THE DETERMINANTS OF THE PROFITABILITY
OF MALAYSIAN PUBLIC LISTED COMPANIES

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Declaration

I declare that the substance of this research paper has never been submitted for any degree or postgraduate program and qualifications.

I certify the all the support and assistance received in preparing this research paper and the entire source abstracted have been acknowledged in this stated research paper.

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Abstract

This study explores the determinants of public listed companies’ profitability in Malaysia during the financial crisis period in 2008. Return on assets (ROA) is used as a measurement for company profitability while for independent variables, the company specifics determinants (internal factor) and macroeconomic determinant (external factor) are used to determine the company profitability. The company specific determinants are size, liquidity, leverage, and sales growth while for macroeconomic determinant, gross domestic product (GDP) is used. This study utilizes a sample of 161 companies listed in Bursa Malaysia for over the period 2001-2012. All sectors are included in this sample except financial sector because their nature of reporting business is different from the ordinary sectors. The data are analyzed using Ordinary Least Squares (OLS) and fixed effects estimation. The findings show that leverage has a negative and significant relationship with the ROA, implying that companies that have low debt ratio will have higher profit. On the other hand, size, liquidity, and sales growth have a positive and significant relationship with the ROA, indicating that, bigger size companies, highly liquid companies, and companies that able to generate higher sales will have more profits. As for macroeconomic determinant GDP and 2008 dummy are not significant, indicating that the profitability of Malaysian public listed companies is not affected by the economic condition and 2008 global financial crisis.

Keyword: firm specific determinants, GDP, global financial crisis, company profitability, ROA.

Keyword: determinan spesifik perusahaan, GDP, krisis keuangan global, profitabilitas perusahaan, ROA.
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CHAPTER 1
INTRODUCTION

1.1 Background of the Study

Finance theory outlining that the ultimate goal of a company is to maximize shareholder wealth (Jensen, 2002); this is because shareholders provide funds to the company. In this respect, shareholder wealth is measured by multiplying the stock price per share and number of shares outstanding. This means that the shareholder wealth will be reflected in the value of the company, which is indicated by the relevant company's share price on the stock exchange. Shareholder wealth maximization as the goal of the company will facilitate the measurement of the performance of a company. If the stock price of a company shows an increasing trend in the long run, it indicates that the company performance is good.

Besides stock market price, shareholders usually see the company’s success by its financial condition and financial performance. The common questions asked by the shareholders are; is management generating adequate profits on the company’s assets? How does the company finance its assets? In this respect, Van and Wachowicz (2008) highlight that profitability ratio is a popular measurement of the efficiency of the company’s performance.

In previous study, the most common measurement used to evaluate company’s profitability is return on assets (ROA). The higher the ratio of net income to total assets means the better the company performance (Goddard et al., 2005). In previous literature on determinants of company performance, several variables are considered to be the determinants of company profitability, namely size of the company, liquidity ratio, leverage ratio, and sales growth (e.g. Shepherd, 1972; Hall and Weiss, 1967;
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References


