

**AN INVESTIGATION OF KNOWLEDGE
MANAGEMENT AND INTELLECTUAL CAPITAL ON
ORGANIZATIONAL PERFORMANCE IN NON-PROFIT
ORGANIZATIONS: THE CONTEXT OF ALGERIAN
WAQF INSTITUTIONS**

BY

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ABSTRACT

The world is changing at a great pace and acceleration. This pace of acceleration has affected in turn the working environment of charitable institutions and organizations, especially the massive development witnessed in the fields of sciences and administration, as well as the development of the needs and expectations of society and beneficiaries. These changes have increased the need for institutional development and the adoption of appropriate leadership and management methods that enhance the ability to respond to the new requirements and to achieve a strong competitive position. Hence, the roles of science, knowledge and learning have emerged, in developing and adopting appropriate methods to manage and transfer knowledge and experience within an organization, and to make it available for everyone to share and exchange easily, through knowledge fountains and databases. This research aims to explore the impact of knowledge management (KM) and intellectual capital (IC) on the organizational performance (OP) of *waqf* institutions in Algeria. Another primary objective of this study is to shed light on the importance of KM and IC for the sustainability and efficiency of the *waqf* institutions. The study adopted the Intellectual Capital Theory (ICT) as an extension of Resource-based Theory (RBT) and Knowledge-based Theory (KBT), to explore the impact of factors affecting organizational performance (OP). This study has adopted a survey questionnaire to collect data from a total of 193 (out of 485 distributed questionnaires) Algerian *waqf* employees. The data was analysed using Statistical Package for Social Sciences (SPSS) for data screening purposes, and Partial Least Squares - Structural Equation Modeling (PLS-SEM) software for testing the path modelling and the relationship between the instruments. The finding of this study revealed that knowledge management enablers (KMEn) and knowledge management processes (KMPs) had no direct significant effect on OP, while IC had a positive and significant effect on OP. In addition, the findings revealed significant paths between KMEn and both KMPs and IC. It is also shown that IC perfectly mediates the relationship between both KMEn, KMPs and OP, providing a significant path which *waqf* institutions may consider for further development. Although KM practices and IC components are applied and present implicitly, or to varying degrees, in the *waqf* institutions in Algeria, still most do not consider them as a key source of competitiveness, survival and continuity. The findings of this study will provide insights for policy makers and *waqf* institutions, to consider investing in KM and IC in Algeria and other Muslim countries, with the hope of restoring the leading role of *waqf* in their societies.

خلاصة البحث

يتغير العالم من حولنا بوتيرة كبيرة وتسارع أثرت بدورها على بيئة عمل المؤسسات الخيرية في العالم الإسلامي بأسره، لاسيما التطور الهائل الذي شهدته مجالات العلوم والإدارة، والتي أدت بدورها إلى زيادة الحاجة إلى التطوير المؤسسي واعتماد أساليب القيادة والإدارة المناسبة، التي تعزز القدرة على الاستجابة لهذه المتغيرات وتحقيق موقف تنافسي قوي. ومن هنا برز دور العلم والمعرفة والتعلم في تطوير وتبني الأساليب المناسبة للإدارة ونقل المعرفة والخبرات داخل المنظمة وجعلها متاحة للجميع وتبادلها بسهولة، من خلال نوافير المعرفة وقواعد البيانات والمعلومات. سعى هذا البحث إلى استكشاف ومعرفة مدى تأثير إدارة المعرفة (KM) ورأس المال الفكري (IC) على الأداء التنظيمي (OP) لمؤسسات الوقف في الجزائر، حيث أن الهدف الأساسي من هذه الدراسة هو تسليط الضوء على أهمية إدارة المعرفة (KM) ورأس المال الفكري (IC) لاستدامة وكفاءة وفعالية مؤسسات الوقف. اعتمدت هذه الدراسة نظرية الموارد (RBT)، نظرية المعرفة (KBT) ونظرية رأس المال الفكري (ICT) لبحث ومعرفة أثر العوامل المؤثرة على الأداء التنظيمي (OP). اعتمدت هذه الدراسة على استبيان استقصائي مقتبس من أربع دراسات سابقة لجمع البيانات من 193 عامل في مؤسسات الوقف في الجزائر. وقد تم تحليل البيانات باستخدام الحزمة الإحصائية للعلوم الاجتماعية (SPSS) لغرض إجراء الفحص الأولي للبيانات، والبرمجيات الجزئية الأقل تريبعا، نموذج المعادلات الهيكلية (PLS-SEM) لاختبار نمذجة المسار والعلاقة بين متغيرات الدراسة. كشفت نتائج هذه الدراسة أن العوامل المساعدة لإدارة المعرفة (KMEn) وعمليات إدارة المعرفة (KMps) ليس لها أي تأثير مباشر على الأداء التنظيمي (OP)، في حين أن رأس المال الفكري (IC) له تأثير إيجابي وهام على الأداء التنظيمي (OP). بالإضافة إلى ذلك، كشفت النتائج عن مسارات مهمة ذات تأثير إيجابي بين عوامل التمكين لإدارة المعرفة (KMEn) وعمليات إدارة المعرفة (KMps) ورأس المال الفكري (IC). من ناحية أخرى، أظهرت النتائج أن رأس المال الفكري (IC) يتوسط تمامًا العلاقة بين كل من العوامل المساعدة في إدارة المعرفة والعمليات والأداء التنظيمي، مما يقدم مساراً تطويرياً هاماً لمؤسسة الوقف إذا أخذ بعين الاعتبار. ومن المأمول أن توفر نتائج هذه الدراسة رؤى وإرشادات لصانعي القرار في مؤسسات الوقف لاعتبار الاستثمار في إدارة المعرفة ورأس المال الفكري في الجزائر، و في الدول الإسلامية الأخرى على أمل استعادة مؤسسة الوقف لدورها الريادي في المجتمعات.

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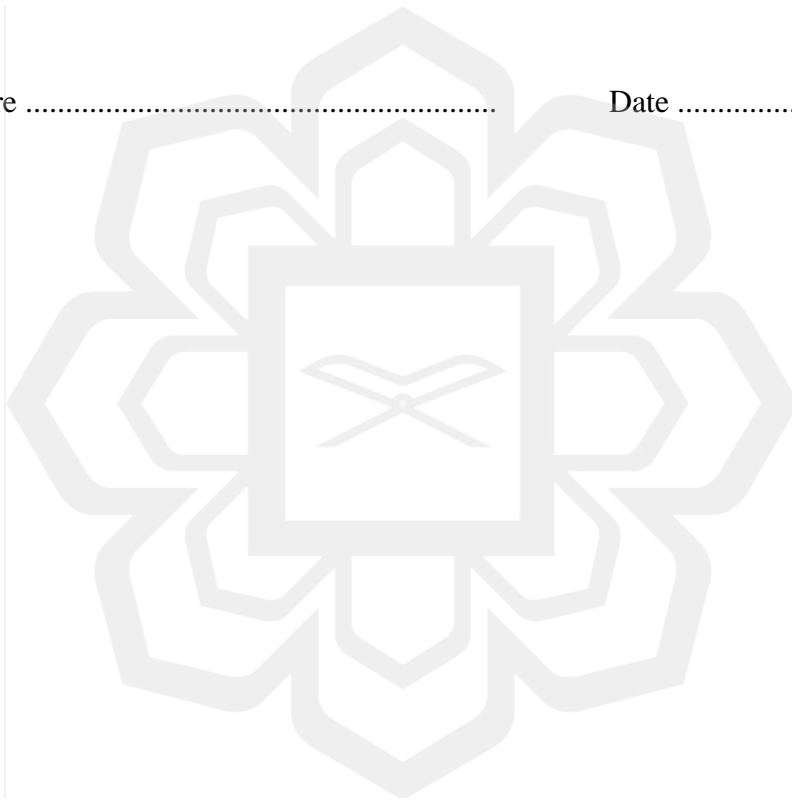
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DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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LIST OF ABBREVIATIONS

DRAA	Directorate of Religious Affairs and <i>Awqāf</i>
HC	Human Capital
IC	Intellectual Capital
ICT	Intellectual Capital Theory
IT	Information Technology Support
KA	Knowledge Acquisition
KAP	Knowledge Application
KBT	Knowledge-based Theory
KC	Knowledge Creation
KD	Knowledge Documentation
KM	Knowledge Management
KMEn	Knowledge Management Enablers
KMPs	Knowledge Management Processes
KT	Knowledge Transfer
MRAA	Ministry of Religious Affairs and <i>Awqāf</i>
NOS	National Office of Statistics
NPM	New Public Management
NPOs	Non-Profit Organizations
OC	Organizational Culture
OJA	Official Journal of Algeria
OP	Organizational Performance
OS	Organizational Structure
RBT	Resource-based Theory
RC	Relational Capital
SC	Social Capital
SPC	Spiritual Capital
STC	Structural Capital
TC	Technological Capital
TS	T-Shaped Skill

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Non-profit organizations (NPOs) are facing many challenges due to several factors such as government funding shifts and shrinks, the rising number of organizations requesting financial support, declining donor and volunteer support, and most importantly, huge competition with public and for-profit organizations offering services that typically used to be non-profit domains such as hospitals, schools and universities (Tuckman, 1998; Lyons, 2001; Chetkovich and Frumkin, 2003; Ramia and Carney, 2003; Craig, Taylor, and Parkes, 2004). Because of this, it is required for NPOs to constantly enhance their performance on the one hand, and to realize and demonstrate their improved aspects on the other (Lettieri, Borga, and Savoldelli, 2004). The need for organizational and managerial concepts that fit NPOs context, and which might assist them in dealing with such obstacles, has turned out to be a focus of research attention recently (Salamon and Anheier, 1997b; Stone, Bigelow, and Crittenden, 1999; Backman, Grossman, and Rangan, 2000; Kong, 2007).

It must be noted that, NPOs can vary much in terms of organizational culture and structure, size, mission and objective (Anheier, 2000). Even though some are more identical to public sector organizations, others are more oriented towards the private sector organizations. This heterogeneity of NPOs makes it extremely difficult to formulate a comprehensive guideline to achieve excellence (Lettieri et al., 2004). In spite of these hindrances, there is a consensus among researchers that NPOs share such specifications as, being organized to some extent, private institutionally, non-profit distributing, self-governing and voluntary in nature (Salamon and Anheier, 1997a).

NPOs also share other features that are considered as the main obstacles for the management and measurement of their organizational performance (OP) namely, absence of profit motive and presence of multiple constituencies and motives that serve heterogeneous goals (Speckbacher, 2003). Compared to profit-oriented organizations, NPOs have no clearly defined primary interest group that has unified motives and interests, and whose motives are simply identifiable and expressible through performance measures. Moreover, NPOs are established for a specific mission, that is normally difficult to measure (Speckbacher, 2003). For this reason, obviously, it is difficult to apply for profit management strategies and performance tools in the NPO context without proper modification.

The borders between for-profit and NPOs are becoming more ambiguous, due to some facts such as the insufficiency of financial measurements, which tend to be effective in a tangible assets dominated economy (Patton, 2007). However, in today's economy, intangible assets, knowledge, and skills are the major source of competitive edge in the market. Thereby, tools and methods that can assess and evaluate knowledge-based assets are becoming extremely important. Furthermore, NPOs are giving more importance towards accountability and performance measurements, for the sake of assessing the organization's mission fulfillment. However, this condition can be met only through the full disclosure and reporting of the performance related information, in order to gain public trust in NPOs (Herzlinger, 1996), since using only financial performance measures is not relevant for the NPO context. NPOs are also required to discover and develop non-financial performance measures that assist them in evaluating the assessment of their intangible assets.

For the past forty years, many strategic management concepts and theories have been introduced, such as the resource-based theory that was later developed to formulate

the knowledge-based theory. This is in contrast to traditional models of strategic management which have focused only on the organization's external environment. The knowledge-based theory calls for the compatibility between the external environment of the organization and its internal proficiencies. Based on the knowledge-based view, knowledge is regarded as the main asset and source for competitive edge (Grant, 1996).

Knowledge management (KM) is mainly referred to as the processes of management containing different activities, such as the creation, storing, sharing and exchanging of ideas and experiences that are defined as a key component of the NPO's competitive advantage (Hustinx and Lammertyn, 2000). KM provides ways and techniques to enhance procedures and practices, develop and improve employee proficiencies, shorten the learning curve related to new employees or new appointed tasks, and to reduce cost and improve customer service (Román-Velázquez, 2004). In other words, the knowledge and skills possessed by the NPOs' representatives are of great importance when investment in KM is considered. Thereby, NPOs can enhance the skills and capabilities of their employees, resulting in innovations and improved services that meet the needs of their users and stakeholders. So, KM aims to enhance organizational competences through the effective use of the organization's workers and the collective knowledge resources that allow organizations to become more competitive and responsive to market changes (Probst, 1998)

In today's economy, the value and quality of each NPO depends mostly on the skills and proficiencies of its employees, particularly on their ability to merge and take advantage of the existing knowledge and experiences in the organization. This makes knowledge a main factor of production along with land, labor and capital (Azzariti and Mazzon, 2005). Therefore, NPOs should have the ability of enhancing, developing, and managing knowledge resources, irrespective of the sector they belong to. This can be

achieved through considering the above-mentioned processes of KM and other important success factors, such as KM infrastructure, that is believed to be the backbone of KM, and intellectual capital (IC) as an intangible and significant resource for organizations' sustainable competitive advantage. KM infrastructure (KMI) or KM enablers (KME_n) are referred to those factors which support and facilitate the effective and efficient application of the organizational processes of KM, such as organizational structure, organizational culture, information technology, strategy, staff performance and so on (Tiwana, 2000; Zaim, Tatoglu, and Zaim, 2007).

On the other hand, intellectual capital (IC) has been identified as a set of intangible resources, capabilities and skills that drives organizational performance (OP), value creation and sustainable competitive advantage for organizations (Roos and Roos, 1997; Bontis, 1998; Bontis, Keow, and Richardson, 2000). IC is also known as the new invisible asset, and the most widely used definition of IC is "knowledge that is of value to an organization". From this definition, it is suggested that the management of knowledge (what is known) generates IC. Following the work of a number of scholars in this field, IC encompasses three primary, interrelated, non-financial components, namely human capital (HC), structural capital (SC), and relational capital (RC) (Kong, 2007). However, other researchers have included other components such as innovation capital, network capital and social and spiritual capital (Bayburina and Golovko, 2009; Khalique, Shaari, and Isa, 2013; Hashim, Osman, and Alhabshi, 2015; Khalique et al., 2015). The complexity of these characteristics represents the competitive advantage originated inside and within the company. Therefore, survival and competitive success of a firm depends highly on the strategic management of its KM and IC, as compared to its financial resources, which could lead to the success of new strategies, and this is the case of most NPOs which also includes - *waqf* institutions (Hashim et al., 2015).

NPOs are now required to utilize their existing organizational resources and to generate new resources effectively, in order to create new opportunities and to shape the organization's future environment. This involves new knowledge and skills in, but not limited to, strategy formulation, human resources management and public relations. All these phrases were unprecedented in the non-profit sector before the introduction of public sector reforms. Accordingly, like their for-profit and public sector counterparts, NPOs must leverage the knowledge available to them, to gain strategic advantage in the competitive non-profit environment (Kong, 2010b).

To date, limited studies have explored the role played by KM and IC in enhancing the performance and effectiveness of religious institutions, such as zakat and *waqf* institutions. At present, *waqf* institutions are known as NPOs that are responsible in managing endowment funds and properties in Muslim countries (Adnan, Kamaluddin, and Kasim, 2014).

Waqf is an Islamic endowment, devoted to the benefit of the community. Throughout Islamic history, places of religious worship, for example, mosques, but also schools, universities, hospitals, public wells and even infrastructures such as roads, have been supplied by private individuals through *waqf* (Ochsenwald, 1976). A famous example for such a private *waqf* is the *Hidjaz*¹ railway and there is also a historic case of a private provision of a lighthouse, the prototype of a public good, through *waqf* (Kuran, 2013).

More importantly, *waqf* assets have been instrumental in providing social and economic safety valves through their role in promoting religion, education, shelter, health, food security and rural-urban transformation. In the tenth century, *waqf* replaced

¹ Saudi Arabia nowadays.

zakat as the vehicle for financing social economic development in Islamic societies, such as the Middle East and north Africa (Singer, 2008).

Today, the role of *waqf* in many Muslim countries is limited to purely religious institutions, such as mosques, graveyards, and some religious schools. These *waqf* assets are typically administered by a *waqf* Ministry, which was created for this purpose. However, in the countries of the Gulf Cooperation Council, *waqf* still plays a significant role in diverse kinds of social services. There are several initiatives, also promoted by the Islamic Development Bank (IDB), to revive *waqf* as a tool for poverty alleviation and to include *waqf* in the development strategies such as Poverty Reduction Strategy Papers (PRSPs) (Division and ESCWA, 2012).

Despite its overwhelming role in supporting social, economic, cultural, and religious purposes (Adnan, Sulaiman, and Nor, 2007; Hassan and Shahid, 2010), previous studies disclose that the history of *waqf* was tempestuous and not encouraging (Çizakca, 1998; Bremer, 2004; Osman, 2010). Most *waqf* institutions and properties have been, and still are at the mercy of mismanagement, corruption, abuse, misuse and total neglect (Ariff, 1991; Hoexter, 1998; Bremer, 2004; Hassan and Shahid, 2010). Therefore, there is an urgent need for developing, adopting, and introducing new managerial methods and concepts that might help *waqf* institutions in improving their performance from different aspects and in overcoming the existing obstacles and challenges.

1.2 PROBLEM STATEMENT

In the context of the Algerian *waqf* system, most questions revolve around the roles that could be played by *waqf* institutions in the economic development and social life of Algeria. However, looking at the current situation, it can be seen that *waqf* institutions

in Algeria have not played the designated role which was hoped by the endowers when giving their money, except the religious role with all its aspects, educational and preaching, according to traditional methods that have not kept pace with development of the Algerian society.

When researching the history of Algerian *awqāf*, before the colonial era particularly, during the Ottoman period, it is found that the *waqf* system in general, and *waqf* institutions in particular, have played an important role in the community life, where the *awqāf* provide important positions and jobs, even outside the religious sphere. This in addition to its contribution in helping the poor and needy and in alleviating their burden inside as well as outside the state, such as the *awqāf* of the Two Holy Mosques, promotion of education, the provision of public service, repairing roads, spending on forts, and so on.

However, the Algerian *waqf* institutions experienced a huge retreat during the colonial era, where the French colonizers aimed at confiscating *awqāf* and belittling its effective role in the community, especially when they realized deeply the essence behind the *waqf* system which granted the community the power of independence, thus enabling them to become independent relying on the *awqāf* to take care of themselves.

Since independence in 1962, there have been modest initiatives to upgrade *waqf* properties, and attempts to recover the lost ones, but all these efforts were considered weak as compared with the size of the *waqf* properties in Algeria during the Ottoman period. Added to this was the complexity of their retrieval after independence, due to the loss of documents which the colonizer had stolen and taken to his home of origin and the slow process of Archive recovery by the Algerian authority². The French

² Mesdour, F. (2008), “*Al-Tadjruba Al-Jaza’ria fi Idarat Al-Awqāf*”, *Majalat Awqāf*, Vol.15, pp. 1-28.

colonizer has worked hard on the destruction of the private *waqf* structure and has succeeded to some extent. Many Algerian *awqāf* went missing during this dark period of Algerian history, making the search for these properties and the reallocation of the purpose that was endowed for, almost impossible without the Algerian state's efforts in the legislative and financial area, and even the international efforts that contributed to the recovery of many *awqāf* in the period from the mid-nineties until today, such as the one funded by the Islamic Development Bank³.

In the first period of independence, not much attention was given to *awqāf*. However, at the end of the 1800s and the beginning of the 1900s, the legal frameworks and legislation of *waqf* have been reformulated again, but at a modest pace, until the beginning of the twenty-first century, when such legislation started experiencing a real application, and it was in particular in the field of investment with an increasing trend up to date, represented in some *waqf* investment projects sponsored by state and private entities at the same time. Some of these projects are; the neighborhood of *Kiram*⁴ that is considered to be the first contemporary *waqf* investment funded by the Algerian state, followed by *awqāf* complexes such as "the Grand Mosque," which is a quantum leap in complexes in the Arab and Muslim world, as well as mini-complexes, which began spreading in every province in Algeria⁵.

Even though the trend of the Algerian *waqf* sector is promising, but there is still much room for improvement in order to restore the effective role of *waqf* in the development of the nation. According to Dr. Abdelwahab Bertima, the director of the Algerian department of *Awqāf, Zakat, Hajj and Umrah*, who, in the global conference of products and applications of innovation and financial engineering, held in Algeria

³ Ibid, pp. 1-28.

⁴ *Kiram* = Generous

⁵ Ibid, p. 69.