Investigating the Relationship Between Intellectual Capital Reporting and Firm Market Valuation Over Time

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October 18, 2025

Abstract

This research presents a novel longitudinal investigation into the dynamic relationship between intellectual capital reporting practices and firm market valuation, employing an innovative methodological framework that combines computational linguistics with temporal network analysis. Traditional studies in intellectual capital reporting have predominantly focused on static correlations or cross-sectional analyses, failing to capture the evolving nature of how intangible assets influence market perceptions over time. Our study addresses this gap by developing a comprehensive intellectual capital reporting index derived from automated content analysis of corporate disclosures across multiple communication channels, including annual reports, investor presentations, and sustainability reports. We track 500 publicly traded technology and pharmaceutical firms over a 15-year period, analyzing how changes in intellectual capital reporting intensity, quality, and thematic focus correlate with market valuation metrics. The methodology introduces several innovations, including a multi-dimensional scoring system that captures not only the volume but also the strategic relevance and contextual integration of intellectual capital disclosures. Our findings reveal a complex, non-linear relationship characterized by threshold effects and industry-specific temporal patterns. Specifically, we identify critical reporting thresholds beyond which additional intellectual capital disclosures yield diminishing marginal returns on market valuation. Furthermore, we demonstrate that the timing and sequencing of intellectual capital reporting initiatives significantly impact their valuation effects, with early adopters of comprehensive reporting frameworks gaining sustained valuation premiums. The research contributes to both academic literature and practical applications by providing a dynamic framework for understanding how intellectual capital reporting evolves as a strategic communication tool and how markets gradually incorporate intangible asset information into valuation models over extended periods.

1 Introduction

The contemporary business landscape has witnessed a fundamental transformation in the nature of corporate value creation, with intangible assets increasingly constituting the primary

drivers of competitive advantage and market performance. Intellectual capital, comprising human capital, structural capital, and relational capital, has emerged as a critical determinant of firm value in knowledge-intensive industries. Despite this recognition, the reporting and disclosure practices surrounding intellectual capital remain fragmented and inconsistent across organizations and regulatory jurisdictions. This research addresses a significant gap in the existing literature by examining not merely whether intellectual capital reporting influences market valuation, but how this relationship evolves over time and under what conditions it manifests most strongly.

Traditional accounting frameworks have struggled to adequately capture and represent intellectual capital in financial statements, leading to a substantial disconnect between book value and market value for many knowledge-intensive firms. Previous research has established correlations between intellectual capital disclosure and various performance metrics, but these studies have largely employed static methodologies that fail to account for the dynamic nature of both reporting practices and market responses. Our study introduces a temporal dimension to this inquiry, recognizing that the relationship between intellectual capital reporting and market valuation is not instantaneous but develops through complex processes of information assimilation, interpretation, and market learning.

This research is motivated by several unresolved questions in the field: How do markets initially respond to increased intellectual capital disclosure, and how does this response evolve as reporting becomes more sophisticated and comprehensive? Are there critical thresholds of reporting quality or quantity that trigger significant market revaluations? Do different components of intellectual capital (human, structural, relational) exhibit distinct temporal patterns in their valuation impacts? To address these questions, we develop an innovative methodological framework that combines computational text analysis with longitudinal statistical modeling, enabling us to track the co-evolution of reporting practices and market valuations across a 15-year period.

Our contribution extends beyond merely confirming the existence of a relationship between intellectual capital reporting and market valuation. We provide nuanced insights into the conditions under which this relationship strengthens or weakens, the time lags involved in market recognition of intellectual capital value, and the strategic implications for firms seeking to optimize their disclosure practices. By examining both the intensity and quality of intellectual capital reporting across multiple communication channels, we offer a more comprehensive understanding of how firms communicate their intangible value propositions to markets and how these communications are progressively incorporated into valuation assessments.

2 Methodology

Our research employs a multi-method approach that integrates computational linguistics, longitudinal data analysis, and econometric modeling to investigate the dynamic relationship between intellectual capital reporting and firm market valuation. The methodological framework was designed to capture both the quantitative and qualitative dimensions of intellectual capital disclosure while accounting for the temporal evolution of reporting practices and market responses.

2.1 Data Collection and Sample

The study analyzes a comprehensive panel dataset comprising 500 publicly traded firms from the technology and pharmaceutical sectors over a 15-year period from 2008 to 2022. These sectors were selected due to their high reliance on intellectual capital and significant investments in intangible assets. Data were collected from multiple sources, including corporate annual reports, quarterly earnings calls, investor presentations, sustainability reports, and regulatory filings. Market valuation data were obtained from financial databases, including daily stock prices, trading volumes, and market capitalization figures.

Firm selection followed a stratified sampling approach to ensure representation across different market capitalizations, geographical regions, and sub-industry specializations. The final sample includes firms from North America, Europe, and Asia, providing cross-regional perspectives on intellectual capital reporting practices and their valuation implications.

2.2 Intellectual Capital Reporting Measurement

We developed a novel intellectual capital reporting index that captures multiple dimensions of disclosure quality and quantity. The index construction involved several innovative components. First, we employed natural language processing techniques to identify and classify intellectual capital-related content across different types of corporate communications. Our classification framework distinguished between human capital (employee expertise, training, innovation capabilities), structural capital (patents, processes, organizational systems), and relational capital (customer relationships, strategic partnerships, brand value).

Second, we introduced a qualitative scoring system that assessed not only the presence but also the contextual relevance and strategic integration of intellectual capital disclosures. This involved evaluating how intellectual capital information was framed within broader corporate narratives, the specificity of the information provided, and its connection to stated business objectives and performance outcomes. The scoring system was validated through expert review and demonstrated high inter-coder reliability across multiple evaluators.

Third, we implemented a temporal aggregation mechanism that tracked changes in reporting patterns over rolling multi-year periods, allowing us to distinguish between transient fluctuations and sustained trends in intellectual capital disclosure practices. This approach enabled us to capture the evolving nature of reporting sophistication as firms developed more mature approaches to communicating their intangible asset base.

2.3 Market Valuation Metrics

Firm market valuation was measured using multiple indicators to provide a comprehensive assessment of how intellectual capital reporting influences market perceptions. Primary valuation metrics included Tobin's Q ratio, market-to-book value, and price-earnings ratios. We also analyzed abnormal returns around key disclosure events to capture immediate market reactions to intellectual capital information. Additionally, we examined valuation volatility and persistence to understand how intellectual capital reporting affects the stability and sustainability of market valuations over time.

To isolate the specific effects of intellectual capital reporting, our models controlled for numerous firm-specific and market-wide factors, including financial performance, growth opportunities, industry dynamics, macroeconomic conditions, and general market sentiment. We employed sophisticated econometric techniques, including fixed effects panel regression, vector autoregression models, and event study methodology, to address potential endogeneity concerns and establish robust causal inferences.

2.4 Analytical Framework

The core analytical approach involved estimating dynamic panel data models that captured the temporal relationship between intellectual capital reporting and market valuation. The baseline specification took the form:

$$Valuation_{it} = \alpha + \beta_1 ICR_{it} + \beta_2 ICR_{it-1} + \gamma X_{it} + \delta_t + \eta_i + \epsilon_{it} \quad (1)$$

Where $Valuation_{it}$ represents market valuation metrics for firm i in period t, ICR_{it} denotes the intellectual capital reporting index, X_{it} includes control variables, δ_t captures time fixed effects, η_i represents firm fixed effects, and ϵ_{it} is the error term.

We extended this basic framework to incorporate non-linear specifications, interaction effects, and distributed lag structures to capture the complex temporal dynamics of the relationship. Threshold regression models were employed to identify critical levels of intellectual capital reporting that trigger significant changes in market valuation responses. Vector autoregression models enabled us to examine the bidirectional relationships between reporting practices and valuation outcomes over extended time horizons.

3 Results

Our analysis reveals several important findings regarding the relationship between intellectual capital reporting and firm market valuation over time. The results demonstrate that this relationship is characterized by complex temporal dynamics, non-linear patterns, and significant industry variations.

3.1 Overall Relationship and Temporal Evolution

The baseline analysis indicates a statistically significant positive relationship between intellectual capital reporting and market valuation across all model specifications. However, this relationship exhibits important temporal variations that previous cross-sectional studies have overlooked. We find that the strength of the association has increased substantially over the 15-year study period, suggesting that markets have become progressively more attentive to intellectual capital information and more sophisticated in their interpretation of such disclosures.

The temporal analysis reveals that the valuation benefits of intellectual capital reporting accrue gradually rather than immediately. Firms that consistently maintained high levels of intellectual capital reporting achieved sustained valuation premiums that grew over time, while firms with volatile reporting practices experienced more erratic market responses. This

finding supports the notion that markets require time to process and validate intellectual capital information, and that consistent reporting builds credibility and enhances the perceived reliability of disclosed information.

3.2 Threshold Effects and Non-linear Patterns

A particularly novel finding concerns the existence of distinct threshold effects in the relationship between intellectual capital reporting and market valuation. Our analysis identifies critical levels of reporting quality and comprehensiveness beyond which additional disclosures yield diminishing marginal returns. Specifically, we observe a significant valuation premium for firms that achieve a minimum threshold of reporting comprehensiveness, but beyond an upper threshold, additional reporting provides limited incremental benefits.

These threshold effects vary across different components of intellectual capital. For human capital disclosures, the relationship with market valuation follows an inverted U-shape, with moderate levels of disclosure generating the strongest positive effects. For structural capital, we observe a more linear relationship, though with decreasing marginal returns at very high disclosure levels. Relational capital disclosures exhibit the most complex pattern, with initial disclosures generating strong positive effects that plateau and eventually decline with excessive reporting.

3.3 Industry and Contextual Variations

The relationship between intellectual capital reporting and market valuation demonstrates significant variations across different industry contexts and firm characteristics. Technology firms exhibit stronger and more immediate responses to intellectual capital disclosures compared to pharmaceutical companies, likely reflecting differences in competitive dynamics, innovation cycles, and investor sophistication across these sectors.

Firm size and maturity also moderate the relationship, with smaller, growth-oriented firms benefiting more substantially from comprehensive intellectual capital reporting. This finding suggests that for younger firms with limited operating histories, intellectual capital disclosures serve as important signals of future growth potential and competitive positioning. Established firms, while still benefiting from such disclosures, experience more modest valuation effects, possibly because markets already have more established frameworks for valuing their intangible assets.

Geographical variations in the relationship highlight the importance of institutional and regulatory contexts. Firms operating in jurisdictions with stronger intellectual property protection and more developed capital markets exhibit stronger associations between intellectual capital reporting and market valuation. This suggests that the effectiveness of intellectual capital reporting depends on complementary institutional factors that enhance the credibility and enforceability of disclosed information.

3.4 Temporal Sequencing and Strategic Implications

Our longitudinal analysis provides novel insights into the strategic timing and sequencing of intellectual capital reporting initiatives. We find that early adopters of comprehensive

reporting frameworks gained sustained first-mover advantages that persisted throughout the study period. These advantages appear to derive not only from the informational content of the disclosures themselves, but also from the signaling value associated with proactive transparency and forward-looking management practices.

The sequencing of disclosure across different intellectual capital components also influences market responses. Firms that initially focused on human capital disclosures before expanding to structural and relational capital achieved more favorable valuation outcomes than those pursuing the reverse sequence. This pattern suggests that markets place particular importance on the foundational human capital elements that drive subsequent developments in structural and relational capital.

4 Conclusion

This research makes several important contributions to our understanding of the relationship between intellectual capital reporting and firm market valuation. By introducing a temporal dimension to this inquiry and developing innovative methodological approaches to capture the dynamic nature of this relationship, we provide insights that extend beyond existing cross-sectional studies.

Our findings demonstrate that the relationship between intellectual capital reporting and market valuation is not static but evolves over time as markets develop greater sophistication in processing intangible asset information. The identification of threshold effects and non-linear patterns challenges conventional assumptions about the monotonic benefits of increased disclosure and suggests more nuanced approaches to optimizing intellectual capital reporting strategies.

The temporal sequencing effects we document have important practical implications for corporate disclosure strategies. Firms should consider not only what intellectual capital information to disclose, but when and in what sequence to introduce different types of disclosures. The sustained advantages enjoyed by early adopters highlight the strategic value of proactive intellectual capital reporting, particularly in rapidly evolving industries where intangible assets constitute key competitive differentiators.

Several limitations of the current study suggest directions for future research. The focus on technology and pharmaceutical sectors, while justified by their intellectual capital intensity, limits the generalizability of findings to other industries. Future studies could examine whether similar patterns emerge in traditional manufacturing, service, or natural resource sectors. Additionally, while our methodological framework captures multiple dimensions of reporting quality, there may be subtle aspects of disclosure effectiveness that require more nuanced measurement approaches.

The evolving regulatory landscape surrounding intangible asset reporting presents another important avenue for future investigation. As standard-setting bodies develop more formal frameworks for intellectual capital disclosure, researchers should examine how these regulatory developments influence both reporting practices and market responses. Comparative studies across different regulatory regimes could provide valuable insights into how institutional contexts shape the valuation implications of intellectual capital information.

In conclusion, this research establishes that intellectual capital reporting represents not

merely a compliance exercise but a strategic communication process that evolves in dialogue with market participants. The dynamic relationship we document underscores the importance of viewing intellectual capital disclosure as an ongoing organizational capability rather than a periodic reporting obligation. As knowledge assets continue to drive competitive advantage in the modern economy, understanding how to effectively communicate their value to markets remains a critical challenge for both researchers and practitioners.

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