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Advertising and Branding of Italian Visual Arts at ‘hard times’

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To Professor Carlo Ricciardi

Abstract

Signaling qualities and economic performances of advertising can generate a competitive advantage at ‘hard times’, when cultural firms diversify their revenues as Welfare States do not have enough resources for them. Using a recent microeconomic database we empirically estimate the relation between intangible assets, advertising expenses, revenues and profits for Italian Visual Arts, whose sample is defined referring to the latest legislative definition that includes ‘landscape’. The intangible asset includes advertising investments and brands whose signaling value is undoubted at ‘hard times’, when cultural entrepreneurs have to signal their ‘identity and reputation’ in order to increase grants and, as a consequence, revenues. The research gives evidence that Visual Arts whose advertising expenses are one third of program service expenses, are profitable despite of the financial crisis. *Brand reputability* is connected to advertising expenses much more than to intangible assets that can include advertising investments and brands.

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1. Literature review on advertising and intangible assets

During the last decades there have been a lot of attempts to define what intangible or invisible assets are and how to calculate their value.

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The first literature and empirical research dealing with intangibles have already considered the importance of advertising.

The importance of advertising – the advertising expense and the advertising investment - had previously received attention by the literature of industrial organization and applied economics as for signaling qualities (Dorfman and Steiner 1954; Kihlstrom and Riordan 1984), market structure and performances (Comanor and Wilson 1967; Sutton 1991, Daves and Tucker 1993; Daughety and Reinganum 2008) brand recognition and information (Caves and Green 1996).

One of the pioneering studies on the relationship between advertising and intangible is “La pubblicità nell’economia dell’azienda industriale” by Guatri (1964). In this book Guatri is discussing of ‘investments’ in advertising. This can be considered one of the first attempt to measure intangibles connected with marketing. Guatri explains that through means of advertising investments, brands and reputation are built which leads to a competitive advantage. This is a marketing investment whose benefits are deferred in time.

During the 80s, the valuation, definition and estimates of intangible assets had a strong development both in banking, distribution and insurance market, in the press and in the service industry.

One of the most considered definitions of intangible assets is Itami’s. Itami (1984) says that the invisible asset refers to “resources based on information”. According to the author, firms are in the centre of a flow of information created by people that generates and stores information, and every information flow is linked to an invisible asset. There are three kind of information: environmental information, business information and internal information. ‘Environmental information’, that flows from environment to the business and creates invisible assets related to the environment. In this category there are technology, R&D, marketing research. ‘Business information’ flows from the business to the environment and generates invisible asset stored in the environment: such as reputation, brand image and corporate image. ‘Internal information’ is produced and consumed within the business. It refers to corporate culture, skills of managers and of all the people working inside the company.

Italian business administration literature gives a very important contribution on the definition of intangible assets. In 1988 Brugger stresses an important aspect on the definition of intangibles, considering the possibility of them being separated from other assets. This means that intangibles can be sold like a building or a license. In the same year Guatri (1989) says that an intangible is an input whose utility is deferred in time, it can be measured and it can be transferred, when extracted from the business it gave birth to. So, Guatri stresses one fundamental feature of intangible assets, which is their autonomy towards the business that has generated them.

These two brief definitions contain the three fundamental characteristics of intangible assets that are currently prevailing in theoretical and empirical approaches: their origin from a cost and their capability to create future economic benefits; identifiability and possibility to be measured; capability to be separated from the business that has created them.

The first point refers to the fact that intangibles must be created with an investment (for example with a advertising campaign) or a purchase (of a brand or a license), and that this expense can give some economic benefits in the future. These benefits are directly connected with this expense. These benefits can be increasing revenues for for-profits and increasing grants for not-for-profits.

The second point refers to the capacity of intangibles to be measured (on the contrary, we can’t have an intangible).

The third point refers to the possibility to sell or transfer intangible asset: it is possible, for example, to sell a brand or a license.

IAS (International Accounting Standard) 38 is the document, used all over the world, that prescribes the accounting treatment for intangible assets not dealt with in other IFRS (International Financial Reporting Standard). The Standard requires an entrepreneurial entity to recognize an intangible asset if certain criteria are met, it specifies how to measure the carrying amount of intangible assets and requires certain disclosures regarding intangible assets.

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