

## MANAGEMENT OF THE COMPANY ON THE BASIS OF THE COST ESTIMATION OF ITS INTANGIBLE ASSETS

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### Abstract

*Nowadays cost maximization is the main purpose of strategic management of many companies. Heads of the Russian corporations already got an understanding of that the efficiency of enterprise's management is defined not by its liquidity or size of the received profit, but increase of the business's cost. The overall aim of the company's cost increase should be detailed on the basis of revealing of major cost factors. The intangible assets, which provide the getting of the future benefits, are among the number of the major cost factors for modern companies of «new economy». Investments into intangible assets are the defining factor of an effective using of own capital of the enterprise and play the main role in realization of financial strategy of the companies in the conditions of global transformation of the financial markets and transition to innovative economy. In the developed countries the share of intangible assets in enterprise's assets structure makes from 30 to 40 percent, and reaches 70-80% in the high technology companies. In structure of the Russian enterprises' assets the intellectual property makes less than 1% because of bad accounting and underestimation of role of intangible assets in enterprise activity that as a result leads to deterioration of its financial condition, decrease of market cost of the company. Nevertheless the share of intangible assets constantly grows in balances of the Russian enterprises, expenses for financing of their creation and development grow as well. Cost of intangible assets of corporation can be defined as the price of its realization in the transaction in the open market or as current cost of incomes which can be got by the company in the future. The major problem in the given context is absence of the standard methodology in frameworks of the cost, market and income approaches of cost estimation of the company's intangible assets that complicates calculation of the most objective size of their cost.*

**Key words:** management, cost estimation, intangible assets.

### Introduction

The purpose of the paper consists in progress of theoretical and methodological bases and development of practical recommendations about management of the Russian enterprises on the basis of the cost estimation of its intangible assets during the postcrisis period. The essence of the concept of management of the company on the basis of its cost consists that management should be aimed at maintenance of growth of market cost of the company and its shares. All aspirations of the company, analytical methods and receptions of management should be directed to one overall aim: to help the company to maximize the cost, building process of acceptance of administrative decisions on key factors of cost. By virtue of the huge practical importance, questions within the limits of the concept of management in cost have received wide reflection in scientific and practical researches.

Great contribution to the popularization of the value approach to the management made consulting company McKinsey. The book of the partners Tom Copeland, Tim Koller and Jack Murin "Valuation: Measuring and Managing. The Value of Companies" became a best-selling business books in many countries around the world including Russia. Significant contribution to the development of the idea of the concept of value management companies was introduced by Bennett Stewart. Result of the research was the book «The quest for value: a guide for senior managers», published by Harper Business in 1990.

M. Scott [7], as a key element of value assessment and management of the company's cost, determines the cost factors. With such a modeling process of value management is supposed to take into account all major cost factors, as well as the effect of each factor model to increase corporate value. Changing the relevant parameters of the model, we can obtain the dynamics of the company's value as a function of the major cost factors.

However, models based only on the primary cost factors are, at best, passively descriptive, characterizing only the final result of the company in a particular area has not been revealed, as a rule, the reasons for this situation. The basic structure can be significantly improved by taking into account the specifics of the company associated with the presence of the intangible assets. Level management decision-making - is a tactical level.

However, in the management of intangible assets its necessary to determine the strategic guidelines of the company's use. Effective management requires, however, management is not all intangible assets and the allocation among them a key group for the company that defines its uniqueness and competitiveness. In this context, outlines key areas of competence of the company.

With the development of market relations the number of Russian enterprises that have intangible assets on their balance has increased. This raises a number of problems associated with the identification, intangible assets and accounting in property companies.

The term "intangible" means the intangible, intangible property that can not feel, because its substance is immaterial.[9]

A detailed description of the characteristics required of intangible assets are given in R. Reilly and R. Shvays paper [10]. They are six traits that must be satisfied that the object could be classified as intangible assets, namely:

1. Asset should be specifically identifiable and have a recognizable description;
2. It must have legal status and be subject to legal protection,
3. It must be the object of private property rights, which may be transferred in accordance with the law;
4. It must have some physical evidence or manifestation of its existence (contracts, licenses, customer lists, a set of financial statements, etc.);
5. It must be created or should be identified in time or as a result of an identifiable event,
6. It must be destroyed or cease to exist in an identifiable time or as a result of an identifiable event.

In general, intangible assets as an economic category is commonly understood as a particular group's assets, with value and bringing the company income (or create the conditions for earning income) used in the long term, but have no physical content. These characters are typical for the variety of its purpose and nature of participation in economic activities of objects. [11]

Currently, intangible assets are becoming a key factor in determining the company's competitive advantages. Thus, the enterprise, that have intangible assets on their balance, all the more urgent need of proper and accurate assessment of that assets.

In assessing the intangible asset must take into account its specificity and the influence of a wide variety of factors, so far universal method to accurately calculate the value of intangible assets does not exist. Typically, the process of valuing intangible assets is reduced to determining the value of intellectual property, which is listed on the balance sheet. The estimate of goodwill is determined only quantitatively, as an addition to the estimated cost of intellectual property.

In the researches about the valuation of intangible assets, there are methods based on income, cost or market approaches. Preferences in choosing a particular approach to the evaluation depends on the availability of the necessary information requirements of buyers or owners of intellectual property, the economic situation at the time of evaluation, as well as the purpose of assessing an object.[12]

In the current conditions at the valuation of intangible assets preference is given to income and cost approaches. Application of the market approach although not excluded, but it is very difficult, because intellectual property is original and often do not have analogues.

In practice, the value of intellectual property is defined in two stages. In the first stage, by predicting the value of the company's profit from activities using the estimated intangible asset value is calculated payments. In conclusion, the initial payments result in present value using a discount rate.

Market capitalization of the company is one of the fundamental concepts of the stock market. Economical dictionary under the market capitalization means the totality of economic relations, emerging market securities of issuers of shares between companies and investors, owners, and the purchased shares are in free circulation on the formation of the prices of these shares at a certain time.[1]

In a narrow sense, the market capitalization of the enterprise is defined as the total present value of its shares traded on the market. In general, the market capitalization can be viewed as an indicator of the effectiveness of the company, reflected by the stock market.[3]In Russia's market capitalization recently was widespread, due to the intensification of the stock market.

However, this type of capitalization is characteristic only for Russian big business, formed by corporate ownership. The result is that most of the domestic enterprises, this tool is building equity is not yet available. In the majority economic researches capitalization is considered from a position of escalating of own capital of the enterprise. Thus the accent is done on joint-stock companies which actions are in the free reference. From this follows, that the rated size of capitalization is expressed in the form of work of the price of one action of the enterprise by results of the tenders at stock exchange and quantities of actions of the given company, being in the free reference. The given method of calculation is the most widespread on the domestic market and has received the name a share method.[2]

The level of capitalization of the company is the major factor from a position of investment appeal of the enterprise for potential investors. In modern conditions the level of capitalization of the enterprise is influenced both considered, and with the intangible assets not considered on balance. In practice formation of intangible assets, namely intellectual property consists in creation of object of intellectual property as result of intellectual activity, in reception on it of a right protection, reflection of the given actives on balance of the enterprise and their finishing up to commercial result.

Thus the commercial result from involving objects of intellectual property in economic circulation is shown in an increase of profit on use of intangible assets of the enterprise.[5] Intangible assets of well-organized business over time tend to have continuous growth reflect the ordering of the enterprise as an economic system that lets you generate income and provide an economic entity sustainable competitive advantage.

Profit growth at the expense of intangible assets in the company greatly increases the value of net assets of the business, which in turn leads to a significant increase in the capitalization of the company (figure 1). In practice, the capitalization of the company may take place either in the form of revenue growth as the source of their own financial resources, either in the form of growth in the value of its fixed assets.

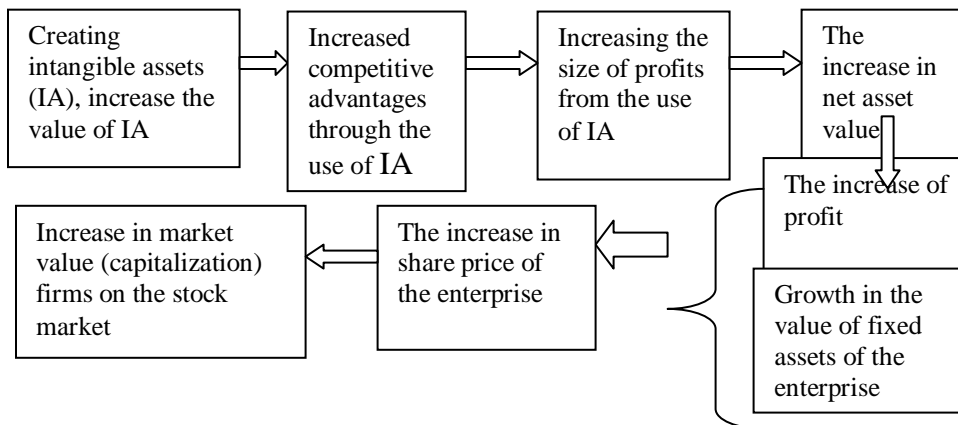


Figure 1 - The process of forming the capitalization of the company through the use of intangible assets

Currently, the market value of the enterprise is often exceeds their book value. This gap between the indices is explained by an enterprise of outstanding on the balance of intangible assets whose value is determined as the difference between market and book value of the company.

Today analysis of the balance of market and book value shows a significant shift towards intangible assets. According to General Director of RBC Y. Rovenskiy ratio of tangible and intangible assets of the leading corporations in the world make up about 15% and 85% respectively.[4] In Russia, the ratios of tangible and intangible assets differ significantly from those of foreign targets.

In practice, the presence of intangible assets, to a greater or lesser extent involved in the formation of the capitalization of the company, has a positive effect on its activity, which contributes to:

1. The high competitiveness of the product
2. Experience and reputation of the company's management
3. Information transparency of the company;
4. Effective marketing strategy.[13]

One of the key problems of Russian companies remains a choice of effective methods of increasing the share of intangible assets at market value (capitalization). Studies have shown that a single method by which the possible increase in the proportion of intangible assets capitalization, does not exist. Each individual company chooses the accounting treatment of intangible assets at market value.

In practice, distinguish two main methods of increasing the share of intangible assets in the capitalization of companies:

1. The traditional method of involvement in the trafficking of intangible assets, based on increasing their carrying value;
2. Modern innovative method of engaging in the trafficking of intangible assets by establishing the strategic management of the asset.[14]

In the scientific literature under the traditional method involves the consideration of intangible assets primarily as a property of objects that serve as the key to a sustainable financial situation of the company.

This method involves the development and implementation of the following activities: an inventory of intangible assets, an independent evaluation of intangible assets on the basis of direct or indirect methods and determination of the use of these assets in accordance with the existing activities of the enterprise.

To improve the efficiency of enterprises in the traditional method is expected to conduct support activities. These activities include:

- restructuring of enterprises in accordance with the established strategy to inefficient allocation of spheres of business, as well as unencumbered property, on the one hand, and maximize the development of key competencies - the other;
- optimization of business processes based on traditional technologies, aimed at optimizing the use of resources;
- improving standards of enterprise management in accordance with formed system requirements management.[15]

Thus, the implementation of these activities in the traditional approach allows us to obtain certain results improve the capitalization of the company due to increase in value of intangible assets. At the same time can effectively control the capitalization of the enterprise, whose activities are based primarily on intangible assets, with the use of modern innovative method of engaging in the trafficking of intangible assets by establishing the strategic management of the asset.

The use of innovative technique was originally based on the use of market capitalization as a key task of strategic indicators, often acting as a strategic objective. Accordingly, the strategic goal of increasing capitalization of the enterprise due to intangible assets is expanded to the strategic objectives of increasing revenue through the use of existing and newly formed asset profitability of the revenue, and to ensure minimization of risks of the enterprise through the use of intangible assets.[6]

In practice, the traditional method mainly aims at reducing the financial risks of the enterprise. Other tasks is only possible when using an innovative technique in the management of intangible assets. This approach includes the following activities:

- establishing the strategic goals and objectives for development activities associated with active use and the formation of intangible assets in the form of strategic maps - both analytic methods and through strategic sessions;
- market research activities in a strategic direction;
- formation of the list and requirements for intangible assets, identifies the key market advantage, effectiveness and sustainability of innovative companies;
- inventory of existing registered and unregistered intangible assets;
- formation of a managerial strategy for the reform of the enterprise, aimed at improving the use and creation of strategic stock of intangible assets;
- formalization of intangible assets, including the results of scientific and technological activities, the business reputation of a strategic format that is not only the registration of rights and an independent valuation, but also to ensure representation of the strategic value of these assets to potential investors and clients.[16]

Thus, the innovative approach of strategically oriented management of intangible assets determines the assets as key factors in the development of the enterprise and allows building management system, focusing on them rather than the material means of production.

Russian companies tend to not use intangible assets as a major tool to increase the market value (capitalization) company. At present, Russian companies are just beginning to implement traditional methods for increasing the share of intangible assets in the capitalization of the company. The reason for this inactivity of enterprises are small reflection of the intangible assets to Russian companies and the lack of an effective strategy for enterprise management of intangible assets for commercial result.

Studies in the management of intangible assets have identified a set of problems that complicate the mechanism to increase at the expense of intangible assets is the market value of Russian companies:

1. Lack of effective standards for the practice of valuation in valuing intangible assets.
2. The existing standards for evaluation of intangible assets does not provide the ability to change the value of intangible assets by the revaluation for assets with indefinite useful lives, namely in the evaluation of goodwill.
3. Heterogeneity of concepts and terms in the field of intangible assets associated with the lack of harmonization of the Russian assessment methodologies with international standards of intangible assets.
4. Imperfection of the legal protection of intangible assets, which leads to the use of trademarks and brand companies, which these assets do not belong.
5. The lack of common accounting and tax accounting of expenses for creation of intangible assets within the enterprise.
6. In accounting, there are no clear rules for inclusion of intellectual property rights to the accounts of 04 "Intangible Assets" and 97 "prepaid expenses".
7. The absence of the Tax Code aspects of the revaluation of intangible assets. In this situation the company is not seeking re-evaluation of intangible assets, which in turn leads to significant distortions in the financial statements and the undervaluation of the company.
8. In the domestic economy, there is no uniformity in the approaches to the management of intangible assets, thereby impedes the process of commercialization of intellectual property in enterprises.

The investigated problems are a combination of factors that have a negative impact on enterprise policy in the management of intangible assets and establishing a market value of the company. To eliminate the constraints, it is necessary to conduct a series of measures both at the state level and at the enterprise level. It is first necessary steps to improve the legislative framework for the assessment and treatment of intangible assets. So the reflection of intellectual property on the balance of Russian enterprises will lead to improved performance assets structure and solvency, increase the rate of innovation of the enterprise, which will affect the credit and investment rating of the company and, consequently, increase the capitalization of the company.

Secondly, it is necessary to carry out measures to improve legal protection of intellectual property.

Third, the rapid transition of Russian companies to IFRS, which suggests a clearer accounting of intangible assets on its balance sheet.

Fourth, enterprises need to implement measures for the management of intangible assets, namely: identification, valuation of intangible assets, a reflection of the assets in the financial statements and the commercialization of intangible assets in order to obtain additional profit.

Thus, for the constant increase in the capitalization of the company, which directly affects its value in the stock market and increases its attractiveness to investors must constantly reassess intangible assets, as well as to assess the effectiveness of their use.

### ***Conclusions***

In the post-crisis period, Russian companies need to revise the composition of intangible assets that are on the balance sheet as assets to be useful and bring economic benefits to the enterprise. To make effective use of intangible assets necessary to optimize the method of revaluation of these assets in connection with the conditions and needs of the market.

In modern conditions, the transition from external resources economy to an innovation, where the most important resource is the scientific and technological potential will make great strides forward and achieve success in the development of an innovative economy.

In this regard, to match the new innovation model for the world economy, the need for rational use of existing intangible assets, detailed and responsible approach to assessing their potential.

The experience of foreign countries in the use of intangible assets has shown that the correct approach to the assessment of these assets leads to an increase in the carrying value of the enterprise.

In the course of business changes the market value of assets, changing the projected cash flows from the use of intangible assets, resulting in the capitalization of the company increases. [8]

Thus, analysis of problems of increasing the share of intangible assets in the market value of the company showed that the introduction to the concept of enterprise cost management company through effects on the formation of its factors, in particular the intangible assets provides a modern business promising and effective tool for capacity building of its current and future state.

This in turn will contribute to its rapid modernization, the elimination of existing disparities in economic activity, creating the objective conditions of growth of efficiency and stability of the Russian economy as a whole.

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