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# Role of the Learning Organization Paradigm in Improving Intellectual Capital

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*The purpose of this research was to determine to what extent intellectual capital is recognised and developed in a company in the South African horseracing industry. Intellectual capital is defined according to three categories – human, structural and relational capital. Intellectual capital's organizational importance is also discussed. The empirical study is conducted by examining the annual reports and financial statements of Phumelela. Intellectual capital is the main focus of the study, with knowledge sharing and the learning organisation seen as key intellectual capital development methods. The learning organisation is an essential paradigm in the knowledge economy and refers to an organisational and individual mindset for knowledge improvement, goal achievement, and development. The importance of the learning organisation is discussed in an intellectual capital context.*

## Introduction

The way in which organizations should compete and operate has changed in recent years. There has been a paradigm shift in what should be done to realize and sustain competitiveness. Because of this shift, the daunting nature of achieving organizational goals is becoming less so. The reason for this is based on an underutilized resource – knowledge. In the knowledge economy, intellectual capital and knowledge are more important as an economy wealth production factor than traditional physical assets (Seetharaman, Bin Zaini Sooria & Saravanan, 2002: 128). The idea of the knowledge economy is based on organizations, individuals and national economies using intangible assets to survive and prosper. The environment is focused on creating, sharing, adapting and using knowledge and intellectual capital in such a fashion that newer, more innovative products and services are developed and implemented more efficiently, and better decisions are made. Hong and Kuo (1999:208) explain that, for an organization to develop, it has to be visionary, developmental, practical, and active in learning. Finally, in the current market environment, organizations have to be able to learn to adapt to prevailing rates of change (Birdthistle & Fleming, 2005:730). Change is synonymous with the knowledge economy. Organizations have to be able to recognise and adapt to change in a timely and efficient manner. Learning implies development and the ability to continuously improve on a micro, macro, and global scale. Learning relies on the willingness of the individual and organization to continuously develop on these different scales. The learning organization is a paradigm that has grown in importance over the past decade. It is important, however, to note that the learning organization is far more than just learning. The primary goal of organizational learning is to continuously develop new knowledge and manage the resulting organizational assets more efficiently and effectively (Pemberton & Stonehouse, 2000:186). Organizational assets can be related to that of intellectual capital. The learning organization therefore implies a methodology to improve and manage an organization's intellectual assets. This paper focuses on how intellectual capital can be developed by a learning organization in the horseracing industry. The importance of the learning organization to a company and intellectual capital development is defined according to four categories - the learning organization and competitiveness, change, the individual, and the evolution towards the learning organization. Therefore, the following question was formulated for this research: "Why is the learning organisation an important intellectual capital development tool"?

## **Learning organization paradigm**

The most popular and widely used definition of the learning organization is by Senge (1990:3). According to him, a learning organization is "where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together". A learning organization is one that examines, learns from external factors and adjusts its internal framework to suit available opportunities. It constantly re-evaluates its goals and is open to changing its work culture or structure to gain opportunities (The Manage Mentor, 2003). A learning organization is an organization that responds to and anticipates change in its environment by learning on a strategic level (Buyens, Wouters & Dewettinck, 2003). A learning organization is a goal, value system, or a collection of disciplines or practices (Mumford, 1996:129). A learning organization is not a physical organizational structure. Rather, it is evident that a learning organization is an organizational theory, culture, framework, or paradigm. An important protocol of the learning organization framework is the ability and willingness of individuals and the organization as a whole to recognise, foresee, and adapt to change. An organization focussing on learning organization ideals is dynamic. It recognises that, to survive and prosper in the market, improvement and innovation is constantly necessary. This refers to the long- and the short-term, and the operational, tactical, and strategic levels of an organization. A learning organization, therefore, does require constant learning from every organisational member, but does not rely solely on this.

The learning organization is a paradigm that is constantly becoming more and more important to an organization's ability to compete and grow in the current market environment. Traditionally (and in many cases still), organizations believe that quantity and strict bureaucracies are key to an organization's success. The learning organization defies this and implies that an organization should focus on quality and value creation, and includes every member of the organization to do so. Therefore, for the purpose of this research, a learning organization can be defined as one in which the organizational structure and culture is dynamic and empowering, individuals are encouraged to learn, develop, and contribute for personal and collective gain, teamwork is crucial, lifelong learning is evident, and change is identified, used, and adapted for collective and individual benefit over the long- and short-term. Senge's Fifth Discipline approach (1990) raises various interesting points when considering what a learning organization strives to be. Without individuals willing to improve and learn, not only for personal gain, but also to contribute to the organization as a whole, the learning organization cannot exist. The concept of systems thinking is also an important one. No action or decision works in isolation – every organizational member has the ability to add or detract from the whole. An organization is only as strong as its weakest member. The Fifth Discipline approach implies that a learning organization requires people that are willing to challenge beliefs and work with others to continuously add to the system as a whole by committing to personal mastery so that a shared vision can be realized.

## **Intellectual capital**

Bollen, Vergauwen and Schnieders (2005: 1164) summarize intellectual capital as 'the collection of intangible resources and their flows, where intangible resources contribute to the value creating process of the company and are under control of the company'. Intellectual capital can be regarded as unaccounted capital or knowledge-based equity that supports the knowledge-based assets of an organization (Abeysekera, 2006: 61) and consists of the intangible assets of skills, knowledge and information systems (Abdolmohammadi, 2005: 398). The focus of intellectual capital is that of intangible assets. Though in definitions this relates to knowledge in general, it should be noted that intellectual capital is knowledge placed in a business context. Knowledge is not necessarily organizational, whereas intellectual capital is. Also, traditional financial (or tangible) indicators are relatively easy for an organization to measure, while intellectual capital (or intangible) indicators are more difficult. For the purpose of this research intellectual capital can be seen as all the knowledge-based or intangible assets and flows, in an organizational context, that maintain, drive, support and affect the value creation processes of an organization. A variety of scholars divide intellectual capital into human capital, relationship/relational/customer capital, and structural/organizational capital (Andriessen, 2006: 103; Bontis, 1998: 65-67; Edvinsson & Camp, 2005: 114).

## **Human capital**

Human capital refers to an organization's members' individual tacit knowledge, i.e. raw intelligence, expertise and skills of the individual (Bollen, Vergauwen & Schnieders, 2005: 1164). Bontis (1998: 65) described human capital as a combination of an individual's education, genetic inheritance, experience, and attitudes to life and business. Human capital is the capabilities of the individual. These individuals are the source of innovation and renewal in an organization (Carson, Ranzijn, Winefield & Marsden, 2004: 447). Human capital can thus be defined as all the unique ideas, skills, and knowledge that an individual owns and contributes to an organization. From this definition, human capital is a knowledge-based asset and can be developed. This is an important aspect for an organization to focus on. When human capital improves, so does its contribution to the organization. The issue of ownership requires emphasis when considering this development and value aspect. Knowledge (implying human capital) is not valuable to an organization if it cannot be applied to organizational operations (St Leon, 2002: 149).

Human capital's value to an organization is dependent on the willingness of the individual to contribute, improve, and innovate. The organization has a role to present an environment in which an individual feels the need to work harder and help achieve organizational goals. The individual must see that the organizational environment is conducive to, and rewards development. Human capital is the foundation of intellectual capital, as everything in the current market environment relies on the individual's ideas, knowledge, and skills. An organization must continuously find ways to develop and use human capital to its full potential. Considering the value of human capital, an organization must find ways to gain ownership of as much human capital as possible, in the possible event of an employee leaving the organization. This suggests human capital being integrated into structural capital.

## **Structural capital**

Structural capital is the structures and mechanisms that help support employees and includes procedures, routines and everything that is left in the organization once the employees or members go home (Bollen et al, 2005: 1164). Structural capital includes 'intangible assets such as information systems, distribution networks, strategy for work team creation and maintenance, competitive market intelligence, and knowledge of structures, systems and the market' (Carson et al, 2004: 447). Bontis (1998: 66) is of the opinion that the core of structural capital is the knowledge rooted in within an organization's routines. Carson et al (2004: 453) divide structural capital into fluid (dynamic) or crystallized (static) categories. The fluid category includes organizational culture and climate (which includes shared values and trust), and the functioning of communities of practice and innovation networks. The crystallized category includes procedures, policies, or data. Structural capital therefore includes both tangible and intangible knowledge-related resources and assets, for example, intangible relating to organizational culture and tangible relating to databases. Structural capital consists of all the tangible or intangible knowledge-based assets an organization owns.

This is where the main difference from human capital is apparent. Structural capital is owned by the organization whereas the individual owns human capital. Considering this, it is crucial for the organization to extract as much human capital or knowledge as possible and integrate it into structural capital. This aims to offer the organization a certain amount of security when it comes to longevity and future value. Once knowledge is integrated within the organization's structural capital, it remains present even if the source, i.e. the individual, leaves the organization. Structural capital is, however, not limited only to being a mechanism of capturing knowledge and ownership. It also consists of the culture and tools that can assist in developing human capital. Seetharaman, Low and Saravan (2004: 524) state that structural capital is an enabler. Structural capital implies the environment where human capital can be nurtured and developed, as well as the technologies and processes that can assist in knowledge sharing and learning.

## **Relational capital**

Relational capital refers to relationships with other organizations, market orientation, knowledge of customer relationships, knowledge of marketing channels, and competitor orientation (Bollen et al, 2005: 1166) and implies knowledge rooted in relationships external to the organization (Bontis, 1998: 67). Relational capital is the value of an organization's external relationships and the people it does business with (Carson et al, 2004: 447). Seetharaman et al (2004: 524) mention that relational capital includes

branding and network externalities. Relational capital can thus be defined as all value-adding external and internal relationships an organization has, such as customers, suppliers, competitors, and partners.

Human and structural capital are both internal to an organization, whereas relational capital is predominately external. This makes relational capital more difficult to control or influence than the other two categories. For example, an organization's reputation is very difficult to manage definitively. Because of this, relational capital is fragile and dynamic. However, there are measures an organization can take. For instance, by developing human capital, employees can be better equipped to deal with external relationships and thus develop relational capital. Also, by continuously researching the market, i.e. what a customer wants, an organization can adapt internal strategies and develop structural capital. The core of relational capital is how external people perceive and contribute to the organization and how the organization perceives and uses external people to its benefit.

### **Management of intellectual capital in a learning organization**

Selberg (2003) states that a learning organization is "continually developing its capacity to create its own future". According to the Manage Mentor (2003) learning organizations "understand change is a part of their culture" and "they are ready for action while others are still trying to adjust". Thus, the learning organization can be seen on a micro and macro level. The micro level is focussed on the employees or members of an organization and their ability and willingness to improve and share their knowledge stocks for the greater good of the company, and seeing themselves as valuable role players in the bigger organizational picture. This also implies a method to convert tacit knowledge (or human and relational capital) to explicit knowledge (or structural capital). The macro level is focussed on the organization working to adjust to change, as well as to innovate to ensure longevity and competitiveness. Development of organizational culture results from the learning organization paradigm, with an organization committing to the importance of knowledge and intellectual capital. This commitment in turn, ultimately leads to the survival and prosperity of an organization in the knowledge economy.

An organization's long-term survival depends on how it invests and improves its intellectual capital (Kagan, 2005: 12). The idea of intellectual capital has a variety of implications for an organization. These implications, if properly recognized and managed, are of strong organizational importance in the long and short term, especially considering the current market environment. As Peppard and Rylander (2001: 226-227) argue – the intellectual capital perspective is important for organizational management because it provides a holistic view of an organization, it focuses on value (instead of traditional accounting frameworks that focus on costs), it provides understanding of the worth of intangible assets, it provides a foundation of understanding resources in action, and it enables a practical rather than conceptual way of thinking. Intellectual capital consists not only of assets that contribute strategically to an organization, but also of a culture that is essential to survival in the current market environment. Even though organizations demand profit to exist, methods to be profitable are constantly changing. The intellectual capital paradigm is crucial for an organization to adapt quickly and efficiently to the growing requirement of change and be able to create value.

Management focus tends to shift from tangible to intangible capital when it comes to value creation processes in organizations. Intellectual capital can be seen as knowledge that is transferred so that higher-valued assets are produced (Abeysekera, 2006: 62-63). This emphasizes the value creation role of intellectual capital. An organization has to invest in value, and manage intellectual capital assets to exploit market opportunities and remain competitive in today's economy (Bose & Oh, 2004: 347-348). An organization that manages its own intellectual capital tends to outperform competitors (Brennan & Connell, 2000: 213). Chaharbaghi and Cripps (2006: 30) explain that intellectual capital can be seen as the primary driver of sustainable organizational performance and it reflects the actual worth of an organization more effectively than tangible asset reporting. There is thus a positive relationship between business performance and intellectual capital (Pena, 2002: 181).

Intellectual capital focuses on the management, ownership, and development of knowledge and intangible assets, and their producers. An organization that does this efficiently will be able to determine internal and external gaps in productivity and performance. For example, an organization develops human capital and captures it in the organization's structural capital. The organization will be able to develop organizational strategies constantly according to improved and captured knowledge. The new

organizational strategies will add value to organizational performance. This value created also contributes to competitiveness.

In the past, organizations focused on production quantity instead of quality. Low production or service costs equated to higher possible profitability. However, in today's competitive environment, this is no longer viable. An organization must know the customer and how to serve customer needs efficiently. A returning customer is of much more value to an organization than a once-off customer. In this regard, a product or service that is more innovative than a competitor's is crucial. All this is rooted in developing knowledge, creativity, and ideas, which in turn is rooted in managing and developing intellectual capital. Investors' interest is also of significance to organizational performance and competitiveness. Intellectual capital plays a role here too. The voluntary disclosure by an organization of information pertaining to intellectual capital could attract investors as it gives an indication of possible future wealth and value creation (Williams, 2001: 193). Intellectual capital more thoroughly represents the worth and value of an organization than traditional accounting perspectives. It is believed that investors would rather show interest in an organization that shows potential for value creation in the long term than an organization that is only focused on book value in the present. This is where intellectual capital is significant.

As discussed, the management of intellectual capital contributes to the overall and strategic value creation, innovation, and competitiveness of an organization. Making investors aware of an organization's ability to manage intangible assets and intellectual capital leads to valuable external support. This support adds to the strength of an organization as a whole.

### **Management of intellectual capital in Phumelela**

South African horseracing started in 1797, with the first recorded race club meeting occurring in 1802 (SAHorseracing, 2006). At present, the South African horseracing industry creates employment for over 100 000 people and boast an annual betting turnover of approximately R5 billion (SAFTote, 2007a; GamblingSA, 2007). This illustrates how the industry has grown from its humble beginnings, 210 years ago, to being a crucial role player in the South African economy.

Phumelela-Gold Enterprises is the partnership or joint venture between Gold Circle and Phumelela Gaming and Leisure (Gold Circle Annual Report, 2006:8). Phumelela-Gold is managed by Phumelela and owns all media and information rights emanating from both organizations (SAFTote, 2007). This includes South Africa's exclusive horseracing channel, Tellytrack (SAFTote, 2007). Tellytrack is broadcast in South Africa, Mauritius, the United Kingdom, Saudi Arabia, and Zimbabwe (Softarc, 2007) and specializes in the horseracing industry. The international division of South African horseracing also falls under the Phumelela-Gold banner. It broadcasts South African horseracing to, and enables betting, in seven different regions. These regions are the USA, the UK, Europe, Asia, Singapore, Africa, and Australia. Phumelela-Gold is also responsible for importing international broadcasts and betting from nine regions, namely the USA, the UK, France, Kenya, Singapore, Zimbabwe, Dubai, Hong Kong, and Mauritius (Phumelela Annual Report, 2006: 4-5, 12).

Phumelela-Gold is a crucial initiative in the promotion of South African horseracing. The co-venture makes horseracing more accessible locally and internationally. The profitability of the industry as a whole is strongly reliant on this media coverage. Consumer interest cannot be gained or sustained without public awareness and growth in services. In this regard, Phumelela-Gold is essential. The international division plays a dual role. It offers local punters more variety by enabling betting on international races and promotes the South African industry in the larger foreign betting markets, such as the UK and the USA.

Relational capital is, therefore, strongly focused on, with international and domestic business partnerships and constant growth in products and services, aimed at the customer. Tellytrack also assists in this regard. As Bontis (1998:67) mentions, relational capital suggests that knowledge is rooted in relationships external to the organization and relational capital is external value creation (Seetharaman et al, 2004:523-524).

Although Phumelela, Gold Circle and, accordingly, Phumelela-Gold form the oligopoly in the South African horseracing industry, there is a variety of organizations that have crucial roles in monitoring these companies, their operations, and the general operations of the industry. These organizations are the Racing Association, the National Horseracing Authority, the Thoroughbred Breeders' Association and the South African Jockeys' Association.

## **Methodology**

The aim of the empirical survey was to determine if and how intellectual capital is managed and developed in Phumelela and whether Phumelela can be regarded a learning organization. According to Bontis, Dragonetti, Jacobsen and Roos (1999:400) no single method of evaluating intellectual capital is perfect and that the measurement tool used should be appropriate within a given set of circumstances. Van Deventer (2002:438) suggests that a unique measuring tool should be developed according to the circumstances of a specific organization. Roos and Roos (1997) developed indicators for each of the components of intellectual capital. For the purpose of this survey, the following indicators were identified:

- **Human Capital**
  - Percentage of employees with degrees.
  - IT literacy.
  - Hours of training/employee.
  - Average duration of employment.
- **Structural Capital**
  - Adherence to mission.
  - IT expenditure.
  - Processes completed without error.
  - Cycle/process times.
- **Relational Capital**
  - Length of relationship with customers/suppliers.
  - Customer satisfaction.
  - Market share.

Qualitative research was done by examining annual reports and financial statements (2004-2006) of the company. The annual reports gave insight into how the organization has developed from 2004 to 2006 and how intellectual capital might have grown. Structured interviews with two managers at Phumelela were also conducted. The Phumelela's interviewees have 30 years experience in the horseracing industry. The managers interviewed boast a significant background in the horseracing industry. According to Du Plooy (2001: 83) a qualitative study is guided by assumptions, should be backed up by literature so that subjective and faulty reasoning can be avoided, and research methods usually include participant surveys, questionnaires or interviews.

Phumelela was established in April 1999 and its vision is 'to be a major global role-player in creating exciting opportunities for capitalizing on difference of opinion and outcome'. The company owns five racecourses in four provinces and revenue is primarily derived from commission on tote bets placed at its five racecourses, tote outlets and two telephone-betting centres. Approximately 1 500 people are employed by Phumelela, of which nearly 80% are from previously disadvantaged backgrounds. Phumelela is a public company and was listed on the Johannesburg Securities Exchange in 2002.

The importance of information flow is recognized by Phumelela, as information technology and various systems are continuously updated for the purpose of improving information dissemination. Phumelela is future oriented and looks to reach long-term goals and improve competitive sustainability. An example of this is the increase in race stakes and promoting betting types beyond the borders of horseracing. Expansion, thus, is a focal point of Phumelela.

## **Research findings**

### **Human capital**

As stated previously, human capital refers to an organization's members' individual tacit knowledge, i.e. intelligence, expertise and skills of the individual (Bollen et al, 2005: 1164). Phumelela's board of directors (Phumelela Annual Report, 2006: 6-9) comprises a wide variety of individuals with varied qualifications, such as B Sc, B Com and MBA degrees. The youngest board member is 36 and the oldest 68 years of age. This implies a wealth of experience and tacit knowledge giving Phumelela a significant competitive advantage in this regard. All board members have ties to the horseracing and gaming industry, and have played corporate roles throughout their careers. Strong leadership is crucial to

any organization and, considering the wealth of experience and tacit knowledge that makes up Phumelela's board of directors, Phumelela has a significant competitive advantage in this regard.

Looking beyond the leadership structure of Phumelela, the other members or employees of the organization also play an invaluable role. The ways in which Phumelela looks to improve, reward, retain, and satisfy employees is crucial to human capital development, as well as implementing the learning organization framework. Senge (1990:3) explains that a learning organization is "where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together".

An organization that invests in its employees' skills will outperform competitors that do not invest sufficiently (Baird, 2004; Senge, 1990: 3). The number of employees has remained relatively similar from 2004 to 2006, with exactly the same totals in 2004 and 2006. Permanent staff to casual staff ratios have shifted significantly from 2004 to 2006 with about two third of the staff members as casual staff in 2006. Casual employees have the ability to do more work external to the industry than permanent employees because of contractual differences and have a wider variety of skills. This balance between the more specialized staff and the staff with potentially broader knowledge is what makes Phumelela's human capital so interesting. Both permanent and casual staff play an integral role in intellectual capital development. Phumelela has a variety of incentives, policies, and support systems in place to consider employee satisfaction, retention, and development (Phumelela Annual Report, 2006: 14; 2005: 13; 2004: 13). All board members and employees must sign a code of ethics. Throughout the annual reports, mention is made of the importance of training and empowering individuals. Employee (permanent and casual) costs have grown from over R90 million to over R104 million from 2004 to 2006. This implies the willingness of Phumelela to invest in individuals, i.e. human capital. Bonuses are awarded on a performance related basis meaning that quality of work and loyalty are rewarded. A variety of training programmes are in place to enable employees to better themselves. Individual empowerment relates significantly to Phumelela's stock option scheme and 6.65 million shares in the organization were allocated to Phumelela employees when the company went public in 2002.

Phumelela does seem to be relatively bureaucratically minded in many aspects relating to organizational structure and employee positions which may affect knowledge sharing. A more open culture is suggested for further human capital development and more efficient knowledge sharing.

### **Structural capital**

Phumelela's organizational culture is an important aspect of the organization's structural capital. By investing in the development of procedures and policies to develop human capital, Phumelela invests in the development of structural capital. Publication and broadcasting rights are an integral part of the organization's structural capital. The trademarked publication and broadcasting assets make the external market aware of industry happenings. This signifies that structural capital works towards the improvement of relational capital by keeping consumers up to date and informed of organizational occurrences.

Phumelela lists Racing UK rights under intangible assets in its financial statements. Intangible assets have, however, decreased from R39.7 million to R19.4 million from 2005 to 2006. This appears to be a troublesome figure considering the increasingly intangible-based nature of the current market environment. A reason for this is the fact that the cost of broadcasting rights has increased from R10 million in 2005 to R20 million in 2006. Phumelela, since 2005, has thus recognized the importance of intangible assets, and therefore structural capital, by inclusion in the financial statement, and is prepared to meet increasing costs to sustain its structural capital.

This aspect is also emphasized by Phumelela's willingness to upgrade and improve its information and computer systems continuously. The value of plants, computer equipment and software, machinery, and vehicles, as listed under owned assets, have increased from a net book value of R54.9 million to R61.02 million from 2005 to 2006. This increase suggests Phumelela's commitment to its goals of improving information systems and, accordingly human capital.

### **Relational capital**

Phumelela specific branding includes the Steinhoff International Summer Cup and the GommaGomma Challenge. The GommaGomma Challenge is recognized globally as Africa's richest horserace, with a stake of R3 million in 2006, and the Summer Cup is recognized globally as Africa's

richest race day. These two races are crucial in Phumelela's branding because of their prestigious and recognizable nature.

The availability of share in the company implies that the organization recognizes the importance of and willingness to involve external (and internal) parties. Phumelela is ranked fifth in Business Times' Top 100 companies of 2007 (Shevel, 2007: 13). Owing to the flu epidemic in 2003 and 2004, 2004 was the weakest year in share values. Significant losses in overall income, share values, and profit during that period imply that shareholders and the external market were influenced negatively because of the illness. This emphasizes the importance of relational capital. The impact of the epidemic on relational capital was drastic. An event of such a nature causes relational capital to decrease, which causes overall profitability to decline.

Phumelela is also strongly involved in employment equity. More than 70% of Phumelela's staffing is black. This is in accordance with governmental requirements and implies the strength of the relationship that the organization has with the local and national government. Phumelela supports the National Responsible Gambling Programme, which is concerned with supporting gambling problems and is also sponsoring the South African Police Service Mounted Unit. These activities and sponsorships improve Phumelela's public image and show that it does give back to the community. This is a significant recognition of the importance of relational capital by Phumelela.

Phumelela has a strong role towards social responsibilities, services, and the improvement of public image and media exposure. Phumelela is involved in the development of work riders. This is done so that work riders' skills are upgraded to increase their value and earning capacity within training establishments. The human capital development and implementation of learning organization ideals is evident. On a relational capital level, Phumelela recognises the external party of trainers and work riders as important, and contributes towards the improvement thereof.

Phumelela should, however, increase turnover nationally, as Gauteng is currently Phumelela's most profitable region. This suggests that relational capital is significantly weaker in other regions. Even though two of the regions (Western Cape and KwaZulu-Natal) are predominantly Gold Circle areas, Phumelela should move towards a more balanced national relational capital distribution. Turffontein is considered a hub in South African horseracing. This racecourse, therefore, should play an integral role in Phumelela's relational capital development. As the headquarters of many industry role players, Turffontein is central to enabling easier knowledge sharing and intellectual capital development. A plethora of key role players is easily accessible to Phumelela because of their proximity. This allows a more direct and more accessible route of sustaining, maintaining, and developing relational capital pertaining to these role players.

## **Recommendations**

The South African horseracing industry is complex and vast, requiring the development of intellectual capital and other intangible assets to compete strongly globally. Phumelela's intellectual capital strength is well distributed between human, structural, and relational capital and the organization uses knowledge sharing. Human capital is recognised by Phumelela as an important asset. The necessity of the individual is emphasised throughout Phumelela documentation and it was found that the organization does use knowledge sharing and the learning organization ideals to a certain extent in human capital development. The researchers, however, does not recognize the extent that cross-departmental communication between different levels of employees and managers are allowed or emphasized. The relatively hierarchical structure of Phumelela is problematic in this regard. Phumelela does seem to be relatively bureaucratically minded in many aspects relating to organizational structure and employee positions. A more open culture is suggested for even further human capital development, as well as more efficient knowledge sharing and implementation of the learning organization. On a structural capital basis, Phumelela has a strong foundation.

Phumelela should move towards a more balanced national relational capital distribution. Also, international horseracing is not as strong as it can be yet in South Africa. Because of the global nature of economy in today's market, it is essential for Phumelela to increase international relational capital. Through this improvement, overall relational capital will be increased significantly. Lastly, Phumelela has to improve on course betting. Branches and agents are important, but an individual's actual attendance is crucial in the industry.



Horseracing must be seen as a sport, even though wagering is involved. A sign of a sport's strength is how many people are still willing to attend it, as opposed to, for example, watching it on television. Low on course betting suggests low attendance. Relational capital will be significantly stronger should attendance levels increase. Attendance exemplifies that people are willing to commit to a day at the races, as opposed to simply betting as a hobby when they find time. This commitment to attend and physically support is a primary issue of relational capital development in the horseracing industry.

## Conclusion

In this paper, intellectual capital has been discussed as being paramount to an organization's success in the current market environment. Intellectual capital and its three categories are explained as crucial to an organization. It has been found that Phumelela does recognize and develop intellectual capital in varying degrees. However, the South African horseracing industry still has a lot to do in the current market environment. Shifts in culture and implementation of intellectual capital development on formal and informal levels are found to be of increasing importance. Knowledge sharing and the learning organisation paradigm are also apparent as intellectual capital development tools within Phumelela. Phumelela clearly recognises the value of the individual and individual knowledge and knowledge development. Human capital development, therefore, clearly occurs within Phumelela. Structural and relational capital development and maintenance are also focussed on. The weaknesses found, as mentioned, are rooted in Phumelela's low on course betting figures and the fact that the majority of turnover is generated within Gauteng.

These issues require attention, but overall, Phumelela is well placed within the knowledge economy. The organisation clearly strives to improve and sustain competitiveness and value creation within an intangible asset and intellectual capital basis.

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