Chapter 1

Introduction
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Introduction

Intangibles valuation have been concern since the mid 60’s Hermanson in 1964 used the term human asset accounting trying to measure the value of the company’s workers and incorporate that value to financial statements. By not being owned by the business, human assets differed from other categories present in financial statements.¹

According Flamholtz in 1971 coined the term human resources accounting and he regarded it to provide management information he emphasized management ruler than accounting to be what should be interested in. Human resources intangibles research has been relevant to management since then because there is the awareness that persons, their knowledge and abilities are of great importance for the competitive advantage of the organizations.² Edvinsson in 1997 defined intellectual capital as the possession of knowledge, applied experience, organizational technology, customer relationship and professional skills.

Since then the intellectual capital term has been used to group all intangible assets.

Stewart in 1997 used the terms human capital, structure capital and customer’s capital. Human capital has as main purpose thinking and innovating processes, it doesn’t belong to the organization and it is lost when employees leave. Structural capital belongs to the organization. It can be reproduced and shared as technology, inventions, data, publications, strategy, organizational culture, structures, procedures and systems.¹

Sveiby in 1997 divided intellectual capital in three parts. First employees competences, second internal structure and third external structure. The isatiability of acting in a variety of situations to create tangible and intangible assets using their experience and education. Internal structure consists of patients, concepts, models and information technology the external structure include relations with clients and suppliers. It include brands, reputations and images.²

Today more than ever companies are actively seeking approaches to convert the intangible value of their intellectual assets into revenue cost savings and other forms of tangible benefits. Some organizations rely on the ability to protect their intellectual property as a means to maintain or gain competitive advantage other depend upon income obtained from intellectual property –

such as through licensing as a source of high margin revenues. But irrespective of the strategy a firm employs, it is well recognized that more and more of a firm current and future value is being attributed to intangible assets.¹

By 2007, intangible intellectual assets will account for more than 90 percent of the value of the global 2000 enterprise. Up from 20 percent in 1978 and 70 percent in 1988.²

Consistent with this view, study found that white the 40 technology and innovations companies studied could add 10-20% to their operating income by better exploiting I.P, only a small number even reached the 0.5% mark. It is sufficiently to say, companies are leaving a wealth of value in the intellectual assets unrealized.

Since the mid 80’s there have been discussions around how to quantify the value of and reliably account for intangible assets. The dot com crash has renewed and expanded these concerns outside of the accounting realm in an effort to explain significant differences between the book value of an organization and its market capitalization. In discussing the unique challenges facing those companies who depend on intangible assets for profitability and competitive advantage, FASB the Financial Accounting standard Board states traditional financial statements do not capture may not be able to capture – the value drivers that dominate the new economy

¹² Role of Intangible Assets in the new Economy by Dennemeyer and Company.
“Historically, companies have fundamentally recognized two forms of assets – hard assets and intangible assets. While approaches to managing hard assets such as plants, equipment, real estate etc – are well developed, intangible assets have largely been viewed as the most different to quantify and the most unmanageable.¹

Recognizing the role of intangible assets in the economy and the unrealized potential these assets have on current and future value, companies are now seeking to understand the value of their intellectual assets as it relates to market capitalization and how to leverage that capital to its fullest extent. Firms seek to broaden what has been typically been viewed as primarily a legal function to an enterprise wide intellectual asset management (IAM) competency that is building the culture, frame work and decision making capabilities to convert intellectual assets into profits.²

Intangible assets have to find a place in accounting, controlling, management reporting and external corporate communication. These disciplines must expand their systems so that they truly represent economic reality we’re at the beginning of a new economic age, in which the industrial activities of accompany create value, but no longer create added value. As³ service oriented and knowledge based economy creates add-value that is

¹²³The Role of Intangible Assets in the New Economy by Dennemeyer& Company.
³Juergen H Daum is a management adviser in enterprise management innovation management and finance, author speaker at conferences.
returns beyond the cost of capital, primarily thought innovative work in strategic management, product and market development and by creating unique relationships with customers, business partners and other stakeholders, such as employees. At the beginning of the 20th century industrial mass production served as the motor to generate value. This required more complex cost accounting, beyond the abilities of previous accounting practices, to enable management to control and optimize these new value creation processes. In the same way, to expand accounting and controlling systems to a new level, to enable companies to optimize, manage and report on today’s new value creating activities and processes.¹

Intellectual property and intangible asset issues abound throughout the business world touching nearly all aspects of a company, from product development to human capital and staff functions such as legal accounting, finance to line operations such as research and development, marketing and general management. This wide diversity of intellectual property applications and stakeholders is a leading contributor to the complexity of managing intellectual property as each field has its own legal regulatory and practitioner history.²

One aspect all these disciplines have in common is the need for valuation. Valuation provides the potential to enhance our knowledge of intellectual property and to bridge the gap between these disciplines by providing a

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²Intangible Asset & Intellectual Property Valuation: A multidisciplinary Perspective - Paul Flignor and David Orozco
common set of methods to capture and describe the business, legal and financial aspects of the intangible asset in question while the application and even the vocabulary of these field can differ.¹

**Purpose of study.**

Intangible assets including patents, copyrights, trade marks trade names, franchise licensees, government licenses, good will and other items that lack physical substances but provide long term benefits to the company. Companies account for intangible assists much as they account for depreciable assets and natural resources. The cost of intangible assets is systematically allocated to expenses during the assets useful life or legal life, whichever is shorter and this life is never allowed to exceed forty years. The process of allocating the cost of intangible assets to expense is called amortization and companies almost always use the straight line method to amortize in tangible assets.

**Methodology of study**

The purpose of the present study the scholar proposes to adopt both doctrinal and non-doctrinal research methods in generating in formation for final analysis of the results. The scope of the study deals these questions by an extensive review of literature. A thorough in investigation is made to

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¹ Intangible Asset & Intellectual Property Valuation: A multi disciplinary Perspective- Paul Fligor and David Orozco
study the problem of all works related to intangibles evolution relating to measurement and methods. The data hall be collected both primary and secondary sources. Primary data shall be by interview and questionnaire secondary data from books, periodicals and reports of companies bulletin. The study could be theorized application depending less in empirical in nature.

A scientific enquiry has been made and appropriate methods are used. Necessary data’s were collected from the companies in India and other foreign companies and the final out case was studied. Out of the investigation the study confer the rights of companies and the available machinery to achieve the same. The research adopted the case low method and sample survey method with historical comparative method. Recognizing the role of intangible assets in the economy and the unrealized potential these assets have on current and future value, companies are now seeking to understand the value of their intellectual assets as it relates to market capitalization and how to leverage that capital to its fullest extent. Firms seek to broaden what has been typically been viewed as primarily a legal function to an enterprise wide intellectual asset management (IAM) competency that is building the culture, frame work and decision making capabilities to convert intellectual assets into profits.
Intangible assets have to find a place in accounting, controlling, management reporting and external corporate communication. These disciplines must expand their systems so that they truly represent economic reality we’re at the beginning of a new economic age, in which the industrial activities of accompany create value, but no longer create added value. As service oriented and knowledge based economy creates add-value that is returns beyond the cost of capital, primarily thought innovative work in strategic management, product and market development and by creating unique relationships with customers, business partners and other stakeholders, such as employees. At the beginning of the 20th century industrial mass production served as the motor to generate value. This required more complex cost accounting, beyond the abilities of previous accounting practices, to enable management to control and optimize these new value creation processes. In the same way, to expand accounting and controlling systems to a new level, to enable companies to optimize, manage and report on today’s new value creating activities and processes.

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general management. This wide diversity of intellectual property applications and stake holders is a leading contributors to the complexity of managing intellectual property as each field has its own legal regulatory and practitioner history.

One aspect all these disciplines have a common is the need for valuation. Valuation provides the potential to enhance our knowledge of intellectual property and to bridge the gap between these disciplines by providing a common set of methods to capture and describe the business, legal and financial aspects of the intangible asset in question while the application and even the vocabulary of these field can differ.

Today’s business press is constantly full of articles about companies and their competitive advantages resulting from their intellectual property and intellectual capital. Even our business processes are being patented today as highlighted in recent articles in major business. New industries, based on technologies like genetic engineering are emerging which are totally based on intellectual properties of the new companies.

This paper highlights the importance of valuation context – why do we need a valuation? – and the importance of premise – what do we assume about the use of the intangible asset. How a small number of methods can be used
as value of intellectual property across the range of issue areas and assess strengths, weakness, critical assumptions and practical applications of each.

**Hypothesis**

The size of a company as measured by its total assets or total sales or total market capitalization has no significant impact on its intangible assets disclosure score.

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The leverage of a company as measured by its debt-equity ratio has no significant impact on its intangible assets disclosure score.

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The audit firm size of a company has no significant impact on its intangible assets disclosure score.

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The profitability of a company as measured by its ROA or ROS or ROCE or RONW has no significant impact on its intangible assets disclosure score.

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The listing category of a firm has no significant impact on its intangible assets disclosure score.

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The extent of foreign activity of a company as measured by its total exports to total sales ratio has no significant impact on its intangible assets disclosure score.

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The nature of industry to which a company belongs has no significant impact on its intangible assets disclosure score.

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**Review of the Literature:**

While a number of commendable works dealing with the subject of intangible assets and intellectual property valuable are available, no serious attempt
appears to have been made to conduct an inquiry to highlight – the problem and prospects of intangible asset and intellectual Property Valuation have been made. Intellectual Property Valuation article will provide management with an overview of the key concept that must carefully be considered when valuing or computing infringement damages for any intellectual property to improve to achieve better methods and measures applied to evaluation of Intangible Assets and Intellectual Property Rights.