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2009

Online at <http://mpra.ub.uni-muenchen.de/16921/>

MPRA Paper No. 16921, posted 24. August 2009 13:25 UTC

Intangible investments and performance of SMEs

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Abstract : Along time, the goal of intangible assets became very important for the activity and prosperity of business. This matter is achieved as well as more and more the companies operate in a global economy which has as main base the digital revolution and information management. The increase of the immaterial investments percent requires evaluation and recognition criteria by knowledge, intelligence and human competence. But recently, the accounting standards were about to accord negligible attention or even totally ignored the appropriate modalities of report this category of assets. The accounting, obliged to bend to economic, financial and juridical logics, in a „Taylor" modality, presents an unreal image of the company economic life and particularly of investment activity. In a competitive environment, the reliability of future economic benefits, generated by investments, depends less on their material or immaterial nature and more on the characteristics of the market they operate on. These are just a few reflections which determined us to focus our attention to this thought-provoking domain of immaterial investments, appreciated as a potential for the company.

Key words: intangible assets; immaterial investments; competences; intelligence; knowledge; competences; potential.

1. ECONOMIC AND SOCIAL PREMI

The world is changing, now faster than ever, life is becoming more vibrating and becoming increasingly demanding, we have sophisticated tastes ... We are increasingly aware. This dizzying vortex entail everything. Organization, as organization size becomes increasingly more intelligent at all its levels, ensuring survival under fierce competition. The market is very demanding in many fields. Technological impact was so profound in recent decades that, beyond the organization of business enterprises, the working environment, by way of ongoing relationships between firms, and radically changed the way people perceive the value, wealth. The success and survival of a firm market, the key tends to be not productive apparatus or land, even money, but information, seen as the main resource. The transition from one economy to one based on material information and knowledge has marked a new era in human history. Everyone talks of the information society and, more recently, the knowledge society.

A business intelligence refers to an organization's ability to understand the functioning of the market and how that integrates its activities in a value chain, to

anticipate future developments and to adapt them. The enterprise can not master this process only if flexibility is, first, in terms of information. Information can be gathered without ceasing, but is, par excellence, a perishable nature.

In literature and even the site of the National Agency for Small and Medium Enterprises and Cooperatives in Romania (ANIMMCR) to make much of the Club of Rome's motto "think globally, act locally". Globalization (I. Bari, 2001) is a new and necessary "progress of the limits" between which produces and reproduces the humanity. She brings changes similar to those that emerged after the discovery of America five centuries ago: the world becomes smaller, and trade expands. The current features of globalization concerns the internationalization of production, new international division of labor, the new competitive environment that generates these processes, and internationalization of the state, making the member agencies of the globalized world.

Small and medium enterprises, with science and technology can be a decisive factor in transforming the national economy. SMEs not only a new social pattern. They have already gained a position well defined, especially because opportunities for adaptation, the large number of jobs provided, the flexibility in technology and management, and ability working with industrial giants, issues affecting the performance of firms .

In this context, the capacity performance of a company depends more than any single distinctive reursă firms, economic system, namely knowledge. As afirma and P. Druker (2001), what differentiates a company from the other is the "ability to use all types of knowledge - from the scientific and technical to the social, economic and management, to do something which has market value.

Note however that the resource is crucial to any business abroad, as its economic results which are obtained by "exploitation opportunities. Just as in any physical system energy tends to spread to dilute them, so the economic and social systems, knowledge of external resources that tend to turn into economic results but which is not only a fleeting advantage. The statement is only a paraphrase of that Schumpeter's theory, only the profits resulting from the innovator and the advantage disappears when innovation becomes routine. However, just as states and Gary Hamel, "only innovation creates prosperity" and it must be within the core business objectives.

Deep changes taking place in today's world of business require, thus moving the driving forces of economic growth from material and energy to information and knowledge. The process of "dematerialization" of economic activity change the source value toward design and innovation, knowledge management and organization.

Therefore, intangible investments are becoming more important than material investments (physical), by spending increasingly semnifictaive employed by a company for design, innovation, training, organization and operation of new opportunities unuor market.

Increasing the share of intangible investment required, first, to establish a relevant coverage and, secondly, the designation criteria for recognition and adequate assessment. Border investment at the microeconomic level (Epingard, 1999) is still quite confusing, limiting them to not show the tangible business strategy and inclusion of all costs incurred to obtain future economic benefits in the category of investment is too ambitious and very risky because of the uncertainty effects that result in:

- knowledge and skills, in part, can not be dissociated from human or material

- resources (equipment) that incorporates the company is difficult to control;
- irreversible nature of the expenses involved in training and research, the scope of upstream production with lasting effects (strategic) and that gives them their status as "cost invested, with major risks of non-recovery;
 - 'perishability' is common knowledge and skills acquired in a discontinuous and unpredictable world, requiring constant reconsideration and updating their.

Growing importance of intangible investment in long-term growth performance and enterprise competitiveness requires an approach appropriate accounting treatment and reporting relevant and credible.

2. CONVERGENCE AND FAILURES CURRENT ACCOUNTING SYSTEM FOR SME

For players of today's globalized markets (large listed companies, investors, financial analysts, regulators, etc..) Account information has become a public good and its production must be ensured on a standardized allowing comparability and decision making. On such a background was shaped by the governance model accounting in recent years, influenced largely by the need for a single accounting referential (International Financial Reporting Standards, 2005) represented quality accounting standards, allowing for better financial communication between operators of international financial markets.

But we put the following question: for the percentage of the number of enterprises were developed standards IAS / IFRS? The answer is clear, for less than 1% if we consider the structure of enterprises, not only in Romania but also in the European Union. But for these things are not clear enough. Different countries have the same requirements as regards the application of IFRS. Thus, the EU, they must be applied to consolidated financial statements of listed companies. But there are also exceptions. Thus, some EU countries (Austria, France, Ireland, United Kingdom, Slovenia) have allowed the use of IFRS to listed companies, others (Cyprus, Malta, Slovakia) have required listed companies to present financial statements under IFRS. Moreover, in some countries (China, Russian Federation and Romania) only certain companies are permitted to use IFRS. Moreover, some countries (Argentina, Brazil, United States, India, Japan) does not authorize the use of IFRS for companies listed without a book recommendation.

However, the IASB develop and publish in February 2007 SME IFRS (International Financial Reporting Standard for Small and Medium-sized Entities, 2007), the standard has sparked a wave of controversy.

Our opinion, the most fierce criticism is made by the rapporteur of the Committee on Legal Affairs of the European Parliament, Klaus-Heiner Lehne.

States that the IASB SME project developed retaining the fundamental concepts of the conceptual framework and the corresponding principles, which tried to adapt them according to user needs and to pay attention to cost-benefits. But the question is raised: Are there differences between full IFRS and IFRS for SMEs?. If so, what those differences consist?. If not, why were necessary other IFRSs?

Congress argued in an article in the accounting profession in Romania (L. and N. Feleaga Feleaga, 2008), is made the following statement: "The answer is obviously negative. It is true that the number of pages was reduced to less than 10% but who knows full IFRS will have difficulties to understand the project, reducing the number of pages is given in particular the elimination of examples, simplification remain limited in the

assessment and counting .

As regards Romania, the main differences between the draft IFRS for SMEs and regulations resulting from the comparative situation presented in Table 1.

The draft IFRS for SMEs	Romanian Regulations (No OMFP. 1.752/2005)
1. The provisions relating to recognition elements in the financial statements:	
Prohibition on formation expenses capitalized (ED 17.18 and 21.3)	Formation expenses may be included in "Assets" (par. 71)
Development expenditure accounts or cost method or by the capitalization (ED 17.14-17.16)	Not presented detailed terms of capitalization. It presents only the general conditions for the recognition of an intangible asset (par. 69) and are examples of development work (par. 74)
Deferred tax assets be recognized (ED 28)	It only recognize deferred tax liabilities under provisions for risks and charges
Negative goodwill is recognized immediately in income (ED 18.22)	Negative goodwill is recognized in the balance sheet (revenue in advance) (par.32)
2.Options to evaluation:	
Evaluation of tangible or cost method or by the revaluation (ED 17.21-17.23)	Evaluation of intangible assets to value the input value minus the cumulative adjustments (par. 84)
Evaluation of investment properties in the fair value model or cost model (ED 15.3-15.6)	Real estate investment are not recognized as a separate category, but are treated as tangible.
Valuation of assets for disposal to the minimum noncurrente between book value and fair value less selling expenses (36.6 ED)	Noncurrente assets for disposal are not recognized as a separate category, but are treated as property.
Out stock assessment by CPM or FIFO (ban use LIFO) (ED 12.17)	Performance out by CMP stocks, FIFO or LIFO (par. 131)
3.Estimates accounting:	
Finite or indefinite life to intangible assets (ED 17.24-17.26)	All intangible assets are considered finite duration of use (par. 72,75,76,78)
Periodic review of the duration of the utility and the residual value (ED 16.17)	Depreciation is calculated using an amortization plan, the date of their operation until the full recovery of their value (par. 97)
4. Restrictions on moving assets and liabilities on the balance sheet:	
Exiting financial assets according to precise criteria, other than on legal transfer (transfer of risks and benefits, transfer of risks and benefits, transferring control, etc.) (ED 11.24)	There is no indication in this regard
Maintaining the balance of assets transferred to the vendor involvement (continuing involvement) (ED 11.24)	There is no indication in this regard
5. The changes voluntary accounting policies accounted for retrospectively (ED 10.9 and 10.10)	There is no explicit indication of changes in accounting policies, but when we shift to OMFP. 1752 Retained earnings post has been removed from the policy changes here contabile.De concluded that policy changes

	affect the outcome of the current year
6. Goodwill is assessed after initial recognition at cost less accumulated loss of value (ED 18.21)	Goodwill is generally amortized within a period not exceeding 5 years, possibly exceeding the threshold scestui (par. 78)

Table 1. Comparison between the draft IFRS for Romanian SMEs and regulations

Beyond the convergence process that seems irreversible, there are objective reasons justifying the interest of their Romanian SMEs to IFRS. Of these, priority can be set (PricewaterhouseCoopers, 2006):

- Willingness to share the financial market: the development of SMEs requires getting important financial means;
- Intention to sell in the future întrînderea a foreign firm, an international activist investment fund or a listed company: if the potential buyer is a foreign listed company or a subsidiary, it wants financial statements according to IFRS to make a bid according to current and future profitability, measured on the basis of information obtained by applying the same rules as those used for preparing their financial statements;
- Trying to meet donor demands: presentation of financial statements in an IFRS referential adapted SMEs would facilitate communication, would establish a climate of confidence for investors who have already begun to familiarize themselves with IFRS for listed companies and would allow such access easier to finance additional;
- Ensuring comparability in relation to competing companies: many EU countries have decided to implement possible or mandatory IFRS for consolidated accounts of unlisted companies;
- Reducing costs: the draft IFRS for SMEs proposes a referential completely covering all issues that might meet an enterprise, provided that certain issues (revenue recognition, upgrading, financial instruments) are little or no treatment regulations Romanian . For a group which has subsidiaries in several countries the financial reporting process is currently complex and expensive. Each subsidiary must produce for local needs and circumstances for applying group needs rules and regulations often diferite.Utilizarea IFRS for SMEs both for individual accounts and consolidated accounts should allow simplification of production accounts, which would reduce costs and time of preparation of financial statements.

The idea of developing separate accounting rules for SMEs is undoubtedly beneficial. But as we saw, accounting standardization bodies (national and international) have different views on the scope and content of these rules. Thus, in defining small and medium enterprises have used different criteria, both quantitative (turnover, assets, average number of employees) and qualitative (responsabilitatea public listing on the stock exchange, etc.).

In what concerns our country, there is currently no separate accounting rules for SMEs, but there are some differences in financial reporting of companies depending on whether or not certain size criteria. Also, the prevalence întrînderea not apply the economic principles on judiciary and materiality.

The attitude of our country's future on small and medium întreprinderilor accounting is closely linked to the European Union. EU aims for future for SMEs, simplify control and accounting rules contained in European directives.

But it is possible that, once published, international financial reporting standard for SMEs developed by the IASB, sooner or later be accepted at EU level.

I made the above emphasis to show that current accounting systems and tools have yet powerful financial reporting practices and impregnated by taylorism not solve the problem of identifying and measuring intangible investments. The major difficulty comes from the relationship without "cause - effect" in recognition of expenses as investments and intangible assets in their balance sheet entry.

Despite efforts on the line normalization international and national accounting, it is noted that the accounting system pays excessive attention to short-term financial targets for assessing enterprise performance. The most dangerous consequence of indictaorii financial management by quantifying the short-term performance is that this type of behavior incites to reduce intangible investments from companies and prudence requires treating them as expenses in the period. Therefore, to achieve short-term objectives, to maximize value for shareholders by creating (by maximizing the profit or loss), long-term performance is sacrificed. Abdication of the responsibilities of strategic concern lasting effects, the increase in the company (through innovation, training and motivating staff etc..) Adaptability and even threaten the survival of the enterprise.

In the context above, we consider that all these costs, which take effect on medium and long term investment and can be considered immaterial, must have an appropriate accounting treatment.

3. A NEW VISION EXPENDITURE ON TRAINING TO THE UNDERTAKING: LONG-TERM INVESTMENT OR EXPENSES?

The decision to invest in human capital has a significant impact on the overall economic and social development. It therefore must be addressed not only an individual decision but as a strategic decision at the enterprise.

With passage of the Romanian economy from a deep restructuring and cost-efficiency criteria, a role of utmost importance is the human factor. The significance is that the potential generated by the human element is active, creative and coordinated economic activity. At the current stage of transition to a functioning market economy, characterized by a concern for efficiency in all fields, great importance has the maximum recovery of all material and financial means of all the possibilities offered by technical and material basis and the principal means of carrying out this objective is the use of human material from his entire value.

Evaluation of the contribution of training on growth and hence on productivity of strikes is relatively difficult to overcome some limitations. They concern mainly the fact that the investment made in training in a certain period, helps to increase qualification of human resources, both in that year and in coming years. The effects of such investment on productivity growth should be seen on the relatively large (medium and long term), short-term tests are not relevant in this regard.

On the other hand, investments in human capital, according to technical and economic criteria, as their destination and nature of business results are considered - Intangible investment. However, in this context we ask the question: why investment in

human capital in accounting terms are treated as expenses of the period? This will only distort the appearance of profitability of the enterprise and to appear as a restriction in activity management based on a strategy of domination by costs.

In other words, financial information, financial statements reporting the final after leading managers and investors who misinterprets the recovery of human capital.

Given the emphasis made above, and accounting principles, in particular the principle of the independence years, we believe that investments made in human capital should be regarded as an intangible asset (intangible or intangible) that may be subject to depreciation.

The trend is evident today, both national and European level, the "knowledge triangle"¹ we do causes us to disregard a provision of IAS 38 "Intangible assets" which states that "all other costs related to assets intangible costs are passed on. These include: ..., training costs, (Hennie van Greuning, 2005 art.2.4.2.) And to consider the essence of IAS's because over the years, the role of intangible assets has become increasingly important for operations and for the prosperity of many types of business economy as "knowledge" began to dominate.

Intangible assets are, by definition, have no active natural substance. However, there may be circumstances in which intangible assets and take physical form (eg, qualification certificate or a graduation diploma forms processing, can be tangible evidence of the asset while it is not the asset itself) which is the asset being identified separately from other assets.

Where intangible assets (in this case training) is done inside the company must demonstrate its ability to complete asset to enable it to use it must also demonstrate the utility of the asset for its own purposes and the existence of financial sources technical development and enabling it.

We disagree with the view expressed by Barry J. Epstein and Abbas Ali Mirza (2005), which states: "intangible assets arising from technical knowledge of staff, trained in the long term will have difficulty in fulfilling criteria recognition despite the expected future economic benefits. This is because the company you had completely impossible to control these resources or to prevent others to control them. Even if a company generates a significant expense for training which is expected to improve staff skills, economic benefits from trained personnel can not be controlled, since trained employees may leave their current job and to continue his career at other employers. Thus, expenditure on staff training, no matter how significant it would not qualify until the present as intangible assets.

Notice Barry and Mirza demobilizatoare and prejudice is not only itself but the process of training the training process itself. It is true that there is labor mobility, young people trained not only departing from another employer in the same country but in other countries, but it is not mass. Furthermore, the training process itself is a means to reduce the mobility of labor as future benefits employees and employers equally. And if it is embraced pessimism Barry and Mirza, that keep employers reglemeteze the legal issue (through a contract commitment) stability at least during the employee assets

¹ The "knowledge triangle" - research, education, innovation - reveals that the welfare society is not determined solely by the production of goods and services but also the skills of the workforce and its ability to adopt technologies Noli. To exploit the advantages of so-called knowledge-based economy for more growth, more jobs and social cohesion are necessary investment in knowledge and people.

depreciation?

Therefore, given the opportunity to identify training as an intangible asset, that asset may be controlled in our opinion the company and producing an inflow of future economic benefits, we express our opinion on the possibility of reflecting in the accounts, expenses with training, as know-their-haw "which would lead to extending the scope of duties and account 205" Concessions, patents, licenses, trademarks and other similar rights and assets.

If we refer to the producer of the active (we speak here of apprenticeship, labor recruitment, work organization), then 205 will mail account with your 721 "Revenue from the production of intangible assets.

The problem seems to reflect accounting and legitimate in terms of cost, because we can speak of recruitment costs, training, apprenticeship and work organization. These charges take effect more productive period (amortization), and these effects can therefore generate future economic benefits and thus can reliably measure the cost of various expenses incurred.

Moreover, neither in terms of management, there is not sufficient and appropriate approach to managing intangible assets. We note that:

- The management structure are not designated person to be responsible for managing intangible assets, provided that the world began to emerge managerial responsibilities such as "chief knowledge officer," director of intellectual capital", etc..;
- Solutions are not removed from the cases of "best practice" companies which results in quantifying intellectual capital (eg, Motorola, Skandia, Canadian Imperial Bank of Commerce, etc..)
- Are not removed even empirical solutions to be applied or adapted as appropriate.

In these circumstances it is possible "loss" of certain benefits for the competitiveness of companies, improper adjustment to the competitive pressure on the domestic market and may impact the quality of national economic growth and its transition to a knowledge-based economic development.

Recognition of investment in human capital as an intangible assets have, in our opinion, the following advantages:

- traceability of the investment in human capital in light of investment projects and ROI calculation, first as an internal rate, second rate as a business opportunity (as it will be based on actual accounting data and not based on intuition managers);
- goodwill's explanation in terms of human capital as part of this supravaleri. Goodwill site is correct asset value of an enterprise to consider its future capacity of the beneficiary. In essence, the method consists in calculating an annual superbeneficiu (Annuity goodwill) and update a specified period. This is then added to superbeneficiu patrimonial value to obtain the enterprise. What should be considered concerns the choice of discount period (in our opinion during which the asset is likely to produce superbeneficiu) and choice of discount rate (in principle could be used cost of capital plus a premium to take account the risk level of the enterprise).

Integrating human capital asset in the enterprise will enable more effective evaluation of the company. The value of the company will be able to increase or decrease depending on the quality of personnel.

4. CONCLUSIONS

Obligated to obey the same logic of legal, economic and financial accounts present a distorted picture of the economic life of the company, neglecting or ignoring for too long the appropriate methods of recognition and reporting of intangible investments as assets (property) intangible. As a consequence, the practice has evolved beyond the traditional rules of historical cost.

Problem recognition and evaluation of intangible assets, for which we tried to emphasize some defining elements, continues to incite controversy more so because, in a society marked by competition and change, estimating future benefits arising from investments less dependent on nature tangible or intangible and more features of the market within which it operates.

Relevance and reliability of accounting information requires appropriate accounting treatment, and international bodies (FASB and IASB) and normalizatorii of the European Union should think about issues that intangible assets are an important resource for the efficient management of the company.

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