

THE ASSETS OF THE COMPANY – A THEORETICAL AND PRACTICAL APPROACH RELATING PARTICULARLY TO INTELLECTUAL CAPITAL

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Abstract:

The present research "The assets of the company - a theoretical and practical approach relating particularly to intellectual capital" focuses on defining the company's assets, at national level, establishing the components of this concept, so that ultimately we can determine the position of the intellectual capital in the total assets of a company and the manner in which they can be approached.

The theoretical approach is based on the theoretical framework for the identification of the company's assets, referring to the intellectual capital. The practical approach exemplified through the interview technique is trying to identify whether the theoretical basis of the intellectual capital can also be transposed into accounting practice.

The approach of these terms begins with a short incursion of definitions that refer to assets, intangible assets - intellectual capital, followed by a description of the intellectual capital components and their identification at national level through a practical study.

The purpose of this paper is intended to be the beginning of a research study regarding the concept of intellectual capital, in other words the identification and implementation of this concept in accounting practice.

The research is based on Bill Gates statement, who said that "my most valuable resource goes up and down with the elevator every day", in other words the importance of human factor capitalization, but also the existence of an imaginary outline, less sketched at national level, concerning the definition and knowledge of the intellectual capital concept.

Keywords: intellectual capital, assets, knowledge, knowledge based economy, nonfinancial assets

JEL Classification: H32, M40, M41

1. INTRODUCTION

The introduction of the present research represents actually the research methodology through which we will present the current state of knowledge, the research purposes, objectives and methods.

In the present context, any national entity should be based on the potential offered by the intellectual capital, because the continuous change of technologies, the competitive economy and the obtainance of competitive advantages on the market require a high degree of expertise from employees, superior qualification and their recognition by the entity itself.

The current state of knowledge: the research was based on the study of various areas where can be found the concept of intellectual capital, noting that any entity focuses on employees' knowledge and trainings as components of the intellectual capital. The concept of intellectual capital is rather less approached at national level, as opposed to international researches that are familiar with a wider area of development.

The study aim: to achieve the established objectives regarding the concept discussed, the main purpose of the present research is to obtaine the necessary information in order to clarify questions such as: How important is the recognition of intellectual capital as an intangible asset in a company? What are the elements that define the intellectual capital and are included in the current national accounting practice?

The methods used: as a qualitative research, which aims is to know the concept, the followed phases are those of a scientific method [1] including: *setting the questions* - the working hypotheses are formulated as guiding questions for the present study, that can be found at the beginning of each chapter, being tested during the interview; *the documentation* – the study of national and international literature regarding the concepts covered by our research; *the hypotheses testing* - some hypotheses can be tested, others not, so that the conclusion for each of them is approached in terms of confirmation or not, some of them still having no practical support to be confirmed.

The research objectives: will be pursued throughout the chapters, namely: What are the difficulties encountered in dealing with intellectual capital components? What is the impact of theory on practice regarding the structure of intellectual capital? How objective is the interview technique applicable to intangible assets of national companies?

2. THE INTELLECTUAL CAPITAL CONCEPT. DEFINITION AND MEANING

The concept of *intellectual capital* has its genesis in the new era of knowledge and is still in the stage of definition and development, becoming even more often the success key of the new millennium.

According to the International Accounting Standards, specifically IAS 38, an *asset* is a resource controlled by the enterprise, as a result of past events and which is expected to generate future economic benefits for the entity.

An *intangible asset* is an identifiable non-monetary asset without physical substance, held in order to be used in production or supply of goods or services, for rental to others or for administrative purposes. It can be recognized in the balance sheet if it is expected to generate future economic benefits for the entity and the cost of the asset can be measured reliably.

The literature provides divers informations, so that the utilisation of “intellectually” notion[2] may be questionable for at least two reasons. *The first reasoning* is based on the fact that, by its very one ambiguity, the term creates the idea of physical investment that is not even remotely of intellectual nature, but emphasizes on the possible evolution of an entity where managers focus on the “gray matter”. *The second direction* is pointed towards the accumulation of knowledge as intellectual capital.

3. THE COMPONENTS OF INTELECTUAL CAPITAL CONCEPT

3.1 The classic components of intellectual capital concept

Since in the previous chapter we presented different definitions of the intellectual capital, we intend to use the intellectual capital terminology in the present chapter, given that the final purpose of the research is regarding the intellectual capital concept.

According to Sveiby, the intellectual capital contains three component: the structural capital, the human capital and the clients’ capital.

The author focuses on the clients’ capital component. In our opinion, this model of intellectual capital components has a limited area, but this helps us to explain the concept even better. Therefore, for Sveiby’s model, clients are the main element of the intellectual capital, standing at the confluence of intellectual capital and human capital.

The accounting draws our attention on defining the intangible assets components, namely: software, concessions, patents, licenses, trademarks, rights and similar assets, goodwill and development expenses. Including software in the intangible assets category [3] is not valiant for any type of software. For example, in case of a common software, it’s recognition as an intangible asset is not justified, so that the financial related effort goes directly on expenses.

On the other hand, in the general accounting plan used by economic agents, there is no separate item for software, these being included in the category of other intangible assets.

The literature offers, in the same time, informations indicating that the intellectual capital includes human capital, relational capital and structural-organizational capital.

3.2 Intellectual capital and company's assets - components of a practical research

Staying in the same area of a company's value, after a study including different definitions given by specialists interested in the field, various classifications and analysis, OECD [4] sets a model for the classification of company's assets, as shown in figure.

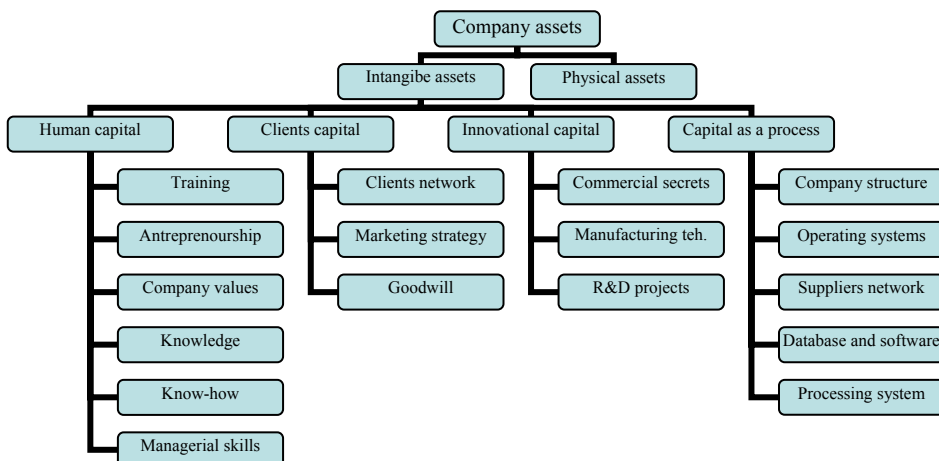


Figure no. 1 The structure of a company's assets

Source: European Commission - Enterprise DG, Policy trends in intangible assets <http://www.ll-a.fr/intangibles/overview.htm> accessed on 20.03.2011

As we can observ in figure no. 1, for our research this is a very good point to start, given that a company's assets are separated into intangible assets and physical assets.

The models previously presented that compose the intellectual capital, refer to parts of the scheme presented above, noting that none of them refers to company's assets. In our research, the assets' approach represents a very important part, because it is essential to determine toward which component of intellectual capital we will direct the research.

The recognition of assets in accounting terms, mentioning that we will focus on intangible assets, takes into account their following components: costs of setting up, development costs, concessions, patents, licenses, trademarks and similar rights , except those made within the entity, goodwill, down payments and intangible assets in progress.

According to IAS 38 in the intangible assets category are also included the next elements: software, patents, copyrights, customer lists, licenses, franchises, relationship with suppliers.

However, as can be seen, in a company's assets the intangible ones own a significant percentage. The model offered by OECD found about this when trying to make it public, hoping that companies will focus more on the intangible part of the capital. As mentioned before, there are companies that already report elements of intellectual capital, but in our research, at national level, will their recognition be possible?

The current state of knowledge at national companies level, has stirred our interest for the recognition of intangible assets, so we resorted to a market survey, using the observation as method. The starting point was sending an email to entities, located in the *NE region*, requiring their agreement on the possibility of joining the company, to apply a questionnaire and to observe how intangible assets are treated. The companies recruitment sample was quite a large one. For the beginning, we had no selection criteria, and by this we refer to company's size, number of employees, business profile etc. The recruitment pool was composed of 50 companies.

In our incursion we started from several *hypotheses*:

How important is for a company the recognition of intellectual capital as an intangible asset? What are the elements that define the intellectual capital and that can be found in the current accounting practice at national level?

Expected results: That the theoretical concepts be easily implemented in the accounting practice of national companies.

Results achieved: from the recruitment sample only 3 companies were open to share with us the data they hold.

Obstacles encountered: this can be either about the time too short in providing data for the research, either about the business environment reticence in dealing with research or maybe the questions addressed that didn't stirred their interest, that were ambiguous or that referred to confidential data.

National companies

The companies who responded to our requirements are: Gold & Platin Suceava, Moldsilva Suceava, AutoMitric Suceava, having different activity profiles.

Table no. 1. Description of the companies that participated in the study

Company	Description	InterviewCompany
GOLD & PLATIN BUCOVINA	Member of the GOLD & PLATIN group, appeared on the auto market as importer and dealer for Opel & Chevrolet at the beginning of July 2005. The auto market from the Bucovina region has proven to be a flexible, ever changing market. Opening a new and modern auto complex in this area came as a result of market demand to assimilate brands that offer a very good price/quality ratio. New trends imposed by a constantly growing market, as the auto market, identification with customers increasingly more demanding, motivated by a various offer, compliance with high quality standards imposed by General Motors, are just some of target audiences that GOLD & PLATIN through its dealers manages to perform them.	participation in the study YES
S.C. MOLDSILVA S.A. SUCEAVA	a company specialized in panelized houses with wooden structure, better known in Romania under the name of "american houses", Ossature Bois, Holzrahmenbau or Timber Frame. The company was founded in 1994 and its main object of activity was, from the beginning, the exploitation and processing of wood.	participation in the study NO
AUTOMITRIC SUCEAVA	located on the beautiful lands of Bucovina, is one of the latest representatives of Volkswagen Concern in Romania. Founded in 1991, initially as a small auto repair shop, through its founders dedication and commitment, the company has grown every year now reaching acknowledgement far beyond the boundaries of Suceava. Currently, the main areas of activity consist in providing the full range of services in the field of auto repair, sale of new cars, sale of spare parts, consumables and car accessories, car rental services.	participation in the study YES

Results achieved: GOLD & PLATIN Bucovina during the interview with the chief accountant gave us details about the intellectual capital as consisting of: "human capital including trained employees, such as the Gold sellers (those employees in which they invested courses up

to 10000 euro), accountants trained in Cros-AM who implemented such an integrated system, mechanics with technician-diagnosis degree specialized in Opel-Chevrolet; *relational capital*, such as partnerships or agreements with various suppliers, like Augsburg for spare-parts, the franchise agreement with General Motors (manufacturer of Opel and Chevrolet); *marketing campaigns* who's aim was that to promote the image of GOLD & PLATIN Bucovina; in this category there would be also *brand and patents*, but is not the case of Gold & PLATIN BUCOVINA".

Conclusions: As it can be seen the practice provides us with helpful information in discovering the components of intellectual capital and the manner to register them in accounting. It can be observe that this company focuses on employees specialization and the courses they followed to define intellectual capital.

Results achieved: Concerning the company AUTOMITRIC Suceava, from discussions with the regional manager we realized that the mechanics specialization is what gives value for the entity's intellectual capital. In other words, the mechanics are sent to different trainings and the future economic benefits come from the value added to the company. The regional manager explained us that the mechanics have a certain target to reach regarding cars repair and there is a bonus allocation system. This is not the case of company's marketing activity, because, as part of Volkswagen Concern Romania, everything regarding the marketing activity comes from the mother company.

Conclusions: These are the first results we obtained from our market study and allow us to draw the following conclusion: at first sight it seems that components like knowledge and marketing activity are prior to indentify the intellectual capital concept.

Public institutions

In order to have more development directions for our research and to be able to analyse various points of view, we observed the role and position of the intellectual capital in a public institution. The institution analysed is the "Ștefan cel Mare" University of Suceava, where we talked to chief accountant.

Results achieved: It is true that such an institution can have a valuable intellectual capital, but we observed the following: the institution recognizes the employees specialization only as an expense and not as an intellectual capital, the knowledge brought by every employee concerns his personal specialization, regarding the accounting of the public institution we can speak about accounting data only from expenses point of view. There is a budget allocated for this type of expenses, but not available for us, for confidential reasons. But what the public institution recognizes in terms of intellectual capital are patents held by each faculty. We had acces to such informations and we will analyse them in the following chapters. The brand is another element of the intellectual capital of the public institution, noting that the USV brand is registered at OSIM, the university having exclusive right of use.

The international context gives us also a lot of informations, some of them can guide us in our research and others without substance or use for our approach. However, we tried to identify some useful aspects for our research, to guide us discovering and treating intellectual capital at international level.

We are still in the phase of collaboration in obtaining informations from an Institute in Sweden [5], which deals with intellectual capital for different companies in order to highlight the important value of intellectual capital for a company.

The Institute treats intellectual capital having Edvisson as mentor and proposes the following approach for the intellectual capital:

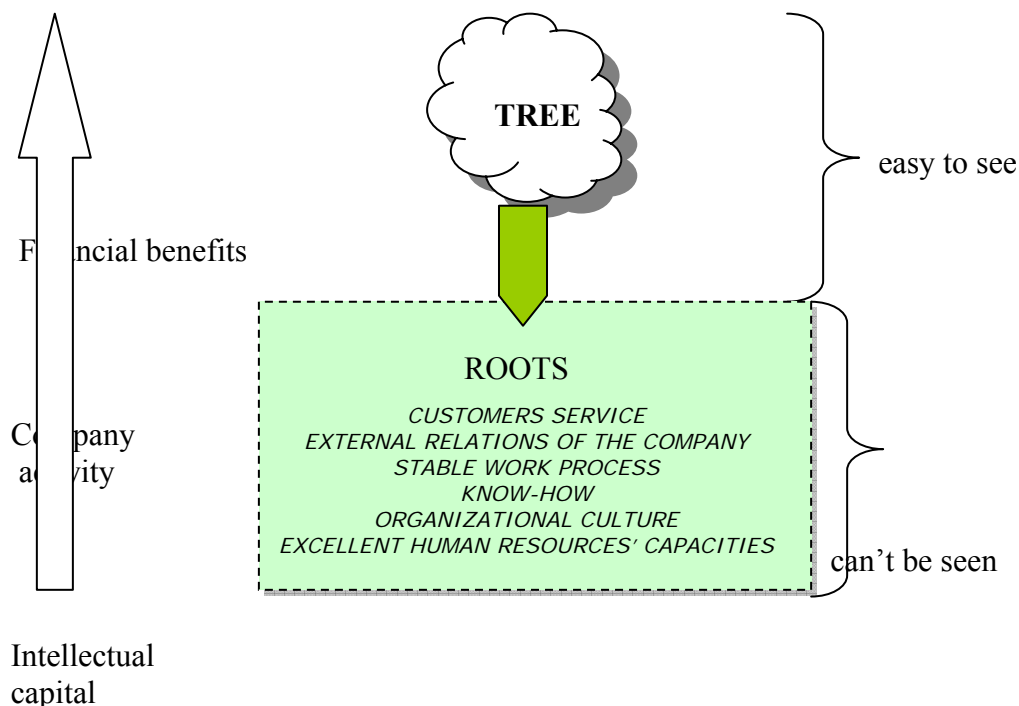


Figure no. 2. Model analysis of intellectual capital

Source: <http://www.worldicmanagement.com/icmconcept.html>
accessed on 25.03.2011

The intellectual capital approach presented above was extracted from the institute's site, but we intend to obtain informations directly from the source. Nevertheless, the time and availability of those concerned are the main obstacles of our research.

The model proposed by Edvinsson was treated at the beginning of our research, but the connection with the components of the intellectual capital is the following: each component of intellectual capital as clients, external relations of the company, know-how, organizational culture and human resources capacity are those that can not be seen, the fruits being the ones that rise up, but after the fruition and correlation of all this elements. What is easy to see is the final product, the "fruit", the underground work is the intellectual capital.

This comparison, with a tree, treated by the Intellectual Capital Institute in Sweden, reveals the position of the intellectual capital in a company and is a good starting point for analysing the concept in national companies.

4. CONCLUSIONS OF THE RESEARCH

We have tried, in this research, to identify the theory of intellectual capital concept but also the accounting practice of this concept. By using the interview technique we observed that in practice, only some of the intellectual capital's components are recognized by national companies, namely knowledge, brands, patents, as resulting from our study.

Some companies we're not interested in our study, the reason being already mentioned at the beginning of the research.

Concerning the companies that participated to our study, we talked to chief accountant, who provided us with information about the components of the intellectual capital, but also about the fact that some components are not recognized in accounting. The conclusion we can draw from this is that this type of capital can not be quantified, although largely meets the definition of IAS to be recognized as an intangible asset. In public institutions the recognition is quite clear and well defined.

What we propose for future research is to be able to establish a modality to evaluate and quantify the intellectual capital, that could be introduced into accounting practice and recognized at national level.

Another perspective of this research is to introduce an annexe to annual financial statements entitled "policies and accounting options on recognition and measurement of intellectual capital".

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ENDNOTES

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