

INTANGIBLE ASSETS AS THE CORNERSTONE OF TECH INDUSTRY GROWTH AND INNOVATION

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Abstract: With an emphasis on technology companies, this article examines the importance of intangible assets, especially intellectual property (IP). Intellectual property, goodwill, patents, and trademarks are examples of intangible assets, which are described by IAS 38 as identifiable non-monetary assets devoid of physical substance. These assets are essential for long-term economic performance. A thorough discussion of IP's function in the technology industry is given, emphasizing how it can lead to market dominance and competitive advantages. The review of the literature sheds light on how intangible assets affect financial performance. Research indicates that higher R&D and technology-related asset investments have a positive impact on important financial metrics like return on equity (ROE), return on assets (ROA), return on invested capital (ROIC), net profit margin, and asset turnover (ATO). With a focus on the growth of brand value and the strategic significance of intellectual property for digital companies like Apple, Google, and Microsoft, the article goes into additional detail about the intangible assets' increasing market worth over time. An examination of businesses' increasing reliance on intangible assets as a source of value and financial leverage is presented in the paper's conclusion.

Key words: Intangible assets, IAS 38, intellectual property, technology, ROE, ROA, ROIC, digital transformation, intellectual property rights, IP management.

Introduction:

Buildings and office furniture are examples of tangible assets, which are different from intangible assets. Goodwill, intellectual property, and patents are examples of intangible assets for firms. Intangible assets can appreciate in value over time and are typically seen as long-term investments. For a business to succeed in the long run, an intangible asset like a brand name can be essential. Intangible assets can be produced or purchased by businesses. For instance, a business might establish a patent or start a mailing list of customers. It can deduct the costs of the procedure, including paying for a lawyer, submitting the patent application, and other associated charges. Many businesses are unaware that their designs, trademarks, and other intangible property rights and assets are frequently worth more than their inventories, for instance. A company's intangible assets are frequently its most valuable asset and can be leveraged to secure funding for the expansion of the business.

For example, a valuation may become necessary when:

- You intend to license out an intangible asset and would need to predict the future license fees.
- You intend to purchase or sell a company. A better price can subsequently be obtained

with the use of an intangible asset value.

Your intangible assets can be valued using a variety of techniques, including the cost method, market value method, income method, and economic benefit approach. Finding a technique that is universal and effective in every circumstance is challenging because every approach has pros and cons. It is up to you to determine which approach works best for your business. There are companies in the market that offer valuation services and can guide you in obtaining the most trustworthy appraisal available.

The definition of an intangible asset is "an identifiable non-monetary asset without physical substance" (IASB standard 38). The usual definition of an asset, which is a historical occurrence that created a resource that the entity owns and from which future economic benefits are expected to flow, is supplemented by this definition. Accordingly, IAS 38 adds identifiability as a condition for an intangible asset, stating that it must be derived from a contractual or legal right or be detachable from the entity. If an intangible asset meets the recognition criteria—which include being identifiable (fitting the definition of an intangible asset), controlled by the company, likely to generate future economic benefits, and having a reliable estimate of its value—it is recognized. The costs are included in the financial result as period expenses if they don't meet the recognized criteria.

The Role of Intellectual Property (IP) in Tech:

For tech companies, intellectual property (IP) is essential since it gives their discoveries legal protection and a competitive advantage. By protecting distinctive goods, software, algorithms, and brand identities, patents, copyrights, and trademarks enable businesses to profit from their innovations and preserve their market leadership. For instance, Apple has a dominant market position because of its vast patent portfolio, which safeguards its technological advancements and design breakthroughs, like the touch-screen interface of the iPhone. In addition to guaranteeing a better customer experience, Google's unique algorithms, such as its search engine algorithm, also significantly raise the bar for rivals to enter the market. In a similar vein, Microsoft makes money from software licenses for products like Office and Windows while preventing illegal usage of its software. These intellectual property assets serve as more than simply legal instruments; they are the cornerstone upon which IT firms erect and grow their market dominance.

Literature review:

DA Siddiqui, MJ Qureshi states that R&D expenditures are considered assets or investments. This option will affect financial performance, but because it increases the knowledge asymmetry between managers and shareholders, the effect is hard to predict. The hypothesis developed from this literature review is supported by Canibano, Garcia-Ayuso, and Sanchez (2000) and Lantz et al. (2005), which demonstrate the existence of enhanced returns due to greater spending on research and development. The technological company's financial performance is directly improved by intangible assets. The impact of intangible assets on ROE is substantial. ROA is significantly impacted by intangible assets. ROIC is significantly impacted by intangible assets. The impact of intangible assets on Net Profit is substantial.

According to Reilly, technology intangible assets are broadly defined as intangible assets that create proprietary knowledge and processes for the debtor company. This proprietary knowledge or process may be either developed or purchased by the debtor owner/ operator. The following intangible assets are typically included in this category: patents, patent applications, patentable inventions, trade secrets, know-how, proprietary processes, confidential information and copyrights on technical materials.

The study by Lefebvre, L. A., Lefebvre, E., & Harvey, J. examines the connection between

enhanced adoption of advanced manufacturing technology (AMT) in 116 small manufacturing enterprises and intangible assets. The findings show that the most powerful factors influencing later stages of adoption are the technical proficiency of blue-collar workers, the impact of clients and suppliers, and strategic incentives centered on client and process development.

C. Forero-Pineda, this report explores relevant arguments and identifies some implications on developing nations of the worldwide trend toward increased protection of intellectual property rights. Important areas of effect include pharmaceuticals, biodiversity, and ethnic knowledge. Although "trade-relating" intellectual property may make it possible to compensate developing nations, it appears that lawmakers will not be able to create incentives for the best possible remuneration. Because it takes a lot of work to get normal scientific results, scientific communities in underdeveloped nations are especially vulnerable to restrictions on collaboration and information access brought about by stricter intellectual property rights protection.

Methodology:

As was already noted, these articles comprise a variety of factors, such as ROA, ROE, ROIC, ATO, and others. Let's talk about what these factors mean. The first is return on assets (ROA), which measures a company's profitability in relation to its total assets. A manager, investor, or analyst can determine how well a company's management uses its assets to produce earnings by looking at ROA. Return on equity, which is a metric of financial success determined by dividing net income by shareholders' equity, comes next. ROE could be viewed as the return on net assets since shareholders' equity is calculated as the sum of a company's assets less its debt. A profitability or performance ratio called return on invested capital seeks to quantify the percentage return that investors in a business are receiving on their capital. Additionally, it shows the remaining worth of assets less obligations. The next is Assets Turnover, a financial ratio that assesses how well a business uses its assets to produce sales income or revenue. The final one is the debt-to-equity ratio, which is computed by dividing the total liabilities of a business by the equity held by its shareholders. The balance sheet of a business's financial statements contains these figures. The ratio is employed to assess the financial leverage of a business.

Analysis:

The analysis of this article will be started with Figure 1, which describes the investment rate by type of asset as percentage. As it is visible from the graph, in 1977 it was not common to use intangible assets within the company, while the indicator for tangible asset accounted for 15%. By 1990, the difference between two indicators narrowed year by year. And at the end of the period, tangible and intangible assets exchanged their places, and accounted for 9.5% and 14.3% respectively.

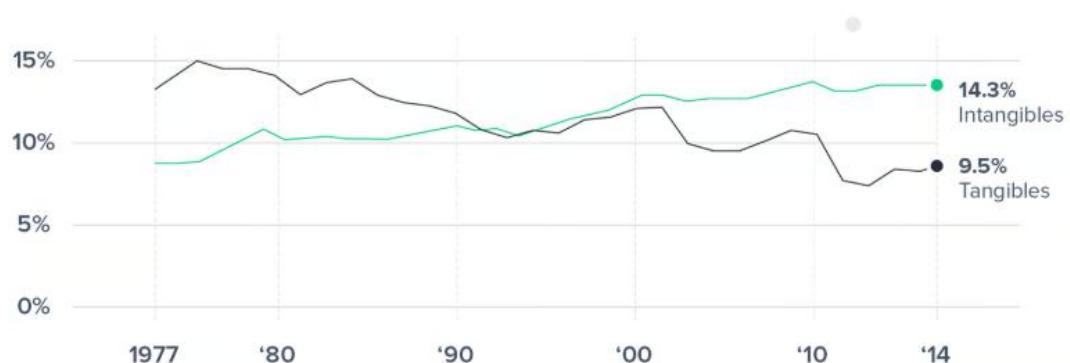


Figure 1. Investment Rate by type of Asset Percentage

This shift to digital has introduced new business models and monetization strategies. This has

created new revenue streams, information sharing possibilities, efficiency and productivity gains, and subsequently enhanced profitability and market penetration. Customers have in turn benefited through an increased emphasis on improved customer service and accountability towards satisfaction with goods and services.

Figure 2, explains information on market value of intangible assets. As we can see from the graph, the market value of intellectual property increased gradually between the years of 1975 and 2015. In short words, the rate of market value of intangible assets increased by \$ 19,21 trn within 43 years. To conclude, the main point from the graph is this, intellectual property is getting more and more common for companies to use for their benefit.

Market Value of Intangible Assets, S&P 500

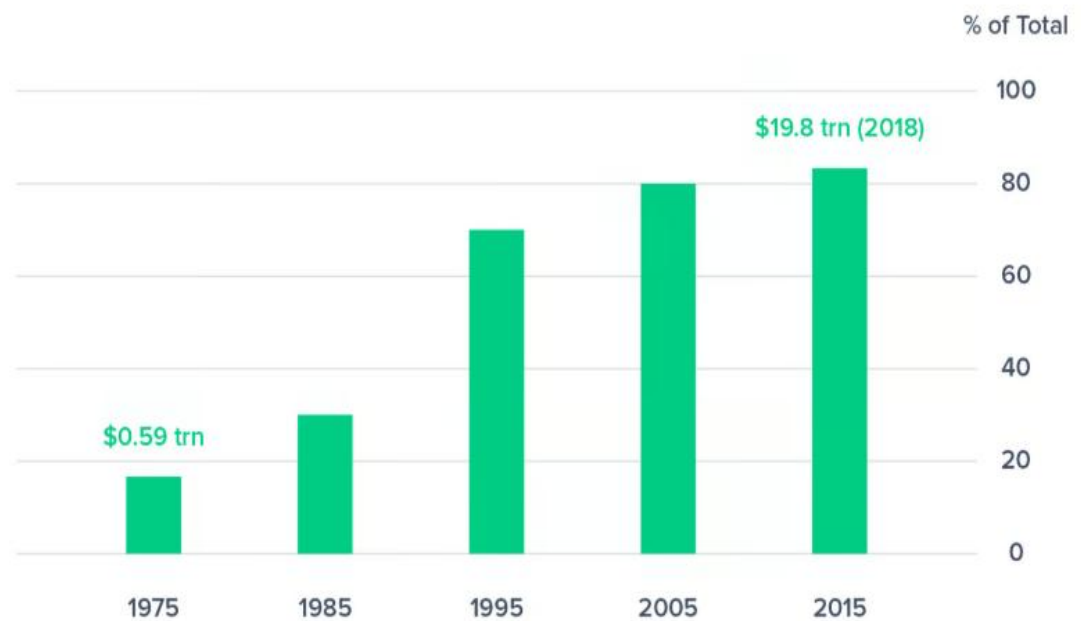


Figure 2. Market value of Intangible Assets

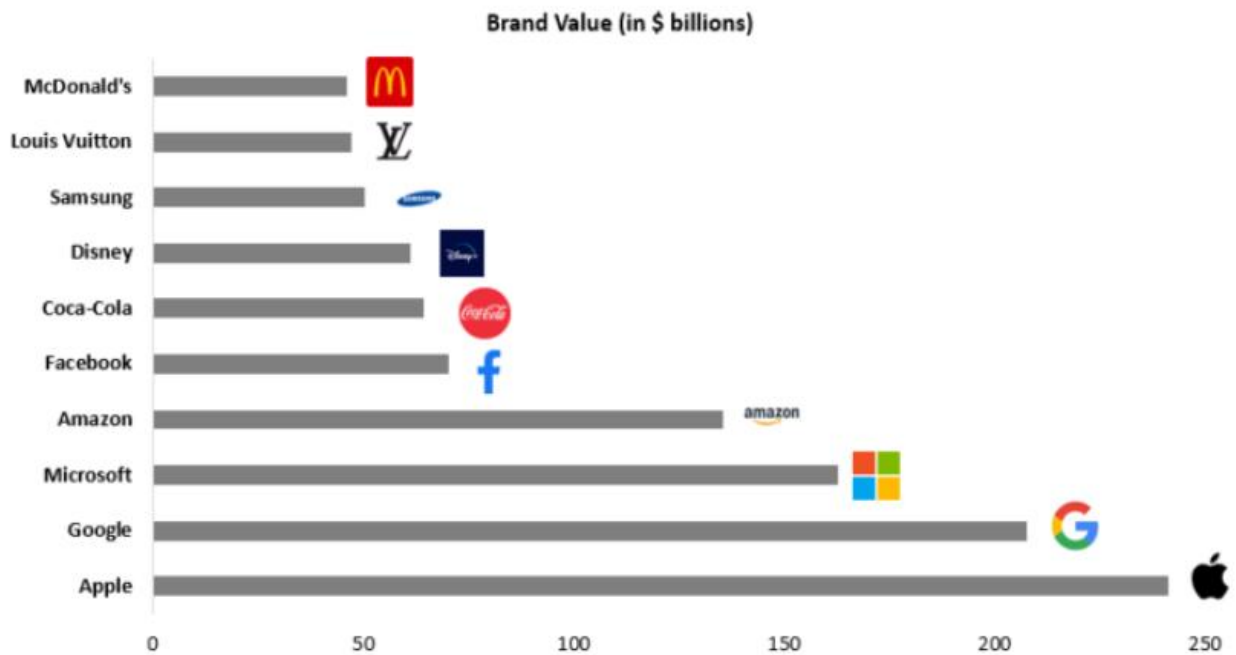


Figure 3. Brand values of companies

As stated above, brand value is also an example of intangible assets, and it is an important part of popular companies. Figure 3 shows the value of brands of companies, like apple, google, Microsoft and others. According to the graph, Apple owns the highest amount of brand value, accounting for almost 250 billion dollars, while the figure for McDonald's takes the 10th place on the graph, with 50 billion dollars. The indicators for Louis Vuitton, Samsung, Disney, Coca-Cola and Facebook accounts up to 100 billion dollars. Other companies, Amazon, Microsoft and Google made up maximum 200 billion dollars on the graph. From the information provided from the graph, we can conclude that intangible assets play a crucial role within the company, and they have their own value.

Conclusion:

To conclude, particularly in the technology industry, intangible assets, intellectual property have emerged as a key factor in company success. Prominent IT businesses' case studies illustrate how strategic IP management and protection may boost long-term profitability and offer substantial competitive advantages. The market value increase and brand valuations of firms such as Apple and Google demonstrate the evolution of intangible assets and highlight their growing significance in today's business environment. The study also demonstrates how intangible assets contribute to a company's improved financial success by directly influencing important financial metrics like ROE, ROA, and ROIC. As businesses continue to embrace digital transformation, the value of intangible assets will likely increase, making it essential for firms to accurately assess, manage, and leverage their IP to maintain a competitive edge.

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