

The Karol Adamiecki University of Economics
in Katowice

Volume 4

2008

Journal of

**Economics &
Management**

Janina Harasim

**THE ROLE OF INTANGIBLE ASSETS
IN BANK'S COMPETITIVENESS
AND EFFECTIVENESS**

Introduction

Both notions: competitiveness as well as effectiveness are connected with the company's resources. In works dealing with competitive advantage it is stressed that for corporate performance in the market and effects valued highly by customers it is inevitable to have adequate potential (resources and skills) that help create value visible in the market. However, to possess value is not enough for company's competitive advantage. Superiority in this field can be held only by firms whose resources of strategic importance, being distinctive, are utilized well.

The proper utilizing of resources and skills is reflected in the firm's performance. Most of the measures of effectiveness are based on capital, assets, or profit that are connected with the firm's resources.

Research carried out in various fields of economy, also in financial services industry, confirms that recently the economic value of contemporary enterprises has been dependent on tangible assets to a smaller extent than on intangible ones.

The purpose of this work is to present the importance of intangible assets in banks, particularly for creating their competitive advantage and increasing effectiveness.

1. The role of resources in creating competitive advantage and effectiveness of an enterprise

When analyzing the sources of competitive advantage of a company or evaluating its effectiveness particular importance is attached to assets that can generate profit larger than average. In a lot of assets' definitions their utility for the enterprise is stressed. For example Ch. Oliver describes them as input factors controlled and used by the company to plan and pursue a strategy¹. E.T. Penrose treats their usefulness more generally and defines them as a bundle of particular services they can provide for a company².

Assets of a company can be grouped according to different criteria, such as:

- asset type (tangible, financial, human, and so forth),
- functions in the enterprise or organizational subsystems (for example assets used in production, in marketing or financial assets),
- certain characteristics (visible, invisible, hard or soft, tangible or intangible assets, etc.).

In the most synthetic approach two basic categories are distinguished: tangible and intangible assets. Physical assets, financial resources, and partly human capital

¹ Ch. Oliver: *Sustainable Competitive Advantage: Combining Institutional and Resource-Based Views*. "Strategic Management Journal" 1997, Vol. 18, No. 9, p. 700.

² E.T. Penrose: *The Theory of Growth of the Firm*. In: *Resources, Firms and Strategies. A Reader in the Resource-Based Perspective*. Ed. N.J. Foss. Oxford University Press, Oxford 1997, p. 31.

fall in the former category, while technology, organization, and the remaining part of human capital fall in the latter³. Tangible and intangible assets are interdependent – intangible assets cannot exist on their own, that is irrespective of the enterprise and its tangible assets.

Proper utilization of all assets, both tangible and intangible, is vital for the effectiveness of the enterprise and will result in superior rate of return (understood as added value). From the perspective of competition things are a bit different as only certain assets, namely those of strategic importance for the company, can be the source of competitive advantage, especially in the long run (sustainable).

Strategic assets, according to R. Amit and P.J.H. Schoemaker, constitute a set of firm-specific assets and skills that ensure competitive advantage in the future and generate economic rent which can be sustained in the enterprise⁴. The resources are strategic levers for the enterprise if they are: valuable, rare, inimitable or difficult to substitute, well organized (well utilized)⁵. R. Amit and P.J.H. Schoemaker added more features to the list and they claim the strategic assets should also be:

- not easily traded,
- durable
- complementary,
- creating value (economic rent) for the shareholders,
- in agreement with future strategic sector factors.

Assets are valuable as long as they enhance efficient functioning of the enterprise and strategy application. They should also be flexible, which means they should adjust to the changing environment and have to be connected with critical success factors in given field of activity. Rareness is a feature characteristic of resources that are unique and specific for a given company – they are difficult to imitate or substitute. Valuable, rare, and difficult to imitate assets lever sustainable competitive advantage, even if they are not temporarily utilized in the most appropriate way. Their better organization can additionally improve the competitive position of a company and en-

³ It is worth mentioning that different authors distinguish various categories of assets or include various elements in a certain group. For instance, C. Hofer and D. Schendel distinguish five categories: non-financial, financial, human, technological, and organizational. According to J. Barney there are three categories: non-financial, human, and organizational, but different elements are included in each category (for instance non-financial assets include location and technology, human resources include experience, training, interpersonal relations, in organizational skills there are: structure, controlling, and informal relations with the environment. See: C. Hofer, D. Schendel: *Strategy Formulation: Analytical Concepts*. West, St. Paul, Minneapolis 1978, p. 146 and J.B. Barney: *Firm Resources and Sustained Competitive Advantage*. "Journal of Management" 1991, Vol. 17, No. 1.

⁴ See: R. Amit, P.J.H. Schoemaker: *Strategic Assets and Organizational Rent*. "Strategic Management Journal" 1993, Vol. 14, pp. 33-46 and R. Amit, P.J.H. Schoemaker: *The Competitive Dynamics of Capabilities: Developing Strategic Assets for Multiple Futures*. In: *Wharton of Dynamic Competitive Strategy*. Ed. G.S. Day, D.J. Reibstein, R.E. Gunther. John Wiley & Sons, Inc., New York 1997, p. 372.

⁵ These features are characteristic for VRIO approach (valuable, rare, inimitable and well organized resources). See J.B. Barney: *Gaining and Sustaining Competitive Advantage*. 2nd Edition. Prentice Hall, Upper Saddle River, New York 2002, p. 173.

hance its profitability⁶. Resources should be durable (not exposed to the danger of dramatic value deterioration or running low) and complementary⁷. Economic rent generated by the resources depends on their convergence with strategic levers relevant to the sector (the resources and abilities known ex post that are key determinants of firm's profitability in a certain sector) as well as on other strategic resources features' intensity.

It should be stressed, however, that the resources that cannot be traded, i.e. internally created and developed, are of prime importance for competitive advantage. The example of this kind of competence is organizational culture or firm's reputation, while tangible assets and some intangible assets, for instance patents, licenses, or trademarks, do not fall into this category.

Strategic resources should contribute to:

- effectiveness of company activity,
- taking advantage of opportunities and neutralizing threats from the environment,
- increasing value for customers.

Resources with the abovementioned features can be the source of sustainable competitive advantage. To make it last, the company should respond to market trends, follow the changes in customers' needs and preferences, possess strategic resources, take care of their development, enhance profitability and protect against imitation.

The profitability of resources results from adequate skills and competences, treated as an ability to select and use the resources when doing certain tasks⁸. The skills and competences of prime importance regarding company's strategic goals, its competitive position and good financial results, are referred to as distinctive or core competences⁹. Distinctive competences are difficult to create. According to J. Kay, they hardly ever result from conscious strategic decisions (otherwise they would not be distinctive and sustainable in the long run)¹⁰. This point of view, however, can be contradicted. Other researchers claim that there is a possibility to create core competences in a company. According to K.P. Coyne, S.J.D. Hall, and P. Gorman Clifford, it is possible under the following conditions:

- the company activity must aim primarily at creating core competences (they must be decisive factors in company structure),
- the CEO decides which one (or two at the most) core competences to develop¹¹.

⁶ R. Amit, P.J.H. Schoemaker: *The Competitive...*, op. cit., p. 374.

⁷ For instance staff's knowledge and experience acquired in time increase the value of other assets in accordance with synergy effect. – R. Haffer: *Systemy zarządzania jakością w budowaniu przewag konkurencyjnych przedsiębiorstw*. Uniwersytet Mikołaja Kopernika, Toruń 2003, p. 98.

⁸ See T. Gołębiowski: *Zarządzanie strategiczne. Planowanie i kontrola*. Difin, Warszawa 2001, p. 191.

⁹ K.P. Coyne, S.J.D. Hall, and P. Gorman Clifford define core competences as a combination of complementary skills and knowledge of a certain group/team that enable an activity or a set of activities to be performed by world standards – K.P. Coyne, S.J.D. Hall, P. Gorman Clifford: *Is Your Core Competence a Mirage?* "The McKinsey Quarterly" 1997, No. 1, p. 43.

¹⁰ J. Kay: *Podstawy sukcesu firmy*. PWE, Warszawa 1996, p. 176.

¹¹ K.P. Coyne, S.J.D. Hall, P. Gorman Clifford: Op. cit., pp. 48-49.

Core competences' identification is not easy – they can be different, and their type is to a great extent dependent on the kind of activity, field, and also market segment¹². Certain factors can be distinguished, however, being particularly important for each commercial enterprise (banks also fall into this category):

- market share,
- cost competition,
- company image,
- technical competence in a broad sense,
- financial results and firm's potential¹³.

Company resources and their role in creating sustainable competitive advantage are depicted in Figure 1.

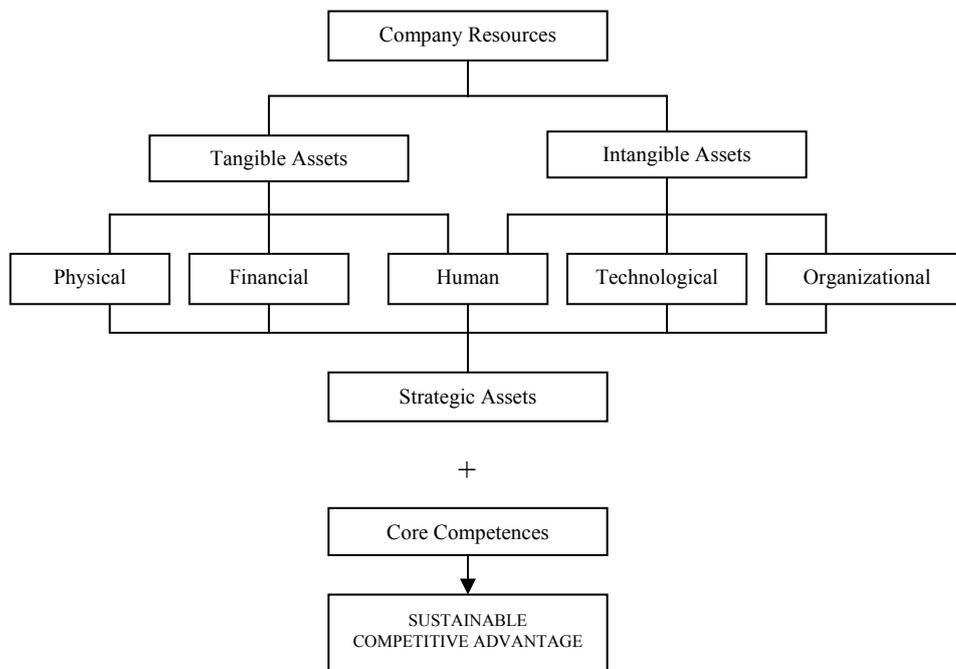


Figure 1. Company resources in achieving sustainable competitive advantage

¹² T. Gołębiowski: Op. cit., p. 195.

¹³ See Strategor: *Zarządzanie firmą*. PWE, Warszawa 1995, p. 69. Some authors include also organization and management, see G. Gierszewska, M. Romanowska: *Analiza strategiczna przedsiębiorstwa*. PWE, Warszawa 1997, p. 148.

2. Intangible assets as a source of bank's competitive advantage

The extent to which the value of the enterprise depends on tangible and intangible assets is different for each enterprise, but is always closely connected with the sector and market to which the firm belongs. Yet, the changes in economic activity of the enterprises and their environment determine interactions between various assets and as a result intangible assets assume prominent role¹⁴.

The value derived from intangible assets has increased significantly in recent years. The book value of many publicly quoted companies is significantly less than the market value¹⁵. The research carried out by A. Andersen company showed that while in 1978 the book value reflected 95% of the market value, 20 years later only 28%¹⁶. The wider discrepancy between market value and book value was also confirmed by McKinsey company's research conducted in the group of 150 biggest American companies. In 1984 the book value made up for three quarters of total market value of the shares, in 2004 only for 36%¹⁷.

Intangible assets are not homogeneous, their essence and scope were not defined clearly in professional literature. They are also named differently – most frequently identified with intellectual capital, although to treat the two notions as synonyms does not seem quite proper¹⁸. Other terms used to describe intangible assets are for instance: “hidden assets”, “invisible assets”, “knowledge”, or “hidden value”.

Diverse terminology is due to lack of homogeneity of the elements this group of assets consists of. Intangible assets can take a form of licenses, patents, trademarks, firm's reputation or knowledge about processes or products¹⁹; most frequently, however, they are identified with skills or competences treated as an ability to select and use resources properly in certain activities²⁰.

Intangible assets have a lot of features that distinguish them from tangible assets as showed in Table 1.

¹⁴ G. Michalczuk: *Bilansowe aspekty pomiaru wartości niematerialnych*. W: *Finanse przedsiębiorstwa*. Red. P. Karpuś, Wydawnictwo Uniwersytetu Marii Curie-Skłodowskiej, Lublin 2006, p. 63.

¹⁵ Market value is defined as a sum of tangible assets value, current value of cash flows generated by intellectual potential (intangible assets), and current value of cash flows generated by other assets. See T. Dudycz: *Zarządzanie wartością przedsiębiorstwa*. PWE, Warszawa 2005.

¹⁶ See R. Boulton, B. Libert, S. Samek: *Odczytując kod wartości*. WIG-Press, Warszawa 2001, p. 11 and A. Fazlagić: *Pomiar kompetencji rdzennych*. „Controlling i Rachunkowość Zarządcza” 2003, nr 11.

¹⁷ L.L. Bryan, M. Zanini: *Strategy in an Area of Global Giants*. “The McKinsey Quarterly” 2005, No. 4, p. 50.

¹⁸ See M. Capiga: *Kapitał klienta*. Twigger, Warszawa 2005, p. 13 and passim.

¹⁹ Intangible assets can be divided into five categories: market-related (trademarks, trade names, Internet domain names, etc.), customer-related (customer lists, order backlogs, customer relationships, etc.), artistic-related (newspapers, plays, books, pictures, etc.), contract-based (licensing and royalty agreements, advertising, service or supply agreements, franchise agreements, etc.) and technology-based (computer software, know-how, databases, etc.) – see more: *Valuing Intangible Assets. Purchase Price Allocation*. Deloitte Touche, January 2006, p. 2.

²⁰ For instance team work, innovation, change management, marketing skills.

Table 1

Tangible versus intangible assets

Criteria	Tangible Assets	Intangible Assets
Measurement and record	<ul style="list-style-type: none"> – tangible, easy to identify, – easy to measure (quantitative criteria), – included in financial statements, – estimation according to generally accepted criteria 	<ul style="list-style-type: none"> – intangible, difficult to identify, – difficult to measure (qualitative criteria), – only a few of them are included in financial statements, – estimation by unconventional methods
Availability	<ul style="list-style-type: none"> – easy available, – limited use in time when they run out entirely or partly, – can be use by one group at a time 	<ul style="list-style-type: none"> – relatively rare, – variable use which does not reduce the value, but sometimes even increases it, – use by one group does not limit the use by the other
Durability and ease of replication	<ul style="list-style-type: none"> – relatively not durable, – easy to replicate and imitate, – full and strict protection by copyright, – copyright easy to execute 	<ul style="list-style-type: none"> – relatively durable, but some of them disappear if not used (e.g. knowledge) – difficult to replicate and imitate, – lots of them are not protection by law, the existing law is limited and inconsistent, – copyright difficult to execute
Depreciation	<ul style="list-style-type: none"> – lose value in time, – run out, can lose value gradually or fast 	<ul style="list-style-type: none"> – used properly take on value in time, – do not run out, but if they lose value it is usually dramatic
Transfer possibility and cost	<ul style="list-style-type: none"> – are traded, – can be connected and stored, – transfer cost easy to estimate 	<ul style="list-style-type: none"> – trading is limited, – cannot be stored, – transfer cost difficult to estimate

Intangible assets, as compared to tangible ones, have more characteristics that make them strategically important for the company. Difficulties in imitating them can be attributed to the following factors: they are relatively rare, “invisible” and cannot be “felt”, their evaluation is complicated, transfer cost difficult to estimate and vast majority of them cannot be traded. Moreover, most of them are unique, firm-specific, which means they cannot be used outside the company. It refers to, for instance, firm’s reputation, its image, or culture.

Intangible assets are particularly important in building competitive advantage of a bank; more difficult, however, is to quantify their influence on its profitability, especially understood in a traditional way, that is expressed in financial terms.

The decisive role of intangible assets in banks’ competitive advantage is doubtless nowadays. Although in the 80s of the XXth century the important sources of competitive advantage in financial services sector were traditionally tangible assets such as bank’s financial position, low operating costs as well as factors connected with its service offering (width and depth, variety of products)²¹, in the 90s the stress shifted

²¹ See E.P. Johnson, R.D. Johnson: *Commercial Bank Management*. Dow-Jones-Irwin, Homewood, Illinois 1985. As decisive factors for bank’s competitive position in the group of intangible assets they listed only reputation.

mainly to intangible assets. The research conducted by J. Canals who used the concept of value chain analyses and took into consideration differences in regulation intensity, dynamics, and area that banking sectors cover in different countries, resulted in distinguishing four sources of competitive advantage in banks: people, financial resources, other tangible assets and intangible assets²² as showed in Table 2.

Table 2

Sources of competitive advantage in banks

Human Resources	Financial Assets	Assets	Intangible Assets
Staff/Employees Professional training	Capital Deposits	Branch network IT systems Telecommunication systems	Brand image Experience Managerial skills Product quality Service quality

Source: J. Canals: *Strategie konkurencyjne w europejskiej bankowości*. Wydawnictwo Naukowe PWN, Warszawa 1997, p. 254.

S.G. Bharadway, P.R. Varadarajan, and J. Fahy as the potential sources of competitive advantage in services sector (also financial services) qualify: corporate culture, economies of scale, brand reputation, modern information technology, and its application ability²³. In the group of factors that make banks distinctive apart from distribution, technology, segmentation, pricing policy, and product range development C. Farrance included also brand name, quality of banking services and relationship banking²⁴. A few years later J. Devlin and C.T. Ennew called into question the role of bank's offerings and price as vital factors in gaining competitive advantage and confirmed the importance of quality, bank's image and reputation in ensuring sustainability of competitive advantage²⁵.

The prominent role of intangible assets in competing in financial services sector is also emphasized by McKinsey's latest research. The key factor contributing to competitive intensity in financial sector is, according to the research, improved capabilities of competitors resulting from their intellectual potential (eg. better knowledge, better talent). This factor was referred to as the essential one by 27% of respondents, while the next one (the increase in the number of competitors) was mentioned only by 15% of the interviewed²⁶.

²² J. Canals: *Competitive Strategies in European Banking*. "Marketing Management" 1993, Vol. 2, pp. 206-210.

²³ S.G. Bharadway, P.R. Varadarajan, J. Fahy: *Sustainable Competitive Advantage in Service Industries: A Conceptual Model and Research Propositions*. "Journal of Marketing" October 1993, Vol. 57.

²⁴ C. Farrance: *Can Banks Succeed in the Current Marketplace?* "International Journal of Bank Marketing" 1993, Vol. 11, No. 2, pp. 3-9.

²⁵ J. Devlin, C.T. Ennew: *Understanding Competitive Advantage in Retail Financial Services*. "International Journal of Bank Marketing" 1997, Vol. 15, No. 3, p. 80. See also J. Harasim: *Strategie marketingowe w osiaganiu przewagi konkurencyjnej w bankowości detalicznej*. Wydawnictwo Akademii Ekonomicznej, Katowice 2003, pp. 69-70 and J. Harasim: *Cena jako instrument marketingowy na rynku detalicznych usług bankowych*. „Marketing i Rynek” 2004, nr 2.

²⁶ I. Davis, E. Stephenson: *Ten Trends to Watch in 2006*. "The McKinsey Quarterly" January 2006, web executive, <http://www.mckinseyquarterly.com/links/21586>.

All the factors listed above can lead to gaining competitive advantage, but their potential for sustainable advantage is diverse. Elements connected with tangible assets such as a bank's capital, economies of scale, systems of distribution (network of branches, electronic channels), modern information technology or telecommunication systems are relatively easy to copy or purchase on the market. They are easily accessible and easy to imitate which makes the advantage gained by using them temporary and difficult to sustain. Despite of this they are still considered, especially by traditional banks, to be the most important elements in creating the bank's market position and the solid base to build competitive advantage. It seems vital to mention the fact that banks are rather experienced in managing these factors and the results achieved can be evaluated quickly and easily.

The factors connected with intangible assets, such as: organization culture, brand, image, quality of services offered, high qualifications, and skills of the staff as well as relationship banking, have much greater potential for creating competitive advantage. They belong mostly to the so-called distinctive capabilities. As opposed to the former group of factors, they cannot be purchased and are inimitable. They are deeply rooted in the organization, the capital has been established for years which requires consistent strategy based on bank's competences and its intangible assets. Apart from time and consistency, experience of the management and their awareness of potential advantages are essential to help accept costs involved in establishing the capital and to avoid short-term effects. Competitive advantage based on intangible assets produces long-term effects and gives assurance that they will not be imitated by competitors even being aware of their source and scale. Although lots of banks are conscious of the considerable importance of intangible assets in competitive advantage, only few of them make use of the knowledge in their strategies. This is most likely due to the fact that intangible assets management needs skills and experience that banking sector lacks²⁷.

3. Intangible assets in bank's profitability and value

Aiming at increasing firm's effectiveness requires optimal use of all its assets, both tangible and intangible. Effectiveness of the assets possessed, referred to as efficiency or operational effectiveness is the notion strictly connected with sustainable competitive advantage, but it is not sufficient to achieve and sustain it.

Banks' effectiveness is considered from different points of view and analyzed on different levels²⁸. The most traditional and the most frequently taken approach in

²⁷ J. Pietrzak: *Czynniki przewagi konkurencyjnej na rynku bankowych usług detalicznych*. Wydawnictwo Uniwersytetu Gdańskiego, Gdańsk 2003, p. 90.

²⁸ M. Capiga: *Efektywność jako kryterium oceny banku*. „Bank” 2002, nr 3; K. Stępień: *Konsolidacja a efektywność banków w Polsce*. CeDeWu Wydawnictwa Fachowe, Warszawa 2004, p. 128.

financial sector is to evaluate banks taking into consideration their financial results. Basic tool used in this approach is financial analysis and particularly ratio analysis²⁹.

Similar approach to effectiveness is made in case of:

- cost effectiveness in which it is estimated if the scale and structure of input was adequate as compared to output³⁰ and
- profitability which analyses expenditures and income and shows to what extent the bank's profitability differs from the maximum, given the level of expenditures and final output³¹.

It is worth mentioning, however, that traditional methods of financial, cost, and income effectiveness evaluation³² show the degree to which the bank uses its tangible assets. Among them there are ratios referring to staff, but they only evaluate their efficiency (e.g. profit per employee or assets per employee) and are typical operational effectiveness measures. This is due to the fact that most intangible assets, especially the most valuable ones, are not reflected in bank's financial statements, so the use of traditional methods is difficult in this case.

From the point of view of evaluation methods and records, intangible assets can be divided into two categories:

- belonging to asset category and shown in the balance sheet as intangible assets and legal rights³³, the main element of this group of assets in banks being software (license bought or own research or development),
- not belonging to asset category and not included in the balance sheet: this group is very big and includes for example human resources, customer relationship, service quality, marketing and strategic skills in a broad sense, organization culture, brand, image, and reputation.

It is worth mentioning that the former group, that is intangible assets and legal rights, hardly ever meet the criteria for strategic resources as they are not durable, they need protection against imitation, and investment in their development can potentially increase profitability, but also risk. As regards strategic importance for the bank more attention should be given to the latter group of intangible assets that are not shown in the bank's balance sheet. They represent factors dependent on the bank's decision and

²⁹ Return on Assets and Return on Equity are the most popular ratios used to evaluate banks financial effectiveness and productivity. Recently cost/income ratio has also been calculated.

³⁰ See M. Capiņa: *Efektywność...*, op. cit., p. 48.

³¹ See K. Stepień: *Konsolidacja...*, p. 240.

³² More complicated methods that have been used recently are parametric methods (based on cost or profit function) and non-parametric methods based on linear programming.

³³ Accounting Act of 29 September 1994 uses the term "intangible assets and legal rights", but The International Accounting Standard number 38 uses the notion "intangible assets", both terms being embracing the same elements – see Międzynarodowe Standardy Sprawozdawczości Finansowej (MSSF) 2004. Stowarzyszenie Księgowych w Polsce, IASB, Warszawa-Londyn 2005, p. 352. Into this category fall: copyright and related, concessions, licenses, invention, patent, trademark, pattern rights, know how, firm value and completed research expenses.

controlled to some extent. They influence the bank's value, but being managed improperly can result in destruction³⁴.

As for effective use of intangible assets attention should be paid to:

- their identification,
- their control by the bank,
- potential future advantages.

Having considered the above, prime importance from the point of view of effectiveness and influence on the market is attached to: marketing skills, customer relationship, bank's image, its reputation, value and brand capital³⁵.

A long list of intangible assets of strategic importance was made during research included in the project: "Measures that Matter"³⁶. Among the most vital factors for creating enterprise value the following were listed: brand, leadership, human capital, alliances, innovation, product quality, and social responsibility³⁷.

Evaluation of the bank's intangible assets is possible first of all within the confines of the so-called organization effectiveness concerned with organization goals, resources, internal and external conditions and time in which these are considered³⁸. This approach is typical for organization theory. Organization effectiveness may concern identification of the so-called critical success factors or distinctive capabilities, that is factors that decide of bank's superior position and its success on the market³⁹.

Evaluation of individual intangible assets is not easy because of their nature. So in their analysis and evaluation criteria of qualitative nature are usually used. But it should be notice that the value derived from intangible assets can be measured during acquisitions. When a company buys another business at a price greater than the value of its assets, the excess of the amount paid over book value, called goodwill⁴⁰, usually accounts for the target firm's intangible assets⁴¹.

³⁴ M. Marcinkowska: *Źródła wartości firmy*. „Zeszyty Teoretyczne Rady Naukowej Stowarzyszenia Księgowych w Polsce”, nr 39, Warszawa 1997.

³⁵ *Efektywność marketingu*. Red. W. Wrzosek. PWE, Warszawa 2005, p. 176.

³⁶ The research aimed at identifying the most important factors for creating value and at determining their influence. As a result Value Creation Index was worked out and factors creating value in various sectors were identified. See *Measures That Matter*. Ernst & Young LLP, 1997.

³⁷ *Automotive Value Creation Index: Driving Business Performance*. Cap Gemini Ernst & Young 2003, p. 3.

³⁸ M. Capiga: *Efektywność...*, op. cit., p. 48.

³⁹ G. Rogowski: *Metody analizy i oceny działalności banku na potrzeby zarządzania strategicznego*. Wydawnictwo Wyższej Szkoły Bankowej, Poznań 1998, p. 55.

⁴⁰ Accounting terminology describes goodwill as that part of business value over and above the value of identifiable business assets, but according to US Financial Accounting Standards Nos. 141 and 142 all intangible assets can no longer be "lumped" into goodwill. Those which are identifiable and have a finite life must be valued and amortized – the remaining value is then assigned to goodwill – See more: *Accounting for Business, Combinations, Goodwill and Other Intangible Assets. A Roadmap to Applying Statements 141 and 142*. Deloitte, July 2007, p. 101.

⁴¹ Other quantitative methods for measuring intellectual capital (value of individual or all intangible assets) are: Market-to-Book-Value, Skandia Navigator, Value Chain Scorecard, Balanced Scorecard, Intangible Assets Monitor, Calculating Intangible Value, Knowledge Capital Earnings, etc.

It is relatively easy to estimate value and find out how effectively intangible assets and legal rights are used. The criteria used for evaluating can be for example technology, the percentage of Research and Development staff in total number of staff in a bank or Research and Development expenses in total income. It is much more complicated, however, to evaluate intangible assets that are not shown in a bank's balance sheet.

Brand is one of the best known intangible assets and it can have a rational financial value. Strong brands increase economic efficiency and improve cash flow for example by:

- higher price (customers are ready to pay more for the brand),
- increased turnover (instead of increasing price turnover goes up when the goods are sold at a price similar to average),
- cost reduction (economies of scale),
- better use of tangible assets (especially economic use of circulating capital owing to economies of scale in distribution)⁴².

Brand value and its capital are treated as indicators of brand strengths. The former is a financial ratio and reflects effectiveness of past activities of the enterprise connected with brand and its future prospects. The latter is non-financial and makes it possible to evaluate effectiveness of activities referring to brand by evaluating their influence on customers' and distributors' behavior towards the brand⁴³.

Bank's image and reputation are strictly connected with brand, especially on banking services market where the name of bank is often the brand (associated with products). Their evaluation can be based on the brand, bank or product recognition, loyalty, customer satisfaction, differences in prices of similar products in various banks, or level and stability of bank's financial results and its market share. As image and reputation are external bank's feature⁴⁴, each group belonging to the environment (for example customers, competitors, administrative authorities) can view them in a slightly different way and evaluate them according to different criteria. Good image and reputation influence effectiveness as they facilitate bank's recognition and make easier to influence customers' decisions to purchase the bank's products, other firms to conclude deals with it, shareholders to buy shares, employees to work for it, the government to adopt favorable legislation, and local communities and media to express good opinion about it⁴⁵.

⁴² G. Urbanek: *Koncepcja kapitału marki*. „Marketing i Rynek” 2000, nr 5.

⁴³ P. Doyle: *Marketing wartości*. Wydawnictwo Felberg SJA, Warszawa 2003, pp. 266-267.

⁴⁴ Reputation gives information about how attractive the firm is for the environment in terms of quality, cost, needs, and requirements. Reputation translates into use of value and image of the firm. See J. Filipek: *Reputacja to kapitał*. „Gazeta Bankowa” 2005, nr 24, p. 24.

⁴⁵ J. Harasim: *Cross-selling i zarządzanie wizerunkiem w konglomeratach finansowych*. W: *Konglomeraty finansowe*. Red. M. Iwanicz-Drozdowska, PWE, Warszawa 2007, p. 243.

Yet another important element of bank's intangible assets is the staff. It is relatively easy to evaluate the human resources by means of typical quantitative criteria such as their formal qualifications (education, participation in training programs, etc.), experience, staff structure, efficiency, or staff fluctuation. However, as regards bank's effectiveness and its competitive advantage more important are the following skills and competences:

- efficiency (dependent on staff's initiative, innovation, flexibility, or ability to take risk),
- ability to solve problems (to collect information, analyze it, evaluate and solve problems systematically),
- ability to cooperate (which also requires communication skills, concluding agreements and team work)⁴⁶.

One of the intangible assets which evaluation is the most difficult is organization culture. It manifests itself in certain values, norms, attitude, and behavior that are valued highly in certain organization, but not necessarily in others which can make objective evaluation difficult. Secondly, a lot of elements contribute to the evaluation and they can overlap. Thirdly, company culture evaluation is determined by the circumstances which means the same features can be evaluated differently depending on certain conditions and strategy⁴⁷. For example, highly valued features of a bank adopting cost leadership strategy are: ability to identify, evaluate, and strictly control bank's expenses, and to have very high work efficiency. Banks pursuing this strategy should also be experienced in mergers and acquisitions and knowledge transfer. In banks applying differentiation strategy marketing skills will be valued; basically the ability to precisely evaluate the role of diversified elements in customer's value chain, right competences and structures to satisfy customer's needs in certain segment, effective monitoring system of customers serviced and competition as well as high quality contacts with customers on various stages of transaction and coordination of different functions⁴⁸.

Evaluation of intangible assets is not easy, but even more difficult is to assess their influence on bank's effectiveness and competitive position. To estimate it, however, is inevitable as possessing certain resources is not sufficient and does not appreciate the bank's value. Managerial skills are essential to use the potential of the bank's assets. Banks do have the knowledge and experience needed in tangible assets' management, but have been learning how to use and manage intangible ones. The following issues should be taken into consideration by banks:

- intangible assets let manage the value in real time and predict problems ex ante,

⁴⁶ T. Gołębiowski: *Op. cit.*, pp. 190-191.

⁴⁷ *Ibid.*, p 190.

⁴⁸ See J. Harasim: *Strategie...*, *op. cit.*, p. 221.

- intangible assets often have side effects – usually positive,
- the value of intangible assets can be very high, much higher than their cost,
- the value of intangible assets can be unstable⁴⁹.

According to J. Pietrzak, banks' managements do not pay enough attention to intangible assets which results from the fact that in their balance sheets financial and physical assets predominate. The role of intangible assets is underestimated, does not always lead to proportional increase of share value to financial results and not as fast as the management would expect. The bank's value maximization requires entire management of both tangible as well as intangible assets that create it⁵⁰.

Banks that want to increase their value as well as improve their competitive position and profitability should take the following measures:

- work out a strategy for quality products and services,
- employ the best possible team of managers to apply this strategy,
- limit or eliminate strategies that are not valued highly by the market,
- focus on customer relationship,
- concentrate more on key non-financial elements such as image,
- improve market communication informing of intangible values created by the bank⁵¹.

In summary, it must be stated that intangible assets are vitally important for bank's competitive advantage; it is difficult, however, to evaluate their role in its effectiveness, especially understood in a traditional way, that is in financial terms. As regards intangible assets' effectiveness, attention must be paid to their identification, control exercised by the bank, and future advantages. Taking into account the above features, the greatest importance as to effectiveness and therefore competitive advantage should be attached to: brand, image, reputation, service quality, high qualifications, skills and knowledge (also as regards marketing), and customer relationship. It must be stressed that the role of certain assets should not be taken for granted in appreciating bank's value, its efficiency and competitive advantage. Using the potential of the assets needs managerial skills which is a challenge for banks being experienced in managing tangible assets, but still learning

⁴⁹ J. Low, P.C. Kalafut: *Niematerialna wartość firmy*. Oficyna Ekonomiczna, Kraków 2004.

⁵⁰ J. Pietrzak: Op. cit., p. 87.

⁵¹ R. Holman, R. Flavell: *The Measures That Matter*. "The Banker" 2001, No. 2, from J. Pietrzak: Op. cit., p. 87.

References

- Accounting for Business, Combinations, Goodwill and Other Intangible Assets. A Roadmap to Applying Statements 141 and 142.* Deloitte, July 2007.
- Amit R., Shoemaker P.J.H.: *Strategic Assets and Organizational Rent*. "Strategic Management Journal" 1993, Vol. 14.
- Amit R., Shoemaker P.J.H.: *The Competitive Dynamics of Capabilities: Developing Strategic Assets for Multiple Futures*. In: *Wharton of Dynamic Competitive Strategy*. Eds. G.S. Day, D.J. Reibstein, R.E. Gunther. John Wiley & Sons, Inc., New York 1997.
- Automotive Value Creation Index: Diving Business Performance*. Cap Gemini Ernst & Young 2003.
- Barney J.B.: *Firm Resources and Sustained Competitive Advantage*. "Journal of Management" 1991, Vol. 17, No. 1.
- Barney J.B.: *Gaining and Sustaining Competitive Advantage*. 2nd Edition. Prentice Hall, Upper Saddle River, New York 2002.
- Bharadway S.G., Varadarajan P.R., Fahy J.: *Sustainable Competitive Advantage in Service Industries: A Conceptual Model and Research Propositions*. "Journal of Marketing" October 1993, Vol. 57.
- Boulton R., Libert B., Samek S.: *Odczytując kod wartości*. WIG-Press, Warszawa 2001.
- Bryan L.L., Zanini N.: *Strategy in an Area of Global Giants*. "The McKinsey Quarterly" 2005, No. 4.
- Canals J.: *Competitive Strategies in European Banking*. "Marketing Management" 1993, Vol. 2.
- Capiga M.: *Efektywność jako kryterium oceny banku*. „Bank” 2002, nr 3.
- Capiga M.: *Kapitał klienta*. Twigger, Warszawa 2005.
- Coyne K.P., Hall S.J.D., Gorman Clifford P.: *Is Your Core Competence a Mirage?* "The McKinsey Quarterly" 1997, No. 1.
- Davis J., Stephenson E.: *Ten Trends to Watch in 2006*. "The McKinsey Quarterly" January 2006, web executive, <http://www.mckinseyquarterly.com/links/21586>.
- Devlin J., Ennew C.T.: *Understanding Competitive Advantage in Retail Financial Services*. "International Journal of Bank Marketing" 1997, Vol. 15, No. 3.
- Doyle P.: *Marketing wartości*. Wydawnictwo Feldberg SJA, Warszawa 2003.
- Dudycz T.: *Zarządzanie wartością przedsiębiorstwa*. PWE, Warszawa 2005.
- Efektywność marketingu*. Red. W. Wrzosek. PWE, Warszawa 2005.
- Farrance C.: *Can Banks Succeed in the Current Marketplace?* "International Journal of Bank Marketing" 1993, Vol. 11, No. 2.
- Fazlagić A.: *Pomiar kompetencji rdzennych*. „Controlling i Rachunkowość Zarządcza” 2003, nr 11.

- Filipek J.: *Reputacja to kapitał*. „Bazeta Bankowa” 2005, nr 24.
- Gierszewska G., Romanowska M.: *Analiza strategiczna przedsiębiorstwa*. PWE, Warszawa 1997.
- Gołębiowski T.: *Zarządzanie strategiczne. Planowanie i kontrola*. Difin, Warszawa 2001.
- Haffer R.: *Systemy zarządzania jakością w budowaniu przewag konkurencyjnych przedsiębiorstw*. Uniwersytet Mikołaja Kopernika, Toruń 2003.
- Harasim J.: *Cena jako instrument marketingowy na rynku detalicznych usług bankowych*. „Marketing i Rynek” 2004, nr 2.
- Harasim J.: *Cross-selling i zarządzanie wizerunkiem w konglomeratach finansowych*. W: *Konglomeraty finansowe*. Red. M. Iwanicz-Drozdowska. PWE, Warszawa 2007.
- Harasim J.: *Strategie marketingowe w osiąganiu przewagi konkurencyjnej w bankowości detalicznej*. Wydawnictwo Akademii Ekonomicznej, Katowice 2003.
- Hofer C., Schendel D.: *Strategy Formulation: Analytical Concepts*, West, St. Paul, Minneapolis 1978.
- Holman R., Flavell R.: *The Measures That Matter*. „The Banker” 2001, No. 2.
- Johnson E.P., Johnson R.D.: *Commercial Bank Management*. Dow-Jones-Irwin, Homewood, Illinois 1985.
- Kay J.: *Podstawy sukcesu firmy*. PWE, Warszawa 1996.
- Low J., Kalafut P.C.: *Niematerialna wartość firmy*. Oficyna Ekonomiczna, Kraków 2004.
- Marcinkowska M.: *Źródła wartości firmy*. „Zeszyty Teoretyczne Rady Naukowej Stowarzyszenia Księgowych w Polsce”, nr 39, Warszawa 1997.
- Measures That Matter*. Ernst & Young LLP, 1997.
- Michalczyk G.: *Bilansowe aspekty pomiaru wartości niematerialnych*. W: *Finanse przedsiębiorstwa*. Red. P. Karpuś. Wydawnictwo Uniwersytetu Marii Curie-Skłodowskiej, Lublin 2006.
- Międzynarodowe Standardy Sprawozdawczości Finansowej (MSSF) 2004. Stowarzyszenie Księgowych w Polsce, IASB, Warszawa-Londyn 2005.
- Oliver Ch.: *Sustainable Competitive Advantage: Combining Institutional and Resource-Based Views*. „Strategic Management Journal” 1997, Vol. 18, No. 9.
- Penrose E.T.: *The Theory of Growth of the Firm*. In: *Resources, Firms and Strategies. A Reader in the Resource-Based Perspective*. Ed. N.J. Foss, Oxford University Press, Oxford 1997.
- Pietrzak J.: *Czynniki przewagi konkurencyjnej na rynku bankowych usług detalicznych*. Wydawnictwo Uniwersytetu Gdańskiego, Gdańsk 2003.
- Rogowski G.: *Metody analizy i oceny działalności banku na potrzeby zarządzania strategicznego*. Wydawnictwo Wyższej Szkoły Bankowej, Poznań 1998.

Stępień K. *Konsolidacja a efektywność banków w Polsce*. CeDeWu Wydawnictwa Fachowe, Warszawa 2004.

Strategor: *Zarządzanie firmą*. PWE, Warszawa 1995.

Urbanek G.: *Koncepcja kapitału marki*. „Marketing i Rynek” 2000, nr 5.

Valuing Intangible Assets. Purchase Price Allocation. Deloitte Touche, January 2006.