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**IPR : Innovation Through Valuation****Deepak Aggarwal**

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E-mail: [deepakaggarwal1974@yahoo.co.in](mailto:deepakaggarwal1974@yahoo.co.in)**Abstract**

*The increasing importance of intangible assets as a source of competitive advantage has made the intellectual property system increasingly attractive and indispensable. Knowledge based economy describes the new economic environment in which generation and management of knowledge play a predominant role in wealth creation. The development of intellectual property rights (IPR) over the years has invariably brought an upsurge in the outlook of nations towards the aspect of societal and cultural growth. Valuation of IPR can improve market for knowledge and thus helpful in sustaining innovation. This article attempts to cover various aspects of knowledge economy, different valuation methods for intangible assets like IPR.*

**KEYWORDS :** Intellectual property(IP), Valuation, Knowledge economy, Appraisal

**Introduction :**

IP is the manifestation of an intangible asset. Intellectual property is complex containing elements both of competences and know how embodied in the firm's human capital and products of R & D undertaken within the firm. Innovation is generally considered to be a major cause of economic growth and is important source of wealth. IPR enter the economist's approach in two major ways. First as a proxy for the creative activity associated with the IPR; Second as a measure of the appreciation of monopoly rights over an invention. An invention may have value even if there is no protection from IPR however it may have significantly higher value if it can be protected using a mix of IPRs such as copyright, trade secrets, patents, trademark etc.

**Knowledge and Performance:** Invention-the novel non-obvious creation of knowledge and innovation- the introduction of new methods and products into a firm represent dominant area in the economic literature. The enterprise actively searches for information and knowledge from outside can be applied directly or recombined in different ways to produce new knowledge. The creation of new knowledge, its commercialization and the ability to appropriate the economic benefits have increasingly become a competitive factor both for firms and indeed for the economists. So Intangible assets play important role in the emerging 'Market for Knowledge'.

**Relevance/Why:**

- Innovation process increasingly implies joint venture, R & D collaboration and other multifactor arrangements in which different interests become involved in different capacities for different durations.
- New challenges also emerge from the changing environment for financing innovation
- To form a sensible foundation for determination of licensing royalties, obtain finance establish potential damages for IP infringement.

- If IP is properly recorded as an asset then it must be valued so that it can be reflected in the financial statements of the enterprise.

**Objectives :** Valuation of IP aims to

1. Defines the intellectual property that is to be appraised.
2. Defines the legal rights relating to IP
3. Identifies the standards against which the valuation is to be determined.

**Reasons for valuation:**

Valuation of IPR form a sensible foundation for determination of licensing royalties, obtain financing , establish potential damages for IP infringement. If IP is properly recorded as an asset then it must be valued so that it can be reflected in the financial statements of enterprise.

**Approaches for valuation :** Following approaches can be used for valuation of IP

- ❖ **Cost based approach :** This approach tend to proceed either from the cost related to generation of IP or cost estimate for a potential buyers to develop a solution which is the same or which accomplishes a similar result. So this method is based upon economic principles of substitution and price equilibrium. The investor for IP or associated technology will pay no more than cost to obtain asset of equal utility.
- ❖ **Market based/Value based approach :** What is comparable price or royalty that could be achieved by similar technologies or IP is the crux of this approach. If relevant market information is available this approach can represent significant time and effort to research market information relevant to the target IP.
- ❖ **Income approach :** The objective of income approach is to determine the future income measured in the present value that can be expected from the IP . It includes:
  - Identifying the potential income that can be generated from the asset.
  - Assessment of the duration of income stream.
  - Assessment of risk associated with the forecasted income.

**Conclusion:**

Value creation in the economy is connected to knowledge creation, dissemination and utilization in its constituent enterprises and institution. Methods to improve the way intangibles are recognized and valued can improve the way for knowledge functions and the way emerging knowledge market interacts with established financial market. Improved modes of recognizing potential value, of attracting capital, of improving interfaces with the collaborators and users can lead to improvement in the overall conditions for the generation diffusion and exploitation of new knowledge.

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