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School of Economics and Management

Department of Business Administration

Master Thesis

# **The valuation and recognition of internally generated brands & trademarks**

Course: BUSN79

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## Abstract

- Title:** The valuation and recognition of internally generated brands & trademarks
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- Key words:** Internally generated brands, Brand valuation, Reliability, Recognition, Accounting
- Purpose:** In this thesis we aim to give insights into the question if the market considers the valuation of internally generated brands to be reliable and if the market considers the recognition of trademarks to provide useful information. We suppose that our contributions could be of guidance for future research in the subject area and serve as useful document for standard setters when deciding on future reforms of IFRS 3 and IAS 38.
- Methodology:** This study is a qualitative study with a cross-sectional design consisting of semi-structured interviews with both preparers and users of financial information.
- Theoretical framework:** Our theoretical framework consists of three main sections. Starting with defining a brand, we further move on to the presentation of the most recognized brand valuation methods and finalize with a presentation of the accounting debate concerning intangible assets and the recognition of internally generated brands.
- Empirical foundation:** Our empirical research relies upon six interviews with various market participants where one participant is classified as a user of financial statements and the other five as preparers. We have received comments from two companies that, due to various reasons, declined to participate in an interview.
- Conclusions:** We draw the conclusion that internally generated brands should not be recognized in the balance sheet for various reasons. First, the comparability problem is not perceived to be a major problem. Second, it is perceived to be difficult to value internally generated brands reliably. Third, users of financial statements do not find this information to be useful in making their economic decisions.

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# 1. INTRODUCTION

## 1.1 THE MIRROR METAPHOR AND THE AIM OF ACCOUNTING

When thinking about it, accounting is just like a mirror. Depending on how the mirror is constructed and what aim it is constructed for, it can show you different reflections of the same motif. If you have been in an amusement park and went into a ‘mirror room’, these different aims become evident. Some mirrors have the aim of enlarging the beholders and some have the aim of making them super slim. Similarly, the use of different accounting techniques and practices give different views of the same economic entity (Gradén, Lövgren, Nilsson, 2016). The intention of most mirrors is, like accounting, to give a true and fair view so that beholders and users are able to make sound decisions. While a mirror can help beholders decide what to wear, financial statements are supposed to increase the decision usefulness of financial information. This is agreed to be the main objective with financial reporting as stated by the IASB and FASB (IASB, 2015; FASB, 2010). If we accept this main objective when constructing both the mirror and accounting standards, we stand before the question of how it should be constructed to give the most true and fair view. However, we need to bear in mind that our main goal is not to reach an image that is viewed to be hundred percent correct. We are striving for an image that is perceived to be correct enough for the users to make sound decisions. After all, a mirror only gives us a reversed picture of our reality; still it is a picture that is fair enough.

Contrary to a mirror, accounting has several different objectives that are not always in line with each other. If information is to be useful for current or potential investors, it needs to be relevant and truthful. These are the two main qualitative characteristics according to IFRS. In addition to these two qualitative characteristics, IFRS proposes four enhancing ones: comparability, verifiability, timeliness and understandability (IASB, 2015; Nobes & Parker, 2016).

## 1.2 BACKGROUND

When it comes to the recognition of internally generated intangible assets, specifically trademarks and brands, it is often verifiability and reliability that stand in contrast with relevance and comparability (Mindermann & Brösel, 2009). The recognition of internally generated intangible assets is one of the most controversial topics in the accounting field that has been highly discussed by academics, practitioners and regulators (Jenkins & Upton, 2001).

On March 31st 2004, the International Accounting Standards Board (IASB) issued IFRS 3, a new accounting standard that deals with business acquisitions and mergers and related amendments in IAS 38 (IASplus, n.d.). When doing so, the IASB for the first time allowed the recognition of acquired brands in the balance sheet (Intangible business, 2004). The reason behind this allowance is traced to the fact that intangible assets have become economically more important over the years. Accordingly, it is perceived that the usefulness of financial statements would be enhanced if acquired intangible assets in business acquisitions were distinguished from goodwill (Intangible business, 2004).

However, limiting the recognition of brands to only those acquired in business acquisition has been a subject of great discussion as it excludes internally generated trademarks and brands. In order to recognize an intangible asset in the balance sheet, IAS 38 demands that it must be,

- a) “probable that the expected future economic benefits that are attributable to the asset will flow to the entity”
- b) “the cost of the asset can be measured reliably” (IAS 38 para. 21).

The recognition of internally generated brands is not allowed in the balance sheet due to the perception that the cost of internally generated trademarks cannot be measured reliably (Skinner, 2008). Moreover, in order to capitalize an intangible asset you need to be able to identify and distinguish attributable costs that can be directly allocated to the intangible asset. As you are not capable of doing so, as argued by the IASB, internally generated brands are not allowed to be recognized in the financial statements (IAS 38 para.63). Although an internally generated brand fulfills the criteria of defining an asset, that is, a present economic resource controlled by the entity as a result of past events (Clark & Brown, 2013; Nobes & Parker, 2016), it remains unrecognizable due to the present recognition criteria (Salinas, 2009).

Nonetheless, brands and trademarks increasingly comprise a larger portion of firms’ economic value. Coca-Cola is perhaps one of the most recognized brands whose estimated value was approximately 700 billion Swedish kronor in 2007 comprising around 60 percent of its market value (Melin & Hamrefors, 2007). Brands are no longer seen as tactical tools for marketing and selling purposes but are strategic resources for creating an entity’s value (Melin & Hamrefors, 2007). Apple, IKEA and BMW are only three examples of companies whose success and fame are highly dependent on their brands and the narratives behind these brands. Lev (2001) describes this movement as the “new economy” where the current business and value creation are driven by brands and brand building.

Furthermore, when allowing the recognition of acquired brands and trademarks only, accounting is made less comparable. A company with a strong self-generated brand or trademark will not be able to recognize it in the balance sheet unless another company decides to acquire this brand or trademark. In other words, it is claimed that current standards concerning the recognition of internally generated intangible assets fail to fulfill the qualitative characteristic “comparability”. Moreover, we as authors would like to point out that the current design of the standards might lead to an unethical behavior. In theory, a company’s shareholder could create a new company with the same owner structure as the current one and sell their shares to the newly established company. This newly established company could consequently recognize the brand/trademark and show it in the balance sheet. If it is perceived that management is able to value a trademark/brand reliably and separate it from goodwill during an acquisition, then why cannot they directly distinguish and value the trademark/brand reliably?

A lot of criticism has been directed towards the IASB framework and standards, claiming that both are outdated and do not capture the value drivers of the new economy. Rather than experiencing a lack of reliable valuation methods for brands it is the framework that is perceived to fail to recognize and communicate the value of brands (Tollington, 1998; Lev,

2001). At the same time, there are those who firmly agree with the current view of the IASB that oppose the recognition of internally generated brands (Skinner, 2008; Penman, 2009). This raises the question of whether and how you can faithfully represent internally generated brands and trademarks (Barth, 2015). However, as this debate is based mostly on theoretical reasoning, an even more interesting question would be if investors believe this lack in comparability to affect their investment decisions.

### 1.3 PREVIOUS RESEARCH

Numerous research has been performed concerning the usefulness of financial information. It is worth mentioning that many of these research contributions are based on value relevance that is used to measure the decision usefulness of financial information. The higher the association between financial statements and the market value, the higher the value relevance is perceived to be and the higher is the decision usefulness (Bilal & Abdenaser, 2016). However, there is a growing gap between companies' market value and their equity value that some researchers trace to the accounting standards' failure to capture internally generated intangible assets in the balance sheet. Accordingly, accounting information is seen as reliable but not relevant when assessing a company's value (Bilal & Abdenasser, 2016).

Still, as Jenkins & Upton (2001) state, the objective of financial reporting has never been to show that the net assets of a company equal its market value. It is generally agreed that one of the main reasons to why we defer income and expenses to a profit or loss account is that the profit or loss of the company is seen as a better indicator of its future cash flow than the current year's cash flow (Jenkins, 2008; Deegan & Unerman, 2011). While profit or loss try to show the economic value that has been created during an accounting period, which often extends over a year, the current year's cash flow only shows a residual between how much money the company had on the last year's closing day and the current year's closing day. As a company's deposit of cash can fluctuate heavily from day to day, it does not really give any useful information in assessing future cash flows. Hence, financial accounting should provide information that helps the investors predict future cash flows and guide them when evaluating and valuing the company. In other words, financial accounting is not meant to value the company for them.

As we have our doubts regarding whether value relevance is actually relevant for deciding the decision usefulness of financial information, we see a need for an empirical study that is based on interviews with financial actors in order to determine whether they actually perceive the recognition of internally generated brands to provide useful information for their investment decisions. However, in order to be useful, financial information must be reliable. A crucial part of determining the usefulness of internally generated brands would consequently be to assess if an internally generated brand can be measured reliably. Furthermore, we as authors discovered a deficiency in the literature where there is a lack of sufficient amount of studies that examines what financial actors think about the valuation and usefulness of internally generated brands in the financial statements. According to Hoffman (2005), Howery (2001) has conducted a study of fund managers, private equity investors, venture capitalists and bank analysts, which show that *"70% of respondents felt convinced that the market lacked reliable tools to value intellectual property effectively. 56% even stated that the value of intellectual property could not be measured at all"* (Hoffman, 2005, p.4).

However, this study did not tackle internally generated brands specifically and was carried out, at the time of writing; that is 16 years ago. Thus, this stresses the need for additional studies that investigate how the market currently perceives the valuation of intellectual property, especially internally generated brands.

#### **1.4 RESEARCH QUESTIONS**

The two research questions we would like to answer in our thesis are as follows:

1. Do preparers of financial statements consider that they can value their internally generated brands in a faithful way and do the users of their financial information consider this information to be useful?
2. Should internally-generated trademarks and brands be recognized in the financial statements?

#### **1.5 AIM OF THE THESIS**

In this thesis we aim to give insights into the question if the market considers the valuation of internally generated brands to be reliable and if the market considers the recognition of trademarks to provide useful information. We suppose that our contributions could be of guidance for future research in the subject area and serve as useful document for standard setters when deciding on future reforms of IFRS 3 and IAS 38.

## 2. METHODOLOGY

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This methodology chapter will be divided into two sections. In the first section (2.1 *Theoretical background*), we will describe how we have structured and conducted the theoretical background of this thesis. In the second section (2.2 *Empirical study*), we will describe and argue for how we have conducted our empirical study.

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### 2.1 THEORETICAL BACKGROUND

For our theoretical framework, we aim to perform a structured literature review which will be divided into two sections. The first section will be dedicated to the understanding of what a brand is, the possibility to recognize a brand in the balance sheet and different valuation methods. The second section, on the other hand, will be dedicated to the research debate on whether and how internally generated brands should be recognized in the financial statements.

In order to answer our research questions, we firstly need to define what a brand is. This is of great importance as we need to know what we are valuing before determining if we can faithfully value a brand. We will further look into different valuation methods that are applicable to brands. This is, of course, also important as some valuation methods are perceived to be more reliable than others. However, before looking into different prescribed valuation methods we see a need to analyze how a brand actually creates value for a company. We will also, in the light of our proposed definition of brands and their value creation, assess more deeply the possibility to recognize internally generated brands according to the current International Financial Reporting Standards (IFRS).

As there are at least thirty-nine different proprietary valuation models that have been presented by various researchers and providers (Salinas, 2009), we will confine ourselves to describe the most common models. Describing all valuation methods in detail or even touching upon all of them quickly would be too extensive for the scope of this thesis. Accordingly, we will confine ourselves to describing some of the most common valuation methods and presenting the reason/s behind why their use in brand valuation is approved or disapproved by standard setters. The valuation methods will further be categorized into the three main approaches that a brand theoretically can be recognized by in the financial statements: *at cost*, *fair value* or *value in use*. The International Valuation Standards Council (IVSC) recognizes these approaches as the *cost approach*, the *market approach* and the *income approach* (IVSC, 2016 a). A structured literature review will be conducted for these two parts of the thesis where *The international brand valuation manual: a complete overview and analysis of brand valuation techniques, methodologies and applications* by Salinas (2009) will be our starting point. We believe Salinas' (2009) book to be a trustworthy source that gives a broad introductory overview of the topic. It is worth mentioning that we assume that this single book cannot provide a complete overview of the research area regarding the valuation of brands. Accordingly, we have conducted a thorough literature review to complement and challenge the given concepts by Salinas (2009) with other important and credible sources. We would like to note that this literature review will not present all the valuation methods within the field taking into consideration that does not lie within the scope of this thesis. The purpose of these two chapters (definition of a brand - section 3.1 & valuation of a brand - section 3.5) is to give a basic overview that can help the reader understand the arguments for and against the recognition of internally generated trademarks

and brands. We use a number of keywords in this literature review which include: *definition of a brand*, *brand valuation* and *värdering av varumärke*. Also, we refine our search to subjects as *business*, *management* and *accounting*.

After defining a brand and presenting the different valuation methods, we will, in the second section of our theoretical framework, look into researchers' arguments of whether and how one should recognize brands in the financial statements. Together, with our empirical research this is an important foundation to draw conclusions regarding the question of whether and how internally generated trademarks and brands should be depicted in the financial statements. As the subject of intangible assets and brands is heavily debated within the financial context, it is important to consider both sides of the debate when collecting data.

Similar to the first section of the theory chapter, this section will be based on a deep literature review where various keywords such as: *brands*, *accounting*, *recognition of brands* and *internally generated trademarks and brands* are used when searching for relevant and adequate literature. Our supervisor Kristina Artsberg, an Associate Professor at Lund University School of Economics and Management, holds many years of experience within the field of accounting for intangible assets. Kristina Artsberg employed her expertise to recommend a number of relevant articles that represent important and credible sources to support our research. Furthermore, Artsberg gave us access to a literature review that she is writing but is not yet finalized and published.

Within accounting, especially the normative accounting theory, arguments are rarely based on any empirical research. Instead, arguments are rather built upon theoretical reasoning and personal opinions. To assess the reliability of the articles used in our literature review, we evaluate the empirical research on which opinions are based taking into consideration that theoretical reasoning and personal opinions cannot be judged in terms of reliability within the normative accounting theory. As this topic is highly normative, we have paid less interest in the reliability of the debate articles and more interest in their relevance and argumentation. However, just because we pay less interest to the reliability of these articles, it does not mean that we neglect it entirely. On the contrary, we have taken extra consideration that the articles are peer-reviewed from respected journals and authors.

## **2.2 EMPIRICAL STUDY**

In order to analyze the market participants' opinion about the recognition of internally generated brands and trademarks, we perform semi-structured interviews with several actors which is considered to adopt a qualitative approach (Bryman & Bell, 2015). Who these actors are and why we have chosen them specifically is discussed further below in this section.

Due to the time-limit of this thesis and our geographical location, we restrict the interviews of this study to representatives from companies and organizations whose management or headquarters are located in Sweden. A wider study that includes sending out questionnaires to a large amount of users would have been interesting to perform but we consider it to be less useful to our thesis as it does not provide as rich answers as interviews do. Furthermore, the questions of our interview need to be answered by high-level representatives who are well-informed about both international standards and the treatment of internally generated brands. Not to forget that such study would also be time-consuming and would not allow us to discuss

the responses of the participants. Consequently, we confine ourselves to performing several semi-structured interviews which enable us to investigate deeply how certain actors consider the recognition of internally generated brands.

Due to the fact that the research regarding the subject matter lacks sufficient studies that share the same aim as our thesis, the possibilities to hold structured interviews are limited. This is why our interview questions are not based on any previously structured questionnaires that could have been used as guidance for our interviews.

The usage of semi-structured interviews enables us to have a more vivid discussion with the participants and follow-up questions can be asked to clarify ambiguities. Moreover, semi-structured interviews enable us to ask the companies specific questions that can be of great interest. The interviews will be conducted in English or in Swedish, depending on the interviewees' preference. The decision to conduct interviews either in English or Swedish is based on our assumption that the quality of the interviews would be enhanced if the interviewees feel comfortable with the spoken language and not restricted by one of these languages. We consider this to improve the interviewees' abilities to articulate and describe their opinions. However, we are aware that performing interviews in two languages might expose our empirical research to the risk that different interviewees would perceive our questions differently due to translation problems. In fact, Nobes & Parker (2016) attribute the cause behind the varied IFRS practices among countries to the translation process of the standards. Actually, there are some words that cannot simply be translated without losing their original meaning and the same problem applies when performing and analyzing our interviews. Still, when translating both the interview questions and the interview answers, we tried to reduce this risk as much as possible by being aware of such a risk and consulting a bilingual person who is fluent in both Swedish and English languages. However, we are aware that such risk cannot be reduced to zero. We believe the benefits of being able to perform the interviews in both Swedish and English exceed the risks.

The interview questions have been sent to the interviewees in advance to enable them to prepare themselves for answering them. It is noteworthy that when structuring the interview questions, we draw a link between the research questions we are investigating and the theoretical framework of our thesis. Hence, the responses of the participants would interconnect the practical and theoretical fields.

The question whether internally generated brands should be recognized in the balance sheet includes two factors: *reliability of brand measurement and valuation* and *decision usefulness for investors*. These factors can be described as two sides of the same coin. On one side we have the preparers of financial statements and on the other side we have the users of these statements. Our empirical research will, therefore, consist of two different types of interview questions, one that is intended for the users of financial statements and one that is intended for the preparers of these statements.

### **2.2.1 WHO ARE THE USERS OF FINANCIAL INFORMATION?**

The users of financial statements are myriad actors such as customers, suppliers, owners, financial analysts and so on. In theory, the term "user" of financial statements can include anyone who is interested in the company's financial report. Still in this section, we focus on

financial investors such as banks and shareholders who are among the most important actors as expressed in the IASB's objective of financial reporting (IASB, 2015; Nobes & Parker, 2016). More specifically, we will focus on lenders and shareholders who invest in large limited companies that have widespread ownership structures. The owners of companies are in general considered as important actors who have clear stake and interest in their entities. Nonetheless, taking into consideration that the owners of small and big owner-lead companies often have close relations with the management, or perhaps they are even the management, the view of these users will not be considered in this thesis. We presume that they already have access to all necessary information for future investment decisions concerning the company and therefore would not find the recognition of internally generated brands to generate useful information for their investment decisions. Shareholders in limited companies with a widespread ownership structure and banks are assumed to be more reliant on the information published in the annual reports as they do not have the same capabilities and access to internal financial information as the aforementioned users.

### *2.2.1.1 SHAREHOLDERS*

There are many different types of private shareholders which include persons who buy and sell shares on a regular basis (active shareholders) to those who invest only once in some shares (inactive shareholders). According to Statistiska Centralbyrån (SCB), also called Statistics Sweden, in 2015, there were around 1.3 millions of private shareholders who hold shares in companies quoted on Swedish market places (SCB, 2015). Due to the large amount of shareholders, an investigation regarding the opinions of private shareholders on the recognition of internally generated brands would have necessitated a huge sample in order to obtain a result that can actually represent the whole population. After all, one can also question the quality of such investigation as most shareholders are not fully familiar with the accounting treatment of intangible assets and brands. We have, instead, chosen to focus on interviewing representatives from a Swedish shareholder organization, Aktiespararna, which we find to be a good representative that holds the necessary knowledge and expertise to answer our type of questions.

### *2.2.1.2 FINANCIAL ANALYSTS*

When assessing whether to invest in a company or not, one could assume that most investors would like to have as much information as possible to make a sound judgment of the company's prospects. As many shareholders do not have the time or knowledge to do so, they use the expertise of a financial analyst as guidance when making economic decisions. There are also those investors who entirely assign their investment decisions to analysts. This explains why analysts are seen as important actors in the financial market. Sveriges finansanalytikers förening/The Swedish Society of Financial Analysts (SFF) "embodies professionals active in the sphere of qualified financial analysis within Sweden" (SFF, n.d.). We find this organization to be a good representative of financial analysts in Sweden. This is why we have planned to interview their Secretary General Nils Liliedahl and managed to do so.

### *2.2.1.3 BANKS*

In Anglo-saxon countries like the United Kingdom and the United States of America, the stock market is the most important actor in corporate financing. On the other hand, in

continental countries like Germany, France and Sweden banks are seen as more important actors that companies generally turn to for finance (Nobes & Parker, 2016). In addition to being an important investor, we believe that banks have a slightly different view than shareholders when making their investment decisions. While shareholders tend to look at profits and the value of the company and its shares, banks are probably more interested in actual cash flows and the company's ability to pay interest and repay their loan. These different aims can have an impact on their investment decisions and this further highlights the need to include banks in our study. We have been in contact with the biggest banks in Sweden where we requested to hold an interview with each one of them (see Table 1). We have selectively chosen those banks that are operating within corporate lending. Smaller banks whose business ideas are focused only on private lending were excluded from our intended population. However, confidentiality and time-limits were some of the reasons why the contacted banks restrained from participating in our empirical research.

### **2.2.2 WHO ARE THE PREPARERS OF FINANCIAL INFORMATION?**

Preparers of financial statements can be described as any company that is required in one way or another, to prepare financial statements. In this thesis, we focus on preparers of financial statements who currently possess one or several internally generated brands which they cannot recognize in their balance sheets according to the current standards (IAS 38 and IFRS 3).

The restriction to only include limited companies is not applied for the preparers of financial statements. It is true that the users of non-limited companies are restricted to a few owners and potential lenders of capital and that the financial reports of such companies consequently will have less amount of users. As the restricted amount of users is not a factor that affects the preparers' ability to reliably value their brand, we do not believe that this will decrease the relevance of the performed interviews.

As presented in Table 1, we have contacted several different companies within many different sectors. The list includes many large listed companies, some large unlisted companies and some smaller companies. However, we consider all companies to be large enough to be able to answer our type of questions. What all these companies have in common is that they possess one or several internally generated brands which they cannot recognize in their balance sheets. Unfortunately, we had very low response rate where some companies were concerned about the sensitivity of the issue or had no time to perform an interview. Also, the majority of the contacted companies did not reply to our request to carry out an interview. Our interview requires a business representative that is knowledgeable in both accounting standards and the valuation of their brands. This often requires a representative who occupies a higher position in the organization. When calling our target companies, we were asked to contact someone within the top management, often the Chief financial officer (CFO), Chief executive officer (CEO) or the head of the communication/branding department. Still, these representatives were either on business trips outside Sweden or did not have the time to participate in our study.

Table 1- Contacted actors

Preparers		Banks	Associations
AAA	Malmö FF	Forex	Aktieinvest
Active Trend	MTG	Handelsbanken	Aktiespararna
Actimate	NetonNet	Nordea	Sveriges finansanalytikers förening
Adderat	Group	SEB	
Alfa Laval	NilsonGroup	Swedbank	
Arla Foods	Nolato		
Axfood	Nomad foods		
Baker Tilly	Orkla Foods		
Barista	Peab		
Deloitte	PwC		
Duni	Securitas		
EON	Spotify		
Elgiganten	Telia		
Fingerprint	Tetra Pak		
Grant Thornton	Trelleborg AB		
H&M	Vattenfall		
IKEA			
Inwido			
KPMG			
Lund University			

### 2.2.3 RESEARCH DESIGN & EXTERNAL VALIDITY

In consideration to the research debate and the multiple ideas of whether and how internally generated brands should be recognized in the balance sheet, our empirical research has a cross-sectional design consisting of interviews with several different actors. This enables us to draw connections between different actors and get an overview of the market's perception regarding internally generated brands. Furthermore, this allows us to compare answers from companies that are operating in different type of industries. As we are holding interviews with a restricted amount of actors, the opinions of these actors cannot be considered to give a complete overview on how the market perceives internally generated brands to be treated. However, their opinions give an indication of what market participants think about internally generated brands.

Concerning the empirical part of our study that deals with the prepares of financial statements, we have considered making a case study with one or two companies that possess one or several internally generated brands. In contrast with our cross sectional design of our empirical research, the case study would enable us to go in depth analyze how this/these companies value their brands. However, a limitation to this kind of study is that the preparer's view would be restricted to one or two companies. Furthermore, this type of case study would ignore preparers who do not find it useful to value their brands.

### 3. THEORY

#### 3.1 DEFINING A BRAND

When thinking about a brand, we usually imagine the graphic design of a logotype that is attached to a product. This logotype can be, and is often, the company's name which is used to distinguish its products from those of other companies. Nevertheless, as Gaski (2016) points out, a brand is not restricted to the graphic design of a logotype but can also be a particular word or letter combination. This view of a brand is in line with the definition of a trademark made by the EU directive 2008/95/EC which states the following:

*“A trade mark may consist of any signs capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings” (Article 2, Directive 2008/95/EC).*

The above definition was developed by the EU from a legal perspective with the aim of harmonizing the registration of trademarks within the EU. Rather than defining what a trademark is, it presents the necessary requirements to register a trademark within the EU. Nonetheless, it gives a fair description of how a trademark is perceived from a legal point of view. A more distinct definition could be found in Otonkue et al. (2010) who define a brand as “any word, tone, design or symbol [used] to identify and distinguish one product or a group of products from other products” (p. 105). This is very similar to the definition that was made by the American Marketing Association which defined a brand as a “*name, term, design, or symbol (...) that identifies one seller's good or service as distinct from those of other sellers*” (Gaski, 2016, p. 1). However, one weakness these definitions have in common is that they only refer to the purpose of distinguishing goods and products of the company. Consequently, they fail to capture company brands such as retailer brands. (i.e. brands that are not related to products, for instance Intersport and Netto). Therefore, we see that there is a need to use a wider definition of a brand. Such definition can be found in the Oxford dictionary of marketing (2011) where a brand is defined as “a combination of attributes that gives a company, organization product, service concept, or even an individual, a distinctive identity” (Doyle, 2011).

#### 3.2 DISTINGUISHING BETWEEN TRADEMARKS AND BRANDS

As the reader may have noticed, trademarks and brands have been used interchangeably in this thesis. This is, for the record, a common thing to do (Salinas, 2009) and in many languages one single word is used when referring to the concept of trademarks and brands. However, there are those who would like to distinguish the two concepts and see a brand as a wider concept that includes trademarks (Salinas, 2009). Furthermore, as trademarks in some countries are not protected until they are registered, the word trademark can easily be perceived to mean *registered trademarks* only. Because of the existing dissidence about whether these are two concepts or not and to avoid any misconception, we will in this thesis use the word brand only unless we expressly refer to registered trademarks.

### 3.3 HOW DO BRANDS CREATE VALUE FOR A COMPANY?

As we have previously discussed, the definition of a brand includes the purpose of giving a company or a product a distinctive identity that separates it from the rest. The aim to distinguish a product from another is not only connected with our inner need to get appreciation and credit for something that we have created (compare with the copyright of an artist's painting a musician's melody or an author's text) but can also be explained from an economic point of view. According to the economic theory, it is commonly known that the price of a commodity is determined by demand and supply. In the case of a monopoly where one supplier holds the entire market, the supplier does not have to take into consideration the price of any competitor as there are none. This enables the monopolistic supplier to set a higher price than the price that would have been on a market having plenty of suppliers and customers (Bergh & Jakobsson, 2013). While developing a brand, companies try to distinguish themselves through brands to such an extent that they are *perceived* to be in a monopoly position. For instance, no one but Coca Cola has the right to sell and produce Coca Cola. Of course, there are many competitors to Coca Cola (such as Pepsi cola) but none of them has the right to be in the "Coca Cola market". Accordingly, brands enable companies to assume a monopolistic position and assign higher prices to their products and services.

The field of brand management does not contest this idea but views value creation from a different perspective. Melin & Hamrefors (2007) describe the value creation process of a brand as three connected concepts: *brand awareness*, *brand association* and *brand loyalty*. According to Melin & Hamrefors (2007), one of the most important purposes of a brand is to create an awareness of its existence and to be recognizable. This is of great importance considering that customers' purchasing decisions for most consumables are made on a quick basis in the store. In such situations, a well-recognized brand is often crucial for the customers' purchasing decisions. Even more important is what the company or product brand is recognized for: brand association. The most common brand association may be the association with quality. Nonetheless, a brand is seen today to be something more than just a quality seal. Brands like Nike, Starbucks and Apple are not only associated with quality but also with a lifestyle that gives an identity to the user/consumer. Accordingly, branding is about creating a strong and positive image to which the customers and employees associate themselves. If successfully employed, a brand can lead to loyal customers who actively opt out other companies or products and who are willing to pay more to get the positive associations that distinguish a brand (Melin & Hamrefors, 2007).

Based on the reasoning within brand management, one can say that it is the reputation of a company and a product that drives the value of a brand. In economic terms, the perception and reputation of a brand can be described as creating value by affecting the demand and supply curves regarding the company's products in the market (Salinas, 2009). However, a distinction should be made between the economic value of a brand (Salinas, 2009) and customer perception/reputation, which some researchers label as "brand equity" (Aaker, 1991; Lance, Chiranjeev & Katrin, 1995). While customer perception/reputation refers to the customer's subjective evaluation of the brand, the economic value refers to the value the brand creates for the company.

### 3.4 ASSESSING THE POSSIBILITY TO RECOGNIZE A BRAND

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In this chapter we will go into IAS 38 and present the currently held view by the IASB on internally generated brands and which criteria is needed to be fulfilled in order for an intangible asset to be recognized in the balance sheet.

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#### 3.4.1 THE DEFINITION OF AN ASSET

When trying to understand the reason behind why IASB does not allow the recognition of internally generated brands, it is helpful to structure the recognition process which includes three questions.

1. Does it qualify as an asset?
  - a. Future economic benefits
  - b. Control
  - c. A result of past events
2. What type of asset is it?
3. Does it fulfill the recognition criteria?
  - a. Identification
  - b. Reliability

In order to recognize a brand in the financial statements, it needs to fulfil the definition criteria of an asset, which by the IASB defined as a “*present economic resource controlled by the entity as a result of past events*” (Clark & Brown, 2013, p.4). The IASB also defines an economic resource as “*a right, or other source of value, that is capable of producing economic benefits*” (Clark & Brown, 2013, p.4). Accordingly, the definition of an asset includes three criteria that need to be fulfilled: The brand should be controlled by the entity, should be able to deliver future economic benefits and should result from past events.

#### 3.4.2 DOES A BRAND FULFILL THE DEFINITION CRITERIA OF AN ASSET?

Very few researchers would challenge the “result of past events” criterion. Whether a brand is acquired or internally generated, its existence is a result of past events, either by acquisition, registration or simply by the usage of the brand. Moreover, it is difficult to deny that brands are valuable to a company and are capable of generating future economic benefits. These benefits are not restricted to the sale revenues but also include “cost savings, or other benefits resulting from the use of the asset by the entity” (IAS 38 para.17). An individual assessment of a brand’s ability to generate future economic benefits is, of course, always needed.

When assessing the “control” criterion regarding a brand, extra cautiousness is needed. The control of a brand is achieved when the “entity has the power to obtain the future economic benefits flowing from the underlying resource [brand] and to restrict the access of others to those benefits” (IAS 38 para. 13). Yet, in some countries using a brand is not enough to obtain the copyright for it and restrict others to use it. In these countries, even though the brand generates future economic benefits and is a result of past events, it is not perceived to be controlled by the entity until it is a registered trademark.

According to Salinas (2009), a distinction should be made between brand reputation and the brand itself as they may be closely related to each other, which we also find reasonable. The reputation of a brand might be closely linked to the value of a brand but since the brand reputation (customers' perception of a brand) cannot be controlled by the entity, it does not qualify as an asset (Salinas, 2009). On the other hand, an entity has the exclusive right to use their brands. Thus, these brands are controlled by the entity which means that they meet the definition criteria of an asset.

### 3.4.3 WHAT TYPE OF ASSET IS IT?

This question does not affect whether the brand should be recognized or not but is important in determining which standards should be used when recognizing and valuing the brand. The IASB divides assets into three main categories: tangible, intangible and monetary assets. An intangible asset is defined as “*an identifiable non-monetary asset without physical substance*” (IAS 38 para. 8), which encompasses the definition of a brand.

### 3.4.4 DOES A BRAND FULFILL THE RECOGNITION CRITERIA?

Besides the three definition criteria, the IASB have set additional recognition criteria for intangible assets to be recognized in the balance sheet. As can be seen in the definition of an intangible asset, it is required to be identifiable. According to IFRS, an asset is identifiable either if it:

- a) *“is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or*
- b) *arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.”* (IAS 38 para. 12).

Since the right to use a brand can be licensed and individually exchanged, it is certainly considered to be an identifiable asset. The reason for the IASB to require this additional criterion does not seem to be related to brands. Instead, it seems that the IASB is trying to reduce the residual amount that results from business acquisitions and is reported as goodwill. Goodwill has an infinite economic lifetime and should be tested yearly for impairment as it is not allowed to be amortized (Nobes & Parker, 2016). On the other hand, brands have a restricted economic lifetime and are usually amortized up to 20 years (Artsberg, 2005). By allowing the recognition of brands that could be identified and separated from goodwill, the residual amount will continually decrease as the brand is amortized. However, as with all types of assets, it is also required that the “cost of the asset can be measured reliably” (IAS 38 para. 21) and this is not applicable to internally generated brands as indicated by the IASB. In fact, IAS 38 paragraph 63 explicitly says that: “*Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets*” (IAS 38, para. 63).

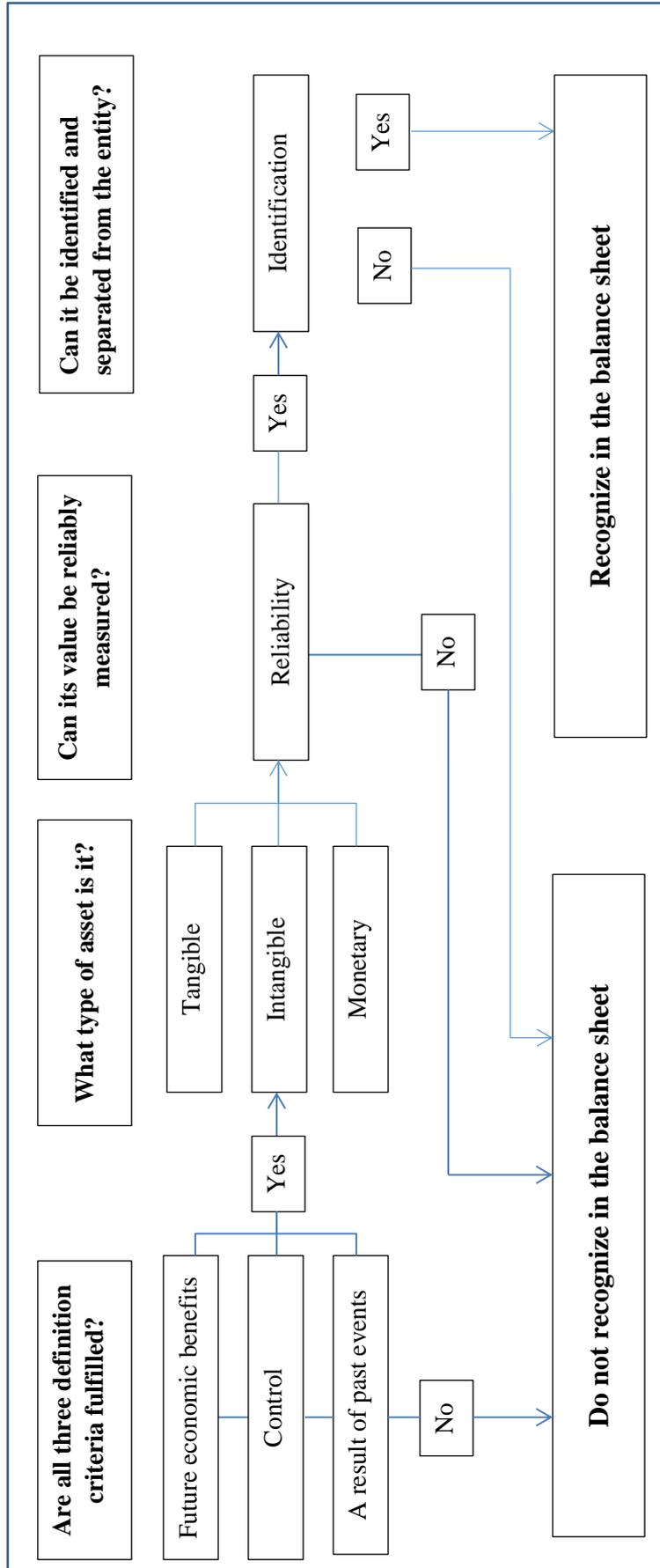


Figure 1- The recognition of assets

## 3.5 VALUATION OF A BRAND

In this section, we will describe some possible valuation methods and models that have been suggested for the valuation of brands and the reasons behind their approval or disapproval by the standard setters.

### 3.5.1 THE COST APPROACH

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*“The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction”* (IVSC, 2016 a, para. 70.1, p. 20).

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#### 3.5.1.1 Acquisition cost

Under the cost approach, we find the acquisition cost to be the only method that current standards allow when recognizing brands in the balance sheet. According to IAS 38 paragraph 26 and IAS 38 paragraph 33, intangible assets that are acquired separately or in business acquisitions are always considered to be reliably measured. This is based on the assumption that sufficient information exists when an identifiable asset is acquired through a business acquisition or arises from contractual or other legal rights. Thus, a reliable valuation of acquired brands can be made (IAS 38 par. 33).

#### 3.5.1.2 Capitalization of attributable expenses

Within this approach, we also find valuation methods that have not been approved by the standard setters when valuing internally generated brands. The capitalization of attributable expenses is one method which we already have touched upon in our background. As we previously described, this model encompasses the difficulty to attribute expenses that are directly connected with a brand, which Skinner (2008) refers to as the non-separability issue. A comparison could be made with the capitalization of development costs for which clear links can be seen between certain costs and a development project. These links are not as clear when it comes to brands. As “expenditures on internally generated brands [...] cannot be distinguished from the cost of developing the business as a whole” (IAS 38 para. 64) they are not allowed to be recognized in the balance sheet.

Two other cost valuation methods that have been proposed within this approach are the replacement cost (the cost of a brand that has the same characteristics as the current one) and the replication cost (potential costs of redeveloping the brand to its current status) of a brand (Salinas, 2009). However, a fair question to ask is how useful the information obtained from these valuation methods can really be as they do not give any consideration to the value drivers of a brand.

### 3.5.2 THE MARKET APPROACH

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*“The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available”* (IVSC, 2016 a, para. 20.1, p.7).

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#### 3.5.2.1 FAIR VALUE

Fair value is a valuation method that has become widely accepted within IFRS over the years. For instance, the fair value method is currently used in the valuation of some financial assets

and instruments. Fair value refers to the market price of an asset or liability and is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” (IFRS 13, para. 9). When assessing the applicability of this valuation method to brands, criticism has been made due to the lack of an active market (Salinas, 2009; Skinner, 2008; Rubio, Manuel, & Pérez-Hernández, 2016). Since the purpose of brands is to distinguish companies and products from others, each brand has a unique identity and reputation. In addition to this uniqueness, the infrequent trading of brands makes the existence of an active market for brands impossible (Artsberg, 2005: IAS 38 para.78). Furthermore, the uniqueness and the infrequent trading of brands results in limited opportunities to compare and use brands as guidance for setting a market price, even though they might be similar and used in the same industry.

Assets that are traded in an active market are in general seen to be reliably measured. However, in the absence of an active market, management will have to estimate the price of the brand a company would pay if the brand had been traded in an active market (Artsberg, 2005). With the difficulty to use previously recorded transactions for other brands as guidance to valuing a brand, the valuation becomes very dependent on the management’s own judgment which has raised doubts regarding the reliability of valuation (Deegan & Unerman, 2011).

### **3.5.2.2 THE ROYALTY RELIEF METHOD**

Using this method, the value of a brand is determined by the discounted hypothetical royalty payments that would be saved if the company did not own the brand and had to license it from a third party. The hypothetical royalty payments that would have been paid over the lifetime of the brand are thus discounted to present value on the valuation date (IVSC, 2016 b; Salinas, 2009). When calculating the value of a brand, the first step includes the projection of an associated metric. As most royalties are paid as a percentage of revenue, the revenues attributable to the brand become the most common metric to use. A royalty rate is then applied on the projected revenues to calculate the ‘saved royalties’ (IVSC, 2016 b). Existing royalty rates for comparable and similar transactions are generally seen to “provide the best basis for determining an appropriate royalty rate” (Rubio, Manuel, & Pérez-Hernández, 2016, p.78)

This method is categorized by the IVSC as an income approach method (IVSC, 2016 b) but could also be described as a mixture between the market and income approach since the calculation process includes both income projections and market comparisons (Salinas, 2009).

### **3.5.3 THE INCOME APPROACH**

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*“The income approach provides an indication of value by converting future cash flow to a single current value”* (IVSC, 2016 a, para. 40.1, p. 13).

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The valuation methods within the income approach are based, more or less, on the discounted cash flow method but differ to the extent that they use different cash flows. The royalty relief method use hypothetical royalties to determine the brand’s value. Still, actual increases in revenues or cost savings are two alternative cash flows that can also be used. The IASB does not explicitly prohibit these valuation methods for internally generated brands. However,

since these valuation methods are based on the estimations made by management, they are not considered to be reliable enough.

#### **3.5.3.1 THE PREMIUM PROFIT METHOD**

In close relation with the economic perspective of how brands create value for a company, the premium profit method is based on the assumption that brands allow companies to set a premium price for their products (Salinas, 2009). How this premium price has occurred is of course highly relevant from an argumentative point of view. However, whether the reason to this is associated with a monopoly position or connected with certain characteristics of a brand such as quality, is of less importance when valuing the brand. When measuring a brand's value, the price of a branded product is compared with the price of an identical unbranded one. The difference between the prices is then multiplied with the annual sales volume to obtain the annual profits attributable to the brand, which in turn constitutes the base for the estimated present value of the after-tax profits attributable to the brand (Salinas, 2009).

However, a disadvantage of this valuation method is that its applicability is restricted to brands that create a premium price (Salinas, 2009). For companies with a low-cost strategy, the premium price will be down at zero or perhaps even negative, which completely outmaneuver the main assumption of the method.

#### **3.5.3.2 BRAND STRENGTH ANALYSIS**

This method is closely related to the value creators that are discussed within brand management. It focuses on the effects a brand has on the supply and demand, which is done in order to determine the brand's influence on the purchasing decisions of consumers. A variety of specific algorithms are then used to estimate the brand's contribution to the company's generation of income or profit (Salinas, 2009).

### **3.6 THE RESEARCH DEBATE ON INTANGIBLES**

#### **3.6.1 INTRODUCTION**

There have been many considerations regarding the complication of attaining international harmonization concerning accounting for intangible assets, particularly for brands (Stolowy & Jeny-Cazavan, 2001). In recent years, there has been an ongoing debate vis-à-vis the recognition and measurement of intangible assets. In fact, the treatment of intangible assets has become one of the most controversial areas of financial reporting (Martin & Kelly, n.d.). This debate was triggered by the evident variance between the market value of shareholders' interests and the reported balance sheet values of shareholders' equity – high price-to-book ratios (Walker, 2009). Such noticeable difference disturbed analysts, preparers and users of financial statements (Walker, 2009). Various observers consider the exclusion of intangible assets from the balance sheet to be a striking deficiency and question the reliability of such balance sheet where accountants do not recognize important assets such as human capital, organization capital and brands (Penman, 2009). Accounting for brands initiated a clash between reliability and relevance which are the main qualities of accounting information (Stolowy et. al, 2001). Commentators believe that the omission of intangible assets misleads analysts as well as investors especially in an economy where intangible assets like brands have become a major value basis for current companies compared to tangible assets presented

on the balance sheet (Penman, 2009). However, there are other researchers, practitioners and regulators who argue that calls for recognition of intangible assets on balance sheets are flawed (Skinner, 2008). In this chapter, we aim to present the different arguments regarding the treatment of intangible assets for the two opposing groups.

### 3.6.2 AN OUTDATED FRAMEWORK?

Fundamental changes have shaped the economy where today's business is basically "knowledge-based" rather than industrialized and intangibles are the late dynamos of economic activity (Skinner, 2008). Consequently, one can understand the Chartered Institute of Marketing (1993) concern about "whether accounting practices can adapt to a changing business environment in which 'worth' is typified by a set of intangible assets" (El-Tawy & Tollington, 2008, p.713). Thus, the traditional manufacturing model is becoming, to a great extent, of less significance (Lev, 2001). Accordingly, countless assertions has been made regarding the insufficiency of the present accounting system (Skinner, 2008) raising serious calls for reforming the current accounting model so that it takes into consideration the recognition of intangible assets on the balance sheets (DiPiazza et al., 2006). This is reinforced by Seetharaman et al. (2002) who claims that the current financial reporting framework fails to recognize and communicate intangible assets which are the most significant assets and valuable resources of today's business world. Furthermore, observers consider the loose definition of goodwill provided by the current accounting framework to be an evident confirmation of the framework's inability to properly recognize intangible assets (Skinner, 2008). In addition, Tollington (1998) argues that the verdict not to recognize most acquired brands and internally generated brands on the balance sheet is due to the "*ages-old accounting problem*" rather than the "*uniqueness*" of these assets as referred to in IAS 38. Therefore, Tollington (2001) considers the accounting system to be outdated where such system intends to disclose twenty-first century economic decision-relevant information while holding an extremely old transaction-based system of accounting (nineteenth century or even older) that adopts a legalistic approach.

The absence of disclosures regarding intangible assets does, according to Lev (2001), leads to serious negative effects on the capital market. For instance, intangibles are said to be systematically undervalued by investors (Lev, 2001). It has also been argued that due to the failure of the financial reporting framework to recognize intangible assets, companies will encounter various obstacles when raising equity capital (Lev, 2001).

Skinner (2008) closely examines the claim that the current accounting practice concerning intangibles has negative capital market effects and finds the evidence supporting this statement to be insufficient. When proving the opposite, he refers to the success and growth of technology companies such as Microsoft, Dell and Google as a "testament to the fact that markets work well in providing finance to firms that create value" (Skinner, 2008, p. 196). Hence, contrary to what was previously claimed, Skinner (2008) finds that high-technology firms do not encounter distressing problems when pursuing to finance their projects. Skinner (2008) continues his opposition by indicating that the balance sheet plays an indispensable role in management and control and not in valuation. Since the balance sheet does not serve as

a basis for valuation, the omission of intangible assets should not mislead neither analysts nor investors (Skinner, 2008).

This view is approved by Penman (2009) who further argues that the demands for recognizing intangible assets in the balance sheet may be mistaken due to the contender's failure to comprehend the accounting structure where both income statements and balance sheets provide useful information to help determine the firm value. Both Skinner (2008) and Penman (2009) do in fact consider the income statement to be the major source of information needed for equity valuation and forecasts about earnings, future proceeds and cash flows. Penman (2009) supposes that the value of intangible assets can be determined primarily from the income statement but points out that "each statement can correct for deficiencies in the other" (p.359). He considers the income statement to adjust for the flaws in the balance sheet. Even though a brand is not displayed in the balance sheet, its earnings are reflected in the income statement (Penman, 2009). Thus, there is no need to recognize intangibles in the balance sheet as this will not affect the valuation of a company (Penman, 2009). Moreover, Skinner (2008) argues that the balance sheet will not necessarily be useful for the valuation of companies whose value depends primarily on tangible assets due to the historical cost convention.

### 3.6.3 VALUE RELEVANCE

In the 1990, stock prices increased intensely which led to the widening of the gap between the book value and the market value of companies. According to Penman (2009), during that time, supporters of intangible asset accounting brought up the high price-to-book ratios as justifications for the aforementioned calls for accounting reforms (Penman, 2009). Proponents of intangible asset recognition attribute the difference between the book value and the market value to the omission of the intangible assets from the balance sheet (Penman, 2009). Accordingly, they consider financial statements to be less relevant than they were in the past (Skinner, 2008). For example, Chang (1998) and Brown et al. (1999) found that the overall value relevance of financial statement has declined in the sense that financial statement numbers are less related to share prices. This is further reinforced by DiPiazza (2006) who states that "the large discrepancies between the 'book' and 'market' values of many, if not most, public companies provide strong evidence of the limited usefulness of statements of assets and liabilities that are based on historical costs" (p.16). On the other hand, Skinner (2008) highlights the fact that different studies have generated different conclusions regarding the value relevance of financial statements. For instance, the study performed by Lev and Zarowin (1999), which viewed technology firms, revealed that financial statements variables are more relevant where numbers are more thoroughly related to share prices. On the contrary, the study by Collins et al. (1997) evidenced that the general value relevance of earnings and book values has stayed steady over the years. Hence, conclusions regarding the subject matter differs among studies. Nevertheless, Skinner (2008) attributes the different conclusions to the use of different methodologies and considers many of the studies to be conducted using samples that are rather old, that is, they date before the development of the New Economy. Accordingly, Skinner (2008) examines a more recent study conducted by Core et al. (2003) which explores the relationship between financial variables and stock prices within the New Economy. Skinner (2008) concludes that this recent study shows that the

usefulness of traditional financial statement variables didn't decline which refutes the above argument. In fact, Skinner (2008) further refers to Penman (2003) who explains that the traditional financial reporting system plays the role of an "anchor" during stock market bubbles to "check speculative beliefs" (p.77) in order to support his conclusion regarding the relevance of financial statement variables. In addition, Walker (2009) tackles the issue of high price-to-book ratios where he traces the difference between book value and market value to reasons other than the omission of intangibles from the balance sheet. One reason can be that assets and liabilities do not mirror today's market values (Walker, 2009). A more compelling reason may be that accounting practices do not aim to value a company entirely but assign values to individual items of assets and liabilities (Walker, 2009).

#### **3.6.4 THE USEFULNESS OF RECOGNIZING INTERNALLY GENERATED INTANGIBLE ASSETS**

Proponents of intangible asset accounting assume that by recognizing intangible assets on balance sheets, accounting book values will chase market values. However, in such event, the income statement will have to record "unrealized gains and losses on the firm's portfolio of assets and liabilities" (Skinner, 2008, p.195) which causes investors and analysts to lose important information regarding the historical costs of the company assets as well as the performance of management in generating revenues (Penman, 2009). Furthermore, Walker (2009) reveals that the recognition of intangible assets can give a delusive representation of a company's financial position and performance. He explains that lenders regularly ignore the values assigned to goodwill and other intangible assets on the balance sheet and employs Enron and WorldCom as examples to argue that such assets are insignificant and worthless (Walker, 2009).

However, these claims do not stand uncontested either. Otonkue, Edu, Ezak (2010), on the contrary, claims that brand values "support a better way to hold managers accountable for their actions" (p. 112) as conventional budgets targets based on revenues and expenses easily are arbitrarily manipulated. Management's effort to invest in actions with a long-term perspective that benefit the entire organization will in turn be reflected in the value of a brand (Otonkue, Edu, Ezak 2010). Moreover, Lev (2002) heavily criticizes the choice to use Enron as an illustration of brand's vulnerability. So where have all of Enron's intangibles gone? They went nowhere, according to Lev (2002), because Enron did not have any substantial intangibles. There is a difference between fraud created value and intangible assets and "earnings manipulation do not count as intangibles" (p. 134)

Contrary to Skinner (2008) and Penman (2009), Hofmann (2005) argues that there is a number of "tangible benefits from knowing about intangibles" (p. 4) which actually further supports Lev's (2001) view regarding the performance of capital markets. In fact, both the owners of the companies and those who value them will benefit from valuing intangible assets (Hofmann, 2005). He considers the systematic valuation of intangible assets to generate apparent and significant gains for creditors and investors. When intangibles are valued and recognized in the balance sheet, the company will be valued more realistically which helps investors improve their portfolios and boost their earnings. Furthermore, creditors will benefit from having credit terms that are better conforming to the risk associated with lending their

money which increases their average earnings per investment/credit. Moreover, creditors who value their intangible assets in a correct and efficient way can enjoy larger market share compared to their competitors.

Additionally, the systematic valuation of intangibles triggers growth as capital is said to be controlled and directed more carefully and reliably to its most valuable usages. Accordingly, companies that are not recognized for their intellectual capital would have better access to both equity and debt. Besides, knowing about intangibles leads to more stable capital markets that can be trusted by investors and enterprises. Further, the current information asymmetry present between big investors (wholesale) and retail investors is said to be diminished when appropriate valuation of intangible assets is applied and this can have a significant positive impact on the capital market as a whole.

Despite these “tangible benefits of knowing intangible assets” (p.4), there are many reasons behind preventing the greater recognition of intangible assets when valuing companies. Firstly, firms disclose minimal information regarding their intangible assets due to the restraints enforced on them by accounting standards. Also, companies avoid disclosing much information so that competitors will not threaten their competitive advantage. Moreover, the lack of a common language to be used for communicating information about intangibles between the firm, the capital market and its participants is another reason behind the too little information about the companies’ intangible assets. Still, even if adequate and sufficient information is revealed by companies, valuing intangible assets would still be perceived difficult as companies are aware that it is almost impossible to compare intangible assets not to forget that they are generally risky compared to tangible assets. Furthermore, there is insufficient knowledge of the valuation methods of intangible assets. Finally, one should keep in mind that intangible assets are rarely taken as loan guarantees due to the fact that their full benefits can only appear within a certain setting. According to Hofmann (2005), this observation is reinforced by research from the USA, EU and Japan that reveals that intangible assets play a minor role as credit guarantees (OECD, 2005).

### **3.6.5 PROBLEM WITH THE DEFINITION AND RECOGNITION CRITERIA**

Hermanson (1964) walks a different path when arguing for the recognition of intangible assets where he considers the definition of the concept of “asset” to be inappropriate and highlights the need for a revised definition of assets. The need for a new brand asset definition is also reinforced by Tollington (1998) who suggests that brand assets should be recognized on the balance sheet apart from goodwill and on the basis of “separability” rather than a “transaction or event”. This is further supported by Hodgson et al. (1993) who advocate the separate and independent recognition of brand assets on the balance sheet. Hodgson et al. (1993) also argue that the definition and recognition of the resource of an acquired goodwill asset should be considered prior to its measurement and disclosure. Similar to Tollington (1998), Oldroyd (1994) considers the practice of recognizing brand assets on the basis of a “transaction” as too restrictive. In fact, Tollington (1998) further explains that “neither the UK nor the USA definition of an asset addresses an asset’s nature and/or resource which, in respect of goodwill, purchased or otherwise, is highly problematic” (p.294). Hence, the two asset

definition provided by both the UK and the USA miss to determine and examine the resources that make up an asset because they consider that defining and recognizing an asset prior to measurement as irrelevant (Weetman, 1989). Contrary to the UK and USA definition, the Australian Accounting Standard AASB3 defines the term “identifiable” in a way that allows almost everything to be identifiable and this makes it hard for many items to be excluded from “asset identification” (Walker, 2009). Accordingly, it is thought that a more accurate and precise definition of an asset is necessary. Furthermore, different accounting conceptual frameworks indicate that an asset should deliver “future economic benefits” (IASB, 2015; FASB, 2010) but do not specify how these benefits should be measured (El- Tawy & Tollington, 2008). Accordingly, taking into consideration that brands provide future economic benefits for the company, they qualify to be disclosed on the balance sheet based on the definition provided by the different accounting conceptual frameworks (Tollington, 2002). However, IAS 38 abolish this qualification which undermines the link between the conceptual framework and the accounting standards (Tollington, 2002). Accordingly, one can claim that the definition of the concept of an “asset” in the accounting frameworks is questionable when it comes to intangible assets. However, Walker (2008) examines the possibility of extending the definition of an asset and criticizes the proponents of intangible accounting that their papers only complain about the inappropriate definition of an asset but do not attempt to investigate how such an asset’s definition can be revised, improved and rewritten in a way to cover the before mentioned intangibles.

### **3.6.6 INSECURITY OF WHAT A BALANCE SHEET REALLY SHOW**

Even though some researchers believe that the problem regarding the treatment of internally generated brands arises due to the lack of a clear and precise definition of an asset (Tollington, 1998), other observers attribute this issue to lack of a mutual understanding and agreement about what the balance sheet is expected to represent (Otonkue et al., 2010). Otonkue et al. (2010) explain that the present balance sheets “represent a mixture of historic costs, not yet allocated expenses and market values” (p.112) which makes it difficult to view what the a balance sheet aggregate mean and to determine a basis on which brand assets are consistently accounted for. Therefore, some researchers consider the problem to be with the balance sheet itself. Furthermore, many commentators argue that recognizing intangible assets such as brand names on the balance sheet have several advantages such as the enhancement of the balance sheet and making it further burdensome for companies to be exposed to takeover/merger offers (Walker, 2009). However, Kothari et al. (2002) and Shi (2003) find proofs that intangibles like R&D generate future benefits that are normally more tentative than those generated by most assets currently recognized under US GAAP. Besides, Skinner (2008) argues that the future benefits of the expenditures regarding internally generated intangible assets are inherently ambiguous and external auditors encounter difficulties when trying to verify them. Accordingly, the recognition of internally generated intangibles is prohibited by the present accounting system. Therefore, Skinner (2008) along with other observers challenge the argument related to the benefits of recognizing intangibles on balance sheets.

### 3.6.7 SHOULD BRANDS EVEN HAVE TO BE DISTINGUISHED FROM GOODWILL?

Tollington (1998) provides an interesting article on the basis of the below quote by van Mesdag (1993):

*“The people who manage marketing should be in the frontline of bringing about the changes in our companies....They should encourage the accountants to devise appropriate, new ways of dealing with the different kinds of intangible assets that are becoming paramount in the governance of companies. They should never allow the retrograde attitude of accountants to become a defence for inaction or for that untidy steamy heap called “goodwill” to be an acceptable alternative”* (Tollington, 1998, p.291).

Tollington (1998) argues that most companies embody brand assets within acquired goodwill and this is in accordance with van Mesdag’s illustration that goodwill is viewed as the accountants’ “acceptable alternative” to recognizing brand assets on the balance sheet. Thus, the recognition of a brand asset on the balance sheet is dependent on the recognition of purchased goodwill and adopts the “transaction or event” as a recognition basis. McCarthy & Schneider (1995) also explains that purchased goodwill is undoubtedly the result of a “transaction or event” and holds a market value which makes it eligible to act as an “acceptable alternative”. However, Tollington (1998) assesses the acquired goodwill against the eleven characteristics of an asset listed in the descriptive framework and reveals that purchased goodwill fails to meet this criteria and therefore “purchased goodwill is not an asset” (p. 299). Hence, Tollington (1998) has broken the link between the acquired goodwill and the brand asset indicating that goodwill can no longer serve as an “acceptable alternative” for recognizing brand assets on the balance sheet. In other words, Tollington (1998) “gives brand assets the freedom to be recognized as an asset independently of goodwill” (p. 294). Therefore, the prerequisite of recognizing brand assets fades away leaving accountants with the power to recognize and capitalize all brand assets regardless of whether they arise from a transaction or not (Tollington, 1998). The brand asset recognition being “a process of separable recognition unattached to goodwill” (Tollington, 1998, p. 299) is heavily criticized by Penman (2009) who argues that the majority of intangible assets are not stand-alone assets but employ assets mutually to generate cash flow streams. Thus, the value of intangible assets is derived from these jointly produced cash flows which make it impossible to value these assets separately on the balance sheet i.e. independently of other assets. For that reason, Penman (2009) considers “listing an intangible asset on a balance sheet as separately identified is suspect, let alone putting a separate dollar number on it” (p.360). Also, it is true that Tollington (1998) argued successfully that purchased goodwill does not meet the characteristics of an asset but did not prove that a brand meets these characteristics which render his argument and make it susceptible to critique.

### 3.6.8 CONCLUDING REMARKS

Different statements were made to support the case of accounting for intangibles, however, many researchers such as Skinner (2008), Penman (2009) and Walker (2009) attacked these statements and presented their point of views regarding the subject matter. Skinner (2008), for instance, provide a critical review of these claims and indicate that the calls for recognizing intangibles on balance sheets are misconceived for several explanations. Similarly, Penman (2009) addresses both the concept that accounting disregards the value of intangibles and the

recommended solution of recognizing intangibles on the balance sheet. Various arguments, other than those previously mentioned, were presented by notable researchers and academics. Holthausen & Watts (2001) reason that the monetary worth of intangible assets is inherently associated with the value of the company itself. So, when the company ceases as being a going concern, these intangible assets will no longer exhibit any value, especially in the event of a scandal that leads to bankruptcy or liquidation (Holthausen & Watts, 2001). Skinner (2008) supports this argument by explaining that tangible assets can be sold in the case of bankruptcy or liquidation so these assets normally maintain much of their monetary worth. Contrary to tangible assets' ability to retain their value, "trust and reputation can vanish overnight" (Lev, 2002, p.134) and so can the value of intangible assets. Furthermore, Penman (2009) considers the existence of some intangible assets as abstract and conjectural. He further argues that for some intangible assets like human capital, a market price can never be determined due to the lack of enough specificity, thus, these assets will be assigned a conjectured value (Penman, 2009). Accordingly, he considers the value of intangibles as inherently speculative; "value is in the mind of the beholder" (Penman, 2009, p. 359). When financial statements embrace speculative values, accounting will experience severe trouble (Penman, 2009). This is reinforced in the front page of Wall Street Journal (April 2002) explaining that today's enterprises are greatly susceptible to sudden fall in value due to the fact that much of their worth is determined from intangible assets.

## 4. EMPIRICAL FINDINGS

### 4.1 USERS OF FINANCIAL STATEMENTS

When determining whether internally generated brands should or should not be recognized in the balance sheet, the existing research is greatly divided within this area. However, the result of our empirical research gives a rather clear answer: No, internally generated brands **should not** be recognized in the balance sheet!

In accordance with the view held by the IASB, Nils Liliedahl (2017) “believes” (answer att) the measurement of internally generated brands to be too unreliable and thus should not be included in the balance sheet. In our interview with Liliedahl (2017), we asked about his perception regarding the recognition of internally generated brands and if such information would be beneficial for analysts when valuing a firm and making economic decisions. The reply was a short and firm “NO”. He further stated:

*“I am not a guy who, in my daily work, do financial analysis. However, I work with analysts who do so and I have over the years got acquainted with the subject. According to my experience, we as analysts would not take this information into consideration.”* (Liliedahl, 2017).

According to Liliedahl (2017), as the value of internally generated brands is built to a great extent on management’s expectations, each valuation will be made on an individual assessment which will have a negative effect on the comparability of financial reports. Accordingly, we as authors observe that Liliedahl (2017) assume the comparability of financial reports to decrease if internally generated brands were to be recognized in the financial statements. This contradicts the comparability problem that has been a driver for this debate. However, he strongly agrees that the different accounting treatments between acquired brands and internally generated brands to be problematic. This is part of the eternal question of how to compare companies that organically grow with companies that grow through acquisitions. However, as it is such a small proportion of goodwill (16 per cent) that is actually identified and distributed to intangible assets such as brands, this is perceived to be a minor problem.

The royalty relief method is sometimes described to be the most commonly applied method when it comes to the valuation of brands. However, without making an assessment of the valuation method in itself, Liliedahl (2017) questions the use of hypothetical royalty payments.

*“There are already unreliable posts in the balance sheet that are valued in the same way and the usage of hypothetical royalty payments would only lead further away from the ‘real money’”* (Liliedahl, 2017).

Even the market valuation of a brand is not perceived to be reliable enough as it also builds upon the company’s own judgment. When being asked about if an independent external expert could solve the bias issue, he remains skeptical.

*“It is the company that would buy this service and the deliverer of this service would probably like to deliver this service even next year”*  
(Liliedahl, 2017).

However, it is not only the perceived lack of independence that disturbs Liliedahl (2017). He perceives the valuation of a brand to be so uncertain that it does not matter even if it is conducted by an external. In fact, Liliedahl (2017) fully agree with Penman (2009) whose opinion should be given more consideration in the discussion of accounting standards as stated by Liliedahl (2017). Similar to Penman (2009), he argues that the income statement and the balance sheet are two statements that can correct each other’s deficiencies. Consequently, he finds no need to recognize brands in the balance sheet at all, as benefits from brands are already depicted in the income statement in the form of as revenues.

*“A firm’s value is generated through its profits and the profits are generated through its brands. Thus there is no need to recognize the brand in the balance sheet [...]. There are already too many uncertain posts in the balance sheet. I would rather see an increased focus in actual cash flows. Then you will get a more comparable and a more fair valuation of the numbers that actually are used in databases and statistics.*

One problem is that the management’s judgments of future revenues, provisions, valuation of real-estate, land and goodwill often adds up to large amounts. Thus, changes in these items often have a large effect on the financial statements. Still, similar to the valuation of brands, these changes do not really affect the ongoing operations. This information can, of course, be of interest or even of big interest. But this information does not necessarily need to be included in the profit or loss statement. These are more suitable to be displayed as additional information or alternatively in the other comprehensive income (Liliedahl, 2017).

## **4.2 PREPARERS OF FINANCIAL STATEMENTS**

Liliedahl (2017) expressed a negative opinion concerning the recognition of internally generated brands and there are some of our interviewed preparers that also support the non recognition demand. Martin Ericsson, Head of Corporate Finance at KPMG, is one of our interviewed preparers of financial statements who agrees with Lilliedahl (2017). However, the main argument behind his opinion is, in contrast with Liliedahl (2017), not the limited possibility to value a brand reliably but the usefulness of this information. Ericsson (2017) has difficulties in seeing the usefulness of recognizing KPMG as a brand in the balance sheet, that is, more than increasing equity.

*“I do not really have an opinion when it comes to the recognition of an internally generated brand. It is true that development costs are both recognized and later on depreciated. However, when it comes to brands you usually see this as an asset with an indefinite useful life. The effect of this would only be to inflate the balance sheet”* (Ericsson, 2017).

However, he would agree that there are difficulties in making reliable valuations of brands as the assessment of an asset's value is often based on a comparison with the actual payments of similar assets. As brands are so unique in their essence, it becomes difficult to reliably measure the value of brands. It has to be considered, though, that this does not mean that it is impossible to make a reliable valuation, according to Ericsson (2017). But as it is quite unusual for companies to license and sell out their brands, conducting a reliable valuation can be quite difficult and complex to do (Ericsson, 2017).

Like Liliedahl (2017), Ericsson (2017) also agrees with the view expressed by Penman (2009), that the profit or loss statement and the balance sheet are two statements that correct each other's deficiencies. According to Ericsson (2017), one can assign the entity's revenues to the entity's various assets and this is quite similar to what you actually do when performing purchase price allocations in association with business acquisitions. However, these purchase price allocations are only performed for accounting purposes and have nothing to do with the actual value. The reason for doing this is to get a fairer balance sheet as different assets have different economic useful lives (Ericsson, 2017).

In contrast to the IASB, Ericsson (2017) finds the different practices for internally generated brands and acquired brands to be strange and questions why the valuation of internally generated brands is perceived to be less reliable than externally acquired ones.

Jörgen Carlsson, who formerly was responsible for the group account of Aspiro AB and currently works as an accounting lecturer at Lund University School of Economics and Management have a rather different view than Ericsson (2017). He firmly considers that internally generated brands should be valued differently compared to externally acquired ones.

*“The question if a cost should be capitalized is one question. Here one can discuss if costs for a brand can be capitalized or not. A complete other question is if one should be able to include a brand in the balance sheet based on a free-standing valuation of the brand. [...] I believe that one should be very careful to distinguish between capitalized costs of internally generated brands and how you value an acquired brand. If making an free-standing valuation of a brand you are touching the question if the balance sheet should portray the fair value of the company. This is a completely different question!”* (Carlsson, 2017).

Carlsson (2017) firmly assumes that the value of an internally generated brand should be based on its costs. In contrast to IAS 38, Carlsson (2017) imagines a reliable valuation of such a brand. Moreover, he could find it possible to reliably define and measure directly attributable costs for the development of a brand. However, this would perhaps require a company to work “very clearly with the strengthening of their brand and that has specific activities where they highlight the brand more than the product itself” (Carlsson, 2017). He

further highlights that this type of valuation does not necessarily tell anything about the brand value and that it should be seen as an attempt to establish an acquisition cost for the brand. Concerning the reliability of the valuation of internally generated brands, he does not consider this as a problem that is specific for brands.

*“One could actually say that all valuations are based on the estimations and judgement of management which makes this a general problem: can we trust these estimations and judgements”* (Carlsson, 2017), implying that if tangible assets are perceived to be reliably measured so could brands.

Similar to the view held by Ericsson (2017), Carlsson (2017) would not have seen a meaning in recognizing Aspiro as an asset in the balance sheet. He further points out that this was a question that has never been raised as they already knew that they would not be able to recognize it in the balance sheet. According to Carlsson (2017), the brand Aspiro has never been that interesting to the company, even though it was a registered trademark. Their products have been of more interest to the company but even if these were perceived to be valuable for the company these were not explicitly valued. Thus, these values were never used in motivating the company’s value.

As we have explained in our theory section, there are those who would attribute the difference between the market value and the book value to the omission of intangible assets such as internally generated brands. Carlsson (2017) would agree with this but does not believe that this difference, in the case of Aspiro, occurred due to omission of intangible assets such as brands but rather to the omission of expected future revenues.

*“You often have a product that is not recognized in the balance sheet, which is intangible in the sense that you have expensed, more or less, all research costs for the product. However, you have these expenses as you believe that these will generate future revenues. If you develop a streaming service you certainly hope that these eventually will generate future cash flows”* (Carlsson, 2017).

Another preparer of financial statements who does not see a point in recognizing their internally generated brand in the balance sheet is Kirill Noskov, the founder and the CEO of Active Trend Sverige. His company produces innovative bags that are becoming recognizable and sold in many countries around the world. Accordingly, Noskov (2017) considered his activity to be reasonably relevant to the subject we are tackling and this is why he decided to participate in our study. When we introduced our thesis problem, Noskov (2017) requested to clarify what we mean by recognizing internally generated brands in the financial statements as he was not “one-hundred percent sure of what the word “recognition” means” (Noskov, 2017). Accordingly, we tried to simply explain that “recognition” for preparers stands for presenting the value of the internally generated brand in the asset section of the company’s balance sheet.

Noskov explained that “volumes are growing” and his company is delivering its promises which strengthens its brand in the eyes of the investors who consider Active Trend’s team and brand “to have a value” (Noskov, 2017). Accordingly, we asked Noskov (2017) whether he considers the income statement to compensate for not recognizing internally generated brands in the balance sheet and thus correct such deficiency. In response to our question, Noskov (2017) considered the balance sheet and the income statement to be two different things where the balance sheet is an indication of the past whereas the income statement helps you take a look at profit and revenues. Noskov (2017) explained that he “personally prefer to have the balance sheet clean” that is to only include “bold” numbers. He continued by stating that he considers the value of a brand to be subjective.

*“Like really, what is the value of a brand? How do you define it? You can assign any number to the value of the brand and who said that this number is the real value of the brand. It is a “fluffy” number, one can say it costs one million, ten million or even a hundred million” (Noskov, 2017).*

Hence, like Liliedahl (2017), he considered that the cost of an internally generated brand cannot be measured reliably. He explicitly considered the valuation methods of a brand to be useless. He even referred to his discussions with PricewaterhouseCoopers (PWC) and Grant Thornton regarding conducting a financial valuation for his company and said that “they do not like that”. When these audit firms come up with such a number, they need to back it up and this is extremely difficult (Noskov, 2017) and still you obtain a “fluffy” figure. Thus, according to Nokov (2017), the recognition of a “fluffy” value that is based on estimation in the balance sheet makes it “very unclear and this can mislead its users.

*“If I recognize in the balance sheet my brand value, then it will make my balance sheet unclear. Again, investors will ask why you thought your brand is worth one million not ten million or not some thousands” (Noskov, 2017).*

Accordingly, we consider Noskov (2017) to be an opponent for the recognition of internally generated brands in the balance sheet. Noskov (2017) indicated that recognizing internally generated brands in the balance sheet does not benefit or help investors when making their economic decisions because such information is unnecessary in order for investors to know the value of a company. He refers to his own balance sheet that is currently negative and states that investors know that they are “burning” money but still investors are willing to invest in his company and totally understand the situation.

*“I don’t know, my company burns money every month, maybe one hundred or two hundred thousand Swedish Kronor (SEK) and our balance sheet is negative, still my company’s evaluation is growing” (Noskov, 2017).*

Thus, Noskov (2017) considers the recognition of internally generated brands in the balance sheet to have no added value or any benefits for the users of the financial statements. In his

opinion, there are many factors when valuing a company and the balance sheet is just one element. Therefore, Noskov (2017) indirectly supports Penman's (2009) view who considers both the balance sheet and the income statement to provide beneficial information for determining the company's value. He considers the market to be the main indicator of the company's value. *"It doesn't matter what my balance sheet shows"* (Noskov, 2017).

He argues that the real value of the company does not come from the balance sheet, it comes from what investors are willing to pay for your company. He explains that Customers are one group who indirectly plays a role in deciding the price of a company's product.

*"Customers are the ones who pay, we are a premium brand so when you buy our bag you pay 1,500 SEK which is quite expensive. But still customers are willing to pay for it! Theoretically, I can sell the same bag for 750 SEK. Customers are willing and prepared to pay 1,500 SEK for my bag but if they do not perceive my bag to be worth the money they are paying, in order to sell my product, I need to drop my price and one ends up at a different level. So, it is the market that sets the value of your brand"* (Noskov, 2017).

Noskov (2017) further disagrees with the reasoning of some researchers who attribute the difference between the market value and the book value to the omission of intangible assets such as internally generated brands. He considers the book value and the market value to be two different things that are distinct from one another. He explains that market valuation employs many parameters and financial indicators such as "the quality of the team, whether the team is capable of developing and delivering and how your customers view your brand" which makes it much more complex than the book value. He highlights again that the balance sheet is an indication of the past and the same applies to the book value.

Within the preparers of financial statements neither Ericsson, Carlsson nor Noskov would find it very useful to recognize their brands in the balance sheet and disclosing it in the notes would not make that much of a difference either. However, there are those who actually would find it to be useful information if it were to be recognized in the balance sheet. Lars Uhlin, Head of Branding Office at Lund University and Johan Rasmussen, Head of Communication and Marketing Department at Lindab both believe that this information would be useful, even though having an internal perspective on the matter.

Lund University is different from the other companies in our study in the sense that it is a nonprofit governmental organization. However, it possesses several brands which could be perceived to be extremely valuable. Despite having existed for 350 years, it is not until recently they have started to talk about Lund University as a brand and as a "House of brands" which actually include several different sub brands, according to Uhlin (2017). Due to this, they have not really approached the question of how to value their brand and how to disclose its value in the financial statements. Uhlin (2017) further implies that he would like to value Lund University as a brand in financial terms.

*“At first stage I believe that this could be useful in our internal work within the organization. It would enable us to show the value of Lund University as a brand but would also enable us to know how this value stands in relation to our other sub brands.” (Uhlin, 2017).*

The valuation of their brands could, according to Uhlin (2017), be of use in their strategic decision of how to further develop their brands but also be a benchmark that could tell how the university performs in relation to other universities. Uhlin (2017), did not give a clear answer to how he would like to disclose these values but believed that a recognition in the balance sheet would perhaps direct more attention to their brands.

Our phone interview with Johan Rasmussen, the head of communications and marketing at Lindab was fruitful and interesting. Similar to Noskov (2017), Rasmussen (2017) indicates that measuring the costs of an internally generated brand reliably is in general quite difficult to do. He points out that the issue was highly discussed within the marketing and branding department and several definitions on how to measure the cost of a brand were generated. Even though some of these definitions were developed “by highly recognized institutes and professors” they always end up in a kind of “religious question”, if to say so. Do we believe in this?” (Rasmussen, 2017). The fact that measuring the cost of brands is associated with assumption and speculation which triggers such “religious question” and this was further emphasized by Noskov (2017) who opposed the recognition of internally generated brands in the balance sheet taking into consideration that assumption and speculations leads to “fluffy” numbers that makes the balance sheet unreliable. Still, contradictory to Noskov (2017) who considers valuation methods to be useless, Rasmussen (2017) acknowledges that there are definitely a number of brand valuation methods that are reliable and trustable.

*“There are definitely ways of valuing a brand that are well recognized and trusted. But basically it always comes down to the management. Do they agree? Do they have the same opinion of this? Only if that is the case, then you can use it in your financial statements. There are ways to do it but the top management do not want to recognize it without any questions” (Rasmussen, 2017).*

However, Rasmussen (2017) is aware that his company is still incapable of valuing their internally generated brand reliably. He indicates implicitly that the marketing and branding department still did not reach consensus with top management on an acceptable valuation method of the Lindab brand, a valuation method that produces valuable numbers that are not questionable neither by top management nor by users of the financial statements. However, in contrast to Noskov (2017), Rasmussen (2017) assumes that finding a way to measure the value of their internally generated brand is indispensable as it can generate benefits for the company by providing a way for Lindab to measure the return on investment (ROI) for all their marketing activities.

*“No, we are not there yet. I have started the journey and raised these questions several times with the top management. And I think that this is something that we should work with because it is a way for us to measure*

*ROI on all our brand activities. It also put much more respect around the marketing and communication branding organizations” (Rasmussen, 2017).*

Accordingly, Rasmussen (2017) admits that his company did not come that far in deciding on an unquestionable method to value their internally generated brand reliably.

In opposition to Noskov (2017), Rasmussen (2017) finds it useful to recognize their internally generated brand in the balance sheet as it is an indication of the company’s performance and whether their marketing efforts and marketing/branding spendings generate value to the company. He considers the recognition to be beneficial and valuable in his internal work as it gives him access to additional resources such as put-options investments to further invest in the brand. Not only does he consider it beneficial to his internal work but also to the users of financial statements and he was so certain of that.

*“I am not fully sure if that is financially [legally] possible to do. There are quite some rules [IAS 38, IFRS 3] in that area that I am not fully familiar with. But if it was possible, I think that, having it in the financial statements would be an eye opener for them [management]. I think that the financial department would like to include the brand value because they sometimes have difficulties in finding the return on investments on all marketing and brand activities. I would definitely want it to be included in the balance sheet as an asset that is highly valuable. It would definitely help me to gain even more resources to invest in our brand if it was a part of the balance sheet like put-option investments and building investments.” (Rasmussen, 2017).*

When we asked him about his opinion regarding the difference between the market value and the book value and whether this is due to the omission of internally generated intangible assets such as brands, he did not give a straightforward answer and indicated that the book value for Lindab is definitely not comparable with its market value. He further explained that the market value represents the share value whereas the book value “is just some numbers and financial rules that they calculate” (Rasmussen, 2017). Unlike Noskov (2017), he was supportive for using a standardized valuation method for all brands. This supportive attitude towards a standardized valuation method is also shared by Carlsson (2017) who could find this helpful when facing the difficulty to value a brand. However, as Ericsson implies, one should be careful in setting a standardized valuation method for all brands as there are exceptions where the usage of another method would give a better representation of a brand’s value.

When it comes to the different valuation methods of a brand, Carlsson (2017) made it clear that he considers the value of an internally generated brand to be based on costs that can be attributed to the brand. On the other hand, Ericsson and Rasmussen did not see any problems in using one single valuation method when valuing both acquired brands and internally generated brands. Even though none of the preparers gave a clear answer on whether they perceive the Royalty relief method to be reliable, it seems to be the most appropriate method to use when valuing brands. According to Ericsson (2017), this is the most accepted and

commonly used method in the valuation of brands. However, by performing a cash flow analysis one could, according to Ericsson, perform a valuation that would give a similar value as the Royalty relief method.

*“The pharmaceutical market is of interest here. In this market we have brand as, for example, Alvedon where the patent on the underlying formula was expired many years ago. Which, has enabled generic products to be sold on the market. When comparing Alvedon with other equivalent products one could almost immediately estimate the valuation of the brand. However, one seldom have this opportunity.”* (Ericsson, 2017).

As an observant reader may notice, Ericsson (2017) refers to the premium profit method that is described in section 3.5.3.1, which is based on the assumption that brands allow companies to set a premium price on their products.

#### **4.3 OTHER PREPARERS**

In addition to the aforementioned interviews, we have received comments from Per-Ola Holmström at Nolato AB and Lars Isaksson at Adderat. They have both declined to participate in our study as they never have had any thoughts on recognizing their brand in the balance sheet. As Nolato is a company that primarily works with business relationships, the individual relations with their clients are perceived to be more important than Nolato as a brand. This is a view that is also true for Adderat and Isaksson as they have neither invested any resources in marketing their brands nor in valuing it taking into consideration that this is quite expensive.

## 5. ANALYSIS AND INTERPRETATION

### 5.1 RELIABILITY OF BRAND VALUATIONS

Our empirical study shows that a majority of our interviewed market participants (Carlsson, Ericsson and Rasmussen) consider it possible to value internally generated brands reliably and this contradicts the view of the IASB on the subject matter. Other interviewees (Liliedahl & Noskov) agreed that internally generated brands cannot be measured reliably because their value is dependent to a great extent on management's assessments, assumptions and estimations. However, they would all agree that conducting a reliable valuation of a brand has proved to be a complex and difficult mission to pursue. The reason behind why most of the participants in our study consider it to be difficult to reliably value brands is the lack of an active market. As described the definition section of a brand (section 3.1), the purpose of brands is to give the company or the product a distinctive identity that separates it from the rest. It is this uniqueness of each brand that disables an active market which makes it difficult to compare brands that are even perceived to be similar. Any valuation method that uses the fair value of a brand might, therefore, be perceived as unreliable. However, as Ericsson (2017) explains, this does not mean that it is impossible to make a reliable valuation of a brand.

The royalty relief method is described to be the most acceptable and used method for the valuation of brands. However, according to Noskov (2017) and Ericsson (2017), the use of the Premium Profit method can lead to similar results as the royalty relief method. A disadvantage with the Premium Profit method is that it can only be applied to brands that allow the company to add a premium price on their products and these kinds of brands are quite rare. Despite being the most accepted method, the Royalty relief method is not flawless. After all, it is based on hypothetical royalty payments whose reliability can be difficult to prove. According to Ericsson (2017), the main data to value a brand requires, to a large extent, the management's own estimation. As companies rarely license or sell out their brands, it is difficult to base this data on previous transactions for other brands and this necessitates management to make their own estimations. It is these estimations that render the royalty relief method so unreliable, as stated by Liliedahl (2017). Contrary to Liliedahl (2017), Carlsson (2017) does not see the perceived lack of reliability in management's estimations to be a specific issue for internally generated brands. As there are many items in the balance sheet, including both assets and liabilities, that highly are based on management's estimation, he sees no reason why the valuation of internally generated brands is considered less reliable than, for example, provisions for pensions whose value are dependent on estimated figures included in a schedule prepared by the management themselves.

The IASB does not consider the capitalization of attributable expenses to be an acceptable method for the valuation of internally generated brands. However, it is a method which Carlsson (2017) considers being reliable during certain circumstances. As previously mentioned, it would perhaps require a company that is working "very clearly with the strengthening of their brand and that have specific activities where they highlight the brand more than the product itself." (Carlsson, 2017). In fact, Carlsson (2017) believes the capitalization of attributable expenses to be the only method that could actually be used for

the valuation of internally generated brands. Accordingly, this leaves us with three methods (Royalty relief method, Premium profit method and the capitalization of attributable expenses) that are seen to be acceptable for valuing internally generated brands reliably.

## **5.2 THE USEFULNESS OF RECOGNIZING INTERNALLY GENERATED BRANDS**

Most of the participants in our study did not see a point in recognizing their internally generated brands in the balance sheet. However, it is worth mentioning that our findings are neither consistent nor conflicting regarding the recognition of internally generated brands as it was dependent whether such recognition had an internal or external purpose. In fact, financial managers and users of financial statements were against the recognition of internally generated brands in the balance sheet. Even though they shared the same opinion regarding the subject matter, the reasons behind their opinions differed seemingly as some interviewees considered the recognition of internally generated brands to provide useless information for the users of financial statements such as analysts and investors whereas other interviewees were supportive of the IASB's view that the value of internally generated brands cannot be measured reliably. The aforementioned interviewees represented the users of financial statements and the financial managers/CEOs of the companies in our sample and these two groups opposed the recognition of internally generated brands. It was only the brand and communication managers in our sample who supported the recognition of internally generated brands in their companies' balance sheets as this will generate benefits for their companies such as directing top management's attention to the brand itself, measuring the ROI for marketing activities and responding to the needs of the marketing and branding department. However, all these benefits are perceived to be narrow as they do not take into consideration what benefits would be generated for the users of financial statements. Hence, these benefits are advocated from an internal standpoint and not a combination of both internal and external perspectives. We should mention here that it was only Rasmussen (2017), among the interviewed brand and communication managers, who considered the recognition of internally generated brands to be valuable not only for his internal work but also for the users of financial statements, still he did not explain nor back up how such an action brings benefits for the users. This implies that financial managers and branding managers (both are within the preparers group) present different thoughts on the recognition of intangible assets in the financial statements because each view such recognition from a different angle and does not take into consideration both the internal and external purposes of such an action. In other words, each team communicates different needs regarding the subject matter. Accordingly, there seem to be a need for the accounting department and the marketing/branding department to interact, collaborate and work closely together so that they address each other's needs effectively which perhaps would affect the performance of the company positively and improve its economic and managerial decisions.

We find it interesting that some of the interviewed preparers would like to include their brand/brands in the balance sheet for internal purposes. Both Lars Uhlin and Johan Rasmussen believe that this would direct more attention to the development of the brand. An internally generated brand contains and creates much value to the organization. However, this value is not displayed on paper which could make top management less inclined to invest in the brand and more inclined to invest in assets which actually increase equity in the books

actually and improves key-financial ratios. Consequently, one could imagine that the recognition of internally generated brands would affect management's distribution of capital within the organization and lead to more nuanced investment decisions. A comparison can be made with the development costs which are capitalized. If management would need to expense these costs, they would affect the profits. A management that is concerned about the company's poor results will see these investments as just costs even though they are actually an investment for the future.

On the other hand, one can also imagine that management would be more inclined to invest in their internally generated brands when such brands are not recognized in the balance sheet because these kinds of investments lead to higher ROI ratios in comparison with assets who are recognized in the balance sheet. The fact that the brand and communication managers consider that the recognition of internally generated brands in the balance sheet would change management's attitude towards brands. This supports the idea that not only does accounting show companies' financial position but also affects numbers presented the statements.

### **5.3 AN OUTDATED FRAMEWORK?**

Miscommunication between the two departments leads marketers to conclude that accounting practice cannot adapt to a changing business environment and claim that the present accounting system to be outdated. This is something we disagree with as most interviewees supported the view of IAS 38 and considered the valuation of internally generated brands to be complex and difficult to perform. Accordingly, we support Skinner's (2008) view who considers the calls for reforming the present accounting model to be insufficient since the recognition of internally generated brands in the balance sheet would actually affect both the users and the preparers of financial statements negatively as explained by the interviewees and would also lead to the presentation of information that is considered useless for both accountants and analysts. This represents the opinion of interviewees from an external point of view, however, the branding and marketing managers indicate some of the benefits of recognizing internally generated brands on the balance sheet for both the users and the preparers as they look at the issue from an internal perspective. The opinion of marketing managers is further supported by the study carried out by Hofmann (2005) who presents a number of "tangible benefits from knowing about intangibles" that positively affects the performance of the capital market and is also reinforced by Lev's (2001) assumption that the recognition of intangible assets by the accounting framework can help companies overcome various obstacles when raising equity capital. However, we cannot deduce that the marketing and communication managers' view to be completely correct and acceptable as both Skinner (2008) and Penman (2009) reject the assumption that the present accounting practice relating to intangibles leads to negative effects on the capital market taking into consideration that neither Hofmann (2005) nor other researchers (Lev, 2001) provided sufficient evidence to support their claim. Also, we have presented a number of obstacles that prevent the greater recognition of intangible assets when valuing companies. Accordingly, we assume that the current financial framework to be up-to-date, in the meaning that it takes into consideration the current view held by the users. As users do not find the recognition of internally generated brands to be useful for their investment decisions we, in this regard, do not find the framework to be outdated. Still, IASB and other standard setters (such as FASB) could further

clarify the meaning of certain keywords such as “recognition” especially when translating standards from English to other languages as one participant (Noskov) was not quite sure of what it means to recognize internally generated brands in the balance sheet. Hence, preparers of financial statements whose English is not their first language can find difficulties in understanding the exact meaning of some accounting keywords.

#### **5.4 THE COMPARABILITY PROBLEM**

The comparability issue that occurs when allowing externally acquired brands to be recognized in the balance sheet while, at the same time, prohibiting the recognition of internally generated brands in the balance sheet is undoubtedly a problem for the users of financial information. In fact, our interviewees disagree with the concept of the comparability problem where they consider the recognition of internally generated brands to affect the comparability of financial statements negatively. They argue that it would rather decrease the comparability of financial statements instead of increasing it. Nevertheless, except for Carlsson (2017) who opposes the interviewees’ opinions firmly claims that the difference in the treatment between acquired brands and internally generated brands to be the correct course of action. However, interviewees still assume the difference in the treatment between acquired brands and internally generated brands to be an issue that needs to be resolved. But, just as Liliedahl (2017) explains, this seems to be a part of the bigger problem of comparing organically growing companies with companies who grows through acquisitions. The comparability issue of brands is perceived by Liliedahl (2017) to be a minor problem since only a small portion of goodwill is actually assigned to brands.

#### **5.5 SHOULD INTERNALLY GENERATED BRANDS BE RECOGNIZED IN THE BALANCE SHEET?**

Our empirical research supports the view by Penman (2009) where all interviewees consider both the balance sheet and the income statement to provide useful information for valuing a company. However, none of the interviewees clearly say which statement is regarded as the major source of information and this renders the assumption by Skinner (2008) and Penman (2009) who explicitly considered the income statement to be the major source of information for valuing companies. Still, most participants (except for Noskov) assume that these two statements “can correct for deficiencies in the other” (Penman, 2009) where the earnings of a brand are reflected in the profit or loss statement which makes it unnecessary to recognize this brand in the balance sheet. Hence, the interviewees support mainly the views of both Skinner (2008) and Penman (2009). Furthermore, the interviews reveal that the difference between the book value and the market value cannot be attributed to the omission of intangible assets from the balance sheet. Thus, our interviewees refute the claims of some researchers regarding the high price-to-book ratios and further support Penman’s (2009) critique of attributing the difference to the omission of intangibles from the balance sheet. Not only is Penman’s (2009) viewpoint supported by our interviewees but also the explanation by Walker (2009) who further clarifies that there are various reasons other than the aforementioned one for the high price-to-book ratios. Moreover, the participants in our empirical research further agree with Penman (2009) who views the value of a brand to be “in the mind of the beholder”.

Both the balance sheet and the income statement provide useful information for analyst, loan providers and investors when valuing a company. Still, users of financial statements seem to be more interested in the actual and future cash flows the brand can generate and not in the brand value itself. This is supported by Liliedahl (2017), Noskov (2017), Ericsson (2017) and Carlsson (2017) who do not see a need to value their brand and recognize it in the balance sheet. Liliedahl (2017) explicitly states that he would not take the information given by the recognition of an internally generated brand into consideration at all. Also, the fact that investors are still willing to invest in Active Trend Sverige, even though they currently do not possess any greater assets, is an indication that investors are more interested in the potential future cash flows the company may generate. This would further support the view held by Carlsson (2017), that the difference between the market value of Aspiro AB and its book value was rather connected to the omission of the expected future cash flows rather than intangible assets, such as brands. Moreover, this would support the claim by Skinner (2008) who argues that the standards' failure to recognize intangible assets in the balance sheet is not an obstacle for high-technology firms when raising capital.

It is true that the valuation and recognition of internally generated brands could be beneficial for internal purposes and could have a positive effect on management's economic and managerial decisions. However, the internal problems of a company regarding resource allocation could actually be handled in a different way without affecting the externally reported financial statements. As IASB states, the aim of accounting is to provide existing and potential investors, lenders and other creditors with information that is useful for their investment decisions and if the users do not find this information useful for their investment decisions; this indicates that internally generated brands should not be recognized in the balance sheet.

## 6. CONCLUSION

The debate regarding the recognition of internally generated brands in the balance sheet, along with our perception that the existing literature lacks a sufficient amount of studies that examines what financial actors actually think about the valuation and usefulness of internally generated brands in the financial statements led us to the two research questions stated below:

1. Do preparers consider that they can value their internally generated brand in a faithful way and do the users of their financial information consider that this information is useful?
2. Should internally-generated trademarks and brands be recognized in the financial statements?

In order to answer the research questions of our thesis, not only did we interview some of the users of financial statements but also chose to include the preparers of these statements in our study in order to ensure having an overview over the market participants' opinions regarding the subject matter. Accordingly, we had the aim to not ignore any of the market participants' perspectives regarding the recognition of internally generated brands. We consider the findings of our empirical research to be both thought-provoking and conclusive where we have inferred several interesting conclusions from the analysis of these results.

When concluding this thesis, we can state that our interviewed market participants agreed on that internally generated brands are difficult to be valued reliably. However, regarding the possibility of conducting a reliable valuation for internally generated brands, our results are more twofold.

Regarding the users of financial statements, financial analysts do not consider internally generated brands to be reliably valued at all. Regarding the external perspective of internally generated brands, the answers from preparers of financial statements are consistent except for one preparer (Noskov). Accordingly, the majority of the preparers considered it possible to make a reliable valuation for internally generated brands, even though it might be difficult to conduct.

Concerning the usefulness of recognizing the brand in the balance sheet, our results are once again twofold. However, it is worth mentioning that our findings are neither consistent nor conflicting regarding the recognition of internally generated brands as it was dependent whether such recognition had an internal or external purpose. The recognition of internally generated brands could internally improve the economic decision making of management and help them allocate resources more effectively. Despite of its internal usefulness, both the users and the preparers of financial statements had a quite consistent view that they did not see how this information could be useful.

We draw the conclusion that internally generated brands **should not** be recognized in the balance sheet for various reasons. First, the comparability problem is not perceived to be a major problem. Second, it is perceived to be difficult to value internally generated brands

reliably. Third, users of financial statements do not find this information to be useful in making their economic decisions.

### **6.1 LIMITATIONS AND RECOMMENDATION FOR FUTURE RESEARCH**

Due to the low response rate, the results presented in this thesis cannot be seen as representative for the whole market even though they give a good indication of the different views held by market participants. As this subject will continue to be debated, we thereby call for further empirical research within this area. We were intending to interview both representatives from banks and shareholder organizations. Unfortunately, they declined to participate in our study due to confidentiality reasons and time limitations. It would therefore be interesting if future research would investigate the view of these actors regarding the recognition of internally generated brands. Moreover, it would have been interesting to include a larger sample of preparers.

In this thesis, we decided not to perform a case study with one or two companies that consider themselves to be able to reliably value their internally generated brands. Future research in this area could perhaps resolve the issue regarding which criteria need to be fulfilled in order for the valuation of internally generated brands to be perceived as reliable. Overall, it would give a deeper knowledge regarding which parameters are used to reliably measure the value of an internally generated brand.

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## Appendix 1- Interview questions for prepares

1. One of the reasons why IAS 38 prohibits the recognition of internally generated brands is that their cost cannot be measured reliably, do you consider the assumption of IAS 38 regarding internally generated brands to be true? In case you disagree, do you consider your company capable of measuring internally generated brands reliably and why?
2. How does your company value its internally generated brand?
3. When it comes to displaying internally generated brands in the financial statements, is it enough to disclose such an asset in the notes or should it be recognized in the balance sheet?
4. In case you choose internally generated brands to be recognized in the balance sheet, what added value/benefits would such recognition bring to you (as prepares) and to users of financial statements?
5. Some researchers attribute the difference between market value and book value to the omission of intangible assets such as internally generated brands, do you agree with their reasoning? To what factor do you trace such noticeable difference?
6. Would you follow the same procedures for the valuation of an internally generated brand and an acquired brand?
7. There are those who would claim that the valuation of internally generated brands is based on judgement made by management and are therefore not seen as reliable enough. Do you think an external independent expert can solve the bias issue associated with the valuation of internally generated brands?
8. What are your thoughts on the usage of one single standardized valuation method for all brands? Is this something you might approve with and do you think this would solve the bias issue?

## Appendix 2- Interview question for users

IAS 38 explicitly prohibits the recognition of internally generated brands as an asset in the balance sheet.

1. If IAS 38 allows the recognition of internally generated brands in the financial statements, specifically in the balance sheet, would such information be beneficial for financial analysts when valuing a company and would it affect the soundness of your economic decision when investing in a company?
2. There exist many different brand valuation methods. One of these is the royalty relief method which is described to be the most used valuation method for brands. The value of a brand is with the royalty relief method determined by the discounted hypothetical royalty payments that would be saved if the company had not owned the brand and had to license it from a third party. Do you believe that the royalty relief method is a credible method?
3. Penman, a researcher within the area, considers the income statement and the balance sheet as two statements that can correct each other's deficiencies. He finds no need to recognize brands in the balance sheet at all as benefits from brands are already depicted in the income statement as revenues. Do you agree with Penman's view regarding the recognition of internally generated brands?
4. Do you consider the market's valuation of an internally generated brand that is prohibited from being recognized in the balance sheet to be reliable and credible? Do you need management to supply you with such information or is this information already available to you (through analysts)?
5. Do you consider the difference in treating internally generated brands and externally acquired brands to be a problem? What is your opinion regarding the comparability of financial statements in such a case?
6. When making a decision to invest in a company, do companies that have well-known brands prioritize your investment list? If yes, don't you think prohibiting companies from recognizing their internally generated brands might mislead you as a user and an investor?
7. There are those who would claim that the valuation of internally generated brands is based on judgement made by management and are therefore not seen as reliable enough. Do you think an external independent expert can solve the bias issue associated with the valuation of internally generated brands?
8. What are your thoughts on the usage of one single standardized valuation method for all brands? Is this something you might approve with and do you think this would solve the bias issue?
9. When relying on a financial expert/analyst to value a company, have you considered the information gap that exists between management and an independent analyst? Would it be more appropriate to let managers make their own judgment as they have more information than the analyst?

Final question: Based on our discussion in this interview, do you believe that internally generated brands should be recognized in the balance sheet?

## Appendix 3- Interview with Nils Liliedahl

Nils Liliedahl Generalsekreterare, Sveriges finansanalytikers förening

12 May 2017 11.18 - 11.36

Mikael: Jag kan kanske börja med att introducera ämnet lite.

Redovisningen av immateriella tillgångar har varit och är ett omdiskuterat ämne inom redovisningsprofessionen. Införandet av IFRS 3 kan här beskrivas som gnistan som gav förnyad energi till debatten genom att tillåta redovisningen av förvärvade varumärken. Dock så förblev och förblir än idag internt upparbetade varumärken förbjudet att redovisa i företags balansräkningar.

Eftersom varumärken har blivit en allt viktigare del av företags verksamhetsidé har både utövare och professorer börjat ifrågasätta IASBs förbud. Men det vore ingen vidare debatt om det inte även fanns några förespråkare för IASBs beslut. Vissa av dessa vill även gå längre än och helt och hållet förbjuda varumärken i balansräkningen.

Denna debatt har fångat vårt intresse och har lett oss till frågan om upprättare av finansiella rapporter anser att de på ett tillförlitligt sätt kan värdera deras internt upparbetade varumärken och om användarna av finansiell information anser att denna information är användbar för deras ekonomiska beslut.

IAS 38 uttryckligen förbjuder redovisningen av internt upparbetade varumärken i balansräkningen.

Om IAS 38 skulle tillåta redovisningen av intern upparbetade varumärken i balansräkningen, skulle sådan information vara användbar för er som finansiell analytiker och skulle denna information ha en påverkan på era finansiella beslut?

Nils: Jag har gått igenom era frågor utifrån min erfarenhet. Det är inte så att jag gör några analyser själv men jag arbetar med många som gör detta. Inom min karriär har jag hunnit bekanta mig med detta ämne.

Svaret är kort: nej! Denna information skulle inte påverka våra analyser

Mikael: Det finns många olika värderingsmetoder för varumärken. En av dessa är Royalty relief metoden som beskrivs vara den mest använda metoden. Värdet på ett varumärke bestäms genom royalty relief metoden genom att nuvärdesdiskontera de hypotetiska betalningar som företaget hade behövt göra om man inte hade ägt varumärket och hade behövt licensiera det aktuella varumärket från en extern part. Anser ni att denna metod ger en tillförlitlig värdering av ett varumärke?

Nils: De olika värderingsmetoderna kan jag tyvärr inte bedöma men utifrån denna beskrivning så svarar jag nej även på denna fråga. Jag har ingen erfarenhet av hur man värderar varumärken, men det finns ju andra saker som värderas på ett liknande sätt och som inte heller är tillförlitliga. De hypotetiska utbetalningarna gör att man kommer ännu längre bort från verkliga pengar. Så svaret är nej, men jag kan inte göra en enskild bedömning utav värderingsmetoden i sig.

Mikael: Då har jag en följdfråga på dessa två frågor. Varför är inte denna information tillförlitlig?

- Nils: Finns det en möjlighet att redovisa varumärket på detta sätt kommer det att uppstå många enskilda bedömningar som i sin tur leder till minskad jämförbarhet. Värderingen är således alldeles för osäker och därför inte användbar.
- Mikael: Penman, en forskare inom området, anser att resultaträkningen och balansräkningen kompletterar varandras brister. Han finner således inget behov av att redovisa varumärken i balansräkningen eftersom ett varumärkes värdeskapande redan finns inkluderade i resultaträkningen i form av intäkter. Delar ni denna uppfattning?
- Nils: Jag håller helt och hållet med Penman och han borde få en större vikt vid samtalet kring redovisningsregler. Bolagets värde kommer genom vinsterna och vinsterna kommer genom varumärket. Det finns således ingen anledning att värdera varumärket i balansräkningen.
- Mikael: Anser ni att marknadens värdering av ett internt upparbetat varumärke som tillförlitligt?
- Nils: Nej, även det bygger på bolagets egna bedömningar och är inte tillförlitligt. Det viktigaste är att den inte kommer med i balansräkningen. Sedan skulle marknadsvärderingen av ett varumärke kunna redovisas som tilläggs information. Detta skulle kunna vara bra för företaget.
- Mikael: Upplever ni skillnaden i redovisning av internt upparbetade varumärken och förvärvade varumärken som ett problem? Vad är er åsikt angående hur detta påverkar jämförbarheten mellan företags finansiella rapporter?
- Nils: Nej, men det är förstås inte bra att ha två olika värderingsmodeller för samma sak. Vi har den ständiga frågan hur man jämför organiskt växande bolag med förvärvsväxande bolag. Här blir det ett problem, ja! Men, sedan uppgår företags andel av goodwill som fördelas till immateriella tillgångar till en väldigt liten del. Den låg på 16 % föregående år. Utifrån detta är svaret nej. Men frågan är relevant, absolut.
- Mikael: Skulle du säga att du får tillgång till denna information från andra medel än redovisningen?
- Nils: Nej, egentligen inte men eftersom det är en så pass liten andel av de immateriella tillgångarna som fördelas till immateriella tillgångar och varumärken är detta inget större problem. Ett större problem är att övervärdena som uppkommer i samband med företagsförvärv fördelas olika, det är ju upp till varje enskilt bolag att göra detta.
- Mikael: Vid en beslutssituation att investera i ett företag, i hur stor utsträckning tar ni hänsyn till ett företags innehav av välkända varumärken? Om detta görs i stor utsträckning, kan förbudet att redovisa internt upparbetade varumärken vara vilseledande för er som användare och investerare?
- Nils: Självklart är varumärken som man vet genererar en massa vinster av stort värde. Sedan behöver man inte värdera av själva varumärket för det. Det är ju vinsterna som varumärket genererar som är av vikt.
- Mikael: Precis som du är inne på så finns det även de som anser att värderingen av internt upparbetade varumärken bygger på företagets egna bedömningar och därför inte

anses vara tillförlitlig nog. Kan en oberoende extern experts värdering av varumärket förhindra denna upplevda partiskhet?

Nils: Nej, det är ändå bolaget som köper in tjänsten och den som levererar den vill förmodligen leverera denna tjänst även nästa år. Dessutom är själva värderingen av varumärket så pass osäker. Så det hjälper inte om den görs av en extern expert.

Visst blir det en förbättring jämfört med om företaget direkt gör denna värdering själv men det blir ändå företaget som indirekt påverkar denna värdering.

Mikael: Hur ser ni på användandet av en enda standardiserad värderingsmodell för varumärken? Är det någonting ni skulle kunna acceptera och tror ni att detta skulle ge en högre tillförlitlighet?

Nils: Jag har väldigt svårt att tro att det finns en metod som fungerar för alla varumärken. Men rent teoretiskt skulle det väl ge en högre tillförlitlighet och i alla fall vara en bra.

Mikael: Avslutningsvis undrar jag, baserat på vår diskussion i denna intervju, om ni anser att internt upparbetade varumärken bör redovisas i balansräkningen?

Nils: Nej, det finns redan för mycket osäkra poster i balansräkningen. Jag ser hellre ett ökat fokus på faktiska kassaflöden och ett minskat utrymme för egna bedömningar. Då får man en mer jämförbar och mer rättvis värdering av de siffror man använder i databaser och statistik

Problemet är att företagsledningens bedömningar av framtida omsättning, avsättningar, värdering av fastigheter och skog och goodwill oftast uppgår till väldigt stora belopp. Dessa bedömningar har en stor påverkan på redovisningen men har egentligen inte har någon betydelse för den löpande verksamheten. Den informationen kan givetvis vara av intresse eller till och med stort intresse. Men de behöver inte nödvändigtvis redovisas i resultaträkningen

Dessa passar bättre som tilläggsupplysningar eller kan alternativt redovisas i övrigt totalresultat men inte i resultaträkningen.

## Appendix 4 - Interview with Kirill Noskov

*Kirill Noskov, Founder and the CEO of Active Trend Sverige*

*15 May 2017 13.00*

**Aisha:** IAS 38 does not allow the recognition of internally generated brands in the financial statements and this is why we are conducting this thesis in order to investigate whether preparers and users can benefit from the recognition of internally generated brands in the financial statements. We considered you as a preparer for the financial statements and we would like to ask you some questions regarding the issue.

**Kirill:** Can you clarify what it means to recognize internally generated brands in the financial statements. I am not one-hundred percent sure of what the word “recognition” means.

**Aisha:** “Recognition” means that you, as a preparer, consider it as an asset and you present its value in the asset section of your balance sheet.

**Kirill:** Oh, you mean the brand value is presented in the balance sheet, now I got it.

**Aisha:** One of the reasons why IAS 38 prohibits the recognition of internally generated brands is that their cost cannot be measured reliably, do you consider the assumption of IAS 38 regarding internally generated brands to be true? In case you disagree, do you consider your company capable of measuring internally generated brands reliably and why?

**Kirill:** To start with, let me tell you more about my company and what we do, we build a global brand and profitable company. We have a product which is bags that solves problems because it is designed to make peoples’ lives a bit easier by helping them manage their time and their lifestyle. So not only does our company produce such innovative bags but also it creates an active community and a lifestyle. We managed to build a brand which is becoming recognizable and sold in many countries around the world.

When it comes to financial evaluation and the balance sheet, if you look at our balance sheet it is negative and it won’t be profitable for another couple of years from now. However, at the same time, when we started and did the raising fund campaign in December, our financial relation was 15 million SEK and now just six months later, our financial relation is only thirteen to fourteen million even though it didn’t change too much, under certain indicators, volumes are growing, we are delivering our promises, the team composition and the brand element are generally adding value that investors find interesting and consider our team and our brand to have a value. Maybe, I didn’t answer completely your first question but I just wanted to give you a short introduction of what we do as I think it is quite relevant to the subject you are researching.

**Aisha:** Yes, so do you think that the income statement would compensate for not recognizing your internally generated brand in the balance sheet through the earnings that are coming from your brand?

**Kirill:** I think the balance sheet and the income statement are two different things, the balance sheet indicates what the company did in the past and you basically look

forward at what is your profit and your revenues. I personally prefer to have the balance sheet clean, that is to include only “bold” numbers. In case you have a budget or a forecast, the balance sheet can provide you with analytical information so that you evaluate how your company performed in comparison to your budget or forecast. From a brand perspective, I wonder what the value of a brand is!! Like really, what is the value of a brand? How do you define it? I think the value of a brand is subjective. You can assign any number to the value of the brand and who said that this number is the real value of the brand. It is a “fluffy” number, one can say it costs one million, ten million or even a hundred million so if you include such a figure or an estimation in the balance sheet, your balance sheet will be very unclear and this can be misleading because in case you include the value of a brand in the balance sheet, it will represent quite a big part of your assets. I think investors do not need preparers to recognize an internally generated brand in the balance sheet in order to know what the value of the company is. Investors understand it.

I don't know, my company burn money every month, maybe one hundred or two hundred SEK and our balance sheet is negative, still my company evaluation is growing. Investors know that a company like this is burning money and has a negative balance sheet because we are a startup. But if I recognize in the balance sheet my brand value, then it will make my balance sheet unclear. Again, investors will ask why you thought your brand is worth one million not ten million or not some thousands.

**Aisha:** So what I got from you is that you disagree with recognizing your internally generated brand in the balance sheet because you consider that estimation and speculation makes the value “fluffy” which makes it not reliable. So, do you prefer the value of your brand to be disclosed in the notes instead?

**Kirill:** In my opinion, the company's value is indicated by the market, right?! There are a lot of components when valuating a company. The balance sheet is only one component used to value a company.

There are private companies and public companies, the value of the public company will be on the stock exchange. My company is a private company but it is still open to investors, it doesn't matter what my balance sheet shows. The real value of your company does not come from the balance sheet, it comes from what investors are willing to pay for your company.

**Aisha:** The market value of your company is for sure different from its book value and some researchers say that the reason behind such difference is the omission of internally generated brands, do you agree with their reasoning?

**Kirill:** No, I actually disagree with their reasoning. I just think that book value and market value are two different things. You read the balance sheet differently depending at which stage of development the company is. Market valuation is much more complicated where there are many parameters and financial indicators that plays a role when valuating a company. Again, the balance sheet is about the past. But when valuating a company, you look at indicators such as quality of the team, whether the team is capable of developing and delivering and how your customers view your brand. Customers are the ones who pay, we are a premium brand so when you buy

our bag, you pay one thousand five hundred SEK which is quite expensive but still customers are willing to pay for it. Theoretically, I can sell the same bag for seven hundred fifty SEK. Customers are the ones deciding on my price indirectly because they are willing and prepared to pay 1,500 SEK for my bag but if they do not perceive my bag to be worth the money they are paying, in order to sell my product, I need to drop my price and one ends up at a different level. So, it is the market that sets the value of your brand.

## Appendix 5 - Interview with Martin Ericsson

*Martin Ericsson, Head of Corporate Finance, KPMG*

*17 May 13.30*

**Mikael:** Vi pratade tidigare om KPMG som varumärke och jag fick uppfattningen att ni inte hade för avsikt att vilja redovisa detta varumärke i balansräkningen om detta hade varit teoretiskt möjligt.

**Martin:** Nej, vad skulle fördelen vara med detta? Det skulle i så fall vara att öka eget kapital.

**Mikael:** En av anledningarna till att IAS 38 förbjuder redovissningen av egenupparbetade varumärken är att dess värde inte kan upprättas på ett tillförlitligt sätt. Anser ni detta antagande från IAS 38 är korrekt?

**Martin:** Nej, det är rätt konstigt att man värderar dessa på olika premisser. Det är väl inte mindre tillförlitligt att värdera sitt interna varumärke gentemot något man förvärvar?! Men jag kanske inte är helt införstådd i logiken bakom detta.

**Mikael:** När det kommer till hur intern upparbetade varumärken redovisas i de finansiella rapporterna, räcker det med att redovisa dessa varumärken i noterna eller bör de redovisas i balansräkningen, enligt din åsikt?

**Martin:** Jag har egentligen ingen åsikt när det kommer till att ta upp ett värde på ett varumärke. Visst är det så att man tar upp värden på upparbetad utvecklingskostnad, som man både aktiverar och skriver av på. Sedan är det så att man inte har någon avskrivning på ett varumärke då man anser att den, vanligtvis, inte har en obegränsad livslängd. Effekten av detta skulle därmed endast vara att blåsa upp balansräkningen.

**Mikael:** Du tror inte att värderingen av ett varumärke har någon betydelse för bedömningen av KPMG som företag?

**Martin:** På vilket vis då menar du?

**Mikael:** Nu är det inte så att KPMG har någon avsikt att sälja bolaget. Ett varumärkes värdering kan i denna situation vara användbar. Men kan det vara så att man drar kopplingar till dess värde och hur välfungerande bolaget är?

**Martin:** Problemet med det här är att KPMG AB äger ju inte varumärket. Det är ju något som ägs av KPMG international. Då kan man tycka att man har en nyttjanderätt. Men då är denna nyttjanderätt i sin tur belagt med en kostnad, då får man nog förutsätta att detta är ett rimligt avtal där vi betalar ett belopp som motsvarar varumärkets fair value.

Varumärket är självklart en del utav utvärderingen som man gör vid värderingen av bolaget. Men det är även en del utav de intäkter som genereras. Om vi på något sätt skulle använda det i en värderingssituation, då tittar man på jämförbara bolag, till exempel. Eller så tittar man på de kassaflöden som genereras av verksamheten. Från detta värde skulle du kunna särskilja värdet på varumärket men jag vet inte till vilken nytta det skulle vara.

**Mikael:** Penman, en forskare inom området, anser att resultaträkningen och balansräkningen kompletterar varandras brister. Han finner således inget behov av att redovisa

varumärken i balansräkningen eftersom ett varumärkes värdeskapande redan finns inkluderade i resultaträkningen i form av intäkter. Det är ganska likt det som du är inne på.

**Martin:** Ja, så är det helt och hållet! Intäktsflödet är ju självklart hänfört till en hel harang av olika tillgångar. Allt från rörelsekapitalet till anläggningstillgångar till tekniskt kunnande till arbetsstyrkan osv. Så egentligen är det så att man får dela upp den intjäningen du har för rörelsen per tillgång. Något liknande görs ju till exempel i förvärvsanalyser eller när man gör så kallade ”purchase price allocations”. Det är ju bara utifrån ett redovisningssyfte så det har ingenting att göra med värdet i sig. Så detta är bara en ren redovisningsfråga, för att man i slutändan ska få en mer rättvisande balansräkning då man gör avskrivningar på vissa tillgångar och eftersom dessa har olika avskrivningshastigheter.

**Mikael:** Det finns de som anser att värderingen av internt upparbetade varumärken bygger på företagets egna bedömningar och därför inte anses vara tillförlitlig nog. Kan en oberoende extern experts värdering av varumärket förhindra denna upplevda partiskhet? Detta skulle till exempel vara en revisor som sätter en kvalitetsstämpel på värderingen.

**Martin:** Man kan egentligen värdera vad som helst. När det gäller tillförlitligheten på denna värdering så baserar man oftast detta på en jämförelse med det som betalas för motsvarande tillgångar. Detta är alltid svårt för varumärken eftersom dessa är unika och då blir det väldigt komplext. Med det sagt är det inte omöjligt att göra en tillförlitlig värdering. Men jag hävdar fortfarande att jag inte ser meningen med att göra en sådan värdering. Sedan finns det firmor som livnär sig på att bara värdera varumärken. De skulle nog ha en annorlunda syn på det hela. Detta gör vi så klart även inom KPMG. Men tillförlitligheten är ju emellanåt ganska låg eftersom det är svårt att hitta jämförbara varumärken. Den data som finns kommer vanligtvis från amerikanska bolag som måste rapportera kring detta. En viss del av denna data kan komma från tvister men även från årsredovisningar där man anger vad man har för licensavtal med olika aktörer. Men det är oftast ganska sällan som man väljer att sälja ut sitt varumärke eller licenserar ut det.

**Mikael:** En del av kritiken mot internt genererade varumärken grundar sig på att värdet bygger på ledningens enskilda bedömningar av dess värde.

**Martin:** Ja, och värderingen måste göras med vedertagna värderingsmetoder och egentligen finns det bara en och det är ju ”relief from royalty”. Den kritik som kan riktas till denna metod är då att det finns en ganska knapphändig ”benchmark information” och den är då väldigt svår att jämföra mellan olika bolag. För vad du i slutändan är villig att betala för ett varumärke är kopplat till vad den kan skapa för intäkt i sig. Där ligger en del av problemet. För varumärket i sig skapar ju inget kassaflöde, du kan ju förstås licensera ut det, men då ska det fortfarande uppskattas vilken del av intäktströmmen som är hänförligt till varumärket. Där ligger problemet.

**Mikael:** Anser du royalty relief metoden som en tillförlitlig metod?

**Martin:** Det är ju den modell som används mest. Sedan finns det ju andra också. Men du kan ju göra en kassaflödesanalys på det hela som i slutändan ger en motsvarande effekt.

Här är läkemedelsbranschen intressant. Här har vi till exempel ett varumärke som Alvedon där patentet på det underliggande receptet har gått ut för många år sedan. Detta gör att det finns en hel drös med generiska produkter. Går man till affären och tittar på vad en Alvedon kostar jämfört med andra likvärdiga produkter så kan man ganska omgående se vad detta varumärke är värt. Det är dock ganska sällan man har denna möjlighet.

**Mikael:** Hur ser ni på användandet av en enda standardiserad värderingsmodell för varumärken som till exempel royalty relief metoden? Är det någonting ni skulle kunna acceptera och tror ni att detta skulle ge en högre tillförlitlighet?

**Martin:** Det är ju den som används och den accepteras även av skatteverket och av revisorer. Det är ju den som är den primära modellen. Sen finns det ju undantag där det finns möjlighet till användandet av andra modeller som är mer representativa för varumärkets värde. Därför är det oftast så att värderingsexperter är ovilliga att låsa fast sig vid en värderingsmetod.

## Appendix 6 - Interview with Lars Uhlin

*Lars Uhlin, Head of Branding Office, Lund University*

*17 May 2017 16.00*

**Mikael:** Redovisningen av immateriella tillgångar har varit och är ett omdiskuterat ämne inom redovisningsprofessionen. Införandet av IFRS 3 kan här beskrivas som gnistan som gav förnyad energi till debatten genom att tillåta redovisningen av förvärvade varumärken. Dock så förblev och förblir än idag internt upparbetade varumärken förbjudna att redovisa i företags balansräkningar.

Eftersom varumärken har blivit en allt viktigare del av företags verksamhetsidé har både utövare och professorer börjat ifrågasätta IASBs förbud. Men det vore ingen vidare debatt om det inte även fanns några förespråkare för IASBs beslut. Vissa av dessa vill även gå längre än så och helt och hållet förbjuda varumärken i balansräkningen.

Denna debatt har fångat vårt intresse och har lett oss till frågan om upprättare av finansiella rapporter anser att de på ett tillförlitligt sätt kan värdera deras internt upparbetade varumärken och om användarna av finansiell information anser att denna information är användbar för deras ekonomiska beslut.

En av anledningarna till att IAS 38 förbjuder redovisningen av egenupparbetade varumärken är att dess värde inte kan upprättas på ett tillförlitligt sätt. Anser ni detta antagande från IAS 38 är korrekt?

**Lars:** Detta ligger väldigt långt från vår värld. Universitetet skiljer sig lite åt jämfört med näringslivet. Vi är en väldigt omogen organisation. Varumärke som begrepp har varit väldigt känsligt att prata om. Vi är ett universitet och vi sysslar med undervisning och forskning och det är många som har denna inställning. På senare år så har det utvecklats ett större intresse för anseende frågan. Vi är på den extremt basala nivån att bara föra in begreppet varumärke och prata om det. Sedan skulle jag själv vilja titta närmare på detta och detta görs i samband med att vi tittar på varumärkesskydd.

Vi är ett house of brands utan fast utan någon strategisk tanke bakom det hela. Det har bara blivit så under 350 år. Detta är en ickefråga för universitetet på det sättet. Men jag skulle hemskt gärna vilja att vi mäter värdet i vårt varumärke för det är väl den primära diskussionen som vi försöker föra internt: att chefer och forskare ska få upp ögonen för värdet i Lunds Universitet. Det finns en hel del ”subbrands” som låtsas vara just subbrands, om man ska uttrycka sig så, och det finns en risk att kärnvarumärket utarmas. Jag skulle hemskt gärna vilja visa på hur man kan mäta värdet. Än så länge så har vi, mig veterligen, aldrig gjort det. Sedan får man börja fundera på hur vi redovisar detta värde och värdet på våra undervarumärken. Men det kommer i flera steg längre fram. Nu handlar det om att få ner de basala polletterna att här finns det ett enormt värde i varumärket, Lunds universitet är ju ett av Sveriges starkaste varumärken.

**Mikael:** Varumärken kan värderas på olika sätt och vi är intresserade utav den finansiella värderingen av ett varumärke men så långt har ni inte kommit i den utvecklingen?

**Lars:** Nej, men jag skulle mycket gärna vilja mäta det i finansiella termer. Det är först då som det blir en hård fråga när man visar siffror på detta.

**Mikael:** Hur skulle du vilja kommunicera detta varumärke? Om ni hade haft en värdering av Lunds universitet som varumärke skulle det räcka med redovisa det i noterna eller bör den redovisas i balansräkningen?

**Lars:** Jag skulle nog inte kunna ge ett bra svar på det. Men skulle det redovisas i balansräkningen skulle varumärket och dess värde uppmärksammas än mer. Men det ligger väldigt många steg längre fram. Så det är svårt att ge något bra svar på den frågan. Jag tror inte att det är någon på universitet som kan göra det idag heller. Det skulle i så fall vara planeringschefen på redovisningsavdelning som skulle kunna besvara den här frågan.

Men principen att synligöra varumärket är ju bra och har man med detta i balansräkningen får den någon typ av status och uppmärksamhet att detta är viktigt att ha med. Den tanken skulle jag kunna sympatisera med.

**Mikael:** Vad skulle detta ge användarna av er finansiella information?

**Lars:** I ett första skede tänker jag på att detta skulle vara användbart internt. Därför att dels visar det värdet på Lunds universitet som varumärke men den visar också hur detta förhåller sig till vissa andra undervarumärken. Vi har till exempel en diskussion på LTH där man har gjort ett varumärkesarbete. Det är en av åtta fakulteter men man har en mycket starkare särställning och en helt annan profil än till exempel den samhällsvetenskapliga fakulteten som egentligen inte har någon egen identitet. Där ligger identiteten på institutionerna medan LTH är ett varumärke i sig. Då skulle man vilja värdera detta varumärke. Hur mycket ska vi satsa på att bygga vidare på detta varumärke och vad är detta varumärke värt i förhållande till Lunds Universitet. Så den interna jämförelsen är en aspekt. Detta skulle jag vara mycket intresserad av i ett första skede. Det samma gäller Ekonomi högskolan. Ska detta bli en business school? Detta har varit en diskussion som kommer och går. Så det hade varit bra att få en finansiell värdering av de här varumärkena.

Ser man det sedan från ett externt perspektiv så är det naturligtvis intressant att benchmarka och se hur vi ligger till i förhållande till andra i konkurrensen. Universitetet konkurreras ut mer och mer och det är inte bara om studenter utan även om forskningsmedel och medarbetare. Vi jobbar aktivt med att bli mer attraktiva detta är till och med en del av vår strategiska plan. Sedan behöver vi mäta detta på något vis. Men hur mäter man attraktivitet? Varumärkes värdering skulle vara ett sådant verktyg.

**Mikael:** Vissa forskare kopplar skillnaden mellan ett företags marknadsvärde och redovisade värde till utelämnandet av immateriella tillgångar, så som internt upparbetade varumärken. Är detta något som ni håller med om?

**Lars:** Det kan jag nog tyvärr inte svara på.

**Mikael:** Okej, men om vi går vidare till tillförlitligheten av internt upparbetade varumärken. Det finns de som anser att värderingen av internt upparbetade varumärken bygger på

företagets egna bedömningar och därför inte anses vara tillförlitlig nog. Nu har ni i för sig främst avsikten att använda varumärken för intern användning. Men kan en oberoende extern experts värdering av varumärket förhindra denna upplevda partiskhet?

**Lars:** Jag förstår egentligen inte varför det skulle vara någon skillnad med att värdera ett internt upparbetat varumärke och ett externt förvärvat. Men det är väl bra med en extern värdering.

**Mikael:** Hur ser ni på användandet av en enda standardiserad värderingsmodell för varumärken eller en standardiserad värderingsmetod för alla universitet i detta fallet?

**Lars:** Ur jämförbarhetssynpunkt är det absolut bra. Men sedan får man ju ta standardiseringar för vad de är. Bara man vet hur det är mätt. Sedan får man ta hänsyn till att det är svårt att jämföra andra universitet som KTH och Chalmers med Lunds universitet så dessa har olika egenskaper. Så det gäller att veta vad man egentligen mäter.

## Appendix 7 – Interview with Johan Rasmussen

*Johan Rasmussen, Head of communications and marketing, Lindab*

*19 May 10.00*

**Mikael:** The recognition of intangible assets has been a vividly discussed area within the accounting profession. The issuance of IFRS 3 could be described as a spark that heated up the debate once more by allowing the recognition of acquired brands. However, internally generated brands remained and remains forbidden to recognize in the balance sheet. This, due to that they are not perceived to be reliably valued.

As the importance of brands has increased over the years some practitioners and researchers contest the prohibition of the IASB. But there would not be a debate without a counterpart. Thus there are those who support the decision of IASB and those who would go even further and ban the recognition of not only the internally generated but also the acquired ones, as they are misleading to analysts.

This debate has caught our attention and has led to the question if preparers believe that they can value their internally generated brand in a faithful way and do the users of their financial information believe that this information is useful? Which has led us to our interview with you.

One of the reasons why IAS 38 prohibits the recognition of internally generated brands is that their cost cannot be measured reliably, do you consider the assumption of IAS 38 regarding internally generated brands to be true? And do you think that you can value Lindab as a brand?

**Johan:** In general this is quite difficult to do. This is an area that have been recognized within the marketing and branding business. There have been several definitions on how to do this. And for sure you can follow those ways of measuring of brands that has been developed. Some of them have been developed by highly recognized institutes and professors. But basically it always ends up in a kind of “religious question”, if to say so. Do we believe in this? Because they are always connected with some assumptions. There are definitely ways of valuing a brand that are well recognized and trusted. But basically it always comes down to the management. Do they agree? Do they have the same opinion of this? Only if that is the case, then you can use it in your financial statements. There are ways to do it but the top management do not want to recognize it without any questions.

**Mikael:** Do you consider your company capable of measuring internally generated brands reliably?

**Johan:** No, we are not there yet. I have started the journey and raised these questions several times with the top management. And I think that this is something that we should work with because it is a way for us to measure ROI on all our brand activities. It also put much more respect around the marketing and communication branding organizations.

**Mikael:** How would your company value its internally generated brand? Or have you not come that far yet?

**Johan:** No, we have not come that far in deciding on a specific way of doing this. We need to decide on a specific way of doing this and come to an agreement on that this is the indisputable way we are valuing our brands. We further need to make sure of that the numbers that come out of that calculation are valuable and not up for debate. Then you can of course always find a way to debate on this numbers. But we have not come that far yet.

**Mikael:** When it comes to displaying internally generated brands in the financial statements, is it enough to disclose such an asset in the notes or should it be recognized in the balance sheet?

**Johan:** For me as a brand manager I would like it to be recognized in the balance sheet. This is something that would prove how we are performing and if the investments that we have made in our brands generate value to the total business. But I am not fully sure if that is financially possible to do. There are quite some rules in that area that I am not fully familiar with. But if it was possible, I would definitely want it to be included in the balance sheet as an asset that is highly valuable.

**Mikael:** I guess that this would help you to compare your internally generated brands and be of value in your internal work.

**Johan:** Yes, it would definitely help me to gain even more resources to invest in our brand if it was a part of the balance sheet like put-option investments and building investments.

**Mikael:** What added value would this give the financial users of your financial statements?

**Johan:** That depends...

**(call interrupted)**

**Mikael:** Okay, where were we?

**Johan:** I think that we were on question four and I would say that thus would bring a lot of value to me and my business area, as we would gain much more respect on our return on investments from the company. I think that, having it in the financial statements would be an eye opener for them. I think that the financial department would like to include the brand value because they sometimes have difficulties in finding the return on investments on all marketing and brand activities.

**Mikael:** Would the users of your financial information find this information useful.

**Johan:** Yes, I am sure of it!

**Mikael:** Some researchers attribute the difference between market value and book value to the omission of intangible assets such as internally generated brands, do you agree with their reasoning?

**Johan:** Well I believe that in Lindab, for the moment, the book value is definitely not comparable with the market value.

**Mikael:** Well, some say that there are a lot more values that are attached to the market value than the book value.

**Johan:** The market value would be the share value and the book value is just some numbers and financial rules that they calculate and the market value is much higher.

**Mikael:** Would you follow the same procedures for the valuation of an internally generated brand and an acquired brand?

**Johan:** Yes, if we had one definition of doing a valuation of our brands then we would follow that for all our brands.

**Mikael:** There are those who would claim that the valuation of internally generated brands is based on judgement made by management and are therefore not seen as reliable enough. Do you think an external independent expert can solve the bias issue associated with the valuation of internally generated brands?

**Johan:** Yes, definitely! But it all comes down to the common agreement in the management team. If we all agree on that this is something that we have to trust and that we cannot argue against the result, then an independent external independent expert would be a way to move forward. We cannot bring in such calculations if the management team do not have a common view of it is right or wrong. This is basically what is the most important.

**Mikael:** What are your thoughts on the usage of one single standardized valuation method for all brands? Is this something you might approve with?

**Johan:** Yes sure, if we found one that was suitable for us to use and if we have all agreed on that this is the one to use.

**Mikael:** Do you think that this will solve the bias issue?

**Johan:** Yes, sure! I think it differs a lot from business to business, of what to use and how to recognize it and where to include it. But if we in Lindab would be able to use one standardized valuation method that would fit into our balance sheet and valuation method that all managers had agreed upon that would make life much easier for us.

## Appendix 8 - Interview with Jörgen Carlsson

*Jörgen Carlsson, Formerly responsible for the group account of Aspiro AB*

*18 May 2017 15.00*

**Mikael:** Redovisningen av immateriella tillgångar har varit och är ett omdiskuterat ämne inom redovisningsprofessionen. Införandet av IFRS 3 kan här beskrivas som gnistan som gav förnyad energi till debatten genom att tillåta redovisningen av förvärvade varumärken. Dock så förblev och förblir än idag internt upparbetade varumärken förbjudet att redovisa i företags balansräkningar.

Eftersom varumärken har blivit en allt viktigare del av företags verksamhetsidé har både utövare och professorer börjat ifrågasätta IASBs förbud. Men det vore ingen vidare debatt om det inte även fanns några förespråkare för IASBs beslut. Vissa av dessa vill även gå längre än så och helt och hållet förbjuda varumärken i balansräkningen.

Denna debatt har fångat vårt intresse och har lett oss till frågan om upprättare av finansiella rapporter anser att de på ett tillförlitligt sätt kan värdera deras internt upparbetade varumärken och om användarna av finansiell information anser att denna information är användbar för deras ekonomiska beslut.

En av anledningarna till att IAS 38 förbjuder redovisningen av egenupparbetade varumärken är att dess värde inte kan upprättas på ett tillförlitligt sätt. Anser ni detta antagande från IAS 38 är korrekt? Om ni inte håller med detta antagande, anser ni att ert företag på ett tillförlitligt sätt kan värdera ert/era internt upparbetade varumärken och varför?

**Jörgen:** Jag läser den engelska versionen av frågan och där står det att man inte kan mäta dess "cost". Detta är inte riktigt det samma som värde. Så jag skulle nog utgå från den engelska versionen. Vilket jag antar ligger närmast det IAS 38 beskriver. Men när det gäller att mäta utgiften för det hela så är det klart att man kan tänka sig att man eventuellt kan mäta de direkta utgifter man har för att bygga ett varumärke.

Så det är klart att det kan vara en klassificerings fråga. Vilka utgifter är det då som är direkt kopplade till varumärket? Detta kan man klart diskutera. Å ena sidan så, i någon mening, om man i ett företag väldigt tydligt jobbar med att stärka varumärket och har särskilda åtgärder där man lyfter fram varumärket mer än själva produkten. Man kan här säga att man har haft dessa utgifter för att bygga upp varumärket. När man bygger upp ett varumärke så säger detta egentligen inte nödvändigtvis någonting om dess själva värde utan detta är mer som en form av anskaffningsvärde som baseras på de utgifter man har lagt ner som är kopplade till varumärket. Sedan kan man ju diskutera, precis som med all marknadsföring är det svårt att mäta effekten av marknadsföringen men det är inte svårt att veta att man har gjort marknadsföring. Att fastställa någon typ av anskaffningsvärde skulle jag kunna se som möjligt. Däremot blir den efterföljande värderingen problematisk. Att man vid första redovisningstillfället på ett tillförlitligt sätt inte skulle kunna ta in varumärket till dess anskaffningsvärde tycker jag inte nödvändigtvis är ett argument som håller.

I den meningen skulle jag då kunna säga emot IAS 38. Givet att man har definierat vilka aktiviteter och där till följande utgifter som kan anses vara

varumärkesbyggande så skulle man kunna fastställa ett anskaffningsvärde på ett hyffsat tillförlitligt sätt.

**Mikael:** Sedan finns det ju en rad värderingsmodeller för varumärken. Royalty reliefmetoden är ett exempel.

**Jörgen:** Men det är en helt annan sak som jag ser det. Frågan om en utgift ska kostnadsföras eller aktiveras är ett frågeområde. Då kan man diskutera om vissa utgifter för varumärket kanske skulle vara aktiverbara. Det är en utgångspunkt. Sedan är det en helt annan fråga om man ska ta in varumärket i balansräkningen utifrån någon typ av värdering som är mer frikopplad från aktivering av utgifter. Här menar jag på att detta är en helt annan frågeställning och det är den man använder vid förvärv. Jag tror att man ska vara väldigt noga med att skilja på aktiverade utgifter från internt upparbetade varumärken och hur man värderar ett förvärvat varumärke.

Då är man mer inne på att man har som målsättning att balansräkningen ska visa på företagets verkliga värde och det är en lite annan frågeställning om vi tittar ur det enskilda företagets synvinkel. Jag tror nog inte att man ska blanda in dessa värderingsmetoder. Då är man inne i en annan typ av redovisningsmodell, som jag ser det.

**Mikael:** Du arbetade tidigare som redovisningsansvarig för Aspiro AB och själva koncernen Aspiro. Hur värderade ni ert varumärke eller hade ni några funderingar på detta?

**Jörgen:** Nej, inte alls! Det blev en ickefråga. För de varumärken som man har haft under de 17 år som jag var aktiv inom Aspiro och när det gäller internt upparbetade varumärken har detta inte varit aktuellt. Frågan har aldrig ställts eftersom svaret är nej.

Det har aldrig skett en värdering av varumärket Aspiro som har använts utanför redovisningen heller eftersom varumärket Aspiro har aldrig varit ett intressant varumärke egentligen även om det har registrerats. Det var ju snarare vissa produkter som var av intresse och som registrerades och skyddades och självklart ansågs ha ett värde. Men de värderades aldrig och användes inte heller för att motivera värdet på företaget. Detta gäller internt upparbetade varumärken. Vilket delvis är ett svar på fråga tre. Vi tog varken upp dem i noter eller i balansräkningen.

**Mikael:** Om ni nu hade gjort en värdering era varumärken och om det hade varit möjligt att redovisa dessa i balansräkningen, skulle det räcka med att redovisa detta i noterna eller finns det en positiv sida med att redovisa dem i balansräkningen?

**Jörgen:** Redovisning i noterna? Då menar ni på att den eventuellt skulle kunna ses som en typ av eventualtillgång eller en parallell till operationell leasing där man visar ett åtagande i noterna men inte i balansräkningen. Skulle man då kunna tänka sig en tillgång som man informerar om i noterna men ändå inte i balansräkningen? Nej, om jag skulle göra mig till tolk för hur man resonerade på den tiden då man över huvud taget diskuterade aktivering och var intresserad av att lite grann, tja man kanske skulle kunna säga att det handlade om kreativ redovisning, att påverka vilket resultat som gick ut på marknaden.

Då var det helt ointressant att ha med det i noterna. Antingen skulle man ha in det i redovisningen för att visa ett bättre resultat annars kunde det vara förutran. Så i övrigt handlar det mer om att i den övriga kommunikationen lyfta fram positiva saker. Man hade nog inte blivit glad över om informationen hade funnits i noterna men inte i balansräkningen. Det är min tolkning av ledningen på den tiden och då får vi gå tillbaka en bra bit i tiden då detta kunde ha varit en relevant fråga.

**Mikael:** Om det nu skulle ha aktiverats utgifter för era interntupparbetade varumärken. Mer än att öka resultatet, vad skulle detta ge Aspiro som organisation?

**Jörgen:** Relaterar man tillbaka till denna period som jag diskuterade om tidigare så handlade det nog ändå mer om resultatet.

Sedan kan det dock relateras till att man vill förbättra balansräkningen i förhållande till eget kapital. Detta är dock indirekt samma sak då det i grunden handlar om utgifter som man har haft och inte en fristående värdering.

**Mikael:** Vissa forskare kopplar skillnaden mellan ett företags marknadsvärde och redovisade värde till utelämnandet av immateriella tillgångar, så som internt upparbetade varumärken. Är detta något som ni håller med om?

**Jörgen:** Det är klart att det kan vara en del. Tar man då Aspiro-fallet skulle jag nog inte säga att det inte handlade om immateriella tillgångar i den meningen att det finns någon typ potential i de idéer och kunskaper som finns i företaget. Väldigt mycket tror jag att detta snarare handlade om de förväntade framtida vinsterna. Det är inte så kopplat till varumärket. Utan man har en produkt som inte finns i balansräkningen, den är immateriell i den meningen att man har kostnadsfört i stort sett alla utvecklingsutgifter, utom i en kort period. Men man har ju dessa utgifter för att man tror att dessa ska generera framtida intäkter. Utvecklar man en streamingtjänst så är det klart att man förväntar sig att den så småningom ska generera positiva kassaflöden. Under de perioder då börsvärdet har varit större än det redovisade egna kapitalet så måste man förstå den skillnaden utifrån att de produkter som företaget har faktiskt förväntas generera intäkter i framtiden. Med dessa syns inte i balansräkningen. I den meningen finns det immateriella värden, inte i första hand varumärken utan utvecklade produkter som givetvis har ett namn men som inte direkt är kopplade till själva namnet. Så det är väl rimligt att det är någon typ av immateriella värden som kan spegla en stor del av skillnaden mellan börsvärde och redovisat värde.

**Mikael:** Vid företagsförvärv så uppstår det oftast ett överskott i betalningen jämfört med det redovisade värdet för bolaget, goodwill. Sedan kan man hänföra en del av goodwillen till ett varumärke. Skulle ni använda samma redovisningsmetod vid värderingen av ett förvärvat varumärke som med ett internt genererat?

**Jörgen:** Nej, eftersom, som jag menar, att det internt genererade varumärket måste baseras på utgifter. Detta kan man dock inte använda på det externt förvärvade varumärket. Där vet man inte hur stor del av anskaffningsutgiften som man ska fördela till varumärket. Här måste man gå från andra hållet. På sätt och vis handlar det om utgifter här också, men storleken på denna utgift kan man inte veta i förväg. Så då måste man värdera tillgången oberoende av vilka utgifter man har haft totalt i

förvärvet. Då blir det att man får använda dessa värderingsmodeller. Om jag inte minns alldeles fel så gjordes det ett antal förvärv i början 2000 – talet där vi faktiskt anlidade externa rådgivare för att genomföra de här ”purchase price allocations” eller förvärvsanalyser som det även kallas (PPA). Då identifierades ett antal immaterilla tillgångar. I ett av dessa förvärv så var det ett varumärke som identifierades, separerades och togs in i balansräkningen. Jag tror att det var ”slippa royalty metoden” som användes för att komma fram till någon typ av värde. Därefter redovisades det med en anskaffningsmetod och skrevs av.

**Mikael:** Det finns de som anser att värderingen av internt utvecklad varumärken bygger på företagets egna bedömningar och därför inte anses vara tillförlitlig nog. Kan en oberoende extern experts värdering av varumärket förhindra denna upplevda partiskhet?

**Jörgen:** Ja, men man kan ju säga att all värdering bygger på företagsledningens egna bedömningar och uppskattningar. Så detta är inget specifikt för internt utvecklad varumärken. Detta är väl ett generellt problem: kan vi lita på företagsledningens uppskattningar och bedömningar? Detta kan man naturligtvis inte alltid göra och därför är det bra att ha en ”second opinion”. När det gäller internt utvecklad varumärken skulle den externa parten då se på vilka utgifter som är varumärkesbyggande och vilka som inte är det. Så visst kan en oberoende part stärka tillförlitligheten.

**Mikael:** Hur ser ni på användandet av en enda standardiserad värderingsmodell för varumärken? Är det någonting ni skulle kunna acceptera och tror ni att detta skulle ge en högre tillförlitlighet?

**Jörgen:** Man anser ju att det inte kan finnas någon aktiv marknad för varumärken, enligt IAS 38 och detta håller jag med om. Det är därför som man inte får använda omvärderingsmetoden på varumärken. Eftersom det inte går att fastställa ett verkligt värde på varumärken på grund av att det inte kan finnas en aktiv marknad för varumärken. Då måste man ha en annan modell. Nu kommer jag inte ihåg vad det fanns för alternativ till slippa royalty metoden men det fanns en tanke kring utgiftsbaserade och kostnadsbaserade metoder. I förvärvssituationer är det väl ingen nackdel att ha en standardiserad modell. Men då går man ifrån principbaserad redovisning till regelbaserad. Men då får man i så fall även tala om vilka parameter värden man har använt så att man kan ta ställning till om det är rimliga ingångsvärden i modellen. Så hade jag ställts inför situationen så hade jag säkert tyckt att det hade varit bra att veta det är så här man gör en värdering av ett varumärke. Jag tror att man uppskattar detta i företaget. Å ena sidan kanske man vill ha en möjlighet att påverka värderingen i större utsträckning men å andra sidan hade det nog varit skönt att ha en modell att lita sig tillbaka på.