Brand Value Determination of Malaysian Public Companies

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ABSTRACT

In recent years, corporate branding has become a significant issue in both industry as well as in academia. For a brand driven business, brand is estimated to be 50% to 70% of the total value of the intangible assets. According to Brand Finance (2015). Intangible assets play a significant part in enterprise value generation. Zimmerman et. al. (2001) stated that brands were recognized as valuable assets and also play an important role for customers in the sense of communication and identification. Several other literatures indicated that corporate brand value is an essential element of an enterprise; higher corporate brand value creates an attractive brand. Kotler and Armstrong (2013) stated highly valuable brands provide their companies with a certain degree of protection in fierce price competition. A high-value brand leads to higher turnover, higher profit and surplus to consumer utility. Branded products are known to be associated with higher profit margins, growth opportunities and less customer price sensitivity. However, the study on brand value is quite limited in Malaysian context. Hence, this conceptual paper is prepared to explore the brand value determination of Malaysian Public Companies.

Keywords: Brand Value, Malaysia, Public Companies

INTRODUCTION

In recent years, corporate branding has become a significant issue in both industry as well as in academia. According to (Skalický, 2016), Brand is among important intangible asset of the business. For a brand driven business, brand is estimated to be 50% to 70% of the total value of the intangible assets. Intangible assets play a significant part in enterprise value generation (Brand Finance, 2015). Once established in the market, a brand becomes an asset for the company because of the value it commands. According to Zimmerman et. al. (2001), brands were recognized as valuable assets and also play an important role for customers in the sense of communication and identification.

In order to maintain their competitive advantages, firms are devoted to enhancing corporate brand value (Chang and Chang, 2012). Several other literatures indicated that corporate brand value is an essential element of an enterprise; higher corporate brand value creates an attractive brand (Aaker, 1996; Czellar and Palazzo, 2004; Keller and Aaker, 1992; Kotler, 2003). Kotler and Armstrong (2013) stated highly valuable brands provide their companies with a certain degree of protection in fierce price competition. Haigh (2003) found that a high-value brand leads to “higher turnover, profit and
surplus consumer utility”. Branded products are associated with higher profit margins, growth opportunities and less customer price sensitivity (Hoeffler & Keller 2003).

OVERVIEW OF BRAND VALUE
There are a wide definition of what is brand according to many areas in marketing and accounting. According to Heidi Cohen, a president of a marketing business from heidicohen.com, there are 30 different definitions of brand from various angle. Lisa Buyer of The Buyer Group defined; “Branding is more than a name and symbol. A brand is created and influenced by people, visuals, culture, style, perception, words, messages, PR, opinions, news media and especially social media”. Philip Kotler, a marketing guru defined; A brand is a name, term, sign, symbol or design or a combination of the, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitor.

Kapferer and Keller (2008) respectively defined brand as a fulfilment in customer expectations and consistent customer satisfaction. Wilson (2011), stated that brands are created with intention by their owners, the relationship of patronage and encouraging consumption will occurred. Nine specific benefits which a company will obtain from a strong brand image are premium prices can be obtained, the product will be demanded, competitive brands will be rejected, communications will be more readily accepted, the brand can be built on, customer satisfaction will be improved, the product will be pulled through the distribution network, licensing opportunities can be opened up and the company will be worth more when it is sold. All of the benefits could derive to the higher sales as well as revenue which definitely increasing corporate performance.

Legal name for a brand is trademark and when it identifies or represents a firm, it is called a brand name. The American Marketing Association (2015) defines a brand as “A name, term, design, symbol, or any other feature that identifies one seller’s good or service as distinct from those of other sellers. Dutordoir et.al (2013) stated that brand value has a stronger impact on firm value for firm with larger potential for growth through brand extensions. International Accounting Standard (IAS) 38 defined a brand as an intangible asset which is a non-monetary asset without physical substance and identifiable (either being separable or arising from contractual or other legal rights). From the accumulated definition of brand, it shows that brand is much more valuable than it’s pronounced. A successful brand consistently deliver on their promises, which is how they create brand value.

PROBLEMS AND OBJECTIVES
The number of studies on brand value which related to accounting in Malaysia is limited despite brands importance to the business entity. Another problem is the limited number empirical of study which determine the brand value in Malaysia. Hence this conceptual paper is being prepared to explore the concept of brand value in Malaysia.

SIGNIFICANCE OF THE RESEARCH IN BRAND VALUE
This conceptual paper on brand value aims by shedding light and opening the discussion on the subject of brand value. This paper also could contribute to the existing literature in number of ways either to the academicians, industries or the consultants.

THEORIES IN THE STUDY OF BRAND VALUE
Brand Equity
Researchers use brand equity to represent brand value. Aaker (1996) considered brand equity to be the assets and liabilities of a brand name, which may increase or decrease in terms of benefits to
consumers and firms. In the marketing literature, Kepferer and Keller (2004) attempted to define the term “brand equity” as the relationship between customers and brands. Brand equity is a customer/buyer perception of the overall industrial brand image, created through brand associations (Bendixen et al., 2004; Michell et al., 2001). Brand associations can be derived from both tangible and intangible attributes and represent the sources of brand equity (Dacin and Brown, 2006). Accountants tend to define brand equity differently from marketers, with the concept being defined both in terms of the relationship between customer and brand (consumer-oriented definitions), or as something that accrues to the brand owner (company-oriented definitions).

Resource Based View
According to the resource based view approach, a firm maintains and achieve a sustainable comparative advantage and earn superior profits by owning or controlling tangible as well as intangible strategic assets. Petera (1993) elucidates the underlying economics of the resource-based view of competitive advantage and integrates existing perspectives into a parsimonious model of resources and firm performance. According to Wright et al (2001), The resource-based view (RBV) of the firm has influenced the company performance in terms of brand value.

BRAND VALUE LITERATURES
Enterprise Value and Intangible Asset
The total enterprise value of corporate in Malaysia is divided into four components. The components are comprised of Tangible Net Assets (tangible net assets is added to investments, working capital and other net assets)), Disclosed Goodwill (disclosed on balance sheet as a result of acquisitions), Disclosed Intangible Assets (intangible assets disclosed on balance sheet including trademarks and licences) and Undisclosed Value (the difference between the market and book value of shareholders’ equity and often referred to as the premium book value).

Intangible assets play a significant part in enterprise value generation. According to Brand Finance (2015), 52% of global market value is vested in intangible assets. Brand Finance also reported that Malaysia’s intangible assets increased by US$12 billion in 2014. By the end of 2014, total enterprise value of Malaysia increased to US$471 billion and the intangibles assets value made up 39% of enterprise value. Global Intangible Finance Tracker (GIFT) reported in 2015 that the Enterprise Value (EV) of the companies covered has increased by $40.3 trillion in since the end of 2001: of that increase, $22.2 trillion has been an increase in Net Tangible Assets, $7.7 trillion an increase in disclosed intangible assets (including goodwill) and $10.5 trillion an increase in ‘undisclosed’ value.

“Undisclosed intangible asset” is usually more valuable than the disclosed intangibles (Brand Finance, 2015). The category includes ‘internally generated goodwill’, and it accounts for the difference between the fair market value of a business and the value of its identifiable tangible and intangible assets. Current accounting practice does not allow for internally generated brands to be disclosed on a balance sheet as under current IFRS only the value of acquired brands can be recognized. According to Malaysian Financial Reporting Standard (FRS) 138, the definition of an intangible asset requires it to be identifiability, control and future economic benefits.

Identifiability
An identifiable asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods and services, for rental to others, or for administrative purposes’. An intangible fixed assets must be separately identifiable so that they can be clearly distinguished from goodwill. Goodwill arising from enterprise merger of repurchase character is shown with a payment made by the asset purchaser in order so as to possible obtain future
economics benefits. An intangible fixed asset is considered identifiable when the enterprises may lease, sell or exchange it or acquire concrete future economics benefits therefrom. Those assets which can only generate future economic benefits when combined with other assets shall be still seen as separately identifiable if the enterprises can determine with certainly future economic benefits to be brought about by such assets.

**Control**

An enterprise is in control of an asset if it has the right to acquire future economic benefits yielded by such asset and at the same time, is able to limit other subject access to these benefits. The enterprise’s controllability of future economic benefits from intangible fixed assets, often derives from legal rights. Market knowledge and expertise may bring about future economic benefits. The enterprise may control these benefits if they have legal right.

**Future Economic Benefits**

Future economic benefits yielded by intangible fixed assets for the enterprises may include: Turnover increase, saved cost, or others benefits originating from the use of intangible fixed assets. The enterprises must determine the degree of certainty to acquire future economic benefits through using reasonable and grounded assumptions on the economic conditions which will exist throughout the useful life of the assets. Intangible fixed assets must have their initial value determined according to their historical cost. With reference to FRS 138, a corporate brand has to fulfilled the three requirements as mentioned.

**Importance of Brand**

There are many literatures focussing on the crucial importance of brand as a key role in all types of corporations in developing their profitability and financial competitiveness. In fact corporate brands are associated with the concepts of company reputation and image (Foreman and Argenti, 2005; Balmer, 2001). Brand reflects the corporate identity. Corporate brand is to reflect the “reality” corporations in the minds of stakeholders: what comes to stakeholders’ minds when they see or hear the corporate name or logo. In this context, company can differentiate itself in the minds of all its stakeholders through their interactions with the company. Consequently, it makes organizations visible and notable (Balmer and Gray, 2003). Therefore, the brand concept should be considered in terms of building relationships with customers. The relationship process can generate cognitive benefits as well as positive affect and emotions that result in a bond between the brand and the consumer: the brand triggers a positive emotion in the consumer, since a positive emotion increases the possibility that the consumer actually uses the brand (Wu and Wang, 2011).

**International Standard on Brand Valuation**

In 2007, the International Organisation for Standardisation (ISO), the worldwide federation of national standard setting bodies, set up a task force to draft an International Standard (IS) on monetary brand valuation. After 4 years of discussion and deliberation ISO 10668 (Monetary Brand Valuation) was released in 2010. This sets out the principles, which should be adopted when valuing any brand.

Under ISO 10668 the brand valuer must declare the purpose of the valuation as this affects the premise or basis of value, the valuation assumptions used and the ultimate valuation opinion, all which need to be transparent to a user of final brand valuation report. ISO 10668 is a “meta standard” which succinctly specifies the principles to be followed and the types of work to be conducted in any brand valuation. It is a summary of existing best practice and intentionally avoids detailed methodological work steps and requirements. As such, ISO 10668 applies to all proprietary and non-proprietary brand valuation approaches and methodologies that have been developed over the years, so long as they follow the fundamental principles specified in the meta standard. ISO 10668 specifies
that when conducting a brand valuation the brand valuer must conduct 3 types of analysis before passing an opinion on the brand’s value.

These are Legal, Behavioural and Financial analysis. All three types of analysis are required to arrive at a thorough brand valuation opinion. This requirement applies to valuations of existing brands, new brands and extended brands.

**Legal Analysis**
The first requirement is to define what is meant by ‘brand’ and which intangible assets should be included in the brand valuation opinion. ISO 10668 begins by defining Trademarks in conventional terms but it also refers to other Intangible Assets (IA) including Intellectual Property Right (IPR) which are often included in a broader definition of “brand”.

International Financial Reporting Standard (IFRS) specifies how all acquired assets should be defined, valued and accounted for post-acquisition. It refers to five specific IA types which can be separated from residual Goodwill arising on acquisition. These are, technological, customer, contractual, artistic and marketing related IA.

**Behavioural Analysis**
The second requirement when valuing brands under ISO 10668 is a thorough behavioural analysis. The brand valuer must understand and form an opinion on likely stakeholder behaviour on each of the geographical, product and customer segments in which the subject brand operates. To do this, it is necessary to understand:

- Market size and trends
- Contribution in of brand to the purchase decision.
- Attitude of all stakeholder groups to the brand.
- All economic benefits conferred on the branded business by the brand.
- All economic benefits conferred on the branded business by the brand.

**Financial Analysis**
The third requirement when valuing brands under ISO 10668 is a thorough financial analysis. ISO 10668 specifies three alternative brand valuation approaches – the Market, Cost and Income Approaches. The purpose of the brand valuation, the premise or basis of value and the characteristics of the subject brand dictate which primary approach should be used to calculate its value.
ACCOUNTING TREATMENT FOR BRAND
There are three options for treatment of brand by accounting profession. Brand value may recognized in the balance sheet or ignore the brand value in the financial statements and lastly disclose the brand value in footnotes or in a separate document. The most explicit way to account for brands would be to value them at inception and record them on the balance sheet. Every year, brands would be revalue. Balance sheet values would be adjusted to account for any increases or decreases in value, assuming that it is efficient and cost effective to do so.

Some corporations choose to keep the standards the way they have always been – to ignore brand values. They choose to ignore the ambiguity of brand valuation and leave valuation to economists, financial analysts and marketers. Treating brands the same way as other intangibles would keep consistency in rule making and minimize confusion for financial statement users. A compromise between recognizing brands on the balance sheet and not recording them at all would be to require a report of brand values on the annual reports of companies, separate from the balance sheet. Companies would designate a value to their brands; then, auditors would check the procedures used to value the brands.

There are guideline for accountants which is the third option disclosure of brand value in footnotes or in a separate report should be implemented and with the changing business landscape and a greater emphasis on brand value, it is important that brand be noted somewhere on the financial statements so the public can view its value.

There are also several brand consultancy companies which provide brand value estimation such as Interbrand, Millward Brown and Brand Finance. For this study Interbrand brand value is being chosen as Interbrand estimates have a more direct link with predicted cash flows and are therefore likely to be more easily interpretable by investors (Dutordoir, 2012).
**Brand Finance**

**Global 500 – Full Table**

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<thead>
<tr>
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<td>2</td>
<td>Google</td>
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<td>United States</td>
<td>109,470</td>
<td>24%</td>
<td>88,173</td>
<td>AAA+</td>
<td>AAA+</td>
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<td>145,918</td>
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<td>AAA</td>
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<td>Samsung Group</td>
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<td>South Korea</td>
<td>66,219</td>
<td>13%</td>
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<td>7</td>
<td>5</td>
<td>Verzon</td>
<td>Telecoms</td>
<td>United States</td>
<td>65,875</td>
<td>4%</td>
<td>63,116</td>
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<td>8</td>
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<td>Walmart</td>
<td>Retail</td>
<td>United States</td>
<td>62,211</td>
<td>16%</td>
<td>53,657</td>
<td>AAA+</td>
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<td>9</td>
<td>17</td>
<td>Facebook</td>
<td>Technology</td>
<td>United States</td>
<td>61,998</td>
<td>82%</td>
<td>34,002</td>
<td>AAA</td>
<td>AA+</td>
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<td>10</td>
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<td>ICBC</td>
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<td>China</td>
<td>47,832</td>
<td>32%</td>
<td>36,334</td>
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Source: Brand Finance (2017)

**Malaysia**

**Top 100 Brands 2016**

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<tr>
<th>Rank 2016</th>
<th>Rank 2015</th>
<th>Brand name</th>
<th>Brand value (US$) 2016</th>
<th>% change</th>
<th>Brand value (US$) 2015</th>
<th>Brand rating 2016</th>
<th>Brand rating 2015</th>
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<td>Petronas</td>
<td>10,024</td>
<td>13%</td>
<td>9,479</td>
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<td>Genting</td>
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<td>25%</td>
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<td>Maybank</td>
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<td>12%</td>
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<td>AA+</td>
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<td>YTL</td>
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<td>AAA-</td>
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<td>6</td>
<td>Sime Darby</td>
<td>1,639</td>
<td>10%</td>
<td>1,699</td>
<td>AA-</td>
<td>AA-</td>
</tr>
<tr>
<td>7</td>
<td>8</td>
<td>Tenaga Nasional</td>
<td>1,187</td>
<td>6%</td>
<td>1,244</td>
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<td>AA</td>
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<td>8</td>
<td>10</td>
<td>TM</td>
<td>1,101</td>
<td>16%</td>
<td>1,094</td>
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<tr>
<td>9</td>
<td>11</td>
<td>Public Bank</td>
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<td>6%</td>
<td>1,063</td>
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<tr>
<td>10</td>
<td>7</td>
<td>Maxis</td>
<td>1,080</td>
<td>8%</td>
<td>1,315</td>
<td>AA+</td>
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Source: Brand Finance (2016)

**CONCLUSION AND FUTURE STUDIES**

The future studies should explore the relationship or impact of other factors towards brand value such as the impact of Management Style, Demography, Corporate Social Responsibilities (CSR) and others.

**References**


Brand Finance, www.brandfinance.com


