

## LuxIC Conference on the Role of Intellectual Capital in SME Performance

Following the success of their Conference on the “Future of Luxembourg”, which took place at the Cercle Cité on February 6, 2013 (see [www.luxIC.lu](http://www.luxIC.lu)), LuxIC (Luxembourg association for Intellectual Capital) decided to further develop and expose one of the themes that emerged among the nine conclusions drawn from the 2013 conference and which related to SME performance.

Subsequently a Conference was organized on Monday 17 March under the sponsorship of ALAF (Association Luxembourgeoise des Amis de la Fondation Louvain) and of the Luxembourg Chamber of Commerce, which was hosting the event. Two knowledgeable speakers exposed their views on the role that IC plays in the performance of SMEs. Their presentations were then discussed by a panel<sup>1</sup> of three business persons and of one senior civil servant of the Ministry of Economy. The debate was moderated by Jean-Eric Aubert,<sup>2</sup> an international expert in development and innovation strategies.

Prof.-Dr. Peter Pawlowsky, Chemnitz University of Technology – Institute for Personnel Management and Leadership studies, an often consulted expert for the German Ministry of Economy on performance management, is the author of a study on How High Performance Companies manage their Intellectual Capital, a representative survey with SMEs. The study underscored the importance of the link between IC management and high performance.

Mart Kivikas, CEO of Wissenskapital ZFI/ECI GmbH and a co-developer of the Wissensbilanz methodology for identifying and managing intangibles, stresses the benefits of using Wissensbilanz methodologies, as proven by more than hundred practicing SMEs, are more efficient internal processes and better external communication. Mart is also a co-developer of the derived ECI (Earnings Capability Index), a tool to better understand which management actions can improve performance over time, based on observation of tangible and intangible elements in the short, medium and long term.

What onlookers could extract from the presentations and the debate that ensued is best provided by the multifaceted views from one of the attendants, Jihane Hakimi, and those from the Moderator, Jean-Eric Aubert.

### *Jihane Hakimi*

Today, in a knowledge-based economy, Intellectual Capital (IC) is a matter of risk management for companies which continuously have to evaluate their organisational capabilities to cope with risk, complexity and market dynamics. Small and Medium

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<sup>1</sup> The panel consisted of : Michèle Detaille, CEO No-Nail Boxes, and Board Member of the University of Louvain, Raoul Mulheims, co-founder and CEO of Digicash, Dan Schneider, partner Tenzing Partners a corporate finance boutique part of the Global Scope Network, and Mario Grotz, DG Research, Innovation and Intellectual Property at the Ministry of Economy and Foreign Trade

<sup>2</sup> Jean-Eric Aubert, formerly OECD and WorldBank Institute, high-level expert for EU and UN, policy evaluator for more than 40 governments, author or director of some 50 books and international publications.

Enterprises (SMEs) are increasingly faced with questions such as how to keep and improve their competitive position; what to do differently and better than their competitors; how to avoid making a wrong decision; how to manage quality and service as well as production in their value chain; and how to support and find new innovations. **“The ability to learn faster than your competitors may be the only sustainable competitive advantage”** DeGeus (1988)

The Conference welcomed the expertise of Dr Peter Pawlowski from Chemnitz University of technology who presented to the audience the results of his research covering a sample of more than 3000 German enterprises. His empirical findings demonstrated a high correlation between companies' performances, and activities related to knowledge identification, knowledge diffusion, knowledge retention, and knowledge exploitation. Factors such as innovative capabilities and employee motivation were determinant success factors for companies. **The question then most governments face is how to convince the private sector to invest in innovation and in people, the source of IC, knowledge and innovation.** However, while the participants reached a consensus about the importance of IC as a key asset in companies, panel discussants - managers of Luxembourgish SMEs - highlighted that most SMEs and especially Micro Enterprises, which represent 87, 6% of all companies in Luxembourg, lack the means or incentives to develop and invest in IC as they typically face more pressing obligations in the early life of their companies.

While the representative of the Ministry of Economy and Foreign Trade cited the nine different instruments designed to foster SMEs in the country, he recognised that they were designed for large companies rather than Micro-enterprises or SMEs that account for almost 70% to the country's overall value-added. **More targeted instruments for Micro, Small and Medium Enterprises (MSMEs) are needed to develop IC.** Measures should be taken to address the particular needs of very small enterprises to facilitate investment in IC, a key driver in the success of companies. Moreover, **policy measures should not only be directed to the existing firms but also to the creation of framework conditions with simplified procedure and regulations, upstream actions to foster an entrepreneurial culture in all layers of the society, easy access to funding, and incentives.** Further, about youth unemployment rates in Europe **are we using intelligence and energy in a proper way?**

Intellectual Capital should be approached in a long-term perspective since it is fundamentally embodied in people and the role of the state is crucial in this regard. The key question for the government is then what are the concrete and simple measures to stimulate the contribution of the human capital as a source of innovation, knowledge and value creation in the Luxembourgish ecosystem.

*Jean-Eric Aubert (Moderator's summing up)*

The importance of good knowledge management for successful enterprises was very convincingly demonstrated in the study presented by Peter Pavlowski. The study covered a sample of more than 3000 German enterprises, with a large segment of small and medium firms, testing the impact on firms' performances of detailed activities related to knowledge identification, integration, diffusion and action. Complementing those micro observations, the

macro observations correlating regional performances with business performances presented by Mart Kivikas confirmed the key role of good knowledge management. The speakers insisted also on the need for a long-term perspective in approaching intellectual capital, since, being fundamentally embodied in people, it takes time to build it.

More generally, the “human factor”, as the key driver of successful small and medium enterprises in the knowledge-based economy, transpired from those presentations. The panelists’ interventions have then illustrated the point. Key questions were: how to open up managers’ mindsets on innovation in established SMEs? How to recruit the right people, when you have limited resources, in the early years of the firm? How to keep within the firm good staff when they are much in demand in a competitive environment? How to build effective clusters with strong interpersonal inter-actions? As said by one panelist, “it’s all about people!”

Then, for governments the key question is: which policy measures should be put in place to help developing and managing this human factor as main source of intellectual capital, knowledge and innovation? The representative of the Luxemburg’s government indicated precisely that it is the focus of most recent measures taken in the country by the innovation agency (« Lux Innovation ») aiming at stimulating SMEs’ managers and staff to open on new ideas, and providing assistance with sources of knowledge and competences – an action appreciated by entrepreneurs present in the panel.

More generally, dealing with the “human factor” implies not only actions directed towards existing firms, but also the creation of a structural environment with simplified procedures and regulations, easy access to finance and so on, in which people feels motivated, as well as upstream actions aiming at creating an entrepreneurial culture in family, school and university communities.

Government policies need, of course, to be adapted to the country’s specific features. From this viewpoint, two Luxemburg’s features deserve comments. The first is that most SMEs are, in fact, very small enterprises. That makes the Luxemburg’s situation very different from the German structure with a large segment of medium sized-enterprises, to take an example mentioned in the workshop. So there is a need to conceive astute measures addressing the particular needs and issues of very small enterprises. The second feature is the extraordinary integration of Luxemburg into the global knowledge and technology flows. For instance, Luxemburg is the OECD country that has the most important rates of both co-authorship of publications and co-inventions, relatively to the domestic productions of scientific articles and patents. This international integration is materialized by other data such as the considerable value added brought by foreign firms (multinationals) in the economy, as well as the importance of professionals and technicians coming from neighbouring countries as part of the domestic workforce. Such integration processes bring up very specific challenges combining both opportunities and threats that require astute actions too. *LuxIC*