THE DETERMINANTS OF THE PROFITABILITY OF MALAYSIAN PUBLIC LISTED COMPANIES

ULFANA NISA ADLINA

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BY

ULFANA NISA ADLINA

813062

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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.

ULFANA NISA ADLINA

813062

Othman Yeop Abdullah
Graduate School of Business
Universiti Utara Malaysia
06010 Sintok
Kedah Darul Aman

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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.

Abstrak

Kajian ini mengkaji penentu keuntungan syarikat tersenarai awam di Malaysia di dalam tempoh krisis kewangan pada tahun 2008. Pulangan atas aset (ROA) digunakan sebagai ukuran untuk keuntungan syarikat manakala bagi pembolehubah bebas, penentu khusus syarikat (faktor dalaman) dan penentu makroekonomi (faktor luaran) digunakan untuk menentukan keuntungan syarikat. Penentu khusus syarikat adalah saiz, kecairan, *leverage*, dan pertumbuhan jualan manakala bagi penentu makroekonomi, keluaran dalam negara kasar (KDNK) digunakan. Kajian ini menggunakan sampel 161 syarikat yang tersenarai di Bursa Malaysia untuk tempoh dari 2001-2012. Sampel ini mengandungi semua sektor kecuali sektor kewangan kerana pelaporan perniagaannya adalah berbeza daripada sektor biasa. Data yang diperoleh dianalisis menggunakan *Ordinary Least Squares (OLS*) dan kesan anggaran tetap *(fixed effects).* Dapatan kajian menunjukkan bahawa *leverage* mempunyai hubungan yang negatif dan signifikan dengan ROA, membayangkan bahawa syarikat-syarikat yang mempunyai nisbah hutang yang rendah akan mempunyai keuntungan yang lebih tinggi. Sebaliknya, saiz, kecairan, dan pertumbuhan jualan mempunyai hubungan yang positif dan signifikan dengan ROA, yang menunjukkan bahawa, syarikat-syarikat yang mempunyai saiz yang lebih besar, mempunyai kecairan tinggi, dan syarikat-syarikat yang mampu menghasilkan jualan yang lebih tinggi akan mempunyai lebih banyak keuntungan. Bagi penentu makroekonomi, KDNK dan pembolehubah 2008 adalah tidak signifikan, menunjukkan bahawa keuntungan syarikat-syarikat tersenarai awam Malaysia tidak terjejas oleh keadaan ekonomi dan 2008 krisis kewangan global.

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

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CHAPTER 1

INTRODUCTION

1.1 Background ofthe 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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