

Manifestation of Intellectual Capital in Trade During Period 2008 – 2018

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Abstract

Depending on the stage in the economic development the individual factors of production exert various impact on the efficiency of the company performance. The resources which provide competitive advantages for the company in a complex and dynamic business environment are of key importance. The article aims to outline the historical foundations of intellectual capital and focus on some contemporary aspects of its manifestation in the field of domestic trade in Bulgaria during the period 2008-2018. The conviction that at this stage the most significant resource which contributes to the formation of the mechanism of sustainable development of the company is the intellectual capital is confirmed. The manifestation of intellectual capital in the field of domestic trade is illustrated by using an annual innovation index and conducting an analysis of the structure and dynamics of the intangible assets in "Wholesale trade" and "Retail trade" economic activities. The innovation index in the economic sector "Trade; automobile and motorcycle repair" is lower than the average for the country. The share of intangible assets in non-financial enterprises in the country in both economic activities "Retail trade" and "Wholesale trade"

is extremely low. The structure of intangible assets in the trade sector is characterized with inconsistent changes that occur within relatively narrow boundaries.

Keywords: intellectual capital, intangible assets, domestic trade.

JEL: N00, M21, O32, O34.

Introduction

The interaction between the factors of production is the driving force of the socio-economic development of society where every stage brings about changes in the impact of the factors of production. The functions of resources and their role in creating value for the companies and that of capital, in particular, as a secondary factor of production, change. In the process of economic development the triad "land – labour – capital" has become "land – labour – capital – entrepreneurship – knowledge". The dynamics in socio-economic advancement is related to the return on factors of production and the realization of higher added value. As a result of holding the dominant factor of production the company is in a position to implement competitive advantages by participating in the process of creation and allocation of newly created value. In today's conditions a company's competitiveness is determined by the degree of its involvement in the knowledge economy which relates to the stronger impact of intellectual capital.

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The aim of this article is to study the historical foundations of intellectual capital as a dominant form of capital and, on the basis of the available official information, to examine the visible manifestations, visible external expression of the application of intellectual capital for the economic sector of trade, automobile repair and motorcycles in the Republic of Bulgaria for the period 2008-2018.

The historical analysis of the concept of capital transformation is needed to justify the rise and recognition of intellectual capital as the most important factor of production at this stage of economic development. Intellectual capital is seen as a mixture of intellectual resources or knowledge whose implementations bring value for the company. It can be studied at various economic levels and its actual and accurate assessment poses a challenge for modern science and practice.

The manifestation of intellectual capital in the field of domestic trade can be observed in a variety of aspects. The most obvious one is seen in innovation activity measured with the annual innovation index of the Bulgarian enterprises in the "Trade; automobile and motorcycle repair" sector and through the share and structure of the intangible assets in the economic sub-sectors "Wholesale trade" and "Retail trade". In accounting reporting intellectual capital is only partially represented in the intangible assets of the enterprise.

The author is aware of the fact that innovations and intangible assets have a different and dynamic scope which does not entirely match the scope of intellectual capital, but in this case what matters is the changes that took place during the period of the research, 2008-2018. Even though conditionally, they give an idea of the state of intellectual capital in the sphere of trade.

To accomplish the aims of the research a historical analysis of the capital transformation

concept, the results from the empirical study (innovation.bg) on the innovation activity in Bulgaria and a statistical analysis of the structure and dynamics of intangible assets in the economic sub-sectors "Wholesale trade" and "Retail trade" are used according to official data of the National Statistical Institute.

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1. Review of Literature

The economic category capital is a complex, dynamic concept which has a number of manifestations and metamorphoses that can be observed in the process of its existence and development. The complexity of the phenomenon capital is due to the fact that capital is constantly moving. Capital exists though movement – its constant interaction with the other factors of production (land, labour, entrepreneurship, information, knowledge) turn it into production relation where capital constantly changes from cash into production and commodities, thus increasing its value. This is why it is difficult to determine capital's essence when it is static – its specific manifestations, studied from different points of view, are visible.

In the present paper capital is defined as 'each economic resource which in time and in its market functionality provides growth in value, income and wealth in its various forms' (Kazakov, 2008).

The development of economic theory has changed and enriched the understanding about the category capital and the role it plays

in creating value for the company. Historically, several stages can be identified:

First stage – According to economic schools in antiquity capital existed in the form of **money-lending (interest-bearing capital)**. ‘In antiquity and even in the Middle Ages ‘capital’ was seen as money lent for interest’ (Nikolov et al, 1996, p. 123). Over time attitude towards money-lending varied ranging from completely rejecting it as an amoral act and parasite economic activity which was considered illegal and thus heavily punished to being patronized as the essence and means of existence for banks and finance. ‘...The wellbeing of modernity is due to modern bankers – middle age usurers who extend loans to all entrepreneurial economic initiatives, i.e. without money-lending as a profession which is institutionalized though banks economic growth and economic surge are impossible’ (Attali, 2009, p. 386). The disapproving attitude to money-lending and the concerns related to preventing very high interest rates results in passing laws which set a cap on the acceptable agreed interest. (Petrov, 2010). The lending capital does not participate directly in production but the borrowed money can be invested in production and then it turns into capital which operates and brings growth. The result of money-lending is receiving money plus interest, i.e. more money or growth. One of the general definitions of capital states that capital is a money resource, value which in the process of functioning and using brings growth – larger quantity of money or value.

Second stage – In specialized literature trade capital is accepted as ‘the first historic form of capital existence’ (Beryarova et al, 2009, p.105). The development of global trade and the global market in the 16th century mark the beginning of the modern history of capital. At the end of the 15th and the start of the 16th century Italy witnessed the

rise of mercantilism, also known as “trade capitalism” (William Stafford, Thomas Man, Antaoan Moncretien and others). According to mercantilism circulation is a direct source of wealth, accumulation of wealth is the result of gaining profit from foreign trade or mining of precious metals whereas domestic trade simply allocates that wealth. ‘Wealth is the result of disproportionate exchange in foreign trade which brings about an increase in money in the national economy with import outweighing export’ (Toshkova, 2010, p.41). The contribution of mercantilism lies in the understanding that wealth is not money per se but specific means for its provision and use. Trade capital dominated in the course of millennia until the emergence of its industrial form. It has existed until these days along with a multitude of other forms of capital.

Physiocrats (France, the second half of the 18th century, Francois Quesnay, Jack Turgot and others), who believed that wealth was derived solely from the value of cultivated land and agriculture, also belong to the early modernist school of economic thought. Francois Quesnay identified capital as avances invested in agriculture mostly in material form – initial avances (machines and equipment) and annual avances (seeds and fertilizers). Quesnay’s scientific contribution is that for the first time he distinguishes between ‘fixed’ and ‘circulating’ capital without using these terms but the criterion used to make the distinction is the way the individual material elements of the ‘avances’ transfer their value (Bekyarova et al, 2009).

In his works Adam Smith (1723 – 1790) predominantly focused on the naturalist interpretation of capital as stock – a sum of objects, property, material elements needed in the process of production. ‘The entire stock is divided into two parts. That part which is expected to bring income is called capital’ (Smith, 2006, p. 258). The stock that

is not allocated for current consumption but for future production is seen as a means for increasing wealth through growth in its initial state.

Capital is an intrinsic characteristic of economy at a certain stage of its development and the ongoing evolutionary processes in the economy lead to changes and development of its forms. Money-lending and trade capital create conditions for the emergence of a new evolutionary form of capital – industrial capital.

Third stage – Industrial capital is associated with the First industrial revolution (England, the second half of the 18th century and the beginning of the 19th). According to classical economic theory money turns into capital when put into production – only then the respective growth can be guaranteed.

Karl Marx's predecessors studied capital by presenting it in a certain physical form and limited their study to one individual area of the entire process of production: mercantilists – to circulation, physiocrats – to agriculture, A. Smith – to material production, D. Ricardo – mostly to the allocation aspect (Toshkova, 2010). K. Marx studied the totality of production relations in society in all economic areas and analysed the essence of capital in the context of the surplus value theory which he created. Presenting labour force as a commodity proves that free labour is the source of growth or surplus value. 'In the process of production the worker creates value greater than the value of his own labour cost. This surplus is freely appropriated by the capitalist and is a source of capitalist wealth.'

Karl Marx elaborated on the category capital focusing on all its functional forms, proving the thesis that capital is not an object but a specific production relation related to manufacture and appropriation of surplus value. Capital is value which through labour exploitation increases its value.

Fourth stage - The neoclassical theory (the end of 19th century – A. Marshall, V. Pareto, L. Walras, P. Samuelson), Keynesianism (the beginning of the 20th century) and monetarism (M. Friedman, Ana Schwartz) do not change in principle the approach to determining the nature and essence of capital. The neoclassical paradigm is presented as a synthesis of 18 and 19 centuries economic thought and pragmatically oriented economic theory on the modern market and due to these characteristics it still dominates.

According to neoclassical theory capital is a factor of production along with land and labour. Capital is both a prerequisite for and a result of the process of production. It is the result of the interaction between labour and natural resources (land) or a secondary factor of production – a consequence, result of previous economic activity but aimed to guarantee production and earning income in the future. When capital is put into action, invested in manufacturing, it can create growth – multiplying and increasing wealth. The process of production is continually repeating and renewing, thus creating conditions for capital accumulation of physical capital which turns into material wealth nowadays, too (Kazakov, 2008).

Understandably, capital should not be considered solely in its physical form. As any factor of production it is a kind of commodity which has its money equivalent in the market economy. The monetary expression of capital in its development and accumulation creates its own economic existence and functions as financial capital. The concept financial capital, according to experts, appeared relatively late – at the end of 19th century and the beginning of the 20th. Milton Friedman (1912 – 2006) as a representative of monetarism stated that 'capital can find manifestation in bonds, share capital, money, physical goods and human capital. The common thing among them is the

fact that they illustrate wealth as capitalization of income. According to monetary theory – everything that is capable of providing income and its growth is capital' (Kazakov, 2010, p. 10).

The big number of new forms and metamorphoses of capital which can be seen in the modern theories about human, social and intellectual capital started during the past 20th century.

Fifth stage – Intellectual capital – since the beginning of the 70s of the 20th century the advanced industrial market economies entered a new stage of their development, the so called postindustrial society (John Galbraith, Alain Touraine, Daniel Bell, Alvin Toffler, Peter Drucker). The significant change in the economy was the result from the interrelation between two crucial processes – globalization and the fast development of information and communication technologies. Information and communication technologies facilitate the exchange of information providing considerably faster transfer of all types of information, knowledge and innovations. (Alexandrova, 2015). What happened was a transition from industrial production to economy based on information and knowledge. Gradually, the term 'postindustrial society' was replaced by 'information society', 'new economy' and 'knowledge economy'. According to D. Bell the two most important features that make 'new economy' differ from the past industrial society can be summarized as (Bell, 1973, cited in Milina, 2014, p.8):

- the central role of theoretical knowledge and
- enlarging the service sector relative to the industrial sector.

It becomes clear, D. Bell writes, that knowledge and its practical use replace labour as a source of surplus value. So, just like labour and capital were centralized variables in the industrial society, so were information and knowledge the crucial

variables in the postindustrial society.' (Bell, 1981, cited in Bekyarova et al, 2009, p. 749). Knowledge, education and intellect applied in the economic reality are transformed into driving forces of prosperity which leads to differentiating intellectual capital.

Industrial capital turns into a predominant form of capital when the economic circumstances create prerequisites for its manifestation and functioning. To make it happen a broader view of intellectual capital should be considered – this includes conditions which predetermine its existence and are the result of past accumulation of capital and development of factors of production. To meet these goals, World Bank experts developed a special concept to identify the driving forces and the fundamental framework of the new economy aiming to facilitate countries when defining strategies for moving towards knowledge economy. A toolkit to evaluate, measure and analyse the degree of development of knowledge economy has been developed. The elements of the conceptual framework include specific measure tools in four major fields (Alexandrova, 2015).

- Presence of favourable economic and institutional environment and management to support entrepreneurship;
- Establishment of efficient national innovative system capable of promoting products with high knowledge content;
- Setting conditions for adequate education of the population, for constructive and well-educated human capital;
- Building a well-developed and dynamic information and communication infrastructure.

Modern economic literature provides a variety of ideas about the scope and elements of intellectual capital. Intellectual capital has three components, according to the agent where lies the capital: human capital lies in people, organisational capital lies

within the organization and relational capital lies in the relations between organization and environment (Sveiby, K.E., 2001.). The International Federation of Accountants (IFAC) classifies intellectual assets too in three categories which economic practice considers to be the elements of intellectual capital:

- Human capital – knowledge, skills, competences, motivation, experience which can be optimized through methods of education and improving employees' qualification;
- Structural (organizational) capital – the infrastructure which facilitates human capital or the environment for its reproduction;
- Relational (relationship capital or client, market capital) – includes the relations between the company and the external environment – clients, suppliers, strategic partners and all other stakeholders. The value of the relational capital depends on the reputation of the company, the clients' loyalty and satisfaction, the existence of strategic partnership.

Intellectual capital is related not only to knowledge but also to the presence of practical experience, working methods, relations with clients and professional expertise which guarantee value for the enterprise and competitive advantages on the market (Galabova, 2013). Knowledge is the basis of intellectual capital and is therefore at the core of the company's capacity capabilities according to a resource-oriented approach (Stoyanova, 2011). Knowledge implies the use of information and data along with the use of the potential of human skills, competences, ideas, intuition, motivation, mental capacity and intellect. Intellectual capital encompasses all intellectual resources (own and rented) which bring the enterprise profits (Tudjarov, 2016). An important characteristic of

intellectual capital is its intangible nature – as a result of human mental efforts it exists as patents, innovations, culture, high technology, software, educational, health, financial and other services (Filipova, T., 2006).

Three stages are distinguished in the development of economic theory and practice related to intellectual capital research (Dumay, J.; Garanina, T., 2012). The first stage includes the last two decades of XX c. and is related to the clarification of the nature and scope of intellectual capital. The second one is related to its measurement and the third one is the stage related to its management and is also the stage of extensive practical research.

Intellectual capital is studied at different economic levels and its actual and precise evaluation is a challenge for modern science and practice.

The basis for measurement and assessment of intellectual capital was set by Leif Edvinsson as vice president of the Swedish company Skandia with the well-known Skandia Navigator. Generally, intellectual capital is measured as the difference between the market value and the carrying amount of the enterprise (Edvinsson, L., Malone, M. 1997; Sveiby, K.E., 1997).

Over the last years, in specialised literature there have been suggested a number of methods for intellectual capital assessment. D. Luthy (Luthy D., 1998.) and M. Williams (Williams M., 2000.) systematise scientific research by grouping the methods for intellectual capital assessment into four main groups:

- Direct Intellectual Capital Methods (DICM);
- Market Capitalization Methods (MCM);
- Return on Assets Methods (ROA);
- Scorecard Methods (SC).

Based on years of research experience in intellectual capital management, to these four groups G. Roos, S. Pike and L. Fernstroem

add a fifth group of assessment methods - Proper Measurement Systems (MS), (Roos, G., et al., 2005).

Most of these methods are usually applied at a microeconomic level and require confidential information or the existence of developed financial markets in the given in order to compare the market value and the carrying amount of the enterprise.

The aim of this article is, based on the available official information, to study the visible manifestations, the visible external expression of the use of intellectual capital in the sector of trade, automobile repair and motorcycles in the Republic of Bulgaria for the period 2008-2018.

The manifestation of intellectual capital in the sphere of domestic trade can be expressed through innovation activity measured by the annual innovation index of the Bulgarian enterprises in the sector of trade, automobile repair and motorcycles and by intangible assets in the economic subsectors of the share and structure of wholesale and retail trade.

2. Empirical analysis of the intellectual capital's manifestation in the domestic trade of Bulgaria during period 2008-2018

2.1. An annual innovation index of Bulgarian enterprises

An annual innovation index of Bulgarian enterprises is calculated on the basis of a regular empirical study of the innovation activity in the country. The index performs as a general matrix of the innovation performance on company level in Bulgaria and aggregates seven different kinds of innovation from four types, carried out by enterprises (product, process, organizational and marketing) and the degree of their novelty (new for the enterprise, for the market or for the world).

The index ranges within the 0 – 100 scale where index 0 means that the enterprise has not innovated at all, while the 100 index means that it has innovated with the highest degree of novelty. The 2014 data, relevant to identifying the innovation index show significant positive trends in the country's economy. The mean innovation index in the 2008 – 2014 period followed a continual upward trend (from 11.7 in 2008 to 24.6 in 2014). The growth in the innovation index during that period was mostly due to the higher innovative intensity of the enterprises which implies more and more diverse innovations. The highest innovation index in 2014 in the country was registered in the processing industry (33), followed by the information technology sector (31). The innovation index (24) for the economic sector "Trade; automobile and motorcycle repair" was lower than the average for the country in 2014. The prevalent areas were marketing innovations, which were more than 50%, followed by organizational and product innovations which exceeded 40 % for the sector. (innovation.bg, 2014).

Marketing or market innovations refer to the activities for product commercialization: distribution, communication, advertising, impact through prices (Georgiev, Iv. at al., 2013). Marketing innovations can to a great extent be defined as elements of relational capital which includes the company's relationship with the external environment: customers, suppliers, strategic partners and all stakeholders. The fact that marketing innovations have a predominant share, over 50%, implies a high share of the relational capital in the structure of intellectual capital in the sector of trade, automobile repair and motorcycles. It should be clarified that within their scope innovations do not include human capital which is an element of intellectual capital and influences the structure of intellectual capital.

Organisational innovations include the implementation of new or significantly improved managerial methods and systems, considerable changes in the work organization and the establishment of new or significantly changed relations with other enterprises along the value-added chain. Organisational innovations find expression in new or improved structures, new methods for building corporate culture, a new approach for making strategic decisions or improving company infrastructure. By their nature, organisational innovations are the closest to the scope of structural capital as an element of intellectual capital.

Process innovations in the "Trade; automobile and motorcycle repair" sector have the lowest share – a little above 10%. Process innovations are related to implementing production methods that are new for the company or for the economic sector. Their low share contributed to the lower innovation index in the "Trade; automobile and motorcycle repair" sector in 2014.

According to the 2017 Applied Research and Communications Foundation report „It is noteworthy that for the last five-year period the values that Bulgaria receives by individual indices in established world rankings are not subject to change or the change is insignificant. For example:

- in the Global Competitiveness Report, the figures for Bulgaria for each of the last five years are 4.3 or 4.4;
- in the Global Innovation Scoreboard, Bulgaria's results are slightly below or slightly above 42 on the relevant methodology;
- The European Innovation Scoreboard reports achievements for Bulgaria compared to the EU average of between 45 and 50, the change compared to 2010 being zero" (innovation.bg, 2017, p. 27).

It is a well-known fact that innovations are associated with novelty and are the result

of man's intellectual activity, by virtue of which they are a manifestation, an external expression of the action of intellectual capital. Unlike intellectual capital, innovations do not include human capital in their scope. This is the reason why they reflect the state and development of intellectual capital incompletely and conditionally. Regardless of conditionality, the changes in the innovation activity in the sector of trade, automobile repair and motorcycles are an important reference point for the changes in intellectual capital within the sphere of trade during the observed period, 2008-2018.

2.2. The analysis of the intangible assets during period 2008-2018

Generally, intellectual capital is defined as knowledge that brings value to the enterprise. Knowledge management is the art to generate value from the company's intangible assets (Pojarevska, 2017, p. 14). The challenge faced today is that not recognizing the right to ownership of intellectual property makes it, on its part, impossible to include it in the accounts and legalize it. „The recognition of legal protection of new objects of intellectual property is the first step for further exploration of the possibilities for their recognition as intangible assets... It is well-known that not all objects that receive legal protection as IP can be recognised as intangible assets.“ (Pojarevska, 2017, c. 30). This explains why, at this stage, intangible assets cannot fully and completely reflect the value of the company's intellectual capital (Iliychevski, S., 2018).

The question arises about the interrelation between the scope of intellectual capital, the scope of the system of IP and the scope of intangible assets.

The scope and structure of the intellectual capital in the sector of trade, automobile repair and motorcycles are based on the structure recognised in specialised literature and it includes the human, organisational and

relational capital of the enterprise. At this stage there official information is generated for a very small part of the elements of intellectual capital in trade which hampers the process of analysis. The possibilities for greater representation of intellectual capital in the financial statement in the sector of trade have not been explored yet.

The concept of intellectual property has a narrower scope than intellectual capital. IP is seen as “an abstract system of objects-products of man’s intellectual work and relations, legal and economic, that arise with the establishment and acquisition of ownership of these objects” (Borisov, B., M. Markova, 2002). „Objects of IP can be defined as intangible goods, results of man’s intellectual activity that can receive legal protection as such “ (Draganov, Zh., 2016, p. 66).

In the context of a knowledge-based economy, new results from man’s intellectual activity are generated continually and the scope of intellectual property is expanding. Regardless of objectively occurring processes, intellectual capital remains a broader concept than intellectual property, as in its scope it includes as a resource man himself with his knowledge, skills, experience, competences. It is an indisputable fact that that all objects of IP are intangible goods, a result from man’s intellectual work but not all objects of IP cover the established by accounting standards threshold criteria intangible assests. In turn,

the intangible assets of the enterprise include not only IP rights and limited property rights, but also rights to exploit public state and municipal property. Therefore, the scope of intangible assets is broader than that of IP and can be presented in greater detail in tabular form (Table 1).

It should be clarified that limited property rights and rights to exploit public state and municipal property are elements of the structure of intangible assets but they are not in the scope of intellectual capital. By their nature they are acquired rights to use the property of third parties for a certain period and under certain conditions and rights for property exploitation (Basheva, S., et al., 2012).

In Bulgaria, enterprises started to report intangible assets after 1990, with the introduction of the International Accounting Standards and the National Accounting Standards based on them (Borisov, B., V. Borisova, 2015, p. 630). Unfortunately, at present the publicly available statistical information about intangible assets still does not reflect the upgraded structure proposed in Table 1 but includes aggregated groups such as products of scientific development; concessions, patents, licenses, trademarks, software products and other similar rights and assets; advances and intangible assets under construction: trade reputation; other intangible assets.

Table 1. *Nature and scope of intangible assets*

Intangible assets		
IP rights	Limited property rights	Rights to exploit public state and municipal property
<ul style="list-style-type: none"> • Industrial property rights; • Literary rights and rights over scientific work; • Rights over new IP objects. 	<ul style="list-style-type: none"> • Building rights; • Rights to extend or upgrade a building; • Rights to use public property; • Rights to use property of legal and natural; • Servitude rights. 	<ul style="list-style-type: none"> • Concession rights; • Amounts accrued as a result of business operations leading to an increase in the economic benefit of leased non-current tangible assets

Source: Basheva, S., R. Pozharevska, M. Markova, 2012. *Reporting of intangible assets*, UNWE Publishing Complex, Sofia, p. 12.

Grouped this way, IP objects which can be classified as intangible assets in accordance with accounting standards are improperly mixed with objects of an entirely different nature like concessions. By their very nature, concessions are rights to exploit public property. Thus, grouped this way IP objects receive inadequate and unreal reporting as intangible assets which is not beneficial to business organisations (Borisov, B., V. Borisova, 2015, p. 633).

The analysis of the intangible fixed assets as commensurate elements of intellectual capital is conducted on the basis of information provided by the National Statistical Institute for the non-financial enterprises in the country as a whole and by the economic activities wholesale and retail trade.

The main conclusion that can be drawn on the basis of the data presented in Table 2 is that the share of the intangible assets and the

assets of the non-financial enterprises in the country is extremely low. It varies within very narrow limits from 2.43% for 2008 to 2.89% in 2012. Of the two economic activities under consideration – wholesale trade and retail trade, the relative share of intangible assets in the “Wholesale trade” activity is slightly higher.

In terms of the dynamics of the analysed relative shares it is difficult to determine some kind of regularity in general and by economic activity. For example, in non-financial enterprises in the country the share of intangible assets increased from 2.34% in 2008 to 2.89% in 2012 and after that it decreased by 2014. After this year, there is a slight upward trend, which is to reach 2.77% in 2018. In the wholesale trade sector it gravitates around 1%, similar situation can be observed in the retail trade sector where the percentage is around 0.8%.

Table 2. Relative share of intangible assets as part of the assets of non-financial enterprises and by economic activities in Bulgaria (in %)

Economic activity	Years										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*	2018*
Total	2,43	2,50	2,71	2,56	2,89	2,81	2,56	2,60	2,70	2,74	2,77
Wholesale trade	1,15	0,97	0,92	0,85	0,94	1,22	1,04	1,11	1,15	1,15	1,15
Retail trade	0,68	0,88	0,83	0,75	0,85	0,70	0,81	0,77	0,77	0,78	0,80

Source: Based on data provided by the National Statistical Institute

*A forecast by the author based on the average geometric rate

As it was pointed out earlier the share of intangible assets of the assets of non-financial enterprises in the country is negligibly small, which is to be interpreted as a negative fact. Its importance is enhanced by the fact that during the period under consideration, 2008 – 2018, no positive trends for its increase were registered. It is difficult to decide to what extent these findings are the result of the economic crisis. It can be assumed that in times of crisis

enterprises are supposed to invest a significant part of their resources in intangible assets which can guarantee them economic benefit and competitiveness in the future (Anastassia et al., 2011).

The relative share of the “concessions, patents, licenses, trademarks, software products and other similar rights and assets” component in the structure of intangible assets of non-financial enterprises in the country has

two characteristics. The first one refers to the exceptionally high relative share – over 60% in the intangible assets, and the second – to the existence of a positive trend which resulted in nearly 78,04% share in 2018. Second in

terms of relative share is the “trade reputation” element where slight fluctuation around 2 percentage points was observed in the period between 2008 and 2013 and a dramatic slump in 2014, continuing until 2018 (fig. 1).

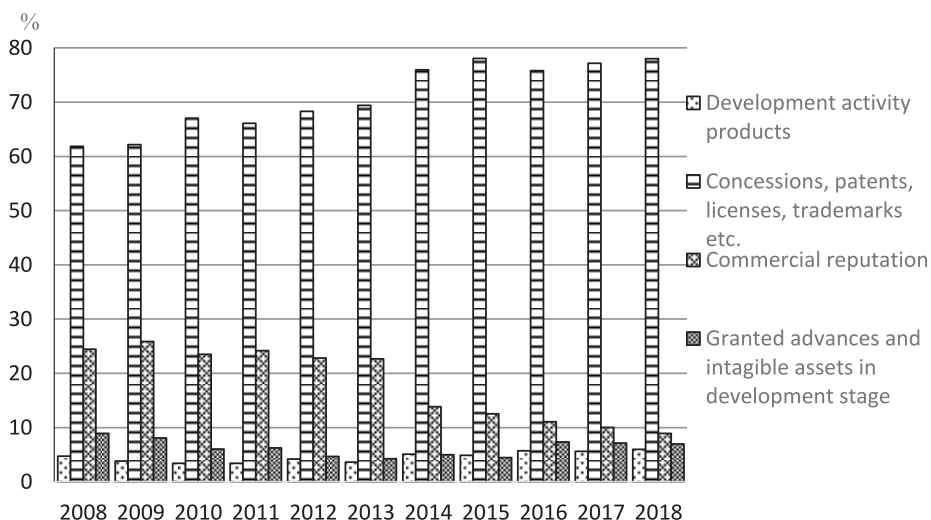


Figure 1. Structure of intangible assets of non-financial enterprises in the country during the 2008-2018 period

The third position belongs to the “granted advances and intangible assets in the process of construction” element whose share between 2008 and 2009 was a bit above 8%, while in the following years it varied within the 4.26 and 7.36% range. The “products for development activities” element, whose share also changed within narrow boundaries – between 3.40 and 6.01%, characterizes with slight changes until 2013 and a very weak trend of increase of the relative share to 6.01% in 2018.

The “concessions, patents, licenses, trademarks, software products and other similar rights and assets” element in the structure of assets in retail trade stands out

with considerably higher relative share in comparison with the shares of the other three elements of the intangible assets (fig. 2). In their essence these are long-term acquired industrial and intellectual property rights. In retail trade trademarks and trade names are predominant among the intangible assets (Dimitrova, 2006). Trademarks are officially registered names, signs, symbols, design or a combination designed to distinguish the products of the commercial company from those of their competitors (Midova, P., 2006). Company marks and trademarks are legally protected and grant their holders the exclusive right to use them over a certain period of time over a particular territory.

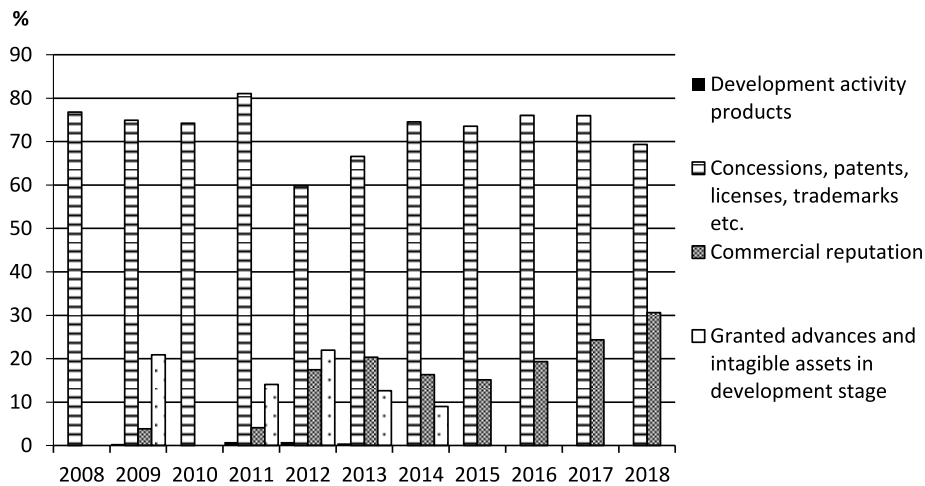


Figure 2. Structure of intangible assets in “Retail trade” as economic activity during 2008 – 2018

During the first four years of the period under consideration the share of “concessions, patents, licenses, trademarks, software products and other similar rights and assets” varied within the 70 – 80% range, followed by a slump in 2012 and a rise during the following five years until 2016 and again a decrease in 2017 and 2018. The “granted advances and intangible assets in the development phase” and “commercial reputation” elements changed their second and third positions by the size of the relative share.

In “Retail trade” the “granted advances and intangible assets in the development phase” until 2012 inclusive take the second position but as a result of a decline in the share in 2013 and 2014 they moved to the third position (Fig. 2). “Commercial reputation” during the first three years registered 5% share and from 2012, despite the fluctuations in 2014 and 2015, there is a positive trend in the relative share change. The “development activity products” element registered extremely low values. These are various developments for new or improved versions of existing products, equipment, technology, methodology and other achievements

(Petrova et al., 2012, p. 54). They are mostly related to realizing product, technological and organisational-managerial innovation and are generally source for competitiveness of the commercial company over a long period of time (Beneito et al., 2017).

It should be noted that for the purposes of accounting, innovation activity is considered in two stages: research stage and development stage. Development is a considerably more advanced stage than research stage and is related to the introduction of innovations resulting from research activity mostly for the production of new or improved products, processes, systems, (Basheva, S., et al., 2012, p. 17).

The results from the analysis can be summarized to draw the following conclusions about the changes in the structure of intangible assets in general for the non-financial enterprises in the country and in wholesale trade and retail trade as economic activity.

- Attention should be paid to “development activity products” element which includes results from research activity for new products, equipment, technology and

other achievements. The share of development activity products in retail trade is also lower than 1%. By its very nature, development activity is more typical of the sphere of trade rather than the sphere of production, which explains the insignificant share of the element of development products in the sum of intangible assets in trade for this stage.

- “Commercial reputation” and “granted advances and intangible assets in the development phase” elements register significantly lower relative share – below 20% and exchange the second and third position in retail trade.
- The “concessions, patents, licenses, trademarks, software products and other similar rights and assets” element stands out as the one with the highest share – between 60 and 80% for non-financial enterprises total for the country and retail. Excluding the component of concessions, which is inherently a right to exploit public property and is not an element of intellectual capital, the group of intangible assets including concessions, patents, licenses, trademarks, software products and other similar rights and assets reflects to the greatest extent the innovation activity generated by intellectual capital in the sector of trade. Although with a great deal of conditionality, it provides essential information about the state and development of intellectual capital in the sphere of trade.
- The particular intangible assets resulting from the application of intellectual capital in trade can, in the author’s opinion, be distinguished by elements as follows:
 - **Relational capital** – customer and object lists (client bases); relations with customers; customer loyalty; advertising; marketing and market research, etc.

- **Structural or organisational capital** – trademarks and trade names; resources stemming from long-term staff training; know-how; merchandising; franchising, etc.

At this stage, most of the enumerated intangible goods generated by the intellectual capital in trade remain outside the scope of intangible assets on balance sheets because it is difficult for them and not always possible to cover all threshold accounting criteria for recognition.

Unlike intellectual capital, intangible assets do not include human resources in their scope. That is why they reflect the state and development of intellectual capital incompletely and largely conditionally. Regardless of conditionality, the changes in the intangible assets in the sector of trade, automobile repair and motorcycles are an important reference point for the changes in the intellectual capital in the sphere of trade for the studied period, 2008-2018.

Conclusion

Historically, capital has been constantly developing changing from one form to another preserving the preceding ones. Every new metamorphosis of capital ensues from a change in the economic environment which is the result of quantitative accumulation created by previous dominating forms of capital, which have led to qualitative changes in the interrelation between the factors of production.

On the basis of the research conducted, the following conclusions can be drawn:

The analysis of the transformation of “capital” as factor of production from a historical and practical perspective substantiates the conclusion that the intellectual capital is the most essential resource for the modern company responsible for the formation of its mechanism of sustainable development. The

predominance of one of the forms of capital is determined by the degree of economic development. The intellectual capital becomes the supreme form of capital when the economic circumstances create prerequisites for its manifestation and functioning.

Another conclusion is that the manifestations of capital transformation in domestic trade have been studied by using the annual innovation index and by analyzing state and structure of intangible assets in "Wholesale trade" and "Retail trade". The author is aware of the fact that innovations and intangible assets have a different and dynamic scope which does not entirely match the scope of intellectual capital, but in this case what matters is the changes that took place during the period of the research, 2008-2018. Even though conditionally, they give an idea of the state of intellectual capital in the sphere of trade.

It has been found that the innovation index in the economic sector "Trade; automobile and motorcycle repair" is lower than the mean value for the country.

The share of intangible assets and the assets in the non-financial enterprises in the country and for the two economic activities "Wholesale trade" and "Retail trade" is extremely low during period 2008-2018.

The changes in the relative shares of the individual elements of the intangible assets as a manifestation of intellectual capital can be described with inconsistency which is observed in fluctuations within relatively narrow range. This is evidence for lack of clearly defined policy for the development of intellectual capital in domestic trade in Bulgaria during the studied period 2008-2018.

The dominant role of intellectual capital is an objective and irreversible process requiring an interdisciplinary approach and continuous research, measurement and management of intellectual capital at all levels of research and in all economic sectors.

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