THE EFFECT OF INTELLECTUAL CAPITAL ON MARKET ORIENTATION FOR INSURANCE COMPANIES IN LORESTAN, IRAN: AN EMPIRICAL STUDY

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Abstract

In the era of ultra-competitiveness, organizations are faced with new challenges which require special attention to develop and strengthen the market orientation skills, and this is done through the basics of organizational knowledge and intellectual capital. Therefore, this study aims to investigate the effect of intellectual capital and knowledge sharing on market orientation. This is a descriptive-survey which was administered in a field method. The statistical population in this study consisted of all employees working for the Lorestan insurance companies [N=121]. Due to the limited number of the population, data were collected by the census method with the help of questionnaires. Four hypotheses were presented and tested by the partial least squares method using the Smart PLS software. The results indicate that intellectual capital has a positive and significant effect on market orientation through knowledge sharing. Moreover, the positive effects of intellectual capital on market orientation, intellectual capital on knowledge sharing, and knowledge sharing on market orientation were approved.

Keywords: Intellectual capital, Knowledge sharing, Market orientation, Insurance companies.

Introduction and Problem Statement

Today, due to the competition boost between organizations, and the increasing importance of the success of the organizations in this field, the organizations have been led to the use of one of the most important resources, knowledge and intellectual capital. Knowledge as the most important capital has replaced physical capital, in particular, in the...
competitive and technological environment. Experience has shown that organizations that make better use of knowledge and their intellectual resources are more oriented to the market mechanism. Therefore, the concept of intellectual capital is considered the most important and is widely applied in market orientation.

Moreover today, the basic activities of successful organizations have shifted from production-oriented to core knowledge. Inkpen (1998) and Zack (1999) also believe that if a company is entitled to intellectual capital and better knowledge assets in the business environment it will have a competitive advantage. However, the importance of intellectual capital according to today’s competitive market is constantly on the rise, but most organizations are faced with many problems. Ignoring the intellectual capital affects their thinking because there is intellectual capital. The nature and its features remain hidden in these companies (Maditinos et al., 2011).

Thus, lack of attention to intellectual capital and consequently the lack of using the merits of force and intellectual capital and the distribution of knowledge by them, can advance the industry's condition, coupled with the friction between slow and strong. On the other hand, put the organization in competitive situations and market orientation. In order to respond to the demands of overt and covert customers and creating value for the market the customers are required to use intellectual capital. The concept of sharing knowledge as well as intellectual capital is highly important and has been used frequently in different organizations; however, in an important and competitive business of Iran, namely Lorestan’s insurance industry has used of these concept less. Insurance services play an important role in the Lorestan economy and have profound effects on the behavior of various economic sectors. But due to fundamental changes in Iran’s economy, these companies also are experiencing major changes. For this purpose, Lorestan insurance companies as market-oriented organizations, should facilitate new opportunities to compete through creating intellectual capital and induce high levels of knowledge and new ideas. So, active companies at Lorestan’s insurance industry by using the results of this study, can identify and fix the possible obstacles to their work areas, and ultimately provide the necessary context for knowledge sharing and extraction tacit knowledge hidden in the layers of the minds of scientists. Thus, considering the importance of the issue and also the lack of adequate research in this area, this research attempts to empirically examine the effect of intellectual capital and knowledge sharing on market
orientation in Lorestan’s insurance companies. Therefore, the main question of the present research is: what is the effect of intellectual capital on market orientation with respect to the role of knowledge-sharing in insurance companies?

**Literature Review**

The success of today’s organizations is dependent more on the knowledge of customers, competitors and other factors affecting the market. Market trends and customer needs are the first new marketing features that must be remembered as a new market orientation. Market orientation is a norm of behavior that is spread throughout the organization and through innovation meets the current and future needs of the market and the customer. Narver and Slater (1990) argue that market orientation is a behavioral phenomenon which is composed of three components: customer orientation, competitor orientation and intra-functional coordination. According to their view, customer orientation requires a good understanding of the customer to create superior values for them by the organization. Competitor orientation in Narver & Slater’s view is knowledge of the organization regarding the current and future strengths and weaknesses of the competitors, especially on long-term strategies and their capacities. The purpose of intra-functional coordination is the coordinated use of organization resources to create superior values for customers. Coordination integration of organization resources leads to the relationship between competitor orientation and customer orientation. But market orientation has a pre-introduction that increases or decreases the level of market orientation. In this research, intellectual capital and knowledge sharing are pointed as two factors that can affect market orientation. Drucker (1993) in this regard, believes that the most important source of wealth in society post-capitalist is knowledge and information; however, to make this knowledge, valuable, it should be shared with others.

Studies about knowledge sharing show its complexity and multidimensional aspects. In definition, knowledge sharing is the transfer of knowledge to colleagues in the external or internal-organizational communication process and the purpose of knowledge is the rate of knowledge that the person acquires in the organization (Jil et al., 2009). Recently many theories, including the social exchange theory, the economic exchange theory, the planned behavior theory, the social action theory and other theories, have been used by the researchers.
to predict the affecting factors on the behavior of knowledge sharing. For example, Bock and Kim (2002) used the social exchange theory and the reasonable action theory to investigate the affecting factors on knowledge sharing in the organizational context. Moreover, Lin and Lee (2006) applied the planned behavior theory to assess knowledge sharing and its behavior by senior managers. Finally, it should be noted that human knowledge is divided into two categories: explicit knowledge and tacit knowledge. Explicit knowledge can be easily recorded, classified, stored and transported in an official language. Tacit knowledge is hidden and located in people’s everyday actions and intellectual models (Narver & Slater, 1990).

As mentioned, knowledge sharing is one of the affecting factors on market orientation that has significant importance to insurance companies. Actually, interaction between people and insurance companies’ technologies lead to share knowledge and exchange of information and thereby, respond to market and customer needs. It can be noted that, insurance companies encourage their employees to provide tacit knowledge, intellectual models and intuitive perceptions that they have gained through experience, can make strategic decisions and achieve superior positions in the market. In this regard, Wang et al. (2009) examined the relationship between knowledge management orientation, market orientation and company performance. Using data from 213 companies in the United States they found that organizational memory, knowledge sharing and assimilation of knowledge are important indices to knowledge-management orientation and have a positive effect on market orientation. They concluded that knowledge-management orientation can increase efficiency and market orientation is a necessary variable to realize these benefits. In another study, Ho and Hallett (2011) in their research in a government organization in the Australian foreign affairs concluded that knowledge sharing directly in organizations, agencies and customers is a prelude to adopting and developing market orientation. In this research, knowledge management focuses on direct communication face-to-face and causes government departments to achieve their performance goals. Moreover, Mu Yeh and Ning Hu (2011) investigated a conceptual model of knowledge sharing and market orientation in the tourist sector. This research develops a conceptual model in which knowledge sharing is recommended as a prelude to market orientation views (customer orientation, competitor oriented, intra-functional coordination). In the end, Ferraresi et al.’s (2012) research entitled “Knowledge management, market orientation, innovation and organizational
output” in Brazilian companies showed that knowledge management has a positive effect on market orientation and helps orientate directly, but it requires a clear strategic direction to achieve the organization’s innovation and output. Therefore, in order to measure this relationship, the following hypothesis is offered:

**Hypothesis 1:** Knowledge sharing has a positive and significant effect on market orientation.

In research, another effective factor on market orientation is intellectual capital which for the first time was presented by John Kenneth Galbraith in 1969. He believed that intellectual capital is a multi-dimension structure and an ideological process including an intellectual trend which covers the individual, organizational, internal and external levels. This means that intellectual capital is not only related to an individual’s knowledge, but also reserve knowledge in organizations, business processes, systems and organizational communication as well (Chang, 2007). In this regard, Bontis (1998) points out that intellectual capital consists of three components: customer capital, structural capital and human capital. She/he believes that human capital is very important because it is the main source of creativity and innovation. Furthermore, structure capital includes organizational structures and mechanisms that have a supporting role in getting employees to maximum performance. Likewise in Bontis view, customer capital includes understanding marketing channels and customer-relationship knowledge. Each of these plays an important role in an organization. In addition, Bontis considered other aspects such as relationship with competitors and suppliers as essential components of this capital.

However, since an organization’s customers are in direct contact with the employees and receive their services from them, it is very important that employees have motivation and commitment to deal with customers and create a competitive advantage for organizations in line of strategies and investments. This refers to the relationship between intellectual capital and market orientation that was studied in several researches. For example, Gelavizh (2011) in a study entitled, “the study of Intellectual Capital with a market orientation in the insurance industry of Iran”, showed that the dimensions of intellectual capital have a significant impact on market orientation, which means that, the status of intellectual capital was high in insurance companies and consequently, the morale of market orientation in those companies was higher. Increasing intellectual capital includes
increasing human capital, structural capital, customer capital, and market orientation spirit in insurance companies. This means that, however high the employee’s skills and individual knowledge and relationship with customers in insurance companies, they can be accurately implemented in intra-functional coordination, marketing relationships and implementing strategies.

In addition, Soltani et al. (2014) in a study entitled, “Investigating the effects of intellectual capital on market orientation in Kalleh meat products and dairy company in Mazandaran province”, came to the conclusion that intellectual capital has an impact on market orientation. Among the three dimensions of intellectual capital, human capital and customer capital are effective on market orientation, but they not confirm the effect of structural capital on market orientation. They also concluded that using relational capital which includes brands and customer loyalty, created a good image of the organization which satisfied current customers and future needs. Based on this, the following hypothesis is presented:

**Hypothesis 2:** Intellectual capital has a positive and significant effect on market orientation.

In addition to the effect of intellectual capital on market orientation, it is a main factor for increasing knowledge sharing. In the other words, intellectual capital share is of great interest in managerial, technical, social and economic development. Interest has been so enormous that organizational knowledge is known as a major factor to competitive advantage and value creation. Therefore, to achieve competitive advantage and survive, the organization depends on its ability to create, store, distribute and use the knowledge assets. In this regard, Bontis, study (2001) dealt with the intellectual capital in the organization and its role in knowledge management and found that intellectual capital has a positive and significant impact on knowledge management, and that this dimension, in addition to deep communication with each other, has a major influence on the management of the organization.

Hussi’s (2004) study concluded that utilization of intellectual capital can improve the organization’s ability to take actions through knowledge management. In addition, the components of intellectual capital (human capital, structure capital and customer capital) are important inputs for the creation of knowledge. Therefore, it seems that intellectual capital can make changes in knowledge management
practices and processes. Wu and Tsai (2005) who studied the impact of social capital and business operation mode on intellectual and knowledge management concluded that intellectual capital has a significant effect on the effectiveness of knowledge management. Moreover, Curtin and Benoun (2010) found that when there is good utilization of intellectual capital, the organization’s ability will develop in implementing the knowledge management processes. Finally, Ngah & Ibrahim (2011) in a study entitled “The Influence of Intellectual Capital on Knowledge Sharing: Small and Medium Enterprises’ Perspective” concluded that relational capital had a positive impact on knowledge sharing and human capital and structural capital have a negative impact on knowledge sharing. In this line, the following hypothesis is presented:

**Hypothesis 3:** Intellectual capital has a positive and significant effect on knowledge sharing.

Furthermore, knowledge and intellectual capital have been detected as a sustainable strategy for achieving and maintaining competitive advantage and market orientation (Barni, 1991; Draker, 1988; Gerant, 1991). In the meantime, insurance companies used intellectual capital and intangible assets and through distribution and exchange of explicit knowledge, met the current and future needs of customers. Knowledge sharing and conversion of intellectual capital to market value, created the realization of value for the organization directly (Fetres & Beygi, 2008).

In relation to this, Lee and Choi (2003) found that knowledge creation and sharing have a positive relationship with the creativity of the people in the organizations and strengthened intellectual capital which also contributed to the development of the organization. Moreover, Egbo (2004) in his research investigated the role of knowledge management and intellectual capital on increasing organizational innovation. The results showed a significant and positive correlation among knowledge management, intellectual capital and organizational innovation. Thus the knowledge assets within the organization, by involving members’ opinions and new ideas, highlight these opinions and ideas, promote the members’ innovative performance and this leads to organizational innovation. Therefore it can be expected that intellectual capital can indirectly improve the organization’s performance and strengthen the conditions in the market. In this line, the following hypothesis is presented:
Hypothesis 4: Intellectual capital has a positive and significant effect on market orientation through knowledge sharing.

Conceptual Framework

This research’s conceptual model is the result of the literature review and combines these with the basics of intellectual capital, market orientation and knowledge sharing theories. Bontis’ (1998) model was used to measure intellectual capital. Bontis believes that intellectual capital consists of a set of collective intellectual abilities or key knowledge which divides into three subsets as human capital, structural capital and customer capital. In addition, the Bock et al. (2005) model was used to measure knowledge sharing. They defined knowledge sharing as the transfer and distribution of knowledge from a person, a group or an organization to another person, group or organization including two types of knowledge: explicit and tacit knowledge. Finally the Narver & Slater (1990) model was used to measure market orientation. They believe that market orientation is modern marketing strategy and when a business has a high market orientation, the performance will be improved. In their view, market orientation elements include three dimensions: customer orientation, competitor orientation and intra-functional coordination. By combining these three models, the conceptual model of the research is configured as Figure 1.

![Figure 1. Research conceptual model](http://ijms.uum.edu.my)
Research Methodology

This study, in terms of target, is applied, and in terms of data collection, is a descriptive and field study, and is casual in terms of the relationship between the research variables. The present research, used a questionnaire with 62 items to collect data as follows: Bontis’s (1998) questionnaire with 42 items; Narver and Slater’s (1990) questionnaire with 15 items and Bock et al.’s (2005) questionnaire with 5 items. In addition for measuring the response Likert’s five-item scale was used.

The research population was employees of insurance companies in Lorestan. Because of the limitation of the population, all the 131 members of the population were selected. 121 questionnaires were returned and eventually used in the analysis. The study sample or the list of insurance companies can be seen in Table 1.

Table 1

The list of insurance companies

| Number | Name of Co. | No. of Personnel | Number | Name of Co. | No. of Personnel |
|--------|-------------|------------------|--------|-------------|------------------|
| 1      | Iran        | 23               | 9      | Parsian     | 6                |
| 2      | Day         | 11               | 10     | Mellat      | 5                |
| 3      | Moa’allem   | 7                | 11     | Novin       | 8                |
| 4      | Arman       | 8                | 12     | Razi        | 8                |
| 5      | Asia        | 7                | 13     | Dana        | 8                |
| 6      | Karafarin   | 7                | 14     | Sina        | 9                |
| 7      | Kosar       | 8                | 15     | Mihan       | 8                |
| 8      | Toseeh      | 8                |        |             |                  |

Moreover, to adjust for classification and statistical calculation, we used the PLS software. The PLS software is applied to measure the research’s overall model and test the hypotheses using the structural equation modeling (SEM) technique. SEM is a powerful and general technique of multiple regression. In other words, its development of the general liner model allows researchers to test the set of regression equations at the same time (Tinsly & Brown, 2000). There are various methods for implementing SEM. One of the newest approaches is the partial least squares (PLS). This method instead of reproducing the empirical covariance matrix, focuses on the maximum explained
variance of the dependent variable by the independent variables. PLS algorithms for data analysis and conceptual model fit are summarized in three phases:

First, it ensures the validity of the existing measurement models by using the criteria of reliability and validity; then reviews and interprets the existing relationships in the section of the structure. The final phase is the outcome of the overall fit of the model. It should be noted that only the relationships in the section of the structure are significant and the interpretation, of the relationship between the sections of the measured models values are acceptable. The to analysis of the data by the PLS software is discussed below.

**Empirical Results**

Evaluation of the Measurement Models. The evaluation of the measurement models using criteria such as Cronbach’s alpha, coefficient of combined reliability (CR), convergent validity (AVE) and divergent validity, are presented in the Table 2 and Table 3.

Table 2

| Cv  | AVE  | Cronbach’s alpha | Factors                        |
|-----|------|------------------|--------------------------------|
| 0.783  | 0.505 | 0.790            | Intellectual capital           |
| 0.736  | 0.527 | 0.836            | Knowledge sharing              |
| 0.750  | 0.58  | 0.758            | Market orientation             |
| 0.741  | 0.631 | 0.731            | Human                          |
| 0.728  | 0.743 | 0.748            | Structure                       |
| 0.722  | 0.722 | 0.842            | Customer                       |
| 0.718  | 0.578 | 0.878            | Implicit                       |
| 0.711  | 0.641 | 0.841            | Explicit                       |
| 0.814  | 0.702 | 0.714            | Customer orientation           |
| 0.835  | 0.735 | 0.735            | Competitor orientation         |
| 0.752  | 0.587 | 0.741            | Intra-functional coordination  |

According to Table 2 Cronbach Alpha is 0.7 (Cronbach, 1951) the combination reliability is 0.7 (Nonly, 1978) and the average variance extracted AVE, is 0.5 (Fornel & Larker, 1981). The details results in
Table 2 above show that these criteria are in the right amount in the case of latent variables, which can confirm the reliability and the concurrent validity of this study.

Table 3

| Evaluation divergent validity with the Fornel and Larker method |
|---------------|---------------|----------------|----------------|----------------|----------------|---------------|---------------|
|               | Human | Structure | Customer | Implicit | Explicit | Cu.O | Co.O | IFC |
| Human         | 0.79  | 0         | 0        | 0        | 0        | 0    | 0    |     |
| Structure     | 0.71  | 0.86      | 0        | 0        | 0        | 0    | 0    |     |
| Customer      | 0.49  | 0.57      | 0.84     | 0        | 0        | 0    | 0    |     |
| Implicit      | 0.75  | 0.78      | 0.64     | 0.76     | 0        | 0    | 0    |     |
| Explicit      | 0.57  | 0.61      | 0.55     | 0.72     | 0.80     | 0    | 0    |     |
| Cu.O          | 0.55  | 0.59      | 0.66     | 0.45     | 0.72     | 0.83 | 0    |     |
| Co.O          | 0.78  | 0.54      | 0.70     | 0.35     | 0.78     | 0.62 | 0.79 | 76% |
| IFC           | 0.56  | 0.62      | 0.49     | 0.66     | 0.59     | 0.47 | 0.52 |     |

Cu.O=Customer orientation; Co.O=Competitor orientation; IFC= Intra-functional coordination

As shown in the above table, the root of AVE of the latent variables in this study, are in the main diameter matrix are greater than the amount of correlation between them, which are in the main diameter of the lower left house. Hence, it can be said that in this study, the structural (latent variable) in the models has more interaction with their parameters than the other structures. In other words, the divergent validity of the model is good enough.

Evaluation of Structural and Overall Models. The structural research model can be used on several criteria. The most important criteria is the significant Z coefficient or the t-values. The structural model fit by using t coefficient is that this coefficient should be more than 1.96, so as to confirm that they are significant at a confidence level of 95%; thus, if the value of t statistics is greater than 1.96, at a confidence level of 95%, and if the amount of t statistics is more than 2.58 is significant of coefficient the path at a confidence level of 99% (Davari, 2013). The other key criterion in the evaluation of the structural model fit is R Squares (R2). After running the Smart PLS software, the t-value and
R2 results are displayed in Table 4. In addition, the general model (measurement model and structural model) as well as used the GOF criteria. Wetzels et al. (2009) introduced three values: 0.01, 0.25 and 0.36, as the amount for weak, medium and strong, GOF.

Table 4

Result of t-value and R square for research variable

| R square | t-value | Dimensions       | Factors                |
|----------|---------|------------------|------------------------|
| -        | 9.612   | Human            | Intellectual capital   |
| -        | 8.754   | Structure        |                         |
| 0.755    | 11.142  | Customer         |                         |
| 25.463   | 0.755   | Implicit         | Knowledge sharing      |
| 30.578   |         | Explicit         |                         |
| 26.412   | 0.832   | Customer orientation |                     |
| 16.348   |         | Competitor orientation |             |
| 20.147   |         | Intra-functional coordination | |

According to the above table, all t-value coefficients are greater than 1.96, which show a good fit to the research structure. The t-value coefficients related to the hypotheses will be provided in the hypotheses testing section. Furthermore, the values of $R^2$ related to the two endogenous variables of the model (knowledge sharing = 0.755, and market orientation = 0.832) are higher than the average of 0.33 for this measure, which is a sign of goodness of fit for the structural model. In this study the GOF criterion was equal to 0.667, which indicated the very good fit of the overall research model.

Research Hypothesis Testing. To investigate the hypothesis testing use of t-value and to assess the impact been used the standardized path coefficient. The results of the hypotheses test are briefly presented in Table 5.

To calculate the significant paths of the model, there are different methods, including the z methods (t-values), that in this way to prove be significant the path, must the path between the variables be a figure more than 1.96, to able confirm the correct of path, and also the significance of all the questions and variables relationships at the level of confidence of 95%. (Davari, 2013). Therefore, at the confidence
level of 0.95, we can say that intellectual capital with a path coefficient of 0.758, has a positive and significant impact on market orientation. Intellectual capital with a path coefficient of 0.658, has a positive and significant impact on knowledge sharing, and knowledge sharing with a path coefficient of 0.589, has a positive and significant impact on market orientation. Thus, to confirm, the last research hypothesis (the effect of intellectual capital on market orientation according to the mediator role of knowledge sharing) it must be confirmed with a path coefficient of 0.38.

Table 5

The results of this test hypotheses with partial least squares method

| Research hypotheses | Path coefficient | T-value | Sig   | Results |
|---------------------|------------------|---------|-------|---------|
| intellectual capital ← knowledge sharing ← market orientation | 0.38 | - | - | Confirm |
| intellectual capital ← market orientation | 0.758 | 5.752 | 0.05 | Confirm |
| intellectual capital ← knowledge sharing | 0.658 | 3.478 | 0.05 | Confirm |
| knowledge sharing ← market orientation | 0.589 | 2.874 | 0.05 | Confirm |

Discussion and Conclusion

Today’s organizations are forced to use knowledge and intellectual capital as their marketing facilitator strategies to achieve and sustain competitive advantages. Thus, in today’s knowledge-driven world, organizational capabilities have been based on knowledge and market orientation, and managers need to understand the capabilities that needed to sustain competitive advantages. This study evaluated the effect of intellectual capital on market orientation, according to the role of knowledge sharing as a mediator variable, and it tested four hypotheses.

The first hypothesis focused on the effect of knowledge sharing on market orientation. The results of testing this hypothesis confirmed the effect of knowledge sharing on market orientation at the level of 0.95. The standardized path coefficient between knowledge sharing and market orientation is representative of this material, which is 0.6
of market orientation. The change is affected by knowledge sharing. The results of this hypothesis are consistent with the research of Anthony Fararasi et al. (2012). Enterprise knowledge management is one of the most important success factors in insurance companies in the information age and current competitive conditions. The importance of this issue is to that today, a number of organizations measure knowledge and use it as an indicator to achieve customer satisfaction in the market.

Moreover, the results of testing the second hypothesis suggest that intellectual capital has a direct and significant effect on market orientation at the level of 0.95. On the other hand, the standardized path coefficient between intellectual capital and market orientation represents this content that 0.76 of market orientation changes is impact on intellectual capital. The results of this study are consistent with Soltani et al.’s results. (2014). In addition, the findings of the third hypothesis prove the direct effect of intellectual capital on knowledge sharing at the level of 0.95. Salim and Khalil (2011) found in their studies that knowledge sharing and intellectual capital impact each other and this mutual relationship plays a very importance role in the effectiveness of the organization. Haas (2004) in his research, concluded that the components of intellectual capital (human capital, structural capital and relational capital) are important input for the creation and dissemination of knowledge in the organization. In addition, if there is good operation of intellectual capital, it can improve the ability of organizations in knowledge management measures. Finally, the results of the SEM technique showed that knowledge sharing plays a positive mediator role and can increase the effect of intellectual capital on market orientation. In fact, this test confirmed the indirect effect of intellectual capital on market orientation through knowledge sharing with a coefficient of 0.38. The results show that knowledge sharing, as a mediator, has a positive effect which leads to amplifying the effect of intellectual capital on market orientation. In this regard, there is no research that looks at all the these variables to compare those results with the results obtained in this study.

Thus, according to the results of the hypotheses testing, it is recommended that organizations’ and insurance companies’ managers, to achieve the goals of change and development, address the following actions. Among the measures that could be addressed to achieve the goals of development and the development of insurance companies are that the insurance companies being pioneers in the highly competitive market of this industry to develop the intellectual
capital of entrepreneur value among their employees. In this way, with the focus on the market orientation approach and satisfying the diverse needs of the customers, they can outstrip the competitors. In addition, managers of insurance companies must think of measures to increase the knowledge of their professional staff; share their implicit knowledge with other staff, to improve the synergy of knowledge and company performance. Also, besides using the transfer of explicit key knowledge and experience among the employees, encourage them to be creative and innovative to develop new laws and new projects, according to the needs of the society.

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