SOCIAL INNOVATION CAPITAL, CLUSTERS AND AN IMPORTANCE OF INTELLECTUAL CAPITAL FOR INNOVATION

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Introduction – talking about competitiveness vs. reality

According to so called Lisbon strategy there was an objective for EU to be the most global competitive knowledge-based economy in the world (to 2010). The reality as we can see in the most recent Eurochambers Time distance study 2007 is different:

- the US reached the current EU level of GDP per capita in 1985 – EU is 21 years behind with US!
- the EU25 current employment rate as well as the level of investment in R&D were reached by the US in 1978 – EU is 28 years behind with US!
- the EU25 current level of productivity (expressed in GDP per employed) was reached by the US in 1989 – EU is 17 years behind with US!

It is not optimistic and perhaps it manifests that Lisbon targets were originally from the beginning unrealistic.¹

And what about Czech Republic in such EU case? “Czech Republic – knowledge and technological centre of the Europe, with high standard of living and high level of employment”. That is vision of the Czech Republic, mentioned in the document “Economic growth strategy for the Czech Republic 2005-2013”. There are many (buzz)words (?) in this document – competitiveness, regions, human resources, innovation, research and development, quality etc. As a member of EU we (in the Czech Republic) very often use the EU “newspeak”. According to mentioned strategy “we” want (or need) to converge to the EU level (to reach EU average level of per capita GDP in 2013). Probably it is SMART goal, however to employ at least twice more effort is needed. Paradoxically we can use a motto from past communist era “To catch up and to overtake!” (targets – developed economy incl. US economy – are still the same). In this situation an effort, spent by our organizations on the quality field and measured by formal ISO 9001:2000 certification is not enough (and another future revision oh that standard probably will not help). It isn’t competitive weapon for (not only) our country. Following table shows some details:

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¹ Author’s personal note - As a trainer (e.g. for quality managers on lectures for the Czech Society for Quality) I try to motivate participants to use very common „SMART rule“, it means to objectives and goals that are Specific, Measurable, Acceptable, Realistic and Timed. In mentioned EU case I am not sure with acceptability and realistic view. Such opinion is not about „euroscepticism“ or „europtimism“ as somebody can note. According to my experience it is about timescale, creativity concerning measures, thinking about cause and effect linkages, and of course about communication or sharing ideas. Finally it concerns on real will, effort and leadership.

² I am not sure if it is correctly in English.
Northern countries are the most competitive countries according to World Bank’s Knowledge Assessment Methodology (KAM), which covers totally 81 different measures. It is an index, suitable to measure knowledge-based competitiveness, where Denmark in 2005 was at the top position. Different order of countries we can discover, if we consider GDP per capita as macroeconomic Holly Grail and main performance measure. In such case from selected list Norway is at the top. And now consider ISO certification. Organisations in the Czech Republic are still spending a lot of money to be certified according to ISO 9001:2000 standard. With 1,247 certificates per 1000 inhabitants, we stand at very top position in the list. But WHY?? In complex competitiveness we are 26 positions behind Finland, while we certified with ISO 9001:2000 more companies than 6,5x more than Finland! Finland earns from such certificate more than 100 mil. USD, our economy only less than 10 mil. USD, it means 10x less!!! Does it make sense? Something is badly, and our economy still support such nonsense effort with public money. Under the nice polish many things are rusted. It is clear, that our companies need better approach to compete in the knowledge economy!

I don’t think, that words like competitiveness, knowledge economy, innovation and others are buzzwords. In this paper I add another words – intellectual capital, innovation capital, social capital etc. Very often we use such words (and as previous table shows, the word „quality“ is among them) as metaphors (Andriessen, 2006). Kevin McCullagh, author of a provocative essay, „Beware the Backlash: A rising tide of disaffection towards design“ says of innovation: „The term has been overused and abused of much of its meaning, with every lame brand-tweak and extension being hailed as a ‘innovation.’“ So there is (as usual) a danger that such words, which play important role as drivers for the competitiveness in current knowledge era, remain only „marketing label“ or „policy newspeak“ etc. Look on some concepts which may we need to cover.

Social Innovation Capital – A part of Intellectual Capital and important building block / driver

Companies worldwide are confront with the reality of the knowledge economy. Powel a Snellman (2004) define in Annual Review of Sociology knowledge economy as „production and services based on knowledge-intensive activities that contribute to an accelerated pace of technical and scientific advance, as well as rapid obsolescence. The key component of a knowledge economy is a greater reliance on intellectual capabilities than on physical inputs or natural resources.”

Organizations employ knowledge. Although mainstream economists have traditionally modeled firms as employing capital, labour and land as a factors of production, it is increasingly realized (within economics profession) that knowledge and intellectual capital (IC) are the primary creators of value in the economy. As Drucker (1993) noted: „The traditional factors of production- land, labour and capital – have not disappeared. But they have become more secondary." Knowledge, IC or intangible assets in general are naturally mostly tacit, so here we should expect the problematic measurement. Additional we are still locked in the „old economy“ with our accounting systems, based on 500-year-old principles (Edvinsson, 2002).

Many though leaders from academy and practice discuss the issue of intellectual capital seriously at least from 1991, when the term was coined by Tom Stewart in The Economist’s article „Brainpower“. Andriessen (2004) found 25 different models, which bring IC into consideration for disclosure, measurement or reporting. Very common one is that, introduced by Edvinsson and Malone (1997) and used by insurance company Skandia in world first public IC Annual Report „Visualizing Intellectual Capital“. Edvinsson and Malone (1997) argue, that market value consists from financial capital and intellectual capital.

**Intellectual Capital = Human Capital + Structural Capital**

Human capital are knowledge, skills, innovativeness, culture, philosophy, values and ability of the company’s individual employees to meet the task. Human capital as such cannot be owned by the company/organization. On the other hand, structural capital can be owned and traded by company. It represents hardware, software, databases, patents, organizational structure, trademarks (IPR – intellectual property rights). All that left at the company when the employees go home. Structural capital also includes customer capital (relationships with key customers) and organizational capital – ability to innovate a sustaun results of innovation and manage processes.

Recently McElroy (2003) argued that „model fails to take into account another major component of intangible value – social capital“.

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4 On-line at http://www.core77.com/reactor/01.07_backlash.asp
5 QMS described in manuals and norms is Structural Capital of the company. Experiences how to solve customers demand on more flexible way, without respect to the QMS is Human Capital. The difference in value of such capitals we can see in companies, which have passed through very formal process of certification and where consultants or in more cases auditors provided wrong service.
Nahapiet and Ghoshal (1996) pointed the role of social capital „as the sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit“ and argued that social capital helps organizations to created „organizational advantage“. Many arguments for social capital summarized Adler and Kwon (2002), including various definitions from different viewpoints. Social capital is important in the knowledge (global and networked) economy for the value of relationships between people in organization (not only relations with key customers as Skandia model proposed), between firms etc. Trust, reciprocity, shared values, networking, norms, all thing that add value in a firm or between firms. From this point of view, social capital plays very significant role in clusters and networks.

McElroy (2003) within his „new knowledge management“ approach suggests to improve Edvinsson and Malone´s IC model (Skandia) and puts as a part of social capital so called „social innovation capital“ into consideration. It refers to „innovation capital of a social kind (hold by collective)“. We can consider it as structural manner in which the whole social systems (firms, and from my personal viewpoint mainly networks, cluster and Triple Helix systems) organize themselves around the production and integration of new knowledge.

All that issues are very „soft“ and difficult to measure. But they are very useful to manage, support and carry out, if we are successful. Consider Kaizen - as a part of company´s structural capital is enough for improvement. However more excellent is to innovate and very often in such case company needs to employ social relationships – social capital. And now consider cluster and innovation. I believe, that social capital is the important building block, necessary to create some kind of structural capital within the cluster.

Regional Clusters - only for spending EU money in the Czech Republic? I believe not!

Above discussion have concerned on firm/organizational (=micro) level. In the knowledge economy, characterized by intensive use of knowledge on one hand and globalisation on the other hand, competitive pressure is twofold:
- on global level (Europe (with nations and companies) – Asia (with nations and companies) – America (with nations and companies), all looking to Africa as the next business challenge),
- on „continental“ and lower (national, regional, local) level

There is a chance even for SMEs – to think globally and act locally. Why? Michael Porter, the famous Harvard´s brain on the strategy and competitiveness field invest a massive effort to study competitiveness on regional (mezo-) and national (makro-) level. He brought the concept of clusters, together with so called “Porter diamond”, factors of such regional/national competitiveness. Porter (1998) defines clusters as follows. „Clusters are a geographically proximate group of interconnected companies and associated institutions in a particular field linked by commonalities and complementarities. Clusters encompass an array of linked industries and other entities important to competition. . . including governmental and other institutions – such as universities, standard setting agencies, think tanks, vocational training providers and trade associations.”

Cluster Policies Whitebook (Andersson et al., 2004) notes, that „various concepts advanced in recent years are now presenting analytical and policy messages which are partly overlapping with those of the cluster approach. Notions such as innovation systems, Triple Helix, Learning Networks … provide insights that are complementary to those of clusters. “

Clusters are worldwide phenomenon, formally accepted, and with assistance of CzechInvest also on certain level supported in the Czech Republic. I think, that one very important notion is necessary to consider and is underrated - companies in the cluster usually compete and should also cooperate! It is so called “co-opetition”. Qualitatively it can lead to innovation. Driven by established social capital in clusters, the link from ideas (usually rooted as intangibles and intellectual capital) to innovation and market has more power then if it is isolated.

I had a chance to participate on many workshop and conferences in the Czech Republic, where only limited audience really understand what the cluster concept is. Unfortunately obviously speakers were afraid to “theorise” on the concept and had missed to define cluster clearly. And result: misunderstanding remains in the head of many managers. In conditions of co-opetition it leads in reality eg. to little willingness to share, to set up goals which are rather “neutral”, concentrated on common marketing, to the effort how “pump” money from EU for organizing common training or supplier network. It is because of lack of the social capital. Of course there are positive examples. We miss serious empirical or field research on this topic within the Czech Republic. One study on performance measurement in clusters is in progress in Tomas Bata University in Zlin. We can also consider BermanGroup study (2006) as useful for arguments concerning (1) increasingly important role of non-material production factors, (2) non-disposability of...

6 Triple Helix usualy means a metaphere for necessary colaboration of three sectors – governmental, academic and private (commercial).
In "The Cluster Initiative Greenbook" (Sölvell, 2003), all that advance us to cover and synthesise or refine such models and measures to create a new framework for innovative and knowledge clusters.

Because of mentioned situation and the fact that clusters in more developed countries play an important role for the regions and their competitiveness, we can summarize (with certain simplification):

1. There is a call to consider social capital (with the innovative component – social innovation capital), and broadly intellectual capital, on a more conceptual level.
2. There is a measurement gap between micro- (= firm) level of performance and competitiveness, and macro- (= national) competitiveness level. Clusters and regions are not enough covered by measures and scoreboards.
3. To create and sustain innovation in such conditions is more complicated and innovation performance is poor.

Conclusion

All that has navigated me to think about the region as a knowledge cluster (Friedel, 2006, 2007a, b), and to establish my doctoral research around the field of intellectual capital management, measurement and reporting within the clusters and regions. It is my pleasure to be part-time member of the team of newly established Centre for applied research in economics at Tomas Bata University in Zlin, Faculty of Management and Economy. There is a chance to help to close some gaps in the area of Triple Helix cooperation, and build bridges in complex competitiveness measurement that is interlinked from organizations to clusters or networks, and to regions. All that within the knowledge intensive environment. Maybe to visit www.intellectualcapital.cz or www.intelektualnikapital.cz can also gradually help to find more details.

Literature:


In the Czech language: