Chapter 14
Organizational Antecedents of Intellectual Capital

Alton Y. K. Chua
Nanyang Technological University, Singapore

ABSTRACT
The objective of this chapter is to develop a framework that depicts the antecedents of intellectual capital in an organization. In gist, the framework specifies three dimensions of intellectual capital, namely, human capital, structural capital and customer capital. Organizational conditions such as opportunities, values, motivation and capability influence human capital; Organizational conditions such as the infrastructure, existing knowledge and the knowledge sharing process influence structural capital; Organizational conditions such as products and services, relationships and brand value influence customer capital; and organizational conditions such as culture and leadership influence all three dimensions of intellectual capital. In addition, individual dimension of intellectual capital mutually influences each other, and in sum, leads to positive organizational outcomes such as branding, reputation, competitiveness and sustainability.

INTRODUCTION
The growing discrepancy between the market value and book value of a corporation is largely attributed to its intellectual capital – the intangible part of the business that underpins future growth. Encompassing assets such as brands, customer relationships, patents, trademarks and knowledge, intellectual capital provides a vital resource for developing innovations in organizations. For example, at Sumitomo Electric Industries (SEI), intellectual capital is consciously managed to drive innovations in the corporation’s strategy and enhance its competitiveness (Nakahara, 2001).

Creating corporate value and wealth depends not only on leveraging tangible assets, but also liquidation assets such as financial and physical capital, as well as organizational capital that includes human and other relatively hidden assets (Barlett and Ghoshal, 1995). For example, the
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market-to-book value ratios of Microsoft and IBM were 91.93 and 4.25 respectively in 1996 (Stewart, 1997). In other words, the market recognized a far greater element of intangible value in Microsoft than in IBM. The success of twenty-first century business entities is increasingly dependent on their intellectual capital (James and Maria, 2001) but many organizations appear not to be equipped in managing this aspect efficiently. This inadequacy eventually affects the organization’s profitability and stability. Given that intellectual capital holds a unique value proposition on the stakeholders of any organization, it is important to understand the organizational conditions that influence intellectual capital.

The objective of this chapter is to develop a framework that depicts the antecedents of intellectual capital in an organization.

BACKGROUND

The key contributing factor towards value creation of an organization is not attributed merely to traditional assets found on its balance sheet but intangible assets such as employees’ competencies and customers’ relationship. Increasingly, these assets, or what is commonly known as intellectual capital, are recognized for their role in building an organization’s innovation capabilities and sustainability (Subramaniam & Yondit, 2005). Intellectual capital is the intellectual material — knowledge, information, intellectual property, experience — that can be put to use to create wealth (Stewart, 1997). An alternative view of intellectual capital in the business context is the difference between the book value of the company and the amount of money someone is prepared to pay for it (Lev, 2001). In the social context, intellectual capital refers to the knowledge and knowing capacity of a social collectivity (Nahapiet and Ghoshal, 1998).

While different conceptions of intellectual capital have been proposed, they appear largely similar. For example, intellectual capital has been classified into human, organizational and social capital (Subramaniam and Yondit, 2005). It has also been teased into various constituents, such as the human, organizational and customer dimensions (Sveiby, 1997; Edvinsson and Malone, 1997) and the human, structural and relational dimensions (Canibano et al., 2002). The common underlying theme in these conceptions of intellectual capital points to three essential elements, namely, human capital, structural capital and customer capital.

Habersam and Piber (2003) defines human capital as individual aspects like education, personal professional experience, further personal training, and the personal ability to put this knowledge into practice. Human capital is seen as the collective tacit and explicit knowledge held within the minds of individual employees. Structural capital can be seen as the organizational routines and systems that encapsulate the knowledge generated and possessed by the company. By structuring workflow and processes into routines, organizational knowledge would not be adversely affected should an employee leave the company. Customer capital is defined as the relationships with customers (or suppliers) and knowledge of markets, distribution channels, competitors and trademarks (Olsen, et al., 1997).

The mutually-reinforcing relationship between human, structural and customer capital was one of the key findings in Habersam and Piber (2003). Strong evidence also supports the idea of a “connection” between different types of intellectual capital, as proposed by Roberts (2000). These three assets complement and strengthen one another to create the value in an organization.

ORGANIZATIONAL CONDITIONS AFFECTING INTELLECTUAL CAPITAL

While not every organization has the capacity to create and manage intellectual capital to its