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# INNOVATION CAPITAL – A POSSIBLE APPROACH IN EVALUATION THE INTANGIBLES ASSETS

Case study

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## Keywords

Innovation Capital  
Evaluation  
Model  
Intangibles assets

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## JEL Classification

M14, O12

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## Abstract

*In an era of knowledge are many aspects to operating a successful business, things like hard work and perseverance are fairly obvious but other less tangible resources like creativity and innovation are also paramount to the long-term success of most modern organizations. Over the last few years many companies have begun looking beyond the traditional idea of what makes a company innovative and have started to explore a kind of mix and match approach to applying various creative methodologies within their organizations in the attempt to inspire innovation. The aim of the paper is twofold. Firstly is presents a new evaluation model of innovation capital. Secondly, the proposed model is tested and validated in a company. This model helps managers to focus their attention on the increase of the value of innovation-related intangibles assets.*

## 1. Introduction

In the last decade, more companies have begun to pay increasing importance on innovation, research fundamental, applied research and technology transfer. Innovation is a key issue of our time and is central to economic growth as its catalyst, and also becoming a vital element of competitiveness. Companies that want to be successful and to record the fastest growth in the current business must use innovative solutions, because a significant proportion of the income of these companies is expected to come from new or improved products and services quality. Thus, in our century, companies approach innovation in two ways. On one hand, innovation is seen as part of the change, and on the other hand, perceive innovation as an element introducing the "new" in a field. It is noted that the original meaning of the concept of innovation covered only a small part of the activity of a company, innovation accounting or any idea, practice or product developed by the company recently and saw that it has developed as new as compared with frame of reference, or as a process of adaptation to new ideas that can be applied to product development to meet the requirements of certain markets. Later, as the rapid changes in the characteristics of foreign markets and the perception of innovation as an important asset for creating and maintaining competitive advantage, there was enlargement literacy chance to develop new products to how to obtain them, involving the obtaining of competitive advantage all activities to obtain the product in a company. Therefore, one can say that the competitive advantage is volatile, hard won and much more difficult to maintain and strengthened the customers who through their individual choices polarization confirms the recognition performance and award competitive advantages, thus causing competitive ranking companies present in a particular market. Competitive advantage is the benchmark of competitiveness of firms in competitive markets, and innovation is a source of obtaining and storing it. The purpose of this paper is to present a model for evaluation innovation capital with the purpose to help the companies see the added value brought by this intangible resource.

## 2. Defining innovation capital

Innovative capital is a metaphor consists of the juxtaposition of the two elements of major significance. The two words are in marked antithesis term capital notes to the financial well-being, while the word innovation projects intangibles. The two elements together in a phrase the two types of economies: one based on tangible assets exposed by the term capital and based on the knowledge represented by the word intellectual. Most contemporary economists assume

that there are two stages in developing the concept of innovation capital. In the first stage, innovation capital is seen as all the decisions and activities that occur from the recognition of a need or a problem, through research, development and commercialization of an invention (Rogers, 2003). In the second stage, innovation capital consists in the introduction of a new or significantly improved product, process, marketing method or methods in organizational practices within a firm, in the workplace or in foreign affairs (OECD, 2005). Like any concept, innovative capital is characterized by complexity and different definitions. Over time, many authors have tried to capture the essence of this concept. One of the earliest definitions is given by Edvinsson and Malone in 1997. They present the innovation capital as renewal capabilities and the related results in the form of intellectual property rights and other intangibles assets used to create and introduce new products and services to the market; it comprises the entire stage level process from the invention through the R&D process to the successful introduction of implementation of the new idea (Edvinsson & Malone, 1997). Innovative capital represents the capabilities of a company to generate value in the future. It contains the component development of processes, products and services, but also technology and management issues (Wagner & Hauss, 2000). There are other definitions of innovation capital that concur with the approach Edvinsson and Malone, but add new concepts. According to Chen et al. (2004) innovation capital is the competence of organizing and implementing research and development, bringing forth the new technology and the new product to meet the demands of customers. It involves the new product, the new technology, the new market, the new material and the new combination. Innovation capital is the ability of firm to create and execute new ideas. This innovation is about identifying and using opportunities to create new products, services, or work practices (Namvar et al., 2010). Defining innovation capital varies from one author to another.

Innovation capital refers to explicit organisational knowledge residing in an organisation's intellectual property, business designs, business process techniques, patents, copyrights and trade secrets which enables organisations to build a competitive advantage either through economies of scale and scope or differentiation (Hsu & Mykytyn, 2006). With the increasing importance of new knowledge, innovation capital can be regarded as a resources that creates sustainable competitive advantages only in combination with other resources of the firm as physical capital resources, human capital resources and organizational capital resources (Barney, 1991). According to Sullivan innovation capital has become the core of

intellectual capital providing a powerful drive for gaining and sustaining competitive advantage (Sullivan, 1998). The innovative capital is seen as a particular archetypal social pattern which aims at production, diffusion and application of new knowledge for, an organization (McElroy, 2002).

Chinese scientists think that innovation capital included innovation capacity and intangible assets used to develop new products and skills, including customer and product innovation, market innovation, equipment innovation, and employee innovation and strategic partners innovation, also including intellectual property those belonging to the company, including patents, copyrights, design rights, trademarks and so on (Wang&Wang, 2011). In the romanian literature, innovation capital is seen as intangible resources associated with process innovation and intellectual property of the company, represented by patents, trademarks or other intellectual property rights (Bratianu & Jianu, 2006).

Summarizing the above, one can say that innovative capital is the ability to produce quick change (adaptation, improvement, development and innovation) and generate sustainable competitive advantage in a society that makes the transition from an economy based on the knowledge to economy innovation. Analyzing the definitions presented, it appears that innovative capital has the following key features (Kijek, 2012):

- It's intangible
- Has the potential to create value in the future by obtaining a competitive advantage
- It's strategically valuable
- Not replaceable
- It depends on technology and social integration in terms of knowledge
- It's based on property rights and trade secrets.

### 3. The proposed model for the innovation capital evaluation

Interest in evaluating innovative capital occurred in the last decade, when managers have realized that the resources and the amount of resources available to the company are not decisive in its results. In a turbulent economic environment, there is a pressing need to evaluate innovation capital from the perspective of internal decision making and is necessary for communication with external shareholders, in particular with the investors interested to find information about the future performance of organizations. Identifying and evaluating the innovative capital will be the key differentiator between successful and mediocre companies. The issue of measuring innovation capital is important as much as it's used to develop innovation capital assets and estimate their effect on a firm's performance (Kaplan & Norton, 1996). The evaluation of the innovative capital

demands good research methodology that improves the integration of theory construction and theory testing. First at all, it's necessary to develop a conceptual framework based on the concepts of capability and its implications on the concept of innovative capital, relations with the knowledge society and some approaches to evaluate the results of research and development process using. For this purpose it developed an innovative capital measuring model that contains quantitative and qualitative indicators (Figure 1). Indicators were selected considering the literature, they have the following criteria:

- Feasibility of data gathering
- Providing information useful to internal management and to stakeholders
- Perceived usefulness of the information provided and expected confidentiality concerns
- Easy to understand and transmission
- Relevance to the stakeholders

This model is based on the results and synthesis of the literature review. The proposed methodology has different areas of applicability that range from external reporting to stakeholders, through comparison among firms within the same industry to management of innovation capital. The model is especially useful for companies that operate in the IT field, where the innovation capital form the core assets. The advantage of the proposed innovation capital evaluation model lies in its ability to offer periodically, to the strategic management, information feedback, that enable corrective actions for the innovation capital improvement with the aim that company to have sustainable competitive advantages through utilizing this intangibles assets.

### 4. Case study

In order to test the new model for the evaluation of innovation capital a case study has been conducted in the organizational context of a company that operate in the IT field, called X Company. This company is a multinational corporation that creates consumer electronics, personal computers, computer software, and commercial servers, and is a digital distributor of media content. The organization was founded in 1976 in California. For more than two decades, X Company was predominantly a manufacturer of personal computers, but it faced rocky sales and low market share during the 1990s. Based on data collected from the Annual Financials for Apple Inc. and United States Patent and Trademark Office, as well as the proposed methodology, the indicators are presented in the Table 1. This analysis provides some answers in explaining the development of the company. This study offers important informations and contributes to the debate on the innovation capital drivers explaining the potential of organization wealth creation.

## 5. Conclusions

This paper achieves three main purposes: first, it explain the concept of innovation capital according to some authors; second it present why and how this innovation capital measurement model was developed and three it highlights the dynamics of innovation capital in a IT Company. The results of the model application in the sample of the IT firms are very interesting and can be regarded as an illustrative example of the model use. Therefore, one can say that innovation by invention remains to have an important role in the advance of knowledge and the development of today's society and it's important that managers understand the meaning of innovation capital, because this will help them to better understand what really matters for the survival and sustainable of their organisation in knowledge intensive society.

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Appendices

Table 1  
*Innovation Capital Index*

<b>Indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Mean</b>	<b>Standard deviation</b>
<b>Number of new products</b>	34	19	21	28	20	24.4	6.42
<b>Number of patents</b>	2.89 H	5.63 H	6.76 H	10.74 H	16.5 H	8.5	5.28
<b>Number of awards won</b>	11	10	12	11	11	11	0.71
<b>Market share</b>	22 %	27 %	29 %	25 %	36 %	27.8	5.26
<b>Turnover</b>	36.54 B	65.23 B	108.25 B	156.51 B	170.91 B	107.5	57.54
<b>R&amp;D expenditures</b>	1.33 B	1.78 B	2.43B	3.38 B	4.48 B	2.7	1.27
<b>Sale of new products</b>	24,006 M	32,461 M	37,491 M	42,905 M	65,225 M	40.4	15.51

Note. H- hundreds, B – billion, M- millions.

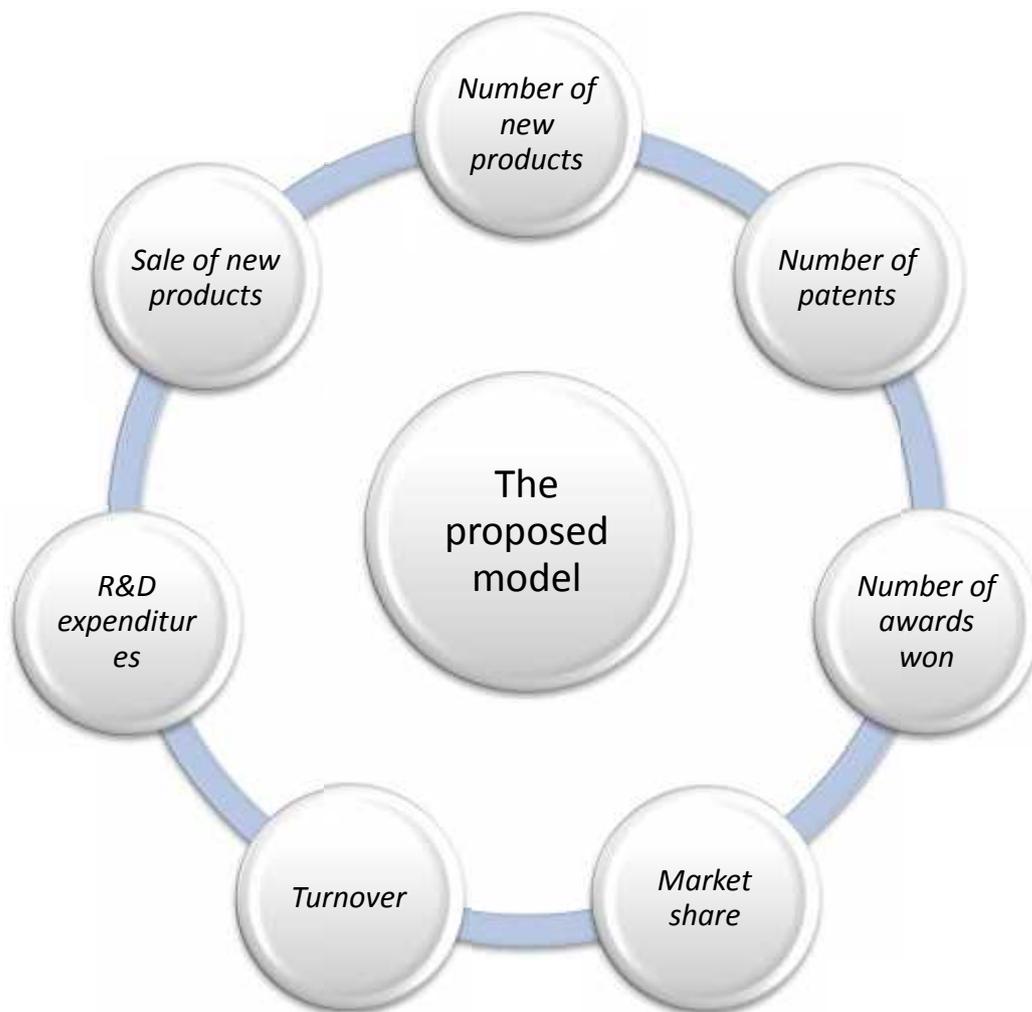


Figure 1. A model for evaluation innovation capital

