CHAPTER I

INTRODUCTION

1.1   Research Background

In the span of 5 years, there are multiple new companies appeared during the Indonesian economic development. This economic event was not incurred by a chance. This condition happened because the flows in Indonesian Market changing accordingly. Rapid acceleration from the technology sector demanded a lot of Indonesian company be ready to damping the future of high tide. The higher the wave current the higher the effect to one company condition.

One of company's compass, to direct the setting sail during the high tide is by forecast and put down its anchor on every market opportunity by following where the market compass is directed. As the current market always fluctuate, the upsurge of intangible assets may give either positive or negative effect. Since intangible asset is not physical in nature, this asset may well adapt with the ever-changing market condition.

Salamudin et al. (2010) did a research on how the intangible asset inflates the company market value in Malaysia. It has been measured by using methodology that is proposed by Hall (1992) and Nakamura (2003). The result shown that some of the company have a significant gap between firm value with the accounting book value. That means, there is a hidden

resolve factor affecting the firm value, however this condition is quite difficult to be traced. One of the factors that affect the firm value is intangible asset which act as a component and factor in asset valuation. Based on that idea, researcher's curiosity rises to find whether the intangible asset own by a company will affect their market value by observing its influence in the capital market.

This research extended, since value of tangible assets shrank substantially, and intangible assets became increasingly important. Its reflecting 80 per cent of market value by the year 2000 (Lev, 2001; Sullivan and Sullivan, 2000). Study conducted in United Kingdom indicated that intangible assets represented 60 percent of market value and most of this value related to the brand. They directly linked intangible asset reliability to the market value, and the result shows that intangible asset have a significant effect on market value. Evidence produced indicate value of brand is relevant and has positive contribution on a firm's performance (Aaker and Jacobson, 2001; Barth et al., 1998; Kallapur and Kwan, 2004; Madden et al., 2005; Mizik and Jacobsen, 2005; Pahud de Mortanges and Riel, 2003; Verbeteen and Vijn, 2006).

Indonesia started its convergence with IFRS on 2011 and the standard implemented for the intangible asset inside PSAK 19 (2015) was improved. Standard regulation mentioned above is also mentioned on IAS (International Accounting Standard) year 2019, that intangible asset is one of the components included in asset account on the financial report.

Based on the empirical study above, researcher interested to find if there are any correlation between intangible assets and the market value in Indonesia. Researchers ponder, could study and research done in Malaysia, United States and United Kingdom markets can provide the same result in Indonesia study? Could research done in developing country produces similar result with one done in advanced country? For this research topic, researcher mainly focuses on technology, media and pharmaceutical companies that published annual financial report on IDX. Control variables like firm's size, return on the asset (ROA) and leverage, will also be used in this research to assess the relationship between two other variables.

1.2   Research Problem

Firm's book value of asset has many components, one of them is intangible asset. Regarding the current market situation, its nature is rather complex since the flow of technology, media, and pharmaceutical sector shift every time. This change may influence firm value. Meaning of word Intangible is "something that cannot be grasped", but it could be determined using a certain measurement. This direct statement could promptly be used to represent the continuous increase in development of technology, media and pharmaceutical companies. Another problem also materialized from company market condition, we could not precisely predict the development or new inventions that is precisely produced by a company. A company which able to maintain their intangible asset found it easier in monitoring

their market share. But we must consider that market share is not only affected by an asset solely, liability owned by company also take part on it. The researcher concludes that the problem statement for this research as: Do intangible assets positively affect the company firm value in Indonesia?

1.3 Research Objective

Purpose of conducting this research is as follows:

a. To find the Effect of Intangible Asset on Firm Value in Indonesian Firms.

b. To investigate the relationship and effect of Intangible Asset on Firm Value in Indonesian Firm especially for technological, media and pharmaceutical company.

1.4 Research Contribution

By researching the effect of intangible asset on the firm value, hopefully this research will contribute on development of knowledge, also the need of:

1. Theoretical Contribution

The purpose of this research is to give archival and knowledge in form of accounting literature. Result provided by this research might

contribute to economic development and solve some problems that have similar situation.

2. Practical Contribution

    a. For the Academic

        Researcher hopes that the result could be used as a reference for the future researcher. By developing and extend the data using other different variable with similar topic that not yet stated in this research.

    b. For the Investor

        Result of this research could be used by investors for decision making for future investment by observing the real situation and circumstances. They could improve their analysis by considering the intangible asset to observe the firm value of a company.

    c. For the Management

        Result provided could also be utilized by company managers to initiate a swift action regarding the future research and development since this topic is the vein of any technology and pharmaceutical companies.

1.5 Writing Structure

This research was prepared systematically as following:

CHAPTER I　　　**INTRODUCTION**

Chapter I is the introduction in preparation of the research which consist of the background, research problem, research objectives, research contribution and writing structure.

CHAPTER II　　　**LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

Chapter II contains theoretical framework and previous literature review used to support the critical thinking and used as references to construct the framework and hypothesis and development.

CHAPTER III　　　**RESEARCH METHOD**

Chapter III contains of data related to the research, it includes population and sample, sample criteria, data collection method, measurement variable, data analysis techniques, and hypothesis testing method.

CHAPTER IV　　　**DATA ANALYSIS AND DISCUSSION**

Chapter IV contains the result and discussion of the research by observing data processing result and analysis. This chapter provides information whether the hypothesis meet the criteria, accepted or rejected.

CHAPTER V   **CONCLUSION**

Chapter V contains conclusion of the research limitation and suggestion for future research.