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The Measurement and Recognition of Managers' Goodwill – Solutions and Challenges in the Actual Context of Business: Evidence From Romania

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ABSTRACT

The managers' goodwill does not receive the recognition and respect it deserves. The aim of the present research study is to examine the dynamics of the present personal goodwill of manager's landscape from Romania's South-Eastern region during the period 2008-2012. I further present two scenarios for the evolution of Romanian personal goodwill of managers for the current and next period until 2018. Based on the results of this analysis, I formulate in the conclusions which are aimed to support the consolidation of the Romanian personal goodwill of managers. At the end of this study, some practical implications, research limitations and suggestions for further research were discussed based on the research findings.

Keywords : goodwill of managers, intangible assets, accounting, prognosis

INTRODUCTION

The central theme of this article is the development of personal brand management issues as intangible asset at international, European and national level. Against this background I searched for reasonable answers to the following questions: To what extent the manager's activity as intangible asset is influenced by the accounting convergence process, and how can accounting manage to obtain relevant accounting information regarding the recognition, measurement and presentation of this asset while using its available policies and methods?

The present research started from the idea that, at a global level intangible assets are a reality as important as the enterprise. A review of economics literature indicates the problem of manager's personal brand as intangible asset as an insufficiently explored topic. The phenomenon of recognition, measurement and presentation of intangible assets has increased in the recent decades including a wide range of sectors. In Romania, the topic of intangible assets is relatively recent, coming into debate during the last 10 years. But looking to the countries with a market economy with tradition and taking into account Romania's alignment to the European Union, an increase of this phenomenon is to be expected in Romania.

In order to obtain answers to the already mentioned questions, I used the White Paper of SMEs edition 2012 as data source and applied a forecasting model whose algorithm is based on the theory of Markov chains on data from 2008 - 2012 related to Romanian listed and unlisted companies. In the following, I present first the current trends of research, of conceptual framework and of international, European and national legislation framework on the topic of intangible assets. I address then the technical and practical aspects concerning the recognition, measurement and presentation of intangible assets. In the next step, I present the results of empirical investigation of the management's characteristics as intangible asset in the context of accounting convergence.

This paper aims at shedding a different light on the value of "personal brand of management" as intangible asset of firms, as an integrator of all categories and types of intangible assets generating hidden value in companies. Further, I argue that management assessment techniques as intangible asset

(personal goodwill) are to be adapted to Romanian companies, in order to create an appropriate formal framework for reporting its value in the annual situations made available to owners of firms, but also to the stakes-holders. To highlight how firms should be supported in order to generate additional value by increasing the performance of management as generator of intangible value for the company, I focused on methods based on non-financial indicators, which cannot be processed favorably on command. Thus one can identify the managerial components that have to be improved in order to increase the value of a firm.

The conclusion emphasizes that only by the recognition, measurement and presentation of management personal brand as an intangible asset of firms one can identify effective managerial interventions needed to generate added value for a company in the interest of owners and society at large, and that the accounting for this type of intangible asset at the fair value becomes a necessity in the context of international accounting convergence.

SCENARIOS OF ASSESSMENT AND PRESENTATION OF MANAGEMENT AS INTANGIBLE ASSET: A STUDY CASE REGARDING THE ROMANIAN ENTERPRISES

In Romania, managing intangible assets is still considered an issue with a high novelty and complexity degree, fact which explains why still limited attention is paid to this issue both conceptual and in the application. The relatively recent concern with management as intangible asset is connected mostly to the accounting convergence process.

There are still little theoretical reflections on the subject of intangible asset management in the world in general and in Europe in particular, due to the accounting convergence process. The economics literature has focused mainly on the contribution of intellectual capital to the quality of accounting information, on its advantages and disadvantages, especially when compared with historical cost. This is not customized to the management as intangible asset - accounting concept.

I consider this analysis illustrative by using the indicator of personal goodwill of managers as continuous statistical parameter. Economically, the evolution of this indicator calculated as the difference between market value and book val-

ue of the audited company, which has decisive influence on situation of Romanian enterprises in terms of capitalization, implementing the program of investment, increasing competitiveness or economic efficiency, etc.

In developing this forecast model I started from the analysis and grouping of listed and unlisted companies in relation to the indicator personal goodwill of managers. This indicator includes the following elements: reputation of the company manager who evaluates and hires persons with valuable intellectual capital, years of experience in the profession, employee's satisfaction, added value relative to an employee, added value relative to 1 Euro.

Correspondingly to the different way in which this indicator evolved in each company from year to year during the review period 2008-2012, these have entered higher classes of increase, remained in the same class, or have passed into lower classes. These transitions from one class of increase to another from year to year are reflected in the four matrices of annual crossings: 2008-2009, 2009-2010, 2010-2011, and 2011-2012. Companies that have entered higher classes are enhanced above the main diagonal, those who have passed into lower classes are located under the main diagonal, and those who remained in the same class from year to year are located on the diagonal matrix. By direct summation of the four matrixes of transition elements, the total crossing matrix is obtained for the whole period 2008-2012. Based on this matrix one can determine the stochastic matrix of transition probabilities for the period 2013-2017.

To achieve the intended purpose, I gathered the listed and unlisted Romanian companies in 10 groups as presented in the table 1.

Table - 1. Groups of firms according to personal goodwill of managers

No. group	Range of personal goodwill of managers	No. firms in the range
I	Under 20.000 euro	6.292
II	20.000 – 40.000 euro	1.004
III	40.000 – 60.000 euro	983
IV	60.000 – 80.000 euro	695
V	80.000 – 100.000 euro	756
VI	100.000 – 120.000 euro	600
VII	120.000 – 140.000 euro	467
VIII	140.000 – 170.000 euro	670
IX	170.000 – 200.000 euro	1.025
X	Over 200.000 euro	4.517
	TOTAL	17.009

(Source: Own calculations)

After investigating the period 2008-2012, I decided to forecast the value of Romanian manager's personal goodwill based on two medium-term scenarios, namely:

Scenario I One takes into consideration the effects of the economic crisis manifested in 2009, which in the perception of most investors continued until the first quarter of 2012.

Four factors of influence were taken into account in order to calculate the probabilities. I considered the following factors to be decisive for the medium-term development of Romanian manager's personal goodwill:

Sales growth;
Level of satisfaction of employees;
Value added per employee;
Taxation.

Scenario II In this scenario, one removes the year 2009 when the economic crisis manifested itself at the top. The probability calculation was based on economic developments in 2008.

Compared to the matrix in scenario I, there is an increased probability to accede to a higher class. It is even possible to surpass two groups in a financial year (see groups II, III, IV and V).

The comparative analysis of the results of the two scenarios pointed out the following:

long-term effects of economic crisis;

given scenario II, one has a representation concerning the level the development of personal goodwill of managers could have achieved without the crisis situation;

the comparative analysis can lay the base for a national strategy elaboration to promote accelerated development of personal goodwill of managers.

A comparative analysis of the scenarios presented in table 2 results in:

scenario I does not allow a number of 15,428 firms to move into a higher group of turnover (150.1%);

an evolution under scenario II would allow a number of 2885 companies to increase their personal goodwill of managers over 200,000 €;

scenario I concentrates the personal goodwill of managers in the middle groups, while scenario II concentrates it in the higher groups.

We believe that the analysis highlights the usefulness of econometric models for capturing a high probability of overall economic development in different sectors and in each company.

Forecast made on the basis of the two scenarios shows that the crisis is a test of maturity or immaturity management of Romanian companies. Regarding chances to overcome the crisis, the immature Romanian companies have little chance of survival, while mature Romanian companies with personal goodwill value of higher managers have much higher theoretical chances, but they have no guarantee that the crisis will pass. It should be noted that the maturity of a company has nothing to do with her age.

Summarizing, the forecast of medium-term evolution of Romanian companies contours probable tendencies of future development and heads activity recognition, measurement and presentation of management as intangible asset so that it falls logically into thinking long perspective.

Crisis should not be seen as a catastrophe but as a broad movement of global change, affecting not only economically, but also social and politically. It seems increasingly clear that this is more than a mere economic crisis; it is a major change in the accounting system.

Table - 2. Comparative analysis of scenarios

Group Years	I	II	III	IV	V	VI	VII	VIII	IX	X
Scenario I – end of researched time period	6172	972	810	861	1075	628	545	798	1288	4206
Scenario II – end of researched time period	2499	2780	1563	1004	1256	900	669	634	836	4893

Absolute differences (S I – S II)	3673	-1808	-752	-143	-180	-272	-124	164	452	-687
Scenario I (%)	-1,9%	-3,2%	-21%	+24%	+42%	+5%	+17%	+19%	+26%	-7,4%
Scenario II (%)	-152%	+177%	+59%	+44%	+66%	+50%	+43%	-6%	-23%	+8%
Percentage differences	+150,1%	+180%	+80%	-20%	-24%	-45%	-26%	+25%	+49%	+14,4%

Source: Own calculations

CONCLUSIONS

The issues of recognition and measurement of management as intangible asset continue therefore to incite controversy especially as, in a society marked by an obsession with success, estimating future benefits arising from such an asset depend less on its material or immaterial nature and more on features of personal goodwill (personal reputation, skills, specific abilities, etc.). Thus, starting from this problem at the interface between assessments, accounting and auditing, the present case study shows that on the one hand, the economic environment is an important factor influencing the value of intangible assets, especially in the context of international accounting convergence, and on the other hand, that by the forecast of the process of transition of a number of 17,009 Romanian firms into other groups of personal managers' personal goodwill during 2013 – 2017, one could highlight the implications of managers' personal brand calculated as the difference between market value and book value. By the means of this model I highlighted the critical points by comparing the value of the company under conditions of optimization and no-optimization, quantifying the impact of the various alternative methods on the efficiency of evaluation and optimization of management as intangible asset.

Employing the intangible resources, especially the management, in order to create value remains a significant challenge for specialists in Romania because the country's competitive advantage will have to be interpreted in relation to skills, talent and intellectual capital stock. Future research should be focused on transforming these dimensions in operational parameters in Romania and on promoting the development of empirical methodological studies based on dialogue and the dissemination of knowledge and experience in interdisciplinary research teams. Of course, one will need an effort to adapt the Romanian companies for the recognition, measurement and presentation of management as intangible asset in the context of international accounting convergence.

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