"Dimitrie Cantemir" Christian University
Knowledge Horizons - Economics
Volume 6, No. 1, pp. 91–93
P-ISSN: 2069-0932, E-ISSN: 2066-1061

www.orizonturi.ucdc.ro

INTANGIBLE ASSETS AND STRATEGIC POSITIONING OF COMPANY

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Abstract *Company's profitability is the result of the use of all available assets, although in many cases, the intangible assets are those that give the company the largest part of the strategic substance, contributing decisively to the increase of its overall value over the value of the tangible assets they possess. Intangible assets represent a support for the tangible ones and are at the origin of profitability surplus (super profit) obtained by the enterprise above normal profitability of the sector.*

Key words:
Goodwill, economic profitability, super profit, competitive advantage, reorganization
JEL Codes:
B15, C46, D85

1. Introduction

A reorganization approach may be considered successful only if it leads to the increase of the company's economic value. Achieving this priority objective implies intense concerns not only to establish a viable structure of tangible assets, but also the closely monitoring of the intangible aspects of the enterprise's functioning, such as valorising and protecting the staff's know-how and skills, improving the company's reputation and image, as an employer and provider of products/services, improving products' quality, optimizing the place of the enterprise in the partnership relations network (Turdean M. S. and Vana, D. T., 2012: pp. 2686-2692). All these intangible aspects become increasingly important as sources of economic value to the enterprise.

We know that in a competitive company we retrieve, as the basis of its economic activities and success important intangible assets – essential factors for achieving exceptional performance that appear only rarely in the balance sheet. We made a more extensive and detailed description of these factors in other study. Generated by previous investments, these intangible assets are still treated, due to some accounting conventions and fiscal benefits as expenses flows of the period. Despite this narrowness of tax and accounting optics, the often mentioned assets constitute the most important competitive advantages of the company, giving it a real, highly sensitive value compared to the patrimonial value (accounting). This additional value is named goodwill in the specialized literature (Dumitrașcu, V., 2013: pp. 125-130).

2. The importance of the intangible assets for success of a reorganizing strategy

As a preliminary conclusion, we can assert that a clear signal of the success of a reorganizing strategy is the continuous accumulation of the elements generating goodwill for the company, evolution that will certainly reflect favourably on the overall value of the enterprise. Thus, the creation of intangible assets leads to goodwill's increase and, consequently, to the maximization of the company's value. However, this requirement may cause many controversies of strategic nature if the decision-makers responsible for planning the restructuring process are inspired by a narrow view on performance, which focuses on improving rapidly and at any cost the efficiency indicators, especially those related to profitability and costs. Failure to create intangible assets and thereby to strengthen the competitive advantages and increase the economic value of the company has behind the following simple reasoning: if intangible assets are constituted by specific strategic investments, which in accounting terms are considered expenses of the period, the growth of these assets will reduce gross and net margins on short term reducing therefore the profitability rates also.

The predominance of this type of managerial thinking is one of the most common causes of failure of restructuring strategies. Focus on short-term calculations and results to the detriment of some investments in strategic areas (human resources, institutional image, quality of relationships with the business environment, organization and management systems, etc.) contradicts the very spirit of restructuring – radical repositioning of the company in terms of competitive advantage and long-term improvement of its performance (Fustec A. and Morois, B, 2006: pp. 74-83).

Intangible assets represent a support for the tangible ones and are at the origin of profitability surplus (super profit) obtained by the enterprise above normal profitability of the sector. At the same time, the profitability of the company is determined, from accounting perspective, only by considering the tangible assets, as the intangible ones would not even exist, as if the profitability obtained by the enterprise were due exclusively to the assets found in the balance sheet. In reality, *company's profitability is the result of the use of all available assets,* although in many cases, the intangible assets are those that give the company the largest part of the strategic substance, contributing decisively to the increase of its overall value over the value of the tangible assets they possess (Hand J. and Lev, B., 2003: pp. 205-208).

If the economic profitability of the company is calculated as the ratio between the result or the gross surplus of the exploitation and the economic asset (consisting of tangible assets) then the strategic interests for the relative reduction of the indispensable tangible assets to achieve the turnover of the company is obvious (Dumitrașcu, V., 2014: pp. 81-88). The same relationship highlights *the fundamental role of the intangible assets that allow the obtaining of some consistent income flows without "loading" excessively the balance assets (tangible) of the company.* This means higher revenues without significant increases of tangible assets (on which profitability is calculated), as the "effort difference" is sustained by the intangible assets as elements generating goodwill for the company.

To see how this mechanism works, we proceed to the decomposition of the economic gross profitability (EGP) rate in two factors – the gross margin rate of accumulation and the rate of rotation of the economic assets by the turnover:

$$EGP = \frac{EBIT}{\text{Turnover}} \times \frac{\text{Turnover}}{\text{Economic asset}} \qquad (1)$$

Economic profitability is formed by the influence of two factors: a *quantitative* one – *gross margin rate of accumulation* and a *qualitative* one – *asset's rotation through the turnover.* The level of gross margin highlights the result of the exploitation activity, including its completion through its trading conditions reflected in the turnover, on the one hand, while the rotation of the total asset through the turnover expresses the degree of intensity of the use of resources attracted by the company.

The value of economic profitability may be improved either by the increase of the gross margin rate of accumulation, i.e. by increasing sales and reducing expenses or by accelerating the rotation of the economic asset through the turnover, objective achievable either by a more rapid increase of the turnover in relation to the asset growth (investments). If the gross margin rate of accumulation is the result of trade policy, expressing actually the commercial profitability of the enterprise, the rotation of the economic asset through the turnover reflects the productivity of the economic means reflected in the balance sheet. Likewise, it may be observed that *the same economic profitability may be generated by two opposite commercial strategies:*

- *high prices policy,* so with an increased gross margin, but with a slow rotation of the economic capital and a reduced volume of trading activities (in Western countries this strategy is specific to the investments in the centre of the city);
- *low prices policy,* so a lower margin, but with an accelerated rotation of the economic capital and an important volume of trading activities (specific to the investments situated at the periphery of the city).

But economic profitability may be directly correlated with the profitability of the labour factor offered by the margin rate on the added value (the difference between added value and personnel expenses), with fixed assets productivity (expressed as the added value per one leu immobilizations) and the investment structure (offered by the coefficient of strategic investments):

$$EGP = \frac{EBIT}{\text{Value added}} \times \frac{\text{Value added}}{\text{Immobilizations}} \times \frac{\text{Immobilizations}}{\text{Economic asset}} \qquad (2)$$

As a result, the rate of economic profitability may grow, either by increasing the margin on the added value, or by increasing the fixed assets or by increasing the degree of immobilization of the economic capital, either by acting simultaneously on the three factors.

3. Conclusions

However, it is known that often *the productivity of the tangible economic means is facilitated by the existence and exploitation of some intangible assets.* It means that accelerating the rotation of the economic asset may be realized without changing the denominator of the ratio only by developing another type of economic means – the intangible ones that are not reflected in the balance sheet of the company. These intangible means will contribute significantly to the turnover's increase, without loading substantially the company's "official" economic asset. Of course, on short term, the expenses incurred for the creation of the intangible assets will negatively affect the gross exploitation surplus, determining a decrease of the accumulation gross margin rate and, by implication, the level of the company's economic profitability. But competitiveness and economic value of the company should be judged in the long term, in a strategic perspective, for the sustainable performance is not simply the sum of short deadlines performances that make up a longer period.

Sustainable performance is the result of some positive system effects, namely some internal and external synergies due to the creation and enhancement of intangible assets carrier of goodwill for the company. An inspired strategic management is guided by the principle of long-term prevalence on short deadlines, which is why the dichotomy "to invest or not in strategic assets" is a false one.

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