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**BUSINESS REPUTATION: ORIGINAL ASSESSMENT OF KEY FEATURES IN THE
CONDITIONS OF WORLD INTEGRATION OF RUSSIAN AND INTERNATIONAL LEGISLATION**

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Abstract

Subject. The concept of business reputation and its features from different positions are presented in Russian Accounting Standards and International Financial Reporting Standards. In the conditions of global integration of accounting science, it is necessary to clarify the essence of business reputation and its classification, the specifics of formulations, and the features of subtypes. Goals/objectives. 1. An original understanding of business reputation as an economic category. 2. Identification of features of identification and evaluation of business reputation. 3. Disclosure of the essence of internally created business reputation, correction of its content. 4. Clarification of the business reputation classification. Methods. The study uses the methods of comparative analysis in relation to available scientific and theoretical results. Results. 1. An original definition of business reputation is proposed, taking into account the studied parameters. 2. The influence of the image of a company and its brands on business reputation and internally created business reputation is determined. 3. The classification of business reputation is modified. 4. The features of identification and evaluation of business reputation are specified. Conclusions/significance. 1. Identification of business reputation upon purchase and sale requires compliance with certain circumstances and/or their combination. 2. The set of qualitative characteristics that determine the internally created business reputation is subjective. 3. The image of a company and its brands is objectively included in the content of the internally created business reputation. 4. Only the calculation method as a way of evaluating business reputation is directly focused on business reputation. 5. The risk of loss of

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business reputation is the most relevant type of risk, reflecting the increased importance of this concept and object in the modern economy.

Keywords

Business reputation – Internally created business reputation – Identification – Evaluation

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Introduction

Business reputation is a unique category, a concept, on the one hand, widely used by everyone and, on the other, ambiguous, constantly polemised in the academic community.

It is necessary to note the principal aspect: as a certain non-material benefit, business reputation is given to any person from birth¹ and is inseparable from them. At the same time, business reputation at the level of federal legislation is equated to business relations, professional skills, and property – from the standpoint of the possibility of making all this in the common cause², business, entrepreneurial activity.

In the modern economy, business reputation has acquired the status of a mandatory attribute of the successful operation of a company, the object of its activity, so obvious and objective that it is subject to registration and reflection in the reporting data, along with other objects in the life of an economic entity. This fact is confirmed by the relevant regulatory documents and standards. In the context of global accounting and reporting integration, unification of accounting and analytical systems at both macro and micro levels, as well as harmonization of accounting science and practice through International Financial Reporting Standards (IFRS), it is particularly effective and logical to conduct a comparative analysis of identical characteristics of IFRS and Russian Accounting Standards (RAS) associated with business reputation accounting³, the results of which allow one to provide the following comments.

First, the priority of IFRS in the current interpretation of business reputation is obvious, since it is here that the effect of the expectation of future economic benefits from these assets is emphasized.

Second, both Russian and international standards note that it is impossible to identify these objects. However, here everything is not so clear and even contradictory.

The presence of future economic benefits is a common characteristic for both Russian and international standards of a business reputation as an intangible asset, which means the possibility of capitalization of an object that can generate income. In the opposite case, if the object does not give income, it is decapitalized, that is, it is subject to decapitalization. In practice, in relation to business reputation as an element of intangible assets, the mechanisms of depreciation and impairment of assets can be considered the main methods of both capitalization and decapitalization.

Therefore, for the capitalization of a business reputation as an intangible asset of a company, the possibility of its identification and evaluation is required. The identifiability of business reputation (intangible asset) implies the separability of the object from others, the possibility of its sale, transfer, exchange, etc.

¹ Part IV of the Civil Code of the Russian Federation: Federal Law No. 230-FZ of 18.12.2006. Art 150, 152.

² Part IV of the Civil Code of the Russian Federation: Federal Law No. 230-FZ of 18.12.2006. Art 1042.

³ M. D. Akateva, "Reputacionnyj risk: ocenka sovremennogo teoretiko-ponjatijnogo apparata", *Mezhdunarodnyj buhgalterskij uchet*, num 20 Vol: 362 (2015): 16-29.

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We get the original logical chain of interrelated general economic and accounting provisions (Figure 1).

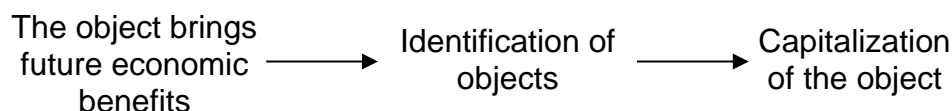


Figure 1

Place of identification in the general economic sequence of object perception

Conclusion 1: Business reputation is identified. As a result, analytical accounting information is assumed for this object. As an independent component of intangible assets, business reputation is capitalized.

The problem of business reputation identification is directly related to the situation that can arise for any economic entity – the acquisition (purchase) of an organization (enterprise, group of companies, firm). Such a procedure implies the possibility of various schemes of transactions between counterparties, starting with the definition of the object and the subject of the transaction, the composition (structure) sold under the terms of the individual contract property, its valuation and ending with identifying the monetary value emerging as a new object of accounting and analytical system of the economic entity's business reputation, which is fundamentally important for this study.

Russian and international legislation (standards)⁴ differently assess the probability of occurrence of such an object of intangible assets, depending on the specific conditions (schemes) of the contract. Of interest is the absolute coincidence of the positions of RAS and IFRS on the situation when in practice the essence of the transaction is not the acquisition of the organization itself, but only a share in its authorized capital. In an unconditional formulation, the subject of such a transaction does not lead to a business reputation. In practice, this kind of scheme may have fundamentally important clarifications (conditions):

- 100% of shares are acquired in the authorized capital of an economic entity;
- less than 100% of shares are acquired in the authorized capital of an economic entity, but the size of such acquisition allows for the procedure of reorganization in the form of accession.

The given scientific-practical reasoning leads us to **conclusion 2** that clarifies previous findings of this study and is its logical continuation. Even in the presence of the fact of acquisition (purchase) of an organization (group, company) and, as a consequence, theoretically possible recognition of goodwill, the identification of this type of intangible assets is not always feasible, but only if one has a particular circumstance and/or combination thereof.

⁴ Regulations on accounting "Accounting of Intangible Assets" (PBU 14/2007): order of the Ministry of Finance of the Russian Federation of 27.12.2007 No. 153n; IAS 38 "Intangible Assets" y IFRS 3 "Business Combinations".

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A unique feature of business reputation is the presence of its original variety – internally created business reputation.

At present, the disadvantage of RAS in terms of accounting for intangible assets is the lack of such a concept as such and, as a result, underestimation and even misunderstanding of the special relevance and practical significance of this category.

In IAS 38⁵, internally created business reputation is not only mentioned but also characterized by several features:

- it has no material form;
- it is an unidentifiable object, controlled by an economic entity, cannot be reliably estimated; therefore, it is not an intangible asset;
- in terms of ownership – it is not the property of an economic entity, which automatically makes it impossible to buy, sell, gift, or alienate;
- the methods of its estimation, as well as any method of calculation, are not regulated.

As one can see, the characteristics of the internally created business reputation are reduced to a list of what is not peculiar to this object and what it does not possess. In contrast to all these "not", internally created business reputation has an exceptional feature – it is a competitive potential (resource) of an economic entity and this potential is usually undervalued and insufficiently used, which makes it particularly important and promising from the standpoint of operational management and strategic management at both the micro and macro levels of the economy.

The complexity of this object lies in the totality (complex, set) of obviously qualitative characteristics, more precisely – the advantages of the life of the economic entity. **Conclusion 3:** Any attempt to determine the composition, structure, content, or format of these qualitative characteristics is a priori subjective, depending on economic goals and objectives, priorities, various conditions and circumstances, etc.

Therefore, focusing on modern generally recognized qualitative characteristics – the advantages of economic entities, as typical parameters that determine the internally created business reputation, one can specify the following (Table 1).

Category/group of indicators	Characteristics
1. established business (activity)	an effective and well-functioning system of sales of products, services, and works
	stable business partners – contractors with a good reputation
	absence of unfair and unreliable contractors
	clean credit and debt history
	demand in the market and competitive products, services, and works

⁵ IAS 38 "Intangible Assets".

2. intra-company potential	The management of an economic entity is highly qualified and has professional competencies most popular in the labour market
	effective structuring of the company, economically advantageous geographical location
	no internal accounts payable
	stable staff
	high level of information security
3. media-assessment	positive reviews about the company in various media
	internet sources (sites, search engines, queries) form a positive impression

Table 1

A systematized list of qualitative characteristics determining the internally created business reputation of an economic entity

Objectively evaluating these characteristics, it should be noted that their presence in the economic entity in principle indicates the competitiveness of the latter.

Also, in practice, there are terminological substitutions, when "business reputation" is defined by the concept "image of a company (firm)".

For a specialist, it is obvious that image is a concept rather emotional and psychological, reflecting the representation (understanding, vision) of something or someone. It has the character of "human factor" and assumes the presence of an image or sensation, an impression of the object.

Theoretical and scientific studies of image issues put forward various classification features and types of this concept. However, some of them seem far-fetched. Thus, the allocation of "external image" and "tangible image"⁶ looks like a synonymous name for the same-third-party impression, perception of the company by the media, partners, clients, intermediaries, etc. Guided by such varieties, it should be noted that "external image" is the category closest to the internally created business reputation in terms of content. However, it is distant in terms of the mechanism of formation: internally created business reputation is created, formed, built by an economic entity while the image is felt and perceived from the outside, by anyone.

In the context of the concept of image, the most objectively perceived is "financial image", which implies certain financial indicators, such as financial stability, solvency, liquidity, etc., actually calculated from the reporting data of an economic entity. Thus, apparently, only the financial image carries a relatively objective assessment of a company's competitiveness.

The fundamental differences between reputation and image lead to **conclusion 4**. Effective formation and management, in term of each of them, have completely different tools.

One of the most popular innovative tools in this area is considered to be a brand⁷, which is associated with a variety of trademarks, names, logos, and other elements

⁶ B. Gee, Image of the company: planning, formation, promotion (Moscow: Centr, 2009).

⁷ J.-N. Kapferer, The New Strategic Brand Management: Creating and Sustaining Brand Equity Long Term (Moscow: Vershina, 2007).

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developed (created, acquired) for the same key goal – to increase the competitiveness of the economic entity. This is another concept that somehow claims a status comparable to business reputation, as well as an internally created business reputation.

However, a brand is the identification of a specific object (product, work, services) and it exists with the help of specific attributes (verbal, graphic, or combined) in the form of associations, aggregate representations, and images. In the global sense, there is a localized perception of the world along a trajectory set by professionals and this perception involves the merging or substitution of the real and created (idealized), i.e., there is a mythologization: mythological thinking, in which images (signs, symbols) replace the objectively real perception.

The problem of branding is directly related to the sphere of advertising, the professional attraction of attention, creation and support of product recognition, etc., which is beyond the scope of this study.

It is important that the awareness of the objective and recognized role of brands in the formation of a competitive image of a company can also be attributed to the indicators (characteristics) of the internally created business reputation of the company. In relation to the identification of goodwill in case of acquisition of a company, we come to the obvious **conclusion 5**. The brand is one of the elements that drastically increase the cost of a property transaction in buying and selling, i.e. directly affect the value (assessment) of the business reputation of the economic entity.

All this makes it possible to state the revealed regularity in a reasoned manner: both image and brand are components of the business reputation of an economic entity that directly affect its monetary value since they objectively contribute to the growth of the market value of the organization (its sale price). However, the brand can be attributed to the list of qualitative characteristics that also determine the internally created business reputation and, in relation to the data in Table 1, it can be included in the concept of established business and media-assessment depending on its scale and professional level of development. The image also refers to an internally created business reputation, but with a significant caveat: it is the external image included in the concept of media-assessment (Table 1).

These arguments allow us to correct and clarify the classification of business reputation given in IFRS (Figure 2).

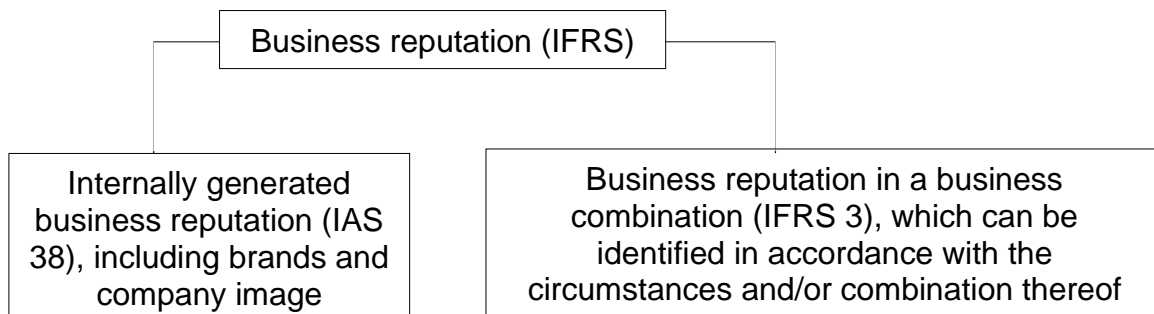


Figure 2
Modified business reputation

As mentioned earlier, for capitalization of a business reputation as an intangible asset of the company, it is necessary not only to identify but also to evaluate this object. Factors and conditions that affect the value of the business reputation assessment have been discussed above.

Let's analyze the methodological approaches.

The specialized literature presents various methods of evaluation, usually of intangible assets, including the possibility of assessing business reputation⁸. The most popular, in our opinion, methods and their features are presented in Table 2.

Evaluation method	Specific features
1. The method of excessive profits	<p>Advantages: use in the calculation of average industry profit, i.e. features of a type of economic activity are considered.</p> <p>Disadvantages: - it is necessary to select typical periods with objective future expectations, the probability of distortion of the result is high; - not all companies trade shares on the stock market, which is required for the application of this method.</p>
2. Discount method (estimation of future income/profits)	<p>Advantages: a classic approach that allows one to evaluate the effect of the influence of business reputation.</p> <p>Disadvantages: a time-consuming method, in which a trademark and business reputation are treated as equal examples of intangible assets, i.e. it is an assessment of any object in this category, including a brand.</p>
3. Multiplicative method (using a multiplier)	<p>Advantages: the calculation period of, as a rule, three years gives an objective and complete assessment, accounting for the inflation index.</p> <p>Disadvantages: - the method is focused on the trademark as an intangible asset, not on business reputation; - evaluation is retrospective; - future changes may not be taken into account.</p>
4. Calculation method	<p>Advantages: - the most popular method, easy to use; - directly focused on the assessment of business reputation.</p>

Table 2

Methods for evaluating business reputation and their characteristics

From Table 2, we can make **conclusion 6**. With all the variety of evaluation techniques in the field of intangible assets, the most specialized in the characteristics of business reputation is the calculation method, which through the difference between the market value of the company and the value of its assets allows one to clearly and easily assess the objective value of business reputation.

⁸ Ju. N. Gorenburgov, Principy i metody stoimostnoj ocenki brjendov v sisteme internet-marketinga (Saint Petersburg: 2001) y Sharkov, F.I. Konstanty gudvilla: stil, pablisiti, reputacija, imidzh i brend firmy (Moscow: Dashkov i K, 2010).

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Taking into account all the above, we propose an original definition of business reputation, which includes the identified features and conclusions. Business reputation is an object of intangible assets that is identified in the case of a business combination, in the presence of certain circumstances, and/or a combination of them and evaluated using, as a rule, the calculation method. This definition, based on the provisions of IFRS in this matter, in the context of the integration of world accounting science and practice, can be recommended for use in RAS, which will make it more focused on global accounting trends. The earlier statement about the undervaluation of business reputation in the RAS and the lack of a comprehensive assessment of this object by analogy with IFRS requires some clarification. Not in the accounting standards, but by the decision of the Ministry of Finance of Russia the concept of risk of loss of business reputation was introduced into professional terminology⁹. As is known, there are numerous classifications of risks around the world with the allocation of their various categories, types, and subtypes. However, only relatively recently, along with such generally recognized types of risks as financial, industrial, investment, credit, etc., the risk of loss of business reputation has been distinguished, which is associated with a number of negative factors¹⁰, such as:

- a decrease in the number of contractors of the company, as well as its suppliers, customers, clients;
- formation of a negative impression of the company on the part of contractors, creditors, investors, clients, shareholders, and regulatory authorities;
- narrowing of the market for products, services, and works;
- an increase in the company's staff turnover, a decrease in its professional level, etc.

It is obvious that all this is possible as a result of negative information about the company, first of all, in the media, on the Internet, and in the professional community. Referring to the data in Table 1, we can state **conclusion 7**. The risk of loss of business reputation is a direct and immediate consequence of the reduction or loss of quality characteristics that determine the internally created business reputation of the company. Therefore, on the one hand, there is an objective growth of interest in business reputation at the legislative level and recognition of the importance of such an object in the life of the company and the economy as a whole. On the other hand, taking into account the above arguments, it is recommended to clarify the name of this type of risk, defining it as "the risk of loss of internally created business reputation"¹¹.

Thus, it is obvious that there is a need for closer harmonization of Accounting Regulations 14/2007 "Accounting of Intangible Assets" with IAS 38 "Intangible Assets", which defines the concept of internally created business reputation.

⁹ Information of the Ministry of Finance of the Russian Federation "On disclosure of information about the risks of economic activity of the organization in the annual financial statements" PZ-9/2012.

¹⁰ M. D. Akateva, "Osmotritel'nost i ostorozhnost pri vybore kontragentov: teoreticheskie i prakticheskie aspekty", *Mezhdunarodnyj buhgalterskij uchet*, num 16 Vol: 310 (2014): 23-31.

¹¹ M. D. Akateva, "Reputacionnyj risk: ocenka sovremennogo teoretiko-ponjatijnogo apparata", *Mezhdunarodnyj buhgalterskij uchet*, num 20 Vol: 362 (2015): 16-29.

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International standards

IAS 38 "Intangible Assets".

IFRS 3 "Business Combinations".

Legal Acts

Information of the Ministry of Finance of the Russian Federation "On disclosure of information about the risks of economic activity of the organization in the annual financial statements" PZ-9/2012.

Part IV of the Civil Code of the Russian Federation: Federal Law No. 230-FZ of 18.12.2006.

Regulations on accounting "Accounting of Intangible Assets" (PBU 14/2007): order of the Ministry of Finance of the Russian Federation of 27.12.2007 No. 153n.

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