Impact of Strategic Management on Performance: Mediating Role of Intellectual Capital

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In 21st century the business knowledge and intellectual capital are viable source for competitive advantage in business world as organizations are facing major challenges, they have to show their best outcomes with efficiency. The transformation from manufacturing context to knowledge economy requires organizations to exploit on value addition from intellectual capital to prosper in the competitive world (Roos et al, 2005). Theory plus past practices indicate that organization is a business entity, the significant performance create uniqueness in significant manner. Human Capital has substantial influence on organizational efficiency and also for the success of the firms. The purpose of this research is to establish a relationship between strategic management with high level of intellectual capital that enhance organization high performance that is based on knowledge based dynamic capabilities. It examines the systematic relationship of these two models. The development of unified systematic model is high performance oriented and create potential for organizations, as well as for wealth creation. The results specify that high level of intellectual capital positively affect the organization performance with strategic management process. IC mediate the relationship between strategic management process and organization high performance. The findings suggest that organization high performance is dependent upon strategic management process with high level of Intellectual capital. Correct and timely decision making capabilities facilitate organization in effective manner.

Keywords: Strategic management; Performance; Intellectual Capital

INTRODUCTION

Performance evaluation structure were design when farming based economy were first converted into manufacturing context and production was limited due to property, industry and labor issue and lack of resources. As everything has globalized and globalization is a universal factor which has totally change the entire business environment and create new challenges

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for organization to face the problem. Now we can say that world economy is in the process of transformation and being changed day by day from manufacturing to knowledge intensive practices.

Druker (1993) shed the light on old management rules and regulations that indicate increase rate in yield of labor-intensive worker by transforming manual work labor intensive economy into machine-driven economy or mechanical economy. 21st century has shown a significant transformation from production equipment to knowledge work. Due to this phenomena efficiency increase in level of productivity due to knowledge intensive labor/worker. Knowledge worker is the asset of an organization. Due to this diversification the organizations and countries have to be plan and prepare specific strategies to survive and compete in the global world, as we all know that now trends has been shift to knowledge economy.

Today knowledge economy organizations and business resources includes 20% tangibles and 80% intangible value, and have been focused on intangibles rather than tangibles (Roos et al. 2005). The current business organizations and corporate performance measurement systems are extremely influenced towards moneymaking and business organizations are not considering the performance of intellectual capital.

Therefore, in this unpredictable environment new methods and well developed procedures are required to achieve maximum output with efficiency. Due to some emerging factors, the organization culture diversity, living organization structures and highly un-predictable technology are transforming into new business environment. With these dynamic forces business organizations have to be change in their strategy development, formulation and focus on intellectual capital practices to persist and prosper in the competitive world. IC is crucial in knowledge based economy for effectiveness of organization. Johnson and Kaplan (1987) have recommended that IC is most significant factor for to evaluate the performance of organization.

Intellectual capital is becoming important worthwhile for the organizations future performance. It is the major indicator to measure organization development. The emergence of new economy is a major aspect of knowledge and information that makes IC as an investigation topic. Intellectual capital is applied in current economic factors, high-tech technological environment, managerial perspective and sociological manner. These rapid developments are observed through the knowledge based economy, flow of information, novelty in research models and the network economy that create value and support in performance of Intellectual capital. First we have to look upon the most relevant literature and well developed models on Intellectual capital and its implication. The paper will focus on conceptual model development. The other part will identify future avenues and issues.

David’s Model of the Strategic Management’s Process

- Develop vision and mission
- External environment analysis
- Internal environment analysis
- Establish long-term objectives
- Generate, evaluate and choose strategies
- Implement strategies
- Measure and evaluate performance

Components of Strategic Management Process:

Environmental Scanning- It includes the environmental factors that are changing continuously. It is applicable for strategic purpose. It is useful to analyze internal and external factors that affect organization performance. It indicates the collection and dissemination of information for strategic purpose. The organization should focus on execution of environment analysis and evaluation of activities.
Strategy Formulation

It is related with strategy development, the process of selection of best possible choice or a course of action for organizational objectives and strategy development with visionary leadership. Organizational manager scan, formulate and implement strategies.

Strategy Implementation

Strategy implementation is operational activity that indicates organization to take action. It comprises on organizational structures their hierarchy level, develop decision making expertise, Human resource management and resources allocation.

Strategy Evaluation

Strategy evaluation indicates the final analysis that compare present results with SWOT analysis, measure their performance and take quick remedial actions. The implementation and evaluation ensures that organization strategy is accurate for goal accomplishment.

In 21st century the business knowledge and intellectual capital are viable source for competitive advantage in business world as organizations are facing major challenges, they have to show their best result with efficiency. The transformation from manufacturing context to knowledge economy context need organizations to focus on maximization on value creation from intellectual capital to be successful in the modern competitive world (Roos et al, 2005).

Theory and past practices indicate that organization is a business entity, the performance create uniqueness in significant manner. For creativity and innovation, the paper establishes a conceptual model in which strategic management components be aligned with Intellectual capital for achieving high performance. Due to globalized world the services sector shows a major role and impact on economic development and growth. The GDP of a country rise drastically rather than production, so as a result proper IC management and measurement are vital for every organization (World Bank, 2006). How can strategic management components be aligned with IC for achieving high performance? The purpose of this paper is to develop a theoretical model for organizations that professionals perform well and utilize their expertise and skills.

A comprehensive model would help to maximize the IC efficiency in more integrated manner with strategic management components. How can strategic management components be aligned with IC for achieving high performance? First we have to look upon the most relevant literature and well developed models on Intellectual capital its implication and strategic management process. The paper will focus on conceptual model development.

The paper will describe the analysis of strategic management components and intellectual capital to enhance the capabilities of organization. It examines the systematic relationship of these two models. The development of unified systematic model is high performance oriented and create potential for organizations, as well as for wealth creation.

Significance of the Study

The purpose of this paper is that strategic management components be aligned with IC. IC as a mediator and mediate the association between strategic management activities and high efficiency of organization. In knowledge economy era the objective of IC is to gain competitive advantage for organization. From IC perspective human brain and knowledge is an asset of organization. The most competitive edge is to enhance productivity through value creation, human intellect’s inventive knowledge, and innovative ideas, Operational procedures, inter and intra organization connections (Clients, sellers and retailers). With three components of IC Structural capital, Relational capital and most important Human capital firm could not possible to meet with high
accomplished goals and profitability, unless and until they develop extreme value creation actions.

**FIGURE 2 HERE**

A comprehensive model would be more helpful to maximization of IC effectiveness in more integrated manner with strategic management components. Organization has to define their mission and vision for goal accomplishment. For business point of view internal and external environment analysis is essential. Organization has a vision to establish long term future objectives. For strategic management development evaluation and selection of strategy then implement it. After implementation organization performance can be evaluate and measure. This is a complete framework for organization goal achievement as strategic management would help according to the situation requirement and make a vital change in organization high performance.

**Significance of Strategic Management and IC at Corporate Level**

The main objective of IC and strategic management is to enhance the organization performance. The components of strategic management process aligned with IC for achieving high performance. The SM components comprises on Strategy development, evaluation and environment scanning, a consistent stream of information and implementation of strategies. The aim is to develop a unified mechanism to the high performance of organizations. IC components play a significant role with SM components.

The study is interrelated with the domain of ‘Strategic Management’, ‘Intellectual Capital’ and ‘Performance Management’ in the traditional “Management Sciences” fields. The specific aims of the study are: -

- To enhance the IC efficiency with Strategic Management Process
- To improve strategy development and performance evaluation capabilities of Organizations.

The domain of Intellectual capital with strategic management has developed as a multi-purpose process of task accomplishment that develop an outline to address the organizational challenges. As organization has to compete for survival so the purpose of this paper is to gain competitive advantage and profitability for organizations. The organization efficiency and organization competitive advantage consist of creative new generating ideas, imagination and assimilation of procedures for organization. Enhanced IC and SM capability of an organization would be helpful to develop their procedures competently as well as skillfully, enhance state-of-the-art ability, develop the good performance level and decrease the uncertain factors. Additional growth and variation of proposed method will eventually lead to creativity with knowledge. This process oriented approach will provide vigorous self-directed operational analysis that can successfully overcome the performance issues.

**Significance of IC at Corporate Level**

The Researchers have established many models, and guidelines to learn the organization tactics through various theoretical frameworks and plans. The world is a global village so many organizations have implement IC to manage and develop the strategies that were very progressive and profitable in enhancing productive capability and competence. Skandia Insurance Company, the model creator of Skandia Navigator ensured 75% savings in administrative expenses and also greater production of 400% in more than 6 years’ period of time (Morgan, 1998).

Abernathy et al (2003) analyzed that assets in IC generate two times fruitful results rather than invest in human physical resources. Mckinsey’s position in top ten greatest Asian businesses corporations that create values for shareholders in
the time period of 1995-2001 and it consist of 3 Taiwanies companies. These organizations focused on human capital rather than capitalize in human physical assets (Tseng & Goo, 2005). After adopting IC in correct manner a well know company Toshiba achieved competitive results with 20% additional production annually (Fruin, 1997). Many organizations demolished due to their incapability to accomplish and achieve their information assets brilliantly (Antal et al, 1994). Stewart (1994) highlighted that worth of Intellectual Capital is like that can never be touch/tangible but it creates an individual a rich person or billionaire. Knowledge measurement enhances organization performance.

LITERATURE REVIEW

The literature review contains diverse assessments of Intellectual capital and strategic management through research published during (1986-2015). 21st century has transformed many business models. The major disruption has been seen in information flow, strategic activities, and communication technology networks. From business perspective to run business brilliantly and being competitive in modern world has become a most important challenge. A business manager has to take decisions immediately in the dynamic situation with unpredictable market situation and face the work pressures. Industrial economy transforms into knowledge economy due to human knowledge, development in organization structures, and capabilities of value creation for organization high performance. IC was discussed in past theoretical studies. In (1991) Stewart has printed his editorial in the Fortune magazine. It was the very earliest article on Intellectual Capital (Sullivan (2000)). Sveiby in (1986) has printed his book on “The Knowledge Company”. This book was the first book which was introduced for IC and Knowledge Management (Sullivan, 2000). The first Intellectual Capital report was established for organizational decision making by The Skandia Insurance Company in 1995. Skandia was the world’s first corporation who design Intellectual Capital report with monetary declarations in 1994 (Huseman and Goodman, 1999).

There is not any specific and detailed description of Intellectual Capital, however many investigators come to an agreement that Intellectual Capital comprises on Human knowledge caliber, skills and expertise, Human intellect power, structures, methods, procedures and interactions. In (1994) Stewart shed the light on IC that Intellectual Capital is somewhat that cannot tangible but static and increases monetary worth. Petrash (1996) splits Intellectual Capital into three categories, customer capital, organizational capital and human capital. In (Endvinsson & Melone, 1997) have described IC as human knowledge wit skills and information, in addition creativity of human intellect, intellectual property and expertise which could be transformed into the value creation activities. In 1997 (Roos, et al) proposed that IC is a summation of the information of workers plus real-world transformation of their information as a measure of Intellectual Capital. Another definition of IC has given by Pulic (1998) stated that IC is integration of structural capital, human capital and engage resources for exploitation.

IC plays a crucial role and recognized as a corporate edge for organization towards astonishing monetary performance. In (2005) Chen et al has observed the association between value addition competence and marketplace to book value proportions, it was deliberated as a part of relational and structural capital. They have explored fruitfully the association of Intellectual Capital with organization’s present and upcoming presentation (performance). In (2005) Tseng & Goo have used structure equation modeling to examine the relative association between Intellectual Capital and commercial worth on Taiwanese industrialists, and have predicted optimistic connection between Intellectual Capital and business value creation.

Economic theory of industrial organization and contingency theory of management sciences both contribute a mechanistic view of strategic developer as a “specialist”. For managerial and marketplace efficiency the organizations strategy development with vision, mission and their
implementation is required. Strategic management components and creative activity of IC determine the conceptualizations of strategic implementation for high performance.

**RESEARCH METHODOLOGY**

Human Capital has significant impact on organization performance as well as for the success of the firms. Organization performance is a knowledge based issue. This is related with the creative ideas and strategy development (Drucker, 1985; Kelley, 2001; Nystrom, 1993). This theoretical paper examines the alignment involved in Intellectual capital and strategic management for organization performance. The conceptual model incorporates with creativity and identifies the methods relevant to Intellectual capital practice and strategic management. Intellectual capital is a versatile topic in improving organization performance with new ideas and creativeness, though there is a debate on implementation of various models and respective strengths and weaknesses.

Large organizations need maximum and accurate measurement to evaluate the performance of organizations to plan remedial activities for this purpose, there is a need to establish an optimistic framework which provides multiple data with various analytical dimensions. A framework of Intellectual capital and strategic management incorporates that enhance the performance of organization. This paper presents the aforementioned theory with literature evidence and explores a nature and relationship with a conceptual framework. This research examines how Intellectual capital and strategic management influences organizational performance. This research is substantial because it considers high level of Intellectual Capital with strategic management processes enhance the organization performance.

The qualitative research tool is used in this thought paper. The strategic management approach, IC Framework fusion are used to enhance the conceptual framework. The objective is to describe IC background, transformation in knowledge economy and strategic management components, how this phenomenon be existent, and enhances the conceptual framework through literature review.

The conceptual framework integration is also used which is based on framework analysis. Qualitative research creates a massive extent of written data in the form of past research papers, frameworks and interpretations. The Framework integration proposed a highly structured approach for establishing and examining data. The combining of one and two research methods in one model is called triangulation. Triangulation is the application and combination of multiple research methods. Conceptual framework integration is an empirical approach in which novelties can be expressed in the form of a block figure with multiple aspects, determine link among conceptions.

This research is in qualitative domain and focus on conceptual framework ideas. By critically evaluation of past frameworks and report we can analyze the results. The conceptual model for organization high performance is established and it is based on strong literature examination. In accumulation to the research that is based on intellectual investigation and indication. The research papers related with Intellectual Capital and Strategic Management Process deployed around the world have critically analyzed, before recommending a formal structure of process development.

**CONCLUSION**

In recent year’s rapid development of new technology, the increasing globalization of markets, the emergence of new organizations, and appearance of new patterns due to intense competition with unpredictable environment changes are creating difficulties for all organizations. As we know that well developed organizations always prepare for future challenges and aspects. The traditional methods of predictability have failed due to this knowledge
based globalized economy. The traditional methods are unpredictable. An alternate approach has defined to manage the organization uncertainties. The new management theory and IC practices have focused on organization’s strategic flexibility in rapid changing world. The purpose of this research is to develop a strategic alignment model for high performance of organization.

The worth of this model is to strategic management, strategic fit and functional integration. Strategic flexibility is required due to rapid changing technology and current market trends. Organizations are usually complex in nature. The aim of this research defines the factors regarding what, when, why and how certain difficulties effect the organizations. In addition, such studies endeavor to learn and develop new practices and transformation in processes. The results of these studies are beneficial for organization performance. The research generates the problem solving methods. As the current trends are changing rapidly and new methods are required for support and execution. Organization performance is related with adoption of new methods and processes; it is difficult and highly complex because environment is unpredictable and complex due to advance technology systems and globalization. The conceptual framework deals with integrated perspective that define IC (Human, Structural and Relational capital) and Strategic Management Process (Vision, Mission, Internal & External environment, create visionary long term goals, generate, estimate and select strategies, implement plans, measure and estimate performance) to pursue these strategies for organization high performance. The alignment of IC components with Strategic Management process can enhance high performance and IC mediates the relationship of strategic management components for high performance.

**FINDINGS**

The purpose of this research is to develop a strategic alignment model for high performance of organization. The worth of this model is to strategic management, strategic fit and functional integration. Strategic flexibility is required due to rapid changing technology and current market trends. Organizations are usually complex in nature. The alignment of IC components with Strategic Management process can enhance high performance and IC mediates the relationship of strategic management components for organization performance.

**LIMITATIONS AND FUTURE AVENUE**

This research has several limitations first when and how intellectual capital is related with organization high performance, we only analyze the high level of IC aligned with strategic management process. It can be modeled by the use of contextual variables such as cultural factors, environmental uncertainty factors, and etc. Cross organization context integration is required. New research paradigm would be examining these constraints in comprehensive perspective. As culture is change everywhere like Pakistan, Japanese and china, it varies on organization performance (Whetten, 2009).

**REFERENCES**


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APPENDIX

Figure 1: Flow of Activities

Figure 2: Theoretical Model