VALORIZATION OF THE INTELLECTUAL CAPITAL: MAKING THE INVISIBLE, VISIBLE

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Abstract:

Intangible elements such as knowledge, image, relationships, or organizational culture have always been factors in the economy. Today these intangible elements have moved from the periphery to the core of our modern economy. Many researchers consider intangible assets to be the main resources of the organizations added value.

Numerous studies have revealed that the true competitive advantage of a firm is given by those resources that are difficult to substitute or imitated by competitors. Intangible resources such as the high level of professional skills, organizational culture, network of experts and others, are obviously difficult to imitate or replace, and therefore have a strategic importance for the future company he owns. Measuring intangible performance of a company is of strategic importance to predict with great accuracy the future value of the company, and thus its level of competitiveness in the knowledge economy.

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1. Introduction

Traditional factors of production (material resources, labour, capital) have gradually diminished in importance. At the same time intangibles assets such as knowledge, information, and creativity have increased importance. While land, capital, and labour are subject to decreasing returns, knowledge and information induce increasing returns

The real source of wealth of nations and businesses must be sought in people, in their knowledge and their abilities, in internal processes, and businesses reputation." (Iancu, A., 2008, pag. 254-262)

Intellectual capital comprises all intangible resources available to the company, which give the company an edge, and which in combination with other advantages can lead to possible future benefits.

Intangible values have become increasingly important for the managers of the new economy. Intangible assets have gradually become the most important resources of competitive advantage.

In Romania, intellectual capital is not sufficiently exploited due to lack of adequate markets for knowledge. In Romania this problem is more the concern of academics, universities in general, the Chamber of Commerce and Industry of Romania and less of businesses and legislators (Popescu, R, 2008, pag. 87).

The success of the countries in the new economy will become increasingly determined by how they manage to spur technological innovation, entrepreneurial relations, education, specialized skills and transition to all organizations, public and private, from the bureaucratic and highly hierarchical style to networks of learning (Popescu, R, 2008, pag. 56).

2. What is Intellectual capital?

According to many research, managers are aware of the tremendous impact that knowledge and skills, whether individual or organizational, have on the competitive advantage of the organization. However, practice suggest that most managers have difficulty in establishing appropriate performance measures for strategic key drivers such as:

- Intellectual Capital (67% report difficulties)
- The value obtained from research and development (59% report difficulties)

- customer lifetime value (59% report difficulties)
- brand effectiveness (56% report difficulties)
- Innovation (52% report difficulties)

But before measuring intangible assets, organizations are faced with a major challenge: what exactly are intangible assets? Literature abounds with definitions and classifications of intangible assets (known as intellectual capital), some authors even suggesting that the number of definitions and classifications of intangible assets nearly equals the number of authors who have written about this topic

Besides financial and physical capital, intellectual capital is one of the three vital resources of an organization.

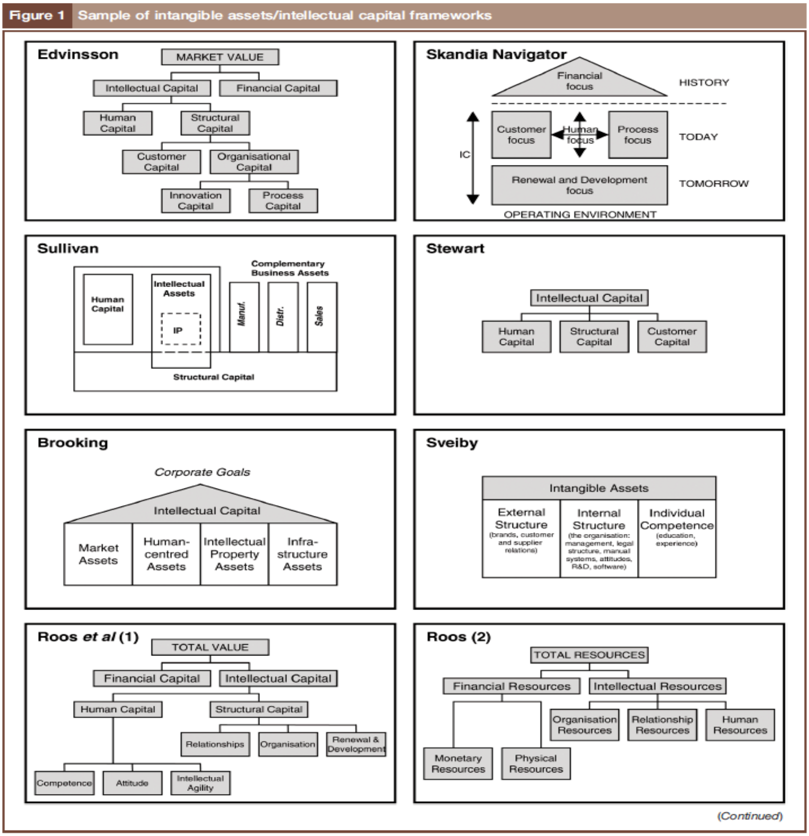
In the new economy, intellectual capital is the key factor of company competitiveness and long term value. Nowadays, as we are well aware of, the value is mostly given by intangible assets than physical.

The intellectual capital is the sum of ideas, investments, technologies, general knowledge, computer software, projection, data processing techniques, processes, creativity and company's publications. Intellectual capital can be easily understood as knowledge turned into benefits (-Sullivan, Patrick H, 2001)

Edvinsson and Malone (Edvinsson, L.; Malone, M.S, 1999) define intellectual capital as the possession of knowledge, applied experience, organizational technology, customer relationships and professional skills that give a competitive advantage in the market.

Nevado and López (Nevado, Domingo; López, Víctor R., 2002) talk about intellectual capital as total assets of a firm, even if not reflected in traditional financial statements, generate or will generate value for the company in the future, and consequence of the issues related to human capital and the structural: the capacity of innovation, customer relations, quality of processes, products and services, cultural and communicational capital, which allows a company or organization to take better advantage of opportunities, giving birth to generation of future benefits.

Figure 1: Intangible assets/Intellectual capital frameworks



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We also find many definitions of intellectual capital that is related to intellectual capital defined as the sum of its components, and definitions that make reference only to the human aspect.

Together with physical and financial capital, intellectual capital is one of the three vital resources in an organisation. It includes all intangible resources that contribute to the delivery of the organisation's strategy.

One of the definitions of intellectual capital which enjoyed wide discretion considers the economic value of intellectual capital as the combination of the three categories of intangible assets: human capital, relational and structural.

Human capital includes all the skills, knowledge and talents of individuals associated with the organization. Thus, human capital is the company's employees, knowledge, experience, skills and attitudes. Human capital is considered to be the most important component of intellectual capital, it is very difficult to imitate, and therefore gives the organization a competitive advantage. Human capital is the total amount of staff abilities and concentrates skills (knowledge, skills, talent and know-how), attitude (behaviour, satisfaction, motivation, performance and ethics) and intellectual agility (innovation, imitation, adaptation).

Structural capital can be seen as the value of what remains after the employees leave the organization, encompassing knowledge, processes, procedures, patents and culture. This type of capital is, inappropriate words, "the tangible to intangible assets", and is the dimension of the intellectual capital that has been systematized and internalized by the organization. Company managers are starting to be more aware that transferring human capital in structure capital is a highly profitable investment, if all knowledge is safely stored in databases structures and company, the company will spend less in financial terms when one of its experts will resign and leave with all the information and knowledge they have about the company. Structural capital can be subcategorizat to the organizational culture, intellectual property and processes. Structural capital is the physical and organizational structure, property of the enterprise, which supports human capital and facilitates knowledge transfer. Structural capital consists of internal processes capital and research, development and innovation capital. Internal processes capital is related to quality of processes, products and services that gives the company its competitive advantages.

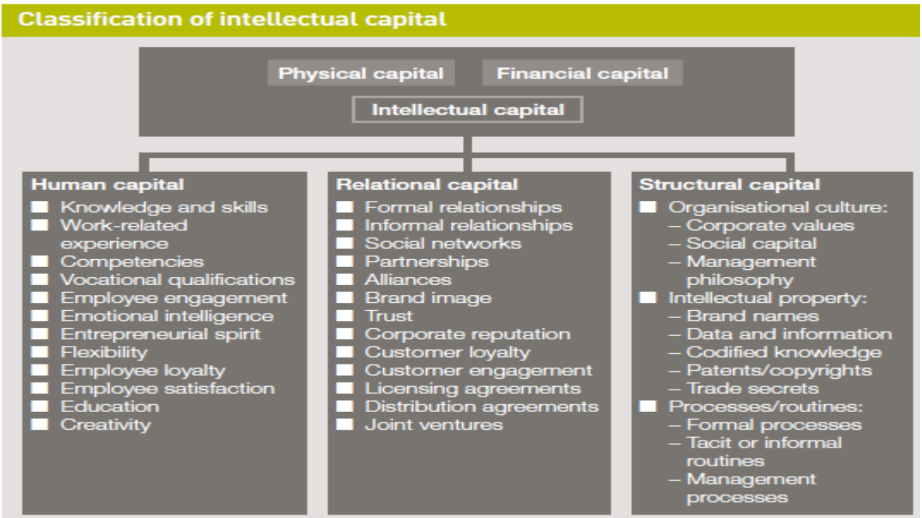
Relational capital includes clients' portfolio, relations with competitors, suppliers, shareholders, governments and public administrations, other stakeholders and their impact on business. Relational capital is composed by commerce capital and communication capital. Commercial capital includes relationships with customers and suppliers, and their satisfaction, market share, etc. Communication capital includes marketing activities.

Relational capital refers to the relations maintained by the company with actors of the external and internal environment, including relationships with customers, suppliers, investors, with pressure groups, authorities, communities, and other business partners.

Intangible assets of a company are more difficult to manage than tangible ones, as is the difficulty of correctly reporting their economic value in financial declarations, moreover, acorporale asset net effect on firm performance is difficult to quantify, although most managers have come to understand that contribute acorporale assets in a superior position to achieve company performance than tangible assets.

Intellectual capital indicators are used to measure non-financial assets and intangible company assets that contribute significantly to the stability and growth of the company.

Figure 2: Classification of Intellectual Capital



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The different elements of the three categories can overlap. The aim is not to have a rigorous framework that clearly separates them, but to have one that you can use to identify and understand intellectual capital in your organisation.

3. Why measure intangible elements?

Measurement has a central role in our society. However, the reasons why we endeavor to measure and what we consider as measurements differs significantly when it comes to intangible assets.

One key reason for measuring intangibles comes from the widening gap between what companies disclose in their annual reports and what really matters. Driven by the ever-increasing gap between book and market value, many people have called for improved transparency in organizational reporting. This movement has led to different government initiatives and new legislation and accounting guidelines to improve transparency in organizational reporting. One more key reason for measuring intangibles is to assess drivers of performance and competitive advantage to improve strategic decision-making.(Marr, B, 2007, pp. 172-178)

Therefore, some authors use the words ‘‘performance assessment’’, rather than ‘‘measurement’’, which goes beyond quantification and the assignment of numerals. Dee Hook, founder of the Vis network, said that ‘‘in years ahead, we must get beyond numbers and the language of mathematics to understand, evaluate and account for such intangibles as learning, intellectual capital, community, beliefs and principles, or the stories we tell of our tribe’s values and prosperity will be increasingly false’’(Boyle, D. 2001, p. 30).

In measuring organizational performance, intellectual capital indicators are grouped into three major axes:

1) Indicators of management alliances / collaboration.

This axis to assess alliances and cooperative relationships with business partners, the company is able to monitor the performance of processes that conducted jointly with partners and to assess whether the business relationship Registry of success, a failure or stalling.

Intellectual capital indicators in this category helps the company to understand how to monitor the performance of business processes in which they engage with partners and collaborators, and identify strategic objectives whose fulfillment can help in developing and enhancing training capacity and manage alliances with different business partners.

Indicators of this axis can be grouped into the following four categories:

- Profitability - refers to the assessment of business partner, for example, if it provides high quality services if they pay on time payments, etc..
- Feedback from partners - for example, partners must constantly ensure reliability, safety and service availability;
- Progress on market growth - partners must also demonstrate scalability of services offered, or to be able to cope with varying volumes of product orders;
- "Bandwidth alliance" - refers to the number of new services have been launched in collaboration with partners from the number of services given up.

2) Indicators of management skills.

This axis of indicators provides a summary of key skills to the company or firm those competencies that guarantee operational excellence. Between an organization's core competencies include flexibility, ie the ability to configure and reconfigure firm resources and constant renewal of products and services.

Identifying indicators management requires the organization to identify skills that are essential powers which ensures operational excellence, namely, rare skills that add value to business processes, which imitate or substitute powers of the competitors is difficult. In addition, the company must implement a strategy that would allow maintaining and cultivating these essential skills.

3) Indicators of resource management.

This axis illustrates communication resources and company information - data, databases, news groups, intranets, yellow pages, etc., in order to assess the risk of losing these sources of information and these information channels. Company should identify strategic objectives which emphasizes the value they bring to these information resources making processes of the firm.

4. Human capital – The Intellectual capital core element

It is well known that the most economic activities rest on knowledge, not only the pin the present society but in all forms of human societies. In the knowledge-based economy the main resource is the knowledge are viewed as generating competitive advantage on the long run. Knowledge is embodied in technology and in people, as assets. Without people and their human capital, business and organizations cannot exist.

Human capital includes employees’ know-how in certain fields that are important to the success of the enterprise, plus their aptitudes and attitudes.

The strategic role of human capital management in the knowledge assets management is derived from the determinant position of the organization's human capital (knowledge, skills and abilities) to achieve business goals. People and their human capital are able to: acquire, create, share, develop and apply knowledge.

In the knowledge based organization, the policies and practices belonging to human capital management is an intrinsic part of the knowledge assets management.

The concept of human capital is concerned with the added value people provide for organizations. It has been well said by Chatzkel (2004) that “it is human capital that is the differentiator for organizations and the actual basis for competitive advantage”.

Human capital theory, as stated by Ehrenberg and Smith (1997), conceptualizes workers as embodying a set of skills which can be “rented out” to employers. The knowledge and skills a worker has – which come from education and training, including the training that experience brings – generate a certain stock of productive capital.

Human capital is an important element of the intangible assets of an organization. The significance of human assets explain why it is mimportant to measure their value as a means of assessing how well they are used and of indicating what needs to be done to manage them even more effectively. Human capital concept is viewed as a bridging concept and defines the link between HR practices and business performance in terms of assets rather than business processes (Scarborough and Elias, 2002).

Accumulated knowledge and human skills are just as important as physical capital in the production process, and are, in fact, a form of capital, which should be analyzed in the same manner as used to analyze capital 'traditional' (physically and financially), especially in terms of investment in human resources implications.

The real challenge for HR managers is to create the perfect organizational climate that leads to employee engagement and performance.The role of the HR should develop and implement strategies that help their organizations to attract and retain talent, which adds human asset value of the firm, producing conditions for high performance required.

Moreover, employees are an asset to the organization, but also a cost and most organizations are only able to measure performance in terms of human capital costs and less in terms of human capital value. (Fitzenz, J., 2009).

5. Conclusions

Nowadays, knowledge has become a critical asset and potential strategic resource for contemporary firms. Facing the advent of knowledge-based economy, it is important to know how to effectively manage and integrate various kinds of knowledge resources in order to survive and keep competitive advantages. In this view, knowledge management is considered to be a pressing and important issue, organizations must manage their knowledge bases and repositories effectively to gain long-term competitive advantage.

Human capital management strategy is conspicuously linked to business performance, as measured in terms of growth and profitability. Using knowledge management strategy by itself, and ignoring the crucial part of human capital cannot lead to successful attainment of higher business performance.

However, an organization which does not effectively exploits its intangible resources cannot cope with competition based on knowledge which tends to become dominant in the current economic landscape.

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