The Influence of Capital-Raising Activity on Intangibles Reporting: Evidence from Malaysia

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***Abstract*—Intangibles reporting within the annual report has increased in frequency and types over the last few years. Despite this growth, relatively little is known about the incentives or motivations behind such reporting practices. Further, their unregulated nature (besides items that fall under the intangible assets categories) means that management has great discretion when reporting. This study aims to determine whether financing decisions provide a strong incentive for firms to signal a greater variety of intangibles information, a higher level of disclosure and more intense information to the capital market. We focus on the top 100 Malaysian firms. Content analysis of annual reports is carried out to determine the variety, extent and intensity of intangibles disclosure. The findings, which support signalling theory, provide evidence that capital-raisers provide more intense information compared to their non-capital-raiser counterparts.**

***Index Terms*—Annual report, intangibles, voluntary disclosure,**

I. Introduction

Intangible resources have been recognised as the most important value drivers in the current economy in ensuring a firm's survival, its competitive position and its future growth [1]-[5]. Seetharaman *et al.* [6] have proposed how 'p-economy' (production orientated) differs from 'k-economy' (knowledge-based). In the 'p-economy', hard assets such as labour, capital and land were regarded as the important factors of production to determine the value of corporations [3], [7]. The 'k-economy', on the other hand, has been variably described as the post-industrial economy; new economy; service economy; knowledge society; knowledge-intensive economy; new industrial age; information age; or idea era [8].

In Malaysia, one of the key determinants in the achievement of the Ninth Malaysia Plan's objectives is the development and enhancement of competent and knowledgeable human capital. To be competitive in the global market, various programs and projects have been undertaken such as improving the education system, increasing innovation and ensuring holistic human capital development. Therefore, to be a progressive developing country, Malaysia has to effectively create wealth by developing and managing knowledge. However, there are arguments that the current financial reporting framework is insufficient to keep pace with changes in the business world, particularly in capturing intangibles information [1]-[3], [5], [9]-[12]. Among issues that have been discussed are the measurement of intangibles and the reporting of intangibles especially in financial reports of companies.

This study is motivated by the assumption that a strategy of voluntary disclosure of information has considerable potential for changing investors' perceptions of a firm especially information relating to intangibles. Therefore, this study examines the types, extent and intensity of corporate intangibles disclosure by public-listed companies.

II. Literature Review

Prior studies in intangibles disclosure that provide theoretical explanations widely adopt legitimacy theory or stakeholder theory to explain the disclosure behaviour of a firm [13]; in which case Steenkamp [14] and Kang [15] argue that companies report intangibles to create social images or to improve their reputation and seek to meet explicit and implicit social expectations. Even though legitimacy and stakeholder theories are relevant, they are insufficient to explain the disclosure behaviour of firms, because managers might also signal important and powerful information to emphasise their strong position in the market to enhance the perceived value of a firm [16]. Signalling theory can therefore, explain voluntary disclosure of intangibles information [17].

In a corporate reporting context, companies seek to find ways of capturing the attention of their corporate report readers and impression management predominantly occurs in less regulated narrative disclosures [18]. In this regard, a range of impression management tools are utilised by managers such as selectivity in graph choice [19], [20], presentation emphasis [21] and thematic manipulation [22]-[24] to draw a reader's attention to the content of the documents. However, it is argued in this paper that managers might also use impression management tools to overcome information asymmetry problem by facilitating investors to make better-informed decisions. Thus, some impression management tools might be selected responsibly by managers in disseminating information to improve readers' understanding of the corporate reports by providing stronger signals.

Among other motives that lead managers to increase their voluntary disclosure is the intention to issue equity [22], [25], [26]. Secondary equity capital-raising is one of the most important activities of companies listed on the stock exchange because these companies have a mechanism for pooling of funds from many investors who wish to participate in a particular business venture [27].

As narrative sections in annual reports are largely unregulated and unaudited, firms may exercise their

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discretion in deciding what information to disclose voluntarily. Despite wide acknowledgement that the level of information asymmetry is high between issuing firms and potential investors [28], [29], very few studies have addressed the intangibles reporting practices of listed firms during capital-raising.

III. Methodology

Content analysis is used to collect and analyse data on the voluntary disclosure in the annual reports. A disclosure index is used to capture the variety, extent and intensity of disclosure as this tool has been used to quantify the amount of intangibles information included in the annual reports [30]-[32]. This study utilises the intensity of disclosure index, which indicates the strength of intangibles information presented by firms [33]. Intensity of disclosure is concerned with the way firms emphasise information in order to capture a reader's attention, particularly to notice the intangibles information featured in the documents. Consistent with Beattie and Jones [19], Unerman [34], Davison and Skerrat [35] and Hazianti and Hartini [33], visual representations are regarded as more intense communication tools compared to textual disclosures. Further, quantitative disclosures represent more intense signals compared to qualitative disclosures because they are more objective and informative [36]. Firms may also emphasise certain information provided by prominent location/positioning of information, use of special characters and/or more emphatic types of font [18]. Repetition of information is also considered as presentation emphasis to aid the memory of readers [37]. These techniques, when combined, indicate the strength of intangibles information conveyed by firms. Stronger signals are presumably better at informing readers and ensuring that the readers are more engaged with the information.

The data consist of the annual reports of the Top 100 Malaysian companies which had secondary equity capital-raising activities in 2011. The final sample for the study consists of 30 capital-raiser firms with their matching non-capital-raiser counterparts. The capital-raiser firms and non-capital-raiser firms had the same industry code in three all cases. Capital-raiser firms had an average of RM14 billion in market capitalisation compared to RM11 billion in market capitalisation for the matched non-capital-raiser firms. An independent sample t-test showed that there was no significant difference in the size of the matched-pair samples (p=0.521) and, therefore, both groups of companies had comparable size and operated in the same industry.

IV. Results and Discussions

Table I shows that the discovery and learning phase recorded the highest number of disclosures of 2,413 and information about *employees* dominates the category with 1,052 disclosures. The next most disclosed category is the commercialisation phase with 1,646 disclosures. The least disclosed category was the implementation. The results is consistent with prior studies that the most widely disclosed information is customers and employees [16], [30], [38], [39].

TABLE I: Number of Disclosures of Intangibles Item in Annual Reports

Intangible item	Number of disclosures
Discovery and learning	
Research and development	137
Organisational infrastructure/process	307
Management philosophy and corporate culture	336
Business alliances and joint venture	208
Supplier integration	2
Communities of practice	50
Spill-over utilisation	4
Employees	1052
Training and development of employees	262
Education of employees	29
Work-related knowledge and competencies	1
Entrepreneurial spirit	25
Total for discovery and learning	***2,413***
Implementation	
Intellectual property (Patents, Trademarks and Copyrights)	10
Licensing agreements and contracts	10
Know-how	29
Internet and online activities	357
Clinical tests, beta tests and pilot tests	4
Total for implementation	***410***
Commercialisation	
Brand values and reputation	216
Distribution channel and marketing	82
Customer and customer satisfaction	1099
Market shares	195
Growth prospects and planned initiatives	38
Product pipeline dates	2
Expected efficiency and savings	14
Total for commercialisation	***1,646***
Total	**4,469**

Table II shows that capital-raiser firms disclose a greater variety of information with an average disclosure score of 9.40 as compared to their non-capital-raiser counterparts with a score of 5.17. A Mann-Whitney U test indicates that the difference between capital-raiser and non-capital-raiser firms in terms of their variety of disclosure of intangibles is statistically significant. Capital-raiser firms also disclosed a higher amount of intangibles. On average, capital-raiser firms recorded 54 disclosures per annual report whereas non-capital-raiser firms recorded 41 disclosures. The Mann-Whitney U test indicates that the difference between capital-raiser and non-capital-raiser firms in terms of their extent of intangibles disclosure is also statistically significant.

TABLE II: Descriptive Statistics: Types and Extent of Disclosure

Descriptive Statistics	Capital-raiser firms	Non-capital-raiser firms
Mean of intangible item disclosed	9.40	5.17*
SD	3.047	2.601
Minimum number of intangible item disclosed	4	1
Maximum number of intangible item disclosed	17	11
Mean of extent of disclosure	53.77	41.43**
Standard deviation	37.00	38.439
Minimum extent of disclosure	11	2
Maximum extent of disclosure	194	147

*****Difference is significant, p= 0.000
******Difference is significant, p= 0.035

Based on the results tabulated in Table III, the Mann-Whitney U test indicates that the difference between capital-raiser and non-capital-raiser firms is statistically significant. This significant difference is contributed by quantitative disclosures and emphasis through positioning of information as presented in Table IV and V. This means that capital-raiser firms provide significantly higher quantitative disclosures and provide more emphasis of information through positoning compared to their non-capital-raiser counterparts and the difference is statistically significant.

TABLE III: DESCRIPTIVE STATISTICS: INTENSITY OF DISCLOSURE

Descriptive statistics	Capital-raiser firms	Non-capital-raiser firms
Mean of intensity scores	20.53	15.33*
Standard Deviation	19.364	22.035
Minimum intensity scores	3	0
Maximum intensity scores	104	113

*Difference is significant, *p*=0.037

TABLE IV: QUANTITATIVE DISCLOSURES IN ANNUAL REPORTS

Descriptive statistics	Capital-raiser firms	Non-capital-raiser firms
Mean of quantitative scores	6.77	5.27*
Standard deviation	5.23	8.296
Minimum quantitative scores	0	0
Maximum quantitative scores	21	34

*Difference is significant, *p*=0.017

TABLE V: EMPHASIS THROUGH HEADLINES AND SPECIAL CHARACTERS IN ANNUAL REPORTS

Descriptive statistics	Capital-raiser firms	Non-capital-raiser firms
Mean of emphasis scores	8.50	6.80*
Standard deviation	9.31	9.426
Minimum emphasis scores	0	0
Maximum emphasis scores	48	1

*Difference is significant, p=0.055

V. CONCLUSION

In general, the disclosure in narrative sections of annual reports contains pictures, images and information in special characters besides information in plain text. In signalling intangibles information, Malaysia's capital-raiser firms utilised strong signals such quantitative information and positioning of information to emphasise the existence and the potential of their intangibles. This study's results agree with the argument in the literature that the financial reporting framework is rather irrelevant to today's business structure because it lacks relevance in providing sufficient information especially on intangibles. The findings from this study support the proposition that firms competing for funds not only make use of voluntary disclosure but also provide a wide variety of voluntary information[40]. It appears capital-raiser firms provide a significantly greater variety, a higher amount of intangibles and more intense information in their annual reports prior to equity-offerings activity. Future studies could be conducted from users' and managers' perspectives. Future research could examine voluntary disclosure made by firms to explore its impact on users such as financial analysts.

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