

## **CHAPTER 5**

### **CONCLUSION, LIMITATIONS, AND RECOMMENDATION**

#### **5.1 Conclusions**

Intangible asset is believed to be the main factor in creating firm's value. According to Robert Kaplan and David Norton (2001), intangible assets are believed to contribute more to profitability than tangible assets. In this paper, the author examines the relationship between intangible assets and company's profitability using Tobin's q as a proxy for intangible assets and both Return on Assets and Return Equity as measurements for company's profitability. After performing analysis and testing the hypothesis, the author has come out into several conclusions:

- Based on Spearman's rank analysis, Tobin's q as a proxy for intangible assets have association with company's profitability with the data samples of 26 companies listed in LQ45 in 5 years. Among the proxies for company's profitability which are Return on Assets and Return on Equity.
- This study provides the empirical evidence that value in the 26 companies listed in LQ45 predominantly derived from intangible assets. It seems that companies listed in LQ45 have put some focus on intangible assets as their main contribution in creating firm's value.

- Based on the result, it also indicates that the association between intangibles assets and company's profitability vary across industries due to different nature of business, perhaps to the different degree in utilizing intangible assets.
- The result also shows that banking industry as a financial sector industry does not have a significant association between its intangible assets and firm's profitability. This indicates that financial industry might not capture intangible assets.
- The highest association between intangible assets and firm's profitability occurred in consumer goods industry. The result from the association indicates that branding as intangible assets has a strong association with firm's profitability.
- Though many researches show that Indonesian market is still in early stage of intangible assets development, this study shows that companies listed in LQ45 have considered intangible assets as the main contributor in creating firm's value. This is perhaps, because LQ45 companies are considered as companies with the best performances in Indonesia.

## **5.2 Limitations**

There are some limitations that emerge while the author doing the completion of this study, which are as follows:

- Since limitation of time and data availability in doing this study, the author chose LQ45 companies. The authors select companies listed in LQ45 for the past five

years in a row. This ensures the high availability of data. Therefore, the results of this study might give a better result if the data samples were extended.

- There is a limitation of samples size in doing the analysis of association across industries. Therefore the result of association coefficient across industry may not fully represent the whole population per industry.

Aside from the research limitations found by the author in the completion of her study, the author believed that this research is sufficient to be regarded as an exploratory study that may assist in further research.

### **5.3 Recommendation**

The author provides some recommendation:

- Based on the association analysis result, intangible assets show a strong association with company's profitability. Therefore, investors should learn and be more concern with intangible assets as intangible assets has gained importance in today's economy and creates a greater value added on firm's performance.
- The lack of intangible assets measurements is one of the factors why intangible assets are often ignored. The ignorance of intangible assets measurement caused the lack of knowledge in companies in measuring their intangible assets and this leads to the undervaluation of intangible assets. Since in the current and upcoming economy, intangible assets might become the primary source of value creation. Therefore, universities and other education agencies should give

subjects and seminars to educate the importance of intangible assets since not many people know and acknowledged intangible assets.

- It is also important for Indonesian Accounting Body to have imposed knowledge for a better intangible assets standard treatment and reporting. Due to that, companies will have a better valuation of intangible assets and prevent undervaluation of intangible assets in the company.

#### **5.4 Avenue for Further research**

This study is an empirical study; therefore any finding in this research can be used for further research. This study only focuses on companies listed in LQ45. For further research, the data samples should be from all companies listed in Indonesia with a wider time frame. Therefore the result of the association per industry will be representative as you use the whole sample population per industry. Different proxies for intangible assets and profitability may be used to be compared with this research. Since the limitation of time, the author can only investigate the association between intangible assets and company's profitability. For further research, the investigation of relationship between intangible assets and profitability should be deeper.