CHAPTER 8

The importance of intangible assets: trends and patterns

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Introduction

Business environment in the United States, along with the rest of the industrialized world, has changed tremendously over the last two decades. For example, many of the things for which companies used to charge a fee are now given away to customers and clients for free and the support services which used to be free now attract a fee. The current business reality in most industrialized countries is that their economies are dominated by outputs that are mainly services or experiences. About two-thirds of U.S. GDP is created by services or what is termed intangibles "products."

Today there are relatively fewer investments in tangible assets such as factories, machinery and equipment, buildings, land, and other primary resources. These assets, such as property, plant and equipment, are still considered significant elements for manufacturing and service companies; however, they have lost their importance. Intangible assets significantly define the way business is conducted, how revenues are generated, and how enterprise value is created.

Intangible assets are defined as non-physical factors that contribute to or are used in producing goods or providing services that are expected to generate future economic benefits for the individuals or firms that control their use. Examples of these include:

- Ideas
- Mailing lists
- Databases
- Business and operating processes
- Relevant repertoire of business experiences
- Service reputation
- Customer relationships
- Vendor/supplier relationships
- Loyalty programmes
- Human capital
- Intellectual capital

Their possession and use of the assets enable businesses to achieve results that they would otherwise not have been able to achieve. Thus, such assets create value for the enterprise just as tangible assets. Today some industries, such as the software industry, are highly dependent on intellectual assets to achieve a healthy bottom-line profit (Kapardis and Thomas, 2006). The labour-intensive hospitality industry is another example of an industry whose success is dependent on human capital. There

are several characteristics of intangible assets that make them unique:

1. Intangible assets are difficult to quantify and measure directly. It is easier to answer the question, "What was your average daily rate yesterday?" than to answer the question, "How satisfied were your customers last night?"
2. Generally these assets do not appear on corporate balance sheets. Thus they cannot be directly reflected in the company's net worth.
3. The assets are expensed on the corporate income statement rather than capitalized.
4. If identified and properly utilized, they can represent a source of competitive advantage to the business that owns them.
5. Often the value they create depends on investments in complementary intangible assets.
6. Intangible assets, unless copyrighted or patented, are often not protected from competitors. They are easily duplicated.
7. They must be harnessed. Simply having such assets without a deliberate attempt and effort to utilize them will yield no benefit to the business.
8. Many intangible assets tend to be out of the control of management, consequently they can be very difficult to manage.

The above characteristics underscore the challenges faced by accounting and finance professionals in fully embracing the call to compute and reflect these valuable assets in the book values of companies.

Traditionally, the book value of a company is calculated as the difference between its assets and liabilities at historical cost less the value of preferred stock (if any). The market value of the company represents what investors are willing to pay for the business considering its future growth opportunities, its ability to generate profits, and remain profitable in the future. This market value fully reflects all available public information about the company, particularly those that will yield future economic benefits. Investors are motivated, first, by the chance to receive dividends today and the growth in dividends in the future. This dividend growth is directly influenced by the growth in a company's profits and cash flows. Second, they are motivated by stock price appreciation which is driven by the company's financial and operating performance along with prospects for growth in the future. So the company's market value is determined by multiplying the closing stock price by the number of common stock outstanding. The business intangible value represents the

difference between the book value of the net assets (i.e., assets minus liabilities) and the market value. This difference has been growing larger and larger in the last decade due to increased corporate investments in intangible assets.

Intellectual capital is an example of an intangible asset that has received a great deal of attention in the trade press. Brooking (1996) defined it as "the term given to the combined intangible assets which enable the company to function." Stewart (1997) defined intellectual capital as "packaged useful knowledge." Stewart (1997) also added that organizational processes, technologies, patents, employee's skills, and information about customers, suppliers, and stakeholders are all considered part of this definition. The next section will focus some attention on intellectual capital.

The components of intellectual capital

Edvinson and Malone (1997) identified three types of intellectual capital. These are human capital, structural capital, and customer capital. Human capital comprises of knowledge, skills, and abilities of employees. Human capital is specific to the people and does not belong to the organization. In addition, human capital also includes how effectively an organization utilizes its employee in terms of creativity and innovation. Structural capital is everything used to assist employees in their work. Structural capital is regarded as the supportive infrastructure that helps employees work effectively and efficiently. Structural capital does belong to the organization. Traditional things such as buildings, hardware, software, processes, patents, and trademark are considered as the components of structural capital. Organization's image, organizational structure, information systems, and databases can also be part of structural capital (Bhartesh and Bandyopadhyay, 2005). Edvinson and Malone (1997) broadened the classification of structural capital further into organizational, process, and innovation capital. Organizational capital deals with the organization's philosophy and systems. Process capital includes the techniques, procedures, and programmes that improve and develop the delivery of goods and services. Intellectual properties, such as copyrights, patents, and trademarks, which protect the commercial rights of the owners, are considered examples of innovation capital. Customer capital is related to the strength and loyalty of the company's customer relations. Customer satisfaction, repeat business, financial well-being, and price sensitivity are the components of customer capital (Bhartesh and Bandyopadhyay, 2005).

Intangible assets and their usage by various industries

Intangible assets enable companies to gain competitive advantage. According to the 2000 report of the European Commission's High Level Expert Group, a firm's intangible assets are seen as the main element in its competitiveness. More and more, the capacity to unite external and internal sources of knowledge to take advantage of commercial opportunities has transformed this capacity into a distinctive competency (Eustace, 2000). Intangibles also allow companies to analyse and predict future business performance. For example, Sears Roebuck and Company (now Sears Inc.) created a tool to measure employee satisfaction, and monitor the relationship between this metric, customer loyalty, and financial performance. The company discovered that a 5-unit increase in employee attitude provided a 1.3-unit increase in customer impression and consequently revenue increased by 0.5% (Low and Kalafut, 2002). In another example, Southwest Airlines invested significantly in their human resources department in order to hire people who can adapt to their corporate culture. In 1998, 140,000 people applied to work for Southwest Airlines; 90,000 were interviewed; and only 4200 were hired by the airline. The hiring process was very expensive; however, it created impressive results for Southwest Airlines. At the end of September 2001, Southwest's price to sales ratio had climbed to 2.10 compared to an industry average of 1.35 (Low and Kalafut, 2002).

Intangibles that drive corporate business performance

In their book, *The Invisible Advantage*, Low and Kalafut (2002) identified 12 intangible assets that have continued to widen the gap between the book and market values of today's corporations. This section will discuss the intangibles.

Leadership

Corporate CEOs were unknown to the public 20–30 years ago, they stayed behind the scenes to direct and manage their companies. Today, CEOs have become the spokespersons for their company's products and many have been successful at it. Examples include the late Dave Thomas of Wendy's, Michael Eisner formerly of Disney, Lee Iacocca formerly of Chrysler, Donald Trump, Bill Gates, and Charles Schwab of Schwab and Company. Some of today's CEOs are like rock stars in their popularity (e.g., Sir Richard Branson of Virgin Group). In a

1977 survey the results showed that 77% of investors are likely to purchase stock based on the reputation of the CEO. Thus it matters who leads the company and the leadership qualities he/she possesses. In a study by Mayo and Nohria, (2005), the author compiled data on 860 leading U.S. business figures in the past 100 years that generated outstanding shareholder value over a 15-year period to their companies. The most common trait among these business figures that made them successful was "contextual intelligence"—the ability to understand and capitalize on the sweeping trends influencing the marketplace of their time. Therefore, a company with the right CEO will enjoy a price premium on the stock market.

Strategy execution

Corporate strategy describes the roadmap that sets a company on the path to achieve its mission. Most corporations have a strategy; however, the more successful companies are the ones that are able to effectively execute the strategy. Strategy execution is a company's ability to do what it says it will do. This ability is challenged daily due to the high level of competition that exists in all industries today. The competition is both domestic and global making it quite difficult to sustain competitive advantage. Those companies that deliver effectively on their promises to customers are able to prevail over the competition and therefore are very attractive on the stock market to potential shareholders. Such companies enjoy a premium on the stock market due to their superior ability to execute their corporate strategy. For example, Wal-Mart has become one of the most successful global companies because it attracts and retains its customers by offering good quality products at low prices consistently. Its mission is to give ordinary people the chance to buy the same things as rich people, and through its efficient supply-chain management system, utilizing technology, and reducing employee turnover Wal-Mart has been successful in delivering on its promise to customers worldwide.

Communication and transparency

Information today is readily available, thanks to the ubiquitous internet. Consequently people are better informed, and when they seek information they expect it to be readily available. Therefore, except in very specific cases, there is little value in companies holding back information from shareholders and the public at large. The more forthcoming a company is about its

financial and operating results the more trustworthy its management is perceived. As a result, the more information a company provides the more attractive it will become to potential investors, creditors, suppliers, and customers. Today lodging and foodservice companies routinely measure customer satisfaction index, employee satisfaction index, the impact of community involvement activities, brand strength, and many more. Such data are now made available to operational managers and employees to enable them to perform effectively and to be accountable.

Another trend that is forcing public corporations to be more transparent and communicative is the rise of activist shareholders. In the past shareholders tended to defer to management and the board of directors to make decisions on their behalf and trusted that these agents would make choices that would be in the best interest of shareholders. With the unprecedented failures of WorldCom, Enron, Global Crossing, Tyco, and many more, shareholder trust and confidence in management and directors have dropped leading to an erosion of the traditional deference (Anonymous, 2007). Representatives of institutional investors and individual shareholder activist now sit on corporate boards to ensure that transparency prevails. Public companies that are transparent tend to enjoy transparency capital which contributes to their intangible value on the market.

Brand equity

Brand represents a cluster of attributes and emotions that customers associate with a product or service. When the U.S. marines declare that they "are looking for a few good men" it is clear in the public's mind the type of person the marines recruit. There is a definite perception of confidence and success that the public has about business leaders such as Donald Trump and Richard Branson and this perception carries over into the enterprises in which they are involved. If this image and perception of a brand is strong enough it has the ability to deliver positive sustainable financial performance over the long term. Well managed brands yield higher profit margins with lower risk and those which do not invest in their brands and manage them strategically often experience declines in financial performance and shareholder value over time.

Reputation

This describes how a company is viewed by the public at large, including customers, suppliers, investors, employees, other

businesses, regulators, and the community at large. This view that the public has of a company, favourable or unfavourable, can be enduring. Companies spend years to carefully cultivate their reputations of trust, innovativeness (e.g., 3M), responsiveness, customer service (e.g., Nordstrom), social responsibility (e.g., The Body Shop), fun (e.g., Virgin Group), and many more. Yet in today's environment of consumer empowerment coupled with easy access to the internet it is easy to destroy a company's reputation that took years to build by carefully placed unfavourable information about the company. Another phenomenon that has gained currency over the last two decades is that consumers, in a cooperative manner, can reward or punish companies by giving or withholding patronage. The Adams Mark Hotel chain and the Denny's Restaurant chain are examples of corporations whose businesses have suffered from the boycotts by African-American consumers due to evidence of discriminatory practices towards Blacks. Therefore it is imperative for a company to monitor its reputation in the public domain and to manage it strategically such that it enhances the corporate image and adds to its market value.

Networks and alliances

In today's competitive environment it is impossible for a company to be all to its customers and to be able to do everything by itself. Thus partnerships have become a necessary component of doing business. For example, the top 500 global corporations average about 60 major strategic alliances (Dyer *et al.*, 2001). Some alliances and partnerships are obvious, such as car rental, hotel, and lodging companies. Since airlines cannot cover every route and yet they need to meet their customers' need for air transportation from their home to their destination, airlines have created strategic alliances such as One World and Star Alliance. This enables, for example, USAir to carry a Lufthansa passenger during a time of day that Lufthansa would not have aircraft flying from Philadelphia to Frankfurt. By code sharing airlines are able to maximize their yield and not lose potential business. Another example is Avendra LLC, a company founded in 2001 by ClubCorp, Hyatt Hotels, InterContinental Hotels Group, Fairmont Hotels and Resorts, and Marriott International, to provide volume purchasing of product and services at below-market prices. Such strategic partnerships have the effect of expanding a company's market reach, providing flexibility to customers, cost savings, and efficient delivery of products and services.

Technology and processes

Technology's impact on businesses today cannot be overstated. In the hospitality industry investment in technology has led to increases in employee productivity, process efficiencies, and cost savings, and has enabled hoteliers and restaurateurs to meet guest needs. It must be noted that technology equipment, such as computers, represents tangible assets; however, the source of intangible value are the complementary things that allow the technology to do what it is intended to do. For example, it is not enough to have a state-of-the-art property management system if the system is constantly failing or crashing. System reliability, which requires adequate system monitoring by well-trained technicians, is what is key in providing intangible value to the company. There is anecdotal evidence that companies that invest in information technology also invariably invest heavily in greater employee training.

Human capital

The hospitality industry is simultaneously capital and labour-intensive. The buildings, furniture, fixtures, and equipment require upfront capital investment before customers and guests interface with the business. However, without well-trained and skilled talent a well-capitalized hotel or restaurant cannot be successful. Thus the hospitality business, like all other service businesses and unlike manufacturing, is dependent on human skills. Often it is the people that work for a lodging company that distinguishes it from its competitive set because the hospitality enterprise is about delivering service and an experience and it takes people to accomplish that. Those companies that have a good track record of recruiting dynamic service-oriented employees, have proven employee training and development programmes, have better-than-market compensation programmes, and have defined career development paths for their employees, will consistently out-perform their competitors. Indeed, institutional investors, for example, observe, investigate, and consider companies' compensation practices in their investment decisions. Many have identified human capital as one of the top three value drivers in all companies today.

For companies to be attractive to potential shareholders and for their value to grow requires a dedicated focus on managing human capital. This requires successful and strategic recruitment strategies, training strategies relevant to the skills required in the industry, a workplace environment that celebrates diversity and is family-friendly, empowerment of

employees, and leadership that is able to attract and develop an effective management team. The management of human capital in today's hyper-competitive environment has made the job of a manager or CEO more challenging and complex. To be a very successful manager today, it is less about being the best chef, the best player, the smartest instructor, the best designer. It is more about understanding how the pieces of the business all fit together, understanding the opportunities in the marketplace, knowing what the company's strengths are, knowing the sources of value in the company, and deploying competent employees to capitalize on all of these. The companies that do this well enjoy a market premium.

Workplace organization and culture

There are national rankings today of the best family-friendly places to work, the best companies for ethnic minorities, the best companies for women, and many more. These developments are testament to the importance of the workplace environment in contributing to highly productive employees. Many companies ignore the fact that the workplace constitutes a social system and many of the accommodations that are made in the larger society must also exist in the workplace to facilitate employee effectiveness. Although all workplaces are different, a productive workplace has four key elements: employee empowerment, open communication, performance measurement, and passion and commitment. The more successful companies are able to develop and integrate these elements into the culture of the companies such that it creates a competitive advantage for them.

Innovation

Innovation is the process of making improvements by making something new. Economists typically view innovation as a central driver to economic development. The more successful companies constantly innovate across many fronts of the business enterprise. For example, the pay-what-you-like restaurants in the UK do not provide patrons with a check at the end of their meal. Rather patrons are encouraged to pay what they believe the meal and dining experience is worth. Invariably patrons, on the average, have ended up paying more than the cost of the meal; average check at these restaurants is higher than at comparable restaurants that provide a bill at the end of a meal. Companies can and must innovate in their service delivery, business model, organizational structure, internal processes,

alliances, marketing, and customer relations. Contemporary management practices such as Six Sigma have been adopted by many larger corporations such as Starwood Hotels; however, other companies have found new ways of applying the original method. Research and new product development is the key to sustaining company growth, and those companies that invest significantly in this area are the successful innovators.

Intellectual capital

There is tremendous value in having "thinkers" in an organization because they tend to be the sources of ideas and ideas represent intellectual capital. Some companies have the distinctive ability to merge external and internal sources of knowledge in order to exploit business opportunities that exist in their environment. The stories of how Indian IT services companies like Infosys, Tata Consultancy Services, and Wipro have emerged to become powerful players in the business services and IT industry, is legendary. The pool of talented young professionals that exist in India have been harnessed by these companies to create an information technology power centre in southeast Asia that is unprecedented.

The key for companies is to recognize that intellectual capital exists in the organization, encourage employees to experiment with new ideas, and thereby add value to the organization. Failure to recognize and harness intellectual capital causes employees to lose enthusiasm and excitement in the company.

Adaptability

Organizations by necessity must change or die because change is inevitable. As the domestic and global business environments have changed dramatically over the last two to three decades, companies have been forced to respond effectively or have died. In September of 2006 same-store sales of KFC in the U.S. declined by 2% due to the saturation of the domestic market as well as the impact of concerns about obesity in the country. On October 11, KFC's domestic sales declined by 7% while its reported earnings rose by less than 1%. Yet the stock price of Yum Brands, KFCs parent company, was trading on the stock market at a price close to an all-time high. The explanation for this seeming paradox is that worldwide earnings of KFC rose by about 14% due almost exclusively to growth in China where the company opens a new restaurant every 22 hours (Arndt and Roberts, 2006). Its sales rose by 28% with

reported profit growth of 26%. McDonalds, though in China also, has not had the same success as KFC, its profit growth has been modest in single digits. Part of the reason is attributable to PepsiCo's (KFC's former parent company) foresight in adapting to the changing quick service restaurant environment and opening its first store in 1987 in Beijing, 3 years before McDonalds entered that market.

Therefore, companies that continuously scan the environment, understand, and anticipate the changes that are on the horizon, and strategically adapt the organization in order to sustain their operating and financial performance enjoy a premium on the market and continue to widen the gap between their market and book values.

Intangible value in the lodging industry: trends and patterns

Ten lodging companies were chosen and the size of their intangible values was tracked over a 5-year period to illustrate the widening gap between market and book values. The market values were calculated by multiplying the end-of-year closing stock price of a company by the number of common shares outstanding. Then, annual total assets of the ten lodging companies were obtained from each company's annual 10-K reports. The size of each company's intangible value was estimated for each year by subtracting total assets from the total market value. The annual percentage of intangible value of each company was found. The data covers the period 2002–2006. The annual pattern for each company is presented in graphical form below.

Marriott international

Marriott International has the highest market value in the lodging industry (Figure 8.1). In 2002, the size of intangible value as a percentage of total market value was −6.99%. This period was the aftermath of the September 11 terrorist attacks that hit the stock market and the lodging industry. From 2002 to 2004 there was a steep climb in the size of intangible value. In 2004 the percentage had risen to 39.05% and 38.14% in 2005. In 2006, 44.14% of its total market capitalization was intangible. There has been a clear upward trend in the size of Marriott's intangible value over the 5-year period.

The company has had a reputation for being responsive to employees' welfare. In recent years, Marriott has been on the list of Fortune's "100 Best Companies To Work For." In addition to this, Marriott was selected as the best workplace for women

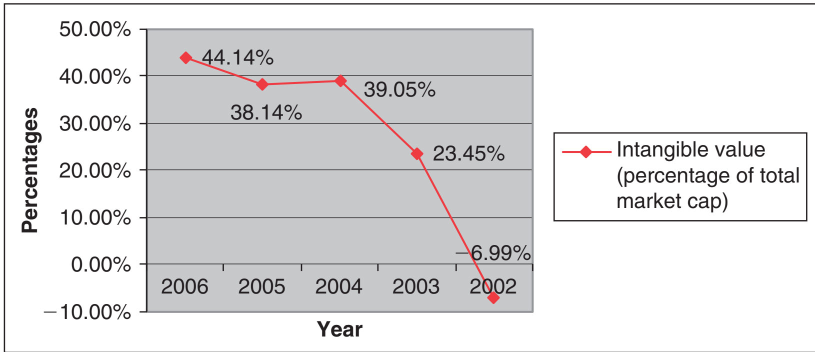

Figure 8.1
Marriott International.

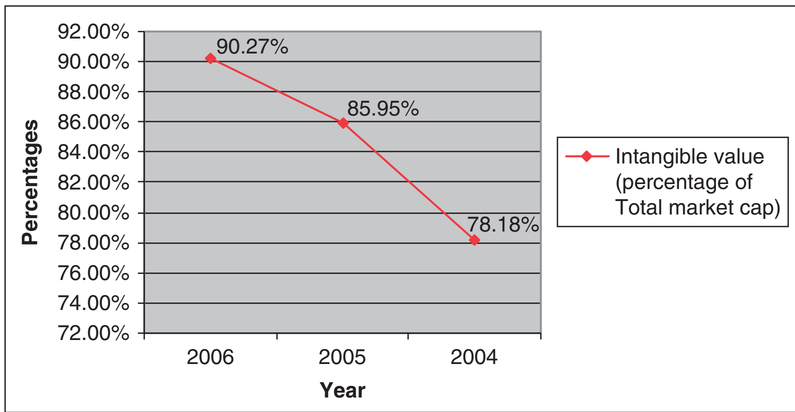

Figure 8.2
Choice Hotel Corporation.

by Working Mother Magazine. Its human capital is highly diversified: 80 different languages are spoken system-wide in Marriott International (Fischer *et al.*, 2003). Marriott has also invested on customer relationship technology in order to maintain long-term relationship with its customers. In order to optimize the revenue management applications, Marriott installed One Yield revenue management system. This system enabled Marriott International to save $9 billion in 1 year thereby giving the company a competitive advantage (Overby, 2005).

Choice hotel international

In 2004 Choice's intangible value was at 78.18% and it rose steadily to 85.95% in 2005 and 90.27% in 2006 (Figure 8.2). Again, the

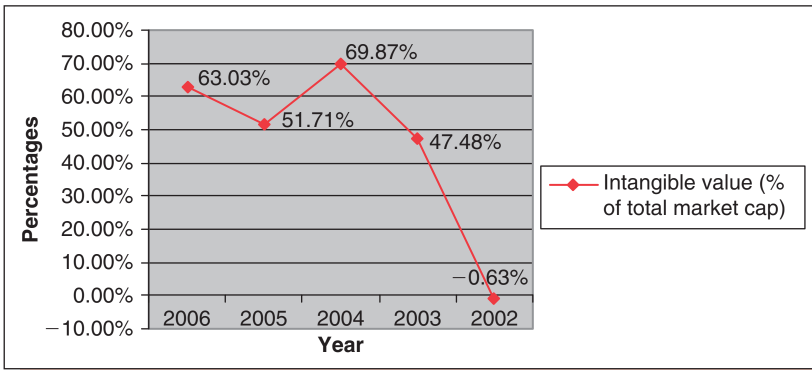

Figure 8.3
Four Seasons Hotel Corporation.

upward trend is clear even without 2002 and 2003 data. Choice Hotels is a management company with no ownership of lodging properties; consequently it reduces the level of business risk that it could potentially confront. In the absence of lodging revenues and operating expenses, the company's cash flows are relatively more predictable and sustainable. This is one of the reasons for the relatively large size of Choice Hotel International's intangible value. The company's investment in e-procurement technologies has also provided additional revenue stream. For example, in 2000 Choicebuys.com generated $400 million in e-procurement business alone (Wolff and Brennan, 2001). Additionally, Choice Hotels signed a strategic partnership agreement with the American Automobile Association. This strategic agreement has generated $200 million revenues for the company.

Four seasons

Lodging companies' earnings were seriously damaged in 2002 because of the SARS epidemic and September 11th and as a result lodging stocks did not do well on the stock market (Figure 8.3). The percentage of intangible value was −0.63%. However, in 2003 this figure rose to 47.48% and in 2004 it climbed to 69.07%. There was a slight drop in 2005 to 51.71% and later rising in 2006 to 63.03%. Overall, the size of intangible values is very high in Four Seasons. Several reasons may account for this high intangible value. One factor is that Four Seasons enjoys a competitive advantage in the area of human capital among its competitors. Four Seasons' employee selection process is very rigorous and competitive. For instance,

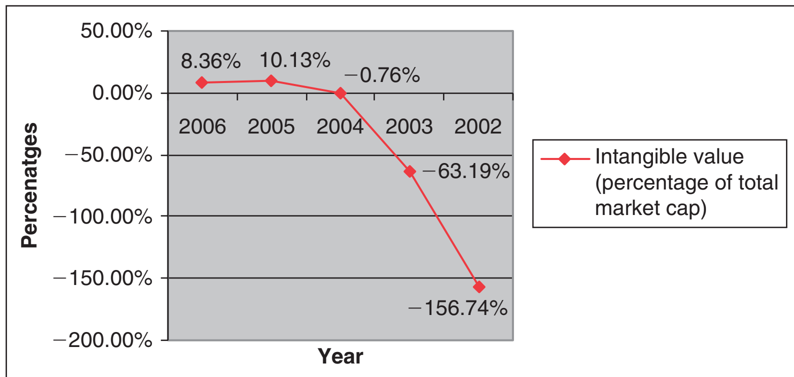

Figure 8.4
Starwood Hotels and Resorts Worldwide Inc.

before the opening of the Four Seasons New York, 30,000 people applied for positions. 3000 applicants out of 30,000 were called for interviews, and only 400 people were hired.

Starwood hotels and resorts worldwide

In 2002, the size of Starwood's intangible was very negative and very high at −156.74% (Figure 8.4). The figure improved after that year to −63.19% in 2003 and −0.76% in 2004. Since 2004, Starwood's intangible value has been positive and rising. By 2006, 8.36% of total market capitalization is intangible value. A factor contributing to Starwood's intangibles is its Starwood's Preferred Guest Programme. It was the first frequent guest programme in the hotel industry. Brand Strength is also another competitive advantage of Starwood. Their global distribution system helped Starwood maintain good relationship with its current and prospective customers.

Hilton international

The figure in 2002 and 2003 were −75.62 and −26.38%, respectively (Figure 8.5). Like other hotels during this period, Hilton was affected by the SARS epidemic and the September 11th terrorist event. 2004 and 2005 showed positive intangible value of 5.61 and 5.32%, respectively. These figures although positive are relatively very small compared to the other hotel chains like Marriott, Choice, and Four Seasons. Nonetheless the upward trend is evident.

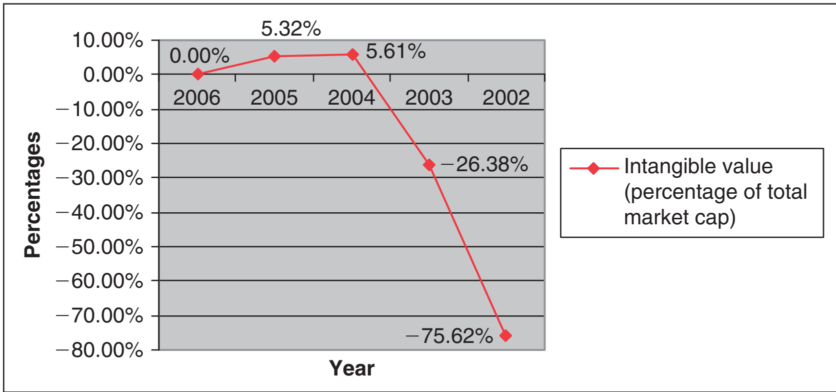

Figure 8.5
Hilton Hotel Corporation.

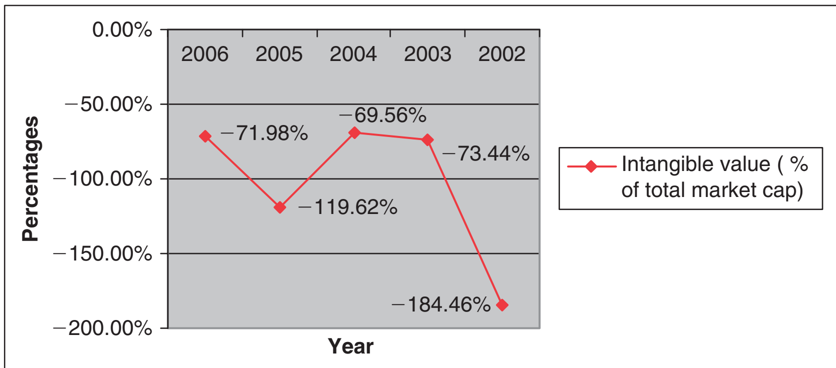

Figure 8.6
Interstate Hotels and Resorts.

Interstate hotels and resorts

Interstate Hotels exhibits the general upward trend of intangible value it is clear that during this period between 2002 and 2006 investors were neither impressed with the company's performance nor its future growth opportunities (Figure 8.6). For those 5 years the market value of Interstate was consistently below its book value. In 2002 the size of intangible value was −184.46%, increasing to −73.44% and −9.50% in 2003 and 2004, respectively. In 2005 the value declined to −119.62% and later rising to −71.98% in 2006.

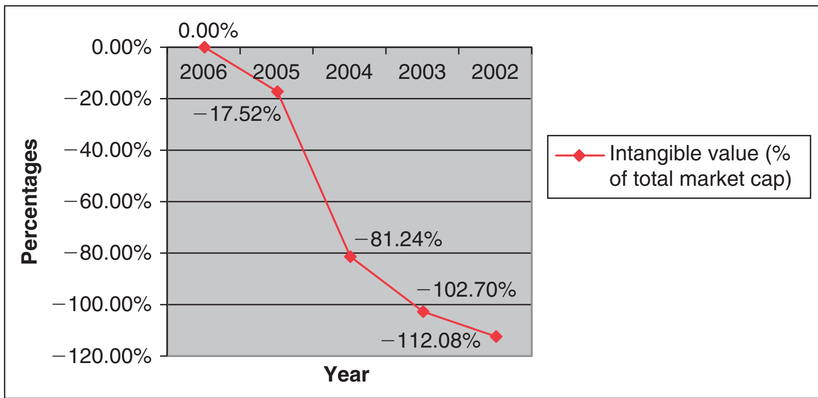

Figure 8.7
Orient Express Hotel Ltd.

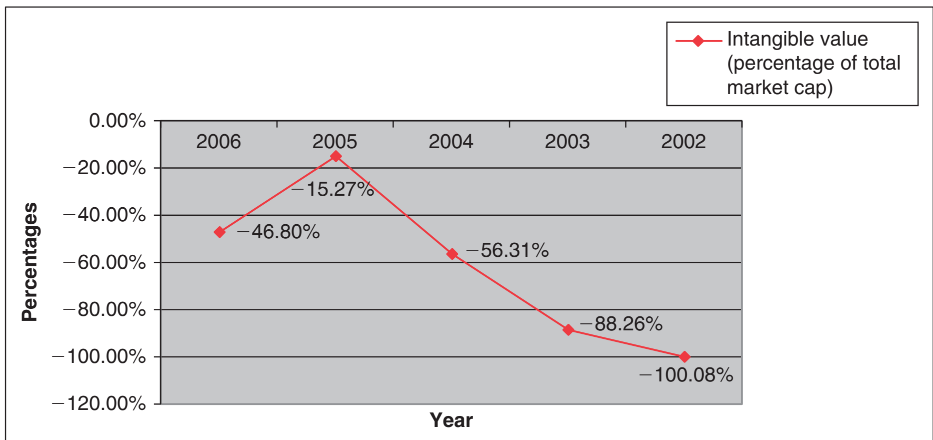

Figure 8.8
Marcus Corporation.

Orient express

Similar to Interstate Hotels the Orient Express showed negative intangible value during the 5-year period under review (Figure 8.7). In 2002 the value was −112.08% and it rose in each of the following years to −102.70, −81.24, −17.52, and 0.00%. The upward trend remained consistent with this company.

Marcus corporation

Marcus Hotel Corporation exhibits negative intangibles values for the 5-year period (Figure 8.8). It is obvious that investors

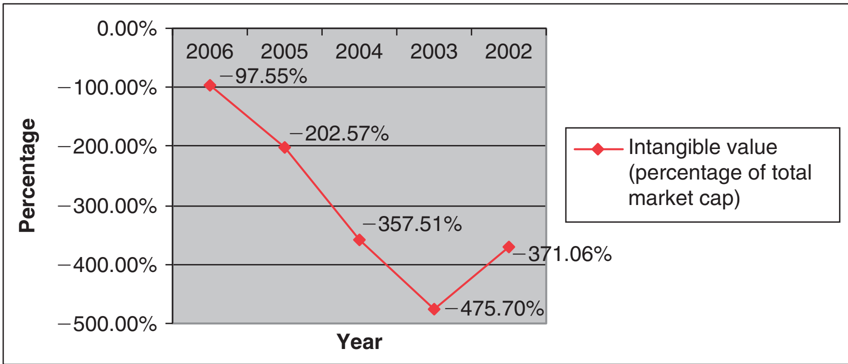

Figure 8.9
Red Lion Hotel.

have little confidence in the performance of the company at this time. In 2002 the intangible value was −100.08% and it rose to −88.26% in 2003. There was a further increase to −56.31% in 2004 and −15.27% in 2005. There was a setback in 2006 when the value dropped to −46.80%. Overall the upward trend of the intangible value is present.

Red lion hotel

Like Marcus Corporation and Orient Express, Red Lion had consistently negative intangible value over the study period; nonetheless the annual trend was increasing (Figure 8.9). It is evident that although companies like Marriott and Four Seasons rebounded relatively quickly from the devastating effects of SARS and September 11th, several hotel companies took longer to recover. The intangible value was −371.06% in 2002 then dropped to −475.70% the following year. Then the value began to increase from 2003 to −357.51% in 2004, 202.57% in 2005, and −97.55% in 2006.

Sonesta international

Sonesta International's intangible value was also negative from 2004 to 2006 (Figure 8.10). The negative value was as high as −469.63% in 2004 and declined dramatically to −17.82% in 2005 and −35.40% in 2006.

Measuring intangibles: is it possible?

Measuring intangibles using traditional accounting methods is a challenge in the emerging new knowledge economy. It

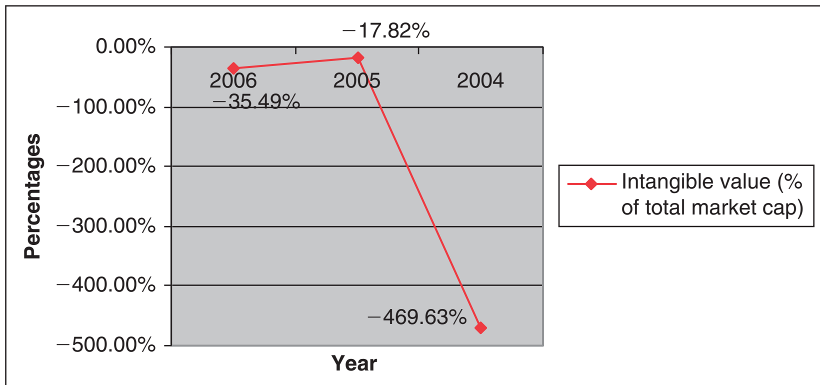

Figure 8.10
Sonesta International.

becomes a challenge because the value of intangibles is different for different people. Tangible assets have exact number values and there is no level of uncertainty in calculating results. Yet it is known that intangibles, especially intellectual capital, contribute to the bottom line. One standard of measurement has been proposed by Kaplan and Norton (1992, 1996) known as the "Balanced Scorecard." The authors identified three elements for assessment, (1) companies need to know how customers perceive them and what is needed to excel, (2) companies need to know how they can improve and create value, and (3) they need to know how they are perceived by their shareholders. Not all of the Balanced Scorecard components, however, are quantifiable relative to traditional accounting processes.

Measuring intangibles in dollar value is the real challenge. In March 1997, the *Montague Institute Review Journal* published 12 techniques that may be used to assess the value of intangible assets. Of the 12 techniques described, 4 are quantitative, and 8 are qualitative. The four quantitative techniques include *business process auditing*, *knowledge banks*, *calculated intangible value*, *and colourized reporting.*

Business process auditing measures show how information improves value related to a specific business process, such as production, marketing, or accounting. What is the reduced cost of production or completing accounting functions? Dollar value can be placed on reducing costs, because an intangible asset was determined by estimating the cost reduction associated with the use of new information utilized.

Knowledge bank techniques treat capital spending as an expense, rather than as an asset, and treat a portion of salaries

as an asset, since capital spending creates future cash flows. *Calculated intangible value* compares the return on assets with a published average ROA for the industry. The ROA is assessed relative to industry standards.

Percentage comparisons between actual performance and industry standards can be completed and used as goal-setting targets for improvement.

Colourized reporting was suggested by SEC commissioner Steven Wallman. He suggested that traditional financial statements are to be supplemented with additional information such as brand values, customer satisfaction measures, and the dollar value of having a trained workforce (http://www.montague.com, Anonymous). Such information will add "colour" to the traditional financial reporting.

Additionally, valuation analytical methods include three broad categories, which include Cost, Income, and Market Approaches. The recommended techniques for Cost Approach Methods include determining replacement and reproduction costs of intangible assets. The costs should be based on the acquisition cost, projected with an inflation and growth percentage. The Income Approach Methods include costing direct and yield capitalization, along with identifying income measures associated with each intangible asset. The Market Approach Methods include sales comparison transactions, license comparison transactions, and royalty rates. The rates may be amortized over the life of the asset (http://intelegen.com, Measuring intangibles and intellectual capital: An emerging first standard).

Foster *et al.* (2003) recommended several practices for accounting for intangible assets. Their suggestions included allocating the purchase price of an acquired entity to the assets acquired and liabilities. It is also recommended that:

- An intangible asset may be recognized as an asset apart from goodwill if it arises from contractual or other legal rights and it is transferable or separable from the acquired entity. Some examples include: trademarks, internet domain names, customer lists, etc. If is not recognized as contractual, then it must be capable of being divided and sold, transferred or rented, regardless of the intent to do so. (http://www.nysscpa.org/cpajournal/2003).
- Other intangible assets would be amortized over its useful life, using a method that indicates how benefits of the asset are consumed. The straight-line method is the most common method used.

Conclusion

Companies create intangible value from many sources; these include innovation, human capital, leadership, strategy execution, and many more. Companies that recognize, harness, and leverage these intangible assets are rewarded by investors on the stock market. These assets help companies maintain competitive advantage as well as sustain their revenues and earnings stream for the future. Some intangible assets exist in all companies while others are created. The current hyper-competitive nature of the lodging industry requires that companies look beyond the traditional bricks and mortar and identify the sources of intangible value within the company and invest in them. What is clear from the ten examples of lodging companies is that the rising trend in intangible value is obvious although the size is negative for some of the companies. It is also clear that the companies that have exhibited negative values over the 5-year period have a lot to do to impress the stock market. The devastating effects of an epidemic such as SARS and September 11th impacted all the lodging stocks; however, some stocks recovered more quickly than others.

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