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IMPACT OF ORGANISATION BOTTOM-LINE

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ABSTRACT

Intellectual capital can be defined as the 'economic value' of three categories of intangible assets of a company-thai includes human capital, organizational capital and social capital collectively. Strategic analysts argue that sustained advantage can occur only in the situations in which physical, human, and organizational capital varies across the firms and where some firms may be unable to obtain necessary resources that are benefiting other firms. Intellectual capital is viewed as a sub-set of intangible capital, where the term intangible relates to assets without physical existence and capital refers to assets retained by the organization to contribute to future profits.

Key Words :- Intellectual capital, intangible asset, knowledge economy

INTRODUCTION

Intellectual capital is "firm's overall or holistic capacity and capability which emerges from its creative and flexible orchestration and co-ordination of its human capital, innovativeness, competencies and capabilities, streamlined processes and expertise. Intellectual capital bundles knowledge resources like constellation of employees, users, processes and technologies and work enabling a company to make a difference to users". With the service driven companies in today's economy out pacing in numbers the manufacturing based companies, there has been a corresponding shift to include intangible assets on corporate balance sheets and to incorporate them into market capitalization or valuation and calculation. In addition, since service based companies rely more on intangible assets than on tangible assets as an indicator of their success; it is logical that these assets be counted for when reporting financial results to investors. Market leaders such as Charles Schwab in financial services, Accenture in management consulting Little Mendelson in legal service and even the Walt Disney Company are where they are because of the knowledge leveraged within each company rather than because of there tangible assets.

An organization's level of human capital, social capital and organizational capital are positively related to organizational performance. Intellectual capital can be defined as the 'economic value' of three categories of intangible assets of a com-pany-that includes human capital, organizational capital and social capital collectively. Sustained advantage can occur only in the situations in which physical, human, and organizational capital varies across the firms and where some firms may be unable to obtain necessary resources that are benefiting other firms. Intellectual capital is viewed as a sub-set of intangible y capital, where the term intangible relates to assets without physical existence and capital refers to assets retained by the organization to contribute to future profits. Intangible resources are more likely to produce a competitive advantage because they often are rare and socially complex there by making them difficult to imitate. Intellectual capital is "firm's overall or holistic capacity and capability which emerges from its creative and flexible orchestration and co-ordination of its human capital, innovativeness, competencies and capabilities, streamlined processes and expertise. Intellectual capital bundles knowledge resources like constellation of employees, users, processes and technologies and work enabling a company to make a difference to users. A company's intangible assets are increasingly crucial in today's knowledge economy. In J fact, intangible assets are more important to a company's survival than are its raw materials. Just as rivers, ports and railroads were the infrastructure of the industrial revolution; talent and knowledge constitute the infrastructure for growth of economy to-day.

Today, the intangible assets move into the driver's seat in successful corporations. Forward looking companies are recognizing the need to measure and manage these assets as carefully as they do their tangible ones. There are several reasons for this change. First, these companies recognize that human capital drive's innovation. It is people not building or machines create new product and service ideas, improve processes, and help companies shift direction in order to create new sources of value. Whether it is a factory worker, a computer programmer or an attorney, the human talent is responsible for inspiring changes. To gain competitive advantage companies need highly skilled, experienced and motivated people to meet global need. A company's intangible assets are increasingly crucial in today's knowledge economy. In fact, intangible assets are more important to a company's sundval than are its raw materials. Just as rivers, ports and railroads were the infrastructure of the industrial revolution; talent and knowledge constitute the infrastructure for growth of economy to-day.

Objective and Methodology

The study is intended to open few windows towards intellectual capital management and measurement. Since the accumulation of intellectual capital is outpac-ing the accumulation of physical assets as the key driver of competitiveness in the so called new economy the study is aimed at measuring the extent to which intellectual capital enhances organization performance and adds value to the bottom line of the organization and the hypothesis for the study is described as follows :

HYPOTHESIS 1: An organization's level of human capital is positively related to organizational performance.

HYPOTHESIS 2: An organization's level of social capital is positively related to organizational performance.

HYPOTHESIS 3: An organization's level of organizational capital is positively related to organizational performance.

The study is carried out primarily on the basis of field survey. A broad group of IT organizations are included in the study deliberately. It is because, though intellectual capitals constitute the major asset of the industry and simultaneously the sector is facing enormous challenges maintaining their human resource pool by attracting the new prospects and retaining the existing one. It is the greatest challenge the IT industry is facing all over the world. So the study is confined to Indian IT sector only. Since the population for the study is heterogeneous, a stratified random technique has been adopted to select the respondents for the study. 844 respondents were selected randomly from lower middle as well as upper levels management of the Indian IT organization out of which 466 responded.

Questionnaire -1 consisted 15 items to measure intellectual capital of the concerned organization in three different dimensions such as human capital, social capital and organizational capital.

Questionnaire-2 designed to study organizational performance and value of the organization consisting of 26 items in four different dimensions like customer service, quality productivity, and innovativeness.

The data collected from the respondents are presented through tables to study the relationship among variables. A linear regression model was drawn to explain the relationship between organization performance and intellectual capital.

Bottom-line impact of intellectual capital.

Bottom – line impact of intellectual capital

Intellectual capital forms the root of a corporation and of a Nation - that supplies then our ishment for future strength and growth (ISA, 2001). It includes all factors of production, invisible on the traditional balance sheet, but decisive of a company's long term profitability. It is a contemporary topic in the business world. Content and message of intellectual capital has turned traditional accounting upside down. Traditional accounting methods look backwards into the past and measure physical asset only. Intellectual capital includes assets such as brands, customer relationships, patents, trademarks and of course knowledge. The growing discrepancy between market value and book value of a corporation is largely attributed to intellectual capital, the intangibles of business that underpin future growth.

The importance of people has become increasingly important. Money talks, but it does not think. Machines perform, often better than human beings can, but they do not invent. Thinking and invention is the assets upon which knowledge work and knowledge companies depend (Stewart, 1997). There is no longer just a physical employee rather there is knowledge employee. The work is less mechanics and more thinking oriented. As Quinn says, "ideas and intellect, not physical assets built great companies" (Quinn, 1992).

If we are to designate the past as "the old economy" and the present and future as the "new economy", the old economy stands for material and the new economy stands for 'knowledge and creativity'. Intellectual capital are receiving increased interest both from academic community and companies because of the influence of innovation and learning on the achievement of competitive advantage for the firm in the new economy. The rise of the "new economy" one primarily driven by information and knowledge, international competitiveness and changing patterns of interpersonal activities is attributed to the increased prominence of intellectual capital management as a management and research topic.

We are living in a knowledge boom, where the common paradigm is that people are the most important asset for the company. As a result, efforts have been focused on hiring and retaining people with best intellectual abilities to do the job. Charismatic people always contribute with new ideas, innovations to improve business process and procedure. Nothing better exemplifies the revolutionary transformation from industrial age thinking to information age thinking than the new management philosophy of how employees contribute to the organization (Kaplan and Norton, 1996). It's referred by Kerry Bunker that there should be a move "to develop more healthy learning environments and creating more effective learning individuals." If employers can truly create environment where bright, creative, secure people can learn on their own and land on their feet no matter what happens to them, Bunker says, then "people would feel a lot less threatened and a lot more resilient. But that doesn't happen by magic." Intellectual capital is rapidly becoming a very important measure of the company's future performance. It is therefore vital that indicators and measures are developed to allow managers to handle this variable better. It tries to assess the intangible difference between market value and book value of publicly listed companies. It is a very new topic and therefore theories behind it are very recent.

Management theory has gradually accepted that 'hidden assets', which includes both knowledge of employees, as well as customer and supplier relations, brand loyalty, market position and knowledge that increasingly play a major role for survival of more companies. Intellectual capital is becoming the most valuable asset of a company and can be its sharpest competitive weapon. The challenge is "to find, what you have and use it", wrote Thomas Stewart (1991).

According to Thomas Stewart, in his article 'brain power' (June 1991), intellectual capital is the sum of everything everybody in your company knows that gives you a competitive edge in the market place. Stewart makes intellectual capital as attributes of an organization, and describes intellectual capital as the dynamics effect of individual's intellect. These assets are hidden because they do not show up on the balance sheet of companies. At the same time, as business journals and magazines demonstrate daily, many senior executives realise that successful companies will be those who do the best job of capturing, nurturing and leveraging employees knowledge. Skandia, a Swedish financial group has pioneered intellectual capital reporting. It has been rightly said, "Intellectual capital is the possession of the knowledge, applied experience, organizational technology, customer relationship and professional skills that provide Skandia with a competitive edge in the market".

It is rightly said by (Drucker ; 1993, Savage; 1996), "we are currently transitioning from industrial era to a knowledge era, where the traditional factors of production of land, labour and capital are being replaced by the creation of value through knowledge". It is individuals, not the company, that own and control the chief source of competitive advantage that is the knowledge of organizational members. As Peter Ducker has said, in the knowledge era, the company needs to serve and nurture the "knowledge worker" hut at the same time, the knowledge worker needs the value creative processes and infrastructures of the organization, as well as conversation with other knowledge workers to unleash and leverage their knowledge. Both Skandia and Ernst & Young emphasises the static properties of knowledge that is inventions, ideas, computer programs, patents etc as intellectual capital.

Skandia has taken the approach of telling the world about its internal value driver to show the wealth of its intellectual capital and how it drives organization's per-formance. That's why concepts like hidden assets, intangible resources, or most recently, "intellectual capital" often says more about the future earning capabilities of a company than any of the conventional performance measures we currently use. If the top - fifty programmers suddenly left Microsoft, the share price of the company is likely to drop drastically. The absurdity is because of intellectual bankruptcy'. As a result of which, the short term profit may very well rise because of cost reduction but in long run, it will have negative impact on its financial measures. So the need of the hour is to better visualize and even measure the growth or decline of intellectual capital (intellectual performance)

Edit Penrose in 1950s, has suggested that competitive advantage did not arise only via various product market combinations in a given industry, on the contrary, it is mostly due to difference in organizational resources of different kinds. It is because resources can not always be transferred or imitated. She has pointed out the importance of experience and knowledge accumulated within the firm making the firm different from others. We must look inside the firm to find the real sources for sustainable differences in the resources. Laurence Prusak, Ernst and Young (Klein and Prusak, 1994) characterises intel-lectual capital as the 'intellectual material that has been formalised, captured and leveraged to produce high valued asset'.

Literature on intellectual capital suggests that, competitive advantage flows from the creation, ownership, protection, storage and use of certain knowledge based organizational resources. Superior organizational performance depends on firm's ability to be good at innovation, learning, protecting, deploying, amplifying and measuring these strategic intangible resources.

Building on the balance scorecard approach, Skandia, pioneered in developing and implementing a systematic way of visualizing and measuring intellectual capital. It has come to view, intellectual capital as both what is in the heads of the employees (human capital), and what is left in the organization when people go home in the evening (structural capital). The initiative of Skandia has been followed by other companies including Dow - chemicals, CIBC, Hewlett - Packard, and Canon.

Firms have increasingly recognised the potential for their people to be a source of competitive advantage (Pfeffer, 1994). Organizations accredit their "capability differential" essentially to their intangible resources. Varied literatures and perspectives (Human Capital Theory, Organization Learning, Information processing Theory, and Resource Based Theory) suggest intellectual capital can create value and enhance organizational performance by lowering costs, increasing customer benefits, or doing some combination of the two.

Discussion

The present study found that each of the three types of intellectual capital to be associated with increased organizational performance. Human capital exhibited strong relationship with performance lending support to the widespread anecdotal evidence suggesting that talented people are critical ingredient in developing and delivering superior products and services that generate high consumer demand. Scholars and practitioners have argued for quite some time that many of the fastest growing companies over the past several decades (Southwest Airlines, Tyson Foods, Wal-Mart) achieved their phenomenal growth and competitive advantage through their talented people (Pfeffer, 1994).

Social capital is regarded as the strongest predicator of performance (Adler and Kwon, 2002; Kostova and Roth. 2003). Such a strong linkage between social capital supports that knowledge tied up in relationship among employees, customers, suppliers, alliance partners, arid the like tends to lead to process and product innovations, better problem solving which tends to increase production and service delivery efficiencies as well as customer satisfaction. Social capital also enable organizations to utilise their knowledge base by leveraging it across the entire organization and thereby reduce redundancies, effort duplication and ultimately organizational costs but the study found social capital is poorly related with all the components of intellectual capital. So collaborative management and consensual decision making is in preaching only. It is yet to be recognized and practiced.

The relationship between organizational capital and performance become statistically significant in the study. Since individuals form the basis of organizational level of learning and knowledge accumulation (Organizational Capital) and institutionalization of knowledge and knowledge sharing is highly encouraged in Indian IT sector, there is strong co-relation between organizational capitals with its bottom line.

Analysis and result

The data for the study were collected from 466 respondents from various IT organizations. The data set covers various aspects of intellectual capital and organization performance.

As per the table-1 demographic profiles of the respondents consist of small, medium, and large organization, where respondents from large organization constitute almost half of the total population in the study. Female participants in the study was one third where as male participants consisted of two third of the total population. Age wise distribution depicts 26-34 age group dominates in the study consisting of more than 50% of the total sample. The respondents having 5-10 years of experience at current organization is very well present in the study consisting of 51% of the total sample.

As defined in table-2 the linear regression equation customer satisfaction with human capital and social capital depicts that the model is well fit with adjusted R^2 all close to The model does not explain the fit between customer satisfaction and social capital of the organization with R^2 value 0.373. All the parameters of intellectual capital in combination drives customer satisfaction component of organization performance with R^2 value 0.785

corroborating all the hypotheses under study i. e, intellectual capital drives organizational performance.

The regression equation of the service quality component with human capital, and organizational capital shows both the component of intellectual capital influences significantly product or service quality with R^2 value close to 0.7. The effect social capital on service quality is not significant with R^2 value 0.279 but intellectual capital as a whole has strong influence on service quality with R^2 value 0.709.

The regression equation of productivity component with human capital, and organizational capital clearly depict the model is poorly fit with R^2 less than 0.45. Social capital is weak in explaining the relationship with R^2 value O.12.

The regression equation of organizational innovation with human capital, and organizational capital clearly depict the model is well fit with R^2 above 0.6. Only social capital is weakly explaining the model with R^2 value 0.272 but intellectual capital as a whole drives innovation with R^2 value 0.727.

Conclusion

We are living in a knowledge economy. "Knowledge driven economy is one which the generation and exploitation of knowledge play the predominant part in creation of wealth" (United kingdom department of trade and industry 1998). People are an organization’s greatest asset, providing the intellectual capital that drives differentiation and value-added services. Intellectual capital is considered as the number one business driver in the organization since the currency of the knowledge economy is intellectual capital. So there is a growing need for reporting on intangibles by intellectual capital reports, which complement traditional financial statements.

Talented people are critical ingredient in developing and delivering superior products and services that generate high consumer demand. Knowledge tied up in relationships among employees, customers, suppliers, alliance partners, and the like tends to lead to process and product innovations, better problem solving and so on increasing production and service delivery efficiencies as well as customer satisfaction. Codified and documented knowledge helps in institutionalization of knowledge and knowledge sharing for further analysis by knowledge workers.

Therefore intellectual capital does play significant role in determining organizational performance, we need to better understand how to build, manage and leverage it. Transparency through intellectual capital reporting is not only demanded by capital markets but also by other firm stakeholders such as employees, customers, suppliers and in general the society .In conclusion it can be stated that intellectual capital reporting is a highly efficient communication device and all the recent hype surrounding intellectual capital appears to be warranted. All the business leaders, researchers; academicians should be appreciative of the power of intellectual capital as an organization performance driver. The study of intellectual capital stocks and its exponential growth due to organizational learning producer tremendous energy, which can take companies far beyond their current vision.

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