support community schools and other social responsibility activities.

HCR 2: We have many stakeholders but of particular is the government, who are our largest shareholder. We also deal with the trade union. Most of our employees are unionised staff under the Union of Financial Institutions and Allied Workers (ZUFIAW) to which a majority of workers in the financial sector belong. As management we ensure that our relationship with the union is good to avoid strikes.

5.2.2.3 STRUCTURAL CAPITAL

1. How does the organisation use structural capital to support key processes and functions in gaining competitive advantage?

SCR 1: Our branch network is wide spread. We, more than any bank in the country are able to reach out to the unbankable communities in rural areas.

SCR 2: We are in the process of expanding our branch network from 24 to 60 branches which will take us to almost all districts in the country.

2. How does the organisation define its structural capital?

SCR 1: The structure of the bank is designed to reach down to the lowest of our communities. We take savings from all levels of citizens. We provide services to farmers, entrepreneurs and ordinary savers.

SCR 2: We define our structural capital by the number of branches we have, the computers and other equipment that the bank uses to reach its customers.

3. How does the organisation manage its processes and routines to gain competitive advantage?

SCR 1: We ensure efficiency in attending to our clients in the bank. Our front desk employees are well trained in managing the customers. We also endeavour to update our computer system to enhance our efficiency.

SCR 2: The bank has embarked on a project of up grading our data processing system. We use the computer system to improve our process and routines.

4. How does the organisation use its Structural capital to engage with its customers?

SCR 1: We are focused on efficiency service to our customers. Everything we do is designed to provide the best services to our customers.

SCR 2: Our database has information on our customers. We know their banking and financial needs. We also know the type of businesses they run. Most of our customers are farmers, so we use the information we have about them on our system to design some products that will meet their needs.

5. How does the organisation use its Structural capital to engage with its suppliers?

SCR 1: Our suppliers know that they can't lose their money even in the event of the bank going down because we have government backing. We are able to procure on credit because of that sound backing from our largest shareholder.

SCR 2: I am not very sure on how we deal with our suppliers but we have a purchasing department which does the processing of purchase orders on behalf of the whole organisation.

6. How does the organisation use its structural capital to engage with its stakeholders in general?

SCR 1: Our largest stakeholder is the government of Zambia. We have other stakeholders like the farmers union, the food reserve agency who use our wide branch network to reach out to their clients the farmers. We ensure that we reap maximum benefits from these stakeholders but we also ensure that they appreciate the services that we provide to them.

SCR 2: The bank has a number of stakeholders and we deal with each stakeholder differently depending on their needs and the type of benefit that we want from them. For example, we support community development programmes because most of our customers come from low level communities.

7. How does the organisation use its Patents and Trademarks to gain competitive advantage?

SCR 1: Currently we have a problem with using our logos and trademarks. As the Bank is currently owned by the government, Bank of Zambia is the supervisor of all banks and they have banned our organisation from advertising to level the playing field with other banks. We are not able to advertise and solicit for savings from our clients. We are engaging bank of Zambia to lift the ban on advertising so that we can use our good name to encourage new customers to save with us. I must mention though that we still ride on our good name because our customers know our good services from the past.

SCR 2: I don't think that we have patents, but we have a logo which identifies us everywhere we have presence. The problem is that we can't advertise because the regulator has put a ban on advertising. We are waiting for Bank of Zambia to lift the ban on advertising, and then we can start advertising again.

8. What type of organisational structure does the organisation use?

SCR 1: Our organisation structure is flat. We are close to our customers. We have a head office which has our Managing director and other directors like director human resources, director operations and the likes. We then have a network of branches managed by branch managers, accountants and clerks that work on counters. Depending on the size of the branch and the volume of business, the number of staff may be more or less depending on the volume of business we have in the branch.

SCR 2: The bank has been restructuring, so there has been a lot of changes in the management structure. But we have directors here at head office and branch managers who supervise branch operations. The branch managers are assisted by branch accountants and clerks.

9. What type of data-bases does the organisation maintain?

SCR 1: We maintain a database on our clients. We are able to print client's statements on request. We also capture such information as the clients' gender, age and marital status. This information helps us to have a better understanding of our customers. We also use the data base to assess our customers when they are applying for a loan. We can trace their performance using the database. The bank has embarked on upgrading our computer system, so we hope to have even a better system in place soon.

SCR 2: The computer system has been giving problems. It can't handle the amount of data anymore but we are in the process of buying a new system which will have better software. Currently we only hold data on customer accounts.

10. What is the organisation's renewal and development strategy?

SCR 1: We have developed a strategic plan which guides our development plan. But we are focusing on increasing our branch network to new

places where we do not have branches especially in rural areas. We have also started a programme of recruiting staff with a minimum of a first degree to ensure that we have a professional staff in all our branches. Keeping qualified staff is a problem because they tend to be poached by other banks which pay better than us.

SCR 2: There is a staff development programme which ensures that employees are up to date with modern banking techniques. It is a bit slow because it is expensive. The bank sends employees for refresher courses as well.

5.2.2.4 RELATIONAL CAPITAL

1. How does the organisation use relational capital to support key processes and routines in gaining competitive advantage?

RCR 1: Relational capital is such things as good will besides banking products and services. What do people feel, what do people understand, and what do people interpret about the bank and its services? The attributes around the bank are what make the business. These could be our social responsibility, our recruiting policies and procedures but most importantly our relational capital is based on the fact that we are owned by the government. So our customers look at us as a dependable bank. However, they also associate the bank with government bureaucracy.

RCR 2: Our relationships within the organisation are good. We ensure a good working culture where employees can engage with each on daily operations.

RCR 3: Our processes and routines are provided in the operational manuals. Every employee in the department has to understand them in order to operate efficiently.

2. How does the organisation define its Relational capital?

RCR 1: Because we are government owned bank, our relational capital is such that we are a people's bank. Our strategic position is such that we make people feel at home.

RCR 2: The good will we have with our customers and the communities.

RCR 3: Relational capital is defined by the number of customers that we have. We ensure that our communication channels with our customers are open all the time.

3. How does the organisation use its Relational capital to engage with its customers?

RCR 1: Every customer that deals with us feels secure because we are a government bank. We ensure that our customers do not have a perception of doom because we have strong backing from our shareholder. Our bank represents security for the customer because we have strong backing from our shareholder.

RCR 2: Because we have a good relationship with our customers, we are able to develop products and services that meet their needs. For example we have introduced an education savings account which parents can use to save money for their children's education. They can also obtain a loan under this account to pay for their children's education. This account was created as a result of listening from our customers.

RCR 3: The bank ensures that every customer need is met but where we are unable to meet a need of our customer we try explain and offer alternatives

4. How does the organisation use its Relational capital to engage with its suppliers?

RCR 1: We have different kinds of suppliers. We have suppliers who provide consumables such as stationery and uniforms. We have suppliers who supply equipment such as computers and cash counting machines. But we also have suppliers who supply some of banking services. These are other banks that we use to provide efficient

services to our customers. Our bank does not operate in the clearing house, so we use other banks to clear cheques on our behalf. We also use other banks to provide cash and other services to our clients. Our relational capital with our suppliers is in their knowing that it is safe for them to do business with us because we have government's backing. The risk portfolio for doing business with us is zero because government can cover our debts in the event that we fail to meet our obligations. Our suppliers are also sensitive to disappointing our major stakeholder the government. Media houses are also our suppliers. Media houses have promoted service quality.

RCR 2: The bank has a list of suppliers of goods and services. Every year we update the list which helps us to identify good suppliers from the not so good. We deregister those suppliers that don't meet our needs and maintain those that provide quality goods and services at reasonable prices

RCR 3: Our engagement with suppliers ensures that we get the best value for money. For example, we are now upgrading our computer system. We made sure that we got the best deal, the best equipment and the best software. It was a good package.

5. How does the organisation use its Relational capital to engage with its stakeholders in general?

RCR 1: Our stakeholders understand that we are a government bank. Dealing with us is as good as dealing with the government. So stakeholders such as communities, non-governmental organisation can easily engage with us because of the reputation of safety and security that we have as a government bank.

RCR 2: We have good relationships with the communities where we have branches. This helps the bank because the community regard the bank as their own so it minimises chances of vandalism on the bank properties.

RCR 3: Our stakeholders are many but we focus on communities and our shareholders.

6. Does the organisation have alliances with other organisations?

RCR 1: We have alliances with several organisations including government departments. We have alliances with other banks that use our system of branches to provide services to their clients who are far away from their branches. We also have alliances with phone companies, service companies such as power utility company who use our system to collect utility bills payments in rural areas.

RCR 2: Yes, we have a lot of alliances with other organisations. Some alliances are in form of contracts. For example, we have a contract with another bank to handle cheque clearing for us because we don't participate in the clearing house

RCR 3: Our alliances with other organisation come in many forms. Sometimes other organisations come to us requesting that we facilitate certain services or activities. Sometimes we go to other organisations and request them to provide a service on our behalf. We make sure that the bank benefits from these alliances. Right now we are working with a mobile phone to distribute airtime and collect cash on their behalf. This means that our branches have liquid cash all the time and so we can meet the needs of our other customers using the cash deposited from airtime sales.

7. What type of alliances does the organisation have?

RCR 1: We have a reconciling system with other banks where our services to them are compensated through commissions. We also have alliances with other organisations such as the farmers' organisations that use our network to reach out to their clients. For example the farmers' input programme is financed through our branch network. The government and other agencies use our network to provide farmers

with capital for farming inputs. We also facilitate the purchases of farmers produce. The Food reserve agency uses our network to pay farmers for their produce that the food reserve agency buys from them. We charge for these services and improve on our profitability. Our other alliances are with other service providers such as the mobile phone companies that use our bank to collect sales from their agents across the country. We collect sales on behalf of the mobile phone companies who in turn pay for the service. In doing so we are also providing services to our customers who are the agents for the mobile phone companies because they hold savings and transactional accounts with us.

RCR 2: There are several, I can't list them right now. I will need to check with the legal department.

RCR 3: Mostly its operational alliances where we use other to do things for us and they use us to do things for them of course at a fee.

8. How does the organisation derive competitive advantage from its strategic alliances?

RCR 1: Our alliances with other organisations are based on dependability. Most of our alliances depend on our secure position with the government. We ensure that we get maximum benefits from these alliances by charging for services that we provide to other banks in reaching out to their customers.

RCR 2: We charge for the services that we offer in the alliances

RCR 3: We know that we can depend on our partners whenever we have a need as a bank

9. How does the organisation manage the conflicting claims on it from different stakeholders?

RCR 1: We do not have major conflicting interest from our stakeholders as I indicated or major stakeholder is the government. Our customers are

also our major stakeholders. We manage customer interests very well by ensuring that we meet their needs cheaply and efficiently.

RCR 2: Our main focus is to meet the needs of our shareholder, the government. Our strategy of taking banking services to rural areas is one way in which we satisfy the needs of our shareholder because government want every Zambian to have access to banking services.

RCR 3: It is rare that we get conflicting claims on the bank from different stakeholders. Our other stakeholders know that government is our shareholder and so they are careful not to make demands on us because that means that they are making demands on the government.

10. How does the organisation use its brands to gain competitive advantage?

RCR 1: As we are not allowed to advertise at the moment, we are unable to extract value from our brand as the only savings bank in the country. However our customers are already aware of our presence and because we are wide spread, we are easily noticed in places where there are no banks.

RCR 2: Our brand of low cost savings is well known by communities across the country. The problem is that we can no longer promote our brand because Bank of Zambia has put a restriction on advertising.

RCR 3: If the bank was allowed to advertise as was the case in the past, our deposit ratio could have doubled by now. However our customers know that we provide low cost banking services.

5.3 CHAPTER SUMMARY

Chapter 5 presented the findings of the study. In section 5.2.1, the findings from the document review were presented, while section 5.2.2 presented the findings from the semi-structured interviews. An analysis and discussion of the findings will be presented in Chapter 6. The analysis will compare the literature review in Chapters 2 and 3 with the findings in Chapter 5.

CHAPTER SIX

DISCUSSION OF FINDINGS

6.1 INTRODUCTION

In Chapter 6 the findings of this study are analysed and discussed. The Chapter compares the literature reviewed in Chapters 2 and 3 where the conceptualisation of intellectual capital and strategies that facilitate organizations to leverage intellect capital were discussed respectively, and the findings of the study in Chapter 5. The discussion in Chapter 6 will ascertain whether the participating organisation in the banking and financial services sector in Zambia has the strategy for leveraging intellectual capital to achieve competitive advantage. The discussion of the findings in this Chapter will be provided according to the intellectual capital outline as constructed for this study in Chapter 2, section 2.4 and Figure 2.2.

6.2 INTELLECTUAL CAPITAL

The document review conducted at the organisation did not refer to Intellectual capital as a management strategy. The phrase “intellectual capital” was never used in the organisational documents. As indicated in Chapter 5 and section 5.2.1.1, the IDP 2004 does not mention intellectual capital nor does it mention the intellectual capital constructs as suggested by this study in Chapter 2, section 2.4 and Figure 2.2. Findings from the interviews indicated that none of the respondents could define intellectual capital as per definitions suggested by different authors in Chapter 1 and section 1.1. Responses such as “our intellectual capital management is by way of managing our employees efficiently”, gives a clear indication that respondent HCR 1 had no understanding of the intellectual capital phenomenon. The assertion by Bontis (2002:15) and Firer and Williams (2003:349) in Chapter 1 and section 1.1, that the archival evidence of the development and management of intellectual capital concepts within organisations in developing countries is still in its infancy resonates this finding. The nature of intellectual capital as defined by HCR 1 and HCR 2 is as follows:

Human capital

HCR 1: “employees of the organisation”

HCR 2: “all the people that work for the bank”

Structural capital

HCR 1: “branch network across the country, computers and printers”.

HCR 2: “Our infrastructures are the buildings that the bank owns – the physical assets including motor vehicles, computers and printers”.

Relational capital

HCR 1: “good will with customers and stakeholders. We relate very well with our customers and our major stakeholder – the government”.

HCR 2: “we have very good relationships with our customers and other banks. We also have a good relationship with the government”.

Relating the above findings on the nature of intellectual capital as suggested by HCR 1 and HCR 2, to the nature of intellectual as suggested by different authors in Chapter 2 and section 2.2, affirms the assertion by Bontis (2002:17); Nickerson and Silverman (1998:321) that often managers do not know the value of their own intellectual capital, nor do they know if they have the people, resources, or business processes in place to make success of a new strategy.

HCR 1 cited computers and printers, while HCR 2 cited buildings, and other physical assets including motor vehicles, computers and printers as structural capital. These responses indicate that the organisation has continued promoting physical assets as the sources of competitive advantage contrary to assertions by Roos *et al.*, (1997:1) and Louw and Venter (2006:471) in Chapter 3 and section 3.1, that executives and academics recognise the shift in value creating assets from the traditional land, labour and capital to knowledge and information becoming the most important resources an organisation can muster. On the nature of relational capital, HCR 1 suggests goodwill with customers and stakeholders while HCR 2 indicated good relationships with customers and other banks. The nature of relational capital in Chapter 3 and section 3.2.3 was defined as the knowledge embedded in the relationships established with the external environment of the organisation. It can be adduced from this finding that the organisation has an appreciation of relational capital. However the organisation does not deploy relational capital as a strategy to gain competitive advantage.

The following discussion is centred on the three constructs of intellectual capital as suggested by this study in Chapter 2, section 2.4 and Figure 2.2. These are human capital, structural capital and relational capital. The discussion is focused on only those aspects of strategic intellectual capital management that would earn an organisation competitive advantage if applied.

6.2.1 HUMAN CAPITAL

The institutional development plan (IDP 2004) recognises that the majority of employees of the organisation do not have tertiary education. The organisation has introduced a specialised skills development programme to improve the skills of employees without tertiary education alongside a gradual replacement by employees with university education and a high level of skills (IDP, 2004:45). The findings from the interviews indicate the same situation as presented below.

6.2.1.1 How does the organisation use human capital to support key processes and functions in gaining competitive advantage?

HCR 1: "We train our employees to be effective and efficient when dealing with our customers".

HCR 2: "Our employees are efficient in handling customers and managing the bank equipment".

The responses above are in line with the literature in Chapter 3 and section 3.2.1 which indicates that "in order to improve performance, organisations need to develop underlying skills and know-how and channel these into process improvements. These internal human capital capabilities result in sustainable competitive advantage because of the difficulty in coping competences based on knowledge, skills and abilities built into processes and developed over time into working combinations in a particular organisational context (Sharkie, 2003:22-23)". The definitions of human capital as suggested by HCR 1 and HCR 2 below are not comparable to the definitions suggested by different authors in Chapter 2 and section 2.4.

6.2.1.2 How does the organisation define its human capital?

HCR 1: "Our human capital is our employees. They are very valuable to the bank because they are the ones that deal with our customers on a daily basis".

HCR 2: "The skills of our employees are what I think make up the human capital of the bank".

While both respondents (HCR1 and HCR 2) recognise the importance of human capital to the organisation, their responses do not articulate the compositions of human capital as suggested by different authors in Chapter 2 and section 2.4. In Chapter 2 in Figure 2.2, human capital comprises of the competencies, organisational culture and incentive and rewards systems. Apart from 'skills', which are part of competencies, the respondents (HCR 1 and HCR 2) do not mention organisation culture and incentive and reward systems as part of human capital, however in Chapter 2 and section 2.4.1.2, culture was defined as a system of norms, values and beliefs which bind the organisation's members together, unifying them in purpose, incentive and rewards system provide the organisation with a motivation strategy for its employees.

6.2.1.3 How does the organisation promote organisation culture and values among its employees?

HCR 1: "Our organisation has a legacy of having operated under the Post Office and the type of Human Resources that the bank inherited from that arrangement did not meet with the skills, knowledge and attitude requirements of a commercial bank. In this regard, the bank inherited a working culture that was not progressive and the historical poor performance is proof of this legacy".

HCR 2: "The culture among employees is not very good but over the years the bank has taken deliberate steps to upgrade the quality of the work culture. A great deal has been achieved in this regard but there is a lot still that needs to be done".

The responses above refer to employees' work culture (attitude towards work) as opposed to organisational culture. Organisational culture in Chapter 3 and section 3.2.1.2 denotes successful organisational culture that fosters employee development and encourages highly competent employees to exercise their talents to impact positively on the organisation. A successful culture provides a work environment in which employees are engaged, challenged, motivated and rewarded in a positive way for their performance and contribution to the organisation's success (Sharkie, 2003:21).

6.2.1.4 How does the organisation promote skills development among its employees?

HCR 1: "Most of our staff was inherited from the post office bank days as I have already alluded to. The skills were quite low. We have embarked on a programme to upgrade the employee skills".

HCR 2: "The situation with human resources is basically characterised by three factors. The first is that the skills levels are low and need to be improved to meet the challenges that the bank is facing. Secondly, the bank has created new positions as a result of the expansion programme which need to be filled with appropriately qualified and experienced staff and thirdly, the bank needs to retain the qualified and experienced staff if it is to realise its mission".

Both respondents (HCR1 and HCR 2) recognise the skills deficiency among the organisation's employees. The education and training programme introduced by the organisation is intended to fill the skills gap as identified in the responses above. The skills upgrading programme introduced in the organisation is in line with assertions by different authors in Chapter 3 and section 3.2.1.1. The authors suggest that organisations operate in all areas through people and it is their contribution which determines success and their knowledge, skills and abilities that need to be cultivated and then leveraged to create competitive advantage (Sharkie, 2003:21). Training and development help to ensure that organisational members have the knowledge and skills needed to perform jobs effectively, take on new responsibilities as well as adapt to the changing competitive environment (George and Jones, 2006: 543). Training on one hand primarily focuses on teaching organisational members how to perform their current jobs and

helping them acquire the knowledge and skills they need to be effective performers while development on the other hand focuses on building the knowledge and skills of organisational members so that they are prepared to take on new responsibilities and challenges (George and Jones, 2006: 543; Brooking, 1997:8-9).

6.2.1.5 Does the organisation have an incentive and reward system for its employees?

The IDP 2004 does not suggest an incentive and reward system for employees. Responses from HCR 1 and HCR 2 were as follows:

HCR 1: "We do pay bonuses at the end of the year depending on the performance during the year".

HCR 2: "We don't have a specific reward system at the moment but every employee gets a bonus every year. We also distribute Christmas gifts every December to all employees".

As discussed in Chapter 2 and section 2.4.1.3, Human capital management should recognise that people are investors of their own human capital and that this provides the main source of competitive advantage for the organisation (Ingham, 2007: xvi). Therefore, how organisations reward employees is singularly important in the implementation of processes and ultimately, the achievement of strategic outcomes (Louw and Venter, 2006:424). The organisation that pays a royalty or otherwise recognises the author of a frequently referenced model work product, for example, provides greater incentive for the author to make that work product widely available. Such an organisation views its employees as inherently capable of learning new skills and interested in personal improvement (Klein, 1998:6).

6.2.2 STRUCTURAL CAPITAL

Based on the findings from the document review, as discussed in Chapter 5, section 5.2.1.3, there was no indication of the organisation's position on the management of structural capital rather; the Institutional development plan outlines the physical infrastructure requirements such as office buildings, computer equipment and vehicles as paramount on acquisition agenda to improve the organisation's competitive advantage. The document review did not yield results on patents and trademarks, databases, organisational structure, renewal and development.

The IDP 2004 however identifies computer software, and establishing an online banking service as areas that require urgent attention.

6.2.2.1 How does the organisation use structural capital to support key processes and functions in gaining competitive advantage?

SCR 1: *“Our branch network is wide-spread. We, more than any other bank in the country are able to reach out to the unbankable communities in rural areas”.*

SCR 2: *“We are in the process of expanding our branch network from 24 to 60 branches which will take us to almost all districts in the country”.*

The responses by SCR 1 and SCR 2 are focused on physical infrastructure rather than intangible structural capital. In Chapter 3 and section 3.2.2, structural capital was defined as the empowerment, and supportive infrastructure of human capital that bonds the organisation, providing strength and cohesion between the organizations’ people and its processes (Brooking, 1997:16). The structural capital constructs includes organisational structure, processes and routines, data-bases, organisational charts, process manuals and patents and trademarks (intellectual property). While the organisation has developed operational manuals for departments and has a customer data-base, the IDP 2004 does not indicate a strategy for developing processes and routines.

6.2.2.2 How does the organisation manage its processes and routines to gain competitive advantage?

SCR 1: *“We ensure efficiency in attending to our clients in the bank. Our front desk employees are well trained in managing the customers. We also endeavour to update our computer system to enhance our efficiency”.*

SCR 2: *“The bank has embarked on a project of up-grading our data processing system. We use the computer system to improve our process and routines”.*

Processes are responsible for the production of an organisation's goods and services through the conversion of inputs into outputs, while routines achieve the integration of knowledge through patterns of interaction among different specialists (Chapter 3 and section 3.2.2.1). Thus, in any productive process which involves a team of employees with different tasks and skills, co-ordination is achieved through ordered sequences of activity in which individual contributions are coordinated through signals and responses (Louw and Venter, 2006:404). The responses by SCR 1 and SCR 2, though focused on computer systems, does recognise the role that processes and routines have on providing quality services to customers which in turn defines a competitive advantage for the organisation.

6.2.2.3 How does the organisation use its Structural capital to engage with its customers?

SCR 1: "We are focused on providing efficient services to our customers. Everything we do is designed to provide the best services to our customers".

SCR 2: "Our data-base has information on our customers. We know their banking and financial needs. We also know the type of businesses they run. Most of our customers are farmers, so we use the information we have about them on our system to design some products that will meet their needs".

The response by SCR 1 indicated that the organisation is a customer focused organisation. SCR 2 confirms SCR 1's response by indicating that the organisation has a database on its customers. Chapter 3 and section 3.2.2.3, articulates that if an organisation chooses a management philosophy which requires the organisation to be customer focused, the organisations uses technology to communicate with customers and deliver products and services. Organisations create databases on customers, gathering information from previous purchases or inquiries which enable an organisation to develop its marketing strategies around what the customer currently wants but also projecting what the customer may want in the near future (Goodman, 1992:1). Goodman (1992:2) further suggests that a customer database is a strategic tool designed not only to attract new customers to a business, but to strengthen the

relationship among existing customers. The customer database is a key corporate asset and every customer-driven business needs to leverage this resource (Goodman, 1992:1). The participating organisation is undertaking a project to improve its data-base and data processing capacity.

6.2.2.4 How does the organisation use its patents and trademarks to gain competitive advantage?

- SCR 1: *“Currently we have a problem with using our logos and trademarks. As the Bank is currently owned by the government, Bank of Zambia is the supervisor of all banks and they have banned our organisation from advertising to level the playing field with other banks. We are not able to advertise and solicit for savings from our clients. We are engaging bank of Zambia to lift the ban our advertising so that we can use our good name to encourage new customers to save with us. I must mention though that we still ride on our good name because our customers know our good services from the past”.*
- SCR 2: *“I don’t think that we have patents, but we have a logo which identifies us everywhere we have presence. The problem is that we can’t advertise because the regulator has put a ban on advertising. We are waiting for Bank of Zambia to lift the ban on advertising, and then we can start advertising again”.*

The ban on the organisation from promoting its trademark denies the organisation a competitive advantage that comes with its identity. In Chapter 23 and section 3.2.2.2, Brooking (1997:40), suggested that a trademark is a registered mark which is associated with the organisation or its products, which distinguishes them from those owned by competitors. The mark can be a word such as a name, picture or a logo or a combination. In the case of the organisation in this study, its trademark is a logo. Trademarks are used to protect brands and are valuable assets which live for a long time, increasing in value over the years. As indicated in Chapter 5 and section 5.2.2.3, the organisation has devised an innovative way of

communication with its customers using village meetings. The organisation's well known logo has remained as the only visible means of attracting customers.

6.2.2.5 What type of organisational structure does the organisation use?

SCR 1: *"Our organisational structure is flat. We are close to our customers. We have a head office which has our Managing director and other directors like director human resources, director operations and the likes. We then have a network of branches managed by branch managers, accountants and clerks that work on counters. Depending on the size of the branch and the volume of business, the number of staff may be more or less depending on the volume of business we have in the branch".*

SCR 2: *"The bank has been restructuring, so there have been a lot of changes in the management structure. But we have directors here at head office and branch managers who supervise branch operations. The branch managers are assisted by branch accountants and clerks".*

The responses by SCR 1 and SCR 2 indicate that there is no clarity among senior managers on the type of organisational structure that the organisation has adopted. This could be attributed to the on-going restructuring programme. As indicated in section 5.2.2, the document review did not yield results on Patents and Trademarks, databases, organisational structure and renewal and development. However as discussed in Chapter 2 section 2.4.2.5, and Chapter 3 and section 3.2.2.4, employees working within an organisation must be able to understand how their actions interrelate with the actions of others to support and execute the organisation's strategy. Organisational structure is vital in clarifying the roles of managers and employees that hold the organisation together (Ireland, Hoskisson and Hitt, (2009:309). Designing an appropriate structure that fits and supports the organisation's strategy is a senior managements' task and it is concerned with relationships among organisational activities (Pitts and Lei, 2003:362). Ireland *et al.*, (2009:309) asserts that an organisation's structure specifies the work to be done and how to do it, given the organisation's strategy or strategies.

6.2.2.6 What is the organisation's renewal and development strategy?

SCR 1: *"We have developed a strategic plan which guides our development plan. But we are focusing on increasing our branch network to new places where we do not have branches especially in rural areas. We have also started a programme of recruiting staff with a minimum of a first degree to ensure that we have a professional staff in all our branches. Keeping qualified staff is a problem because they tend to be pouched by other banks which pay better than us".*

SCR 2: *"There is a staff development programme which ensures that employees are up to date with modern banking techniques. It is a bit slow because it is expensive. The bank sends employees for refresher courses as well".*

SCR 1's response - "we are focusing on increasing the organisation's branch network to rural areas" indicated that the organisation has an entrepreneurial mindset. Response by SCR 2 on staff development is another indication of a renewal and development strategy, however, in Chapter 2 and section 2.4.2.5, the definition of renewal and development capital included all items that have been built or created and that will have an impact on the future value, but have not manifested that impact yet. New product development, re-engineering and restructuring efforts, development of new training, innovation, research and development are all examples of renewal and development value (Roos, *et al.*, 1997:51). Central to renewal and development is the entrepreneurial mindset. The entrepreneurial mindset encourages and supports the organisation's ability to engage in continuous product or service innovation. Increasingly, the ability of the organisation to engage in innovation makes the difference in gaining and maintaining a competitive advantage (Ireland *et al.*, 2009:368). The participating organisation's renewal and development strategy as suggested by SCR 1 focuses mainly on infrastructure development as well as education and training of its employees.

6.2.3 RELATIONAL CAPITAL

The document review indicated that the participating organisation has redefined the market in which it is operating following the withdrawal of large retail banks from rural and some urban

areas. The customers available to the organisation are in rural and peri-urban areas. The withdrawal of retail banks from these areas has created an opportunity for the organisation as it is the only large bank operating in the peri-urban and rural areas (IDP, 2004:32). Even though the IDP 2004 does not specifically mention customer relationship management, it is obvious from the organisation's customer focus strategy that it embraces customer relationship management. In Chapter 3 and section 3.2.3.1, Buttle, 2000 cited in Berndt, *et al.*, (2005:1) suggested that customer relationship management (CRM) strategies have become important due to changes in expectations from customers as well as changes in the nature of markets. CRM seeks to build long term relationships with customers. The implementation of CRM is regarded as desirable by organisations due to the benefits that accrue from these strategies among their customers, such as greater loyalty and resulting profits. The focus of a CRM strategy is the acquisition, retention and overall customer profitability of the specific group of customers (Buttle, 2000 cited in Berndt, *et al.*, 2005:1). In the case of the organisation in this study, its specific group of customers includes those in peri-urban and rural areas.

Although the IDP 2004 does not indicate how the organisation uses relational capital to engage with suppliers, it does recognise the alliances that the organisation has effected with other banks. The participating organisation has formed alliances with large retail banks to handle the cheque clearing process for the organisation in the clearing house; formed alliances with large organisations that provide mobile phone services in rural areas; organisation handles the distribution of phone scratch cards; and collects sales on behalf of the phone companies (IDP, 2004:37). These alliances establish the participating organisation as a major player in providing banking and financial services in peri-urban and rural areas which affords the organisation a competitive advantage that competitors would not have.

In dealing with stakeholders, the organisation identified government as a major stakeholder. Providing banking and financial services to peri-urban and rural areas is considered as fulfilling the needs of the organisation's largest stakeholder – government – who want to see rural communities accessing banking services (IDP, 2004:65).

The organisation has also increased its participation in the social services sector by supporting the delivery of services to rural areas through providing financing for construction of rural schools, clinics and agriculture scheme centres. The organisation has orchestrated a public relations agenda that ensures that its stakeholders including customers, business associates, political leaders and the general public are well informed on its activities. The IDP 2004 indicates that this is to ensure that the organisation averts any inadvertent miss-information and miss-interpretation which erode the good image the organisation has built up (IDP, 2004:75). The findings from the document review can be triangulated by the following findings from interviews:

6.2.3.1 How does the organisation use relational capital to support key processes and functions in gaining competitive advantage?

RCR 1: "Relational capital is such things as good will besides banking products and services. What do people feel, what do people understand, and what do people interpret about the bank and its services? The attributes around the bank are what make the business. These could be our social responsibility, our recruiting policies and procedures but most importantly our relational capital is based on the fact that we are owned by the government. So our customers look at us as a dependable bank, however, they also associate the bank with government bureaucracy".

RCR 2: "Our relationships within the organisation are good. We ensure a good working culture where employees can engage with each on daily operations".

RCR 3: "Our processes and routines are provided in the operational manuals. Every employee in the department has to understand them in order to operate efficiently".

The responses by SCR1, SCR 2, and SCR 3, echoes the assertion by Pitts and Lei (2003:506) and Roos, *et al.*, (1997:44), that the importance of external relationships is through long-term exchanges of information and goods and not through spot transactions. Networks of

relationships and contracts both in the internal and external sides of the participating organisation present an ability to create knowledge routines, and to respond to market changes. The organisation in this study has developed long term relationships with its stakeholders as evidenced the findings in the document review as presented in section 5.2.3 above.

6.2.3.2 How does the organisation use its Relational capital to engage with its customers?

RCR 1: "Every customer that deals with us feels secure because we are a government bank. We ensure that our customers do not have a perception of doom because we have strong backing from our shareholder. Our bank represents security for the customer because we have strong backing from our shareholder".

RCR 2: "Because we have a good relationship with our customers, we are able to develop products and services that meet their needs. For example we have introduced an education savings account which parents can use to save money for their children's education. They can also obtain a loan under this account to pay for their children's education. This account was created as a result of listening from our customers".

RCR 3: "The bank ensures that every customer need is met but where we are unable to meet a need of our customer we try to explain and offer alternatives".

As indicated in 5.2.3 above, even though the IDP 2004 does not specifically mention customer relationship management, the responses by SCR 1, SCR 2 and SCR 3 indicate that the participating organisation has embraced a customer focus strategy. Customer focus strategy encourages the acquisition, retention and overall customer profitability of the specific group of customers (Buttle, 2000 cited in Berndt, *et al.*, 2005:1). Customer loyalty is an asset, as loyalty leads to repeat business (Brooking, 1997:26-27).

6.2.3.3 Does the organisation have alliances with other organisations?

RCR 1: “We have alliances with several organisations including government departments. We have alliances with other banks that use our system of branches to provide services to their clients who are far away from their branches. We also have alliances with phone companies, service companies such as power utility company who use our system to collect utility bills payments in rural areas”.

RCR 2: “Yes, we have a lot of alliances with other organisations. Some alliances are in form of contracts. For example, we have a contract with another bank to handle cheque clearing for us because we don’t participate in the clearing house”.

RCR 3: “Our alliances with other organisation come in many forms. Sometimes other organisations come to us requesting that we facilitate certain services or activities. Sometimes we go to other organisations and request them to provide a service on our behalf. We make sure that the bank benefits from these alliances. Right now we are working with a mobile phone to distribute airtime and collect cash on their behalf. This means that our branches have liquid cash all the time and so we can meet the needs of our other customers using the cash deposited from airtime sales”.

Responses by RCR 1, 2 and 3 indicate that the participating organisation has formed alliances with large retail banks to handle the cheque clearing process for the organisation in the clearing house. This and other alliances establish the participating organisation as a major player in providing banking and financial services in peri-urban and rural areas affording the organisation a unique competitive advantage. Alliances are an organisational form that may facilitate the process of gaining access to resources and competencies that the participating organisation does not currently possess. This requires that the organisation be involved in a co-operation that links its own competencies and resources to those of its partners (Quélin in Sanchez and Heene, 1997:149). As such, organisations in the same industry like the airline industry (in this case – banking industry) are working closely with one another (Roos, et al.,

1997:44-45). Organisations work with a number of other organisations to share knowledge, costs and risks (Pitts and Lei, 2003:332). As indicated in the IDP 2004, and discussed in section 5.2.3 above, the organisation in this study has developed strong strategic alliances that are earning the organisation a competitive advantage.

6.3 CHAPTER SUMMARY

In this Chapter the findings of this study were discussed. Comparisons were between the literature review in Chapters 2 and 3 and the research findings in Chapter 5 from document review and semi-structured interviews. An attempt was made in this Chapter to ascertain whether the selected organisation in the banking and financial services sector in Zambia has the strategy for transforming knowledge asserts into intellectual capital and whether it encourages the creation and sharing of knowledge with and across internal business functions and how it orchestrates the flow of know-how to and from external organisations to build competitive advantage. A summary of this research will be given in Chapter 7. Thereafter conclusions will be given and recommendations based on the findings in Chapter 5 and the literature review in Chapters 2 and 3 will be made. Recommendations on how organisations can identify, deploy and manage intellectual capital in the banking and financial services sector within the Zambian context will also be made in Chapter 7.

CHAPTER 7

SUMMARY, CONCLUSION AND RECOMMENDATIONS

7.1 INTRODUCTION

Chapter 7 provides a summary of this study and conclusions based on the findings related to the theoretical underpinnings with regards to the intellectual capital phenomenon, and the intellectual capital constructs of human capital, structural capital and relational capital as discussed in Chapters 2 and 3 and the findings in Chapter 5. Recommendations on how the organisation in this study identify, manage and leverage intellectual capital are also made. The Chapter further makes recommendations on future studies that could be undertaken within the banking and financial services sector in Zambia.

Before providing the conclusions pertaining to the main findings of this research, the primary aim and research questions of this study will be restated. As stated in Chapter One, the primary aim of this research was to assess the strategic management of intellectual capital in a participating organisation in the banking and financial services sector in Zambia. To achieve the main purpose of the study, the following research questions (Chapter 4 and section 4.4.2.2) were formulated:

Question 1: *Does the organisation have an intellectual capital management strategy and what is the nature of such a strategy?*

The question served the function of introducing the topic of the interview – Intellectual capital management.

Question 2: *How does the organisation define and construct is intellectual capital?*

This question sought to find out whether the organisation had grouped the different aspects of intellectual capital according to the constructs identified in the literature review as presented in Chapter 2.

Question 3: *What is the nature of the organisation's intellectual capital in terms of the following selected intellectual constructs, namely human, structural and relational capital?*

The question sought to discover how the organisation constituted the different constructs of intellectual capital.

Question 4: *How does the organisation use each of the selected intellectual constructs to support key organisational processes and functions in gaining a competitive advantage?*

This question was intended to explore strategies that the organisation used to leverage intellectual capital to gain competitive advantage.

Question 5: *How does the organisation use selected intellectual capital constructs to engage with stakeholders to gain a competitive advantage?*

This question sought to ascertain how the organisation derives a competitive advantage through its stakeholders.

Question 6: *How does the organisation generate intellectual capital for future competitive advantage?*

This question sought to find out the organisation's strategy for generating intellectual capital for improving and sustaining its competitive advantage.

7.2 SUMMARY OF THE STUDY

This study set out to assess the strategic management of intellectual capital in an organisation in the banking and financial services sector in Zambia. The study sought to contribute to a deeper understanding of managerial perspectives of the intellectual capital phenomenon in the banking and financial services sector in Zambia. In essence, the study aimed to contribute to Zambian management research in the field of intellectual capital. Chapter 1 of the thesis introduced the subject of strategic intellectual capital management, and provided different theories and definitions by different authors. The Chapter also briefly discussed the banking and financial services sector, the industry chosen for the study. The Chapter also outlined the purpose of the study, stated the research questions and suggested the methodology that the study employed.

In Chapter 2 the study defined intellectual capital in detail and conceptualised the phenomenon. The origins and development of the intellectual capital concept was outlined and the different constructs therein were explained. These constructs are associated with strategies that facilitate managers to leverage intellectual capital for competitive advantage. These strategies that enable managers to manage for a sustainable competitive advantage were also discussed in detail in Chapter three. The theoretical approaches adopted in this thesis are at the heart of debates about how organisations use intellectual capital to gain competitive advantage by means of human, structural and relational capital. The discussion in Chapter 3 also presented the basis upon which it would be ascertained whether the selected organisation in the banking and financial services sector in Zambia had the strategy for transforming knowledge asserts into intellectual capital and whether it encouraged the creation and sharing of knowledge with and across internal business functions and how it orchestrated the flow of know-how to and from external organisations.

In Chapter 4, the research paradigm for this study was introduced as the phenomenological paradigm. The Chapter discussed the research design and methodology, data collection and data collection methods as well as the data analysis. To achieve the above mentioned aim and answer the research questions, a single descriptive exploratory case study approach, within the phenomenological research paradigm was used (Collis and Hussey, 2003:66). The unit of analysis was a single case study. Data was collected by means document review and in-depth interviews with seven managers at the participating organisation in the banking and financial services sector in Zambia. Finally the ethical considerations as adopted by the researcher were presented.

In Chapter 5, summaries of the findings of the study were presented. The summaries included findings from document review and semi-structured interviews based on intellectual capital management and the intellectual capital constructs selected for this study namely human capital, structural capital and relational capital.

Chapter 6 discussed the findings in Chapter 5 and made a comparison with the theoretical approaches suggested in Chapters 2 and 3. This Chapter will present brief summaries and

conclusions of the findings in respect of intellectual capital as a management phenomenon and the three intellectual capital constructs of human capital, structural capital and relational capital as adopted for this study.

7.3 CONCLUSIONS

Conclusions of the research findings related to the theoretical and methodological frame work in Chapters 2, 3, 4, 5 and 6 are presented in respect of the intellectual capital phenomenon, and the intellectual capital constructs of human capital, structural capital and relational capital.

7.3.1 INTELLECTUAL CAPITAL PHENOMENON

There is an evident low level appreciation of the intellectual capital phenomenon as a strategic management approach in the organisation in this study. The Institutional Development Plan 2004 does not make mention of intellectual capital management nor do the respondents give educated responses to their understanding of the intellectual capital management strategy as a strategic management phenomenon. In Chapter 1 it was asserted that while developed economies are devising ways of measuring and presenting intellectual capital in financial reports the archival evidence of the development and management of intellectual capital concepts within organisations in developing countries including Zambia is still in its infancy. The lack of literature on the subject in Zambia is evidence that organisations and academics have not yet appreciated the intellectual capital phenomenon as a management strategy.

However, if the management of intellectual capital is rapidly becoming the source of competitive advantage, it can be concluded that the organisation in this study could enhance its competitive edge if it embraced the exploitation of intangible assets. Relating the findings on the nature of intellectual capital as suggested by different authors in Chapter 2, the assertion that often managers do not know the value of their own intellectual capital, nor do they know if they have the people, resources, or business processes in place to make success of a new strategy is true of the organisation in this study.

7.3.2 HUMAN CAPITAL

The organisation has suggested a human resources development programme which promotes skills development from within and outside the organisation. While there is no evidence that the organisation views its employees as stakeholders, there is substantial evidence deduced from the semi-structured interviews that the organisation embraces a personnel management approach rather than a human resource approach which views employees as stakeholders and assets to the organisation.

7.3.2.1 Competencies

It can be concluded that, in order for the organisation to improve performance, it needs to develop underlying skills and know-how and channel these into process improvements. These internal human capital capabilities will result in sustainable competitive advantage because of the difficulty in coping competences based on knowledge, skills and abilities built into processes and developed over time into working combinations. Skills development should be complemented by a reward system which will encourage employees to be more innovative and responsive in their daily operations.

7.3.2.2 Organisational culture

The absence of a well orchestrated and articulated organisational culture by senior management indicates disunity among organisational members. As organisational culture is a system of norms, values and beliefs which bind the organisation's members together, unifying them in purpose, it can be concluded that developing an appropriate organisational culture will bind organisational members effectively and influence both the strategic alignment and strategic implementation. Such a culture will provide a work environment in which employees are engaged, challenged, motivated and rewarded in a positive way for their performance and contribution to the organisation's success.

7.3.2.3 Incentive and reward systems

As discussed in Chapter 2 and section 2.4.1.3, Human capital management should recognise that people are investors of their own human capital and that this provides the main source of competitive advantage for the organisation (Ingham, 2007: xvi). While the participating

organisation in this study provides an incentive routinely (Christmas gifts), there is need to have a strategic incentive and reward system. An incentive and rewards system provides the organisation with a motivation strategy for its employees.

7.3.3 STRUCTURAL CAPITAL

Suggestions by different authors in Chapters 1, 2 and 3 indicated that structural capital is the empowerment, and supportive infrastructure of human capital that bonds the organisation, providing strength and cohesion between the organizations' people and its processes. The document review gave no indication of the organisations position on the management of structural capital rather; the Institutional development plan outlines the physical infrastructure requirements such as office buildings, computer equipment and vehicles as paramount on acquisition agenda to improve the organisation's competitive advantage. The document review did not yield results on Patents and Trademarks, databases, organisational structure and renewal and development. The IDP however identified computer software, and establishing an online banking service as areas that require urgent attention. It can be concluded therefore that a structural capital strategy embracing the suggested components of processes and routines, patents and trademarks, organisational structure and renewal and development will improve the organisation's competitive advantage.

7.3.3.1 Processes and routines

While the organisation has developed operational manuals for departments and has a customer data-base, the IDF 2004 does not indicate a strategy for developing processes and routines. Strategic routines will help the organisation achieve the integration of knowledge through patterns of interaction among different employees with different tasks and skills. Such a system will enhance co-ordination of sequences of activities in which individual contributions are coordinated.

7.3.3.2 Patents and trademarks

The ban on the organisation from promoting its trademark denies the organisation a competitive advantage that comes with its identity. As indicated in Chapter 5 and section 5.2.2.3, the organisation has devised an innovative way of communication with its customers

using village meetings. The organisation's well known logo has remained as the only visible means of attracting customers. The organisation's management plan to engage with the Central Bank to allow the organisation to advertise is commendable.

7.3.3.3 Organisational structure

In order to develop its structural capital, the organisation will be required to develop an organisational structure that will respond to the strategy. An organisational structure is what makes employees understand how their actions interrelate with the actions of others to support and execute the organisation's strategy. Organisational structure is vital in clarifying the roles of managers and employees that hold the organisation together. Designing an appropriate structure that fits and supports the organisation's strategy is a senior managements' task and it should be concerned with relationships among organisational activities and it should specify the work to be done and how to do it, given the organisation's strategy or strategies.

7.3.3.4 Renewal and development

In Chapter 2 and section 2.4.2.5, the definition of renewal and development capital included all items that have been built or created and that will have an impact on the future value, but have not manifested that impact yet. New product development, re-engineering and restructuring efforts, development of new training, innovation, research and development are all examples of renewal and development value (Roos, *et al.*, 1997:51). The participating organisation's renewal and development strategy focuses mainly on infrastructure development, education and training of its employees as well as restructuring, however, a combination of strategies as outlined above would provide the organisation a more sustained competitive advantage.

7.3.4 RELATIONAL CAPITAL

Even though the organisation does not recognise the strategy as relational capital but rather as goodwill, it has fully embraced the strategies as suggested by different authors in Chapter 1, 2, 3 and 4 on the management of relational capital. It can be concluded therefore that the organisation has sustained its competitive edge in its operational areas as a result of implementing relational capital strategies.

7.3.4.1 Customers

The organisation in this study has adopted customer focus as its strategy. As indicated earlier in Chapter 6, the organisation does not specifically mention customer focus as a strategy but it could be ascertained by this study from document review and semi-structured interviews that the organisation has a customer focus strategy. The inability by the organisation to categorically define its strategy could be attributed to the organisation being unaware of the intellectual capital management phenomenon.

7.3.4.2 Suppliers

While the IDP 2004 does not indicate how the organisation uses relational capital to engage with suppliers, it does recognise the alliances that the organisation has effected with other banks. The organisation recognises the partners in these alliances as its suppliers of goods and services.

7.3.4.3 Brands

In Chapter 2 and section 2.4.3.3, Brooking (1997:20) suggests that Brands are reminders to customers to buy the products and services of one organisation in preference to another. The ban imposed by the central bank on the organisation's ability to promote its products and services has adversely affected its use of the brands. As indicated in 7.3.3.2, the lifting of this ban will allow the organisation to exploit its brand and positioning in the banking and financial services sector in Zambia

7.3.4.4 Other stakeholders

In engaging with stakeholders, the organisation in this study identifies government as a major stakeholder. The organisation has also increased its participation in the social services sector by supporting the delivery of services to rural areas through providing financing for construction of rural schools, clinics and agriculture scheme centres. The organisation's public relations agenda ensures that the organisation's other stakeholders including customers, business associates, political leaders and the general public are well informed on its activities. Keeping stakeholders informed and providing basic community services identifies the organisation as one responsive to the needs of its stakeholders.

7.3.4.5 Strategic alliances

The participating organisation has formed alliances with large retail banks to handle the cheque clearing process for the organisation in the clearing house. This and other alliances establish the participating organisation as a major player in providing banking and financial services in peri-urban and rural areas affording the organisation a unique competitive advantage.

7.4 RECOMMENDATIONS

Based on the outcomes of this study and the assertions by several authors (Chapters 2 and 3) that the capability of an organisation to leverage intellectual capital allows the organisation to exploit intangible assets to create new value and competitive advantage, the following recommendations with regards to the management of intellectual capital in the participating organisation in this study are made:

- Management to review the organisational structure and align it to the organisational strategy. As indicated in section 7.3.3.3 above, designing an appropriate structure that fits and supports the organisation's strategy is a senior managements' task and it should be concerned with relationships among organisational activities and it should specify the work to be done and how to do it, given the organisation's strategy or strategies.
- Management should promote an organisational culture commensurate with the organisational strategy. As organisational culture is a system of norms, values and beliefs which bind the organisation's members together, it is recommended that developing an appropriate organisational culture will influence both the organisation strategic alignment and implementation. As suggested in section 7.3.2.2 above, such a culture will provide a work environment in which employees are engaged, challenged, motivated and rewarded in a positive way for their performance and contribution to the organisation's success.

As regards further research in the banking and financial services sector in Zambia, this study recommends the following:

- A detailed study on the impact of organisational structure on organisational strategy.
- A detailed study on the effects of organisational culture on organisational strategy.

Finally as regards intellectual capital management in general, this study recommends an assessment of value created as a result of implementing strategic intellectual capital management in an organisation.

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Annexure**Annexure A: Cover Letter**

The Managing Director
Lusaka

Dear Sir,

Subject: Request to conduct Academic Research in your Institution

I refer to the above subject.

I am a student of Rhodes University in South Africa (Student #: G06B3581) reading for a Master of Commerce Degree (Mcom). I am currently collecting data for the Thesis whose subject is: Management of Intellectual Capital: A case study in the Banking and Financial Services Sector in Zambia. The purpose of the study is to assess the development and management of Intellectual Capital in the Banking and Financial Services Sector in Zambia. The study will ascertain how an organization in the sector develops and manages intellectual capital and how intellectual capital is used to gain competitive advantage and profitability.

This study will require a good understanding of your organisation in particular and the Banking and Financial Services sector in Zambia in general. This background will provide a base for argument, comparison and analysis of the subject as it compares with various scholarly articles on the matter. I therefore wish to request for permission to conduct research in your organisation. Please note that each interview will not take more than 1 hour and 30 minutes and it will be recorded on a digital voice recorder. Please find attached the participants' consent form and my CV for your ease of reference. Please feel free to check my credentials with my University and my supervisor and Head of Management Department on the contact details provided below:

Professor Lynette Louw
Department of Management
Rhodes University
P. O. Box 94
Grahamstown
South Africa

Tel: +27466038738
Fax: +27466038913
Email: l.louw@ru.ac.za

I will be grateful if my request could be given your positive consideration.

Yours Faithfully,

Japhet Banda

Annexure B: Questionnaire**QUESTIONNAIRE**

Name of organisation:

Gender of Interviewee:

Age of Interviewee:

Position of Interviewee:

Date of Interview:

- 1.** Does the organisation have an intellectual capital management strategy and what is the nature of such a strategy
- 2.** How does the organisation define and construct its Intellectual Capital?
- 3.** What is the nature of the organisation's intellectual capital in terms of the following intellectual constructs:
 - i. Human
 - ii. structural
 - iii. relational
- 4. Human Capital** - How does the organisation use human capital to support key processes and functions in gaining competitive advantage?
 - 4.1 How does the organisation define its human capital?
 - 4.2 How does the organisation promote organisation culture and values among its employees?
 - 4.3 How does the organisation promote skills development among its employees?
 - 4.4 How does the organisation share knowledge among its employees?
 - 4.5 How does the organisation develop competencies among its employees?
 - 4.6 Does the organisation have an incentive and reward system for its employees?

- 4.7 How does the organisation use its human capital to engage with its customers?
- 4.8 How does the organisation use its human capital to engage with its suppliers?
- 4.9 How does the organisation use its Human capital to engage with its stakeholders?
- 4.10 How does the organisation use its human capital to engage with its competitors?

5. Structural Capital - How does the organisation use structural capital to support key processes and functions in gaining competitive advantage?

- 5.1 How does the organisation define its structural capital?
- 5.2 How does the organisation manage its processes and routines to gain competitive advantage?
- 5.3 How does the organisation use its Structural capital to engage with its customers?
- 5.4 How does the organisation use its Structural capital to engage with its suppliers?
- 5.5 How does the organisation use its structural capital to engage with its stakeholders?
- 5.6 How does the organisation use its structural capital to engage with its competitors?
- 5.7 How does the organisation use its Patents and Trademarks to gain competitive advantage?
- 5.8 What type of organisational structure does the organisation use?
- 5.9 What type of data bases does the organisation maintain?
- 5.10 What is the organisation's renewal and development strategy?

6. Relational Capital - How does the organisation use relational capital to support key processes and functions in gaining competitive advantage?

- 6.1 How does the organisation define its Relational capital?
 - 6.2 How does the organisation use its Relational capital to engage with its customers?
 - 6.3 How does the organisation use its Relational capital to engage with its suppliers?
 - 6.4 How does the organisation use its Relational capital to engage with its stakeholders?
 - 6.5 How does the organisation use its Relational capital to engage with its competitors?
 - 6.6 Does the organisation have alliances with other organisations?
 - 6.7 What type of alliances does the organisation have?
 - 6.8 How does the organisation derive competitive advantage from its alliances?
 - 6.9 What type of stakeholders does the organisation have?
 - 6.10 How does the organisation manage the conflicting claims on it from different stakeholders?
 - 6.11 How does the organisation use its brands to gain competitive advantage?
- 7.** How does the organisation generate Intellectual Capital for future competitive advantage?

Annexure C: Participant consent form

RHODES UNIVERSITY
Department of Management

PARTICIPANT CONSENT FORM

Research Project Title: The Strategic Management of Intellectual Capital: A Case Study in the Banking and Financial Services Sector in Zambia

Researcher's names: Japhet Mathias Banda

Research Purpose: Assess the strategic management of intellectual capital in a participating bank in the banking and financial services sector in Zambia.

-
- I have received information about this research project.
 - I understand the purpose of the research project and my involvement in it.
 - I understand that I may withdraw from the research project at any stage.
 - I understand that my participation in the research project is done on a voluntary basis.
 - I understand that while information gained during the study may be published, I will not be identified and my personal results will remain confidential.
 - I understand that I will receive no payment for participating in this study.

Name of participant:

Signed:

Date:

Witness 1:

Witness 2:

I have provided information about the research to the research participant and believe that he/she understands what is involved.

Researcher's Signature and Date