Exploring the Relationship between Intellectual Capital, Company Performance and Market Value

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Abstract

This study provides significant insights into the relationship between Intellectual Capital (IC) and the financial performance of 50 companies listed on the Johannesburg Securities Exchange (JSE) from 2016 to 2020. The researchers employed Pulic's (2000) VAICTM approach to measure IC, based the company's performance on its Return on Assets (ROA) and Asset Turnover (ATO) and market perception on Tobin's Q (TQ). A two-way Fixed Effect Panel data regression was applied to understand the relationship between the data. The findings underscore the dominance of physical and financial capital (Capital Employed Efficiency) in shaping market participants' perception of company value. In contrast, Human Capital Efficiency and Structural Capital Efficiency have a relatively minor impact on market participants' perception of company value. Surprisingly, the analysis did not find a significant relationship between companies' investment in IC and its performance (ROA and ATO). These findings challenge the conclusions of a previous study by Firer & Williams (2003), which found positive relationships between Human Capital Efficiency and TQ and negative relationships between Structural Capital Efficiency and TQ. The researchers propose that these differences may be attributed to changes in the market environment since the Global Financial Crisis of 2008. This study significantly enriches the limited literature on the relationship between IC, company performance, and market value, particularly in an emerging market like South Africa.

Keywords: Capital Employed, Human Capital, South Africa, Structural Capital, Value-added intellectual coefficient