

CHAPTER 1

INTRODUCTION

1.1. Background of the Study

Intangible assets have emerged as key factors influencing business value and economic expansion in the modern economy. In today's economy, intangible assets have also emerged as the primary source of wealth creation, frequently surpassing the significance of tangible assets like real estate or machinery. Although they don't have a physical shape like real resources do, these assets which including software, patents, brands, and even reputation—drive innovation, long-term success, and consumer loyalty.

Research indicates that intangible assets now constitute a significant portion of firms' capital investments. For instance, another study said that intangibles play a crucial role in understanding macroeconomic trends, including productivity and investment patterns (Crouzet et al., 2022). However, the rise of intangible assets also poses challenges. Their value is often harder to measure and protect compared to physical assets. Additionally, intangible assets require legal safeguards like patents and trademarks to prevent theft or imitation. The other study also highlights the growing significance of intangible assets in the modern economy by examining their development and effects on economic performance. Numerous quantitative assessments of the influence that intangible assets have on economic performance emphasize the significance of intangible assets. (Bavdaž et al., 2022). The 21st-century economy has witnessed a paradigm shift from physical, tangible assets (e.g., machinery, buildings) to intangible assets (e.g., patents, software, brand equity, R&D) as the primary drivers of corporate value and economic growth. This transition reflects the rise of the knowledge economy, where innovation, intellectual property, and human capital dominate competitive advantage (Corrado et al., 2009).

Intangible assets are increasingly critical to firm valuation. Traditional accounting frameworks often undervalue intangibles due to their non-physical nature, but investors recognize their role in generating future cash flows. (Lev & Gu, 2016) demonstrated that firms with higher intangible intensity (e.g., R&D, brand value) exhibit significantly higher Tobin's Q ratios, reflecting investor expectations of long-term growth. Intangible assets are central to innovation ecosystems. R&D investments, patents, and proprietary technologies enable firms to differentiate themselves in competitive markets. There's also a study that the author emphasized R&D and software investments yield higher productivity gains than tangible assets in the long run (*Market Value and Patent Citations on JSTOR*, n.d.). The rise of digital technologies such as AI, blockchain, cloud computing) and globalization have amplified the importance of intangibles. Digital platforms, data analytics, and customer relationships are intangible assets that drive modern business models. Despite all the importance that mentioned previously, there's also intangibles remain underreported in financial statements due to accounting standards, most intangibles like the example internally generated brands and employee skills are expensed rather than capitalized . There's also a challenges such as valuation complexity, unlike tangible assets, intangibles lack observable market prices, leading to reliance on subjective estimation.

Over the past three decades, the global economy has experienced a significant transition, with intangible assets becoming the main drivers of company value and performance and traditional tangible assets like buildings, machinery, and inventory becoming less relevant. This change is indicative of the emergence of the knowledge economy, where competitive advantage is increasingly determined by innovation, intellectual property, and human capital..

Investments in intangible assets are positively correlated with greater market valuations, according to a 2009–2018 study that examined 250 publicly traded companies in France, Germany, and Switzerland. This demonstrates how the market recognizes the value of intangible assets (Dancaková et al., 2022). However, because of their intrinsic qualities, intangible asset appraisal is difficult. Since intangible assets don't have actual substance like tangible assets do, measuring and reporting them can be challenging. Because companies are frequently exempt from reporting distinct measurements for intangibles under current accounting standards, financial statements may be undervalued (Jarrett, n.d.).

The presence of intangible assets is also linked to improved financial performance metrics. Research focusing on technology firms globally indicates that intangible assets have a direct positive impact on market value and financial policies. The study suggests that higher investments in intangibles lead to better financial outcomes, including profitability and market valuation (Qureshi & Siddiqui, 2021). Furthermore, long-term value development and sustained expansion are facilitated by intangible assets. Investments in intellectual capital have a beneficial impact on firm value and sustained growth rates, according to an analysis of businesses listed on the Bucharest Stock Exchange. This research emphasizes how crucial intangibles are strategically to attaining long-term financial success (Ionita & Dinu, 2021).

Even with plenty of research on intangible assets and how they affect business value and performance, there are still a number of gaps in the body of knowledge. However, prior studies have demonstrated a favorable correlation between corporation valuation and intangible assets. Intara and Suwansin (2024a) conducted a study that was limited to Thai listed firms on the Stock Exchange of Thailand (SET). The impact of intangible assets on business value and performance in emerging economies, especially in the Asia-Pacific area, is, nevertheless, not well supported by empirical data. The reason that we write about IT companies in Asia Pacific because this sector heavily relies on intangible assets such as

R&D, software, and intellectual capital to create value. In the midst of a global shift toward a knowledge-based economy, it is important to understand how intangible assets affect firm value and performance, especially in the Asia-Pacific region, which has shown significant growth but remains underexplored in this context. This study intends to fill these gaps by offering a thorough examination of the ways in which intangible assets and their constituent parts affect firm value and performance in listed Asia-Pacific businesses.

1.2. Problem Formulation

1. Does intangible assets influence the firm value and financial performance of IT sector companies in the Asia-Pacific region?
2. Do identifiable intangible assets (IIA), goodwill (GW), and research and development (R&D) have a significant effect on firm value (Tobin's Q) and financial performance (ROA, ROE)?
3. Do intangible-intensive firms exhibit stronger firm value and financial performance compared to non-intangible-intensive firms?

1.3. Research Objectives

Based on the problem formulation, the research will aim to achieve these several objectives:

1. To analyze the impact of intangible assets on firm value and financial performance in publicly listed Information and Technology (IT) companies in the Asia-Pacific region, using Tobin's Q, ROA, and ROE as performance indicators.
2. To examine the individual effects of identifiable intangible assets (IIA), goodwill (GW), and research and development (R&D) on firm value and financial performance, providing a deeper understanding of how different intangible asset components contribute to corporate success.

3. To assess whether intangible-intensive firms exhibit stronger firm value and financial performance compared to non-intangible-intensive firms, identifying the role of high intangible investment in financial outcomes.

