

INTELLECTUAL PROPERTY AS A SOURCE OF GROWTH OF THE COMPANY'S ASSETS

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***Abstract:** This article, emphasize the fact that in real conditions, in order to achieve the effectiveness of the management object, it is not so important who owns the property, but the way the owner manages the property to increase the cost of the company.*

***Key words:** intellectual property, effect, motivation, contract, manager, project, cost.*

***JEL Classification:** O34, O15.*

1. Introduction

The effective investment of capital with aim to invest in the development of production is one of the main tasks the managers are facing with. In complex economic conditions, management must ensure the vital activity of an economic entity, its independently development and implementation of investment policy.

In relation to the objects of investment, investments are divided into real investments, or investments in tangible and intangible assets, as well as financial investments. Intellectual property is one of the types of intangible assets of the company, that is a new object for the economy. Intellectual property it is the property of the results of intellectual activity, intellectual product, which is part of the totality of objects of copyright and inventive right. In a market economy, intellectual property acts as a tool for gaining and maintaining market positions, i. e. an element of creating competitive knowledge-intensive products, as well as an independent object of transaction.

It may be counted by the joint-stock company as a contribution to the authorized capital, as it is the equivalent of cash when accounting for the founders' contributions and distribution of shares in the authorized capital.

2. Research materials and methods

Realization of potential opportunities of intellectual property and its contribution is wider than a simple function of contribution to the authorized capital: the cost of intellectual property often exceeds the value of all other monetary and property contributions, and the received additional profit provides a real increase in the company's assets during the next 5-10 years. In this case, there is a contribution of human capital – capital in the form of intellectual abilities and practical skills acquired by the manager in the process of his education and practical activity.

The use of know-how in production activities (technological secrets of production, practical experience of production, technical, commercial, managerial and other activities that are of commercial value, applicable in production and professional practice) ensures strategic economic security of companies for a certain period of time. The transformation of know-how technologies into intellectual property is a definite process in terms of time and of costs.

As a result of making use of intellectual property, which contributes to increased (additional) profit and increase the assets of a joint stock company, entrepreneurial capital is created, which has a completely different content compared to financial investments. For example, goodwill (conditional value of business relations of a business entity) - the image of the company in the market provides competitiveness of products and presence of regular customers.

The effect (product) obtained as a result of acquisition (implementation) of intellectual property is in demand on the market, as it is able to increase the cost of the object.

While developing mechanisms for motivation managers, it is necessary to take into account that the manager's payment should be adequate to the obtained economic effect. In a tough competitive struggle, managers need to realize intellectual property by making huge efforts to solve super-tasks associated with great risks, that large labor collectives cannot always undertake.

Depending on the mechanism used, the system of motivation for managers can be a short-term and a long term ones (Fig. 1).

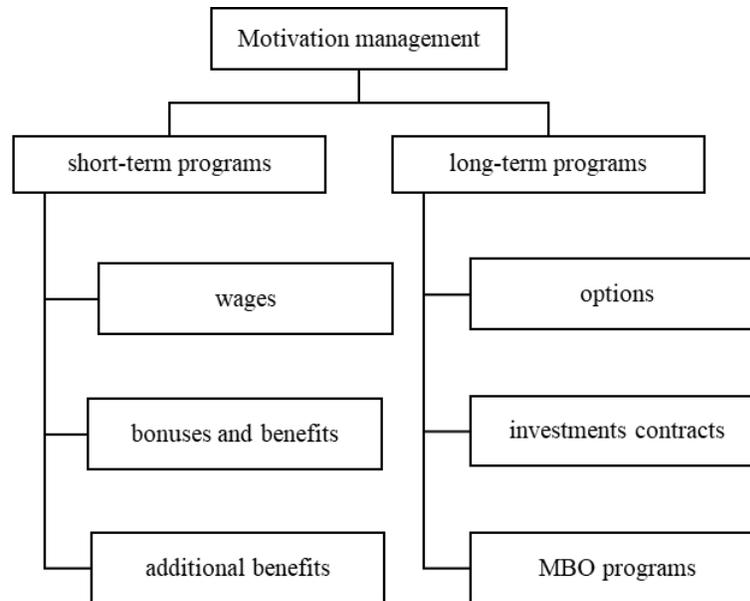


Fig.1. Scheme of motivation management

In matters of improving the effectiveness of management, long-term motivation programs are of the greatest importance, which are based on human capital and personal goodwill of top managers (CEO level - Chief Executive Officer or top managers), who play a leading role in reforming the company.

In order to protect the business of efficient acting companies and long-term attraction of highly qualified management, the best option is to provide top managers with the opportunity to buy back a large block of shares, including the controlling ones (Management Buy-out system, called MBO).

The MBO system has a number of advantages, including:

- attracting of promising highly qualified management, as far as the buyout under this system will takes place 5 - 7 years after the contract's signing;
- implementation of strategic tasks in an evolutionary way without disturbing the usual rhythm of the company during its reorganizing;
- the possibility of using new forms of management motivation, that will improve the efficiency of the company;
- increasing the responsibility of management staff for the final results of work, since management has complete and objective information about the state of things at the company;
- the transformation of managers into owners of the company and the emergence of personal interest in the efficiency of the management object,

- protection of the interests of shareholders, since after the company's management buys out a controlling stake, the constituent documents may stipulate measures and actions that the management carries out independently and require to taking into account the opinions of other owners.

Payment for shares by top managers in the conditions of the MBO system can be made through the mechanism of virtual options and phantom shares - acquired after the implementation of terms of the investment contract.

3. Investment Agreement – Managerial Incentive mechanism

The main points of the investment contract are:

- 1) a mandatory investment project (a business plan);
- 2) approval of the concluded contract of investment at the general meeting of the company's shareholders;
- 3) the presence of an individual (or a group of such persons) as being the owner of a controlling stake. When concluding an investment contract with a group of persons, the latter act on the basis of a joint activity agreement;
- 4) making payment by the owner of the controlling block of shares by offsetting as a payment the amount of investments in the company made by him;
- 5) transfer of a controlling stake to the owner for validity period of the investment contract, the right to vote at his own discretion with shares to be transferred to him at the end of the investment contract, with the exception of voting on certain material issues of the company's activities related to the reorganization of the company, amendments to the constituent documents, changes in the authorized capital, sale and other alienation of immovable property of the joint-stock company.

When concluding an investment contract, the manager submits to the shareholders' meeting for approval an anti-crisis management program (investment project) designed for a period of at least 5-10 years. Taking into account the industry specifics, the state of sales markets, territorial location of the business entity, as an effect from the implementation of crisis management can be considered the provision of certain parameters of profitability of sold products over a long period of time.

The contract of investment stipulates that a part of additional (increased) profit earned by the company (in excess of shareholders' expectations, including in excess of the standard profitability level of 15 - 25%) is allocated for the purchase of the company's shares.

In a simplified form, the manager of a joint stock company should ensure a certain level of established indicators, for example, profitability of at least 15 – 25 %. Additional profits received from the implementation of functional programs for production development and its team, the introduction of a new system, unparalleled forms of management, resource - saving technologies, i.e., the result of the use of intellectual property of the manager.

4. Results

The repurchased shares over the passed period are transferred to the trust management of the manager on account of realization of the investment contract as payment for the manager's contribution to the share capital of the joint - stock company. Intellectual contribution to the share capital is an increase of the shareholder cost, which is a direct repurchase of shares.

When the manager fulfills the terms of the investment contract, then the transfer of rem rights takes place. The joint-stock company finally settles accounts with the owner of intellectual property, i.e. shares repurchased at the expense of additional (increased) profit and transferred earlier to trust management are transferred to the manager's property (Fig. 2).

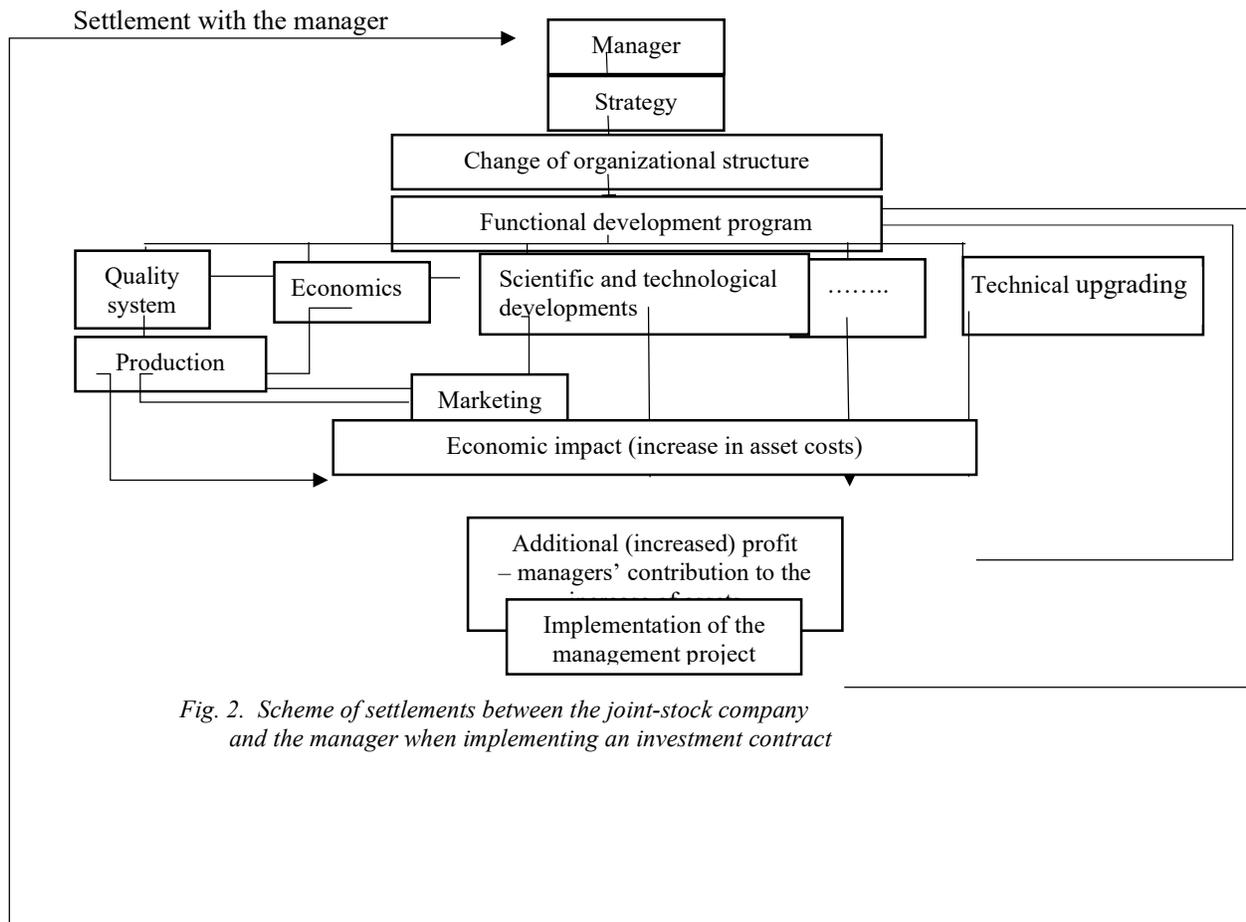


Fig. 2. Scheme of settlements between the joint-stock company and the manager when implementing an investment contract

The cost of shares repurchased by the company and transferred to the manager is the real equivalent to the increase in the economic potential of the joint-stock company.

With aim to motivate top managers of senior management staff, alongside with investment contracts, a bonus system may be applied, which gives manager the right to purchase shares in excess of the number stipulated in the investment contract.

The number of shares purchased as a bonus is limited. The amount of accruals to the manager for the past year it might be limited (for example, no more than 50% of the accruals).

If there is an investment contract, the bonus can be received by the manager only after the implementation of the contract activities. The remuneration (shares) set by the bonus during the implementation of the investment contract is accumulated in the bonus bank and, subsequently, paid by the manager at the share cost of the corresponding period.

On annual basis, the manager should publish and approve the enterprise development programs in all areas of production and economic activity for the current period and report on the implementation of the anti-crisis management program for the past period.

As a criterion in evaluation of the effectiveness of property management, can be taken:

- scientific and technical criteria - the effectiveness of the implemented solutions, patentability, the introduction of new technologies, the possibility of applying the results obtained in further developments;

- organizational and economic criteria - the effectiveness of management structures, ensuring information flows between departments, the efficiency of remuneration;

- production criteria - the areas location of raw material sources, materials and component parts, the state of the production fleet of machinery and equipment, reducing production costs;

- market criteria - conformity of the produced nomenclature with the market needs, the planned volume of sales, the total market capacity in relation to the offered and similar products, the elasticity of the price of products, the need for marketing research and advertising to promote products on the market and risk minimization;

- financial criteria - investment amounts and start-up costs, expected annual profit, compliance of the proposed management system with the criteria of capital investment efficiency, the scope of tax benefits provided by the legislation.

5. Conclusions

When concluding an investment contract, the management's responsibility for the final work results increases significantly, being associated with an increase of the risk to be dismissed in case of a decrease in the efficiency of the joint-stock company's work, and, correspondingly, the failure to pay remuneration and receiving a "zero" bonus.

The manager-owner will be interested in the increase of the company costs, receiving a decent remuneration and, at the same time, avoiding the risks of making wrong decisions.

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