UNIVERSITI TEKNOLOGI MARA

THE EFFECTS OF INTELLECTUAL CAPITAL ON FIRMS'S FINANCIAL PERFORMANCE: EXTENDED MODEL OF VAIC AND MODERATING EFFECT OF DYNAMIC CAPABILITIES

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ABSTRACT

Due to the undeniable importance of a Knowledge-Intensive Economy, intangible resources are still receiving attention. In the modern world, the challenges to organizations are the ability to translate the resources and capabilities into a competitive advantage. The ACE Market has faced inadequate investment in intellectual capital and dynamic capabilities. The continuousness of these problems will lead to unfavorable firm performance, and in the long run, the firms could not afford to endure. This has also impacted the ACE Market, such as easily being delisted, small market capitalization, and fewer returns to invest and run their business. Therefore, this thesis examines the effect of intellectual capital (IC) on a firm's financial performance, moderated by dynamic capabilities. The scope of this research covers 62 firms listed in the ACE Market from the year 2009 to 2018, as the firms in this market are consistently associated with inferior performance and capital. Hence, has the possibility of being delisted and affects the capital market performance. Therefore, this thesis applied the modified model of MVAIC and the Two-Step System Generalized Method of Moments (GMM) as an estimation method since it is suitable for data with small-time but large cross-sections. In addition, it has the competencies to solve the endogeneity problem. The empirical finding reveals that intellectual capital significantly affects the firm's financial performance. HCE tends to be the prime contributor to firm performance, and CEE increases the performance measured by ROA. Since dynamic capabilities (DC) are necessary for a business organization to accomplish superior performance, it has been included as the moderator. The researcher calculated the marginal effect with a graphical illustration to interpret the moderating variable effect. It was found that the marginal effect of MVAIC towards firm performance is at a higher level when the changes in DC are at a higher percentage. Indicating the influence of DC in the current knowledge economy to attain remarkable performance. Moreover, this thesis concluded that more priority to be given to the awareness of IC and DC in the knowledge economy; thus, policymakers should play their role in providing grants for the firms in the ACE Market to improve the investment in IC and DC. Malaysia should also consider intellectual capital disclosure and regulations on intangible assets to assist the firms in improving the firm's financial performance and moving towards a developed country in the future

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INTRODUCTION

1.1 Introduction

The firm's financial performance primarily reflects the business sector's overall growth and financial health over a specified period. The performing firm will maximize shareholders' wealth and profitability then eventually sustain its business (Naz & Ijaz, 2016). Therefore, determinants of the performance of firms have been a focus of academic research for a long time in accessing achievement (Kaawaase, Bananuka, Peter Kwizina, & Nabaweesi, 2020). Successful firms represent a significant component for developing nations. Hence, numerous economists deliberate them parallel to an engine in determining their economic, social, and political development. To survive in a competitive business environment, every firm should operate in conditions of solid performance. Therefore, assessing the performance of organizations has always been one of interest to management teams of organizations and researchers. Researchers have extended efforts to determine measures for the concept of performance.

Considering the vital of a firm's financial performance, various evaluation tools have been established to appraise and enhance a firm's viability. Financial indicators, such as return on equity, return on assets, profit margin, sales growth, capital adequacy, liquidity ratio, and stock price, are used by analysts and researchers to analyze the firm's financial performance. Subsequently, the financial tools have been gradually expanded to more complicated performance models such as Balanced Scorecards, Performance Prism, The Malcolm Baldrige Model, and many more to improve business operational efficiency through a better decision-making process (Pantea, Gligor, & Anis, 2014).

Apart from that, researchers also have extended the evaluation of performance by looking at the relationship between performance and other related factors, especially on the item that could give value added to the firm's financial performance (Barney, 1991; Edvinsson & Malone 1997; Gogan, 2014; Jancenelle, 2015; Manzari, Kazemi, Nazemi, & Pooya, 2012; Mendes, Mario, & Romao, 2016). According to Naz and Ijaz (2016), this is very important as a firm must fully utilize its resources to