

## THE EFFECTS OF COMPETENCIES ON THE COMPANY VALUE

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### Abstract

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Competent management of a company is an important generator of a company value. The aim of the article is to provide detailed academic discussion of the human capital potential and its effects on the value of the company. Attention is paid especially to the definition of the human resources in this context and possible measurability, assuming what can be measured, can be increased. Although the company value can be measured by financial analyses tools, we have in the article moved on to the empirical dimension and provide a theoretical framework of the represented issue. Firstly, we stressed the importance of knowledge in the society of today, secondly, we outlined the indispensability of the intellectual capital for the companies and after that we dealt with the human capital itself, both competences and competencies and their measurability. Based on the partial results, the figure describing the creation of company value was formed; we identified important variables and one of the triggers of these variables.

All findings are supported with the literature review e. g. Andreissen (2004), Boddy (2008), Kubeš, *et al.* (2004), Marinič (2008), Stewart (1998) and Sullivan (2000).

competences, competencies, human capital, intellectual capital, knowledge, value of the company

The ways how to increase company value continue to become increasingly important. Although the fact, that the creation of this value stand apart from the more important company objectives, in these times of fading economic crisis. Companies try to economise as effective as possible in order to remain solvent and profitable. In keeping with the growing awareness of globalization, not only the owners of the company, but also the management and the investors want company position improvement and hence increase in value, as maximizing shareholder value is the main objective of profit-making companies (Boddy, 2008). Each company should be aware of deliberate management and development of the intellectual capital in order to stay viable in the competitive market of today (Palán, 2008).

In this article we focused on human capital, which indirectly increases the company value. Compa-

nies' performance can be increased by managing the strategy-making process, as is closely linked with strategic leadership (Marinič, 2008). Consequently, due the improved performance, the value of the company is increased, too. The aim of this article is to provide detailed academic discussion of the human capital potential and its effects on the company value.

### MATERIALS AND METHODS

Within the article elaboration, the logical-systematic method together with the analysis of the scientific publications and electronic databases resources and subsequent synthesis was used for deduction of the results. Therefore, the synthesis of the individual viewpoints of Czech and foreign experts on the issue of human capital and its influence on the company value was the primary objective.

The article descends from the general to the particular. In general, the importance of the knowledge in the information era is stressed, and the necessity of the intellectual capital in the corporate context is explained. The human capital, as is a part of the intellectual capital, provides a connection with the company performance, in particular. By the individual partial results arising through the article, the final results are deduced. Within the article are used the analysis, synthesis, logical-systematic method together with the deduction.

## RESULTS AND DISCUSSION

The power in the society lies in the hands of the owner of the means of production. However, it was the knowledge, which caused the shift in the production techniques and society development. In the second half of the 20th century, knowledge became the progress generator, for example new materials and technologies development, new automated production line, new computers, etc. The customer hence became the crucial factor for the production variety. The production continues to become more automated and single employee is more dedicated to intellectual work and services. In the United States, there are much more people employed in services than in production. Moreover, even in the production, the percentage of employees working manually is declining whereas the percentage of employees using their knowledge is rising. Knowledge became the most important mean of production and also the society noticed significant changes. The industrial society turned into the knowledge society. Knowledge society does not mean that the knowledge has not been used any before, but rather the knowledge is the primary production resource instead of capital and labour. The cooperation of employers with the knowledge workers is also supported by the need of certain level of autonomy and management.

### Intellectual capital

In the past, during the Industrial Revolution, the basic measures of company wealth were based on traditional tangible assets such as cash, financial capital, property, plant, equipment and the physical and financial assets of the company. The inevitable shift of this obsolete tradition in the last decades became evident (Moore and Craig, 2008). However, the most challenging issue of any company today is the gap between its balance sheet and its market valuation. This is because of indirect assets, as are organizational knowledge, customer satisfaction, product innovation, employee morale. This gap is not recognized by the financial reports (Edvinsson and Malone, 1995). Although these obstacles, there are currently many academic debates regarding intellectual capital. According to Stewart (1998): "In the new economy, intellectual capital not natural resources, machinery or even financial capital has become the one indispensable asset of corporations."

The development of the intellectual capital theory has three different origins. The first was in Japan connected with the work of Hiroyuki Itami (1991). He studied the effects of so called invisible assets on Japanese companies. The second was the workings of disparate economists seeking different views of the company. Their findings were summarized by David Teece of UC Berkeley in a seminal 1986 article on technology commercialization. Finally, the work of Karl-Erik Sveiby (1998) in Swedish was addressed to human capital dimension and provided a rich view of the potential for evaluating a company based on competences and knowledge of its employees (Sullivan, 2000). Other academic researchers and economists developed different view on business strategy highlighting resource efficiency, consequently the generally accepted competitive forces stayed aloof.

The definitions are, inevitably, distinct. Brooking sees the intellectual capital as the "combined intangible assets which enable the company to function" (Brooking, cited in Brinker, 2000). Edvinsson equates intellectual capital with the sum of human capital and structural capital (Edvinsson and Malone, 1995) and Stewart says that intellectual capital is simply "packaged useful information" (Stewart, 1998). In addition, Klein and Prusak claim "Intellectual material that has been formalized, captured, and leveraged to produce a higher-valued asset" (Klein, cited in Brinker, 2000). Based on these definitions, by the experts were identified the elements of intellectual capital in the information age.

Intellectual capital:

- Human capital,
- Organizational (process, structural) capital,
- Customer capital (Palán, 2008).

For the purposes on this article, human capital will be stressed, as it is the source of innovation and improvement. In fact, this capital cannot be owned by a company like the property, for example. It could be only hire in the form of employing workers.

### Human capital and value of the company

Today, there are more and more managers who understand that the success of any effort at improving quality or productivity needs to include the employees (Robbins and Judge, 2007; Hill and Jones, 2009). When companies decide to invest in human capital, value increases. It covers the capabilities of the company's employees to provide solutions, creativity and innovativeness (Brinker, 2000). The management should be able to increase the profitability, and ensure that profits grow (Boddy, 2008). In general, the company needs to be able to outperform the competitors through its competitive advantage. Company competitiveness and competitive advantage rank to the key value drivers of a company (Marinič, 2008; Bani-Hani and Faleh, 2009). According to Porter, the above average profitability of the company in the long-term generates the sustainable competitive advantage (Porter, 2004). Based on that,

the company gains the competitive advantage only if stands up to the competition, for example by competent management.

The work of management is to build the enterprises which work, in the sense that they use their resources to create value (Boddy, 2008). Because the value is: 'turning complexity and specialization into performance' (Magretta, 2002, 2). However, the companies can create value in many ways and good managers understand it and build such an organization. It is the management, as is human capital, which can enhance the organizational performance through its competencies.

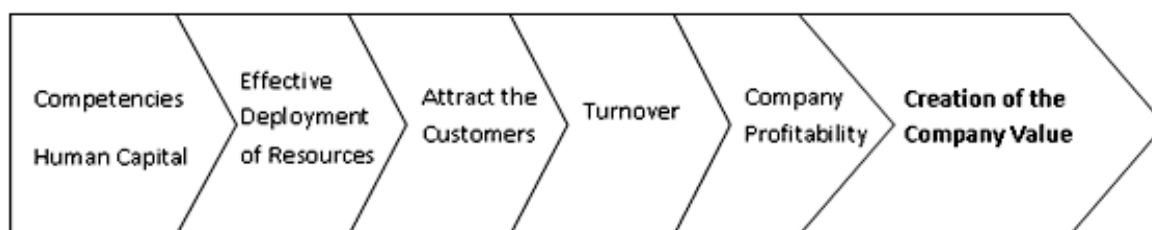
### Measurability of variables

The culture of the company integrates every single person in the corporate system (Robbins and Judge, 2007). Nevertheless, the most stressed is usually the corporate management; whether those managers are competent, qualified and resistant to fluctuation is the key for the value of the company (Kislingerová, 2001). Human capital could be measured differently from the other company resources.

(Moore and Craig, 2008). Knowledge management views the competences both original and reproduced as the basic competitive advantage sources. The organizational competences are according to the Boddy's (2008) definition: 'the activities and processes through which the organization deploys resources effectively'. It covers also organizational structure and management of the company. The figure 1 shows the process of company value creation. The importance of the competences is based on effective deploying of the resources to attract the customers. It is then reflected in the turnover, company profitability and creation of the company value (Marinič, 2008).

Personal competencies then refer to knowledge, skills, ability and other personal characteristics for good performance of a specific job (Boddy, 2008). To be considered intellectual capital, knowledge must be an asset able to be used to create wealth (Stewart, 1998). Companies create their value by core competences, by talented managers who possessing the skills to make company's product unique. Moreover, the human performance is now ranked ahead

1: Creation of the company value



Those calculations are not based on the double-entry bookkeeping or balance sheet and profit and loss account. This conventional accounting fails to measure the value of intellectual capital (Stewart, 1998). Human capital could be hence measured for example, as a percentage of the cost wages, a percentage of the satisfied key employees, a percentage of loyal employees or a percentage of managers remained in the company compared to the previous year (Palán, 2008).

Although there is no mention in the financial statements regarding company value (Sullivan, 2000) and its calculation is completely dependent on the purpose of the evaluation and the information provided (Mařík, 2007), company value can be increased by human capital indirectly, by increasing the factors which influence the value (Marinič, 2008). Naturally, assuming other variables remain stable. Whereas company profitability and turnover (figure 1) can be measured by the tools of the financial analysis, competences need to be firstly defined.

### Competences and competencies

The knowledge management techniques and strategies can produce competitive advantage

of productivity and technology in terms of strategic importance.

In general, there are many approaches dedicated to the conception of the competence. These different viewpoints enable to understand the term in the practice. According to Armstrong (1999) the competence is the ability to perform a specific task in the job successfully, quickly and easily. The competence is then qualification, potential, i.e. the ability to do the tasks related to the specific position in the company. The Boyatzis (1982) definition assumes the personal abilities and capabilities corresponding with the job specification bring desired results. Woodruffe (2000) highlights the fact, that the competences declared by the company are often confused both the corporate with personal perspective. These lists serve as a tool for selection and recruitment and the results are hence confusing and inaccurate. The acting of a manager would be evaluated in two dimensions, firstly, his/her ability to do the work and secondly, his/her individual performance in job tasks. However, Holmes (1992) mentions, that competence should be treated as the conception appointing the relation between what is expected and requested based on the information of the previ-

ous and current performance. According to him, the competence model should be necessary to prefer unified approach to identification of the key performance factors, i.e. the difference between good and poor performance. Moreover, Plamínek and Fišer (2005) understand the personal competencies as a sum of the achieved performance (human work) and brought potential (human resources). If there is lacking one component, then the competencies are lacking too.

### **Constituents of competencies and their identification and measurability**

Any manager needs to have special abilities in order to perform in his job well, in other words, he/she needs to be competent. There are many personal characteristics which are not compensable to each other. These are the main attributes (Robbins and Judge, 2007; Kovács, 2009):

- Knowledge
- Experience
- Personality traits
- Attitudes
- Abilities.

Some of these characteristics can be innate; others can be acquired with time. However, competent employees do not remain competent forever. Skills deteriorate and can become obsolete and new skills need to be learned. Generally speaking, education became an effective investment in the human capital (Brinker, 2000; Palán, 2008). In addition to that, just as other forms of capital also the education presents resource expenditure at the moment to increase productivity in the future. Another skills can be maintained to stay up-to-day further ahead, for example motivation, problem solving, delegation, planning, deviation management, KAIZEN, BSC, TPM, JIT (Kovács, 2009).

Identifying competencies as facets of human capital, and then assessing them within the context of the company's strategy are the first steps toward valuing human capital (Brinker, 2000). There are many techniques how to measure or identify competencies (Dytrt *et al.*, 2004; Kubeš *et al.*, 2004). However, the main stages stay the same:

- Preparatory phase;
- Data extraction phase;
- Information analysis phase;
- Competencies description phase;
- Validation phase (Kociánová, 2010).

Data can be extracted from experts' panels, workshops or structured interviews. Analyses are con-

ducted on the basis of previous development and performance. Description phase presents homogeneous groups of characteristics called competencies and through validation the feasibility is proven (Kubeš *et al.*, 2004).

Plamínek and Fišer (2005) offer the methodological framework for human resource measurement. They emphasize the fact, that although the human potential has no visible effect on the company output, there is a need for constant monitoring. These resources stay apart and ensure the smooth operations within the company. To measure these resources, it is important to set the standardized scale, for example 0 as not required, and 10 as master utilization. Of course, the standards are set according to the company needs. Authors also highlight the importance of observation, but there are also options for questionnaires, testing and monitoring (Kociánová, 2010).

Nevertheless, there are still characteristics which can be taken into account when hiring an employee but cannot be managed (Plamínek and Fišer, 2005). Another method for competencies measurement are the indicators of Myers and Briggs (Myers-Briggs Type Indicator) personality test that taps four characteristics and classifies people into 1 of 16 personality types (Robbins and Judge, 2007).

Based on competencies identifiability and competencies measurability those competencies can be trained and improved. As it is seen on the figure 1, competencies indirectly effect the value of the company and thus can be the key to increase company value. In these times, when there are many efforts to behave efficiently, support human capital seems to be the easy and affordable way how to improve company position.

The identification of the human capital or rather competencies enabled the detection of the measurement and maintenance and hence indirect increase in company value, based on the assumption what is measurable can be increased by the authors as Brinker (2000), Andriessen (2004), Kubeš *et al.* (2004), Plamínek and Fišer (2005), Palán (2008), or Kociánová (2010). So far, however, efforts to measure the value of intellectual capital have not stood the test of time, nor are they comprehensive (Brinker, 2000). Expertise in human capital valuation and management can become a core competency for any advisory company. Furthermore, companies can execute internal controls of human capital to appraise their hidden assets and how they can use them to create the value.

## **SUMMARY**

The creation of the company value is a long-term process involving many facets and operations. One of the most important constituent is the human capital. Although this capital stays in the background of all company transactions, there are not any direct notes in the financial statements. This human capital, as is the subset of the intellectual capital, works with the knowledge and information. When



all resources are treated effectively, there is significant influence on the process of company value creation.

The aim of this article is to provide the viewpoints of Czech and foreign specialists on the represented issue. The partial objective was searching for connections as a basis for partial outcome to deduce the final results. These results were supposed to confirm or reject the hypothesis of competencies have significant influence on the company value creation.

Although the Czech literature review considers the company value to be rather subjective factor, based on foreign literature review, we stated the apparatus which gathers up the variables involved in company value creation. Assuming other factors remain stable, it could be confirmed, that human capital or rather its competencies effect the value of the company by effective resource deployment, attracting the customers, increase in turnover and company profitability.

The main attributes of competencies are knowledge, experience, personality traits, attitudes, and abilities. Some of these characteristics can be innate; others can be acquired with time. Nevertheless, competencies need to be maintained and trained because they become obsolete. Education became an effective investment in the human capital. The process of identifying competencies as facets of human capital, and then assessing them within the context of the company's strategy is the first step toward valuing human capital and hence measure its exact participation on the company value creation. Based on these results, competencies can be improved and consequently also the value of the company.

Within the article elaboration, the analysis and synthesis as scientific methods were used to clarification of the experts' viewpoints and then summarized into the partial and final results. The logical-systematic method was employed for elucidation of the initial situation, representation of the connections, creation of the partial outcomes and additional facts and newly emerged partial outcomes to deduce the results.

## SOUHRN

### Vliv kompetencí na hodnotu společnosti

Tvorba hodnoty společnosti je dlouhodobý proces, který v sobě zahrnuje mnoho prvků a činností. Jedním z důležitých prvků je lidský kapitál, který stojí v pozadí všech firemních transakcí. Ve finančních výkazech však přímo zaznamenán není. Tento lidský kapitál, jako podmnožina intelektuálního kapitálu, pracuje se znalostmi a informacemi a při efektivním použití se výrazně podílí na tvorbě hodnoty společnosti.

Cílem článku bylo uvést přehled stanovisek českých i zahraničních odborníků na danou problematiku. Dílčím cílem pak hledání souvislostí pro dílčí výsledky, na jejichž základě došlo k vyvození závěrů, které měly potvrdit nebo vyvrátit domněnku, že manažerské kompetence mají významný vliv na tvorbu hodnoty společnosti.

Ačkoliv česká literatura považuje hodnotu za subjektivní ukazatel, na základě zahraniční literatury jsme stanovili aparát, který seskupuje proměnné, jež se podílejí na tvorbě hodnoty společnosti. Za předpokladu neměnnosti ostatních vstupů lze potvrdit, že kompetence v rukou lidského kapitálu ovlivňují hodnotu společností efektivním zapojením zdrojů, oslovením zákazníků, zvýšením obrátu a ziskovosti společnosti.

Hlavními prvky kompetencí jsou znalosti, zkušenosti, osobnostní charakteristiky, postoje a schopnosti. Některé z těchto charakteristik mohou být vrozené, jiné získané. Kompetence je však nutno udržovat a posilovat, jelikož se s časem vytrácejí. Efektivní investicí do lidského kapitálu je například vzdělání. Pro stanovení přesného podílu na tvorbě hodnoty společnosti je nutné ohodnotit samotný lidský kapitál. Pro tyto účely je nutné nejprve identifikovat kompetence, a pak je změřit. Na základě těchto výsledků lze kompetence zlepšovat a zvýšit tak hodnotu společnosti.

V průběhu zpracování článku byla použita analyticko-syntetická metoda, pomocí níž byly objasněny odborné perspektivy a shrnuty do dílčích a finálních výsledků. Také byla použita logicko-systematická metoda k ujasnění výchozí situace, znázornění souvislostí, vytvoření dílčích závěrů a připojení faktů a nových závěrů až do vyvození výsledků.

kompetence, lidský kapitál, intelektuální kapitál, znalosti, hodnota společnosti

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