



INNOVATION MANAGEMENT

Management of Intellectual Capital: An Instrument in the Service of Competitiveness

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The growing complexity of business competitiveness dynamics is impelling companies to develop long-term sustainable differentiation strategies to become more competitive with regard to their chief competitors. Undoubtedly, past success formulae are no longer adequate to face the challenges of today and tomorrow. This fact is quite appropriately summed up by the words of Albert Einstein when he said: *"We can't solve problems by using the same kind of thinking we used when we created them."*

Entering headlong into the Society of Knowledge, companies today find themselves in radically different circumstances than has been the case up to now. Those companies who best manage their learning capacity will be those who have the most success in anticipating and adapting to change. In order to unlearn existing, albeit obsolete knowledge, companies will have to develop capacities by making innovation and creativity intrinsic to their strategy and day-to-day praxis.

In my opinion, companies who want to be strategically placed on the new playing field ought to display the right balance of the following characteristics:

- 1) an enthusiastic strategic vision;
- 2) future projects shared by all in the organization;
- 3) strategies focused both on strengthening essential competencies and on the elements of differentiation from their competition;
- 4) efficient and effective management of the organization's intangible assets;
- 5) a capacity for innovation and constant change;
- 6) mastery of communication and information technologies;
- 7) holistic development of the people in the organization;
- 8) transformation leadership;
- 9) interaction capacity with the milieu;
- 10) flexibility and adaptability of the organization.

The business sector is currently undergoing profound and radical change. In order to handle that transformation, not only are original management tools required, but tools appropriately designed and applied so as to set a company upon the path towards differentiation. One such tool is intellectual capital management.

Intellectual capital can be defined as "a collection of company assets which are not listed in traditional financial statements, but produce or may produce profits in future". In essence, they are the intangible assets of a company upon which differentiation strategies, learning capacity and continuous improvement are to be based.

By accepting that the cardinal goal of an organization is to produce profit for its shareholders, clients, employees and society, then it is also a prerequisite to accept the definition of a model of intellectual capital as an indisputable premise for the contribution of individuals in the organization. Undeniably, individuals are the genuine driving force of the creative process by collecting and disseminating knowledge, as well as broadening and reusing that knowledge in the heart of companies.



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The management paradigm in which change and continuous learning are at the root of the development of their essential competencies is determined by the competitive spirit in an organization. A company's competitiveness is not bound to tangibles, but rather to the employees' capacities and attitudes, leadership within the organization, the organization's culture and values, not to mention connectivity and the capacity to cooperate with other players. All of these are what truly favour competitiveness which in turn leads to sustained development.

I would encourage entrepreneurs and managers alike to think about the importance of the measurement and management of intellectual capital by considering the main trends of the new economy and the challenges they pose on organizations, which are:

- Processes are increasingly more complex. Organizations' capacity to redesign and endow the support and business processes with flexibility will be a competitiveness forte for the future.
- Products and markets are mutating from the tangible to the intangible. The new economy brings with it digitalization resulting in: the separation of form and function; disintegrating traditional commercialization channels; the relationship between companies, and that of companies and clients are both being subject to permanent change.
- The limits of industry are moving from a static concept to one that is much more dynamic. In any given industry, the relationship between participants is becoming more and more diffuse due to schizophrenic competition, where a competitor can simultaneously be client, supplier, partner, product consultant or even financier.
- Clients are more demanding and less loyal than ever before, and are now afforded hitherto unknown options by the new economy: the cost of changing to alternate suppliers, industry pioneers establishing very high service standards, consumers' near perfect access to information, to name a few, all contributes to further rupturing traditional relationships with clients. As a result, a company's capacity to build up a loyal client base becomes basic equity to developing its competitiveness.
- The lifespan of the competitive edge is substantially reduced. An organization's ability to redefine novel sources of competitiveness is crucial to a company's harmonic development and to foster its capacity to turn a profit in future.
- Timelines and space are being significantly reduced. The ability to deliver more quickly and with fewer intermediaries has become a fundamental element of relationship equity to the company's development.
- Networking is vital. Incontestably, the new playing field of the modern economy is reinforcing the necessity of instituting management mechanisms whereby companies are concentrating all their intrinsic competencies, which are in constant evolution, and are efficiently collaborating with a wide array of players.

This is the setting in which companies are required to come up with mechanisms which would best utilize the organization's intangible assets as a source of differentiation vis-à-vis their competitors. By seeking out imaginative solutions, the most is made of the capacities of individual organization members, later transforming them into system and management mechanisms, which ultimately contributes to value creation for the organization.



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As outlined clearly in the book by Leif Edvinsson and Michael S. Malone: "Intellectual Capital: Realizing Your Company's True Value by Finding Its Hidden Brainpower", an organization that efficiently manages and assesses its intellectual capital needs to implement management mechanisms and performance measures to develop three basic elements in their organization:

- 1) the employability of the people in the organization;
- 2) the structure of management philosophies, values and systems;
- 3) the relationships with the players with whom the company interacts.

Enhancing the employability of the people is a growing challenge for companies. In order to develop the learning capacity of individuals, there is a call for management systems and practices which would actively foster their creative and innovative capacities, thereby aligning personal talent with the basic competencies of the organization.

A permanent structure of knowledge in an organization is *sine qua non* for managing intellectual capital. The transformation of inherent individual capacities into management mechanisms to be shared by everyone in the organization is one of the indispensable and key tasks of management. The goal is to secure sources of differentiation which would spring from: solid cultural traits; business philosophy; management systems; work routines; internal communication and knowledge exchange; technology and management team cohesion, to name a few examples.

It is vital that improving relationships be the leitmotif in managing an organization's intangible assets. Some examples are: improving the capacity to interact with clients, involving them in the management process and laying down a model for client loyalty. Furthermore, seeking mechanisms for improving brand value and promoting connectivity are all part and parcel of a fresh way of doing business founded on breaking prevailing boundaries in industry.

Each company needs to develop its own unique model of intellectual capital management which ought to be an integral part of its strategy. To be able to adapt to the fast paced changes experienced by both the company and its environment, it is therefore imperative that such a model be open, flexible and focused on measuring both the results and processes produced. This new model should adequately combine the present situation with an eye to the future, the organization's internal and external factors, coupled with existing implicit and explicit knowledge.

The company that commits to the management and measurement of intangible assets stands to reap by a number benefits:

- From an internal viewpoint:
 - 1) It promotes a necessary thinking process on the role of intangibles in the company strategy as a factor for differentiation.
 - 2) It spawns a new culture focused on managing worker talent and the capacity for incorporating knowledge into the organization.
 - 3) It emphasizes being more open to the company milieu as a management mechanism.
 - 4) It aids the incorporation of management performance measures placed throughout the organization, while offering an effective mechanism for strategic



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implementation of financing, enabling adaptation to the challenges of the new economy and in augmenting the value of intangibles.

- From an external viewpoint:
 - 1) Exploiting intellectual capital allows the company to inform the market, potential collaborators and its network of partners about its future profit-making possibilities, and to create sustainable value over time.
 - 2) Finally, while complementing the information all the players related to the company have access to, it also contributes to defining a company image in the market to that of an open, innovative and learning company.

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