
EVOLVEMENT OF INTELLECTUAL CAPITAL: ITS MANAGEMENT SYSTEM AND DISCLOSURE

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ABSTRACT

Corporate governance is in charge of preserving harmony between social and economic objectives as well as between individual and group desires. Intellectual property is one of the most important assets for any company. The worth of a business is no longer decided by its physical stock and assets, but rather by the management, effective control, and degree of commercial exploitation of those assets, according to valuation of top corporations and businesses. The traditional approaches to IP asset assessment and corporate accountability will be compared to the more thorough ecosystem approach. A company's ingenuity and creativity are represented by its ownership of intellectual property. Managing these assets costs money, time, and effort. Intellectual property management (IPM) is a technique that organisations use to efficiently create a system that tracks and records IP assets in a simplified manner, helps to centralise information, and keeps them informed of various IP filings and intellectual property rights infringements. Instead than only protecting ideas or concepts, intellectual property frequently protects actual firm assets that may be essential to the operation's core operations and long-term existence. A true and fair narrative disclosure of IP information is necessary for good corporate governance in addition to the standard financial accounting. The lack of IP asset transparency across all businesses, big and small, has a detrimental effect on individuals involved in the corporate finance ecosystem. The "Intellectual Capital" has emerged as one of the primary wealth generators in the current era as a result of the quickening pace of globalisation and the opening up of new pathways in India. As the value of intangible assets within a firm now equals or exceeds the value of tangible assets, this paper emphasises the importance of IP in corporate governance using the method of doctrinal study.

KEYWORDS: Corporate, Intellectual Property, Assets, Intellectual Capital, Intellectual Property Management System

INTRODUCTION

The "Intellectual Capital" has emerged as one of the primary wealth generators in the current era as a result of the quickening pace of globalisation and the opening up of new pathways in India. IP rights are governed by international law and treaties as well as legislation particular to various countries. Intangible works of human intellect are included in the category of property known as intellectual property (IP). For a predetermined amount of time, they often grant the creator the sole right to utilise their work. The most prevalent forms are copyrights, patents, trademarks, geographical indications, trade secrets, etc.

Intellectual property rights are intricate intangible exclusive rights recognised by the law and are crucial to the production of contemporary business value. If the existing accounting treatment of intangibles reflects a "true and fair portrayal" of a company's financial status, that is an essential question that a greater number of stakeholders are raising. People in civil, common law, and other international countries where IP rights are expanding as an asset class will be interested in the complex interactions between company governance, IP assets, and traditional financial accounts.

Today's prosperous enterprises are founded and developed on the solid foundation of efficient creation or acquisition, protection, management, exploitation, licencing, and marketing of valuable IP assets.

RELEVANCE

In today's competitive marketplace, innovation is the lifeblood of every business and is what gives rise to the creation of intellectual property. A corporation gains a competitive advantage and enhances its long-term success by discovering, developing, and using innovation. Not just technology companies, but all businesses that make major investments in R&D to create proprietary goods and services value intellectual property.

To find fresh breakthroughs and boost sales, a business should be proactive in applying IP solutions. A clearly defined IP aim can assist the business in achieving its objectives and establishing itself as a market leader. A company's IP strategy could be expanded as its income rises to encompass preserving the unique attributes of its assets and fostering innovation to break into new industries. In order to develop cutting-edge solutions that meet the market's unmet demands, this can be accomplished through licencing or joint ventures.

A corporation needs to assess its current intellectual property to see if it supports its goals. With the aid of licencing opportunities, this aids the business in finding new methods to capitalise on its intellectual property. An expanding product line, higher sales, and forays into new markets are all things that successful businesses must consider.

Understanding intellectual property (IP) can boost your company's competitiveness and help you control risks associated with it. The IP system can greatly benefit you in the following ways:

- safeguard cutting-edge products and services;
- the market value, appeal, and visibility of your products should all be improved;
- obtain knowledge and information in the technological and business fields;
- Make your company and its products stand out from the competitors;
- Refrain from taking the chance of unintentionally exploiting the proprietary material of other parties or accidentally losing your own valuable ideas, innovations, or creative output¹.

Maintaining a balance between individual and societal interests as well as between economic and social aims is a problem of corporate governance. The governance framework is in place to demand accountability for the good stewardship of such resources and to promote their effective utilisation.

Owning intellectual property represents creativity and innovation inside a business. It takes time, energy, and resources to manage these resources. The task of defending your creations is difficult. In addition to discussing the value of intellectual capital in the corporate environment, this article also discusses the procedures and hazards of an Intellectual Property Management System.

OBJECTIVES

The objectives of study include:

- To understand the role of intellectual property in corporate management.
- To examine the Intellectual property management system.
- To analyse the organization's efforts to develop and manage its intellectual capital.

¹ WORLD INTELLECTUAL PROPERTY ORGANISATION, <https://www.wipo.int/sme/en/>

RESEARCH METHEDODOLOGY

Doctrinal method is applied in this study. In the doctrinal study the primary data include direct text, Indian Legislations, Intellectual Property Act, 2000, Corporate Law. The secondary data is collected from various books, journals, online sources and judicial decisions.

LITERATURE REVIEW

In the book “**Intellectual Property, Finance and Corporate Governance**”², the author **Janice Denoncourt** explained the interrelationship between IP assets and corporate world. In “**Intellectual Property Rights, A key to good Corporate Governance**”³, by **Vritika Arora** he discussed about the importance of good corporate governance in maintaining the intellectual property assets of the business. **Jacobus Widiatmoko**⁴ in his article explains about the significant impact of corporate governance in intellectual capital disclosure.

INTELLECTUAL PROPERTY

Intellectual property (IP), the term used to designate various kinds of works, includes inventions, literary and artistic works, designs, as well as symbols, names, and pictures used in business. Intellectual property rights, such as patents, copyright, and trademarks, are some examples of legally recognised property rights that enable inventors to make money or gain notoriety.⁵

By striking the right balance between innovators' interests and the broader public interest, the IP system aims to foster an environment where creativity and innovation can flourish. Different categories of Intellectual Property include the following:

1. COPYRIGHT

² JANICE DENONCOURT, INTELLECTUAL PROPERTY, FINANCE AND CORPORATE GOVERNANCE, 3-19 (Routledge Taylor and Francis Group, 2018)

³ Vritika Arora, *IPR, A key to good Corporate Governance*, 4, JOURNAL ON CONTEMPORARY ISSUES OF LAW, 57-59

⁴ Jacobus Widiatmoko, Corporate governance on intellectual capital disclosure and market capitalization, COGENT BUSINESS AND MANAGEMENT, 2-14, 2020

⁵ WORLD INTELLECTUAL PROPERTY ORGANISATION, [https://www.wipo.int/about-ip/en/#:~:text=Intellectual%20property%20\(IP\)%20refers%20to,and%20images%20used%20in%20commerce](https://www.wipo.int/about-ip/en/#:~:text=Intellectual%20property%20(IP)%20refers%20to,and%20images%20used%20in%20commerce)

The ownership rights that authors and artists possess over their creative works are known legally as "copyrights." Along with books, music, paintings, sculptures, and films, copyright also protects databases, advertisements, maps, and technical drawings.⁶

2. PATENT

The exclusive right to use an innovation is known as a patent. In general, a patent gives the owner the power to determine whether or how others may use an innovation. The patent holder grants the public access to technical details on the invention in the published patent document in exchange for this right⁷.

3. TRADEMARK

A trademark is a design that can be used to distinguish the goods or services of one firm from those of other businesses. Since the beginning of time, when artisans inscribed their mark or signature on their creations, trademarks have existed⁸.

4. INDUSTRIAL DESIGN

An object's industrial design serves as a representation of its decorative or aesthetically pleasing elements. In addition to three-dimensional components like an object's shape or surface, a design can also comprise two-dimensional components like patterns, lines, or colours.⁹

5. GEOGRAPHICAL INDICATIONS

Geographical indications and appellations of origin are labels used on goods that come from a certain region and have characteristics, a standing, or other qualities that are primarily associated with that region of origin. The name of the location where the goods were made is most frequently included in a geographical indicator.¹⁰

6. TRADE SECRETS

⁶ WORLD INTELLECTUAL PROPERTY ORGANISATION, <https://www.wipo.int/copyright/en/> (Accessed on 24 Nov. 2022, 11.30 PM)

⁷ WORLD INTELLECTUAL PROPERTY ORGANISATION <https://www.wipo.int/patents/en/> , (accessed on 24 Nov, 2022, 11.45 PM)

⁸ WORLD INTELLECTUAL PROPERTY ORGANISATION, <https://www.wipo.int/trademarks/en/> (accessed on 24 Nov, 2022, 11.55 PM)

⁹ WORLD INTELLECTUAL PROPERTY ORGANISATION, <https://www.wipo.int/designs/en/> , (accessed on 24 Nov, 2022, 12.00 PM)

¹⁰ WORLD INTELLECTUAL PROPERTY ORGANISATION https://www.wipo.int/geo_indications/en/ , (accessed on 24 Nov, 2022, 11.30 PM)

Trade secrets are proprietary knowledge protected by intellectual property rights that can be licenced or sold. Unfair practises and violations of the trade secret protection are considered to occur when others unlawfully obtain, use, or disclose such secret knowledge in a way that is inconsistent with honest commercial practises¹¹.

INTELLECTUAL PROPERTY AND CORPORATE GOVERNANCE

The term "corporate governance" first appeared in the United States in the 1970s, and within 25 years it had become a major concern for businesses. The study of corporate governance (CG) examines how rights, obligations, and liabilities are allocated among various levels of organisation personnel. Generally speaking, it was thought that a good corporate governance performance in the business could mitigate the wastages, corruption, uncertainties, and mismanagement, preserve the faith of investors to raise money, and also give shareholders accountability to protect their interests. . In order to establish the foundation for a typical SWOT-style analysis, it is crucial for strong corporate governance to have an understanding of the IP value story in relation to the company's business plan.¹² It is becoming more widely acknowledged that intellectual capital plays a considerably larger role in establishing and sustaining competitive advantage and shareholder profit.

Physical assets and intangible assets are the two basic categories into which an enterprise's assets can be separated. Human capital, technical expertise, branding, designs, and other intangible products of a company's creative and innovative capacity are all examples of intangible assets. Some intangible assets may qualify for legal protection as types of intellectual property (IP), as legally constituted monopoly rights, some of which require formal registration in order to exist. IP is not often a liquid asset; instead, it is acquired through a thorough, time-consuming process that eventually adds value to the business. Since it is always evolving, intellectual capital (IC) is the major strategy utilised to outperform rivals. It has long been regarded as a key resource in generating value and giving businesses a competitive advantage.

Every corporation must consider and take into consideration the interrelationship between corporate governance and intellectual property rights. Intellectual property, technology, and

¹¹ WORLD INTELLECTUAL PROPERTY ORGANISATION, <https://www.wipo.int/trademarks/en/> (accessed on 24 Nov, 2022, 11.45 PM)

¹² Amanuddin Shamsuddin, *The influence of intellectual capital towards corporate governance practices in top 100 asean companies*, 13 INTERNATIONAL JOURNAL FOR BUSINESS, ECONOMICS AND LAW, 56, 55-64, (2017)

information are among the company's most critical components. There is a need to safeguard sensitive data that could be utilised unfairly in practically all industries. In order to prevent the company from suffering significant losses in the event that its intellectual property is lost or stolen, the exposure of the company to third party liabilities must be reduced to a minimum. In order to avoid damaging the company's reputation, there must be a sufficient level of transparency on intellectual property rights.¹³

Due to the lack of effective governance and the unscrupulous management practises, multinational corporations like Enron, World Com of the US, and Xerox of Japan have all collapsed. After the Satyam Computer Services Limited fraud and corporate governance failure, the idea of corporate governance in India attracted more attention to itself.¹⁴

The idea of intellectual capital has been established and used in various branches of science, and it is increasingly being studied across disciplines. To reduce commercial risks and make sure that the company's IP development, protection, and commercialization methodologies are in line with the commercial objectives and goals of each company and a group of companies, it is crucial that the top management level of a company value, recognise, and manage IP assets (for larger organizations).

INTELLECTUAL PROPERTY MANAGEMENT SYSTEM

A system for managing intangible goods, such as works of human creativity and intellect, is known as intellectual property (IP) management. The five primary categories of intellectual property are patents, copyrights, trademarks, trade secrets, and geographical identification. When companies need to establish a system that efficiently tracks and records IP assets in a streamlined manner, the process of intellectual property management (IPM) comes into action. IPM is crucial for developing an intellectual property strategy and for coordinating that plan with the organization's broader product and growth objectives.

Obtaining support from executives, technology managers, technical writers, product developers, and engineers is necessary for managing IP assets. Due to the importance of IPM in the creation, marketing, and sales of products and services, businesses must approach the

¹³ Amanuddin Shamsuddin, *The influence of intellectual capital towards corporate governance practices in top 100 asean companies*, 13 INTERNATIONAL JOURNAL FOR BUSINESS, ECONOMICS AND LAW, 56, 55-64, (2017)

¹⁴ Vritika Arora, *IPR, A key to good Corporate Governance*, 4, JOURNAL ON CONTEMPORARY ISSUES OF LAW, 57, 57-59

process as one that has an impact on both internal and external stakeholders. Software for managing intellectual property helps keep track of patents, trademarks, and other types of intellectual property¹⁵.

One of the most crucial assets for any company is its intellectual property (IP). It distinguishes businesses either through intellectual property, such as trademarked logos and copyrighted slogans, or through secret research data. In a business, having intellectual property represents innovation and creativity. It takes time, effort, and money to manage these assets. It's difficult to keep your creations safe. Technology, such as intellectual property management software, makes it feasible to consolidate information and keep track of new IP filings and instances of intellectual property rights infringement. Utilizing these tools has the advantage of streamlining the lawsuit to payment stages of the intellectual property acquisition lifecycle¹⁶.

INTELLECTUAL CAPITAL DISCLOSURE

Due to its constantly changing nature, intellectual capital (IC) is the primary strategy utilised to outperform rivals and is widely acknowledged as a valuable resource in generating value and giving businesses a competitive advantage. But in some industries and regions, there is a dearth of actual data demonstrating its impact on firm performance. Even if it is the most theoretically intriguing part, this could be connected to the measurement challenge relating to building that cannot be immediately witnessed and identified.

Intellectual capital is a notion that has been established and used in a variety of scientific fields, and it is quickly becoming an interdisciplinary area. Unfortunately, its significance to businesses is not commensurate with the amount of disclosure, and as a result, there is a dearth of information regarding intellectual capital. One of the primary parts of the company's intellectual capital is its human resources. The appraisal of business performance has thus far used greater material resources. Although it is highly accurate to gauge a company's performance from a financial standpoint, human resources, with all of their expertise, insights, and inventions, actually serve as the foundation for the value of finance.

The information and knowledge resources that make up intellectual capital are an intangible asset that help to increase competitiveness and can boost business performance. Since

¹⁵ Aayushi Sanghavi, *What is Intellectual Property Management? Why it matters*, G2- BUSINESS SOFTWARE,(07-12-2022, at 12.00 AM), <https://www.g2.com/articles/intellectual-property-management>

¹⁶ Ibid

organisational capital, social capital, and human capital are all components of intellectual capital, it differs from human resources in that it is a factor. The major three components of intellectual capital have been identified as human, structural or organisational, and relational or customer capitals as a result of the differing perspectives on what intellectual capital is and how it should be defined. Additionally, a company's intangible assets were made known to current and potential investors by the disclosure of its intellectual capital in an annual report. The signalling theory can be used to forecast how the market will respond to the information provided.¹⁷

Intellectual property rights are a group of composite rights that support a company in creating goods and services with value. A corporation creates value when it discloses its genuine value and fairly values all of its intellectual properties. A set of guidelines established by the company are followed in the appraisal process. To reach the goals they have set, the regulations must be strictly adhered to. The guidelines are set forth in accordance with the idea of corporate governance since they depend on the type of organisation and how it runs. As it is thought to be more effective, corporate governance is currently given much emphasis by the firms. The primary goal of corporate governance is accomplished when there is genuine disclosure of the fair value of the intellectual property rights.¹⁸

CONCLUSION

Large businesses frequently underappreciate the value of combining intellectual property with more ambitious economic goals. Despite the fact that they frequently possess hundreds of patents, they lack a plan for using them to advance their larger business objectives and present items. Regardless of the size of the company or the quantity of its intellectual properties, businesses must prioritise the need for both internal and external knowledge on the broad subject matter of IP assets. They have a big impact on a company's overall development and success.

Understanding the various strategies needed to safeguard particular IP assets is crucial. Use non-disclosure agreements to implement security measures and protect from external dangers (NDAs). The secret to success in the market is using the appropriate types of risk management

¹⁷ Jacobus Widiatmoko, Corporate governance on intellectual capital disclosure and market capitalization, COGENT BUSINESS AND MANAGEMENT, 2-14, 2020

¹⁸ Ibid

methods, preparing for risk mitigation, and coordinating company goals with the proper standards and regulations for IP asset management.

It is impossible to separate the concepts of corporate governance and intellectual property rights because they are intertwined. The company's collection of rules and regulations can serve to safeguard its intellectual property rights. The value of intellectual property will be given more consideration by the companies.

By self-regulation and voluntary adoption of the ethical code of business behaviour, the practises of good governance must be applied and enforced successfully. The government or its agencies can achieve this by putting into practise and upholding the laws that are being implemented in that specific area. The investors' confidence will rise as a result, though, which might encourage more money to be invested and spur firm expansion. In light of this, implementing a robust governance structure in the business will be to its long-term advantage.

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