

# INTELLECTUAL CAPITAL IN FUNCTION OF CORPORATE IMAGE IMPROVEMENT IN MUNICIPAL UTILITY COMPANIES

## INTELEKTUALNI KAPITAL U FUNKCIJI UNAPREĐENJA KORPORATIVNOG IMIDŽA KOMUNALNIH DRUŠTAVA

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**Abstract:** *The basic objective of this scientific essay is to investigate the role of intellectual capital in building the corporate image of municipal utility companies, determine which are the key elements of intellectual capital essential for corporate image improvement in municipal utility companies, analyse intellectual capital and corporate image of one municipal utility company in city of Rijeka, investigate the correlation between intellectual capital and corporate image and provide a new model of managing intellectual capital in order to improve the corporate image of that municipal utility company.*

**Key words:** *intellectual capital, corporate image, municipal utility companies*

**Sažetak:** *Temeljna svrha ove znanstvene rasprave jest istražiti ulogu intelektualnog kapitala u izgradnji korporativnog imidža gradskih komunalnih društava, utvrditi ključne elemente intelektualnog kapitala bitne za oblikovanje korporativnog imidža gradskih komunalnih društava, analizirati intelektualni kapital i korporativni imidž jednog gradskog komunalnog poduzeća u gradu Rijeci, istražiti kakav je međuodnos intelektualnog kapitala i korporativnog imidža te dati prijedlog modela upravljanja intelektualnim kapitalom u funkciji unapređenja imidža tog komunalnog društva.*

**Ključne riječi:** *intelektualni kapital, korporativni imidž, komunalna društva*



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## **1. Introduction**

Utility companies have an irreplaceable role in ensuring living conditions of population and efficiency increase of utility services is one of the prerequisites for increasing the efficiency of entire economy. Therefore, they have to behave as if they were entrepreneurs themselves. Nowadays, towns among other things compete with the standard of providing utility services to their citizens. The image of utility companies has an extremely large importance in the formation of conscience of the citizens about the quality of life in a specific town. Therefore, towns among other things compete with the standard of providing utility services to their citizens. [6]. In this regard, the utility companies must make greater efforts in corporate image improvement [5]. Extremely important role in shaping and improving the corporate image has the intellectual capital of utility company. The image of utility companies in the Republic of Croatia is not impressive. Hardly any utility company monitors its image reputation and inputs efforts on its improvement, and even rarer are utility companies that follow the movement of its intellectual capital and its impact on corporate image. In this regard, the dissatisfaction of citizens' quality of life in cities is growing. Consequently, the task of this paper is to explore the value of corporate image and intellectual capital of one utility company in the city of Rijeka, their mutual relationship, the value of certain elements of intellectual capital and to form a model of managing intellectual capital in order to improve the image of that utility company. The objective of this paper is to encourage utility companies in the city of Rijeka on continuous monitoring of image and intellectual capital, and shaping its own image strategy model based on intellectual capital, which would enhance and strengthen corporate image. To achieve this it was used more scientific methods, including: method of analysis and synthesis, comparative methods and surveys.

## **2. Corporate image of utility companies**

Utility companies need to ensure continuity and quality of utility services with maximum respect for environmental and public interest of local communities in which they operate, along with ongoing efforts to increase the satisfaction of their employees and all users of its services. In this regard, the utility companies must make greater efforts in its corporate image improvement [5]. Image is a set of beliefs, ideas and impressions a person has in relation to a specific object. People's opinions and activities related to a specific object are mostly conditioned by the image of that object [4]. Corporate image is the reputation of the firm with the various audiences that are important to it. Corporate image is a means for the public to know the company, to see what and how it works, what it aims at, which are its products and services, its economic indices and which its reputation is [1]. Image is the consequence of the felt not of the real quality of the company. The wrong or bad perception that is once acquired is changed with difficulty. The perception created does not always need to reflect the real profile of the company [3]. The creation of corporate image is a demanding, long-term and expensive operation which includes

numerous activities, but the benefit of the investment is large. Corporate image creates satisfied employees and satisfied customers. Therefore utility companies must manage their corporate image. In the process of managing corporate image, the fundamental variables are: corporate identity, corporate communication, corporate image, and feedback. Corporate identity is the reality of the corporation—the unique, individual personality of the company that differentiates it from other companies. Corporate communication is the aggregate of sources, messages, and media by which the corporation conveys its uniqueness or brand to its various audiences. Corporate image is in the eye of the beholder—the impression of the overall corporation held by its several audiences. The objective in managing corporate image is to communicate the company's identity to those audiences or constituencies that are important to the firm, in such a way that they develop and maintain a favorable view of the company [6].

### 3. The role of intellectual capital in shaping the image of utility companies

Intellectual capital is intangible value, arising from the applied knowledge in the organization, processes and management, capacity and efficiency of employees and customer service. It is normally classified as follows [7]:

- Human capital - it includes values such as: skills, know how, competencies (professional and social), motivation, relationships (which is the ultimate goal of creating value) etc.
- Structural capital - the supportive infrastructure, processes and databases of the organisation that enable human capital to function ( hardware, software, processes, patents, and trademarks, corporate image, organization, information system, process and innovation capital, and proprietary databases).
- Relational capital - consists of more items such as customer interactions and relationships, Public relations etc.

So, the intellectual capital of the company is located in people, systems and relationships.

Managing intellectual capital enables the optimization of potentials, increases employee satisfaction, and thus the efficiency and added value, improves quality of supply and consumer satisfaction, and improves corporate image. The relationship between intellectual capital and corporate image can be seen in Figure 1.

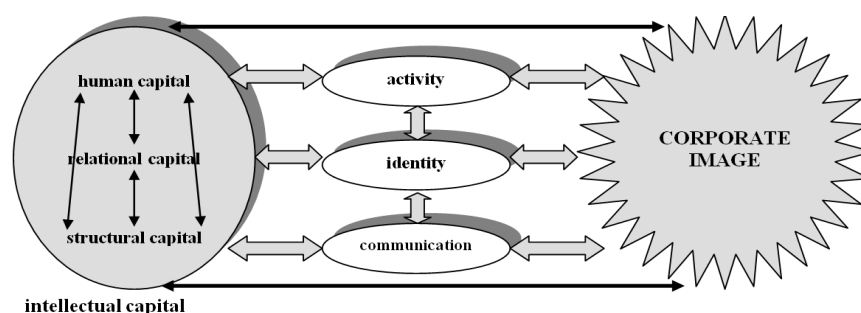


Figure 1. Relations between intellectual capital and corporate image, Source: author

Thus, intellectual capital affects what company is doing, it shapes its identity and mode of communication and thus forms a corporate image, and corporate image affects the identity formation and communication. It also influences on what the company will do in the future and affects the value of company's intellectual capital. Thus, the company without quality and efficiency of intellectual capital cannot build a strong corporate image, and without a strong image there is no increase of company's intellectual capital value. The relationship between intellectual capital and corporate image is proven by the correlation analysis on the example of service industry (Pearson's correlation coefficient  $r=0,764$ ). In this regard, any utility company that wants to improve its image must incorporate the intellectual capital management in its business practices.

#### 4. The role of intellectual capital in shaping the image of utility company KD Autotrolej Rijeka

In order to form a model of managing intellectual capital to improve the image of KD Autotrolej, the value research of its current image and intellectual capital as well as their interrelationship was carried out on a sample of 420 respondents (face-to-face surveys). KD Autotrolej Rijeka is a company for organized transport of passengers in urban and suburban area that was founded in 1899. City of Rijeka is the majority owner of KD Autotrolej with a share of 83%.

How the respondents evaluated corporate image of KD Autotrolej can be seen on Figure 2.

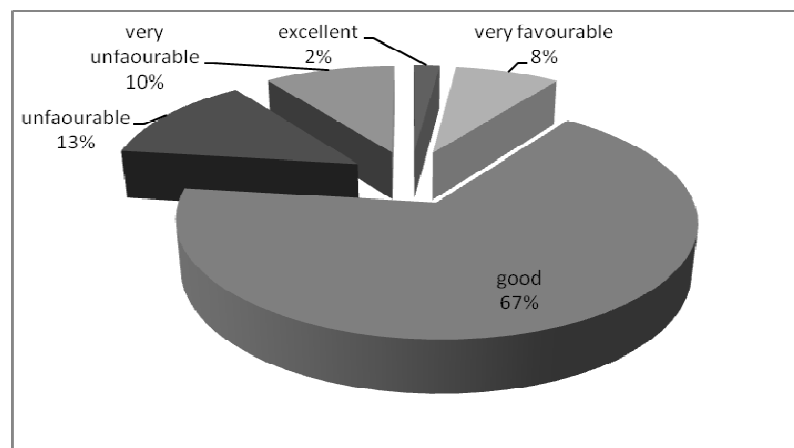


Figure 2. General image of KD Autotrolej, Source: research results

So, in the opinion of the majority of respondents (67%) KD Autotrolej has a mediocre image, average (mean) of external image was 2,89. Only 2% of respondents rated the image of KD Autotrolej excellent, and it is considered very favourable 8% of respondents. However, even 13% of respondents considered the image that company to be unfavorable, and 10% very unfavorable.

The shape of intellectual capital in KD Autotrolej can be seen on Figure 3.

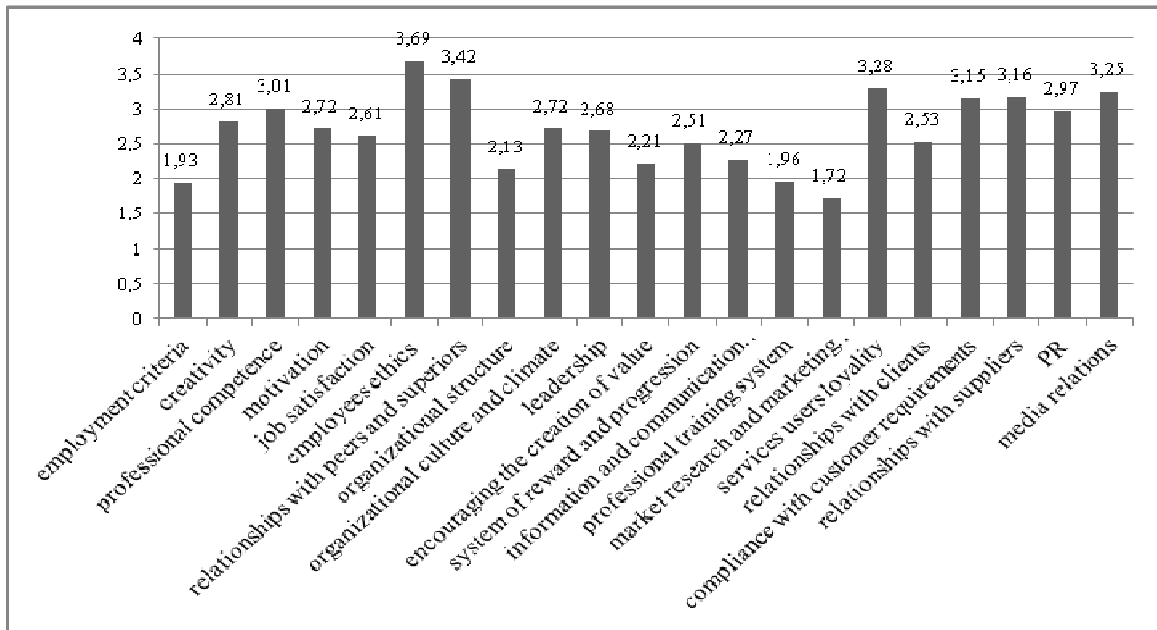


Figure 3. Intellectual Capital Rating of KD Autotrolej, Source: research results

The average score of intellectual capital is 2,71. Human capital is best evaluated (average score 2,88), slightly less relational capital (average score 2,86), and structural capital was rated the weakest (average score 2,35). Generally, the weakest links of the intellectual capital are: market research and market communication, criteria for employment, professional training system, organizational structure and encouraging the creation of value. Correlation analysis showed a statistically significant and medium correlation between intellectual capital and general image of KD Autotrolej Rijeka (Pearson's correlation coefficient  $r=0,758$ ). Based on the research results, the ICCI (Intellectual Capital-Based Corporate Image) model of managing intellectual capital in order to improve the image of KD Autotrolej Rijeka is proposed, that can be seen on Figure 4.

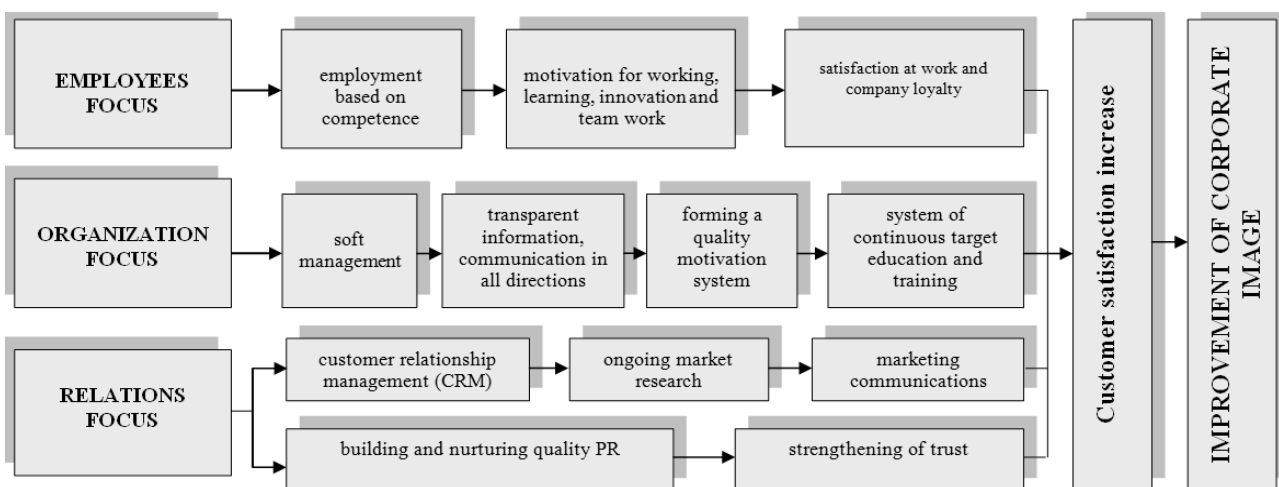


Figure 4: Model of corporate image improvement based on intellectual capital (ICCI), Source: author

Therefore, to improve the image of KD Autotrolej Rijeka it is necessary to implement the model of managing intellectual capital that is focused on employees, organization and relations. In terms of managing the human capital it is necessary to: 1) employment by the criteria of professional, personal and social competence, 2) motivate employees to work, learning, innovation and team work, and 3) continued examination of employee satisfaction at work and increase work satisfaction and company loyalty. Management of structural capital requires: 1) the implementation of soft management, 2) a system of transparent information and communication in all directions, 3) forming a quality motivation system of employees, and 4) forming a quality system of continuous target education and training of employees. Critical points of relational capital KD Autotrolej are relationships with customers, market research and market communications, as well as public relations. In this connection it is necessary to: 1) implement the system of customer relationship management, 2) continuously research the market 3) marketing communication, 4) build and nurture quality relationships with the public, and 5) strengthen the trust of all segments of the public. By applying the proposed model of managing intellectual capital, KD Autotrolej would increase customer satisfaction and improve its corporate image.

## **5. Conclusion**

Utility companies have an irreplaceable role in ensuring living conditions of population and efficiency increase of utility services is one of the prerequisites for increasing the efficiency of entire economy. Therefore, they have to behave as if they were entrepreneurs themselves. Nowadays the image of utility companies has an extremely large importance in the formation of conscience of the citizens about the quality of life in a specific town. Therefore the utility companies must make greater efforts in corporate image improvement. Corporate image is the reputation of the firm with the various audiences that are important to it. Corporate image creates satisfied employees and satisfied customers. Therefore utility companies must manage their corporate image. In the process of managing corporate image, the fundamental variables are: corporate identity, corporate communication, corporate image, and feedback. Intellectual capital is intangible value of company. The fundamental elements of intellectual capital are: human capital, structural capital and relational capital. Intellectual capital affects what company is doing, it shapes its identity and mode of communication and thus forms a corporate image. In this regard, any utility company that wants to improve its image must incorporate the intellectual capital management in its business practices. In the opinion of the majority of respondents (67%) KD Autotrolej has a mediocre image, average (mean) of external image was 2,89. However, even 13% of respondents considered the image that company to be unfavorable, and 10% very unfavorable. The average score of intellectual capital is 2,71. Human capital is best evaluated (average score 2,88), slightly less relational capital (average score 2,86), and structural capital was rated the weakest (average score 2,35). Generally, the weakest links of the intellectual capital are: market research and market communication, criteria for employment, professional training

system, organizational structure and encouraging the creation of value. Correlation analysis showed a statistically significant and medium correlation between intellectual capital and general image of KD Autotrolej Rijeka ( $r=0,758$ ).

Based on the research results, the ICCI (Intellectual Capital-Based Corporate Image) model of managing intellectual capital in order to improve the image of KD Autotrolej Rijeka is proposed. By applying the proposed model of managing intellectual capital, KD Autotrolej would increase customer satisfaction and improve its corporate image.

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