

INTANGIBLE ASSETS - SUSTAINABLE ECONOMIC FACTORS AND NEW CREATORS OF VALUE

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Abstract:

The concept of value existed since trade was invented and used in all fields. Economists have tried different ways to define the common denominator subjective estimation of a good size. Studying the economic value of an asset has preoccupied economists at the early days of this discipline, trying to estimate the value of an individual and then extend to goods that can be changed.

*Over time how to create and measure value had several forms: from **profit indicators** (economic and financial profitability, etc.) to **indicators based on cash flow** (cash flow, CFROI - Cash Flow Return on investment - cash return on investment, etc.) or **indicators of value** (EVA - Economic Value Added - Economic Value Added, MVA - Market value added - Market value added, etc.).*

Value creation is the most important goal for a company, and the development of economy and human society will bring new ways of creating value that is in step with time.

The new ways of creating value refer to human capital, intellectual capital, information, goodwill, etc., which gives the opportunity to contribute to the sustainable development of society and thus to value creation. It is the result of a complex management of all aspects of the business.

"Sustainability" means property of a system, where the emphasis is on maintaining a particular state of the system over time.

Key words: *Intangible assets, sustainability, market value, book value, S&P 500.*

JEL Classification: M41, Q56, D46, G14.

1. Intangible assets (IA) and sustainability

Intangible assets are part of the fixed assets, also known as long-term assets, property or real estate investment comprise all economic values whose utility and liquidity period is longer than one year.

A comprehensive definition of IA refers to non-physical sources of potential future benefits enjoyed by an entity or, alternatively, all the elements of an economic entity that exists alongside monetary and tangible assets (Baruch, 2001).

In the narrow sense, IA are defined as non-physical sources of potential future benefits, of an economic entity, which were acquired by exchange or domestic products were identifiable costs that have a finite life span, have a different from the market value of the holding entity and are owned or controlled by the economic entity (Baruch, 2001).

Assets includes goods and valuables of any kind, movable or immovable, tangible or intangible asset acquired or created unit designed to serve a long time, longer than one year, the work unit which is not consumed in the first use. There are visible and invisible assets that include the skills of employees, internal structure and external structure of an economic entity (Sveiby, 2001).

Sustainability or sustainable development provides an opportunity to align positive values around themes such as good health, conservation, charity, and do better by doing things right. Sustainability provides a common platform where people can engage in a collaborative manner, without being too concerned about competitive constraints and internal policies.

Intellectual capital (intellectual property) and company knowledge are two of the most important components of intangible assets that optimizes created, created and will always create value.

IA or intellectual skills and knowledge presented as generally have a more important role in the production process of an economic entity in obtaining new products and services and, perhaps more importantly, a new type of relationship with customer, mutually beneficial for the customer and the vendor.

Because of the sustainable development phenomena we deal with a positive evolution of IA namely, technology development, development of intellectual capital (human capital), improving competitiveness and especially the quality of life.

Managing IA is a decision-making process on how to create such items and how to introduce the turnover commercial and competitive in order to maximize profits. This includes economic, social, organizational, functional and informational. The economic aspect of this process is defined by the need for resources, resource allocation, resource availability assessment and their use.

The social aspect emphasizes the role of people's pursuit.

The appearance of the organization includes regulation, rationalization, instruction and responsibility intangible assets.

Functional aspects of the management of IA are characterized by performing general and specific functions and informational aspect is finding information collection, processing and transmission (Slobodyanyuk, 2009, 2010).

2. Intangible assets (IA) and the creation of value

The role of these elements is supported both by economists, investors and managers. At present, the major companies are heavily focused on creating value and less on reducing costs. Production is largely based on intangible assets such as knowledge, know-how, creativity and more.

Thus, a major challenge for management is to create value and develop conditions that may allow increasing the value of IA and, therefore, the value of the entire company.

The character IA means that not all of them are reflected in the balance sheet and in the traditional sense are not physically visible.

Because there is no physical shape, IA present a number of difficulties arise mainly measuring direct assessment of the inability of these elements.

The problem of assessing these elements is extremely complicated and debatable. Since XXI century, the mentioned elements became the most important resources for a company and have almost the most important role in creating value.

In recent decades, new conditions for business development led to the lack of success of these companies relying mainly on traditional property, plant and property, capital, labor, financial and other physical resources. Such companies are now unable to meet the new market rules which demonstrate the importance of intangible assets generates value and competitive advantage of the company's sources (Barney, 1991), (Grant, 1991), (Stewart, 1997). According to the literature these items are identified as heritage assets - key for the identification, assessment, management and proper disclosure in order to create value (Edvinsson and Malone, 1997), (Sveiby, 1998). The most important trend in the XXI century economy is the shift from tangible to intangible value creation. The role of these elements is supported both by economists, investors and managers. At present, the major companies are heavily focused on creating value and less on reducing costs. Production is largely based on intangible assets such as knowledge, know-how, creativity and more (Aceleanu and Serban, 2009).

Without the prospect of IA (especially for management and accountability), companies can have their risk of destruction of basic substances to optimize short-term financial results. By destroying involuntary essential intangible assets, creating value and future potential, are put at risk.

As a punctual conclusion, we can consider sustainability and intangible assets as two sides of a coin: IA require a focus on

sustainability; while sustainability implies dissemination and use of those items and property. As the Romanian market moves from a manufacturing-based economy to one based on technology and innovation, investment in IA are increasingly vital to economic growth and sustainable development (Burghelea et al., 2014).

3. The measurement of intangible assets (IA)

In terms of human capital development, our country has made convincing statistics, competitiveness and knowledge economy index shows that there is possibility of some improvements. Our country has shown a slight improvement for all these indicators, so that in the future, motivational factor for improvement can be sustained and be able to demonstrate our European competitors is the true value of our people (Vasile et al., 2013).

According to recent studies note that there are changes in the value creation of companies. This value depend increasingly more digital assets and IA. For example, computerized information, innovative property, brands and skills.

Stock markets are an important indicator for these changes. In the past quarter century, the market value offered by American stock index S & P 500¹ has deviated greatly from their carrying value. This "gap" indicates that the current physical and financial responsibility reflected in the balance sheet of a company comprises less than 20% of the actual average company, and further research shows that a significant part of this technology is the intangible values Proprietary (see figure no. 1).

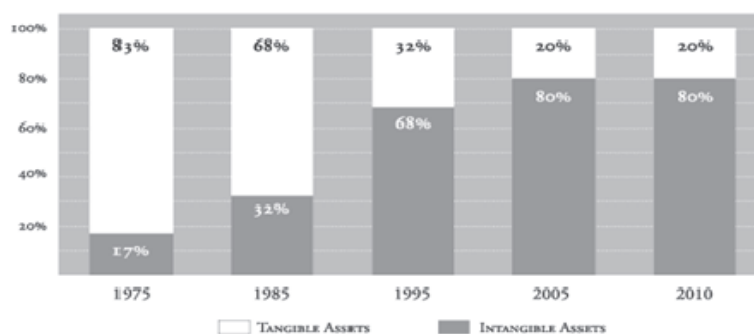


Figure no. 1: Components of the market value of the S & P 500

Source: www.oceantomo.com [11]

¹ Standard & Poor's 500 Index based on capitalization of 500 large companies that have common shares listed on the NYSE - New York Stock Exchange and NASDAQ - an American Stock Exchange.

According to the chart, in 2005 the value of IA reached 80% percentage points as in 2010. In 2009 IA have reached a value of 81% with a decrease of 3.5% in total expenditure on R&D is ranked among top innovators.

Overall, from 2008 to 2009 showed a decrease of these costs and contributed to revenue growth by 3.5 percentage points.

Despite the slight decrease in expenditure on innovation, in the period 2009 - 2010 the value of IA remained stable.

This shows that innovation should be a priority, especially if businesses want to have further success.

Here is an example of the intangible value as a percentage of the market value for non-markets - US (Europe, Japan and China) (see figure no. 2).

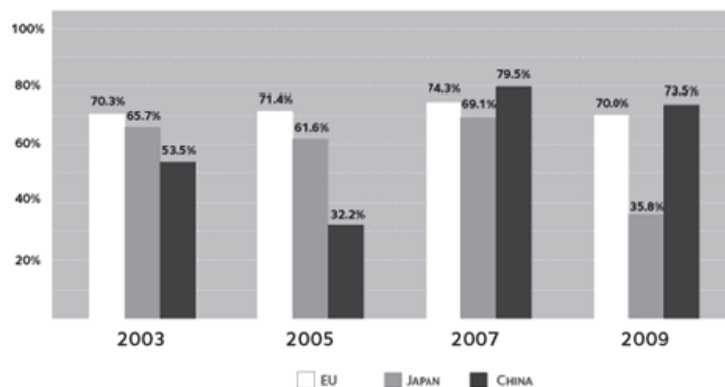


Figure no. 2: The exposure of intangible value as a percentage of the market value for non-markets - US (Europe, Japan and China)

Source: www.oceantomo.com

The graph shows that the highest percentages of intangible value are recorded by Europe and China. The leader is represented by China that even if the period 2003 - 2005 has been rather low values in 2007 and has comeback reaching a value of nearly 80 percentage points, with a slight decrease in 2009.

The heyday for the three countries was 2007 and Europe was the best development with almost imperceptible movements.

Japan ranked last had performed well in the first years of study, while in 2009 recorded a sharp decline reaching a value of two times lower compared to 2007.

3.1. The methodology for calculating the immaterial book value

The carrying amount is calculated by subtracting the immaterial market capitalization index a particular company or tangible book value. In practice, companies report tangible value per share, the number of outstanding shares and market capitalization. Therefore, the carrying amount of intangible can be calculated by subtracting the market capitalization of the book value per share multiplied by the number of shares outstanding.

However there are discrepancies between the different ways of computing modest because of the differences in determining shares outstanding. However, the difference is sometimes a few percentage points due to the errors often necessary for certain purposes.

Intangible value can be calculated as the total amount of capital market businesses - tangibles at cost value - the value of intangible assets in the balance sheet at "cost".

Another way would be to decrease the market price of the book value per share.

4. Goodwill, the brand and creation of value

In the early 90s, during the era of intellectual capital occurrence, it was observed that the real value comes in modern company and IA not only the tangible.

Goodwill consists of the company's IA such as trademarks, symbols, names, reputation, relationships with suppliers and customers, patents, perceived quality relationship with distributors. These assets generate added value for the company, even more than the value of tangible assets. All this amounts are generating strategic advantages to a brand company. Customers do not just buy a product with material and technical qualities but buys and image of that product. Company creates brand presence in the market. From this point of view it might make the claim that the brand is one that creates value for the company because through this undertaking provides market share, reputation, sales, provide value to customers increasing their confidence in the company's products and contribute to customer satisfaction from the use of products and thus to retain them.

Benefits to the company are the establishment of a solid support for launching marketing campaigns to attract new customers.

A strong brand enables higher pricing which lead to higher profit margins. Another advantage is the possibility of developing the brand extension to other products or services of the company which means a cost reduction promotion. The brand helps to establish beneficial trade arrangements with distributors for a known brand can be seen as a barrier to entry for competition. The effort to enter the market under these conditions involves huge investments in marketing and distribution activities. The

brand generates profitability for the company (future economic benefits), which is one of the main reasons is considered to be an asset. Benefits arising from brand to be maintained through investment, as well as other assets in the statement. It is a fundamental element of goodwill and hence the overall value of the company. By that maximize firm value is the most important goal of the company is apparent importance that has the creation and growth of a strong and valuable brand. Evaluation brand is a strategic activity because it wants to strengthen its competitive present advantages due to the implementation of activities in several markets.

Note that in building a strong brand innovation and new product development, participate product design, packaging and advertising which is mostly the product.

According to some studies, for most companies, intangible value represents more than half of the total market value (see Table 1).

Table 1: Estimating the value of IA (billions of dollars)

Company	Market value	Book value	Intangible value	Report
Apple	593	76	517	87%
Coca - Cola	117	32	145	82%
Pepsi	122	20	88	80%
Kimberly Clark	33	5	20	77%
Google	219	58	161	74%
Wal - Mart	250	71	179	72%
Verizon	126	36	90	71%
Viacom	26	9	17	64%
P&G	188	68	120	64%
Exxon	407	154	253	62%
Target	35	15	20	56%
AT&T	214	106	108	50%
Chevron	223	121	102	46%
Time Warner	40	30	10	25%

Source: Yahoo Finance

In Table 1 market capitalization is compared with the carrying amount. The remaining value is intangible value. If a business was just a balance, no one would ever pay a lot more than its assets and liabilities.

Intangible value is quite high as most of the value of a successful business. On the other hand, it should be noted that the value of intangible assets is independent of industry, company size or age of the business.

We also notice that the asset value is not a simple matter of promotion. For example, Wal-Mart has a ratio higher than intangible immediate target oriented. Even in industries that require huge capital investments, such as telecommunications intangible value is very high.

Companies with a high intangible value are represented by Apple, Google, Coca Cola and Pepsi, leaders are those from Apple.

Recent studies offered by Price Waterhouse Coopers argue that over 60% of the value of a company is represented by intangible assets. For many of these companies form the majority of brand value.

Thanks to intangibles and intellectual capital gains will always be growing.

Therefore, such patrimonial elements are important because strong brands can influence customer decision-making processes, as well as ensuring that premium prices can be applied. This is especially true for consumer companies. Most importantly it is a guarantee of quality and sometimes for luxury brands; consumers derive even social status of the brand, which can support the rapid development of new markets.

Studies offered by the United States indicate that we are in an era where companies compete on knowledge and intangible assets (see fig. no. 3). After a period of almost 30 years intangible value reaches a double value from the previous period, being almost five times higher than the value of tangible assets.

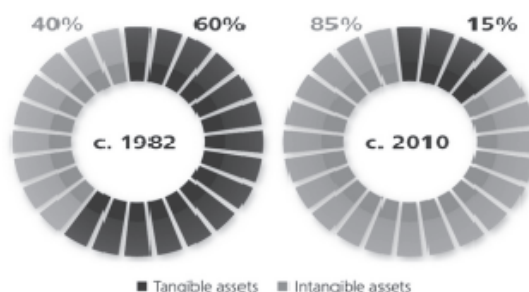


Figure no. 3: Evolution corporate source of value creation in the US
Source: Deloitte University Press

5. Conclusions

In building the knowledge society must be aware of the idea that knowledge has become the main factor of production and progress, and the need for innovation and learning processes, considered fundamental for sustainable growth.

Knowledge is both the expression of value creation, but also a source of value for the company and economy.

Today we see more and more that intangible assets have a significant impact on corporate performance especially.

Despite controversies in defining their identification problem arises in the application of a methodology and indicators able to measure and interpret the effects of these elements on companies.

For this reason the company management, managers need reliable models that allow them efficiently measure and evaluate investments in intangible assets, especially since previous decisions based on the traditional model of these elements are no longer valid.

The value of "intangible" gives a company the opportunity to be different to the competitors, and proper management of intellectual capital can enable any company to eliminate opponents.

In the third millennium organizations around the world, including Romania must focus on encouraging investment in intangible resources, taking into account individual contributions within an organization. As the workforce becomes more "global" valuable employees and employers should invest more and more in themselves, in order to protect and enhance core competencies and increase the stock of human intelligence by developing new processes and technologies.

The growing importance of intangible assets requires a revision of traditional concepts of enterprise management and corporate reporting.

A weakness common to all models and metrics adopted intangible asset is the fact that these "operations" gives an overview of the evolution of indicators, but does not create a relationship between the value of the company - the main purpose of asset management and development of indicators intangible.

To help companies to reorient effort intangible assets should implement strategies to develop their strengths in each area. One way to achieve is to mobilize entrepreneurial initiatives that can be quickly realigned and applied in the development of intangible assets.

Indicators measuring the performance are evolving so they can improve previous models.

The company must take into account that will reach a time when unsupported efforts will not yield results and indicators to measure the value will show that instead of creating value, they will destroy value.

Intellectual capital is a concept of modern economics. Together with intangibles can help increase business performance held, causing their success or failure.

Managing intellectual capital is a strategic activity that influences the performance of the enterprise. Thanks to intangible that is, management of intellectual capital is the beginning of his life. Not all managers were familiar with the categories of intangible assets not yet noticed what

influence they may have entirely. Evaluation of intellectual capital and other IA help to discover hidden resources that need to be exploited and used. At the same time, measurement of intellectual capital has a role as motivator for employees become aware of the role they play in the creation of value.

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