

**UNIVERSITI TEKNOLOGI MARA**

**THE RELATIONSHIP BETWEEN  
LEADERSHIP STYLES AND  
ORGANIZATIONAL  
PERFORMANCE: THE ROLE OF  
INTELLECTUAL CAPITAL  
UTILIZATION AS MEDIATOR**

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## ABSTRACT

Intellectual capital is an intangible resource that is increasingly regarded as an important tool to affect an organization's performance. Previous studies on intellectual capital-organization performance relationship suffer from measurement problems as there is a reliance on financial secondary data which are used as proxies to intellectual capital. This study departs from this by adopting a view that it is utilization of intellectual capital that matters rather than mere presence of it. The primary objective of this study is to examine the relationship between utilized intellectual capital components and organizations performance. The secondary objective is to examine the relationship between leadership styles and organizations performance. Finally, the third objective is to examine the mediation effect of intellectual capital components in the relationship between leadership styles and organizations performance. The leadership style use as antecedents in the study is transformational and transactional leadership style making it as one of the pioneering studies that incorporates leadership into the intellectual capital research area. The questionnaires distributed involves the entire population of 122 financial institutions in Malaysia listed with Bank Negara. However, the response received is 50 institutions resulting in a 47% response rate. The study provides an evidence that among the components of human, structural and relational capital, only structural capital is found to be significant towards organizational performance. In terms of leadership styles, transactional leadership style is found to be significant to both human capital-performance relationship and relational capital-performance relationship. When testing for mediation effect of intellectual capital and leadership style as antecedents in this nexus, the result is not significant. However, when tested separately leadership style is significant to intellectual capital as well as to organization performance. It can be assumed that leadership style is important in enhancing the role of intellectual capital towards organization. The major contribution of this study is that while it supports the nexus of intellectual capital-organization performance relationship, it provides evidence that a different model using utilized intellectual capital and non-financial data on performance provides a different finding compared to existing models of VAIC and other methods used in the intellectual capital research. This study represents an early study that intellectual capital is important and so is leadership that effectively affect performance. The study has implications to managers and policy makers in determining policies as well as which intellectual capital assets to invest in and what type of leadership style to use in order to improve an organization performance.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

In a knowledge-based economy, knowledge is predominantly exploited and used to create value. The success of an organization in the knowledge economy is based on the utilization of intangible assets such as knowledge, skills and innovation (Brinkley, 2008). Hence, organizations in knowledge-intensive economy rely on continuous innovation, technological advances, multi-skilled human capital, and the rise of digital communication. Simultaneously, the organizations no longer rely on their tangible capital to drive their growth and wealth. Intelligent capital (or hereinafter referred to as intellectual capital) has become a strategic tool for organizations to ensure their sustainability. Furthermore, intellectual capital is increasingly recognized as a critical strategic asset for organizations to achieve success and acquire strategic advantage in the current economy (Khaliq, Shaari, Isa, Samad, 2013).

No definite consensus has been achieved on the definition of intellectual capital (Choong, 2008; Abeysekara, 2006; Kaufmann and Schneider, 2004). Al-Ali (2003) defines intellectual capital as intangible resources and assets used by an organization to create value through conversion into new processes, products and services. Ordonez de Pablos (2005) regards intellectual capital as the difference between the organization's market value and book value. A few other scholars refer intellectual capital as the possession, utilization and conversion of useful knowledge that provides organizations with competitive edge in the market (CIMA, 2001; Sullivan, 2000; Edvinsson and Malone, 1997; Stewart, 1997; Roos et al., 1997).

In addition, Stewart (1991) defines intellectual capital as the intellectual material that is formalized and utilized to generate wealth through the production of more valuable assets. Intellectual capital is the process of knowledge utilization within the organization whereby the knowledge is converted into an