THE STUDENT LOYALTY AS A PART OF HIGHER EDUCATION ORGANIZATION'S INTELLECTUAL CAPITAL

Māris Purgailis
University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
Phone: +371 67034733
E-mail: Maris.Purgailis@lu.lv

Kristīne Zaksa
University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
Phone: +371 29442656
E-mail: Kristine.Zaksa@lu.lv

Abstract

Customer relationship management of each organization is important both from a strategic marketing perspective: to attract new customers, encourage customer loyalty and provide a stable future income, as well as customer management plays an important role in the organization's intellectual capital management, which is one of the most essential issues of the contemporary management. [1; 2]

Higher education organization is a typical example of the intellectual organization. Since one of the goals of these organizations is in fact knowledge creation and dissemination and intellectual capital approaches have become very important for these organizations. Their investments in these organizations should mainly be invested in human capital and research. The inputs of these organizations and resources and the outputs are intangibles. [3]

Intellectual capital management plays an important role in customer equity management, where one of the purposes is to improve customer relationship management or customer loyalty. Customer loyalty is one of the most difficult measurable indicators. So far, the higher education organizations, creating intellectual capital assessment indicators, very little attention have paid to the depth of customer relations and customer relationship quality measurement. However, it should be noted that one of the latest intellectual organizations and institutions including the HEI management concepts are based on the fact that the service quality of the results are very closely related to the provision of client processes [4].

The paper aims to analyze the intellectual capital at higher education organization and emphasizes the role of student loyalty in it. The approach taken is theoretical and based on the combination of three different areas: intellectual capital management, customer relationship management, higher education institution management. The contribution of this paper is an overview of the empirical research previously conducted. Author points out possible future lines of research in this area.

Introduction

Higher education organization is a typical example of the intellectual organization. Since one of the goals of these organizations is knowledge creation and dissemination then the intellectual capital approaches have become very important for these organizations. Both the inputs and the outputs of these organizations are intangible values [5]. So far, the higher education organizations relatively small attention has focused on intellectual capital management. The knowledge economy recognizes that organization's "tangible value" alone does not determine the total value of the organization [6]. The organization's "intangible values" are considered key success factors for organizations. Intellectual Capital Management focuses on the effective use of organization's resources, especially the "intangible value", as well as on the creation of values.

Intellectual capital approach is becoming increasingly important as a tool to assess, manage and report on the goodwill not only in companies but also in other organizations such as universities, research institutions and other intellectual organizations. Andriessen stresses the need to measure and monitor the intellectual capital for three reasons: to improve the internal management, to improve reporting capabilities and to comply with statutory regulations and assess the business [7].

The intellectual capital management plays also an important role in customer equity management. One of the objectives of customer equity management is the customer relationship or customer loyalty management. Customer relationship management, depending on its short- and long-term effects, as well as the functionality can be divided into three levels: transaction based data processing, the information-based value-added creation of customer-oriented services and products, and third level − customer relationship management, which is based on knowledge and value creation [2].

Each of these levels requires specific knowledge and abilities. So far, there have been made studies on customer relationship management development and implementation in higher education organization on the first two levels [4]. However, it is necessary to introduce a third level of relationship management, to assess and manage customer loyalty and ensure customer-oriented process management [2].

Customer loyalty is one of the most difficult measurable indicators. In fact, customer capital and customer capital measurement indicators reflect the organization's ability to convert customer relationships in sustainable competitive advantage [8]. Skyrme, D. points out – in a customer-oriented strategies, it is important to assess not only the statistical indicators of market share, targeting socio-economic indicators, etc., but also customer relations, or the depth of qualitative aspects, which is the "intangible value" [9]. So far, the higher education organizations, creating intellectual capital assessment indicators, very little attention has paid to the depth of customer relations and customer relationship quality measurement. However, it should be noted that one of the latest intellectual organizations' management concepts are based on the fact that the service quality of the results are very closely related to the provision of client processes [4]. Therefore it is necessary to establish a customer relationship management measurement methods and on its basis to build up the principles of customer relationship management. This type of management approach will help organizations more effectively monitor and manage the customer capital as a part of intellectual capital, as well as to build up a customer-centric processes that create additional value-added and create an organization's competitive advantage.

The paper aims to analyze the student loyalty as a part of intellectual capital at higher education organization. The objectives of this paper are:

- To analyze the loyalty definition;
- To analyze the role of loyalty in the intellectual capital formation;
- To analyze the role of student loyalty at university and the possible methods to measure it.

1. The Role of Loyalty in the Formation of Intellectual Capital in an Organization

The intellectual capital is a relatively new concept, both among researchers and among different organizations and there are different views on the definition of intellectual capital and its assessment methods. Intellectual capital is of particular interest in intellectual organizations, where it forms a significant part of the organization's value.

Intellectual capital concept was first published in 1969 by John Kenneth Galbraith. He emphasized that the intellectual capital means more than "pure intelligence", it includes the "intellectual functioning" proportions rather. In this case, intellectual capital is not only the static value of the intangible asset, but rather as an ideological process.

Lev B. points out that the terms "intangible value" in accounting, "knowledge value" in the economics, "intellectual capital" in management and "intellectual property" in law are used synonymously and it means "non-physical claim the future benefits" [6].

The knowledge, skill and other intangible resources (assets) have become the drivers of competitive advantage in the conditions of complex and changing external environment [10]. In particular, the service sector depends on these drivers [11]. Here the customers play also an important role in intellectual capital creation. The customer is like a "co-producer" in knowledge-intensive and professional services service process. These services are mainly based on the application of knowledge to new situations, new knowledge creation and transfer to the customer. This knowledge is often valued as an organization's intellectual capital. So the customer capital is created in interaction with the customers.

Both the scientific literature, as well as corporate reporting practice, divides the intellectual capital mainly into three parts:

- human capital,
- organizational or structural capital,
- customer or relationship capital, which some researchers call also as a market capital.

The human capital includes the labor market size and quality as well as the set of separate individual competencies in an organization [12].

The organizational or structural capital is the "knowledge repository of an organiza-tion" [13]. Structural capital includes such assets (values) as a corporate culture, management processes, databases, organizational structure, patents, trademarks, financial relations.

The customer capital or relationship capital includes the organization's customers, customer loyalty, brand, product / service distribution channels, as well as customers' capital is perceived as its customer information and knowledge that is valuable to the organization [14].

Lim and Dallimore [1] classify the intellectual capital of service organizations from the strategic management and strategic marketing concepts. (Figure 1) Strategic Management in the

context of the company management is essential to human capital, corporate capital, business capital and functional capital. The other hand, strategic marketing in the context of the company's management is an important customer capital, supplier capital, strategic alliances or cooperation capital and investor capital.
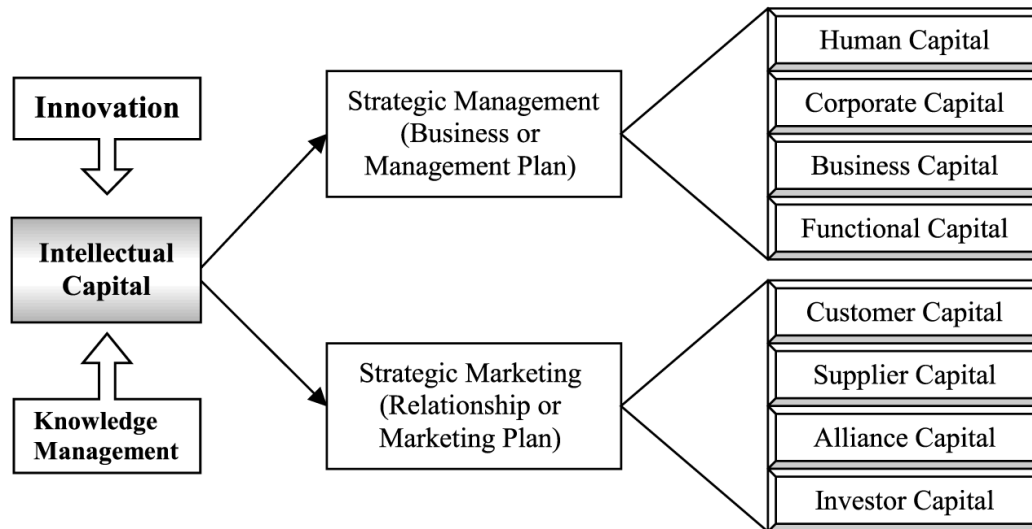

Figure 1. Organisational intellectual capital framework [1]

Lim and Dallimore agree that good relations with the customers are very important for the organization. Customer capital enhances the value to the organization. The clients are the best advertisement for many of the companies recommending companies' products and services to their friends, relatives etc. Therefore the companies have to pay attention to the client relationship management as a part from their intellectual capital management and pay attention to the customer loyalty.

2. Explanation of the Concept of Loyalty

For the term "customer loyalty" can be found several explanations. Customer loyalty is studied from both the customer behaviour and customer attitude perspectives.

The general meaning of customer loyalty is understood as a trust to the company through repeat purchases. Jacoby and Chesnut (1978) explain that loyalty is measured as the proportion of expenditure to a particular product or store [15]. Dick and Basu define loyalty as the correlation between individual relative attitudes and repeat purchase, taking into account the re-sale ratio, sequences and probability [16].

Oliver, R. points out that loyalty has several stages:
1. Cognitive loyalty – the available information about the brand makes the consumer to recognize that this brand is preferable compared to other alternatives. This loyalty builds mainly on brand information and belief;

2. Affective loyalty – attitude toward the brand has evolved over time on the basis of cumulative satisfaction;
3. Conative loyalty – the intent and motivation to re-buy the particular product. However, in this stage the intention to buy the product may also not be realized;
4. Action loyalty – at this stage the intention to buy the product is implemented, as well as have a desire and willingness to overcome obstacles that may arise, in order to purchase this product [17].

Although customer loyalty management and loyalty research has already begun in the seventies of last century, these studies are still incomplete, particularly in the service industry [18]. Customer loyalty in the service sector consists of complex processes and, unlike the loyalty to the product (or tangible value), the loyalty depends also on interpersonal relationships [19; 20].

Both the marketing literature and psychology, literature, loyalty has three dimensions [19]:

• behavioural dimension,
• attitudes dimension,
• cognitive dimension.

Jones', T. and Taylor's S.F. study shows that the loyalty manifest in service sector in two ways: as a behavioral dimension (an intention to re-purchase, special purpose and altruism), as well as the combined commitment / cognitive loyalty (customer's belief, altruism, a willingness to pay more, identification with the service provider) [19]. However, in this study were included only three types of services, but was not dealt with services that are "intangible / directed to the people" (according to 2001 Lowendahl service classifications [21]).

Segmenting customers according to their expressions of loyalty, however, still does not allow service providers to establish appropriate management strategies targeted at different customer needs. Many practitioners and researchers have recognized the need to investigate the loyalty formation processes and their influencing factors [17; 22]. Currently, academic and practical knowledge of customer loyalty determinants are incomplete [23].

Organizations need to understand what constitutes customer value and joy. For the purposes of customer-oriented approach and understanding the customer, it is possible to promote loyalty to the organization [24]. Marketing researchers have already identified some of the loyalty factors, but there is need for research to determine the relative role of individual factors (e.g., quality of service, attractiveness of obligations) and other possible contributing factors for each of the dimensions of loyalty [25]. Consequently, organizations need to understand the factors that affect the customer's decision in favour of a product or service that directly contribute to customer loyalty to the organization and its products or services.

3. Higher Education Organization's Intellectual Capital and the Role of Student Loyalty in It

Although the assessment of universities' performance in is not new, however, assessment of universities' intangible assets or intellectual capital as a system is a step forward for the university performance evaluation. Identification of the university's intellectual capital management at the university can contribute to competitive advantage for successful development, as well as the university's further strategic development, evaluation and improvement.

Secunda, G. et. al. highlights the following main reasons why universities should explore and measure their intellectual capital [26]:

- intellectual capital identification can help guide the strategic focus on intellectual resources, and increase their ability to adapt to a changing environment;
- intellectual capital is one of the main organization's competitive advantages and improves the overall organization's performance.
- education and research rankings have to be based on a more systematic, objective and a common measurement system, which will also help to strengthen links between universities and businesses, using one common language;
- intellectual capital measurement system can help researchers understand the company and the industry's real needs, thereby promoting transparency in scientific work;
- intellectual plays a key role in strategic human resource management.

However, so far there isn't established a common methodology for an assessment of universities' intellectual capitals. There have been developed few initiative for intellectual capital reporting [27]:

- MERITUM – research project funded by European Commission;
- The Danish guidelines for IC reporting.
- Austrian Research Centres;
- Mandatory IC reporting for Austrian universities;
- OEU – observatory of European universities;
- ICU framework by Sanchez et al.

The above mentioned IC reporting methodologies emphasize more the universities' research mission and less the study mission.

One of the latest researches on IC measurement in universities has been done by Secundo, G. et. al. [26]. The researchers divides the universities' intellectual capital like the companies in three parts: human capital, organizational capital and relational capital. In this study the researchers classify the student performance as part of the universities; humane capital. However the researchers do not evaluate the staff and student satisfaction and loyalty to the organization.
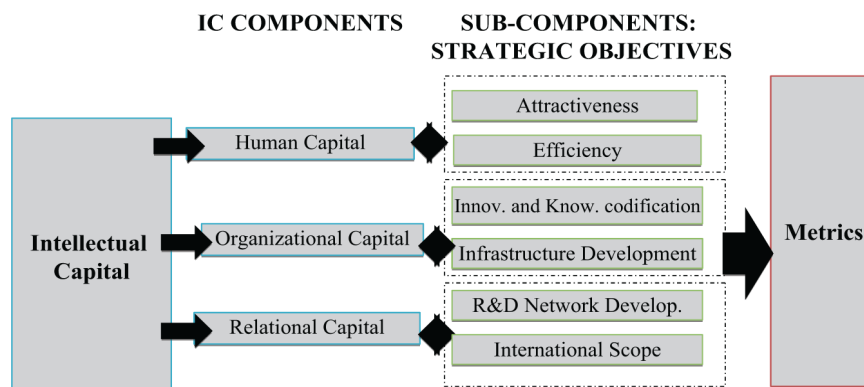

Figure 2. Framework for IC measurement in higher education and research [26]

Recently Corcoles et. al. conducted a study on the stakeholders' need for information on higher education organization intellectual capital in Spain [28]. In the result of the study authors group the intellectual capital also into 3 categories: human capital, structural capital and relational capital. The human capital includes following indicators: academic and professional qualifications, mobility and scientific productivity, training, quality; structural capital: indicators for advances in innovation, intellectual property, quality of management; while the relational capital should include following indicators: employment of graduates, relationship with business, application and dissemination of research, student satisfaction, university's image, cooperation with other universities.

The author concludes from the studies summarized above, that so far carried out intellectual capital assessment methods have two significant disadvantages:

- intellectual capital in universities mostly has been identified from the information purposes. However, it should be noted that the intellectual capital identification and assessment can also serve as the organization's internal management support tool. From the management perspective the intellectual capital assessment helps organizations manage the "intangible" value, to build a resource-based strategies, monitor the activities of the results, implement business strategies, to assess the possible courses of action, as well as improve overall business processes [29],
- as well as intellectual capital assessment and reporting emphasises more on the universities' research mission and less on the study mission. In addition, in the intellectual capital assessments and reports were mainly included the quantitative indicators, such as the number of students, international student ratio etc., but less focused on student satisfaction and loyalty.

It is important to assess the customer loyalty both from the client-process management perspective, as well as from the intellectual capital management as the loyalty is a very important part of customer capital. It determines both the potential to attract new students, as well as the students' loyalty and the loyalty benefits.

4. The Assessment of Student Loyalty in the Context of Intellectual Capital Management

Intellectual capital assessment, management and reporting have two roles [30; 31]:

- it is used as a management tool within the organization, which helps develop and implement an efficient use of resources or knowledge-based strategy. Such internal reports can serve as an internal monitoring system strategy.
- as a communication tool for reporting on the development of organization's knowledge resources and on the creation of added value to the general public, including current and potential customers.

In this case, measurements are not passive aggregation of results, but such measurements help an organization to gather information about the organization's strategic development and progress. On the basis of this information organization's management may take decisions on future actions for a more positive development and / or growth.

It is necessary to develop an appropriate system of indicators for the observation and monitoring of intellectual capital. S. Babris emphasizes the need for more extensive research on how to assess value of each company's intellectual capital elements, but as long as such a unified system in management theory is not offered, each company's management must build their intellectual capital indicators system. Without use of such indicators it won't be possible to assess whether the company's intellectual capital is, or has not increased [32].

The client assessments of the organization and its services / products are of the importance in the customer equity, which in turn creates customer loyalty and also contributes to the attraction of new customers. Consequently, organizations need to monitor customer loyalty, and it is necessary to develop methods for determining the degree of customer loyalty in the organization and signal the customer loyalty increases or decreases.

There is a managerial need for simple and short instruments to measure loyalty. Recently researchers have used the structural equation modelling and model which is based on European Customer Satisfaction Index to identify the factors influencing student satisfaction and loyalty. [33]. The founders of the satisfaction-loyalty model are Fornell et. al. [34]. This model shows both the interaction among indicators and factors (such as perceived quality, satisfaction, loyalty) as well as provides the data for calculating the indexes for each of the factors.

$$Loyalty\,index = \frac{\sum_{i=1}^{n} w_i \bar{x} - \sum_{i=1}^{n} w_i}{9\sum_{i=1}^{n} w_i} \times 100,$$

where

w – unstandardized weights of loyalty indicators

x – loyalty indicators

n – number of loyalty indicators

The previous studies show that this type of data analysis offers rich information for the university's management. The model serves as a barometer of student loyalty, which allows managers to simultaneously determine the factors influencing loyalty, and to compare the change in the students' loyalty. It gives an idea of customer capital formation in university and provides answers to the question of how to increase the client's capital.

Conclusions

The authors apply the intellectual capital management principles to higher education organizations. The intellectual capital identification and assessment can also serve as the organization's internal management support tool. The intellectual capital in universities mostly has been identified from the information purposes and more attention has been paid to the universities' research mission and less to the educational mission and the student role in it. The

authors stress out the importance of customer capital in universities and the student loyalty is one of the most important parts of the customer capital.

So far there have been made studies on the factors which are influencing the loyalty, but less attention has been paid to the loyalty assessment. The authors offer to use the principles of the Fornell et.al developed satisfaction index model to determine the factors influencing loyalty and to measure the depth of the student loyalty to the university.

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