Chapter 15
Motives for the Financial Valuation of Intangibles: Reasons and Results

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ABSTRACT
This chapter aims to analyse the Basque Country companies’ view about the financial valuation of intangibles relevance and its influence on business performance. To achieve this objective, a field study has been done with 440 telephone calls to Basque Country companies’ financial managers. Then, their responses and their firm’s performance are analysed. The results show that the companies that are interested in the financial valuation of the intangibles, especially for internal motivation, perform better; however, this improvement is not statistically significant. Otherwise, the companies that are more interested in the valuation of their intangibles for external reasons need to provide information to stakeholders about their ability to generate income.

INTRODUCTION
Wealth and growth in today’s economy are driven primarily by intangible resources (Lev & Zambon, 2003). The importance of intangible assets as strategic resources is nothing new. Marshall (1890) already recognised the importance of knowledge as a significant resource and a powerful production factor. However, a growing interest in their management and in developing valuation and measurement models did not emerge until halfway through the 1990s (Edvinsson, 1997; Edvinsson & Malone, 1997).
According to Lev (2001), two characteristics of today’s economy are behind that change: a more intense competitive business environment and the advent of information technologies. The economies of scale which underpinned traditional production activities, and were intensive in tangible assets, have been exhausted. Investments in financial and tangible assets result in sustainable competitive advantage and intellectual capital is now the source of competitive advantages (Prahalad, 1983). There are numerous studies that find evidence of the positive relationship between investment in intangibles and the value creation of the company (Tan et al., 2007; Firer & Williams, 2003; Engström et al., 2003; Riahi-Belkaoui, 2003; Sáenz, 2005; Iñiguez & López, 2005; Prieto & Revilla, 2006).

The interest in intangibles is not limited to the academic field. A growing preoccupation has also been detected in the business world. Studies such as Hall (1992), Gray et al. (2004), Gallego & Rodríguez (2005), Ochoa et al. (2007), Lonnqvist et al. (2008) or García Merino et al. (2008) find proof of that. These papers consider the conviction of the business community regarding the key role that intangibles play in the development of competitive advantages. Rodríguez & Ordóñez (2003) point out that the majority of companies are focusing on intangibles and on improving their management.

The relevance of intangible assets to generate competitive advantages and value creation in the companies (Hall, 1992, 1993; Teece, 1998), and the obvious constraints of the information provided by the markets and the accounting systems have fostered a current of research, which emerged in the 1990s, to identify and assess the intangible resources of the companies. Greater knowledge regarding intangibles and their valuation, among other benefits, allows an efficient allocation of the resources (Cañibano et al., 1999), reduces the risk of opportunist behaviour by managers (Abbody & Lev, 2000) and reduces capital costs (Botosan, 1997; Lev 2001).

There are many papers published on the measurement and valuation of intangibles and their relationship with business performance (Bontis et al., 2000; Bontis & Fitz-enz, 2002; Riahi-Belkaoui, 2003; Chen et al., 2004; Sáenz, 2005; Chen, 2005; Chen et al., 2005; Bollen et al., 2005; Tan et al., 2007). However, there are very few that analyse whether there is a relationship between the driving forces that may lead to a financial valuation process of the intangibles being deployed and the business performance obtained. Brennan & Connell (2000) conclude that a durable successful behaviour is present in those companies seeking to improve the management of their intangibles. In his study of Finish SMEs, Salojärvi (2004) found that companies that implement active practices to manage their intangibles obtain better results in innovation and developing new products. Chaminade (2001) stresses that companies are not interested in valuing all intangibles, but rather only those that they can manage. That is to say, only the internal use of the information regarding the intangibles is considered. Lonnqvist (2008) likewise finds that companies pay greater attention, when measuring their intangibles, to internal motives than to external motives.

Due to this lack of empirical studies, we have analysed the relationship between the motives driving a valuation process and the results obtained by the companies. The starting point was a survey to business managers, where they were asked about the importance of intangibles valuation and the reasons why they believe such a process is useful. Using this information and the data on the economic and financial results of the companies, we have sought to verify the existence of the aforementioned relationship. The study shows that the companies that consider the financial valuation of their intangibles to be important for internal reasons get better results, without these differences being statistically significant. On the other hand, companies that believe that the financial valuation of their intangibles is
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