

## **INTANGIBLE ASSETS: IMPACT ON MARKET VALUATION OF COMPANIES**

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### **ABSTRACT**

*Intangible asset is yet not finds first place in the financials of any company, yet it has very significant impact on the whole financial position of the company. When a company goes through the phase of its valuation for finding out the market position It has or when it is planning to sale or merge or amalgamate its business with other, the question of its value comes into the picture. At such times it has to be find out what is the role of Intangible Asset in the total value of company. The question is what is the fact which is bothering about the Intangible Asset? Like we calculate the value of other assets, we can also find out the value of intangible Asset. But it is not at all so simple. Intangible Assets is a kind of Asset which not have any physical presence. It cannot be valued like all other tangible Assets. Hence a different way or method has to be chosen for the same. This Research is aimed to evaluate the impact of Intangible asset which is generated internally (i.e. which includes development cost and Patents). This research is conducted using the views and information of various professionals engaged or working in different companies. A sample of around 12 different companies financials have taken for the purpose of the study and the study data has been collected through the questionnaire mode. The study shows that the value of intangible Assets strongly effect the Market valuation of companies.*

**KEYWORDS:** *Intangible Assets, Development Cost, Patents, Market Capitalization, Impact on Value.*

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### **Introduction**

In Today's world the many business has their valuable asset as intangible assets. All Technology based companies whether they are Pharmaceutical or Drug Manufacturing Company, Space programme development companies, Aircraft and aviation industry, software development companies or alike nature companies, spends crores of rupees every year for the research and development. Such Research and Development is not for any particular period, rather it is an ongoing activity. In such case patents plays a very vital and important role, without which the company cannot protect itself from others from using their innovations. This situation probably will be the most lucrative element. Hence Patents plays an important role in protecting the rights of the company, especially whenever it develops a new innovation. It makes company distinct from others in such a cut throat competition. The whole revenue of the company in the future period is dependent on success of their innovations and undoubtedly this will last for many years. With the expansion of business at globe of the world, the e business is extending its scope but simultaneously it need the superiority in Patents right and intellectual capital. The value of the company is not at all determined in today's scenario with all ancient methods where only the value of Tangible assets was considered. Even in ancient days there was no recognition to intellectual Property. Nut now days through the entire world the value of intangible asset is considered as the major role in carrying out the real wealth position and real Market Value of the company.

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### Review of Literature

**A.S. Kantawala (2006)** examined that how disclosures are made by Indian companies in their financial statements relating to Intangible Assets. He examined financials of various companies including few of unlisted companies as well. Convenience based sampling method has been used by him for the purpose of his study. At the conclusion he arrived at, the disclosures are not made properly by the companies still in their Financial Statements and hence they shall make disclosure of the intangible assets in their financial statement through the "Management Discussion and Analysis Report" or as part of corporate Governance Report.

**Mr. Tarak Shah and Ms. Anshu Khedkar (2006)** he has emphasized that it is a very well known fact that intangible asset has become very important even more than Tangible Assets. Traditional methods of entities which include market capitalization, or profit margin, sales growth or other like nature, are now a days has become obsolete and they do not reflect the actual position of the entities. In case the entities having more than eighty percent of their assets as Intangible Like in case of service industry, which includes most of their asset as brands or human caliber as their capital this position is worst. However no doubt evaluating intangible assets is a complex issue and such matters are highly subjective and complex too.

**Madan Bhasin (2007)** has evaluated the trend of the intellectual capital reported in India by businesses. As per his observation only few corporates has published their Intellectual Capital Reports, including Reliance Industries Ltd. these reports were also lacking in the context that these reports were not focusing on Business models and values and Mission statements of the management.

**Shurveer S. Bhanawat (2008)** he has evaluated the Intellectual Property or Intangible Asset of any company by simply calculating the difference between Market Value of the Firm and Book Value of the firm. He also found that present system of Intellectual Property or Intangible Asset is in companies specially in pharmaceutical companies is not adequate and the companies which he evaluated has not disclosed the their intellectual property which are self developed or acquired.

### Objective of Study

It has been found that most of the companies are recognizing the Intangible Assets in their portfolio, but still they are either unaware or overlooking the concept of internally Generated Intangible Asset. This is undoubtedly an highly valuable and efficient element to influence the supplier as well as the buyers. Their inability or inefficiency in recognizing the intangible asset is makes a curtailment in their Market Value has a negative effect on companies profitability. In such a cut throat competitive world, the Intangible Asset gives strengthen to the market value of company, to help it to be the part of the competition strongly. With the strengthening the market value of companies an increased attention required on intangible Assets.

The whole Question of the present study is do really intangible Assets which are internally generated affect the market value of the company? Does really the development cost or cost incurred in developing patents affect the market value? With the above objective the above cited research has been carried out.

### Rational of Study

As we saw many studies and researches have been carried out on the above subject. They all tried to find out the answer of the question whether the intangible Assets is properly recognizing in the Financial Statements and whether it has been added into the part of the value of the company. However none of the study has been carried out to find out the answer that what is the impact of the Internally Generated Intangible Asset on the market Valuation of the company. Hence this research is required in spite of number of research which has been carried out so far.

### Hypothesis for Study

The hypotheses based on the problem of the study and questions as follows:

- H0<sub>1</sub>:** There is no statistically significant effect of intangible assets (development costs) on the market value of the company at the significance level  $\alpha=0.05$ .
- H0<sub>2</sub>:** There is no statistically significant effect of intangible assets (patents) on the market value of the company at the significance level  $\alpha=0.05$ .

### Scope of the Study

This research is conducted using the views and information of various professionals engaged or working in different companies. A sample of around 12 different companies financials have taken for the purpose of the study and the study data has been collected through the questionnaire mode. Various officers and employees reviews have been noted based on the answer given in the questionnaire.

### Research Methodology

Research methodology is a process through which a study comes on conclusions with solution of a problem, along with the suggestions and recommendations. It is science based approach where data and results are scientifically analyzed based on various ratios and trends. To test the hypotheses and to achieve the purpose and goals of the study, the researchers used the inductive approach. Researcher has used previous studies in the literature and thoughts of accounting and management experts, as well as scientific research, and articles related to the subject of study. The researcher has developed a Questionnaire as a tool to test the hypothesis and validated in order to accept or reject.

### Data Collection

As mentioned earlier, the data has been collected from secondary resources which includes various studies which have done till now, various research papers, Financial Statements of Various companies and questionnaire filled by various employees and experts of the intellectual property and Intangible Assets.

### Results and Analysis

A Five point scale has been selected, for measuring the opinions and responses. It is easy for understanding, and indicates the sample under test for the extent of their agreement for each paragraph. To understand the responses given by respondent a scale has been adopted with some principles of accounting and management. The scale having the measure of five has been divided into three levels which are as follows:

- A - Lowest degree of agreement (1 - 2.33).
- B - Moderate degree of agreement (2.34 - 3.67).
- C - High degree of agreement (3.68 - 5).

To check the reliability of study tool, we are using Cronbach's instrument variables reliability coefficients (to measure the internal consistency of the questionnaire responses). The percentage of stability of the instrument overall was ninety five percent, which is very high in order to approve study results, the mean percentage that the internal consistency of the vertebrae high. Since the acceptable percent to generalize Humanities and Social Research results are (60%) or more, as shown in table (1) below:

**Table 1: Stability Study Tool**

	Variable Examined	Correlation Coefficient
1.	The impact of Intangible Asset self generated on (development Cost) the total Market value of the company	92%
2.	The impact of Intangible Asset self generated on (Patent) the total Market value of the company	85%
	<b>Total</b>	<b>93%</b>

The researcher has used computer programme for extracting the statistical results, from the data collected and variables used. These software's are available in SPSS i.e. Software Packages Statistical Social Sciences. Various statistical methods have also been used for the purpose of processing of the data. These techniques include percentage analysis, Means Test, Standard Deviation method, and T-Test.

**Table 2**

Variable to be tested	Impact Factor	Significance	Standard Deviation	Mean Value
The impact of Intangible Asset self generated on (development Cost) the total Market value of the company	High	1	.53	2.86
The impact of Intangible Asset self generated on (Patent) the total Market value of the company	High	1	.50	3.68
<b>Total</b>			.49	2.98

### Results of Statistical Analysis

As we can see from the above table that the mean value of company's internally Generated Intangible Asset is generally high and greater than 2.5. Due to capitalization of Development Cost and proper disclosures, and continuous expenses on development of the new product has larger impact on the market capitalization of the company and helps to increase as well as maintain the share price.

#### Acceptance and Rejection of Hypothesis

- **Hypothesis 1:** There is no statistically significant effect of intangible assets (development costs) on the market value of the company at the significance level  $\alpha=0.05$ .

T Test shown the result as follows:

<b>Mean</b>	2.86
<b>SD</b>	.53
<b>T-Test value</b>	13.84
<b>Significance Level</b>	52
<b>Result</b>	Rejected

Based on the above results, the null hypothesis is rejected alternative hypothesis has been accepted which is "**Intangible Assets (development costs) on the market value of the company has significant effect**".

- **Hypothesis 2:** There is no statistically significant effect of intangible assets (patents) on the market value of the company at the significance level  $\alpha=0.05$ .

T Test shown the result as follows:

<b>Mean</b>	3.68
<b>SD</b>	.50
<b>T-Test value</b>	12.52
<b>Significance Level</b>	52
<b>Result</b>	Rejected

Based on the above results, the null hypothesis is rejected alternative hypothesis has been accepted which is "There is no statistically significant effect of intangible assets (patents) on the market value of the company".

### Conclusion and Recommendations

#### Conclusion

The study as undertaken above, confirms that Intangible Assets generated internally have impact on the market value of the company and this is the reason why companies capitalize their cost of Intangible assets generated internally. The research and development cost is capitalized which increases the market value and helps them to stand and fight in cut throat competition. However on the other hand investment in Patents or copy rights as such has no significant effect on generation of intangible Assets. The patents cost as shown in financial statements has a very little impact on the market capitalization of the company.

#### Recommendations

The Values of Intangible Assets specially internally generated has wider impact on the market value of the company. This is undoubtedly acceptable throughout the Globe. Few of the intangible asset may have no or less significant impact on the like patent or copy rights but rest of the Intangible Assets has played a vital role in it. The current practices followed by companies in india does not give enough emphasis on this fact and do not realizes intangible assets in their financials. Some time the value shown is not proper, hence the recognition in itself is false. Hence corporates has to look into the matter and develop the practice of correct recognition of Intangible Asset. The International Accounting Standard 38 has come out with the detailed principles of Recognising and recording of Intangible assets with all its spread, however a lot of work is still required by international Council of Accounting Standards and Institute of Chartered Accountants of India, in relation to development of principles and standards for Recognition, Measurements and disclosure of Intangible Assets uniformly.

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