The Commercialization of Intangible Assets in the Information Society

Elena Fakhrutdinova, Julia Kolesnikova, Oksana Yurieva and Anastasia Kamasheva

Kazan Federal University, Kazan, Russia

Submitted: Oct 15, 2013; Accepted: Dec 11, 2013; Published: Dec 15, 2013

Abstract: The purpose of this study is to identify the impact of intangibles on company's activity. The importance of intangible assets of the company increases nowadays as a result of informatization of society. Commercialization of intangible property can solve a number of problems of Russian companies, such as allowing the increase of competitiveness, salary raise for employees, improvement of investment attractiveness and formation of the authorized capital. This article includes the classification of companies in accordance with the amount of their intangible assets also setting in order the objects of intangible property.

Key words: Intangible assets • Information economy • Information-based society • Unidentifiable intangible assets • Commercialization

INTRODUCTION

In the present time we observe increasing informatization of society. The role of information increases rapidly: manufacturing secrets become one of the main competitive advantages of modern companies; incriminating information could ruin company's business reputation, especially in the sphere of banking, finance and insurance industries. In more developed countries the service sector has the largest share of the total output; its contribution to Russian GDP reaches 60 percent [1]. The number of people employed in non-manufacturing sector grows each year. Employment in the service sector acts as a relative but indicator showing the process of informatization of society, since the service sector can not be equated to the information sector. This is the development of information economy. The term 'information economy' can be used in two meanings. Firstly, it is a modern stage of civilization, which is expressed through the dominant role of the intellectual labor and information-related products. Secondly, it is the whole economic theory of modern society [2]. The amount of Internet users grows constantly in every country increasing the speed of information exchange.

Informatization of Society: In post-industrial and industrial societies speed of business information transfer used to depend on the work of postal services and transportation. Today the process of communication, transmission, copying and duplicating information goes significantly faster. This trend promotes the growth of business activity. Among the positive trends in the informatization of economy are the following (Fig.1).

There are not only positive effects, which are caused by increasing speed of transmission and distribution information, there are also some negative, such as complexity of property rights specification (protection), attenuation of property rights, etc. Specification of the property rights is exclusion other actors from the right of using a resource. Attenuation of property rights is the situation, when not all rights of ownership are specified. For example, the owner has a right to use information but can not dispose it (sell) after have signed a non-disclosure agreement of trade secrets, or when the person has a right to use, but no right to receive income. Commercialization of the information and other intangible resources is another feature of society informatization. Commercialization of intangibles on the micro level means its inclusion in economic turnover in order to achieve additional profit. The amount of brand or trademark sales increases every time, from an economic point of view that is alienation not only of individualizations but also of business reputation. There is a contradiction between intangible creators and its buyer (owner). To make a profit from intangible property it is necessary to alienate part of property rights in buyer's favor, that's lead to complexity of specification and attenuation of property rights because of the essential features of the information.
In our opinion, information has some features which distinguish it from the tangible property:

- Information is immaterial, so property rights formed around an intangible object.
- Often it is unidentifiable and inseparable from the particular subject (person or company).
- Alienation of information to the new owner does not remove the possibility of its use and re-sale by the previous owner.
- One of the reasons of complexity with intangibles is that most of the techniques of property rights protection are currently associated with limited access to the subject property; and it's more difficult to limit the access to intangible subject.
- The possibility of making profit from information related to information's rarity (fewer people have the information, more value it has) and novelty (rate of information obsolescence is much higher than the amortization of material objects).

The Internet and modern technologies can be considered in several ways:

- As a commodity (lots of individuals and legal entities are buying rights to access the Internet and modern technology),
- As a way of the information specification (if we have access to the Internet we also have access to information),
- As a mechanism implementing transactions and communications,
- As a market, where buyers and sellers are meeting and making deals, the subject of which can be both tangible and intangible objects.

The global turnover of online trading is growing, it reached 1 trillion dollars in 2012, experts predict an increase of 0.25 trillion dollars in 2013. [3] At the same time, the growth of "piracy" is predicted to 1.5 trillion dollars by 2015, i.e. attenuation of information (illegal information dissemination) [4].

This trend is one of the features of information-based society and the emergence of the information economy. The growth of online trading means the involvement of information technology in business activities. On the one hand, increase the amount of counterfeit products indicates that intangible property (information, software, music, movies, etc.) is an economic good which can meet the needs of population and for which people agree to pay. On the other hand, the growth of "piracy" makes the problem of specification intangible property more urgent. New forms of employment emerge and develop as a result of society informatization: remote work, work at home, freelance. Companies can optimize the number of staff members within information-based society. It is possible to search for work and other necessary information for making transactions through modern technology and the internet. If we consider the information as intangible property, we can conclude that the market players and modern companies, who purchase the rights of access to information (Internet payment), get a competitive advantage, i.e. they can make decisions having more information. Even if other market players have also this source of information, that is a competitive advantage.

**Intangible Property in the Economic Activity:** Undoubtedly, the role of intangible property (information, knowledge, technology, corporate culture, etc.) increases in the information-based society. Intangible property - is an impalpable product with the potential to meet needs and generate income. As a result, change of public attitude toward non-material objects increases the role of intangible property. In terms of economic theory intangible property can be described as the relationship between the subject and the society to the property, which has no real material form or it has negligible value, but it is able to generate income and...
provide a competitive advantage to the owner. Commercialization of intangible assets allows solving a number of company's problems:

- The intangible property provides a competitive advantage to the company. It allows forming more attractive image for customers, reducing costs, bringing fundamentally new products to market, etc. This advantage allows receiving additional profit from the use of intangible resources. Commercialization of intangible property leads to the increase in assets and helps to solve the following problem.
- The growth of intangible assets allows creating an attractive image to the investment. In the information economy companies, which have rich intangible property without lots of material resources, often achieve success through non-material component (e.g. IT companies). There are numerous examples of the striking discrepancy between the market values and the real costs of transactions in business based on knowledge. The most compelling example is a takeover the Lotus Company in 1995 by IBM for $3.5 billion with book value of $226 million and decreasing profitability. [5] Investment attraction will allow raising capital and taking credit for the further development.
- In our opinion, the personnel issue will be especially acute for companies using intangible property as a competitive advantage, which can be not separated from individual employees. In the near future a number of people in working age will be less than in previous years and they will have a "fashionable" education, not scarce specialty [6]. Company that use and implement intangible property will be able to offer a competitive salary to the indispensable workers; moreover, this salary will be competitive even in the labor market of Western Europe.
- It can be possible to include intangibles into of the company as a share, which will allow implementing a number of interesting projects and considering the contribution of the each shareholder, avoiding the situation of opportunistic behavior. This contribution can be estimated commensurate with agreed value, replacement cost or growth profitability after including intangibles in authorized capital. Quite often shareholders receive an equal share bringing the same capital, but one of them offers an innovative production technology, has a good reputation on the market or has the necessary connections. This contribution is ignored; this situation allows the inequitable distribution of resources in the information economy, where the intangible property must be considered along with other economic assets.
- Classification of intangible property and its companies-owners

We consider that on the basis of intangible property provision companies can be divided into several groups:

- Company, in which the intangible property is an auxiliary asset, sells a material product, so-called production companies (PC). Companies of this type dominated in the industrial society, as a rule, they are endowed with such kinds of intangible property as licenses (the right to engage in certain activities), brands, logos and trademarks (marketing intangible property). This type of company is in a weak dependence from intangible property.
- Service companies (SC). These companies produce and sell an intangible product (service), the degree of their dependence on intangible assets will increase. Examples of such organizations are banks, insurance companies and medical institutions. Reputation and information about their products are very important to their competitiveness, because their consumer has very high transaction cost measurement. Many properties of material objects are defined by their physical embodiment, which is impossible to intangible objects. It is extremely difficult to determine the utility of intangibles before buy-sell transaction, which adds extra risks to the buyer. The buyer trusts only those firms, in which reputation he is certain.
- In addition, the role of individualization (logos, brands) grows within the absence of material embodiment.
- Companies highly saturated with intangible property (CHS). They actively use intangibles in the production of goods and services. They also can be divided into two groups, producing tangible goods and intangible goods and services. The main competitive advantages of companies are technology, corporate culture, labor force, know-how, etc. In the assets structure intangible assets of these companies should occupy a larger share; however, intangible assets share is not the determining factor in the classification of companies according this groups, because of problems with legislative issues of accounting, evaluation and commercialization.
Fig. 2: Classification of the non-material company property objects

The types of intangible property, that can be given a company, conventionally, can be divided into seven groups based on the degree of coalescence with the company (Fig. 2):

- Inalienable from the company (staff work well doing together, the synergistic effects, certain types of social capital, etc.);
- Partially alienable (reputation, social capital);
- Alienable (trademarks, brands and patents).

Intangible property can also be classified based on the origin of ownership:

- Intangible property inseparable from the staff of the organization or the human and intellectual capital. There are intangible properties, which are used by the company as long as the employee agrees transferring rights to this object in exchange for salary. These objects include specific knowledge, management skills, other skills, communication with customers and suppliers, information, etc.
- Intangible property with marketing nature. It includes the brands, trademarks, reputation, etc. Many of the objects of marketing intangibles have the material form, i.e. they are both a way of individualization and of identifying the company or its products in the market.
- Intangible property generated by the company: technology, know-how, trade secrets, synergistic interaction effects.
- Intangible property acquired by the state or entities. Licenses and patents are the rights of engage certain activities or ways of specification the intangible property.

Thus, firms in the information-based society have different types of intangible property, which is increasingly important in the modern economic system.

There are processes of informatization in Russian modern economic system, which allows us to suggest that we have a transition from an industrial to an information economy. The value of intangible assets will increase along with informatization [10]. A competitive advantage of firms is provided through use intangible resources, which allows them receiving additional income.

REFERENCES