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THE IMPACT OF INTELLECTUAL CAPITAL ON THE SMEs PERFORMANCE: A STUDY OF THE ROMANIAN CENTRAL REGION SMEs

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Abstract:

The 21st century is the century of change and maybe one of the most important changes in the organizations' life is the transition from focusing on the development of the tangible assets to the development of the intangible assets and the interest for attracting human resources capable to generate performance. The survival of many companies depends on their willingness and capacity to adapt to such changes. (Abdulaali, 2018) In this dynamic and complex economic system, the intangible assets of organizations become primary, being decisive for the organizations' performance. In the new economic competition, intangible assets provide a sustainable competitive advantage, intellectual capital and intangible assets representing the key factor in company profitability and success. In the knowledge based society, intellectual capital has more value for organizations than tangible assets and knowledge becomes a permanent source of competitiveness (Bhatti, Zaheer, 2014) . It is considered by specialists a valuable and strategic resource, since the success of organizations depends on creating, discovering, storing, disseminating, measuring and developing knowledge. The main objective of the research presented in this paper is to offer an overview on the specific problems and needs of the entrepreneurs financed through the Romania Start-up Plus programme, part of Start-UP Hub: The Entrepreneurs Laboratory Cod SIMS: 105648. A primary target of this research is to examine the components of intellectual capital and the way in which the intellectual capital influences the small business performance. The majority of the researchers agree that intellectual capital is directly connected to the performance of the SMEs sector. The results of our analysis shows the fact that intangible assets influence business development in various ways, such as increasing competitive advantage, expanding employee competency and improving organizational performance.

Key words: *intellectual capital, intangible asset, SMEs performance, structural capital, relational capital*

1. Introduction

Our world is under continuous transformation. Nowadays, more than ever, the exogenous environment of organizations is constantly changing – becoming dynamic, complex and unpredictable. This makes the survival of many companies to depend decisively on their willingness and capacity to adapt to changes in this environment.

One of the important changes which we are witnessing refers to the strong tendency of resource depletion. In these conditions, the success of companies will rely on optimal development, investment, and management of intellectual resources. It is time that the management of organizations focus more on intangible assets and less on the tangible ones; furthermore, it is time to change the vision of organizations for the future. Specialists consider that the main characteristic of this new economical environment is the essential role played by intangible assets as a fundamental key to create value in companies. Nowadays, more than ever, the big differences between the book value and market value of organizations become visible, differences caused by the intangible assets of organizations. Examples of some companies like Microsoft, eBay, etc...are suggestive and come to support the idea that the difference between the book value and the market value of an organization is given by the value of the intangible assets which the organization owns and manages.

The value of businesses is calculated both through tangible physical assets and through intangible assets such as the company's future competitiveness, know-how, market image, potential innovation, patents, copy-wrights, business practice, information systems, relations and customers. (Hamzah, Mohd, 2008) Intangible assets and especially knowledge and intellectual capital are a strategic resource and a key factor for an organization's performance for its sustainability.

However, with this strategic importance of intangible assets for organizations, there are still high difficulties faced by SMEs in the evaluation and management of IC, since the importance of intellectual capital for economic growth and development is well known.

Specialists claim that the competitive advantage in the knowledge economy depends more on the way businesses manage intellectual assets than how they use the tangible and financial assets. The result of the investment in intangible assets – mostly in human capital – depends on the organizations' transition to knowledge organizations - a priority for the SMEs is to reorganize, restructure, and to turn into learning organizations. (Bui, Baruch, 2010) In the knowledge-based society, organizational transformation is a necessity for most of the SMEs. The main factor that will support this transformation is the accumulation and development of intellectual capital with its main component, human capital.

Underlining the overwhelming importance that intangible assets have in the development and SMEs performance does not mean we minimize the importance of the tangible assets and the financial capital. Organizations, regardless of dimensions, field of activity, life cycle, need both tangible and intangible assets for their growth and success. There is no doubt that tangible assets are very important for an organization, but intangible assets also play a crucial role in the growth and development of a business. (Abdulaali, 2018)

Intellectual capital (IC) management aims to recognize that it offers new opportunities to organizations to create value for them. Effective IC management will help create and add value, thus, affecting organizational performance. However, there are quite a few specialists who have established specific stages / steps required for optimal and efficient management of the intangible assets. Only with a distinct and efficient IC

management, intellectual capital can be effectively exploited so as to generate superior performance.

Through intellectual capital, the firms are able to quickly adapt to the changes and remain competitive in the markets. Intellectual capital has increasingly become a source of competitive advantage due to innovation. (Abdulaali, 2018)

2. Theoretical framework

Hereinafter, we present a number of definitions that will clarify the concepts used. As it happens frequently among theoreticians, there is no consensus on what intellectual capital is, hence there are many definitions of the concept.

The multitude of definitions in the literature for intangible assets do not prevent us from identifying common elements, as follows (Hamzah, Mohd, 2008): they are generally defined as non-monetary sources, lacking physical substance, controlled (or at least influenced) by a business as the result of previous events and transactions (self-production, purchase or any other type of purchase) can be sold or not separately from other corporate assets, do not appear on the company's balance sheet and intellectual assets are non-rival assets.

Intellectual capital is defined as the difference between the market value of a firm and the financial / accounting value, resulting from the company's accounting documents. Intellectual capital has also been defined as the difference between the market value of a company and the cost of replacing its assets. For most organizations, the concept of intangibles asset is not a new one, it is known for many years as it focuses on developing organizational performance with the available resources.

In practice, the term "intellectual capital" is often used to cover all the intangible or non-physical assets and resources of an organization, including its processes, innovation capacity, patents and tacit knowledge of its members and their collaborators and contacts. The European Commission has defined intellectual capital as a combination of intangible resources and activities that "allow an organisation to transform a bundle of material, financial and human resources in a system capable of creating stakeholder value". (European Commission, 2006)

Stewart defines intellectual capital as *"a knowledge resource available for the company that produces high-value assets and economic benefits in the future for the company"* (Stewart, 1997), being *"knowledge that is all intellect, all the information and experiences that companies use to create wealth"* (Stewart, 1997) arguing that it includes processes, technologies, patents, worker skills and knowledge of other relevant parties, such as customers and suppliers. In other words, intellectual capital is in Stewart's view *"the accumulated useful knowledge arguing that it comprises an organization's processes, technologies, patents, workers' skills, and knowledge of other relevant parties such as customers and suppliers. In other words, intellectual capital is intellectual material that can be put into use to create wealth, that is, knowledge, information, intellectual property and experience"*.(Stewart, 1997)

Intellectual capital includes intangible assets that are not presented in the financial statements, it is the knowledge of workers in the organization and use of this knowledge

within the organization. According to specialists, intellectual capital is made up of three main components: human capital, relational capital and organizational capital.

Human capital, the most important component of the intellectual capital is a continuous source of innovation and development in any organization, but being an intangible asset it is difficult to assess. Human capital is defined as *"the knowledge that employees take when they leave the company. It includes people's knowledge, skills, experiences and abilities. Some of this knowledge is unique to the individual, some can be generic."* (Hamzah, Mohd, 2008) We hereby refer to creativity, teamwork, formal training and education, motivation and work satisfaction, innovation capacity, know-how and previous experience, employee flexibility, and learning capacity.

People are the most important resource of any organization, the only capable to create plus-value, the only one that does not depreciate through usage, but, on the contrary, grows. Human capital is the component of intellectual capital embedded in the company's employees and includes: intelligence, culture, skills, skills, knowledge and talents. Human capital is a mixture of general knowledge, specialized knowledge, experiences, management and communication skills, problem solving, competencies to work in the team, undertake risks, to make decisions. Also, human capital influences major relational and social capital, both of them being closely linked to people. Companies are increasingly aware of the human capital role in the development and sustainability of organizations, the need to continuously invest in improving the competences of employees, in the development of human capital to effectively compete in a market that is becoming more and more competitive. Employees do not depreciate. Their value to the organization, when understood and valued, is unparalleled.

Structural capital is the organizational capacity of the company to meet the requirements of the market it operates on and it is also an important part of organizational performance, because processes, internal culture, technological management, knowledge, and other features contribute to the development of the organization's improved performance. (Abdulaali, 2018) Structural capital is defined as *"the knowledge that remains within the firm at the end of the working day. Includes organizational routines, procedures, systems, cultures, databases, etc".*(Abdulaali, 2018) Structural capital is the knowledge that is held, managed and developed by the organization and includes elements such as intellectual assets, databases, organizational culture, structure, patents, trademarks.

Relational capital is defined as *"all resources related to the company's external relations, customers, suppliers or research and development partners. It includes that part of human and structural capital involved in the company's relations with stakeholders (investors, creditors, customers and suppliers, etc.) plus the perceptions they own about the company."* (Abdulaali, 2018) Specialists include in the category relational capital: relationships with stakeholders, brand image, customer loyalty, bargaining power, social responsibility, etc. Relational capital is largely influenced by the communication process between organizations and customers - by the quality and opportunity of the information provided by the organization to stakeholders. (Abdulaali, 2018)

Organizations need to pay special attention to the relationship with the customers - how needs, expectations, their desires are satisfied - the common goal of all organizations

being customer satisfaction. The focus on customers and the market is definitely a way to increase profitability and market share.

3. Intellectual Capital and Organizational Performance

Specialists (Abdulaali, 2018) claim that, in order to obtain competitive advantages on the market, companies need to create products, marketing channels, to improve the research and development and pay particular attention to the development of the company's intellectual capital.

Nowadays, more and more SMEs understand the role that intangible assets - knowledge and IC - have in building a competitive advantage on the market. This increasing interest in the study of the intangible has also led to the start of some research on the intellectual capital and the impact it has on organizational performance. We can mention the research by SWART (Abdulaali, 2018), which made an evaluation on the intellectual capital and determined that intangible assets are important in creating a competitive advantage. In his study, SWART, (Abdulaali, 2018) also established that intellectual capital can help to solve the challenges affecting business in the dynamic economy of the 21st century. Also, Tarus and Sithene in the "Intellectual Capital and Innovativeness in Software Development Firms: The Moderating Role of Firm Size" (Hashim, Osman, Alhabshi, 2015) suggest that human capital is the most innovative feature of the organization that helps it act in accordance to environmental changes, a feature that contributes to organizational performance through knowledge, experience and applicable skills that increase organizational efficiency.

Human Capital - the most influential part of organizational performance - structural capital through processes, internal culture, management and technological knowledge and other features, contributes to the development of organizational performance and relational capital through strong long-term relationships. It is very important in achieving organizational performance and building a competitive advantage on the market it operates on. An advanced management of intangible assets and a strong organizational culture encourage creativity, innovation, the flow of information among the members of the organization that helps them work to achieve common goals, to create an environment that allows the exchange of information in order to enable the transfer of knowledge among employees. All these lead to organizational development, improve organizational performance and its resilience on a competitive and dynamic market.

4. Study of the Romanian Central Region SMEs

The study that we present in the following chapter provides an overview of the problems and necessities specific to entrepreneurs financed through the Romania Start-Up Plus Program, within the Start-Up Hub Program: Entrepreneurs' Laboratory Sims Code: 105648. "Lucian Blaga" University of Sibiu, as a beneficiary of this project, organized this study with the aim of drawing lines of action for facilitating a favourable context to the development of the entrepreneurial environment in the Centru Development Region. A

particular objective of this research was to examine the components of intellectual capital and how intellectual capital influences small business.

The 74 entrepreneurs who received minimis aid in the Start-Up Hub project were asked to fill out an on-line questionnaire (unfortunately the size of the questionnaire prevents us from presenting it here), during November-December 2020, to evaluate the impact that this project had on their businesses and on their individual development.

5. Methodology

The target group aimed through the online questionnaire was made up of the 74 entrepreneurs, beneficiaries of the minimis aid, so that an exhaustive research can be made for analyzing the added value of this project in the efforts to develop the entrepreneurial environment in the Centru Development Region. The entrepreneurs who received funding come from all counties of the Centru Development Region, but most of the start-ups (71.6%) are set up in Sibiu County.

6. The target group

The target group aimed through the online questionnaire was made up of the 74 entrepreneurs, beneficiaries of de minimis aid, so that an exhaustive research can be made for analyzing the added value of this project in the efforts to develop the entrepreneurial environment in the Centru Development Region.

The entrepreneurs who received funding come from all counties of the Centru Development Region, most of them start-ups (71.6%), being set up in Sibiu County. Regarding the age distribution of entrepreneurs, we noticed that the age segment under 30 is the least populated, followed by entrepreneurs over 45 years of age. More than 65% of the beneficiaries of de minimis aid are aged between 30 and 45 years. As for gender, a relatively balanced distribution is observed, with a slight advantage for female entrepreneurs representing 57% of all participating entrepreneurs in the study.

An important aspect of the research focused on **the level of education of entrepreneurs** who submitted business plans for funding in this project. Over 90% of them have university or post-graduate studies, while only 5.4% of respondents have average studies. Regarding the field of graduation of the entrepreneurs, 36% graduated from the technical profile, 29% economic profile, 13% medicine, 3% law and 19% other profiles. *Qualified and experienced employees are able to come up with new ideas and apply them to improve products and processes. It is a reality demonstrated today that organizations that have employees with knowledge, skills and competencies in business development, with a positive and solid culture are also better than the competitors.*

Based on the main business activity of the companies financed by the project, the following distribution occurred: we can see that the services field is best represented among beneficiaries of the funding, with a total share of over 70%, of which education services represent more than 10% and health services over 13%.

7. Data collection

In order to develop the analysis, quantitative and qualitative data was collected on the current state of the companies set up by the 74 entrepreneurs, as well as information on the project, namely the causes that led to the performance reported by them, the barriers encountered in order to materialize the business ideas, as well as the forecast of the evolution of their business.

The research tool used was an online questionnaire, developed on the Google Forms platform, which was distributed to respondents from November to December 2020. The questionnaire comprises 17 items, of which 6 with sub-items and 10 classification questions. All 74 entrepreneurs who obtained funding responded to the questionnaire. Thus, thanks to the exhaustive collection of information, this analysis gives a comprehensive picture of the economic situation of the direct beneficiaries of the Start-UP Hub project: Entrepreneur's Laboratory and how intellectual capital influences small business performance.

8. Research limits

The performance of this analysis was limited by several factors. The main constraints encountered were related to the relatively small size of the target group, which makes it difficult to identify statistically significant correlations between different variables. Thus, the statistics presented in this report are predominantly descriptive. The involvement of respondents when filling out questionnaires is varied, and among the causes we mention: the large number of questions, the time of year when the data was collected, the level of fatigue, stress of the respondents, the low level of entrepreneurial knowledge held.

9. Results

The current competitive, dynamic, and continuously changing business environment requires companies to strive to obtain competitive advantages through dynamic business plans that incorporate creativity and innovation. This is essential for their long-term durability. Also, the role and importance of human capital for SMEs are demonstrated and depend on the degree to which it contributes to creating a competitive advantage and developing the organization. (Marimuthu, Arokiasamy, Maimunah, 2009) For SMES, the general investment in human capital includes training, education, knowledge, skills and competencies that will increase the efficiency of human capital generating superior performance for organizations.

The analysis of the responses offered by our research participants shows that about a quarter of the respondents had at the time of filing the business plan, less than one year or no experience, while 25.7% had experience between 1 and 3 years, and approximately half of those who obtained funding had experience in the field of business they have set up for over 3 years. *With certainty, the experience and knowledge in the field in which they developed their business have positively influenced the activity carried out,*

contributing significantly when achieving and even exceeding the indicators considered through the project.

We must observe that nearly half of the entrepreneurs asked for the support of close friends with experience in the field of business, while 52.7% drew on their own knowledge.

Also, one third of respondents declare that they had less than one year managerial or entrepreneurial experience or even none at all at the time of the application, while 66.2% have managed companies or have had managerial roles for more than a year before starting the business. The results obtained confirm that entrepreneurial knowledge and small and medium-sized business management had an essential contribution to achieving and even exceeding the proposed project indicators. *Specialists consider that nowadays, many SMEs realize that employees' experience is not just the "cherry on the cake" - it is an important aspect that plays a direct role in the contribution of employees to the development and performance of employees in the organization.*

Research shows that 55.41% of the beneficiaries of the de minimis scheme say that the experience gained from the implementation of the business plan substantially changed their entrepreneurial attitude, while 28.38% have neutral position, which demonstrates the positive impact of the project on new entrepreneurs. *Effective management helps improve motivation, engagement, loyalty, and performance.*

As regards **the transformation of entrepreneurial attitudes**, the analysis focused on experience, age and gender, and evaluated 14 items aimed at how entrepreneurs adapt to the challenges arising from the implementation of the business plan and the completion of the sustainability period. Thus, 73% of university entrepreneurs and 68% of those with postgraduate studies consider to a large and to a great extent that they have developed their ability to act in new situations. Women developed a better skill following the implementation of the business plan (76.2%), while men declare that they became more flexible and more adaptable in 62.5%. We have an average positive perception of 71.6% in both genres that consider to a large and a great extent that the result was an adaptation to new situations, and a positive perception of personal and entrepreneurial transformation.

Entrepreneurs without practical management experience, or with experience under 1 year at the time of registration, indicate an average gain of 95% in terms of flexibility and adaptation to new situations, while entrepreneurs with experience between 1-3 years and over 3 years indicate an average positive change of 93.05%. *The results show that the experience and challenges generated by the implementation of a start-up help entrepreneurs become more flexible and adapt easier to new situations.*

Entrepreneurs participating in this research declare that the implementation of this business helped them become aware that they have to constantly improve and learn new things. 83.3% of the female entrepreneurs consider that they permanently need improvement, 11% more as compared to male entrepreneurs which admit needing improvement in about 71.9% of cases. All previously experienced entrepreneurs under 1 year (100%) believe that the implementation of this business helped them realize that they needs to be permanently improving and learning new things. *Therefore, we can say that the implementation of a business leads to objective awareness of the need for personal*

development and improvement. As we have previously argued, general investment in human capital includes training, education, knowledge, and skills that will increase the efficacy of human capital.

Regarding the personal development areas that the questioned entrepreneurs feel still need improvement, the answers offered can be grouped into 5 categories: management, financial education, marketing, professional development, and personal development.

The responses show that most of them feel that they need knowledge of: time management, followed by financial education (understanding of tax documents, advanced accounting, understanding and usage of company financial performance indicators), management (delegation, risk management, teamwork, opportunities identification, and resource identification), communication, emotional control, marketing, sales and negotiation skills. *It is also worth mentioning that some of the questioned entrepreneurs do not consider it to improve something. Investments in training may increase the profit margin of SMEs according to specialists, by 25% or more, as they improve the work and involvement of employees at work. Training also helps maintaining and increasing the turnover. Companies have to provide employees with a learning environment, professional development, creativity and innovation that foster the development and advancement of employees.* (The Biggest Factors That Affect Employee Performance)

If we analyze the answers of the entrepreneurs on **the factors that led to an increase in the company's competitiveness**, we notice that:

a. 44.5% of respondents believe that the business trade and the ability to reach potential customers with the offered products and services made the business more competitive, while 51.55% of them consider that the presence of the business on a high and stable demand market was of a major advantage; *goodwill was considered long as a sustainable competitive business engine and SME's benefits. The results of our analysis show that a high level of goodwill has a positive impact on the performance of SMEs. However, in small businesses and, here we refer to micro-enterprises and small businesses, goodwill has not always proved to contribute to increased performance. This can be explained by the fact that only developed companies invest in goodwill, while many smaller firms are simply struggling to generate tangible assets.* (Satt, Chetoui , 2017)

b. The uniqueness of the company's products and / or services is a competitive advantage for 58.7% of start-ups, and 76.4% of business considered the technology used to be a strong point, as well as the technological level or creativity of the firm; *therefore, in this paper, we came to the conclusion that employees' creativity is important when the company wishes to maximize its gain with fewer efforts, so the employee have to be encouraged to engage in creative activities for the progress of companies. It is important that SME management understands that if employees are offered freedom and are encouraged, they will use their skills at the highest level, and the organization will be more profitable.* (Siddiqi, Quershi, 2016)

c. 61.4% of entrepreneurs consider that their business experience was decisive to the competitive advantage, while 26% of them do not consider experience as an indispensable ingredient to increase business performance on the market. Personal relations, customer portfolio and networking capacity of the entrepreneurs are believed to

be competitive values of major importance by 70.45% of start-ups. *The results obtained reflect the perception of entrepreneurs participating in research according to which the performance of workers does not only depend on their qualification level - although competence plays a major role. Employee experience, work environment, colleagues, managers, developed interpersonal relationships and other variables interact to affect performance.*

d. Only 43.3% of entrepreneurs consider a low cost business as an advantage, and 28.7% consider that high performance in promotion and marketing contributed to a more competitive business.

e. 73.2% of start-ups trust that the business reputation based on a set of values and social responsibility contributed to shaping the competitive advantage for their business. *Some features and behaviours have a positive impact on workers' performance. For example, a culture built around learning and continuous improvement of faith in the amount of digital literacy and digital dexterity, openness to change and new ideas, these features can help improve the performance of the workforce.* (Siddiqi, Quershi, 2016)

In the current business environment, although the companies that participated in our study are low maturity companies, which failed to accumulate enough capital, in the short time available (less than 2 years of operation), intellectual capital offers a competitive advantage to the analyzed organizations.

For any SMEs, intangible assets and employee performance are the key to success for sustainability. Certainly, through intellectual capital, businesses may have successful strategies that cannot be easily copied.

10. Conclusions

Intellectual capital represents with certainty the most important intangible assets of the SMEs, in the knowledge-based economy, the economy of the 21st century, being a strategic asset that gives them competitive advantage, a lasting and sustainable development in a dynamic, complex, unpredictable economic environment.

The present research, through the obtained results, confirms that intellectual capital influences business development in different ways, such as increasing competitive advantage, increasing employee skills and increasing organizational performance. It is demonstrated that intellectual capital, with the three components - human capital, structural capital and relational capital - is definitely linked to performance in the SMEs sector. In these circumstances, the interest of SMEs is justified in the development of intellectual capital, in improving the quality of human capital by attracting talents into the organization, by investing in the development of the human capital, since human capital has a major influence on both relational and social capital, both of which are closely linked to people.

SMEs management understands the role of human capital, especially that of human capital in the development and sustainability of organizations, being aware of the need to invest continuously in the development of employees' skills, in the development of human capital in order to compete efficiently on a market that is becoming increasingly challenging.

In the knowledge-based society, every organization is in constant change. The organization's success depends on how intangible assets are managed during this period.

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