

UNIVERSITI TEKNOLOGI MARA

**CORPORATE MARKET VALUE AND INTANGIBLE
ASSETS OF MALAYSIAN COMPANIES**

RIDZWAN BIN BAKAR

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ABSTRACT

The new economy has shifted the value of firms from traditionally dominated by tangible assets to intangible assets. However, thus far studies in Malaysia provide little evidence to support Malaysian companies' intangible assets position. Realizing the gap, the prime objective of this study is to examine the position of intangible assets in Malaysian market. In particular, this study attempts to answer four research questions : (i) What is the pattern of intangible assets value of Malaysian firms? (ii) Does capital market value intangible assets higher than tangible assets? (iii) Which industry (sector) in the Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange), provides greater intangible asset value? and (iv) Do firms with higher intangible assets value, produce better financial performance? This study empirically investigates intangible assets, employing capital market accounting-based research (cross-sectional multi-regression study). The balance sheet identity model is adopted to test corporate market value and intangible assets relationship. Three models (NAnE, NAnED and Net Asset) are employed to empirically test seven hypotheses. These hypotheses have been proposed to be tested using a sample of 2,396 firm-year observations covering the period of 2000-2006. The empirical test of this study is divided into three groups namely Market Intangible Portfolio (MIP), Industry Intangible Portfolio (IIP) and Market Return Portfolio (MRP). The findings of MIP suggest that Malaysian market has developed intangible assets at a slow pace with significant presence from the year 2004 onwards. The result provides further evidence that net asset has been declining, while intangible assets and earnings are getting superior power in determining corporate market value of Malaysian market. The results from IIP indicate that two industries that is Consumer Products and Trading & Services industries have reported significant presence of intangible assets. Consumer Products industry has developed most intangible assets (value) compared to other industries. Finally, the MRP findings provide evidence that Malaysian firms with higher intangible assets produce better financial performance measured by return on equity (ROE). This study highlights the importance of intangible assets as corporate strategic assets and should draw deep interest to corporate managers, investors, regulators, accounting standard setters and researchers in financial reporting and capital market.

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CHAPTER 1

INTRODUCTION

The prime goal of this dissertation is to investigate intangible assets (IA) position in Malaysia which is not reported and disclosed by traditional financial statements. By virtue of strict accounting rules, IA has to pass through stringent test in order to be recognized in firm's balance sheet. Generally, this IA is known to accounting profession as goodwill, mainly driven by business combination activities. Though this intangible assets (goodwill) is recognized in financial reporting, firms value measured by market capitalization have always been higher than their net assets value. As a result, scholars argued that important strategic assets with high values are ignored by current financial reporting standards (Lev, 2001a; Tollington, 1998). This has caused significant gap between corporate market value (CMV) and financial accounting balance sheet numbers (net book value).

Both academics and industry practitioners attempt to find answer for this significant gap known as unexplained value (Lev, 2001a). Scholars have acknowledged that intangible assets are valuable as strategic corporate assets that need to be identified and managed (Hall, 1992). Therefore, this study is crucial in the emerging role of knowledge based economy which has invited researchers to observe this unexplained value (Lev, 2001a; Amir, Lev and Sougiannis, 2003; Daum, 2003; Leadbetter, 1999).

To undertake this study, this dissertation begins with Chapter One– Introduction. This chapter briefly highlights background of study, current corporate issues and addresses gap as far as literature is concerned. It explains research problems and develops four research questions. Next, research objectives and rationale of the study which is mainly motivated by industry and academic interest are highlighted. The Chapter