The development of intangible assets through the Cohesion Policy

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Intangible assets in general and intellectual capital in particular are important to both society and organizations. It can be a source of competitive advantage for business and stimulate innovation that leads to wealth generation. Technological revolutions, the rise of the knowledge-based economy and the networked society have all led to the same conclusion that intangibles and how they contribute to value creation have to be appreciated so that the appropriate decisions can be made to protect and enhance them. The Cohesion Policy represents the main EU measure to ensure a balanced and sustainable growth in Europe by promoting harmonious development and reducing the regional disparities. The general objective of the paper is to highlight the important role of the Cohesion Policy in the development of intangible assets. The objectives and the instruments of the Cohesion Policy are designed to support programs on regional development, economic change, enhanced competitiveness and territorial cooperation through the European Union, to develop human resources and employability. The article also attempts to outline the trends of the Cohesion policy for the future by presenting a series of measures suggested by the European Commission through the Europe 2020 Strategy in order to develop intangible assets.

Keywords: intangible assets, intellectual capital, Cohesion policy, development

1. Introduction

Sustainable economic development, no matter the geographical area it is applied to, relates to improving living standards and incorporates a new focus and challenge for the economy: the measurement of intangible and social assets.

Growth in all the European economies must be supported by solidarity between all regions and citizens, and this is possible through the Union Cohesion policy.

The aim to ensure the harmonious development of the economies by reducing the differences existing between regions and the support of the less developed ones, exist since 1957 when Belgium, the Federal republic of Germany, France, Italy, Luxembourg and Netherlands signed the Treaty of Rome, through which they were determined to ensure the economic and social progress of their countries by common actions.

Later, the European Community, in order to promote its overall harmonious enlargement, developed its actions leading to the strengthening of its economic and social cohesion, as also stated in the Treaty of the Functioning of the European Union, article 158. On December 2009 entered into force the Treaty of Lisbon which amended the European Union treaties not replacing them, instead had improved them. The economic and social cohesion referred to in the article 158 of the European Union Treaty mentioned above, was modified with “economic, social and territorial cohesion” (Official Journal of European Union, 2007, p. 85).

The objectives of the Cohesion Policy are focused on convergence, regional competitiveness and employment and territorial cooperation among the European countries. These are the main determinants of the regional economic development.

2. Knowledge-based economy and society. Intangible assets – generators of sustainable competitive advantage and convergence

National economies are in a continuous transformation, influenced by globalization and structural change. The globalization process has been an important changes driver in the context of economic development. “Through its increased mobility of capital, workers, goods and services, globalization is changing the rules by which the economy has been governed during much of the post-war era” (Pike et al., 2006).

Our society is constantly changing at an increasing speed. We talk more and more about the New Economy or about Knowledge Economy which is characterized by a number of factors different from those that characterized the traditional economy.

Some of these features may be referred to as computerization, changing technologies, increasing uncertainty, sustainability, globalization and application of new knowledge. The quality and uniqueness of the knowledge component has become the most important source that someone may have in order to gain a competitive advantage.

The New Economy is developing a global network society where information and communication technologies (ICT) are reshaping communication both within and between organizations. Growing interest on intangible assets is closely related to the development of knowledge society and the undeniable importance of new knowledge-based workers (Porter, 1998). In this context, many authors discuss the importance of a firm to survive, highlighting the importance of human and social capital performance within the organization. Concepts such as intangible assets, intellectual capital, knowledge creation, basic skills and innovation, are now a centre stage in explaining economic assets that create continuous value to an organization, in exchange for financial and physical resources and gains (Ulrich, 1998).

In a broader perspective, the term knowledge society refers to any society where knowledge is the primary production resource instead of capital or labor. A knowledge society creates, shares and uses knowledge for the prosperity and welfare of the people who belong to it. Also, lately, the emerging concept of the “new economy” was revealed as a new approach of the economic science. A segment of economists consider that modern economies are dynamic and adaptive systems rather than closed systems struggling.

In Peter Drucker's (1993) vision, the future relies on other key success factors: “the traditional factors of production - land, labour and capital - have not disappeared. But they have become secondary”.

Knowledge, unlike labour, land and capital is an asset that becomes more valuable on the extent of its use. The more used, the knowledge becomes more effective and efficient. Knowledge is key component of the system of modern economic and social development.

The new economy involves giving a greater interest to the so-called knowledge society, the employees (who are the holders of knowledge), intellectual capital, intangible assets and learning organizations. A failure to value intangible assets into companies’ management and control systems in a systemized way makes sustainable management impossible and endangers the achievement of any company's economic, social, and ecological goals in today’s knowledge-based economy.

Without the intangible assets perspective (especially for management and accountability), companies may take the risk of destroying their own core substance for the purpose of optimizing short term financial results. By involuntary destroying essential intangible assets, they put their value creation and potential for the future at risk.

People are key aspects for the evolution of value and co-creation of products and services that add value. Their distinctive capabilities are the basis of the competitive advantage. According to the new resource-based perspective of a company, competitive advantage is achieved by continuous developing existing resources and creating new resources and capabilities in response to constantly changing market conditions. Among these resources and capabilities in the new economy, knowledge is the most important value creation asset.

3. The instrument of the Cohesion Policy and allocations for Member States 2007-2013

The Convergence objective, representing al least 81.54 % of total funds across the European Union, is the priority of the Funds. In order to complete their convergence process the regions under the Convergence objective receives significant financial aid until 2013.

The resources for the Convergence objective are distributed between the regions as follows: 70.51% for the regions corresponding to level 2 of the common classification of territorial units for statistics (NUTS level 2 regions) made by the Council Regulation no. 1059 in 26 May 2003 whose GDP per head is less than 75% of the average GDP of the 25 Member States before 1 January 2007 (excluding Bulgaria and Romania); 4.99% for the regions which lost the eligibility for this objective because their GDP per head will exceed 75%% of the average GDP of the 25 Member States before 1 January 2007; 23.22% for the Member States whose GNI per head is less than 90% of the average GNI of the 25 Member States before 1 January 2007 1.29% for the Member States whose GNI per head will exceed 90% of the average GNI per head of the 25 Member States before 1 January 2007.

The Regional Competitiveness and Employment objective represent 15.95% of total funds. The resources for this objective are distributed between the regions of the European Community not covered by the Convergence objective (78.86%) and the NUTS 2 level regions covered by the Convergence objective (21.14%). The later mentioned regions are those who were under Convergence objective in the period 2000 – 2006 and no longer meet the eligibility criteria of the mentioned objective because their GDP per head exceeded 75% of the average GDP of the 15 Member States (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom). These regions will also receive financial aid in the transitional phase (Table 2).

The European Territorial Cooperation objective covers regions which have land or sea frontiers, in order to support actions promoting the territorial development, the interregional cooperation and the exchange of experience. These funds are representing 2.52% of total funds and are divided as follows: 73.86% for the financing of the regions corresponding to level 3 of the common classification of territorial units for statistics (NUTS 3 level regions) along their internal and certain external borders and those NUTS 3 regions which have maritime borders separated by a maximum of 150 km for the purpose of cross-border cooperation; 20.95% for the financing of transnational areas and 5.19 % for financing of interregional cooperation, cooperation networks and exchange of experience along the entire territory of the European Community (Table 2).

At present, the Cohesion policy represents more than one third of the European Union overall budget, about 35% of spending, more than 80% of subsidies for the less-developed regions of the Member States. Half of these funds are invested in the Member States that joined European Union in 2004.

The objectives of the Cohesion Policy are supported by three funds: the European Regional Development Fund (abbreviated as ERDF), the Cohesion Fund (abbreviated as COH) and the European Social Fund (abbreviated as ESF), divided between them (Table 1). The ERDF and ESF are also referred to as Structural Funds.

The general rules governing those funds are settled by the Council Regulation of the European Commission no. 1083 of 11 July 2006, which not amends the provisions of other regulations, as Council Regulation no. 1081 in 2006 or Council Regulation no.1084 from the same year.

Table 1: The instruments of the Cohesion Policy, 2007-2013

Objectives	Structural Funds and instruments
Convergence	ERDF ESF COHFunds
Regional Competitiveness and Employment	ERDF ESF
European Territorial Cooperation	ERDF

Source: Introduction to the Structural Funds: 6, table available also at http://ec.europa.eu/regional_policy/index_en.htm

The European Regional Development Fund is one of the financial instruments of European Union Cohesion Policy, created in 1975 for supporting programs on regional development, economic change, enhanced competitiveness and territorial cooperation through the European Union.

The Cohesion Funds are focused on transport, environment, trans-European networks, energy efficiency and renewable energy, applying to Member States with a gross national income of less than 90% of the European Union average.

The European Social Fund was created in 1957 and is the main European Union source of financial support to develop human resources and employability. This fund increases the adaptability of workers and enterprises by strengthening access to employment and participation in the labor market, by combating discrimination and facilitating access to labor market for disadvantaged people, by improving education ant training and helping develop the institutional capacity and efficiency of public administrations.

The annual allocations for each Member States under these funds are restricted to fixed limits considering its capacity for absorption. According to the Treaty of the Functioning of the European Union (2010) the budget of the European Union are based, annual, on the multi annual financial framework agreed between the European Parliament, Council and Commission in an interinstitutional agreement. This financial framework sets the maximum amount of commitment appropriations in the EU budget each year for broad policy regions and fixes an overall annual limit on payment and commitment appropriations.

The interinstitutional agreement which established the allocations for 2007-2013 for Cohesion for Growth and Employment was signed on 17 May 2006 by the European Parliament, the Council and the Commission and entered into force on 1.1.2007. The agreement also stipulates that “In its technical adjustment for the year 2011, if it is established that any Member State's cumulated GDP for the years 2007-2009 has diverged by more than +/- 5 % from the cumulated GDP estimated when drawing up this Agreement, the Commission will adjust the amounts allocated from funds supporting cohesion to the Member State concerned for that period. The total net effect, whether positive or negative, of those adjustments may not exceed EUR 3 billion. If the net effect is positive, total additional resources shall be limited to the level of under-spending against the ceilings for sub-heading 1B for the years 2007-2010. The required adjustments will be spread in equal proportions over the years 2011-2013 and the corresponding ceilings will be modified accordingly" (Official Journal of European Union, 2006, p. 3).

The allocations for the Convergence objective are based of calculations on relative regional prosperity, national prosperity and unemployment rate. For Regional competitiveness and employment objective the allocations are calculated on the basis of total population, number of unemployed people in NUTS Level 3 regions with an unemployment rate above the group average, number of jobs needed to reach an employment rate of 70%, number of employed people with a low educational level and the low population density. The allocations for the Territorial Cooperation regions are determined on the basis of the population of the NUTS level 3 regions in terrestrial and maritime border areas, as a share of the total population of all the eligible regions (for the cross-border regions) and on the basis of the total population of each Member State, as wight of the total population of all the Member States concerned (for the transnational regions).

The Convergence objective of the Cohesion Policy between 2007 and 2013 aims to accelerate the convergence of the less developed Member States and regions by improving condition for growth and employment through the improvement and the increasing of the quality of investment in human capital, the development of innovation, the adaptability to economic and social changes, the protection and improvement of the environment and administrative efficiency.

The Regional competitiveness and employment objective of the Cohesion Policy between 2007 and 2013 must support the competitiveness of the regions by increasing and improvement of the quality of investment in human capital, innovation, entrepreneurship, the protection of the environment, the improvement of accessibility of workers and business and the development of jobs markets.

The European Territorial Cooperation objective of the Cohesion Policy between 2007 and 2013 aims to support cross-border cooperation through joint and regional actions in order to increase the overall competitiveness of the regional economy and to improve the quality of living standards for the areas populations, to support transnational cooperation through actions leading to regional development as well as interregional cooperation and exchange of experience. Between 2007 and 2009 the cumulated GDP has diverged by more than +/- 5% from the cumulated GDP estimated at the time the Interinstitutional Agreement was being drawn up, therefore the European Commission had to adjust the amounts allocated from cohesion funds for each Member State in the situation mentioned above. This measure referred to Bulgaria, Estonia, Latvia, Lithuania, Czech Republic, Hungary, Poland and Romania and for three of these countries the amounts allocated were increased (Poland, Slovakia and Czech Republic), according to the COM(2010) 160 final.

Table 2: The allocations 2007-2013 adjusted (million Euros current prices)

	2007	2008	2009	2010	2011	2012	2013	Total
Cohesion for Growth and Employment	45.061	47.267	48.427	49.388	50.987	52.761	54.524	348.415

Source: European Commission (2012)

For the period 2007 – 2013 an amount about € 348.4 billion (Table 2 and 3) is being invested in order to achieve the harmonious development of the European Union and its regions through a higher competitiveness especially in less developed regions, expanding employment and improving people's well-being and protecting and enhancing the environment.

Table 3: Distribution of Cohesion Funds on groups of Member States, 2007-2013

Member States	2007	2008	2009	2010	2011	2012	2013
High developed MS	19,011.10	18,748.70	18,093.40	17,641.10	17,402.10	17,543.40	17,673.90
Moderately developed MS	9,950.70	10,599.50	10,459.40	10,584.30	10,784.00	10,988.10	11,193.50
Less developed MS	15,939.40	17,751.60	19,698.40	20,982.40	22,601.60	24,020.40	25,438.00
Technical Assistance	113.40	117.50	121.20	122.90	126.90	131.00	134.80
Interregional	46.40	49.50	54.90	62.70	70.90	77.00	83.30

Source: author's calculations based on European Commission (2012)

4. Cohesion Policy's main objectives to support development of intangible assets

4.1. Promoting employment and social cohesion

Global economic, social and environmental changes will have profound effects on the labour market and social situation in the Union. Cohesion policy has a key role to play in increasing employment, finding new ways to tackle rising unemployment, promoting self-employment, acquisition of new skills, social inclusion and the economic and social integration of migrants and vulnerable populations. Empowering people to effectively engage in transformation processes will be essential.

4.2. The equity (social inclusion) objective

It is uncontested that achieving an equitable distribution of well-being is one of the objectives of governments. There is also increasing agreement that development is about both efficiency and equity, and that public action, at whatever stage of development of an economy, should address social problems.

In Europe, pressure has mounted for greater attention to be given to social issues at EU level. A concern is that high and rising inequality, and increasing fear of globalization, could jeopardize economic integration (market-compensating motivation). Another is that national welfare systems are increasingly constrained by EU budgetary rules (political-economy motivation). A third is that the EU's existence is based on the expectation that citizens should enjoy equal rights (federal motivation). The failure to reduce inequality in several European countries, and its rise in others, are signs of the extent of the problem.

The question relevant for this Report is not "whether" but rather "how" governments should pursue equity objectives. In particular, the issue is whether there is a rationale for inequality to be tackled by a place-based development policy rather than by financial transfers to people independently of where they live. Before addressing this question, it is first necessary to clarify the concept of inequality and to define the policy objective.

4.3. Multidimensionality and social inclusion

There is widespread agreement that no single dimension can capture a person's well-being and the degree of inequality. A life worth living, including the opportunity both to achieve what an individual considers relevant and to widen her or his set of options, embraces labour skills, health, education, housing, security, income, working conditions, self-respect, a role in decision-making and so on. Income is a relevant component of these dimensions but it does not reflect them all, as empirical data confirm.

Income is one factor in achieving well-being, though it cannot achieve many aspects of well-being and, accordingly, cannot be seen as an end in itself. Amartya Sen's capability approach makes clear that the capacity of any individual to convert a given amount of any "commodity", including money, into achievements that are relevant for their life depends on a combination of (social and physical) circumstances and on access to other "commodities" often produced by policy. Indeed, several dimensions of well-being strongly depend on public institutions performing essential tasks and provide public goods and services. These different dimensions are also interdependent in terms of their effect on well being.

This multidimensional perspective is gaining increasing acceptance, as documented by the findings of the OECD mind-opening "Global project to measure the progress of societies". It has long been adopted by the European Union in promoting, through the Social Protection and Social Inclusion Process, the commitment and cooperation of Member States to reducing inequality. This political and methodological debate has utilized the concept of "social inclusion", which includes access for all citizens to basic resources, social services, the labour market and the rights needed "to participate fully in economic, social and cultural life and to enjoy a standard of living and well-being that is considered normal in the society in which they live". Together with the multidimensional approach, this concept also embodies both a threshold and an interpersonal notion of inequality and focuses strongly on the process through which greater equality is pursued.

Building on this perspective, the academic debate and various international policy Reports, it is possible to develop an operational definition of social inclusion. This can be defined as the extent to which, with reference to multidimensional outcomes, all individuals (and groups) can enjoy essential standards and the disparities between individuals (and groups) are socially acceptable, the process through which these results are achieved being participatory and fair.

This definition captures both a threshold and an interpersonal concept of inequality: a threshold concept, where the achievement of society consists of guaranteeing everyone some essential standards, which depend on (evolving) social preferences and attitudes94; an interpersonal concept, where the achievement of society consists of ensuring that disparities between individuals (or groups) are socially acceptable. The two concepts are complementary but distinct.

When disparities are reduced, the proportion of people falling under the threshold could increase and, conversely; when the essential standard is achieved by a growing proportion of people, disparities could increase.

The reference to "a participatory and fair process" captures the idea that both the dimensions and the thresholds used in defining social inclusion must be established through a democratic process, in which everyone is given a chance to form an expectation and to voice it, information is exchanged, public scrutiny and criticism take place; and a consensus emerges on which dimensions are relevant and what is "essential". This is the condition for making local choices more informed and in line with people's preferences and for allowing citizens and collective local actors the freedom to experiment with solutions while exercising mutual monitoring.

Multidimensional outcomes should identify people's substantive opportunity to live according to their values and choices and to overcome their circumstances. The reference to circumstances underlines that social inclusion policies should focus so far as possible on those factors that are outside the control of the individual. These include both personal characteristics inherited or acquired through life (gender, physical traits, social background, etc) as well as contextual factors, including the functioning of public institutions, which can affect everyone, or particular groups, sharing certain features (religion, culture, outlook, etc).

On this basis, a "place-based policy aimed at social inclusion" can be defined as: a territorial strategy for improving social inclusion, in its various dimensions, through the provision of public goods and services, by guaranteeing socially agreed essential standards to all and by improving the well-being of the least advantaged.

What is the economic rationale for such a strategy? Why is an exogenous intervention in a place needed in order to promote social inclusion? Why, if an exogenous intervention occurs, should it be centered on public goods and services? And why should the adoption and implementation of the policy be left to the local area?

5. Conclusion

The EU sustainable development strategy promotes the creation of a prosperous, innovative, rigorous, competitive and eco-efficient economy, which supplies high life standards and fully qualitative employment opportunities throughout the EU, thus also emphasizing the economic and intangible aspects as important for a sustainable development.

In consequence, sustainable competitive advantage is a central point, if not to say the core of both the national and corporate strategy. It allows maintenance and improvement of the company's competitive position in the market and enables the business to survive competitors for a long period of time. Quantitative and qualitative fundamental change in competition requires organizational changes to an unprecedented level. Current sustainable competitive advantage must be built on the organizational capabilities and must be constantly reinvented.

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