EVOLVE OR LOSE COMPETITIVENESS

WHEN faced with unstable capital markets, or depressed economic markets due to Covid-19 pandemic, traditional companies struggling to adapt to digital transformation have greater likelihood of failure. There is a high onus on companies to adapt to the new environment appropriately.

According to S&P 500 market value, the proportion of companies' tangible assets has tended to decrease drastically; and that of intangible assets, to increase greatly, a trend dominated by the knowledge economy.

It shows that intangible assets such as the intellectual capital of the enterprises have begun to outweigh tangible assets as intellectual capital has become recognized as a core component of a company's unique competitive advantage.

Many traditional businesses are losing competitiveness and often inferior to high-technology companies which have focused greatly on intangible assets. It's about a failure to evolve.

One of the biggest reasons for Motorola's fall is its failure to innovate, ignoring new technology ideas in the 3G era. Kodak invented the world's first digital camera and was committed to the development and investment in tangible assets such as film, chemicals, and print shop equipment, but not investments in new patents and technology, critical for success in the digital information age.

A major challenge confronting companies in the 21st century is to obtain the best intellectual assets. FILE PIC

Based on data from stock analysis on Net and Snowman Data (2020), companies with a higher ratio of intangible assets to total assets have higher earnings per share. IBM recorded market capitalization amounting to US$111.1 billion with more than 10 per cent of intangible assets to total assets ratio and US$13.79 earnings per share.

Tencent Holdings also recorded more than US$669 billion market capitalization with more than 13.5 per cent of intangible assets to total assets and US$9.44 earnings per share.

These are way higher compared with traditional businesses such as Exxon Mobile Corporation with market capitalization more than US$180 billion, less than 2 per cent of intangible assets to total assets and US$2.6 earnings per share; Industrial and Commercial Bank of China with market capitalization of more than US$ 270 billion, less than 2per cent of intangible assets to total assets and US$0.9 earnings per share.

Since many realised the significance of intellectual capital on corporate performance, companies have started to adopt methods to enhance the value of intangible assets; for instance, high-tech firms, generally, have manifold investments in research and development (R&D) to achieve the aim of improving corporate performance.

Statista (2020) indicates that Dell Technologies' expenditure for R&D from 2000 to 2020 increased drastically. In the 2020, Dell spent US$5 billion on R&D, a substantial increase from US$374 million in 2000.

Dell Technologies is strongly pushing to remake its business model and emphasize intellectual capital, e.g., strengthening the research on core technology, patents, and training of employees, moving away from primarily being a hardware PC manufacturer to becoming an IT services and solutions provider.

If a technology company does not emphasize R&D — key measure to enhance intangible assets — it stands a greater likelihood of losing market competitiveness.

Not only enterprises, many countries began to transform into 'innovative-country' with technological innovation and advanced knowledge as the core driving force of economic and social improvement.

The major challenge confronting companies in the 21st century is to obtain the finest out of its intellectual assets, and to view corporate knowledge as the only sustainable foundation for competitive gain in business.

In the era of the knowledge economy, the high-tech industry as a knowledge-intensive industry, must necessarily place higher requirements on the management of intangible assets that are represented by intellectual capital.

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