

Topic

INTELLECTUAL CAPITAL PERFORMANCE AND FIRM PERFORMANCE AND VALUE: THE MODERATING ROLES OF PRE AND POST CORPORATE GOVERNANCE AMENDMENTS 2017

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1971-1972

Presentation Content

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introduction

- Chen, Cheng and Hwang (2005) argued that firms' financial statements no longer depend on material goods as a source in explaining value, but on creation of IC.
- Edvinsson and Sullivan (1997, P. 358) defined IC as knowledge that can be converted into value.
- Keenan and Aggestam (2001), believe the efficiency of a firm in using its key tangible and intangible resources affects by the CG

introduction

- In a knowledge-based economy, good CG will lead firms towards eliminating information asymmetries and agency problems by preparing and detecting relevant information for decision-makers (Al-Sartawi, 2018).
- GC has a crucial responsibility in molding a company, to add value and have the competitive edge over other companies globally (Iwasaki, 2008; Ehikioya, 2009).
- prior studies have suggested that a code on corporate governance reduce managerial discretion, mitigate the opportunistic earnings management, to enhance the quality of financial reporting, and to raise the company value (such as studies by Alonso-Paulí & Pérez-Castrillo, 2012; Goncharov, et al., 2006; Peasnell, et al.,

Background of study

Knowledge

The change of economic structure from physical to knowledge

IC

- Improve the competency
- Improve strategic asset
- Provide better competitive position in the global market.
- Help to enhance the creation of wealth of the company
- provides competitive advantage
- hidden value

GC practice

supervision, management, enforcement and adherence, internal audit, advisory, external audit, and tracking.

Firm value and performance

Problem statement

- Development of **knowledge** in all over the world has changed the firm's value from tangible assets to intangible asset in organisations. (Saunders and Brynjolfsson, 2016).
- The past studies showed that firms still suffer from inefficient utilisation of IC.
- There is a persistence of ineffective IC usage by managers (Edvinsson & Sullivan, 1996; Kweh, et al., 2015).
- Therefore, the exclusive reliance on the resource-based view theory (RBV) alone is perceived to be restricted in explicating the advantages of knowledge resources of IC . This is because, breakdown in the CG system to monitor management in undertaking effectual IC practice (Barney et al. 2001).

Problem statement

The study then turns to an important, yet unanswered, issue about whether the quality of corporate governance influence the shareholders' valuation assessments of IC.

Durnev and Kim (2005) found that firms with higher governance and transparency rankings are have enhanced value in stock markets.

Holland (2001) reported that CG is much related to IC components that drives the firms' performance.

- **Gompers et al. (2003)** They found that firms with stronger shareholder rights show higher firm value, enhanced profits, and increased turnover growth.

- **Mitton (2002)** stated that CG had positive effects on firm performance during the Asian crisis in five East Asian countries.

Problem statement

- Machuga and Teitel (2009) posited that corporate governance reform would not achieve the desired effects of the change, unless regulators considered the cultural and legal environments of the country.
- The Malaysian Government believes that developing and improving CG would significantly help to restore confidence in the Malaysian market (Ghazali, 2010).
- The literature, however, is inconclusive on the role of corporate governance on firm performance (Bhatt and Bhattacharya, 2015; Mohd Ghazali, 2010; Nicholson and Kiel, 2007; Leng, 2004). Additionally, MACCG 2017 is argued to be better than MACCG 2012. Is this fixed effect the way the IC is managed and its influence on firm value/ and performance.
- Further, the impact of the CG code on firm performance in emerging markets has not been established (Che Hatt et al., 2008; Ponnu, 2008).
- There is no evidence so far, to prove the MACCG 2017 is better than MACCG 2012 in explaining the relationship between IC and Firm Value and performance.
- the current study attempts to provide insights the effect of MCCG 2012 and MCCG 2017 as moderate variables.

OBJECTIVES AND QUESTIONS OF THE STUDY

OBJECTIVES	QUESTIONS
1- To investigate how the performance of IC is associated with firm performance and firm value of Malaysian largest listed companies	1-Is there any association between IC performance and firm performance and firm value?
2- To investigate how IC categories performance is associated with firm performance and firm value of Malaysian largest listed companies.	2- Is there any association between IC categories performance and firm performance and firm value?
3- To examine the moderating effect of mandatory and voluntary corporate governance on the association among IC performance with firm value and firm performance of Malaysian largest listed companies.	3- Is there a moderating effect of mandatory only and mandatory with voluntary corporate governance on the association among IC performance with firm value and firm performance of Malaysian largest listed companies.

OBJECTIVES AND QUESTIONS OF THE STUDY

4- To compare the strength of the moderating effect of mandatory and mandatory with voluntary corporate governance CG during 2012 and 2017, and the association between IC and firm performance and firm value.

4- Is there a difference in the strength of moderating effect of mandatory, and mandatory with voluntary corporate governance during MCCG 2012 and MCCG 2017, and the association between IC performance and firm performance and firm value?

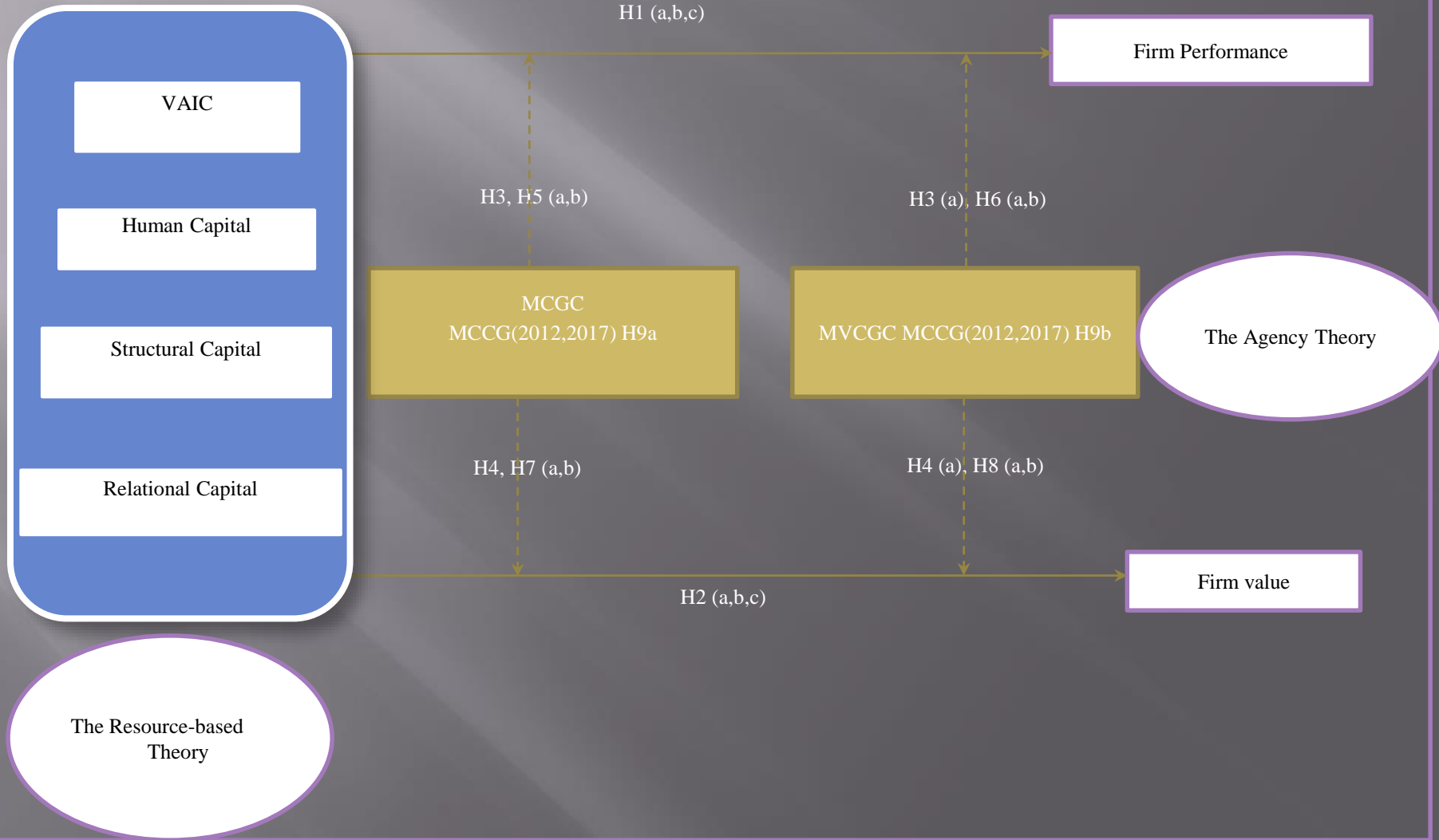
5- To investigate whether mandatory and voluntary CG compliance produce stronger effect on the association, rather than the mandatory CG compliance only.

5- Does mandatory and voluntary CG compliance produce stronger effect on the association, rather than mandatory CG compliance only?

LITERATURE REVIEW

AUTHORS	Objective	Finding	Sample/Country
Farrukh and Joiya, (2018)	examined the impact of IC on financial performance	Significantly relationship between HCE, SCE, and CEE and firm performance	Manufacturing companies/ Pakistan
Khalique, et al.(2018)	examining the relationship between IC and performance	Significantly relationship between HC, SC, SoC, TC, SpC, and CC and performance	knowledge-intensive SMEs in Malaysian
Li & Zhao (2017)	intellectual capital and firm value	Significant 1- SCE Insignificant: HCE	listed firms/ China
Hamdan et al. (2017)	examined the moderating role of CG on the interaction between IC efficiency and performance.	CG positively relationship between intellectual capital components and financial, operational and market performance.	171 firms listed on the Saudi Stock Exchange
Zulkifli et al. (2017)	investigated the moderating government ownership in the correlation between the efficiency of IC and the performance.	government ownership weakens the association	main market of Bursa Malaysia for years 2012 through 2014 in Malaysia

Theoretical framework



Research Methodology

Aspects of research design	Application of research design in this study
Research design	<ul style="list-style-type: none">▪ Quantitative Approach
Purpose of the study	<ul style="list-style-type: none">▪ Hypotheses testing
Extent of research interference	<ul style="list-style-type: none">▪ Moderate
Study setting	<ul style="list-style-type: none">▪ Malaysian largest companies (88 companies)
Unit of analysis	<ul style="list-style-type: none">▪ Secondary data:<ul style="list-style-type: none">- Annual report- DataStream
Time horizon	<ul style="list-style-type: none">▪ Panel data (STATA 13)

Finding / RQ1

	ROA				Tobin Q			
	POLS	RE	FE	Corrected FE	POLS	RE	FE	Corrected FE
VAIC	0.007*** [0.001]	0.004*** [0.001]	0.003*** [0.001]	0.003*** [0.001]	0.035*** [0.010]	0.014** [0.006]	0.011* [0.006]	0.011*** [0.003]
Ln. SIZE	-0.085*** [0.005]	-0.083*** [0.009]	-0.069*** [0.023]	-0.069** [0.029]	-1.200*** [0.081]	-1.125*** [0.141]	-0.250 [0.320]	-0.250 [0.676]
LEV	0.003 [0.002]	-0.005 [0.003]	-0.031*** [0.006]	-0.031*** [0.008]	0.088** [0.036]	0.055 [0.050]	-0.093 [0.082]	-0.093 [0.094]
Constant	0.636***	0.638***	0.583***	0.583***	9.426***	9.036***	3.186	3.186
N	331	331	331	331	331	331	331	331
r2	0.495	0.4664	0.179	0.3248	0.4169	0.4125	0.4125	0.4169
r2 Adj.	0.4900					0.4100		
Breusch and Pagan Lagrangian		235.31***				227.05***		
Hausman test(chi2(6))			56.58***				25.79***	
Wald: chi2			5.8e+05***				6.4e+29***	
Wooldridge test			5.402***				14.238***	
VIF	1.06				1.07			

Finding / RQ2

	ROA				Tobin Q			
	POLS	RE	FE	corrected RE	POLS	RE	FE	corrected RE
HCE	0.009*** [0.002]	0.007*** [0.002]	0.005*** [0.002]	0.008*** [0.002]	0.100*** [0.024]	0.038* [0.022]	0.015 [0.024]	0.062*** [0.018]
SCE	0.001 [0.002]	0.001 [0.001]	0.001 [0.001]	0.001 [0.001]	0.004 [0.012]	0.011* [0.006]	0.011* [0.006]	0.010*** [0.004]
CEE	0.069*** [0.015]	0.015 [0.011]	0.006 [0.011]	0.026 [0.016]	0.568** [0.229]	0.060 [0.149]	0.004 [0.152]	0.144 [0.157]
Ln. SIZE	-0.079*** [0.005]	-0.083*** [0.009]	-0.073*** [0.023]	-0.086*** [0.007]	-1.152*** [0.081]	-1.146*** [0.138]	-0.256 [0.324]	-1.314*** [0.137]
LEVE	0.002 [0.002]	-0.003 [0.003]	-0.031*** [0.006]	0.002 [0.003]	0.065* [0.035]	0.052 [0.050]	-0.094 [0.082]	0.070** [0.035]
Constant	0.589*** [0.035]	0.635*** [0.059]	0.607*** [0.153]	0.640*** [0.051]	8.938*** [0.550]	9.132*** [0.936]	3.225 [2.191]	10.197*** [0.967]
N	331	331	331	331	327	327	327	327
r2	0.540	0.5231	0.195	0.4782	0.465	0.4320	0.024	0.512
r2 Adj.	0.5331				0.4563			
Breusch and Pagan Lagrangian		203.97***				195.33***		
Hausman chi			7.75				7.82	
Wald: chi2		4.53e+07***				5.68e+07***		
Wooldridge test		0.0375**				14.228***		
VIF		1.15				1.17		

Finding / RQ3

Interaction(Residual centering) TobinQ					Interaction(Residual centering) ROA			
	POLS	RE	FE	corrected FE	POLS	RE	FE	corrected FE
VAIC	0.013*** [0.001]	0.012*** [0.001]	0.011*** [0.001]	0.011*** [0.003]	0.002*** [0.000]	0.001*** [0.000]	0.001*** [0.000]	0.001*** [0.000]
MCGC	2.317*** [0.106]	2.291*** [0.125]	2.149*** [0.190]	2.149*** [0.191]	-0.034** [0.015]	-0.037** [0.018]	-0.044 [0.028]	-0.044 [0.029]
VAIC*MCGC	1.000*** [0.007]	0.987*** [0.009]	0.934*** [0.015]	0.934*** [0.030]	1.000*** [0.012]	0.975*** [0.012]	0.941*** [0.015]	0.941*** [0.044]
LnSIZE	-1.615*** [0.014]	-1.614*** [0.019]	-1.545*** [0.110]	-1.545*** [0.107]	-0.097*** [0.002]	-0.097*** [0.003]	-0.086*** [0.016]	-0.086*** [0.014]
LEV	0.135*** [0.005]	0.135*** [0.007]	0.122*** [0.024]	0.122*** [0.019]	0.010*** [0.001]	0.010*** [0.001]	0.008** [0.004]	0.008** [0.003]
Constant	11.196*** [0.104]	11.209*** [0.139]	10.830*** [0.722]	10.830*** [0.664]	0.748*** [0.015]	0.749*** [0.020]	0.681*** [0.107]	0.681*** [0.090]
N	352	352	352	352	352	352	352	352
r2	0.990	0.9900	0.937	0.937	0.965	0.9767	0.942	0.942
R2 Adj.	0.9898							
Breusch and Pagan Lagrangian		41.38***				41.38***		
Hausman test			23.76***				23.50***	
Wald: chi2			2.8e+07***				1.5e+07***	
Wooldridge test			6.062***				12.647***	
VIF	1.03				1.03			

Finding / RQ3

	Interaction(Residual centering) ROA				Interaction(Residual centering) Tobin Q			
	POLS	RE	FE	Corrected FE	POLS	RE	FE	Corrected FE
VAIC	0.002*** [0.000]	0.001*** [0.000]	0.001*** [0.000]	0.001*** [0.000]	0.012*** [0.001]	0.011*** [0.001]	0.010*** [0.001]	0.010*** [0.003]
MVCGC	0.015 [0.011]	0.014 [0.013]	0.003 [0.023]	0.003 [0.018]	2.260*** [0.077]	2.243*** [0.094]	2.093*** [0.159]	2.093*** [0.134]
VAIC*MVCGC	1.000*** [0.012]	0.976*** [0.012]	0.943*** [0.014]	0.943*** [0.043]	1.000*** [0.007]	0.987*** [0.009]	0.937*** [0.015]	0.937*** [0.029]
Ln. SIZE	-0.098*** [0.002]	-0.098*** [0.003]	-0.082*** [0.016]	-0.082*** [0.014]	-1.636*** [0.014]	-1.635*** [0.019]	-1.536*** [0.111]	-1.536*** [0.105]
LEV	0.009*** [0.001]	0.009*** [0.001]	0.008** [0.004]	0.008** [0.003]	0.135*** [0.005]	0.136*** [0.007]	0.124*** [0.024]	0.124*** [0.019]
Constant	0.724*** [0.015]	0.724*** [0.020]	0.630*** [0.105]	0.630*** [0.089]	10.884*** [0.104]	10.891*** [0.140]	10.343*** [0.720]	10.343*** [0.641]
N	352	352	352	352	352	352	352	352
r2	0.990	0.9899	0.937	0.937	0.990	0.9899	0.937	0.937
R2 Adj.	0.9646				0.9898			
Breusch and Pagan Lagrangian		44.03***				44.03***		
Hausman test			22.94 ***				22.94 ***	
Wald: chi2			9.4e+07 ***				9.4e+07 ***	
Wooldridge test			13.717				13.717	
VIF	1.03				1.03			

Finding / RQ4

	Interaction(Residual centering)ROA		Interaction(Residual centering) Tobin Q	
	MCGC 2012	MCGC 2017	MCGC 2012	MCGC 2017
	Corrected RE	Corrected RE	corrected RE	corrected RE
VAIC	0.004***	0.001***	0.149***	0.008***
	[0.000]	[0.000]	[0.004]	[0.002]
MCGC	-0.057**	0.013	2.369***	3.089***
	[0.025]	[0.122]	[0.350]	[0.583]
VAIC*MCGC	0.991***	0.962***	0.995***	0.991***
	[0.009]	[0.030]	[0.012]	[0.011]
l.size	-0.094***	-0.098***	-1.342***	-1.797***
	[0.001]	[0.004]	[0.011]	[0.018]
LEVE	0.008***	0.010***	0.040***	0.150***
	[0.000]	[0.001]	[0.003]	[0.006]
Constant	0.738***	0.725***	9.098***	12.046***
	[0.012]	[0.063]	[0.164]	[0.299]
N	176	176	176	176
r2	0.996	0.944	0.996	0.950
R2 ajd	0.9875	0.9386	0.9952	
Breusch &Pagan Lagrangian	20.63***	6.05***	21.49***	5.38***
Hausman test	6.95	7.85	8.40	5.08
Wald: chi2	8.05e+08***	8.47e+08***	1.31e+09***	1.03e+09***
Wooldridge test	0.168	5.736***	1.335	2.815*
VIF	1.19	1.02	1.09	1.02

Finding / RQ4

	Interaction(Residual centering)ROA		Interaction(Residual centering) Tobin Q	
	MVCGC 2012	MVCGC 2017	MVCGC 2012	MVCGC 2017
	Corrected FE	Corrected RE	Corrected	Corrected
			FE	RE
VAIC	0.003***	0.001***	0.019***	0.011***
	[0.001]	[0.000]	[0.004]	[0.003]
MCGC	0.005	0.040	2.179***	2.451***
	[0.013]	[0.074]	[0.092]	[0.507]
VAIC*MCGC	0.990***	0.962***	0.994***	0.975***
	[0.017]	[0.031]	[0.010]	[0.018]
l.size	-0.091***	-0.098***	-1.613***	-1.643***
	[0.007]	[0.004]	[0.053]	[0.025]
LEVE	0.007***	0.010***	0.121***	0.140***
	[0.001]	[0.001]	[0.010]	[0.008]
Constant	0.689***	0.706***	10.795***	10.781***
	[0.046]	[0.053]	[0.343]	[0.355]
N	176	176	176	176
r2	0.983	0.945	0.993	0.9833
R2 ajd	0.9816	0.9410	0.9991	0.976
Breusch &Pagan Lagrangian	23.78***	6.45***	12.20***	6.05***
Hausman test	12.29**	7.84	12.20***	7.81
Wald: chi2	5.1e+31***	6.24e+10***	0.725	3.10e+09***
Wooldridge test	13.717***	4.557***	12.20***	0.819
VIF	1.18	1.02	1.14	1.03

Finding / RQ5

MCGC and MVCGC 2012 and 2017

Sign	Obs.	Sum rank MCGC	Sum rank MVCGC
0	176	24723	24969
1	176	37405	37159
combined	352	62128	62128
MCGC code 2012 and 2017 Prob > z = 0.0000			
MVCGC code 2012 and 2017 Prob > z = 0.0000			

Summary

Research Objectives	Hypotheses	Model	Coef.	Hypotheses supported/no supported
Q1	H1: ICP->FP	1	0.003***	Supported
	H2:ICP->FV	3	0.011***	Supported
Q2	H1 (a):HCE->FP	2	0.008***	Supported
	H1(b):SEC->FP		0.001	Not supported
	H1(c):CEE->FP	4	0.026	Not supported
	H2 (a):HCE->FV		0.062***	Supported
	H2 (b):SCE->FV		0.010***	Supported
	H2(c):CEE->FV		0.144	Not supported
Q3	H3: ICP->MCGC->FP	5	0.941***	Supported
	H3(a):ICP->MCGC->FV	6	0.943***	Supported
	H4:ICP->MVCGC->FP	7	0.937***	Supported
	H4(a):ICP->MVCGC>FV	8	0.934***	Supported
Q4	H5(a): ICP->MCGC2012->FP	9	0.991***	Supported
	H5(b): ICP->MCGC2017->FP	10	0.962***	Supported
	H6(a): ICP->MVCGC2012->FP	11	0.990***	Supported
	H6(b): ICP->MVCGC2017->FP	12	0.962***	Supported
	H7(a) :ICP->MCGC2012->FV	13	0.995***	Supported
	H7(b): ICP->MCGC2017->FV	14	0.991***	Supported
	H8(a): ICP->MVCGC2012->FV	15	0.994***	Supported
	H8(b): ICP->MVCGC2017->FV	16	0.975***	Supported
Q5	H9(a): MCGC 2017 betterMCGC2012	Wilcoxon signed-rank t-test	0.000***	Supported
	H9(b):MVCGC2017 better MVCGC2012		0.000***	Supported

DISCUSSION

- The outcomes of this research supports
 - ❑ comprehensive knowledge of the part played by IC in improving the firm value and profitability in emerging economies, especially, in Malaysia.
 - ❑ Knowledge-based economy argued that IC has emerged to be an important driver in establishing corporations that can sustain their competitive advantages.
 - ❑ HCE and SCE are more important than CEE. The findings highlighted that more investments on human capital will increase the efficiency of firms.
 - ❑ Largest companies in Malaysia are still in human capital development stage. a sustainable knowledge-based economic growth, the largest companies in Malaysia must not continue to be dependent on physical capital investments.

DISCUSSION

- ❑ IC as intangible nature makes it difficult to convert into value without the presence of good CG practice. CG would improve the quality of IC in firms.
- ❑ CG functions as a monitoring and control tool in the firm which enables managers through CG mechanisms to interconnect between the three IC performances attributes resulting in sufficient use of IC performance resources.
- ❑ Companies within first two years are interested in complying to the mandatory code more than voluntary. This argument could be investigated by future studies to investigate the level of voluntary compliance of CG information after two years of the amendment of MCCG 2017. This argument is supported by Pass (2006).
- ❑ **Agency theory with RBV theory**, failure to apply strong corporate governance, can lead to the companies not fully recognizing the benefits of the resources they control

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

- ✓ data (secondary data) to measure the investigated IC performance in Malaysian largest firms.
- ✓ The current study did not take in consideration the sectorial effect.
- ✓ BoD and the audit committee attributes to measure the MCGC and MVCGC index.
- ✓ The study adopted dummy variables to measure MCGC and MVCGC.
- ✓ study used VAIC as a proxy in gauging the performance of IC performance.
- ✓ Two years effect is not enough to test the effect of adoption MCCG amendment on IC practices.

Conclusion

- ❑ IC of Largest Malaysian firms are more strengthen after new accounting standards and MCCG 2017 amendment.
- ❑ more CG voluntary compliance beneficial indicator of the real and authentic corporate governance quality, and the degree of agency contentions (“agency conflicts”).
- ❑ Mean value of mandatory compliance in MCCG 2017 is more than voluntary compliance. This is because for most companies in their first two years are interested in complying to the mandatory code more than voluntary.



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