

The Cost of Managing Intangibles in Global Markets

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Abstract

Intangibles are often become the most critical resources for businesses in global competitive markets. Thus, intangible assets and resources must be managed adopting specific strategies that determine costs with different patterns over time: expenses (with a short term span) and investments (with a medium to long term span) and with different underlying explications (discretionary and causal costs).

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1. Intangibles and Managerial Economics

Intangible products have multiplied on global markets also as an effect of the digitalisation of information. The habit of dealing in intangible supplies has spread in time and in space: today no one finds it difficult to consider a piece of music as an entity independent of its physical support (a cassette, a vinyl disc, a compact disc, a music file, etc.) (Shostack 1977; Levitt 1981). In global markets, familiarity with the concept of an intangible product had spread enormously and, at the same time, managerial economics have adapted to this new type of economic relationship.

However, the intangibility associated to services and that related to intangible goods pose significant differences for managerial economics. In the case of services (tourism, hotels, postal service, etc.) intangibility is a condition that limits management, or rather it has always been depicted as a limitation on a company's freedom of action. The intangibility of a service poses management problems related to the need to install over-sized and usually under-exploited structures to respond to peaks of demand. Other problems also emerge regarding management of the human resources involved in the provision of the service, from selection to motivation and training. Last but not least, there are all the aspects related to the assessment of the service, an essential element of its provision, and indispensable to orient corporate decisions in the most economical direction (Berry 1980).

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On the other hand, the intangible goods that emerge from the digitalisation of specific categories of products induce us to appraise the aspects of intangibility. The absence of inventories does not limit the flow of electronic currency because it does not lock up scarce resources but, at the same time, it allows businesses to respond to any level of demand, whether predictable or unpredictable, at the same cost. The intangibility of these products simplifies their spread and marketing, opening up real and potential markets, with very low and shrinking communication and distribution costs.

Globalisation has therefore encouraged the development of digitalised intangible products, which can be exploited immediately at low cost, but at the same time it has rendered certain categories of intangibles, on which companies have traditionally based their distinctive capabilities, vulnerable. This is the case, for example, for trademarks and patents, the most typical intangible resources for management.

The importance of these resources for a company's competitive vitality is confirmed by the significance that has been attributed to them for some time, and the value that the rights related to registered trademarks, to patents, copyrights and so on acquire for management.

It is important to clarify from the real beginning of this article that we are distinguishing, from a managerial economic perspective, *intangible resources* (i.e. resources created with discretionary costs –properly defined *investments* because they generate financial revenues for the firm in the medium-long term) from *intangible assets* (i.e. assets created with causal costs, and which absorb continuously new costs –as *expenses*– for their creation, maintenance and exploitation in the medium-long term).

Going back to intangible resources we know that the trademark has established itself with the goal of distinguishing corporate supply, when the product or service offered competes with other alternatives. The trademark has developed significantly following the second industrial revolution and the birth of mass markets, when consistent masses of customers had access to numerous categories of industrial products, which joined and then replaced artisan products.

The distinctive goal of the trademark is also associated with explicit purpose to protect the consumer, with the result that in the legal systems of most developed countries, the possibility of unequivocally identifying the manufacturer, who has specific liabilities, has become an essential element of any corporate supply chain.

Initially, the trademark was linked to the manufacturer of the supply, but then even the distributor began to establish his own trademarks, replacing the manufacturer's trademarks with his own. This practice is widespread in all developed countries, in both foods and non-foods, both by large marketing chains and small retailers who have mainly selected suppliers to produce specific goods to vary their own assortment. This system evidently does not take anything away from the system of liabilities associated with the trademark, but adds the role of the distributor as a guarantor of the customer in relation to the product offered.

One of the main aspects related to the trademark in managerial economics is the right to exploit it. This is the exclusive right, owned by a specific and clearly identified party, to make the most appropriate use of a specific symbol, logo, etc. This use is usually expressed by placing the trademark on specific goods –

produced and/or marketed by the holder of the trademark – but may also translate into the grant of the right of use to third parties (*licensing* and *manufacturing under licence*)¹ or even consist in the non-use of the trademark for competitive purposes².

In order to guarantee the exclusive of the right of use, most countries around the world have developed specific laws to protect trademarks which, after the appropriate verification of their unique status, have been filed in compliance with current local legislation.

Another intangible resource that is similar to the trademark, and highly significant for corporate management, is the patent. It is also a right to the exclusive use of a given process, a molecule, etc., that has been patented, and in relation to which a process established by current legislation in the territory has been concluded, verifying the innovative nature of the subject of the patent, and allowing it to be exploited for a given period of time by the person filing it.

The most crucial aspect of these intangible resources in corporate management is therefore associated to the exclusive right of use that allows the owner of an intangible resource to use it in the most appropriate way, which is usually the economic exploitation of the resource. This right is guaranteed by the national legal systems in the various countries in which it is applied, and presupposes that forms of reciprocity exist between countries. In fact, the right to exclusive use is applied in the context of the scope of action of a given system of rules, which usually coincides with the geographical sovereignty of one or more countries³. The exploitation of the intangible resource is therefore associated with closed contexts for which a boundary may be established, within which the right is applied and outside which it is not. International agreements to protect trademarks and patents have extended the reach of these rights but have simply expanded their field of application to closed spatial contexts even if these are more extensive. The geographical and legal boundaries therefore circumscribe the closed territory in which the exclusive right of use guaranteed by the filing of trademarks and patents applies, and define the protected field of action of the companies that own the rights.

1.1 Intangible Resources and Discretionary Costs

The importance of intangible factors in managerial economics and the significance of its value in the context of corporate results is demonstrated by the need that emerges on all sides to attribute to it an accounting value to be entered in the financial statements, and makes it possible to fully appreciate the various assets that contribute to the operating result.

Attributing a value to intangible factors is a difficult problem to solve, all the more so because over the years scholars have proposed numerous alternatives that have been applied in various ways by companies (Levi, Duffey 2007). However, all of them have limitations, some very significant, to the point that to date there is still no objective criterion to value intangible resources that is universally accepted by all accounting and tax systems. The consequences of over-evaluation or under-estimation of the value, have repercussions for the corporate value and for ‘third

parties' (e.g. tax office and shareholders), with implications that are not elementary for ordinary and extraordinary operations (mergers, acquisitions, demergers).

The issue of establishing a value for intangible resources in financial statements drafted for statutory and fiscal purposes highlights what is a crucial aspect for the development of the intangible resources, that of the costs sustained for its development. In fact, intangible resources with potential for economic exploitation, like trademarks and patents, can be obtained through two alternative solutions: a purchase from third parties, in which case the costs associated to the transaction are known; or in-house development, which presupposes that the company meets all the costs necessary to create a trademark or a patent.

The development of an intangible resource like a trademark or a patent is a process that may take a long time and certainly absorbs huge costs. The costs associated to the development of trademarks and patents are of a discretionary nature. In other words, these are costs whose cause-effect relationship is not known. They are costs that are met as long as there is funds availability to do so, without necessarily knowing how long it will take to achieve a result or the type of result achievable.

□ *One economic sector that depends significantly on intangible resources is the pharmaceutical sector, for which both the product patent (e.g. the patent of a molecule or the procedure to produce it) and the trademark with which this product is marketed become extremely important. 'The ethical pharmaceutical industry is an important one, not so much for its economic size as for the benefits that it delivers to users of its products. The industry has been transformed structurally since the 1940s from a producer of selected chemicals to a research-oriented sector that makes a major contribution to the technology of health care. Its very success in generating a stream of new drugs with important therapeutic benefits has involved the industry in intense public policy debates over the financing of the cost of its research, the veracity of claims for its products, the prices charged for them (not to mention who pays those charges), and the socially optimal degree of patent protection' (Caves, Whinston, Hurwits, 1991).*

The discretionary nature of the cost is also explained by the fact that, because there is no cause-effect relationship between the costs met and the intangible resource created, it is extremely complex trying to define in advance the cost that one expects to meet to develop a given intangible factor. In other words, it is practically impossible to define in advance what funds will have to be targeted at the process to develop the intangible resource so that it can really be exploited economically. Here too, a typical example of this situation can be found in the chemical-pharmaceutical sector where research and development activities are very expensive, involving a large number of researchers and huge costs and, although a large number of new molecules are created every year, only very few actually pass the various test stages to go forward to the next development stage. In turn, few molecules get past the development stage and are considered suitable for patenting and economic exploitation.

The whole process usually takes so long that the pharmaceutical sector needs to extend the duration of the patent protection beyond the traditional twenty-year period.

□ *The pharmaceutical industry has an important characteristic that sets it apart from other industries that rely on patent protection. In many technology-based industries it is possible to keep inventions a secret until the moment they are marketed. This enables inventors to delay patent filings until the last possible moment and, therefore, to maximize the effect of the 20 year patent term which runs from filing of the patent application. The culture of medical research, however, emphasizes very early disclosure of inventions, usually long before a resulting product can be placed on the market. ... The lengthy time period between patent filing and placing a product on the market means that pharmaceutical manufacturers receive far shorter periods of patent exclusivity than is the case for other patent dependent industries. This problem has been addressed in legislation in the United States and elsewhere which permits a patent applicant to apply for extensions of patent term to compensate for the inability to market inventions due to safety and efficacy regulation. However, the time periods permitted for such extensions do not equal the time lost in ability to market. In the United States patents can be extended only for half the time period consumed by the regulatory approval process, and for a maximum effective patent term of fourteen years (Cook 2002).*

However, not all research and development activities necessarily produce economically interesting results: in spite of absorbing huge costs, some research does not produce any patent nor, therefore, any intangible resource. For this reason, the possibility of patenting and protecting the owner's exclusive right to use the patent is considered an essential element to justify discretionary the costs.

□ *The benefit of granting an inventor the exclusive property right of a patent for the limited period of 20 years is that he or she is given a powerful incentive to create. The inventor is assured that investors will be given the incentive to commit the financial resources necessary to support the inventor's research and to develop it to the point where it can be manufactured and made available to the market.*

Patents work differently in different industries. However, in the pharmaceutical, chemical and biotechnology industries the patent normally equals the product, and protects the extensive investment in research and clinical testing required before placing it on the market. Patent protection for chemical and pharmaceutical products is especially important compared with other industries because the actual manufacturing process is often easy to replicate and can be copied with a fraction of the investment of that required for the research and clinical testing (Wegner 1994).

In particular, the costs met to develop intangible resources may be defined as investments, because they are destined to release their benefits in time. Intangibles like patents and trademarks allow those who hold the rights to their use to enjoy their benefits over time, similar to an investment that is associated to costs met (negative financial flows), from which one expects precise positive financial flows, which can repay the sums invested.

2. Intangible Assets and Global Managerial Economics

The exclusive right of use of trademarks and patents gives the holder a substantial monopoly and is the motivation underpinning the discretionary costs that businesses meet to achieve and protect their rights. However, in global markets, because they go beyond national boundaries and with them the limitations for the application of specific legal requirements, there are different legislative systems and different rules depending on the country and the economic sector. As a result, without the protective boundaries, the basic conditions that support the rights on which these monopolies are based also cease.

So large global companies cannot limit their efforts to a constant striving to protect their rights, because there is no guarantee in the world today that this condition can be met. On the contrary they must look for solutions that go beyond the mere legal protection of their trademark (or patent, or copyright, etc.), activating other instruments and other approaches to protect their intangible resources.

□ *The Coca-Cola Co. understood that licensing (granting the right to use its trademark to third parties who would use it in product classes other than that of the well-known beverage, on the payment of established royalties) could adopt two approaches. The first, traditional, approach saw licensing as a means of economically exploiting the image and awareness (brand equity) that the company has developed over the years with its products. Licensing makes it possible to translate brand equity into royalties. The second approach, which strives for a modern management of competition in global markets, sees licensing as a means of defending brand equity, through the selection of quality partners, not only in terms of their ability to supply products of an undisputed level, but mainly in relation to the potential to defend the intangible assets in sectors other than the beverage sector (Albanese 2000-2001).*

As a matter of fact, if the creation of an intangible resource generates discretionary costs, the same cannot be said for the protection of the intangible resource for which, on the contrary, there are precise relationships of cause and effect between costs met and results achieved. For example, the partnerships that global companies establish with other companies around the world to protect their products, their marketing, the control of the supply chain, etc. generate important centres in the networks of global companies and generate activation and

management costs that are very familiar to companies and met according to a causal logic, in other words linked to understanding of the cause and effect.

The creation of and consequent need to protect and defend an intangible resource highlights the role of special intangible assets, in other words the ‘sum of knowledge accumulated by the company, but also the many channels that make it possible to acquire information that is important for the company’ (Itami, Rohel 1987). In fact, while intangible resources such as patents and trademarks refer to a static ‘finite concept’ that is created, defined and protected, intangible assets, such as brand and brand equity, imply some future development and tend to be impossible to define and to enclose within static protective boundaries. Intangible resources such as trademarks and patents are therefore defined in order to protect them from possible misuse by other people. Take the detailed definition of a trademark necessary for it to be registered, or the complex and precise description of a patent that allows it to be filed, and so on. Other intangibles –i.e. intangible assets-, on the other hand, escape any form of definition in the sense of a descriptive process designed to limit their field of existence, because they presuppose the dynamic dimension of evolution and interaction with the corporate system that has created them and with the environment that surrounds them.

Intangible assets such as brand, brand equity etc. are linked to a relationship between the company and other parties and imply a capacity to manage this relationship in the manner and timeframe that prove necessary. These intangibles are intimately connected to intangibles resources like patents and trademarks, being configured like the former, and their factors of protection and exploitation. To understand this in full, we have to distinguish between the different intangible assets, depending whether they are related to the product sphere, i.e. to the company’s output, or to the company itself, i.e. to its *corporate* dimension.

2.1 Supply Intangible Assets

Product (or supply) intangible assets are relationship resources that specifically regard the company’s products and they play a key-role in product competitiveness. They are generally deemed to include the brand, design and pre- and after-sales services. They are based on the existence of a specific relationship. Because it relates to the company products, the relationship regards the connection between demand and supply. In this sense, brand may be defined as the relationship established between a corporate supply and specific portions of demand (Brondoni 2000-2001).

The link between the intangible asset of brand, and the intangible resource of the trademark is obviously very strong, because the trademark is essential for the brand’s success. However, while the trademark may and must be described in detail, the brand may only be appreciated in its evolving dimension, i.e. in relation to the possibility it has of instilling value into the trademark it is founded on. This makes it important to distinguish between the different types of intangibles (resources and assets) for company management. It is not enough to have created a particularly attractive trademark that identifies supply, as companies also have to

invest in promoting the products marketed under the trademark, with all the tools available to qualify their relations with the market.

As a matter of fact, the value of the trademark, in the sense of its selling value to third parties, depends exclusively on the brand that has been established starting from that trademark. The trademark is therefore a finite concept, while the brand expresses its constantly evolving relational dimension. However, the brand's relational dimension, and therefore its dependence on the organisation that promotes it, complicates the degree to which the brand can be conveyed to third parties. In practice, when the 'staticness' of ownership of an intangible resource such as a trademark is transferred, the intangible asset linked to it (i.e. the brand) is not transmitted, because this depends on the organisation's capacity to instil value into relations with the market. In other words, the new owner of a trademark will not necessarily know how to make the same use of it as the previous one, and, by consequence, he will not be able to qualify the relationship between his own supply and the market like the former owner.

□ *Skoda, the well-known car-maker from Bohemia, was nationalised in 1947 and since then, it has generally been seen as the typical poor car from Eastern Europe. In 1991, following the fall of the Communist regimes in Europe, Skoda became part of the Volkswagen Group. Today Skoda competes on a par all the other European car brands and has lost the negative image associated with it in the past.*

Like the brand, design (i.e. all the industrial design activities that are part of a product's development) is a product intangible asset which the company exploits to characterise its products on the market. In this case too, there is a relational dimension: the design content of a company's product range depends on its ability to realise the design in-house, in other words, it emerges from the creative potential that specifically targets the development of the supply chain in relation to the possibility of demand to appreciate this design content. Like the brand, it is possible to sell a product range that embodies design, but not the ability to create other products that can develop the same relationship with demand.

The same may be said of pre- and after-sales services. Their value as a supply intangible asset lies in the fact that, like design, they are the fruit of a creative skill in relation to the market. It is possible to copy a competitor's pre- or after-sales services, but not to acquire his creative skills, except by investing huge sums to develop similar intangible assets in relation to the market.

In global markets, the brand, design and pre- and after-sales services are assets that are particularly crucial for the success of the company supply in relation to the competition. In fact, the striking feature of these supply intangibles is the fact that they are the result of the system of relations that the company has developed with its market. In other words, the accumulated assets that the company acquires from the input and output of information flows with the market, which translate into a specific capacity to respond to customers' needs from a market-driven viewpoint, i.e. 'before and better than competitors'.

2.2 Corporate Intangible Assets

The input and output information flows typical of a company's relations with the market are the core of its corporate intangible assets, in other words, the factors that establish the framework of a company's ability to establish a systemic relationship with its environment. Corporate intangible assets primarily comprise the corporate culture, information system and corporate identity, and they define a company's ability to map out, implement, manage and exploit the input-output of information/communication that it exchanges with its environment (Brondoni 2000-2001). These assets play a key-role in companies competitiveness as they are a basic element of companies existence.

In a way, the corporate identity is the most evident intangible asset outside the company, and it defines the state of the relationship that the company has established with the various publics that it addresses. The corporate identity is therefore only the status at a given moment of the reputation of a company that establishes itself in terms of recognition and image with those who may have an interest in the company for various reasons. This identity may vary widely depending on the type of public that analyses it. Of course, it is the result of the company's actions and of the resonance that is given to these actions by the competition and the media. In this way, the corporate identity can be totally separate from the brand that identifies the corporate supply, particularly where the link between 'corporate name' and 'product name' is not particularly familiar or obvious to the general public. The brand typically identifies the corporate products and its relationship, first with final demand and secondly with the other target publics – first and foremost its business clients and the competition. The corporate identity, on the other hand, refers to the reputation that the company, because of its corporate nature, has established with its stakeholders, primarily shareholders, suppliers, business clients, competitors, local authorities, etc. – and finally, also with final demand.

□ It is very different to refer to the CIF brand name – a well-known domestic cleaning product, that is sold and familiar all over Europe – and to the Unilever corporation, which manufactures it. Most consumers do not know that CIF is a Unilever brand, and many are not aware of the existence of a company called Unilever. On the other hand, there is a system of Unilever stakeholders, financiers, business clients, suppliers, employees, local authorities and competitors, who are very interested in Unilever and its competitive and financial performance, both with regard to the cleaning products sector (in which CIF is only one of the best-known brands) and with regard to many other business fields in which it operates.

Behind any corporate identity there is a corporate information system which is responsible for determining the conditions that underpin a specific corporate identity. The information system identifies the system of roles, tools, data and information that is necessary to collect, process and distribute information in the company. This structure is to all extents and purposes a corporate intangible asset

because it is the source of the information on which the company's ability to act and react on the market is founded. It embodies almost infinite degrees of freedom, because it can modify its structure and operating processes according to specific corporate decisions. The information system is therefore a very powerful tool because, in terms of power, it permits the optimal acquisition and distribution of any information, but it may also be the worst filter, which can block a company's ability to acquire and distribute information. The information system is therefore the corporate asset that defines its relations with the market, and, more generally, with the outside world. For this reason, its characterisation has important consequences for the entire company.

The culture that characterises each company determines the design of the information system, so that it can collect, process and distribute the right information in the right place and at the right time for the company. The information system therefore takes shape and is structured to meet the needs that are considered important by the company and in relation to the information flows considered important and correct for its management. It therefore depends on the culture that characterises a specific company, taking on a shape and structure and evolving in time according to this culture, with distinct degrees of openness and closure to the demands of the surrounding environment.

As a result, the information system is a filter for the corporate culture that it helps to create, develop and evolve in time, opening it up to or isolating it from the stimuli coming from the outside world.

Because of its ability to characterise management and its decisions, the corporate culture is also a corporate intangible asset which has a significant impact on the corporate information system and identity, because of its effect on the running of the company, as well, obviously, as on product intangibles.

2.3 Intangible Assets and Causal Costs

Corporate intangible assets include the ability to develop relations with the environment, and constitute the conditions necessary to develop intangible assets and supply intangibles in particular. Corporate intangible assets play an important role in the achievement of a company's results and, as such, constitute an essential competitive factor for the company. As a result, all companies, in various ways, try to exploit and evolve them in the best possible way, in relation to the system of relationships they want to develop with the environment.

Certain intangible resources can be acquired and transferred from one company to another, but this is not possible with supply intangible or corporate intangible assets without altering them. For both supply intangibles and corporate intangibles, the system that generates them is decisive. They can be referred to a specific corporate culture, in other words, the sum of rules, values and ways of managing and controlling relations with its environment that each company develops and foments in its every-day activities (Schein, 1988). It is therefore possible to transfer ownership of the tangible assets that are the basis of the corporate intangible assets, but not the related capacity to relate these assets to each other and, in particular, to the rest of the corporate system in order to contribute to the company result. It is

impossible to sell the corporate identity, or its information system, or a company's corporate culture without selling the company itself. The state of the corporate intangible assets, in particular, depends on a number of factors that are activated by those who are responsible for taking decisions, at various levels of the corporate ladder. In other words, there is a precise causal relationship between the actions performed and the results achieved in relation to the corporate intangible assets. Which is the same as saying that the costs that a company meets to create and develop intangible assets (both corporate and supply) are causal costs, for which we can recognise the existence of a cause-effect link with the results achieved.

In order to develop a specific brand relationship, companies must spend heavily in the company products, distribution channels, pricing choices and, above all, in corporate communication. Similarly, the development of specific design connotations is the fruit of precise, pondered spending, designed to build up the capacity to develop creative proposals that will appeal to the public. The same is true for the services that accompany the product: this is a factor that only adds value to supply if it is the fruit of precise understanding of the market on the part of the company, deriving from a stable, tested exchange of information with the outside world. To develop and maintain useful supply intangibles, the company therefore has to make precise expenses specifically targeting given objectives. It is not the same as spending to develop the design of a product or the creativity of a promotional marketing campaign or even the proposal of innovative after-sales services that catch the eye of specific pockets of demand. In each of these cases, it is indispensable to evaluate in advance the specific goal to be reached and, in this regard, it is possible to identify the costs to meet. It is obviously essential after the event to carry out the appropriate checks to see that the target has been reached. Analysis of the feedback naturally establishes the guidelines for future spending.

Costs to create and maintain intangible assets can be considered expenses because the benefits determined by these costs are soon exhausted and, in order for assets to be continuously regenerated, new expenditure is necessary. One example of spending to create product intangible assets are the costs to produce an advertising film. The film is necessary for an advertising campaign that promotes a specific brand, but its effectiveness is exhausted in time. The same film can be used for a specific period of time, after which it loses its power to attract the public's attention and is unable to develop brand awareness and image. This definition of costs as 'expenses' contrasts conceptually with that of costs destined to develop intangible resources like patents and trademarks, which take the form of 'capital spending', or investment, for which specific financial returns must be identified⁴.

The causal nature of the costs associated with the creation and development of supply intangibles also applies to corporate intangibles, i.e. those assets that are closely linked to the conditions for the development of supply intangible assets. A specific corporate culture, a corporate information system and a specific corporate identity are the fruit of precise planned actions designed to create intangible assets with characteristics suited to a particular environment.

In fact, the corporate culture, information system and corporate identity are created by the company in the course of its activities and are the target of specific expenses to develop and maintain them. For example, corporate advertising campaigns designed to influence the development of the corporate identity in a

certain direction; or programmes to develop internal communications, and personnel selection, hiring and training programmes designed to promote ways of acting and reacting within the organisation; or large spending programmes to plan and develop corporate information systems.

The need to continuously monitor and maintain corporate intangible assets originates from their dynamic nature, which is founded on relations with the constantly evolving and changing environment. If corporate intangible assets are to continue to offer the company the support necessary to develop an exchange of information with the outside world, a great deal of attention and expense must be dedicated to them, according to a principle of causality between the measures implemented. In practice, unlike the type of intangible resources which is available and ready for economic exploitation by the company that owns it, for this type of intangible it is essential to contemplate continuous efforts to monitor its state and continuous intervention to maintain its efficiency. The monitoring of and spending on these assets cannot be interrupted, as this could result in a gradual loss of effectiveness in relation to the achievement of the corporate purpose.

We can consider the corporate identity and the role it plays in the acquisition of financial resources on the capital markets. Companies that depend on the financial markets cannot avoid dedicating huge sums to economic-financial communication, targeting important management policies (previews of results, early completion of projects, etc.) in order to guarantee a suitable relationship with specific key stakeholders.

In the same way, we can see that spending on corporate information systems can be considered crucial, to judge from the results of companies that offer services in this field, for both the planning and the outsourcing of numerous services and tools.

And finally, large global corporations are committed to sweeping spending programmes to organise and maintain their corporate culture, even reorganising their structures and organisational process abroad (Zito, 2009). These processes are particularly crucial and complex at times of economic crisis, when companies are forced to reorganise their procedures and their guiding principles in order to maintain competitiveness on global markets.

3. Intangibles and Global Competition

The global markets have brought the role of corporate intangibles to the forefront. On one hand, the rights to use intangible assets have been questioned and, as a result, many companies are finding it very difficult to tackle global competition; on the other hand, when economic resources are scarce, and particularly where there is strong pressure to achieve economic-financial results that reward the short term, the motivation to spend in conditions that pave the way to develop relations with the market tends to weaken and be overshadowed. The creation and consolidation of corporate and supply intangible assets takes time and accumulated expenses, and this contrasts strongly with expectations of results on global markets.

On the other hand, in global managerial economics there are a number of imperatives that underline the importance of corporate intangibles: the breadth of competition spaces (geographically and above all with respect to competing

product classes); the many different competitors (by sector, country of origin); the need to develop networking; the environmental dynamism determined by the expansion of competitive phenomena on the market and the inter-dependence of markets that makes easy to compare very different and inhomogeneous supplies, companies and investments. All these factors highlight the importance of corporate intangibles, and particularly their role in governing the input-output relationship with the market. On global markets corporate intangible assets therefore help to determine the differential in capacity between companies in qualifying relations with the outside world (investors, suppliers, clients, competitors, labour market, etc.).

The outcome of these relations with the environment and their importance for corporate management mean that companies tend to focus their attention on specific corporate intangibles according to the characteristics of the relevant competitive context. There are businesses for which it is essential to establish the corporate brand globally, in order to achieve synergies between players and markets.

□ *It is the case of Heineken which operates in the field of industrial beers, where the brand is an essential factor in the management of relations with the market, with regard to both final demand and intermediate demand, and also to the competition. Global competition is played out between a few global players, all committed to establishing their own corporate brand as a vehicle that distinguishes a specific supply system.*

Other businesses, on the other hand, confront competition dynamics that demand the development of stable and significant relations with direct competitors and the supply system, making it necessary to develop effective information systems and to share management values and objectives.

□ *We can consider the vehicle fuels sector for which it is essential to develop stable relations with direct competitors and with the supply system, by reaching agreements based on shared business guidelines, as well as on the availability of sophisticated information systems to control the distribution networks and to govern relations with demand.*

Corporate intangible assets may therefore be considered a particularly important factor of competition in global markets because:

- they concentrate companies' capacity to establish and control relations with the market;
- they are a precondition for the development of supply intangible assets which become particularly crucial in global markets where there is a continuous confrontation in real time between corporate supply chains;
- they constitute the 'protection' of intangible resources which are exposed to continuous attacks on global markets, significantly reducing the value of the exclusive right of use.

The balance of corporate intangible assets and supply intangible assets represents a company's capacity to confront its environment. The more this confrontation is essential for the achievement of the company's results, as we see on global markets, the more their level and therefore their maintenance are significant. Deciding not to sustain this capacity in the short term may translate into lower costs and therefore higher company margins, while in the medium term it tends to generate positions of competitive subordination, marginalising the company in the competitive context until it is entirely excluded from global markets.

In spite of this, spending in corporate intangible assets is not correlated directly with company results – although the causality of the benefits may be recognised. However it must be pursued with constancy and determination, above all at times of economic crisis, when corporate relations with the outside world (in particular investors, labour markets, co-makers of supply and clientele, etc.) tend to crack and falter. We only have to observe the actions of the large global players to understand the importance of this spending in time: HP, McDonald's, Coca-Cola, Sony and Sharp are only some of the companies in which corporate intangible assets constitute an anchor for the development of its competitiveness on global markets.

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Notes

¹ Manufacturing under licence is a situation in which one company grants another the right to use a manufacturing process and to put its own trademark on the resulting products, on payment of royalties. The licensor often also grants the licensee the use of machinery and raw materials to develop the process. A licensing agreement, on the other hand, regards the right to use the trademark, which the licensor grants to another company, allowing it to put the trademark on goods from different product classes, payment of specific royalties. In both cases the licence is applied within defined territorial boundaries and in specific product classes.

² These are the so-called defensive trademarks which, because they share many elements with the marketed trademark, are registered to protect the main trademark, to protect the company from possible imitations.

³ ‘The owner of a patent has the right to exclude others from making, using, offering for sale, or selling his or her invention for a period of 20 years from the filing of the patent application . An invention is any new or useful process, machine, article of manufacture, or composition of matter. An improvement on any of these items also can be an invention. Patent rights are territorial in nature and exist only in the national jurisdictions in which the patentee has applied for and received recognition of his property rights.’ See O.A. Thusleem, Patent System in the Pharmaceutical Industry, in *Latest Reviews*, vol. 6, no. 3, 2008, www.pharmainfo.net.

⁴ The distinction of a cost as expense or investment, depends on many aspects, that in summary can be connected: with the expectation of future better results sufficiently expectable and easily linked to the cost (investment); and with the strenght of the link between the cost and the advantage (direct link – investment; indirect link – expense).