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OPTIMIZATION OF INTELLECTUAL CAPITAL IN THE COMPETITION OF CHINA - ASEAN FREE TRADE AREA (CAFTA)

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Abstract

Nowadays, trade agreement China - ASEAN (China - ASEAN Free Trade Area, CAFTA). Goods between countries China and ASEAN will be independent entrance with exemption rate to zero percent. Some employers assess, small and medium enterprise sector will be crushed under a barrage of cheap goods from China. In this context, we do not have the option to delay, let alone reverse. The only thing we have to do is clean up, prepare for and win this competition.

In addition to increasing the competitiveness of local products (which is a fixed price for being run over by inflows of Chinese products to Indonesia), we also need to maximize the management of Intellectual Capital (IC) which is owned by the respective companies. This strategy is absolutely necessary because CAFTA is a sign of the emergence of a new era in the economy, from the old economy to the new economy. In the old economy, prosperity is created through improved product unit and the measurement system based on income (revenue), boarding (cost) and net income (profit). Whereas in the new economy, prosperity is created through increased incorporated value added products and services. Each company has the knowledge, skills, values and unique solution that can be transformed into value in the market. If the management of intangible resources (intangible resources) can help achieve competitive advantage, hence the increase in productivity and market value (market value) is no longer an option, but it is a certainty (Pulic and Kolakovic, 2003). This is referred to as intellectual capital, which is the key for companies to win competition in CAFTA.

IC is a term given to a combination of intangible assets from the market (intangible assets of the market), intellectual property, human-centered and infrastructure that enables companies to be able to function (Brookings, 1996). IC is generally identified as the difference between the market value of the company (business enterprise) and the book value of the company's assets or of financial capital. It is based on an observation that since the late 1980s, the market value of the business most and in particular is a business that is based on knowledge has become greater than the value reported in the financial statements based on calculations performed by accountants (Roslender & Fincham, 2004).

This paper will discuss how to deal with CAFTA by optimizing Intellectual Capital from the aspects of economy, finance and public policy. Because the IC will not be able to walk without the support of all the elements including the state through the economic policy in the face of CAFTA .

Keywords: CAFTA, intellectual capital, competitiveness, public policy

I. INTRODUCTION

New Year 2010 marks the entry into force of the Chinese Trade Agreement - ASEAN (China - ASEAN Free Trade Area, CAFTA). With this agreement, the goods between countries China and ASEAN each other to free entry to the release rate to zero percent. Some employers assess, small and medium enterprise sector will be crushed under a barrage of cheap goods from China. In this context, we do not have the option to delay, let alone reverse. The only thing we have to do is clean up, prepare for and win this competition.

In addition to increasing the competitiveness of local products (which is a fixed price for being run over by inflows of Chinese products to Indonesia), we also need to maximize the management of Intellectual Capital (IC) which is owned by the respective companies. This strategy is absolutely necessary because CAFTA is a sign of the emergence of a new era in the economy, from the old economy to the new economy. In the old economy, prosperity is created through improved product unit and the measurement system based on income (revenue), boarding (cost) and net income (profit). Whereas in the new economy, prosperity is created through increased incorporated value added products and services.

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Many people are pessimistic - and then blame the government - in the face of CAFTA. The argument given by an average range on the assumption that our industry, especially small and medium industries, is not ready and will not be able to compete in the face of inflows of Chinese products to Indonesia.

Nevertheless, quite a few are full of optimism welcome this CAFTA era. CAFTA is placed as a great opportunity to develop themselves and improve production efficiency. Of course with a stack of arguments to convince themselves that the company and the industry we can reap the

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benefits of CAFTA. One of them (I think) is that we understand the true character of our customers, and what they need.
Our wealth of information about the consumer, the distribution network to reach them, and so is an incredible resource that will positively impact the organization when managed effectively. Such property, which is an intangible resources is an important part of the intellectual capital that is believed to be a driver for value creation (value creation) for the company.

II. LITERATURE REVIEW

a. Understanding Intellectual Capital

Interest in the IC began when Tom Stewart, in June 1991, wrote an article ("Brain Power - How Intellectual Capital Is Becoming America's Most Valuable Asset"), who led the IC to the management agenda. Table 1 summarizes the chronology of some significant contributions to identifying, measuring and reporting the IC.

Table 1: Chronology of Significant Contribution to the Identification, Measurement and Reporting IC

Period	Development
Early 1980s	Appearing common understanding of the Intangible value (usually called "goodwill")
The mid-1980s	Era of information (information age) role, and the difference (gap) between the book value and the market is becoming increasingly obvious in some companies.
The late 1980s	Early attempts consultants (practitioners) to build reports / accounts that measure the intellectual capital (Sveiby, 1988).
Early 1990s	Systematically to measure and report on intellectual capital company supplies to external parties (eg: Celemi and Skandia; SCSI, 1995)
	In 1990, Skandia AFS commissioned Leif Edvinsson as "director of intellectual capital". This is the first time that the task of managing intellectual capital raised in the formal position and legitimacy of the company.
	Kaplan and Norton introduced the concept of the balanced scorecard (1992).
The mid-1990s	Nonaka and Takeuchi (1995) presented work that is very influential on "the creation of knowledge companies". Although this book concentrates on the 'knowledge', the distinction between knowledge and intellectual capital in this book is enough to show that they focus on intellectual capital.
	In 1994, supplements Skandia's annual report is produced. This supplement focuses on the presentation and appraisal company supplies on intellectual capital. Visualization IC attract other companies to follow the instructions Skandia.
	Other sensations occurred in 1995 when Celemi use audit knowledge to offer a detailed estimates on capitalnya intellectual statement.
	The pioneer of intellectual capital publishes best-selling books on the topic IC (Kaplan and Norton, 1996; Edvinsson and Malone, 1997; Sveiby, 1997). Edvinsson and Malone works more peeling process and the 'how' of measurement IC.
The late 1990s	Intellectual capital became a popular topic with researchers and academic conferences, working papers, and other publications find an audience.
	Increasing the number of major projects (eg the MERITUM project; Danish;

	Stockholm) organized with the aim, among other things, to introduce some research on intellectual capital.
	In 1999, the OECD organized an international symposium on intellectual capital in Amsterdam.

Source: Ulum (2009)

Roos et al. (1997) stated that intellectual capital (IC) include all processes and assets that are not normally shown in the balance and the whole of intangible assets (trademarks, patents, and brand). While Bontis (1998) recognizes that the IC is elusive, but when he can be captured and developed, it will be a new resource for organizations to compete and win. One widely used definition of IC is offered by the Organisation for Economic Co-operation and Development (OECD, 1999) which describes IC as the economic value of two categories of intangible assets: (1) organizational (structural) capital; and (2) human capital. More precisely, organizational (structural) capital refers to things like software systems, distribution networks and supply chains. Human capital includes human resources within the organization (ie labor resources/employee) and external resources related to the organization, such as customers and suppliers. Often, the term IC is treated as a synonym of intangible assets. Nevertheless, the proposed definition CD, presents quite a difference by putting the IC as a separate part of the basis for setting the overall intangible assets of a company. Thus, there are items that logically intangible assets do not form part of the IC of a company. One is the company's reputation. The company's reputation may be a byproduct (or an effect) on the use of IC wisely in the company, but it is not part of the IC.
IC is generally identified as the difference between the market value of the company (business enterprise) and the book value of the company's assets or of financial capitalnya. It is based on an observation that since the late 1980s, the market value of the business most and in particular is a business that is based on knowledge has become greater than the value reported in the financial statements based on calculations performed by accountants (Roslender & Fincham, 2004).

Table 2: Comparison of Concepts IC According to some

Brooking (UK)	Roos (UK)	Stewart (USA)	Bontis (Kanada)
Human-centered assets *Skills, abilities and expertise, problem solving abilities and leadership styles*	***Human capital*** *Competence, attitude, and intellectual agility*	***Human capital*** *Employees are an organization's most important asset*	***Human capital*** *The individual level knowledge that each employee possesses*
Infrastructure assets *All the technologies, process and methodologies that enable company to function*	***Organizational capital*** *All organizational, innovation, processes, intellectual property, and cultural assets*	***Structural capital*** *Knowledge embedded in information technology*	***Structural capital*** *Non-human assets or organizational capabilities used to meet market requirements*
Intellectual property *Know-how, trademarks and patents*	***Renewal and development capital*** *New patents and training efforts*	***Structural capital*** *All patents, plans and trademarks*	***Intellectual property*** *Unlike, IC, IP is a protected asset and has a legal definition*

Market assets	***Relational capital***	***Customer capital***	***Relational capital***
Brands, customers, customer loyalty and distribution channels	*Relationship which include internal and external stakeholders*	*Market information used to capture and retain customers*	*Customer capital is only one feature of the knowledge embedded in organizational relationships*

Source : Bontis et al. (2000)

b. **IC As Creation Value (Value Creation)**

Today, the business logic is based on the achievements of growth and value creation (value creation) in the long term. The problem is that traditional indicators of business success, such as increased revenue, cash flow, profit, market share and technology leadership in fact not able to provide information on whether the company really has created value for its owners and shareholders or not. Only when a company is able to produce anything more than the resources invested, then we can talk about the creation of value. In this context, the main interest of all stakeholders is that the business strategy directed at achieving these objectives - value creation - and that the measurement system reflects management's ability to achieve these goals.

However, increasing pressure and responsibility towards shareholders and employees implies attention to the creation of value (value creation) as a new measure of the success of the business (research carried out in the capital markets prove that there is a relationship between the efficiency of the creation of value and the market value of the company). The end goal is to improve the ability of the company in the long term, that will only be achieved by investing in intellectual resources (especially in human capital, which is a key factor in modern business value creation) and increased mobilization of internal potential of the company, mainly is intangible.

A key premise for value creation is that all contributions to value creation (value creation) but also the destruction of the value (value destruction) can be measured without ambiguity (ambiguous), which often requires organizational schema and new indexes. In addition, the process of planning and decision-making should focus on value creation. For the effectiveness of cost control, the executive management need to be together with top management to identify all the possibilities to continue to improve the efficiency of value creation. Through this process, all the intellectual potential available within the company can be mobilized for the purpose of achieving the maximum value (both for shareholders and employees).

Value creation intangible (intangible value creation) should receive adequate attention, because it has a huge impact on the overall performance of the company. Today, value is created through the complex relationship between supply and demand (supply and demand), which today offers much greater than the demand. Peter Drucker describes traditional business activities as follows: "buy cheap, then sell at high prices, and the difference is your advantage". In this approach, the gain was smaller due to the cost: the smaller the cost, the greater the profit. This is why special attention is paid to costs during the industrial era (Pulic, 1999).

Modern theory defines business activity as value added (value added) and wealth, which is far more complex than ever before. For the purpose of creating a profit, it is important to build relationships with customers to the highest levels. Moreover, it is important to realize that the format measurable / tangible (tangible form) on the creation of value (such as revenue, value added) is dependent on the format of intangibles (intangible form) on the creation of value (such as: an increase in time and effectiveness communication, better relationships with customers, build and maintain a reputation).

The key to success is the creation of a causal relationship between the two formats creation of value (tangible and intangible form). It must be said that one of the main challenges for management is to create conditions that would enable successful generation the value of intangible (such as knowledge, services, experience, benefits, speed, quality, impression) and its transformation to the format tangible (such as revenue, profit, value added, market share, the market value). Management systematic value creation is based on the premise that the concept is inherent in the company as the ultimate goal of business. It is important to be sure that the concept is "live" at all levels of business, on a day to day activities, stimulated, rewarded, measured and communicated.

III. METHODOLOGY

Research carried out for 3 months with the main data source through library research with qualitative descriptive research. In this way you have information about how the role of intellectual capital in the face of CAFTA and what policies undertaken by the company and the government to deal with it.

IV. FINDINGS/DISCUSSION

CAFTA should we place it as an opportunity to grab business opportunities more widely, not only won the competition in the country, but also to be able to master the Chinese market. This optimism must be built, because, again, we have no alternative to not optimistic. There are several things that can be elaborated by our SMEs to be able to win the CAFTA to maximize the management of intellectual capital: *First*, management employees. Employees are the most important assets in the industry. Then the employee should be placed as a wealth of major companies and managed effectively. Employees (human capital) is the spirit of the organization. In themselves they saved everything that could deliver the organization to compete and win the competition. Management of good employees, proportionate, non-discriminatory will move the organization to the fullest. Relationship 'humane' between the owner and the employees will be able to improve the efficiency and effectiveness of the organization.

Second, braids customers and distribution channels (relational / customer capital). To win the competition in the country, we have had the 'wealth' of the fabric of our customers and distribution channels. We are well aware of what, who, and how our customers. We also understand far more about the distribution channels that could be a source of inefficiency in another organization. Better management on the customer's capital will increase customer loyalty and by itself will put our product in the hearts of customers.

Third, sells unique. One of the main attractions of our local products is its uniqueness. By maintaining and creating new uniqueness in each of our SME product, then the product will

have high competitiveness in the market, both local and international markets. Findings from this study is that the IC is a term given to a combination of intangible assets from the market (intangible assets of the market), intellectual property, human-centered and infrastructure that enables companies to be Able to function (Brookings, 1996). Generally IC is identified as the difference between the market value of the company (business enterprise) and the book value of the company's assets or of financial capital. It is based on an observation that since the late 1980s, the market value of the business most and in particular is a business that is based on knowledge has Become greater than the value Reported in the financial statements based on calculations performed by accountants (Roslender & Fincham, 2004).
There are some things you can do to win the CAFTA to maximize the management of intellectual capital: *First*, management employees. *Second*, braids customers and distribution channels (relational/customer capital). *Third*, sells unique because one of the main attractions of our local products is its uniqueness. Nationally, the state policy related to this was the *first* CAFTA, Indonesia should increase its exports of the majority of raw materials from natural resources into finished goods. *Second*, attention to human resource development still needs to be given priority. *Third*, infrastructure spending needs to be improved. If the government through the state budget can not afford it can take advantage of cooperation with the private sector or utilizing funds or corporate social responsibility Corporate Social Responsibility (CSR). *Fourth*, improving the quality of employment in the services sector also needs to be given serious attention to keep up with other countries.

V. CONCLUSION/IMPLICATIONS

CAFTA is not an alternative, we have no choice! Therefore, CAFTA must be faced optimistically to improve the effectiveness and efficiency of the management of the organization. One very important in this context is how organizations in maximizing the potential of intellectual capital possessed to win the competition.

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