

CHALLENGES OF THE INTELLECTUAL CAPITAL FROM A MANAGEMENT PERSPECTIVE

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ABSTRACT

The extensive framework which shows connections between intellectual capital and other concepts such as management of human resources, knowledge management, learning organizations, strategic management, places intellectual capital at the heart of the new management thinking that reflects on how organisational problems are foreseen and solved at present. In this new approach, the management of an organisation is no longer about managing the return from capital, but it is about recognising and making use of the organisational, structural resources and the knowledge of the staff. While IC marked the transition from the traditional approach in which financial capital was key to gaining wealth to an approach in which knowledge stood out as the main resource of an organisation, be it public, private or education-oriented, the interest in identification and reporting of IC has grown as several models were developed to help orient management decisions. Building on the early work of several scholars (Hermanson, 1964, Hekimian and Jones, 1967) who first tried to account for the worth of employees, several models have been proposed in time (Sveiby, 1997, Mouritsen 1998, Meer-Kooistra and Zijlstra, 2001), in the attempt to report on IC resources and turn IC management into a pillar of strategic management.

As IC has become one of the concepts embraced even by higher education institutions from business along with strategic planning or total quality management (Leitner et al., 2016), the transfer of IC models to public institutions has posed several challenges in terms of performance, bureaucracy and the role of the public servant (Sousa et al., 2016). Against the multitude of IC reporting models, scholars agree that, for an institution that wishes to be connected to the demands of the society, IC management and IC reporting is a way to make a the activity of an organisation more transparent, visible and more efficient. The purpose of this article is to generalize the concept of intellectual capital and its role in the development of an organisation, private and public. The methods applied are the synthesis and analysis of academic research and publications.

KEYWORDS: *intellectual capital, intellectual capital reporting models, performance, public organisation, strategic management.*

JEL CLASSIFICATION: *H11, O34, M12*

1. INTRODUCTION

Since the beginning of mankind, the concept of intellectual capital has existed in various forms, with proofs left by our ancestors on cave walls in an earlier attempt to leave traces of their knowledge, values and skills by creating an alphabet of 800 hieroglyphs, pictograms. (Gogan, 2015). In the late 1960s, the concept of intellectual capital emerged and developed in the area of economic sciences, as

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an effort to estimate the market value of a company, as stated by John Kenneth Galbraith in whose vision the intellectual capital represents more a form of dynamic capital rather than static, summing up the pure knowledge and intellect that implies action. (Jianu & Brătianu, 2007)

In the 90's, Brooking (1996) Stewart (1997) and Sveiby (1997) made their contribution by recommending managers to create value based on their workforce and organizational culture. For the first time focus was laid on intangible assets rather than on tangible ones in obtaining wealth. It was also the time of Edvinsson's first contribution on intellectual capital which has been influential for the IC field reporting ever since. He was the one to assimilate IC to the *hidden value* that resulted from the difference between market and book value of a corporation and to elements that were not traditionally included in a company's annual report. The pioneer contributions in creating a business value model, a custom IC tool (the Skandia Navigator) and the first experiments with IC tools and models opened new perspectives on the field of IC management. Managers were recommended to look beyond figures that showed an incomplete reflection of a company's situation at a certain point in time and start looking for the "driving force of sustainability" (A sample from the Skandia AFS case study, 2013). In Romania, Constantin Bratianu (n.d.), a promoter of the concept who significantly contributed to the development of the IC concept, developed the generic model of IC analysis that captures the dynamics of potential IC transformation versus usable IC. The term IC was also used in a Brainpower article by Thomas A. Stewart, one of Fortune magazine publishers, as the sum of what every employee demonstrates in a company and can be used to develop competitive capacity. (Stewart, 2007).

The conceptual framework of IC includes three directions (Teece, 2002). First direction comes from the field of accounting, the second stems from knowledge management and the third direction includes elements specific for the strategic management field.

While in the past both tangible and intangible resources (know-how, copyright, intellectual property, etc.) were analyzed and evaluated on the basis of annual financial statements (balance sheet, results account, balance verification, etc.), thereby demonstrating the need for organizational performance, in recent years, it has been necessary to treat the concept of intellectual capital from the financial - accounting point of view but also, if not more, from the management point of view.

2. THE IMPORTANCE OF THE IC CONCEPT WITHIN A PUBLIC ORGANIZATION

In the era of knowledge, the IC concept has a significant importance in the existence and development of a public organization, due to the generally low influence of fixed and financial assets as compared to the influence of intangible assets, on which a public organisation always focused on.

In the context of the overall agreement of theorist (Sydler et al., 2014) that IC is an essential element in achieving profitability in an organization, Gogan (2015) argued that the importance of IC in a public organization can be conditioned by the following factors:

- the revolution in information technology and in the knowledge economy;
- increasing the importance of knowledge and the knowledge-based economy;
- changing the foundation of interpersonal and networking activities;
- the emergence of innovation as the main determinant of competitiveness.

At present, in a public organization, the most significant assets are intangible (eg. the ability to use information, organizational culture, etc.). The role of each intangible asset and the economic capacity of the organization stems from the capacity to put together these resources in a coherent and innovative way. In this regard, A. Toffler (1995) said, "as long as the investors in the backward sectors of the industry still see the traditional heritage as critical, investors in the most advanced and fastest growing sectors rely on totally different factors to support investments". Thus, it is vital for a public organization to use its intangible assets effectively to gain advantage but also to increase its innovation potential.

In Sullivan's vision (2000), the IC role is represented in two forms as shown in figure 1.

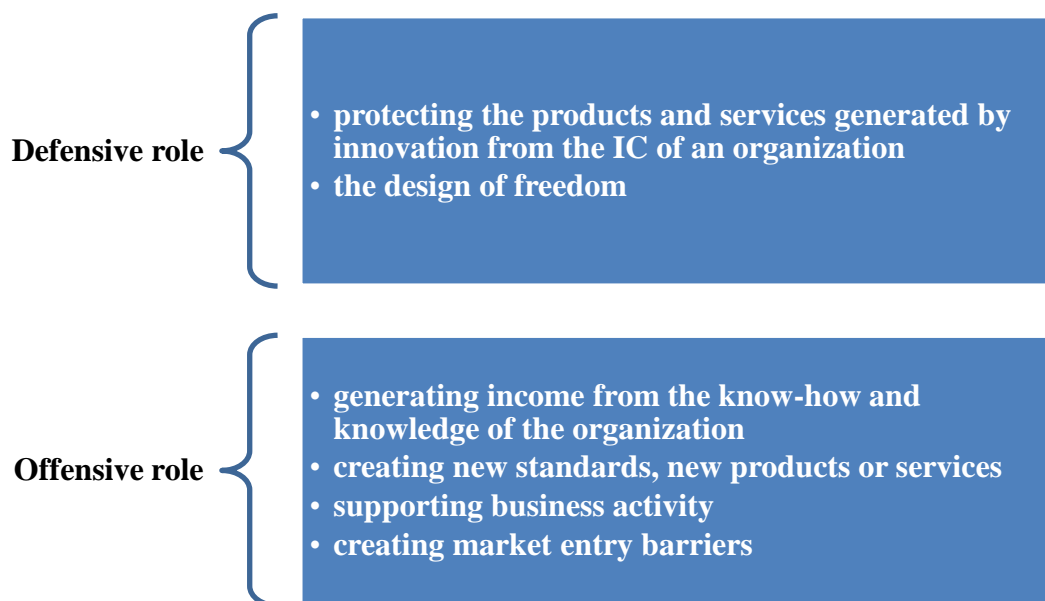


Figure 1. The role of IC

Source: adapted from Sullivan (2000)

Roles are determined and adopted by each public organization, depending on the vision and strategies proposed to be implemented at macroeconomic level, but also on the value that can be created or extracted on the basis of intangible assets.

In the context of permanent changes, the new economy is becoming more and more important in the affairs of highly developed countries, demonstrating the decisive role played by intellectual capital in achieving competitive advantage. Along with tangible, physical assets, intangible, non-physical assets play an important role in the work of most organizations. These intangible assets are designated as the intellectual capital of the organization. (Gogan, 2015). Public organizations must exploit all the resources they have in place to ensure their success.

Against the existing economic dynamics, intellectual capital is a critical success factor for all organisations including public organizations that use knowledge intensively in order to be more performant and provide better services for the community.

3. CHALLENGES OF IC MANAGEMENT

Since its beginning, IC management has posed challenges in terms of what was being identified and reported, because traditional reporting focussed exclusively on tangibles, how it was being reported, as models changed in time along with management priorities, and who managed it, as IC management also called for internal restructuring. Additionally, challenges appeared during the transfer of models from one field to another.

The transfer of IC management from private to public institutions brought about structural changes along with a new vision on strategic management and the repositioning of the relation between public institutions and the environment in which organisations function and develop. If IC management is a way for private organisations to gain profit, for public administration is translates into higher quality of organisational processes, of products and public services and into social effectiveness (Batista, 2012). Once quality is improved at the level of management and services, this affects the citizen who is the beneficiary of the services and the society in general. But as scholars argue (Moreira, 2004), in order to be efficient as a public institution, the focus must be laid on organisational personnel, who is unique for that institution at a certain time interval in the life cycle of an organisation and who has to be stimulated and valued by training, motivation, integration in the organisational culture and in the decision-making process.

If the requirement that the organisational culture favours the creation and storage of knowledge is met (Stefano et al, 2014), than IC managers have to face the challenges, which are characteristic for the public sector (Queiroz, 2006), namely the low level of competitiveness in relation to the private sector, goals that cannot be translated in monetary terms and less visible, resources and services that are less tangible, a high level of social responsibility, low flexibility of management, legal requirements and accountability towards taxpayers.

There are several models proposed for the public sector which share the same three-layer construct of the intellectual capital: human capital, structural and relational capital. The European Foundation Quality Management Model (EFQM) is probably the best known model, but we can also mention the measurement model of intellectual capital (CAF) developed by the European Union especially for public administration, the Intangible Assets Statement of Garcia (2001) which was based on the Model Intangible Assets Monitor of Sveiby (1997) and the Intellect Euroforum (1998).

The Common Assessment Framework proposed by the European Union as the first tool developed by the public sector for the public sector and it has been revised twice so far based on the feedback of institutions that actually used it to gain excellence in management. Building on the principles of EFQM, CAF proposes a set of 9 principles among which the focus on the needs of the beneficiaries translates into co-participation in the development of products, personnel motivation is maximised by common values and trust-based culture, partnership enables the creation of value for both parties, and social responsibility is the approach towards meeting the needs of the beneficiaries.

The structure proposed by these models is flexible and can be adapted to meet the needs of the public area and become closer to the objectives of the organisation. For example the model proposed by Queiroz (2003) added components such as quality and transparency to the well-known structure promoted by the Nordic model. In this approach, the individual capital and human capital related to the employees, their characteristics, knowledge, training and relationship network, the structural capital reflects what makes an organisation unique and its relation with the environment, and the organizational capital is related to the internal structure of the organisation.

IC management in public institutions is mainly connected with retaining and disseminating knowledge even if employees leave the institution. Embracing the approach of the new public management, organisations learn to formulate and implement their own management strategy, have a better control on results, become providers of individualised and unique services and adapt their activity in close connection with the demands of the society and the dynamics of the external factors. In this context, a public institution is seen as performing if it complies with the demands and needs of the beneficiaries, if it is productive in terms of services and benefits, and if it stays within budget. In this context, IC management becomes a two-way tool: for internal management purposes and for external communication purposes, with one core relation between people (both the employees and the beneficiaries of the services) and services.

Scholars (Mouritsen et.al, 2004) who made research into the topic of IC, identified challenges managers of public organisations face in managing IC such as: inflow of information, being updated and in keeping with the changes in the community, keeping a high level of services provided for the community (recruitment of qualified staff, availability of competencies, improvement of internal organisational processes, developing the IT structure and quality control), distribution of knowledge across the organisation, mainly for structures with international networking, adjusting personnel policies (family-friendly workplace, social responsibility), assuring employee satisfaction.

For the public entities analysed in Denmark by Mouritsen et al. (2004), researchers concluded that in order to ensure efficient IC management it is important to apply the principles of participatory management, to show interest in knowing and understanding the organizational climate, to allocate responsibilities properly, create rules and procedures and adopt transparency. Scholars (Leitner et al., 2013) who have made research into the implementation of IC management in higher education institutions also emphasized the link between managerial capacities, legal framework and IC management and concluded that managerial capacity is the key to efficient IC management, as

opposed to several examples of European and international higher education institutions with low managerial capacity for which IC reporting equals a superfluous bureaucratic requirement.

On the other hand, inefficient management leads to serious consequences for the institution, a perpetuation of a negative culture, inefficient procedures, lack of regulation and control, which, at operational level, translates overlapping, lost time and increased bureaucracy (Tahir, 2010). Additionally, recommendations are made to managers to enhance partnership between public institutions and private organisations in order to raise the chances for better competences in terms of IC and to value one's internal human resources on the long run, as qualified workers are needed but not enough to ensure performance in organisations.

4. CONCLUSION

IC management is a modern management approach that brings about changes in the public organisation as it provides a new perspective on organisation functions and purposes and stresses the relation between organisational resources and the environment. IC reporting in itself translated into the setup of a reporting system with a double role: a management tool regarding the allocation of resources and a communication tool.

In the context of this new approach, it is the role of managers to raise awareness of the role of IC management within the organisation and stress the common goal of IC reporting that is the accurate perspective on institutional resources and better communication with the stakeholders and the community. Therefore, the design of an IC management system should be accompanied by awareness raising and communication activities that place IC at the heart of institutional concerns.

Against the dynamics of globalisation, the knowledge of people needs to be incorporated in the organisation so as to ensure continuity of services. Additionally, knowledge is also provided by the beneficiaries of services of an institution, which can also be integrated into a process of learning and dialogue. The interaction between this two-way process of gathering and retaining knowledge places public organisations at the heart of a learning system that includes individuals and state authorities. In this interaction, IC management marks the change from the vertical bureaucratic structure to the network-based structure, which enables reorganisation in order to meet the challenges of a dynamic environment.

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