

Intellectual capital: corporate culture

Business



Intellectual capital refers to knowledge which can be exploited through money-making ventures by a company. Intellectual capital embodies both skills and knowledge developed by a company on how to make products. A corporate culture embodies the organization's core values, beliefs and behaviors based on people's interpretation of experiences, either individually or as groups. One of the ways through which corporate culture can increase a firm's market value is the generation of incremental innovation. Radical business innovation has been noted to propel many new market entrants into positions of successful market driven entities (Kumar, Scheer & Kotler, 2000).

Kumar, Scheer and Kotler studied 25 pioneering companies (such as Ikea, Tetra Pak and Body Shop) whose business success was based on radical innovation made possible by investment in intellectual by the companies. Market driven processes are extremely excellent channels through which new market entrants can transform their focus from a niche market to the mass market. They can introduce unique business systems that increase their market value without incurring heavy advertising costs. However, the ability for a company to revolutionize the industry and reap vast rewards depends on the nature of corporate culture. The corporate culture should stimulate employees to take high risks.

According to Chen, Cheng & Hwang (2005) a firm's intellectual capital has a positive impact on a firm's market value and financial performance.

Therefore, a company's corporate balance sheets can give an indication of the value that a corporate culture is adding to the company. Additionally, Chen, Cheng and Hwang found out that investors may attach different value

on the three main elements of value creation efficiency: human capital, physical capital and structural capital. However, determining the exact level of influence of corporate culture on a company's market value may not be as straightforward as it seems. One may find it difficult to attribute different elements of increase in market value to specific aspects of corporate culture, especially in newly established companies that bring new, innovative structures into the industry. This is because there are many confounding variables that need to be put into consideration.