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Strategic fit: Key to growing enterprise value through organizational capital

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Abstract Organizational capital is an intangible asset that is a continuous creator of value through generating above-normal revenue growth, innovation, operational excellence, and stakeholder relationships. The elusive nature of organizational capital stems from competing perspectives on how it can be defined and managed. This article presents a comprehensive model for understanding the critical process, components, and necessary linkages that result in increased enterprise value through the creation of organizational capital. Attention is given to the factors that influence organizational capital (fit among leadership, strategy, and organization design), its influence on human capital, and, ultimately, the impact on operational excellence, stakeholder capital, and the essential levels of innovation that drive capital efficient growth. Guidance is provided for the CEO, CFO, and CHRO wishing to harness the power of organizational capital and increase both current and future value of the firm.

1. Significance of organizational capital

On October 14, 2015, Toyota announced revolutionary strategic plans, projecting 35 years into the future, that will transform not only the automobile industry but global society. The vision is to create a fleet of mostly zero emission vehicles and enrich the lives of global communities by helping to address the climate change goals agreed to by 180 countries (Toyota, 2015). This level of innovation and long-term strategic ambition is astounding, signaling significant achievements in Toyota's 'Back to Basics' movement launched after experiencing millions of dollars in operating loss due to product recalls from 2009—2010. By the end of 2014, Toyota was generating twice the operating profit margin of General Motors or Ford, and three times the net income/full time employee (FTE) as an indicator of organizational productivity. On top of that, Toyota had three

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times higher expectation for innovation and future growth reflected in its enterprise valuation. The company has crafted and is executing a revolutionary strategic plan that has been a factor in reclaiming Toyota's financial stability, and may very well usher in a new era set to disrupt the automobile industry through its aggressive innovations. To achieve this ambitious goal, Toyota's leadership will have to continue to harness the power of a very elusive, intangible asset: organizational capital.

Organizational capital (OC) is defined as the extraordinary value created and realized through unique organizational processes, systems, and management structures. It is considered one of four intangible assets (the others include: discovery/learning, customer, and human resource intangibles) that drive the value and growth of companies (Lev, Radhakrishnan, & Zhang, 2009). OC is understood to be a continuous creator of value for organizations and their stakeholders: firms deemed as possessing OC earned 4.6% higher returns (Eisfeldt & Papanikolaou, 2013), associated with five years of future operating and stock return (Lev et al., 2009), and performed three to five times better than competitors in the same industry sector (IRRCi, 2014). While research connects OC to increased profits, many firms are unable to create or capture OC. Consider Kodak (Mui, 2012) and Yahoo (Myatt, 2015) as examples of companies who have been unable to create long-term value through exhibiting the requisite levels of innovation; this has led to declining revenues and return on invested capital (ROIC) performance.

Difficulty in creating or capturing the potential value of OC is a result of the under-conceptualization in how it is manifested and managed effectively. Hence, the purpose of this article is to present a comprehensive model for conceptualizing OC and its impact on firm performance, growth, innovation, and long-term value creation. Attention is given to the factors of OC that influence key capital outcomes. These capital outcomes impact enterprise growth and value, assist executive leadership in growing OC, impact financial performance, and increase enterprise value. By understanding the complex chain of events and interactions among variables and resources in the development and realization of OC, strategic leaders will be able to cultivate and manage these factors to provide sustainable growth and value creation for both the enterprise and stakeholders.

2. The constitution of organizational capital

Researchers investigating OC, with their diverse perspectives, are behind the conceptualization and definition of the term. All agree it is a key intangible asset, and one of the most elusive at that. The following elements emerge as critical in understanding the definition and conceptualization of OC:

- Intangible asset (Lev et al., 2009);
- Practices and processes for acquiring and retaining talent (Eisfeldt & Papanikolaou, 2013);
- Culture, leadership, and alignment of people to strategic goals (Kaplan & Norton, 2004);
- Organizational design (Child, 2015); and
- Role of leadership capability in transforming resources into a competitive advantage (Sirmon, Gove, & Hitt, 2008).

These critical elements, coupled with *resource-based-therapy* (RBT)—the process for understanding how firms achieve and sustain a competitive advantage through resources and capabilities—result in an expanded definition and a comprehensive model for building OC. We define OC as the extraordinary value created and realized when the transformation factors of value creation (i.e., leadership, strategy, and organizational design) create a synergistic sequencing of events that allows for optimal resource orchestration, enabling the firm to fulfill its strategic mission and realize both enterprise and stakeholder value. Our conceptual model, shown in Figure 1 and detailed below, illustrates the process for developing and realizing OC.

3. Growing organizational capital: The model

Figure 1 illustrates the flow of resources (tangible and intangible) as input factors of production that are transformed through the factors of value creation—leadership, strategy, and organizational design—into tangible and intangible (i.e., human capital) assets. A key to growing enterprise value through OC is managerial capability, a key element of capital allocation and resource orchestration (an extension of RBT). Management's ability to conceptualize, execute value creation strategies, manage resources, and synchronize practices across processes results in higher levels of firm performance (Holcomb, Homes, & Connelly, 2009). As such, firm leadership determines the strategy and must create an organization design that aligns with the strategic position. The better the 'fit' between strategy and