

## **INTELLECTUAL CAPITAL, AN INTANGIBLE ITEM NOT REFLECTED IN THE FINANCIAL STATEMENTS OF THE ORGANIZATIONAL STRUCTURE**

**Paula – Angela VIDRASCU**, PhD Assistant  
Academy of Economic Studies, Bucharest, Romania  
E-mail: [vidrascupaulaangela@yahoo.com](mailto:vidrascupaulaangela@yahoo.com)

### **Abstract:**

*Intellectual capital, intangible assets and knowledge creation are strongly connected concepts of knowledge management phenomenon, which until now were considered to be parallel. This controversy has triggered various approaches rather vague definitions for knowledge management.*

*In the contemporary society enterprises, knowledge is a new category of resources, more complex, giving rise to impediments to the assessment, however, making a comparison with other categories of resources, knowledge is much more efficient. This has a strong impact on all categories of resources triggering changes in quantitative, qualitative and structural.*

*The roots of the concept of intellectual capital are very deep.*

*The human factor, qualified labor force and its rational use are the vital elements of adaptation to the effects of the transformation of science into direct production force the pace and scale of economic development and better use of natural resources [7].*

**Key words:** *Intellectual capital, financial situation, the knowledge society, principles, importance.*

**JEL Classification:** *O15, M41, Q01, M31.*

### **1. The definition, the content and the importance of the intellectual capital**

The multitude of definitions and approaches of this concept on the one hand shows their importance, but also the difficulty to express something as "untouchable".

This concept was associated with a dynamic system of intangible resources and activities that underlie the sustainable competitive advantage of organizations.

For the first time, the economist John Kenneth Galbraith developed the term intellectual capital in 1969, while Peter Drucker spoke about knowledge workers.

Intellectual capital is a vague concept, somewhat confusing, often difficult to identify and assess its boundaries are not well defined, and interact more often with the term human capital. *"It is intellectual material that consists of knowledge, information, intellectual property, experience that can be used to create wealth"* [10]. It represents everything that each employee knows a company and can be used in the idea of developing its competitive capacity. In accounting, often it is confused with intangibles, even if this is only a part of it [11].

## 2. The major components of intellectual capital

Through an overview we could expose the major components of intellectual capital to Table 1.

**Table no. 1** *The intellectual capital and its major components*

Potential asset value	Intangible value	
Human Capital	Intellectual activity	
<ul style="list-style-type: none"> <li>- Experience</li> <li>- Know-how</li> <li>- Abilities</li> <li>- Creativity</li> </ul>	<ul style="list-style-type: none"> <li>- Programmes</li> <li>- Inventions</li> <li>- Data base</li> </ul>	<ul style="list-style-type: none"> <li>- Metodologii</li> <li>- Documents</li> <li>- Drawings, designs</li> </ul>
	<p style="text-align: center;"><b>Intellectual property</b></p> <ul style="list-style-type: none"> <li>- Patents, copyrights</li> <li>- Trademarks, trade secrets</li> </ul>	

**Source:** Anghel, 2008, page 76

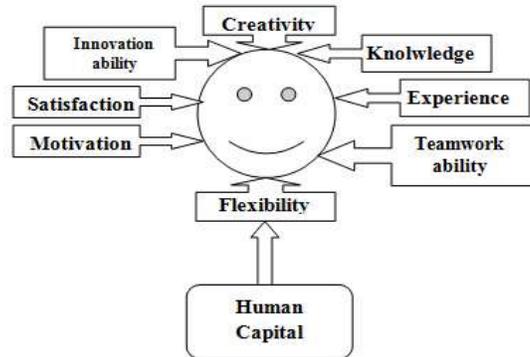
*From the studies in the composition of the intellectual capital are highlighted the following potential value knowledge: customer list; benefit from contracts; intellectual contribution of employees and management processes. Given by its purpose the intellectual capital can be structured in human capital, relational capital and structural-organizational.*

Human capital structure shown in Figure 1, exposure records identify certain specific indices of human capital (*see table no. 2.*).

In some specialized books is the idea that stated, intellectual capital can be considered an abstract concept, but the economy is defined as "an

estimate of a person's ability to generate income through labor". It can be considered the starting point when we want a company's success.

Summarizing we could mention that in any economic entity, the intellectual capital consists of **human capital** (know-how of its employees) and **structural capital** (organization and intellectual property).



Source: Personal processing

Figure 1. Representing human capital structure

Bontis (1998) defines intangible resources as factors other than financial assets and physical processes that contribute to generating value of a company and its control [1]. Constitute a collection of resources related intangible flows.

Table no. 2. Evidence of human capital indices

Human capital indices	Characteristics
Composition of employees	Strategic management Qualities employees Learning ability of employees Employee training efficiency The ability of employees to participate in policy and conduct of business management Training the best technicians and managers
The employees' attitude	Identification of corporate values Satisfaction The rate of turnover per employee The average age of employees
The employees' creativity	The genius of employees Revenue generated by the brilliant ideas of employees

Source: Yazdi, Chenari, 2013, page 4183

Intellectual capital is considered a source ("*hidden*" - rather than being capitalized) of intangible assets, which does not appear often in the balance [5]. It is knowledge or science that can be converted into profit or benefit [6]. Corporate members represent all knowledge and translating this knowledge into practice through trademarks, patents and other brands [9].

### **3. Exposure of the ten principles on the management of intellectual capital raised by Thomas Stewart (1997) [10]**

*The 10 principles formulated by Thomas Stewart (1997), with direct reference to the management of intellectual capital can be listed as [10], [8]:*

**P1:** Any economic entity has no property rights and no human capital on the relationship, but they can handle and can achieve added value through use.

**P2:** For any economic entity to be able to create and develop human capital, it should support teamwork, collective learning and socialization form.

**P3:** Mainly, the "*wealth*" of any organization is based on the skills and abilities of employees. Human capital can be managed and developed if the company identifies its permanent skilled staff and investing in it, so as not to be forced to make capital expenditure for other employees.

**P4:** Structural capital is one of the components of intellectual capital that is more manageable, but should be pursued as the constituents of interest to customers.

**P5:** Vision "*accumulate knowledge in case*" should be changed to "*must have information that our customers need and to provide timely*".

**P6:** Information and knowledge are the ones who should replace physical and financial assets expensive.

**P7:** Knowledge creates innovative solutions in areas where ir were offered solutions template there can yield high profits.

**P8:** Any economic entity should reconsider its field of activity in which it operates in the idea of identifying crucial information.

**P9:** Managers should focus on the flow of information within the company.

**P10:** Together, human capital, structural and relational create permanent value. In this context, separate investments in people, systems or clients become insufficient.

### **4. Case Study on intellectual capital as intangible item not reflected in the financial statements of organizational structures**

Intellectual capital is considered the most valuable asset and reflects the value of any enterprise. The value of "*intangible*" gives a company the opportunity to be different to the competitors, and proper management of

intellectual capital can allow any company to eliminate opponents. In order to withstand the economic competition with the development of knowledge-based economy, there was the need to have an enterprise-wide intellectual capital. The latter exchanged between half and two thirds of the market value corporate both sides "old" and "new economy" of the enterprise [2].

At the european companies there are large differences in the measurement and presentation of intangible assets. According to some studies, it was observed that in the past decade in Northern Europe have made considerable progress in the production of information and intellectual capital reporting, which prompted many companies to realize the need for such action.

However, management and reporting of intellectual capital is very different and unique for each company separately. Because there is no universally valid pattern, each company should develop its own system for managing and reporting.

The reason underlying the use of such approaches is to further ensure the comparability of results with those of other companies, like financial statements (*traditional*). Even if at first the process will be a fairly problematic, want to change the current situation where information about intangibles are poor, being based conceptualizations incomplete and heterogeneous situation where there will be information homogeneous, reliable, verifiable and comparable on the determinants of intangibles in the value of companies [11].

The impediment recognition of their value in a uniform accounting system at european or global level currently stands difficulty in presenting consolidated financial statements. Although participants in economic life is the desire to create a uniform accounting system, the comparability of the information at any time, now this is impossible [3].

Because is not highlighted separately in the financial statements, as well as other elements economic situation is reflected in the form of intellectual capital report. *It has three parts:*

- a. Company vision;
- b. A summary of intangible resources and activities;
- c. The indicator system.

As a practical example will make a small opinion poll on the impact indicators related components of intellectual capital (*human capital, structural capital and relational capital*). The subjects of the research are represented by 36 undergraduate teachers, specialized in several areas (*economic, technological, events, artistic, sports, natural sciences, computer science, art education, visual education or music, etc.*) from a school particularly in Bucharest. *Dissemination of research results is centralized in Tables 3, 4 and 5 as follows:*

Following the analysis of the three categories of indicators shown we can appreciate the fact that 32 of the teachers undergraduate research subject considers the human capital indicators that have a particular impact competence are represented by people and improve these skills. In this context, staff stability indicator represents the lowest impact.

**Table no. 3.** *The analysis of the impact of human capital indicators*

HUMAN CAPITAL INDICATORS	The analysis of the impact			
	VERY GOOD	GOOD	SUFFICIENT	INSUFFICIENT
Jurisdiction people	32	4	-	-
Improving skills	32	2	2	-
Staff stability	27	8	1	
Improving the ability of individuals and groups	30	6	-	

**Source:** Data processed by author

As regards structural capital, assessing the degree of impact is observed to be very interesting, opinions are divided (*see table no. 4*).

Relational capital on the preferences of research subjects are subjected customer loyalty and market proximity. The unanimous vote by 36 respondents customer base for granted. One person believes that suppliers are an insufficient indicator for relational capital appreciation (*see table no. 5*).

**Table no. 4.** *The analysis of the impact of structural capital indicators*

STRUCTURAL CAPITAL INDICATORS	The analysis of the impact			
	VERY GOOD	GOOD	SUFFICIENT	INSUFFICIENT
ITC penetration	30	4	2	-
Production technology	22	8	4	2
Philosophy and Business Process	24	8	2	2
The organizational structure	29	4	3	-
Intellectual	32	2	2	-

property				
----------	--	--	--	--

Source: Data processed by author

**Table 1.5.** *The analysis of the impact of relational capital indicators*

RELATIONAL CAPITAL INDICATORS	The analysis of the impact			
	VERY GOOD	GOOD	SUFFICIENT	INSUFFICIENT
Customer base	36	-	-	-
Customer loyalty	30	3	3	-
Near the market	28	6	2	-
Sales effectiveness	22	8	6	-
Providers	18	10	7	1
Networking with other market players	26	4	6	-

Source: Data processed by author

## 5. Conclusions

Intellectual capital facilitates in anticipation of possible developments related to the company's balance sheet following years of operation, providing its competitive advantages. Thus, it can be considered a critical resource for obtaining competitive advantage, real durable.

Currently, both nationally and internationally, human capital component simultaneous intellectual capital and human capital, is one of the most valuable assets is considered *"a fortune hidden" (not reflected separately in the accounts)*. To ensure economic growth, that increase competitiveness and employment, its development becomes one of the biggest advantages.

The most profitable investment a company remains committed staff (*human capital, skills and qualifications of employees*).

*Analysis of the impact indicators of the three categories of intellectual capital (human, structural and relational) achieved through the 36 teachers of pre-subject research, reflects the form and amount of benefit that intellectual capital can provide economic entities, namely: economic growth, market value or the value of the company's internal or sustainable development. They believe that if human capital is the most relevant indicator of people power, along with improving these skills.*

Structural capital has a particular impact on intellectual property, while relational capital are most relevant customer base, followed by customer loyalty and market penetration.

Vision approach to research development of intangible assets and intellectual capital, which generated multiple convergences and that had to do with certain limitations, is and will remain quite large and very complex.

## 6. References

- [1] ANGHEL, I. (2008), *Analiza si evaluarea capitalului intelectual si a activelor necorporale*, publicat in Theoretical and Applied Economics, nr. 3 (520), Bucuresti, pag. 75-84.
- [2] BARUCH, L. (2001), *Intangibles. Management, Measurement and Reporting*, The Brookings Institution, Washington, D. C., ISBN: 0-8157-0094-6, ISBN: 0-8157-0093.
- [3] BALAN, I. (2011), *Accounting for Intangible Capital - Normative Representation of Economic Reality?*, Economy Transdisciplinarity Cognition, Vol. XIV, Issue 1, 2011, Iasi pag. 303-309.
- [4] BONTIS, N. (2002), *Assessing knowledge assets: A review of the models used to measure intellectual capital. Working paper*, Queen's Management Research Centre for Knowledge-Based Enterprises.
- [5] EDVINSSON, L. & MALONE, M. (1997), *Intellectual capital: Realising your company's true value by finding its hidden brainpower*, Harper Collins, New York.
- [6] HARRISON, S. & SULLIVAN, P. H. Sr. (2000), *Profiting from intellectual capital: Learning from leading companies*, Journal of Intellectual Capital, Vol. 1 Issue: 1, pp. 33-46.
- [7] HOLT, Gh. & HOLT, A. (2010), *Capitalul intelectual – avere ascunsă nereflectată în situațiile financiare*, publicat in Analele Universitatii „Constantin Brancusi” din Targu-Jiu, Seria Economie, Nr. 3/2010, pag. 161-170.
- [8] MYLES, J. & JACKSON, P., (2004), *Managing Intellectual Capital through the Balanced Scorecard*, available at [http://www.sujo.com.au/\\_docs/We-B00280.pdf](http://www.sujo.com.au/_docs/We-B00280.pdf).
- [9] ROOS G. & ROOS, J. (1997), *Measuring your company's intellectual performance*, Long Range Planning, Vol 30, No.3, pp. 413-426.
- [10] STEWART, E. Th. (1997), *Intellectual Capital: The new wealth of organization*, 1st edition, Editura Doubleday, New York.
- [11] UNIUNEA EUROPEANĂ (2002), *Meritum Project - Guidelines for managing and reporting on intangibles (Intellectual Capital Report)*.
- [12] YAZDI H., K. & CHENARI, H. (2013), *Intellectual capital and technological advances in knowledge society: How are these concepts related?*, publicat in African Journal of Business Management, Vol. 7(40), 28 October, Iran, pag. 4180-4187.

ACKNOWLEDGMENT

This paper has been financially supported within the project entitled „**SOCERT. Knowledge society, dynamism through research**”, contract number POSDRU/159/1.5/S/132406. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. **Investing in people!**”