THE DETERMINANTS OF R&D INTENSITY:
IN CASE OF MALAYSIA

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THE DETERMINANTS OF R&D INTENSITY: EVIDENCE FROM MALAYSIA

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DECLARATION OF ORIGINALITY

DECLARATION

I hereby declare that the work in this assignment is my own except for quotation and summaries which have been duly acknowledged.

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ABSTRACT

This paper examines the determinants of R&D spending in Malaysia. The study aims to investigate whether variables such as profitability, leverage, growth and director ownership influence R&D. Analysis of 30 companies from technology industry in ACE Market was selected. Descriptive analysis and linear regression analysis are performed in this study. By using the regression model, only two variables can be concluded as factors influencing the R&D which are profitability and leverage. Growth and director ownership are not significant in explaining the firms’ decisions on R&D expenditure.
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LIST OF ABBREVIATIONS

CEOs Chief Executive Officers
DCs Domestic corporations
EBITDA earnings before interest, tax, depreciation and amortization expenses
et.al (et alia); and others
FRS Financial Reporting Statement
GERD Gross expenditure on R&D
IAS International Accounting Standards
i.e. (id est); that is
MASB Malaysian Accounting Standard Board
MASTIC Malaysian Science and Technology Info Centre
MNCs Multinational Companies
MTBV Market to Book Value
NIE Newly Industrializing Economies
OECD Organization for Economic Co-operation Development
OLS Ordinary Least Squares
PLCs Public Listed Companies
R&D Research and Development
SPSS Statistical Package for the Social Science
VIF Variance Inflation Factors
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Research and development (hereafter R&D) is essential for the advancement of future performance of company and wealth creation through the development of intellectual properties and technologies (Nor, Saleh, Jaffar and Shukor, 2010). To remain competitive, companies are required to invest a certain amount of capital to attract the attention of new investors and customers by focusing on their unique and innovation. Companies with the greatest propensity for R&D can overcome the internal and external factors such as shorter product life cycles, intense competition and increase shareholders wealth. Therefore, the management of companies will determine the appropriate accounting treatment for R&D in order to show their best performance in increasing the value of companies.

The accounting treatment for R&D is discussed under FRS 138- Intangible Assets. Paragraph 54 of this standard state that no recognition for intangible assets arising from research phase, therefore, the cost shall be expensed in the income statement when they are incurred. For development cost, as stated by paragraph 57, the recognition for intangible asset only if an entity can demonstrate the following: (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (b) its intention to complete the intangible asset and use or sell it; (c) its ability to use or sell the intangible asset; (d) how the intangible asset will generate probable future economic benefits; (e) the availability of adequate technical,
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