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Intangible Assets Measurement and Reporting: Expanding Horizons in Information Based Economy

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Abstract

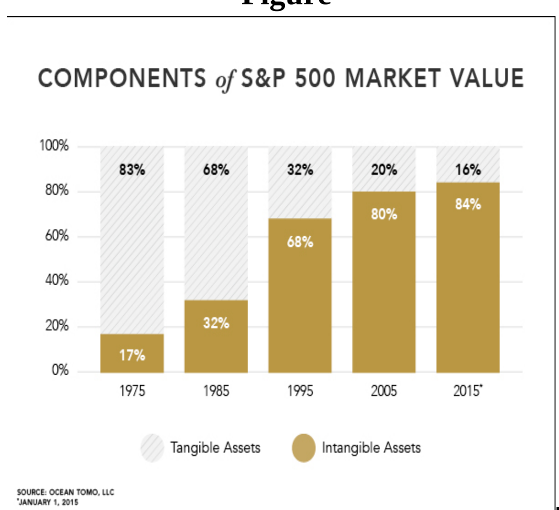
Business dynamics of 21st century has progressively transitied from Industrial economy to Information Based economy. Various frameworks proposed by researchers like Invisible balance sheet, Intangible assets monitor, Skandia Navigator, Value chain scoreboard and Balanced Scorecard are discussed in this paper. This paper showed that with the transition of economy from Industrial economy to Information based economy, the dependency of businesses are much on the concept of intangible assets rather than on tangible assets. In 21st century, companies have realized that long term competitive advantage is not possible without considering intangible assets and reporting of intangible assets in their annual reports. Therefore, there is an immediate need of common framework for managing, measuring and reporting of intangible assets, so that companies will managed tangible assets as well as intangible assets in proper manner

Keywords: *Intangible Assets, Measurement, Reporting, Models, Benefits,*

1.0 Introduction

Accounting act as a communication device through which companies can provide the financial information to the internal and external stakeholders that is helpful for their efficient decision-making. In Industrial economy, the decisions of internal as well as external stakeholders are mainly focused on tangible assets, like land, labor, machinery and so forth. But today's 21st century, the economy is progressively transited from Industrial economy to Information based economy, where the business organization have made more attention on intangible assets (like human capital, customer satisfaction, brands, relationship capital and many more) rather than on tangible assets. Geoff Colvin of Fortune Magazine reported that components of S & P market value data for the start of 2015 reveals implied Intangible assets value of S & P 500 grew to an average 84% by 1st January, 2015, a growth of four percentage points (80% to 84%) over ten years (from 2005 to 2015), as shown in figure-I.

Figure



I

Source: Tomo, O. (2015). *Annual Study of Intangible Asset Market Value*

As shown in Figure-I, the share of Intangible assets is much more than tangible assets, even though current model of accounting are unable to measure and manage the intangible assets. Only some intangible assets like Patents, Copyrights, Trademarks and Acquired Goodwill are recognized in financial statements. Intangible assets (IA) are considered the most critical resource of today's enterprise and yet, most enterprises cannot clearly define what constitutes an Intangible asset (Andreou et al., 2007). According to Indian Accounting Standard 38 (Ind AS 38), "Intangible asset is an identifiable non-monetary asset without physical substance". The reality is that till today there is no worldwide common definition and classification for intangible assets. The present study attempts to put light on the various initiatives in the field of intangible assets. The researcher feels that such an attempt may help to formulate a framework which may help in better understanding of the measurement and reporting practices of Intangible assets,

2.0 Objectives of the Study

a) To study the various initiatives in the field of Intangible assets
b) To study the several benefits arising with the reporting of Intangible assets

3.0 Initiatives in the field of Intangible Assets

There are some initiatives in the field of Intangible assets made by the researchers, with the help of which one can be able to measure and manage the intangible assets. Some of which are explained as below:

3.1 Karl Erik Sveiby (1989) - Kondrad group- Invisible Balance Sheet

Earlier classification made by Karl Erik Sveiby- Kondrad Group in the year 1989, for managing and measuring the non-financial information in annual reports. They opined that current accounting reporting framework is unable to give relevant information to the stakeholders of know-how companies. In order to fulfill this gap, Konard group proposed reporting framework that helps in raising the level of reporting by disclosing the elements of know-how capital in annual reports. The classification of know-how capital is made into two forms: (i) Individual capital (ii) Structural capital as shown in Table-I

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Individual Capital	Structural capital
• Education • Handbooks • Professional experience • Concept models • Personal Reputation • Computerized system supporting the business networks • Personal relations with customers and professional colleague • Customer network • The organization's image	• Personal administrative • Administrative ability routines • Knowledge and education • Network with of admin. staff authorities • The management's network • Computerized admin. • The management's personal systems ability Handbooks

Source: Sveiby, K. E. (1989). *Invisible Balance Sheet: Key indicators for Accounting, Control and Valuation of Know-how companies.* The Kondrad Group, Stockholm.

Now Know-how capital is treated as Intellectual capital. All these elements are the part of invisible balance sheet, means; it does not get any proper place in current accounting model.

3.2 Karl Erik Sviby(1997)- Intangible Assets Monitor

The modified version of Sveiby's Framework was published in year 1997, which includes the following classification of 24 elements as shown in Table-II. Mostly organizations follow this framework to measure the Intangible assets such as Guthrie et al. (2000), Brennan (2001), April et al. (2003), Bozzolan et al. (2003), Goh et al. (2004) and many more. In this framework, Internal capital represents set of knowledge, skill and capabilities used in organizational structure. External capital represents the relationship with the customers, suppliers, agents and society at large. Employee competence shows the employee capabilities, employee skill and work related knowledge of employees in the firm.

Table-II

Internal capital	External Capital	Employee Competence
• Patent • Copyright • Trademark • Management Philosophy • Corporate culture • Management processes • Information system • Networking system • Financial relations	• Brand • Customers • Customer loyalty • Company's name • Distribution channel • Business collaboration • Licensing agreement • Favorable contract • Franchising agreement	• Employee Know how • Employee education • Vocational qualification • Work related Knowledge • Work related Competencies • Entrepreneur spirit

Source: Sveiby, K. E. (1997). *The New Organisational Wealth.* San Francisco: Berrett-Koehler Publishers, Inc.

3.3 Leif Edvinsson (1998) – Skandia Navigator

Skandia Navigator was developed by Leif Edvinsson in the year 1998 in order to measure the intangible assets. Skandia Navigator is the combination of two terms: one is Skandia and other one is Navigator. **Skandia** is developing a future-oriented business planning model. **Navigator** provides a more balanced, overall picture of operations- a balance between -the past

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(financial focus), the present (customer focus, Human focus and process focus) and the future (renewal and development focus) as shown in figure-II

Figure-II

Source: Edvinsson (1997). *Intellectual Capital: Realizing your Company's True Value by Finding its Hidden Brainpower.* New York: Harper Business.

3.4 Baruch Lev (2001)- Value Chain Scoreboard

Value chain means the fundamental economic process of innovation, necessary for survival and success of business enterprises that starts with the discovery of new products or services or processes, proceeds through the development phase of these discoveries and the establishment of technological feasibility, and culminates in the commercialization of the new products or services. This value chain Scoreboard-the life line of innovation and successful business enterprises, as shown in Table-III.

Discovery and Learning	Implementation	Commercialization
1. Internal Renewal - Research &Development - Work Force training & Development - Organizational capital, Processes	4. Intellectual Property - Patents, trademarks and copyrights - Licensing agreements - Coded know-how	7. Customers - Marketing Alliances - Brand Values - Customer churn & value - Online sales
2. Acquired Capabilities - Technology Purchase - Spillover utilization - Capital expenditures	5. Technological feasibility - Clinical tests, Food and Drug Administration approvals - Beta tests, working pilots - First mover	8. Performance - Revenue, earnings and market share - Innovation revenues - Patent & Know how royalties - Knowledge earnings & assets
3. Networking - R&D alliances and Joint ventures - Supplier and customer integration - Communities of practice	6. Internet - Threshold traffic - Online Purchases - Major Internet alliances	9. Growth prospects - Product Pipeline & Launch dates - Expected efficiencies & savings - Planned initiatives - Expected breakeven and cash burn rate

Source: Lev, B. (2001). *Intangibles: Management, Measurement and reporting.* Washington, D.C.: Brookings Institution Press.

3.5 R.S. Kaplan and D.P. Norton (1992)- Balanced Scorecard

Balanced Scorecard is a framework that considers not only the financial indicators but also considers the non financial indicators. According to this model, combination of both financial and non

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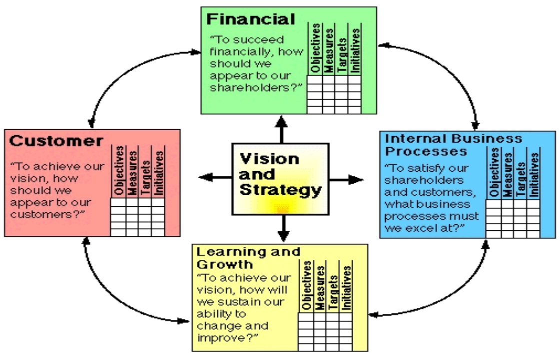
financial aspects is beneficial for organization to achieve the competitive advantage. The Balanced Scorecard has four perspectives, that shown in the figure-III:

Figure-III



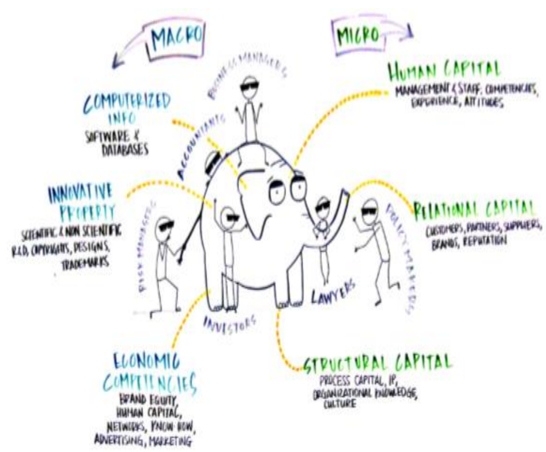
Source: Kaplan, R.S. et al. (1992). The Balanced Scorecard-measures that drive performance. *Harvard Business Review*, 70(1), 71-79

4.0 Benefits arising with the measurement and reporting of Intangible Assets

- The greater disclosure benefit is increased transparency. Because of this feature, stakeholder can make better estimation of the respective risk relating to the company.
- The disclosure practices reduce the information gap between the company and stakeholders.
- Helps in reducing cost of capital. Reduction in cost of capital and higher the share price will lead to create trustworthy behavior among the stakeholders of the company.
- It improves the image of the company. Investors prefer to invest in those companies which provide the complete information to stakeholders.
- It is act as marketing tool and communication device.

The uses of the reporting framework can be further explained with the help of figure-IV.

Figure-IV



Source: Alliance, A. (2011). New Building Blocks for Jobs and Economic Growth: Intangible Assets as sources of increased productivity and enterprise value. *Report of a Conference*, May 16-17,2011

In the figure-IV, the 'elephant' represents the transition of economy from Industrial economy to information based economy. There are two views to explain the 'elephant', that is, one is micro point of view and other one is macro point of view. In the

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macro point of view, the classification is made into computerized information (software & databases), Innovative property (scientific & non-scientific R&D like copyrights, designs and trademarks) and economic competencies (brand equity, human capital, networks, know-how, advertisement and marketing). The micro point of view deals with the company perspectives and their stakeholders and includes human capital (management & staff competencies, experience & attitudes), Relational capital (customers, partners, suppliers, brands & reputation) and Structural capital (Process capital, intellectual property, organizational knowledge and culture). Both micro and macro view helps the business managers, accountants, lawyers, investors and policy makers for their efficient decision-making.

5.0 Conclusion

The objective of the study is to provide insights on the various initiatives in the field of intangible assets. Various frameworks proposed by researchers like Invisible balance sheet, Intangible assets monitor, Skandia Navigator, Value chain scoreboard and Balanced Scorecard are discussed in this paper. This paper showed that with the transition of economy from Industrial economy to Information based economy, the dependency of businesses are much on the concept of intangible assets rather than on tangible assets. In 21st century, companies have realized that long term competitive advantage is not possible without considering intangible assets and reporting of intangible assets in their annual reports. However, the reality is that the methods for management, measurement and reporting of intangible assets are limited in scope. There are as such no uniform guidelines for managing, measuring and reporting of intangible assets. Therefore, there is an immediate need of common framework for managing, measuring and reporting of intangible assets, so that companies will managed tangible assets as well as intangible assets in proper manner that provide value to the internal stakeholders as well as external stakeholders of the company for their decision-making.

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