

INTANGIBLE ASPECT OF THE VALUE ADDED

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Abstract

The most important issue and challenge is to identify and understand concepts and processes that are constantly changing and appearing in almost every company. Implementing and adapting these elements are even more difficult. The processes and procedures are becoming more sophisticated and needs a special handling and knowledge. What is more, moving from tangible aspect to intangible perspective requires effectiveness and quality. Nowadays the concept of value added is important for managers and shareholders in order to make business decisions and to forecast economic situation. Nevertheless, there is still misunderstandings and discrepancies regarding the intangible assets, difference between market value and book value.

Keywords: Value added, book value, market value, intangible assets, and intellectual capital

Introduction:

Managers and directors were always using company's value added as a factor of normal and stable company's life. The attitude during the years was changing as the environment and economy is developing in a very rapid way. Nowadays many companies moved from tangible point of view to an intangible aspect. Nevertheless, there is still a huge space and discussion left, how intangible assets affect value added generated by an enterprise.

That is why **the main problem** of the scientific paper arises – what is the connection between value added and intangible assets? The concept is based on a difference between inputs and outputs, but what can actually be called this difference? Can we call this difference between inputs and outputs intangible assets or intellectual capital with no doubt? The increased interest in knowledge and information forms an intangible point of view to a company's value added, that is why **the object** of this scientific paper is company's value added and **the purpose** is to analyze the details and concepts related with company's value added. **The methods** used are mainly literature review and statistical data analysis. In addition to this, the significance of knowledge, skills, experience can also lead to interesting opinions and point of views demonstrated by authors, economists and scientists.

I.

Gherasim (2011) in his research demonstrated a very interesting point of view on a value added. As a theory it is argumentative and can be explained both in a simple or difficult way. Author base his opinion on a K. Marx theory and explains that value added is just the difference between surplus value and capital invested value. There are two types of capital used in value creation process: constant and variable. Constant capital is mainly connected with production and variable capital is mainly investment in labor force. Only variable capital creates a real value added and it can easily be measured as the difference between production price and investments per personnel. Nevertheless, it is not easy as it seems as there are other elements that impede the process. According to Gherasim (2011), physical and intellectual skills, qualification, production and reproduction, time and even wages are parts that closely connect each other and complexity emerges. The labor and a value it creates are two different

elements and the difference between them can be explained as a value added. Gherasim (2011) also gives an explanation of value added: “the added value will mean an additional (extra) value created in production over the amount of capital invested (over the value of labor and inputs consumed in the process).”

Powers (2012) also accentuates that value added is an appropriate tool for revealing that global integration is influencing global economy. All production and services are highly integrated with each other on a global perspective and nowadays it is not so easy to identify and separate value added created by every country. In addition to this, international corporations are creating a huge amount of value added and usually they are based in different countries.

Nogueira et al. (2010) accentuate that book value and market value are not equal and there is a gap between those two financial elements of a company. The difference between book value and market value can be explained only due to intangible assets, mainly intellectual capital. An interesting study was performed by Nogueira et al. (2010) regarding public companies operating in Brazil. First of all, authors considered intellectual capital as the composition of three main elements: human capital, relational capital and organizational capital. Variables for each element were taken from balance sheets, it means, that all variables were quantitatively measured. Number of employees, sales per number of employees and the net profit per number of employees stood for human capital. Sales growth rate were chosen as a descriptor of relational capital. In addition to this, sales and administrative expenses by number of employees and the administrative expenses by number of employees were indicators of an organizational capital. The independent variable was value added. The model showed significant intangible factors' impact on value creation. The most important factor which increases value added of a company is intellectual capital, which can be explained as an amount of intangible assets that owns a company. Nogueira et al. (2010) state that intellectual capital as a concept is still under investigation and it is hard to evaluate and to measure it. Nevertheless, authors try to use Ohlson (1995) model, which is broadly known as an accounting model. It uses Clean Surplus Relation function which integrates balance sheet and periodic income statement. It means that Clean Surplus Relation function evaluates total assets, liabilities and dividends. This model reveals that dividends lessen book value of a company and do not affect actual income. According to Liu, Tseng e Yen (2009), this difference is explained as other data, other information or other reference which can correspond to intellectual capital. Nogueira et al. (2010) accentuate that results of an empirical research revealed that variables, which were closely connected with intellectual capital were significantly correlating with company's value.

Etebar and Darabi (2011) investigated the difference between company's market value and book value. Authors accentuate that namely intellectual capital is the gap between market value and book value and tried to prove their hypothesis while exploring Iran companies. The results revealed that market value of a company is significantly major if approximate variable of intellectual capital is added. Etebar and Darabi (2011) explained that companies with a high level of knowledge-based innovations have a huge difference between book value and market value. Authors are using popular and widely known financial measure EVA (Economic Value Added).

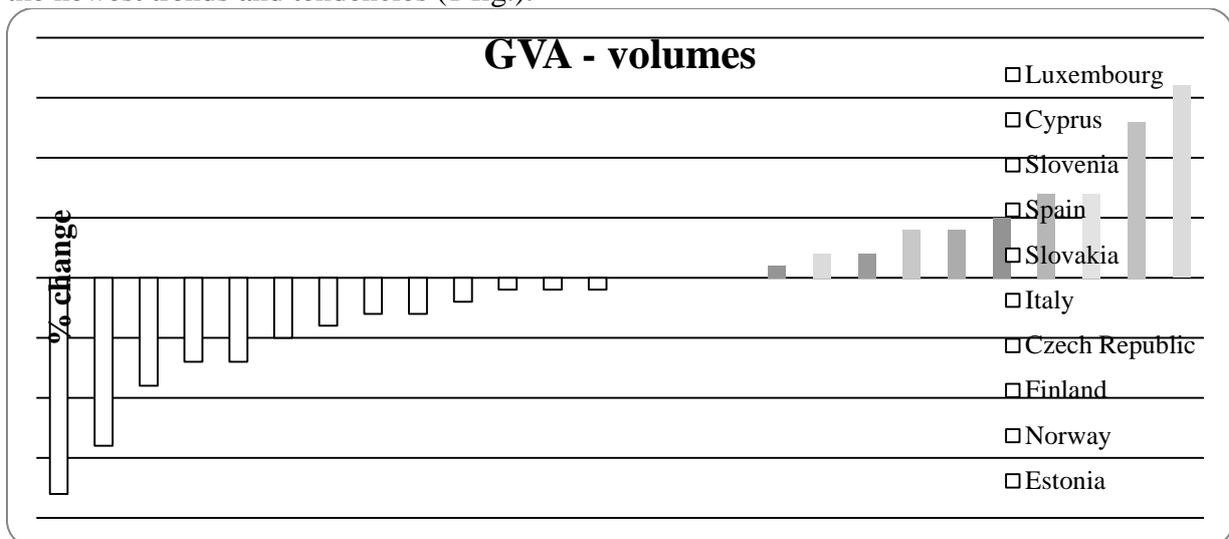
In addition to this, Chen et al. (2005) conducted empirical research, which revealed that intellectual capital helps to increase efficiency in value added creation. As a result, financial performance also significantly ameliorates. In regards to this, Bose (2008) identifies intellectual capital as the main power of value creation in a modern company. Nowadays not financial or tangible assets affect company's financial performance, competitiveness or ability to create value added, all these factors are significantly influenced by intangible assets, which can be called intellectual capital presence. Mohobbot, Khan and Kayeser (2008) even

revealed that for public companies stock price is becoming unstable without intellectual capital.

Many companies are trying to move from non value added management models and strive to switch to **value added management models**. For instance, Kalyanam and Brar (2009) explained and revealed the transmission of Cisco, one of the major informational technologies company. Previously the company was using the legacy volume-based model, but it appeared that value-based model is more effective and beneficial. The main base of a value-based model is to identify value add opportunities regarding partners, then to enable value add and inducements to value add results. As outcomes three major structural parts can help to increase success of a company: partner profitability, customer satisfaction with partners and sales of advanced technologies. In addition to this, value added management model focus on customer and customer needs. In order to increase customer satisfaction, the ongoing efficient trainings must be implemented in management system. According to Kalyanam and Brar (2009), the movement from volume-based management model to value-based volume helped to increase partner investments, sales increased by annual growth rate of 36 percent. What is more, Cisco is constantly performing customer questionnaires in order to find out their satisfaction. As a result of successfully changed management system, customer satisfaction score increased significantly from the score of 4.06 in 2001 to the score of 4.61 in 2008. In addition to this, Kalyanam and Brar (2009) investigated and revealed that even such factors as partner profitability and external reputation were improved.

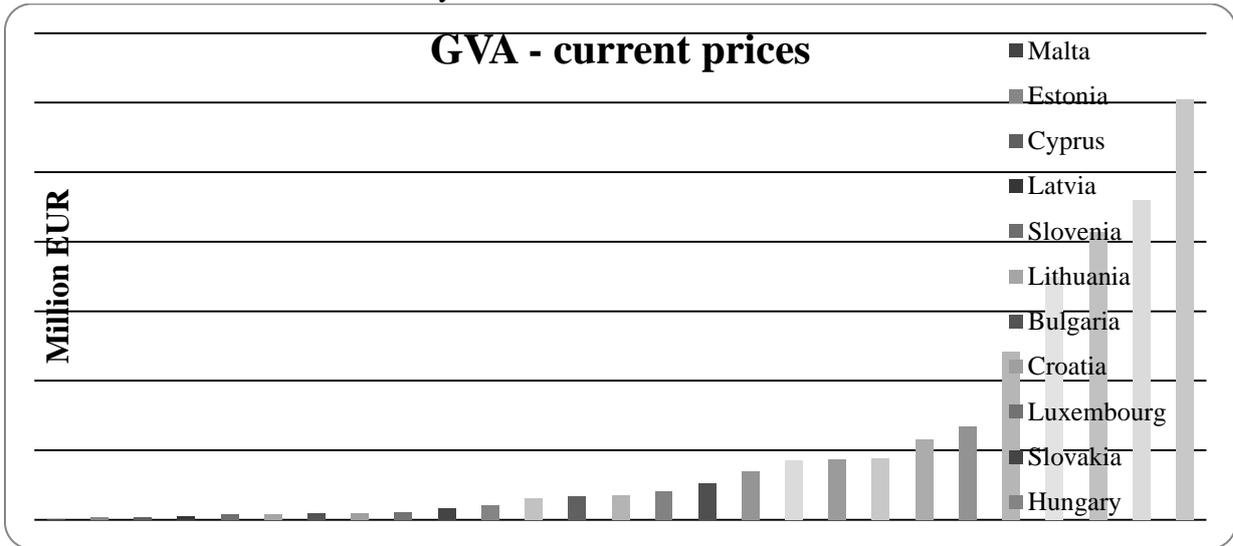
Chatain (2010) identified interesting opinion regarding company’s value added. Author stated that important thing is to capture value and it depends on the company’s dimension of value added. Author encourages moving from resource-based view of the firm. The most important factor or element for value added creation according to Chatain (2010) is competition. Nevertheless, the model is used more with the client-specific value creation. As a consequence, if a company is able to create a high level of client value, the more competitive it is. The more competitive a company is, the more value it creates. Following the same sequence company’s difference between market value and book value also is getting bigger, which can result in better results of any enterprise.

Value added is the main aspect for company’s success. Companies are generating value added and the goal is to have constantly increasing percentage of value added. Also the positive and stable gross value added flow means healthy existence of every company. In addition to this, gross value added of European countries was investigated in order to find out the newest trends and tendencies (1 fig.).



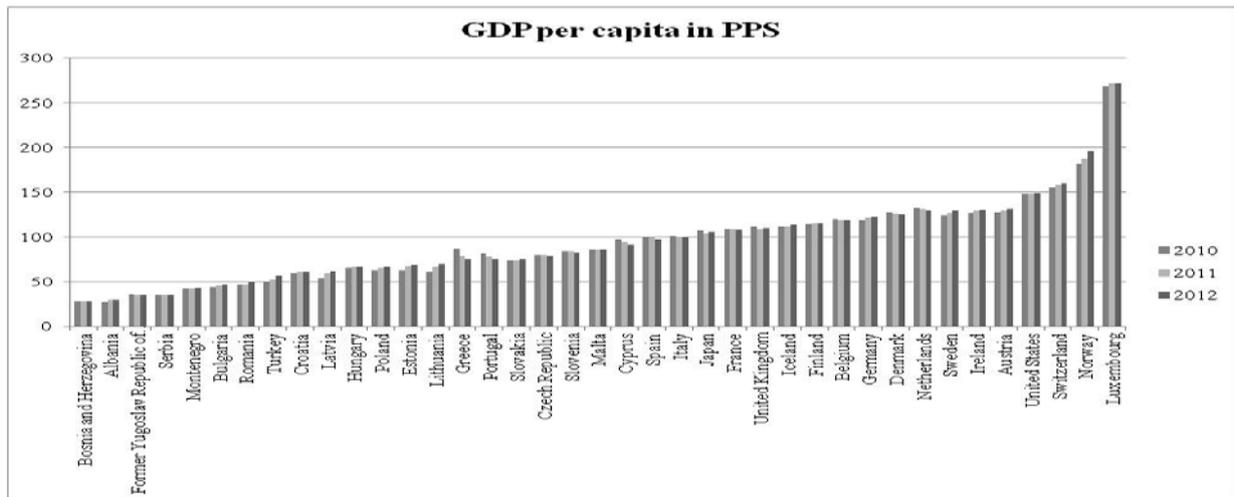
Source: Eurostat, 2013
 1 fig. Gross value added, volumes, 2013Q1

1 figure shows the percentage change of volumes of gross value added in European countries, of the first quarter of 2013. The biggest increase is observed in Latvia, Lithuania and Switzerland. Nevertheless, the percentage change was relatively small: 1.6 percent in Latvia, 1.3 percent in Lithuania and 0.7 in Switzerland. The biggest decrease is observed in Luxembourg with the percentage change of – 1.8 percent. What is more, stability is observed in Belgium, France, Netherlands, Bulgaria, Germany, Austria and Croatia with the percentage of either zero or 0.1 percent change. The significance of intangible assets, such as intellectual capital, helps to stabilize the variations and fluctuation of value added. In addition to this, if the decrease is observed, if the level of intellectual capital is high, the decrease is also not very huge. Of course, these trends are more visible in each company separately and within the countries context are not so clearly noticed.



Source: Eurostat, 2013
 2 fig. Gross value added, current prices, 2013Q1

2 figure shows the current prices of volumes of gross value added in European countries, of the first quarter of 2013. Regarding gross value added assessed with current prices, the biggest increase is observed in Germany (604,260M EUR), France (459,477M EUR) and United Kingdom (414,121M EUR). Current prices also show that Latvia according to created gross value added is almost the last one with the amount of 5132M EUR. Such differences appear due to multiple reasons as the size of a country, number of population, number of small and medium sized enterprises, number of huge international corporations and etc. In addition to this, the development of intangible assets and the amount of intellectual capital in every country varies and fluctuates.



Source: Eurostat, 2013

3 fig. Gross domestic product per capita

It is also important to find out the variation of gross domestic product as it is closely connected with gross value added. 3 figure shows gross domestic product per capita in European countries during 3 most recent available years. It is observed that in Greece, Portugal, Czech Republic, Slovenia, Cyprus, Spain, France, Belgium, Denmark, Netherlands gross domestic product per capita was decreasing during 2010-2012 years. In addition to this, Japan and United States gross domestic product per capita was included in statistical data. The analysis revealed that condition of Japan and United States is quite similar as these countries are stable in created gross domestic product per capita. According to the graph, the hugest gross domestic product per capita creates Luxembourg, Norway and Switzerland.

As statistical data reveals, countries with the significant value of intangible assets have stronger positions with national indicators and indexes. In addition to this, these countries more invest in education, science and research sectors, which can directly result in increased growth, stability and development indicators.

Conclusion:

As a consequence, the difference between company's book value and market value leads to bigger value added generated by an enterprise. The main problem is to identify, explain and to measure this difference. Nowadays the main feature of this difference is intangibility. Many authors (Gherasim, Powers, Nogueira et al., Liu, Tseng e Yen, Etebar and Darabi, Chen et al., Bose, Mohobbot, Khan and Kayeser) explain this difference as intellectual capital or intangible assets. Other authors (Kalyanam and Brar) even accentuate the importance of value added management models, which are more effective and beneficial. Also there are opinions (Chatain), that intangible assets and intellectual capital create competitiveness and as a consequence enterprises are able to generate more value added. Nevertheless, more investigations need to be conducted in order to reveal the connection between company's value added and intangible assets or intellectual capital.

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