

## The Influence of Brand Value on Selected Malaysian's Companies Book Value and Shareholders

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### Abstract

**Purpose:** Examine the influence of brand value on book value, and profit after interest and tax, and dividend yield in Malaysian companies.

### Objectives

i: To determine the effect of growth brand value on book value in selecting the best brand of Malaysian companies.

ii: To identify the determinants that influence brand value on earnings before interest and tax (EBIT) and dividend yield (DY).

### Methodology/Design/Approach:

Prior to testing the hypotheses, coefficient alpha, reliability, and correlation analysis were applied to determine the validity and reliability of the data collected. Multiple regressions were performed to test the hypotheses.

### Research Implications

Results of this study show clearly that brand value has no influence on all of these parameters of financial performance of companies. According to results of this study, brand value has a positive influence on companies' book value, and earnings before interest and tax.

**Keywords:** Brand equity, Brand value, Book value, Earnings before Interest and Tax, Dividend yield

### 1. Introduction

In general, the study of brand and effect of brand on company's financial performance has become increasingly important to both finance and marketing sections. Therefore, Ailawadi, Lehmann, and Neslin(2001), and Capron and Hulland (1999) concluded that it is generally accepted that brands are major intangible assets that can significantly contribute to companies' performance. Therefore in today's business, brand equity and especially brand value is very important. The fluctuations in brand value of one company can affect financial performance that may cause significant changes, for example, it may influence financial performance measures (such as operating income, earnings before interest and tax, and net asset value). In this research, the author wants to find the influence of brand on financial performance in selected companies in Malaysia; in other words, to find the relationship between brand value and details of companies financial statement; also, to determine the impact of brand growth on book value.

The author uses Asian companies and focuses on this area because there is less research about the specific area such as the Interbrand website for one country such as Malaysian companies that include several industries (such as banking, properties, insurance, entertainment, etc.)

## **2. Literature Review**

### **2.1 Brand and Brand Equity**

The simple definition of brands is symbols, names, signs or others that characterize companies' products or services in the market. As we know, Brand equity refers to the intangible assets that were considered since the mid-1990s. Also, this has caused the modification in international accounting standards that they are linked to the financial value reporting of intangible assets. Wherever intangible asset is reported, it has contained mostly brand name, trademark, and other purchased intangible assets for that the firm and the value is portrayed with a simple communication.

In today business (as other researchers have noted) , brand and brand equity are important, and given the growing concern in these topics, there is a need to do more researches, especially in relation to accounting and marketing. From the accounting perspective, the role of intangible asset is an important success item for valuation and their relations with the market value have been widely examined (Oliveria, 2010; Dahmash, 2009; Chalmers, 2008; Lev, 2001; Choi. 2000; and Canibano, 2000).

### **2.2 Brand Value**

About 40 to 75 percent of an intangible asset of a company may be linked to brands. So, it is sometimes recommended that brand controlled the value of economic and provided fortune for shareholders of company (Aaker, 1996; Kerin and Sethuraman, 1998; Doyle, 2001). Therefore, brand equity or brand value can increase or decrease the total firm's value and it is important to know that brands have vital roles in the company's performance. According to results by Salinas and Ambler (2008), valuation of brand has taken a main role in researches of practitioners and academics. It could be said, Brand value is one of the results of brand equity or customer based brand equity outcome. It was also noted by Wood in 1999 that "brand value measurements could be used as an indicator of market power and it may be thought to be distinct as it refers to an actual or notional business transaction, while the other two focus on the consumer." In general, by growing value and declining costs, companies with strong brands become more profitable, and that creates the strongest values for companies' shareholders (Yoo, 2001; Yovovich, 1998; Swaminathan, 2003).

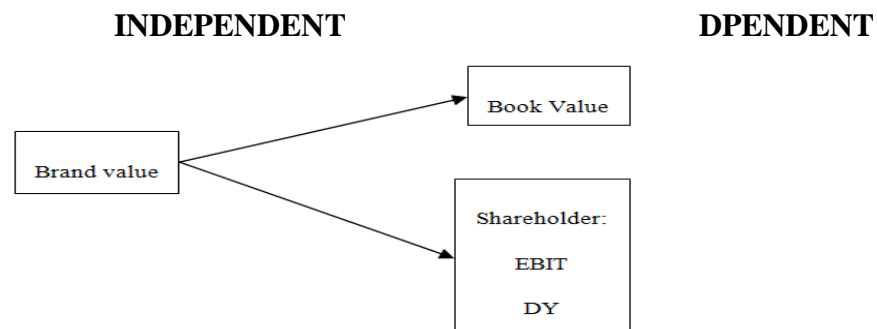
### **2.3 Influence of Brand on Financial Performance**

There are several analyzed academic studies that discussed about the correlation between brand strategy and financial performance, so brand equity affected the impressions of companies' shareholders (Barth, 1998; Mizik, and Jacobson, 2008) and financial performance of companies (Chu, and Keh, 2006). Yoo and Donthu, (2000) in their research argued about the results of positive relationship between brand equity and financial performance of firm that showed that "there is evidence that a product's brand equity positively affects future profits, long-term cash flow, and consumer willingness to pay premium prices". In research by Madden, Fehle, and Fournier (2006), they used the Interbrand appraisal to create a portfolio of 111 companies which possessed the most valuable brand in the world. The consequences revealed that "strong brands deliver greater returns at lower risk to stockholders than does a relevant benchmark". These results suggested that when managing for "market share" and "firm size", the measures of brand equity are related to firm's investors.

In other study, Yeung and Ramasamy in 2008 investigated the relation between variables which included brand equity and profitability's variety ratio such as return on investment (ROI), return on assets (ROA), net margin, and gross profit margin. They used a "panel data framework" which covered the 50 most important companies in the US between years of 2000-2005. They retrogressed their execution magnitudes on brand value and inspected the effect of the latter on profitability. Thus, they used the model of price and return; after that they investigated the related value of brand equity to the "stock market". Their results recommended that "brand values have a significant impact on share prices, but they appear to have no impact on market returns". Also, for relationship between brand equity (especially brand value and performance of stock market, Yeung (2007) researched and found that "brand values have a significant impact on share prices, it appears to have no impact on market returns".

### 3. Methodology and Finding

#### 3.1 Formworks and hypothesis



**Figure 3.1: Conceptual Framework**

H<sub>1</sub>: Brand value has positive influence on companies' book value.

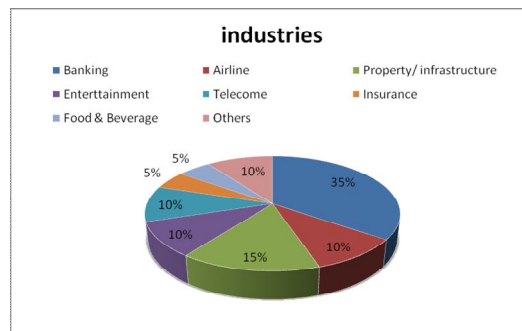
H<sub>2</sub>: Brand value has significant relationship with earnings before interest and tax (EBIT) and dividend yield (DY) of companies.

#### 3.2 Sampling and Methodology

The target population for this study is most valuable industries on Bursa Malaysia. The primary data was found from Interbrand ([www.interbrand.com](http://www.interbrand.com)), The Association of Accredited Advertising Agents of Malaysia or 4A ([www.aaa.org.my](http://www.aaa.org.my)) and Bursa Malaysia ([www.klse.com.my](http://www.klse.com.my)) for most valuable brands in Malaysia that were introduced in that website. The customer companies included several industries such as banking, properties, telecom, and etc. The secondary data for this paper was collected from journal, articles, and reference books.

The sampling method that was being selected is the non-probability sampling. The sample size that we want to select is 30 valuable customer companies between years of 2007 to 2009 that was introduced by Interbrand (interbrand has the broadest geographical presence-offering more people, more disciplines, and more knowledge tailored to their clients). After that, we select 20 companies and compiled relevant data for the period of three years.

Based on the total 20 companies from best of valuable Malaysian companies, the following pie chart shows the percentage of each industry that is used in this analysis.



**Figure 3.1: Pie Chart of Total Percentage of Industries**

The analysis is based on the primary data collected from the companies. Collected data was keyed into the SPSS version 16 analysis software for the purpose of testing the outcomes. The analysis and discussions are divided into two sections. The first section is the descriptive analysis with the aim to understand the relationship between brand value and financial performance (based on scatter plots). The second section is hypothesis testing using regression to determine the influence of independent variable (brand value) on dependent variable (book value and shareholders). Further, regression is also carried out to test each of the dimensions.

In general, the formula of simple linear regression equation will be collected as follows:

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

In which: Y “Dependent Variable”, X “Independent Variable”,  $\beta_{0,1}$  “Parameters”,  $\epsilon$  : “Error term”

#### 4. Results and Discussion

In the first, table 4.1 explain a summary of results, after that we discussion about these results.

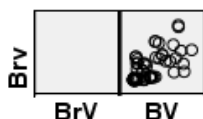
**Table 4.1: Result Summary**

Hypothesis	Results
H <sub>1</sub> : Brand value has positive influence on companies’ book value.	Supported
H <sub>2</sub> : brand value has significant relationship with EBIT and DY of companies. Earnings Before Interest and Tax (EBIT) Dividend Yield (DY)	Supported Not Supported

#### 4.1 To Determine the Effect of Growth Brand Value on Book Value in Selected Best Brands of Malaysian Companies.

According to the data analysis in order to discover the relationship between book value and brand value in each year (2007, 2008, and 2009) and mix data of three years; the results show that:

- The scatter plot shows the increase line in the matrix, so this means the relation between book value and brand value is near to 1 and there is positive relationship between two variables.



**Figure 4.1: Scatter Plot of Mixed Three Years Data (2007-2009) for brand value and book value.**

- Correlation table shows the Pearson correlation above 0.600 with p-value 0.000 that it is less than 0.05. This is indicative of a positive relationship between the two variables.

**Table 4.2: Correlation of brand value and book value Data in 2007-2009**

	Brv	Bv
Brv	Pearson correlation	1
	Sig (2-tailed)	.638
	N	.000
		60
		60

- The p-value is near to 0.000 and it is less than 0.05. This means brand value can be used to predict book value. R-square is about 0.400, this means 40% of the fluctuation in book value is explained by brand value. The regression equation shows the positive relationship between brand value and book value.

**Table 4.3: Model Summary of Brand Value and Book Value in 2007-2009**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.638	.407	.397	5338.099

b. Predictors : (constant), Brv Dependent variable: BV

**Table 4.4: ANOVA of Brand Value and Book Value in 2007-2009**

Model	Sun of Squares	df	Mean Square	F	Sig
1 Regression	1.135E9	1	1.135E9	39.843	.000
Residual	1.653E9	58	2.850E7		
Total	2.788E9	59			

Predictors : (constant), Brv Dependent variable: BV

The general formula for relations between brand value and book value where:

$$Y = 2788.702 + 1.813 X$$

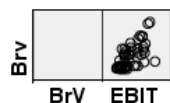
**Table 4.5: Coefficients of Brand Value and Book Value in 2007-2009**

Model	Unstandardized coefficients		standardized coefficients
	B	Std. Error	beta
1 (constant)	2788.702	945.121	
Brv	1.813	.287	.638
Dependent variable :BV			

#### 4.2 To Identify the Determinants that Influence Brand Value on Earnings before Interest and Tax (EBIT) and Dividend Yield (DY).

##### a) Earnings Before Interest and Tax (EBIT)

- The scatter plot showed the increased line in the matrix, so this means the relation between EBIT and brand value is near to 1, so it shows positive relationship between the two variables.



**Figure 4.2: Scatter Plot of Mixed Three Years Data (2007-2009) for brand value and EBIT**

- Correlation table shows that the Pearson correlation is above 0.700 with p-value 0.000 and it is less than 0.05. This is indicative of a positive relationship between brand value and EBIT.

**Table 4.6: Correlation of brand value and EBIT Data in 2007-2009**

	Brv	Bv
Brv Pearson correlation	1	.707
Sig (2-tailed)		.000
N	60	60

- The p-value is near to 0.000 that it is less than 0.05. This means brand value can be used to predict EBIT. R-square is about 0.500, this means 50% of the variation in EBIT is explained by brand value. The regression equation shows the positive relationship between brand value and book value with p-value less than 0.05.

**Table 4.7: Model Summary of Brand Value and EBIT in 2007-2009**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.707	.500	.491	1011.207

Predictors : (constant), Brv Dependent variable: EBIT

**Table 4.8: ANOVA of Brand Value and EBIT in 2007-2009**

Model	Sun of Squares	df	Mean Square	F	Sig
1 Regression	5.923E7	1	5.923E7	57.923	.000
Residual	5.931E7	58	1022538.669		
Total	1.185E8	59			

Predictors : (constant), Brv Dependent variable: EBIT

The general equation for this relation is equal to:

$$\text{EBIT} = 464.089 + 0.414(\text{Brand Value})$$

**Table 4.9: Coefficients of Brand Value and EBIT in 2007-2009**

Model	Unstandardized coefficients		standardized coefficients
	B	Std. Error	Beta
1 (constant)	464.089	179.036	
Brv	.414	.054	.707
Dependent variable :EBIT			

## b) Dividend Yield (DY)

According to results of data analysis, there is no relationship between brand value and dividend yield. Since the scatter plot shows the line of data as similar points are distributed in the matrix. Also, the Pearson correlation is a low value with p-value more than 0.05. Referring to the regression equation, which shows the relationship between these two variables is equal to zero with p-value more than 0.05.

**Table 4.10: Correlation of brand value and dividend yield Data in 2007-2009**

	Brv	Bv
Pearson correlation	1	.211
Sig (2-tailed)		.106
N	60	60

**Table 4.11: Model summary of Brand Value and DY in 2007-2009**

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.211	.044	.028	2.53074

Predictors : (constant), Brv Dependent variable: DY

**Table 4.12: ANOVA of Brand Value and DY in 2007-2009**

Mode	Sun of Squares	df	Mean Square	F	Sig
1 Regression	17.277	1	17.277	2.698	.106
Residual	371.470	58	6.405		
Total	1.185E8	59			

Predictors : (constant), Brv Dependent variable: DY

The regression equation can be written as the relation between brand value and dividend yield is equal to:  $DY = 2.561 + 0.000(BrV)$

**Table 4.13: Coefficients of Brand Value and DY in 2007-2009**

Model	Unstandardized coefficients		standardized coefficients
	B	Std. Error	beta
1 (constant)	2.561	.448	
Brv	.000	.000	.211
Dependent variable :DY			

### 4.3 Conclusion and Recommendation

In general, after data analysis and the results based on the sampled companies in this research have been collected, the influence of the brand value can be book value (BV) and earnings before interest and tax (EBIT); also according to the results, the brand value cannot be used to predict dividend yield (DY). This study only extracted a few sample brands due to unavailability of data during the study time. Therefore, the result cannot be generalized appropriately. The sample of data must be enlarged in order to attain an important result. The limitation of this study can be pointed to government procurement transparency, financial system and e-commerce may affect the economics of developing countries and political stability. In Malaysia, the shift to the Disclosure Based Regulatory (DBR) is a significant step in guaranteeing the whole process of increasing funds is effective and a competitive exercise to increase funds for issuers, in line with the plan to set up Malaysia as a preferred raising of fund centre for companies in Malaysia, as declared in the market capital.

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