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Article

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Journal of Accounting and Management Information Systems (JAMIS)

Provided in Cooperation with:

The Bucharest University of Economic Studies

Suggested Citation: Dumitrescu, Adriana-Sofia (2012) : Intangible Assets: Are These Resources Sufficiently Visible and Properly Controlled?, Journal of Accounting and Management Information Systems (JAMIS), ISSN 2559-6004, Bucharest University of Economic Studies, Bucharest, Vol. 11, Iss. 4, pp. 545-563

This Version is available at:

<https://hdl.handle.net/10419/310506>

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INTANGIBLE ASSETS: ARE THESE RESOURCES SUFFICIENTLY VISIBLE AND PROPERLY CONTROLLED?

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ABSTRACT

The current context of market based economy has highlighted the great importance of intangible assets because innovation is considered to be the major factor for economic growth. Whether they are labeled as intangible assets, invisible assets, knowledge capital, core competences, etc., these assets rely on information and knowledge and they add and create value for the company. The article aims to reveal how Romanian companies disclose information about such elements. Referring to the employed research methods, the article is based on a comparative analysis of the information on intangible assets presented in the Annual Reports by a sample of Romanian companies listed at Bucharest Stock Exchange. In order to assess if Romanian companies disclose sufficient information on intangible assets, a standard of disclosures format was firstly conceived and secondly the information disclosed by the sample companies was compared to the standard. Although the capacity for innovation of a company, the intellectual capacity of employees, the internal skills developed within a company (know-how, organization, etc.), the owned patents and technologies, trademarks, the awareness of each brand, the relationship with customers are all identifiable elements that must be taken into account if we want to determine the real value of a company, our study reveals that many Romanian companies listed at Bucharest Stock Exchange do not grant enough importance to disclosing detailed information on the intangible assets in their Annual Reports. This situation may arise because of the lack of awareness or because of the fact that their measurement is most of the time extremely difficult. In this context, based on the conceived standard of disclosures format, our article tries to build a model that will help companies to identify, assess and

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control their intangible assets. Our proposed model is a suggestion for the presentation of the company's intangible assets and it can be used not only for internal purposes (intangibles' management) but also for external purposes (disclosure of non-monetary information that informs investors on the company's resources and potential). The presented model can be considered a guideline which can be easily adapted by companies accordingly to their informational needs.

✦ *Intangible assets, intellectual capital, innovation, intangibles management, assessing intangible assets, model*

INTRODUCTION

Due to the fact that nowadays the role of information and knowledge is dramatically increasing, the business environment becomes more focused on the importance of the intangible assets. However, the problematic of intangible assets captured the attention of researchers as well, as evidenced by the great volume of publications in this field.

The aim of this paper is to present the significance of intangible assets and moreover to present the benefits of intangible assets management. Many studies prove that almost 75% to 90% of some listed companies value is constituted by intangible assets (for example this is the case of companies Dell and Coca-Cola). Despite of their great importance, in most of the cases the intangible assets are not sufficiently visible, nor properly controlled. The financial statements present only a simplified image of the company and in order to appreciate its true value it is vital to also analyze its intangible assets, which in many situations are not accurately valuated. The competences/knowledge of employees, the intellectual property, the strategy of the company, its innovation capacity, are also crucial variables in most of the cases and must be taken into account. Last but not least, the disclosure of such information may help companies to engage new capital because "in times of strongly limited capital, potential investors are interested in additional information, besides that in annual reports" (Kaufmann & Schneider, 2004).

In this context, the object of our research is to reveal if the Romanian companies listed at Bucharest Stock Exchange are aware of the importance of intangible assets and if they disclose such type of information.

On this basis, the article begins with a literature review of the most relevant publications in the field which reveals the different points of view and interpretations on the concept of intangible assets. Secondly, the article presents some of the most employed approaches for assessing the intangible assets. The

article continues with presenting the research methodology which relies on the comparative analysis of the information on intangible assets disclosed in the Annual Reports by some companies listed on Bucharest Stock Exchange. The study sample is composed by the companies contained in the BET – 10 index. Finally, the article presents the research findings and proposes a model that can help companies in identifying, measuring and managing intangible assets.

1. REVIEWING THE CONCEPT OF INTANGIBLE ASSETS

In order to deepen the concept of intangible assets we analyzed the relevant existing scientific works that include scientific journals, books, working papers, conference proceedings and other electronic publications. Our literature overview did not attempt to cover exhaustively all publications in the field, being limited to the most relevant publications. The goal of the literature review was to identify and to analyze the most relevant papers related to the intangibles.

The literature overview reveals that there are many different points of view as well as different interpretations on the concept of intangible assets. There are some situations where there is no consensus on terminology and definitions.

The reference to intangible assets was made under different denominations over time: knowledge capital, invisible assets (Itami & Roehl, 1987), core competencies (Prahalad & Hamel, 1990), architectural knowledge (Henderson & Clark, 1990), absorptive capability (Cohen & Levinthal, 1990), organizational memory (Walsh & Ungson, 1991), intangible resources (Hall, 1992), combinative capabilities (Kogut & Zander, 1992), strategic assets, core capabilities (Zander & Kogut, 1995), intangible assets (Edvinsson & Malone, 1997). Other researchers bring the idea of dynamic capabilities (Teece *et al.*, 1997) as “the firm’s ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments”.

More recent contributions even separate the concepts of dynamic capabilities and operational capabilities (Cepeda & Vera, 2007). The perspective of their research is to capture the process of knowledge management behind the development and using of dynamic capabilities (changing operational routines) and to examine their impact on operational capabilities (earning benefits).

Many works published at the beginning of the 21th century introduce the denomination of intellectual capital (Sullivan, 2000; Ordonez de Pablos, 2003; Rastogi, 2003).

The analysis of the literature revealed the fact that there are not only many denominations for the same thing but also there are many definitions for the same

denominator. For example Sullivan (2000) defines the intellectual capital as being “knowledge that can be converted into profit” while Rastogi (2003) defines the intellectual capital as a “holistic or meta-level capability of an enterprise to coordinate, orchestrate, and deploy its knowledge resources towards creating value in pursuit of its future vision”. Also Ordóñez de Pablos (2003) considers that “intellectual capital is the difference between the company’s market value and its book value. Knowledge based resources that contribute to the sustained competitive advantage of the firm form intellectual capital.”

In our opinion a harmonization of denominations used to describe the intangibles and their definitions would be a necessary approach, but nevertheless it is more important to have a consensus over what can be included in this category of intangible assets. Most researches consider that all immaterial resources that provide a competitive advantage can be considered intangible assets. One common feature underlying the various categories of intangible assets is their firm-specific nature (Kochhar, 1997). For example, intangibles can refer to: the capacity for innovation of a company, the intellectual capacity of employees, the know-how, the management practices, the organization within a company, the human resource management, the owned patents and technologies, the technological skills, the trademarks, the awareness of each brand, the internal goodwill, the relationship with customers, the customers’ loyalty, etc.

Barney (1991) described the competitive advantage as “when a firm is implementing a value creating strategy not simultaneously being implemented by any current or potential competitor”. Also, Barney (1991) presented four main criteria for establishing what qualities of resources help them provide a competitive advantage. These criteria are: the resource must add positive value to the firm, the resource must be unique or rare among current and potential competitors and the resource must be inimitable and non-substitutable. If we analyze all the above listed intangibles we can notice that all of them possess these four qualities.

As we mentioned before the literature in the field of intangibles is much diversified.

A high proportion of the analyzed literature refers to all intangible assets. However, some publications refer only to a single specific subcategory of intangibles such as for example knowledge (Bontis *et al*, 1999) or brands (Kriegbaum, 2001). Our study concentrates on literature dealing with all categories of intangible assets.

Issues arise not only while finding a suitable common term and defining intangible assets but also when classifying them. There is no unique classification but a great variety and criteria. As Rastogi (2003) we think that a classification of intangibles is hardly possible and abstract. However, we agree that intangibles are the result of interaction of the human capital, structural capital and relational capital of a

company. This is consistent with the opinion of other researchers (Sánchez *et al.*, 2000).

One of the best approaches that we have encountered regarding the intangibles while reviewing the existing publications was the approach of the International Accounting Standards Board (IASB). Within the standard IAS 38 — Intangible Assets, IASB defines the intangible assets as being “identifiable nonmonetary assets without physical substance.” Furthermore IASB reminds the definition of assets: “An asset is a resource that is controlled by the entity as a result of past events (for example, purchase or self-creation) and from which future economic benefits (inflows of cash or other assets) are expected. Thus, the three critical attributes of an intangible asset are: identifiability, control (power to obtain benefits from the asset), future economic benefits (such as revenues or reduced future costs).”

As for the classification of intangible assets IASB also has an interesting approach. The main categories identified by IASB are:

- Computer software;
- Patents;
- Copyrights;
- Motion picture films;
- Customer lists;
- Mortgage servicing rights;
- Licenses;
- Import quotas;
- Franchises;
- Customer and supplier relationships;
- Marketing rights.

We consider that this is the best classification for intangible assets and it may be successfully used by practitioners because it is very accurate and the categories are very well delimited one from another.

In conclusion, following the literature analysis we reached the opinion that most of the articles are more theoretical and less practical. They have a high degree of abstraction and rarely offer suggestions for the management of intangible assets. The practical examples and study cases are very rare. This conclusion coincides with results of other studies (Kaufmann & Schneider, 2004).

2. ASSESSING INTANGIBLE ASSETS

The measuring of intangible assets is performed most of the time on non-monetary basis. It is not easy to assign a value to an item that you cannot see but you can more or less appreciate its effects. Therefore the assessment of intangible assets has been a challenge for researchers.

In a simplistic approach it is considered that intangible assets represent the difference between the company's market value and its book value. However, this approach is not entirely fulfilling as intangible assets are not the only reason for the existence of this difference which can be caused even by factors that are not related to the company. However, for the study of intangible assets a series of more complex studies has been developed. For example, one interesting model is the Balanced Scorecard model (BSC) introduced in 1992 by Kaplan and Norton starting from the premise that "an exclusive reliance on financial measures in a management system is insufficient. Financial measures are lag indicators that report on the outcomes from past actions. The Balanced Scorecard approach retains measures of financial performance - the lagging outcome indicators - but supplements these with measures on the drivers, the lead indicators of future financial performance" (Kaplan & Norton, 2001). The BSC was not designed for the management of intangibles in particular, but it takes them also into account while measuring the company's performance and targets.

Other known model was designed by Stewart who created a model named the Intellectual Capital Navigator (Stewart, 1998) that can be used for assessing the value of a company's intangible assets. He used a radar chart that displayed three types of indicators related to intangibles: the human capital, the structural capital and the customer capital.

A much easier solution is that each company identifies its key intangible assets and establishes a set of criteria by which they can be measured (even non-monetary). Still researchers complain that companies do not apply such methods, and they don't publish sufficient information on the owned intangible assets, being satisfied just with the presentation of schematic information in the balance sheet.

Financial markets appreciate when non-monetary information is also disclosed, because this kind of information help investors to better form their opinions and make reasoned and justified decisions.

However, measuring the intangible assets is not relevant only for investors. The evaluation of intangible assets is also important for the internal needs because this way the company can control better its intangibles.

In conclusion, although they might be difficult to apply, instruments for intangibles' measuring exist. Considering these aspects, within our study we were interested to see if Romanian companies (listed on the Bucharest Stock Exchange) use such methods and disseminate information on intangible assets. The research methodology as well as the results of this study is presented in the following paragraphs.

3. RESEARCH METHODOLOGY

In order to achieve the objective of our research we started from the hypothesis that if a company is aware of the importance of intangible assets, it will publish information on them. Also we considered that any rational company would comply with this hypothesis.

Referring to the employed research methods, we used a comparative analysis based on the information on intangible assets disclosed by a predefined sample of companies. Firstly, a standard of disclosures format was conceived and then the information disclosed by the sample companies was compared to the standard.

On the website of the Bucharest Stock Exchange (BSE) are published the listed companies' financial reports. We have proposed to download the Annual Reports (the latest Annual Reports were related to 2011 financial year) and to analyze them in order to observe if there was presented any information on intangible assets and if so, how elaborated the presentation was.

In order to obtain relevant results, we decided not to analyze the financial reports of all companies listed on BSE, but we preferred to select a sample of listed companies that are included in the BET 10 index, which is representative for the Romanian market.

Also, starting from the standard of disclosures format, in the last part of the research we tried to build a three steps model that will help companies to identify, assess and control their intangible assets. The model groups the main intangible assets that companies should take into account and reveals their main characteristics that can be monitored. The comparison of the different characteristics in time may lead to determining the evolution of value for those intangible assets. Nevertheless, the proposed model is a suggestion for the presentation of the company's intangible assets and it can be used not only for internal purposes (intangibles' management) but also for external purposes (disclosure of non-monetary information that informs investors on the company's resources and potential). The presented model can be considered a guideline which can be easily adapted by companies accordingly to their informational needs.

4. RESEARCH FINDINGS

4.1. Comparative analysis on BSE listed companies

In order to assess if the sample companies are concerned about the disclosure of information on intangible assets, we have firstly conceived a standard of disclosure format by taking into account the most important intangible assets mentioned in the related research literature mentioned above. Thus, we considered that information on intangible assets shall contain at least information on: human capital, technologies, clients, quality policy and image.

While analyzing the information contained in the Annual Reports of companies listed on BSE included in BET 10 index we noticed that the disclosure of information about intangible assets is at an early stage. However, most companies disclosed information on the human capital (training programs, presence or absence of labor conflicts, rewarding system, etc.), research and development activities as well as environment protection.

The results of our analysis are presented in Table 1 below:

Table 1. Information on intangible assets contained in the Annual Reports of the BET 10 companies for the financial year 2011

No.	Symbol	Company's Name	Company's information	Information on intangibles - Annual Report (2011)
1	TLV	BANCA TRANSILVANIA S.A.	<ul style="list-style-type: none"> Listed since October 1997 Activity domain: banking sector 	<ul style="list-style-type: none"> Information on the evolution of the market share; Performance of activities for raising professional qualification through training programs; Concerns for the environment protection; Research and development activities relate only to diversify and improve the software;
2	SNP	OMV PETROM S.A.	<ul style="list-style-type: none"> Listed since September 2001 Activity 	<ul style="list-style-type: none"> Information regarding labor lawsuits between management and employees ;

No.	Symbol	Company's Name	Company's information	Information on intangibles - Annual Report (2011)
			domain: extraction of crude petroleum	<ul style="list-style-type: none"> Concerns about the impact of activity on the environment (energy and carbon management, water resources management, waste management, etc.); The company is not involved in any research and development programs except for operating activities;
3	FP	SC FONDUL PROPRIETATEA SA BUCURESTI	<ul style="list-style-type: none"> Listed since January 2011 Activity domain: mutual funds 	<ul style="list-style-type: none"> Intangible assets can't be analyzed because their balance sheet value is zero, after being sold or written off by the Fund Administrator who took over the administration; There are no employees;
4	BRD	BRD - GROUPE SOCIETE GENERALE S.A.	<ul style="list-style-type: none"> Listed since January 2001 Activity domain: banking sector 	<ul style="list-style-type: none"> Concerns for the environment protection (optimization of electricity, paper and water consumption, decreasing the negative impact of IT activities); 86% of employees have attended at least one training course; Programs and activities for motivating employees;
5	TGN	S.N.T.G.N. TRANSGAZ S.A.	<ul style="list-style-type: none"> Listed since January 2008 Activity domain: gas transportation 	<ul style="list-style-type: none"> Performance of activities for raising professional qualification through training programs; The evolution of employees categories

No.	Symbol	Company's Name	Company's information	Information on intangibles - Annual Report (2011)
			through pipelines	<p>regarding the education reflects the interest of the company in hiring high qualified specialists;</p> <ul style="list-style-type: none"> ▪ No labor conflicts existed ; ▪ Concerns for the environment protection; ▪ Intense research and development activities (the company adopted a Program for scientific research and technological innovation structured on 6 main directions and comprising 20 research topics; ▪ The intangible assets reported in the balance sheet decreased drastically with 97.73%, but this was due only to legislative amendments which imposed the reclassification of some intangibles in elements outside the balance sheet;
6	AZO	AZOMURES S.A.	<ul style="list-style-type: none"> ▪ Listed since January 1996 ▪ Activity domain: production of fertilizers and nitrogen compounds 	<ul style="list-style-type: none"> ▪ Information regarding investments for environment protection ; ▪ Performance of social responsibility activities both towards employees and community ; ▪ The only information disclosed on research and development activities concerns the registration of a new

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No.	Symbol	Company's Name	Company's information	Information on intangibles - Annual Report (2011)
				brand;
7	BVB	SC BURSA DE VALORI BUCURESTI SA	<ul style="list-style-type: none"> Listed since June 2010 Activity domain: administration of financial markets 	<ul style="list-style-type: none"> Involvement in corporate social responsibility activities regarding education and voluntaries;
8	TEL	C.N.T.E.E. TRANSELECTRICA	<ul style="list-style-type: none"> Listed since August 2006 Activity domain: transmission of electricity 	<ul style="list-style-type: none"> N/A could not download the Annual Report;
9	BIO	BIOFARM S.A.	<ul style="list-style-type: none"> Listed since November 1996 Activity domain: manufacture of pharmaceutical preparations 	<ul style="list-style-type: none"> Performance of activities for raising professional qualification through training programs; also the company implemented programs for new employees integration; The company aims to create a management by objectives program; Information on taken actions in order to protect the environment; Research and development activities for new products;
10	BRK	S.S.I.F. BROKER S.A.	<ul style="list-style-type: none"> Listed since February 2005 Activity domain: security and commodity contracts brokerage 	<ul style="list-style-type: none"> Active policy on recycling the waste resulting from current activities (especially paper waste); Research and development activities concern only software.

Further on, by comparing the above presented information to the standard of disclosure format, we obtained the following results:

No.	Symbol	Standard of disclosure	Disclosed information
1	TLV	Human capital	Few information (training programs)
		Technologies	Few information (software improvement)
		Clients	Few information (evolution of market share)
		Quality policy	No information
		Image	Few information (environment protection)
2	SNP	Human capital	Few information (labour lawsuits)
		Technologies	Few information (R&D programs)
		Clients	No information
		Quality policy	No information
		Image	Few information (environment protection)
3	FP	Human capital	N/A (no employees)
		Technologies	No information
		Brands	No information
		Clients	No information
		Quality policy	No information
		Image	No information
4	BRD	Human capital	Few information (training programs, motivational programs)
		Technologies	No information
		Clients	No information
		Quality policy	No information
		Image	Few information (environment protection)
5	TGN	Human capital	Detailed information (training programs, interest in hiring high qualified specialists, labour conflicts)
		Technologies	Detailed information (existence of a Program for scientific research and technological innovation)
		Clients	No information
		Quality policy	No information
		Image	Few information (environment protection)
6	AZO	Human capital	No information
		Technologies	Few information (registration of a new brand)

No.	Symbol	Standard of disclosure	Disclosed information
		Clients	No information
		Quality policy	No information
		Image	Few information (environment protection, social responsibility activities performance)
7	BVB	Human capital	No information
		Technologies	No information
		Clients	No information
		Quality policy	No information
		Image	Few information (corporate social responsibility activities)
8	TEL	N/A	N/A
9	BIO	Human capital	Detailed information (training programs, programs for new employees integration, MBO program concerns)
		Technologies	Information on research and development activities for new products
		Clients	No information
		Quality policy	No information
		Image	Few information (environment protection)
10	BRK	Human capital	No information
		Technologies	Few information (R&D activities concern only software)
		Clients	No information
		Quality policy	No information
		Image	Few information (environment protection by recycling waste)

So far, we may conclude that companies are not really concerned about publishing information on intangible resources. The fact that companies did not present the elements of intangible assets as we expected them to could mean that those companies are not rational. This lack of rationality can arise from a lack of knowledge, meaning that companies may not be aware of the importance and benefits of intangibles' management.

However, there may be other possible explanations, other than the lack of rationality, namely:

- Many intangibles' management methods are abstract and difficult to implement in reality;

- The cost of implementing a management system for intangible assets can sometimes be a barrier;
- Often companies avoid disclosing such information because it is considered strategic information;
- The fact that companies are accustomed to monetary information and don't pay enough attention to qualitative information despite its importance; however public often appreciates such information especially since not everyone is used to understand the financial statements of a company.

4.2. Building a model for intangibles management

Most articles reveal that in order to implement a system for the intangibles' management companies normally fulfill three phases: "the identification of critical intangibles related to value creation, the measurement of those intangibles by means of a set of indicators and, finally, the monitoring of intangible resources and activities" (Sánchez *et al.*, 2000).

In order to achieve our model we followed three steps, which can be systematized as follows:

Figure 1. The three steps for implementing a management system for intangible assets

1. Identification of intangible assets with potential to create added value

- We did not take into account the specificities of a particular company or sector;
- We aimed to choose the intangible assets with the highest potential, respectively those which can bring the highest benefits to the company (although it is often difficult to separate the effect of a certain intangible asset and measure its added value);
- We tried to select clear categories, in order not to be difficult to classify an intangible element in a certain category, respectively we made sure as much as we could that the categories don't cross each other.
- *For this example we started from the intangibles selected for the standard of disclosure format and we have added a new additional indicator which met the above listed criteria (brands).*



2. The measurement of intangibles through indicators

- For each category of intangibles we established a set of explicit monitor indicators;
- The made sure that information on the selected indicators can be easily available.



3. Monitoring (management) of intangible resources and activities

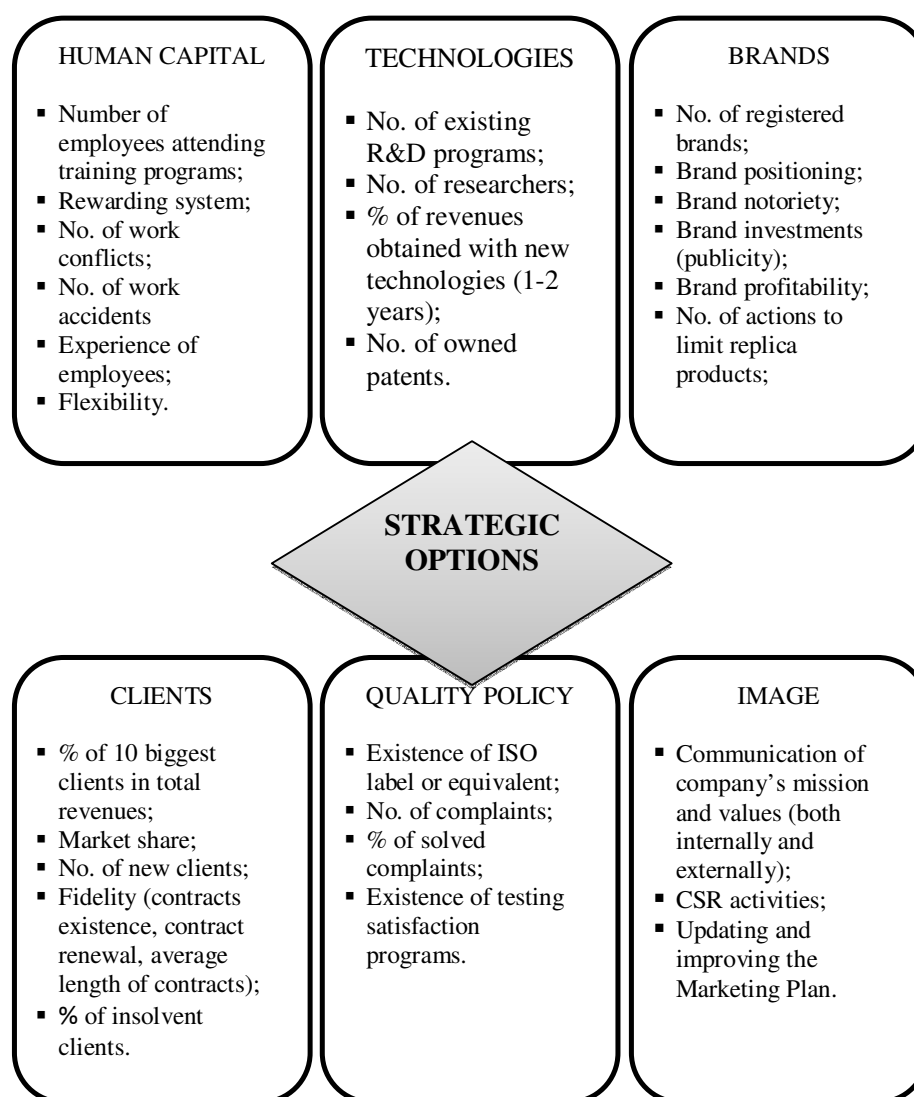
- establish a reasonable level for each indicator that can be compared to the real level within the company (each company must establish its own aimed values);
- This step is usually performed by top managers.

The model that we propose in the following paragraphs may be useful from an external point of view, meaning that it helps to a better systematization of information on intangibles which can be presented to potential investors in order to inform them better on the company's resources and potential.

The model may also be helpful from an internal point of view, respective for the company's own needs because it is a guide, a scheme that can help to identify rapidly the different categories of intangible assets. Also the model indicates a number of features that can be traced in order to measure and control the intangible assets. By monitoring the evolution of characteristics over time a trend can be observed separately for each intangible asset (it can be either positive or negative).

The proposed model has an indicative character only and can be adapted and developed according to each company's information needs:

Figure 2. Example of model for intangible assets management



As companies and their strategic objectives evolve, indicators also might change. That's why companies must periodically review the selected intangibles and adapt them and their related indicators to the context. Otherwise, without flexibility companies can't accomplish their strategic objectives.

CONCLUSIONS

This article presents a concise overview of the main scientific literature in the field of intangible assets. On this occasion the article highlights a series of main key concepts, definitions and trends. However, at every occasion, the article reveals the research deficiencies, weaknesses and gaps that can be used as starting points for further research. For example there should be a consensus regarding the terms, definitions and classifications in the field of intangibles. Also most of the analyzed publications are theoretical. The practical examples and study cases are very rare in spite of their great importance for practitioners.

The comparative analysis performed on BSE listed companies included in BET 10 index concluded that the disclosure of information about intangible assets is at an early stage. Although information about intangibles is highly important for both internal and external users, companies limit to disclose little information about human capital (training programs, presence or absence of labor conflicts, rewarding system, etc.), research and development activities and environment protection.

There are several possible explanations for this situation: companies may not be aware of the importance of such information, they might consider it too abstract or maybe too strategic to make it public.

Our proposed model for intangibles management is a suggestion for the presentation of the company's intangible assets that can be used both for internal and external purposes. It helps companies to identify, measure and manage their intangible assets. The model can be considered a guideline which can be easily adapted by companies accordingly to their informational needs. Nevertheless, the developed model can serve for benchmarks and comparisons between different companies operating in the same field or not.

Nevertheless, the study is subject to a series of limits. Due to the fact that the study was performed only on a small sample of Romanian listed companies, its conclusions may also have a limited applicability.

ACKNOWLEDGEMENTS

This research was supported by CNCSIS-UEFISCSU, project number PN II-RU TE 326/2010: "The development and implementation, at the level of economic entities in Romania, of a valuation model based on physical capital maintenance concept".

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