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Intellectual Capital – The Key for Sustainable Competitive Advantage for the SME’s Sector

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Abstract

With the adoption of the Lisbon Agenda and its major objective, namely that the EU would become the most dynamic and competitive knowledge based economy in the world, it became clear the Small and Medium Enterprises (SME’s) are the especially affected by these plans, because they represent the driving force for the European economy. In this context of creating and maintaining a competitive advantage for the SME’s, it is crucial for them to make good use of the intellectual capital of their employees, in an efficient and proficient manner, in order to increase their potential for innovation.

The aim of this article is to show, through an original argumentation, based on the analysis of specialized literature, the important role that intellectual capital plays in the sector of SME’s in order to obtain a real and sustainable competitive advantage.

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1. Introduction

All the research in the past years has shown the decisive importance of intellectual capital – the capacities of the human and organizational resources, know-how, technical knowledge, contacts of suppliers and clients, etc., regarding the innovation capacity of a company. The issues connected to insufficient investments in the development of human capital and the difficulties encountered by most innovative companies when trying to access financial resources, are severe issues that generate a decline in the performance and competitiveness of SME’s.

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In order to obtain a competitive advantage, it is imperative for SME's to efficiently use knowledge in order to increase their innovation potential. Thus, the management of intellectual capital (IC) of SME's is becoming more and more important for the organisations oriented towards the future. The SME's have been fully acknowledged by governments and experts as the main driver for economic progress and a major factor for promoting progress in the private sector. The development of the SME's sector, therefore, represents an essential element in the growth strategy of most economies.

It is certain that the management of the Intellectual Capital (IC) of SME's is becoming more and more important for the organizations oriented towards the future, and also that a set of management tools for reaching this objective is needed.

2. Intellectual capital and the competitive advantage of SME's

2.1. Intellectual capital – definition

Intellectual capital is a concept pertaining to modern economics. Its value resides in the monitoring and identification of intangible assets that can determine the failure or success of a company. Managing intellectual capital is a strategic activity that influences the performance of a company.

The development of the concept of intellectual capital gave birth to two different, but converging directions. One direction has been generated by the need to increase the competitive capacity of the company and to obtain the strategic edge on increasingly competing markets by the intensive use of intangible resources. From these resources, stress was placed on information and knowledge, trademarks and patents, organizational culture and behaviour oriented towards excellence. In other words, the issue regards the manner in which an efficient management of the intangible resources in a company can be achieved in order to increase its competitiveness.

The struggle to accept intellectual capital as an important and representative concept for the modern organization has been generally successful (Andreissen, 2001). There is increasing evidence that the intellectual capital of an organization represents the path to creating modern and competitive environments (Petty et al., 2001).

Although the importance of intellectual capital has been widely accepted in the past two decades (Serenko and Bontis, 2004), many organizations are still struggling with the issue of how to approach it, especially when it comes to the difficulties encountered when assessing intellectual capital.

2.2. Structure and components of intellectual capital

Intellectual capital can be divided into human capital, which comprises the skills, qualification and mental agility of the employees; relational capital and structural capital. (Dzinkowski, 2000).

- The structural capital represents the totality of processes, trademarks, intellectual property rights and other intangible assets owned by the company, but which are not recorded in the balance sheet; it represents the infrastructure of the human capital, including the organizational ability to adapt to the needs of the market. The infrastructure includes various components such as managerial philosophy, corporate culture, management processes and the knowledge regarding information technology systems and network systems.
- The relational capital represents all the valuable relationships between the company and the clients, suppliers and other collaborators. The relational capital is represented by the relationship of the company with all its stakeholders. By stakeholders we mean all the agents that are directly connected to the company and that have clearly defined interests regarding the activities of the company.
- Human capital most of the times is influenced by the skills and professional competencies of the employees of the organization. It represents the sum of the knowledge and experience owned by the employees of a company. Nowadays, in the context of the knowledge economy, the most important and wanted resource of an organization is human capital, the key factor for obtaining a sustainable competitive advantage. This type of capital is unique, difficult to imitate or copy. The investment in human capital represents a sine qua non condition for the development and success of all organizations. At intellectual level, the human capital is a combination of genetic inheritance, education and experience. Apart from the individual skills, human capital also comprises the dynamics

of a learning organization in a competitive, constantly changing environment, as well as the company’s own creativity and innovation potential.

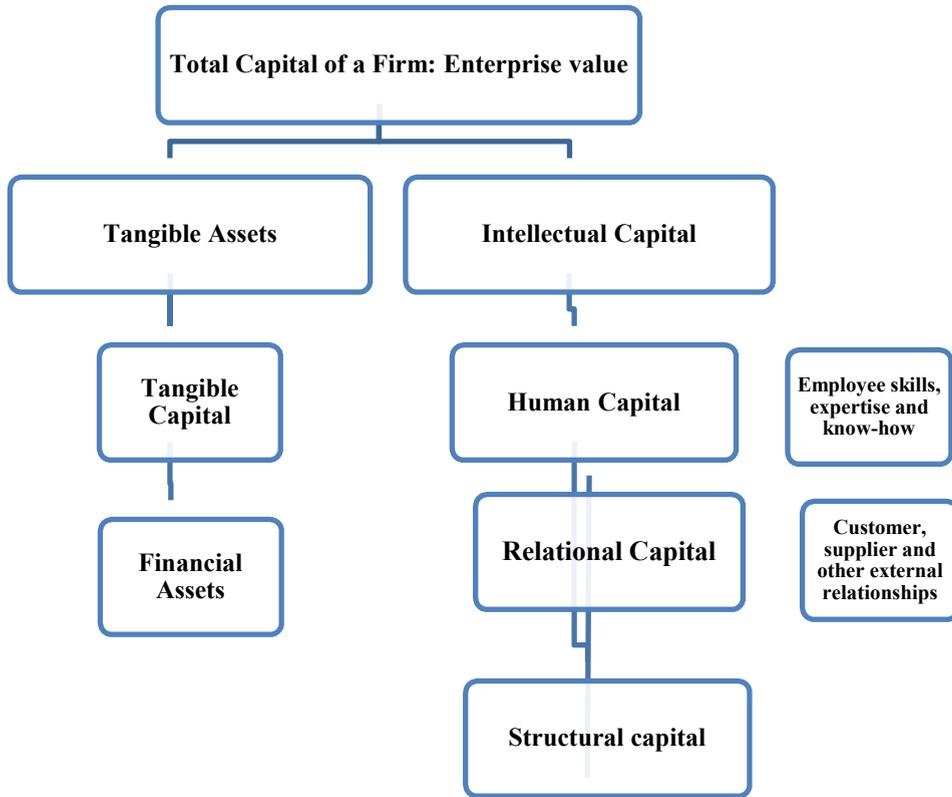


Fig. 1. The structure of intellectual capital

Source: <http://www.pegasusics.com/mergers-acquisitions/intellectual-capital-audit.php>

2.3. SME’s and the aspects of competitive advantage

According to specialists, a sustainable competitive advantage is the one that allows an SME to maintain and improve the competitive advantage on the market. In the knowledge economy, a competitive advantage will be definitely achieved only by the organizations that have understood that the true resources of the 21st century are knowledge, information, innovation, creativity and intellectual capital – which explains the increasing interest and preoccupation over the past decades for the acquisition, development and preservation of these intangible assets.

The competitive edge that is based on intangible assets is also connected to the mastery in combining the resources (tangible and intangible) in a distinctive manner by the companies. The development of competitive advantage and of efficiency is a key resource for the macroeconomic and microeconomic performance.

It is very important for SME’s to obtain, maintain and increase the competitive edge by making use of the resources they own. On the other side, SME’s have to resort to an external analysis in order to detect opportunities and threats, but also to an internal analysis: for identifying their distinctive competencies. The competitiveness of a company depends on its resources that differentiate it from its competitors, which are lasting and difficult to imitate or substitute (Zari, 2009).

Some of the SME's have strong tangible assets, while other have strong intangible assets; both types of assets generate a great impact in creating a lasting competitive advantage. The financial, physical and technological assets are important resources for SME's and are easy to assess. However, the organizational assets are not specifically tangible or intangible, but they represent a great resource in business, as well as in the organization of all other resources.

The competitive advantage is the ability of the organization to perform its activity in a manner in which its competitors cannot, and with considerably lower costs (the cost advantage), or to offer advantages that surmount the ones of the competing products (the differentiation advantage). The competitive edge represents the basis for a good strategy (Analou & Karami, 2003).

There are many new perspectives for approaching the competitive advantage, such as the ones developed by the evolutionary approach (Nelson, Winter, 1982); or knowledge management (Nonaka, 1994; Nonaka si Takeuchi, 1995).

The sustainable competitive advantage shows the possibility to maintain and improve the competitive position owned in the market by a company. This type of advantage allows the company to survive against its competitors for a long period of time.

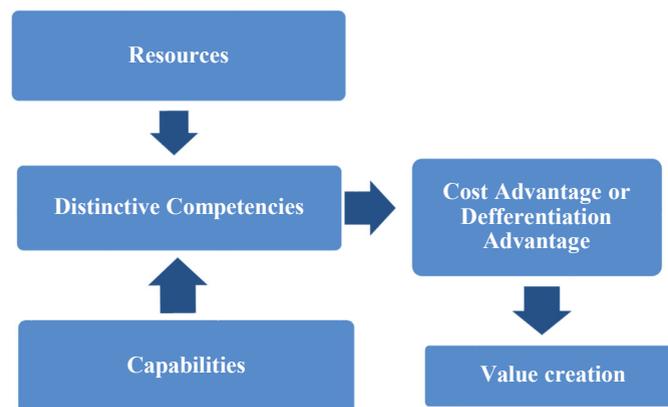


Fig. 2: A model of competitive advantage

Source : <http://www.quickmba.com/strategy/competitive-advantage/>

3. SME's and the investment in intellectual capital, source for sustainable competitive advantage

SME's are faced with serious difficulties in accessing external financing to support their innovating activities. An important reason for this is the fact that the innovation capacity of most SME's is greatly based on intangibles and there are no international or national standards to identify and reflect the value of intangibles.

In the past decades, the support of innovation has become an important activity for organizations, as they become aware of its importance in the relationship innovation – competitiveness – economic growth.

Many of the questions that become key for the activity of SME's refer to determining the reason why some companies are more innovative than others, identifying the contextual factors that promote an innovative climate, or detecting the barriers that the companies must overcome in order to innovate.

There is no doubt regarding the importance of intangible assets, such as the skills of the human resources, the organizational knowledge, know-how, technical knowledge, relationship with suppliers and clients, etc., for the innovative potential of a company. This is why the OECD (2010 a, b) emphasizes the fact that the investment in intangible assets and the increase of the multi-factorial productivity have been responsible for more than two thirds of the increase of labour productivity in many countries. There are studies that show a strong connection between these two factors (Roos, J., Roos, G., Edvinsson, L. and Dragonetti, N. C., 1998) which proves the major importance of intangible assets as triggers for economic growth.

The ratio of investment in intellectual capital shows a drastic shift in the '70s and '80s. In the previous years, due to the insufficient development of the services sector, the investment in intangible assets was very low, but with the expansion of the knowledge economy and the services sector, which relies completely on intangible resources, an increase becomes evident in the amount of expenses on human capital. According to Caddy, I. (Caddy, 2000), "from the beginning of 1980, the percentage of investment in intangible assets has increased from 40% of the market value of a company to more than 80% by the end of the year 1990. The investment in innovation and related intangible assets are more and more dominant in the economic activities in all developed countries" (Tissen, R., Andriessen, D. and Lekanne Deprez, F., 1998).

Studies in the filed show the fact that the priorities of the companies and the investment in intangible assets are focussed on the following important directions:

- personalized investment solutions became more and more frequent priorities for 40% of the SME's in the EU, followed by the reduction of production costs (33%).
- approximately one quarter of them chose to provide smaller prices (26%), to speed up the development of new products or services and the increase of labour productivity as being pressing subjects for 25% of them;
- generally, companies are more interested in investments that use internal sources of financing, than to use external resources for a series of intangible assets;
- regarding the investment in intangible assets from internal sources of financing, the three dominant activities are: improving the business processes (60%), training (58%) and the company reputation and brand (52%), as for the investment in intangible assets by using external financing sources, the three dominant activities are: training activities (38%), company reputation and brand (30%), improvement and development of software (26%).

A competitive sustainable advantage is, according to specialists, the one that allows an SME to maintain and improve the competitive advantage on the market. In the knowledge economy, this advantage definitely belongs to the organizations that have understood that the true resources of the 21st century are knowledge, information, innovation, creativity and intellectual capital – an aspect that explains also the increasing interest and preoccupation over the past decades for investing in, developing and preserving the intangible assets.

4. Conclusions

The correct management and development of intangible assets and intellectual capital is very important for the SME's as business organizations, because there is no compromise between invested capital and intellectual capital.

The new economy is becoming more and more important in the business environment of the highly developed countries, thus showing the decisive role played by intellectual capital in achieving the competitive advantage of companies. This intellectual capital, however, represents the hidden part of the value of a company, because it comprises the intangible resources of the company, which cannot be measured with the financial tools used in the measurement of tangible assets.

The intangible resources and intellectual capital are essential conditions for a sustainable competitive advantage and for long term development. The management of intangible resources and intellectual capital are essential in order to achieve competitiveness and convergence at micro- and macroeconomic level. As a conclusion, this paper presents the approaches regarding the role of intangible assets and intellectual capital for increasing the competitiveness and sustainable development of the economy.

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