THE EFFECT LEVERAGE, LIQUIDITY AND PROFITABILITY ON THE COMPANIES PERFORMANCE IN MALAYSIA

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Abstract: This *study investigates the dynamic relationships amongst the liquidity, leverage, and profitability with company performance in Malaysia. A sample of this study from the 21 companies covered the period from 2010 to 2014 (5 years) from Bursa Malaysia. This paper analyzed by using correlation and regression in SPSS. There are two (2) methods of analysis are picked to evaluate the results, consists of correlation model and regression model. The empirical results show that profitability has the strongest impact on company's performance and liquidity and leverage a significant impact on the company performance. The correlation results show the liquidity, leverage, and profitability are having a strong relationship with company performance. Recommendation to use more samples of companies and use quarterly data to get accurate result regarding the effect of Initial Public Offering (IPO) on company performance in Malaysia.*

**Keywords**: *Liquidity, leverage, profitability*

Introduction

This paper will analyze the relationship between Initial Public Offering (IPO) and the company performance in Malaysia. IPO is the first sales of company's share or stock to the public, the company can decide to issue stock for a number of reason including to allow employee and owner to liquidate some of the shares and to increase the capital needs to operate the company. This paper will analyze the relationship between Initial Public Offering (IPO) and the company performance in Malaysia. IPO is the first sales of company's share or stock to the public, this process has been conducted by listing the shares on a stock exchange. Besides that, IPO also known as the public offering, this is because rather than sale the share to the large investor the share will be sold to the general public. The company can decide to issue stock for a number of reason including to allow employee and owner to liquidate some of the shares. The other reason that the company issue the IPO is because if a firm or company become larger and more successful, the capital needs to operate the company will increase.

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For many company or firm, IPO has been used widely in Malaysia because there are many advantages. The first advantage is the IPO will help the company to raise their capital by selling the shares to the public. Besides, during the public offering process, the company can generate or increase their publicity in the country and abroad. The other advantage is the owner of the firm has the ability to cash in the money according to on their success by attaching a market value to their holdings. Qasim (2011) found that a significant impact of liquidity on company performance. John (2013) revealed that liquidity positively affects the financial performance of non-financial companies listed on the Nairobi Stock Exchange (NSE). According to Maria, (2014) showed that leverage has a positive relationship with Return on Assets (ROA) in Nigeria pharmaceutical industry. Kuria, (2014), Akinmulegun (2012) found that leverage significantly affects corporate performance in Nigeria. The profitability variables like ROA, ROE, and return on sales (ROS) has the positive impact on company performance Vinayagamoorthi, (2015). Based on the discussion, there is a problem to understanding how and why initial public offering (IPO) have an impact on the company performance through leverage, liquidity, and profitability. The study might improve a knowledge help to provide better comprehension on the impact of the IPO toward the company performance.

Methodology

A sample of this study from 21 companies, which covered the period from 2010 to 2014 and sources of data from Bursa Malaysia.

Data Sources
- Bursa Malaysia

Yearly Basis
(5 years)
21 companies

SPSS
- Regression
- Correlation
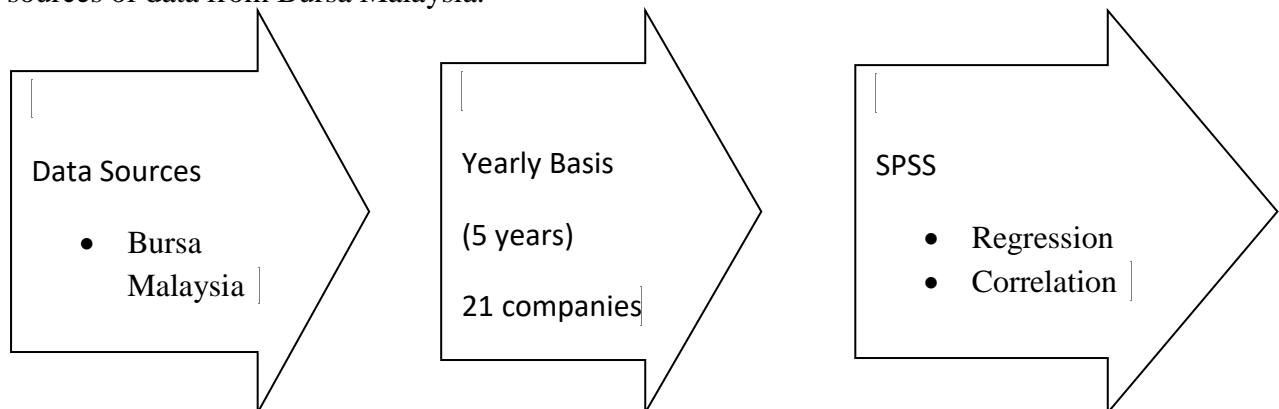
<u>**Dependent Variable**</u>

Company Performance (ROA)

For company performance, Return on assets (ROA) act as an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment".

Return on asset is expressed as a percentage and calculated as:

Return on asset (ROA) = = net income/total asset

Independent Variable

Liquidity

Liquidity is a class of financial metrics that is used to determine a company's ability to pay off its short-term debts obligations. Usually, if the value of the ratio is higher, the larger the margin of safety that the company possesses to cover short-term debts. The Common ratios that have been used to calculate liquidity include the current ratio and the quick ratio. For this research, the current ratio will be used to calculate liquidity.

The current ratio is calculated as:

Current Ratio = Current asset / Current liability

Profitability Ratio

A class of financial metrics that are used to assess a business's ability to generate earnings or also known as profit as compared to its expenses and other relevant costs incurred during a specific period of time. The Example of profitability ratio is Return On Equity (ROE). ROE is used to measure company's profitability by revealing how much profit a company generates with the money shareholders has invested.

Return on equity is expressed as a percentage and calculated as:

Return on Equity = Net Income / Shareholder's Equity

Leverage

In leverage, the Debt Ratio will be used to measure the extent of a company's or consumer's leverage. The debt ratio is defined as the ratio of total long-term and short-term debt to total assets.

The debt ratio is expressed and calculated as:

Debt ratio = Total Debt / Total asset

Regression analysis is given of the following examples
$$Y = \alpha_0 + \beta_1 Li + \beta_2 L + \beta_3 P + \varepsilon$$
Where:-
Y = Dependent Variable
α = Constant Value
β = Regression coefficient
Li = liquidity
L = Leverage
P = Profitability
ε = the regression residual

Result and Discussion

Table 01. Correlation

Correlations

		ROA	CurrentRatio	ROE	DebtRatio
ROA	Pearson Correlation	1	.282**	.872**	-.282**
	Sig. (2-tailed)		.004	.000	.004
	N	105	105	105	105
CurrentRatio	Pearson Correlation	.282**	1	.228*	.069
	Sig. (2-tailed)	.004		.019	.482
	N	105	105	105	105
ROE	Pearson Correlation	.872**	.228*	1	-.220*
	Sig. (2-tailed)	.000	.019		.024
	N	105	105	105	105
DebtRatio	Pearson Correlation	-.282**	.069	-.220*	1
	Sig. (2-tailed)	.004	.482	.024	
	N	105	105	105	105

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

The result indicates that ROE has the strongest impact on company's performance with magnitude 0.0872, Current ratio and Debt Ratio have the significant impact on company performance with magnitude 0.282 and -0.282.

Table 02. Regression analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.067	1.113		2.755	.007
	CurrentRatio	.041	.019	.102	2.096	.039
	ROE	.599	.036	.825	16.668	.000
	DebtRatio	-5.618	2.516	-.108	-2.233	.028

a. Dependent Variable: ROA

Table 02 shows Current ratio (Profitability) have the t-value 2.096, which is a positive relationship. Return on equity (ROE) as a liquidity showed the t-value 16.668 is a positive relationship. Support by (2012). Debt (leverage) showed t-value of the debt ratio -2.233 have a negative relationship with companies' performance

3 Regression Table

Table. 03 Regression analysis (model summary) for macroeconomic variables and housing loan

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.883[a]	.779	.772	5.2485196

a. Predictors: (Constant), Debt Ratio, Current Ratio, ROE

Table 03 shows that the variable is 77.2% depend of each other. It is implying collectively that the determining variables have a significant effect on companies' performance.

4. ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9808.451	3	3269.484	118.688	.000[b]
	Residual	2782.243	101	27.547		
	Total	12590.694	104			

a. Dependent Variable: ROA
b. Predictors: (Constant), DebtRatio, CurrentRatio, ROE

Table 04 shows that the significance value is 0.000 which is less than 0.05 thus the model is statistical significance in predicting how liquidity, leverage, and Profitability are effects n performance of companies.

Conclusion

Based on the finding analysis, the entire hypothesis on the three independent variables is accepted. In term of liquidity, which is represented by a Current ratio, the finding found that the liquidity has significant relationship and impact on the company performance this result is supported by the previous studies by Qasim (2011) stated that the Liquidity has a significant impact on firm performance. Therefore, both hypothesis, which is (H1) and (H2), is accepted.

Regarding the second variable which is the leverage that had been represented by the Debt ratio, the result indicates that leverage has a sign in both impact and relationship with the company performance this result is supported by Akinmulegun (2012). Therefore, both hypothesis which is (H1) and (H2) is accepted.

For the third variable, in term of Profitability, it is expressed and calculated as Return on equity (ROE). the result indicates that Profitability has a significant relationship and impact on the company performance this result is supported by the previous studies by Vinayagamoorthi, (2015) stated that the Profitability has a significant impact on firm performance. Therefore, both hypothesis, which is (H1) and (H2), is accepted.

Table 05: Summary of Results of relationship between liquidity, leverage and profitability with company performance

Variables	Result	Supported Journal
Liquidity	Significant relationship with company performance	Qasim (2011)
Leverage	Significant relationship with company performance	Akinmulegun (2012)
Profitability	Significant relationship with company performance	Vinayagamoorthi, (2015)

As mentioned in this chapter there were several limitations identified through this research. The first point that we want to highlight here is on the data from the Bursa Malaysia, at first there are 29 companies that will be used as a sample for this research but some of the companies are amended and there is no data available regarding both the dependent variable and independent variable. However, there are 21 companies that have a complete data regarding both the variable for the 5 consecutive years from 2010 to 2014.

It is a big challenge for to get the data for the Return on asset (ROA), Current ratio, Debt ratio and Return on equity (ROE) because Bursa Malaysia a cannot provide data for the entire variable. For example, I have to find and calculate by myself for the debt ratio.

Notwithstanding these limitations, there are several recommendations for future study is to increase the number of data by increasing the number of companies as a sample for the research and increase the yearly basis to more than 10 years. Furthermore, large samples of companies are used to gain a better accuracy and significant level of the company's performance. Another recommendation for future investigation is to use quarterly bases if possible, by using the quarterly bases the more accurate result can be produced to increase the understanding regarding the effect of Initial Public Offering (IPO) on company performance quote in Bursa Malaysia.

In addition, for the future research is to consider using other variables that might affect the company performance from other past literature that not yet be taken to examine the level of company performance and also new variables that need to be explore in as it might have a better result for the study and gain the better understanding of other people.

Moreover, more research needs to be done to overcome of lack of information and resources more future study should be done for this scope of topic so that more information and resources are available to the researcher to refer and who wants to conduct this topic or within this scope of the field.

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