THE STUDY AND ANALYSIS ON THE SIGNIFICANT RELATIONSHIP BETWEEN ECONOMIC VARIABLE(GDP, CPI & IR) AND CORPORATE EARNING PERFORMANCE (EPS) ON FINANCE SECTOR LISTED ON KLSE MAIN BOARD FROM 1995 - 2001

PREPARED BY:

SHARIFAH ROZIAH BINTI WAN BUJANG

99534867

PREPARED FOR:

ENCIK JAAFAR PYEMAN

BACHELOR OF BUSINESS ADMINISTRATION WITH
HONOURS (FINANCE)
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITY TEKNOLOGI MARA
KOTA SAMARAHAN

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ABSTRACT.

Investors either individual or institutional are concerned very much with the corporate earning performance for investment decision. This is especially true for those who invest based on fundamental analysis technique. Corporate earning performance is one of the basis information or data that will be analyse when doing fundamental analysis of a company.

This study is trying to determine and analyse the corporate earning performance of the company listed in KLSE main board in finance sector for the period of 1995 to 2001. Two models has been selected to test and analyze this study which are (1) multiple regression analysis and (2) t-test statistic with hypothesis testing.

The focus of this study is on the external factor which are GDP, CPI and IR as the independent variables which are beyond the control of the company. The company only have the ability to adjust and adapt themselves with the changes of these variables. The corporate earning performance which is the Earning Per Share (EPS) is used as the dependent variables. Thus, the limitations in this study is that it focus only on three economic variables (GDP, CPI & IR) as independent variables and one corporate earning performance (EPS) as the dependent variables. Therefore this study recommends to student and researcher to include the internal & non – economics variables in their future study.

1. INTRODUCTION

1.1 Background and scope of study.

Malaysia's growth momentum showed a steady uptrend during the second quarter (2Q) of 2003. Although the services sector (especially tourist related industries and retail trade services) had slowed further arising from the outbreak of SARS (Severe Acute Respiratory Syndrome), the better performance of manufacturing, agriculture and mining sectors had helped raise the overall gross domestic product (GDP) growth in the April-June period to higher than the 4.0% achieved in the first quarter (1Q). Both exports and domestic demand had contributed to the improved performance of major sectors and overall GDP during the April-June period.

In value added terms, the manufacturing sector is estimated to have recorded a faster growth of 6.5% in the April – June period of this year from 5.2% in the preceding quarter. Generally, the increase in manufacturing output was across the board. Output of electrical and electronics (E & E) had also registered an encouraging quarter to quater increase of 5.0% in the April-June period compared with -2.7% in the first three months of this year.

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2. LITERATURE REVIEW

2.1 Measures of Corporate Performance

Researchers in the area of organizational performance have identified various factors that influence corporate performance. Organizational, managerial, leadership and environmental factors have all been found to affect performance (Weiner and Mahoney, 1981).

Researchers in the strategic management field have offered a variety of models for analyzing corporate performance. However, little consensus has emerged on what constitutes a valid set of performance criteria (Lewin and Minton 1986). For instance, researchers have suggested that studies on corporate performance should include multiple criteria analysis (Cameron and Hitt, 1988). This multidimensional view of performance implies that different models and patterns of relationship between corporate performance and its determinants will emerge to demonstrate the various sets of relationship between the dependent and the independent variables in different models specified (Ostroff and Schmitt,1993).

(Thomas C Kinnear and James R 1991) have indicated that there are numerous measures of corporate performance that could serve as dependant variables. However, more important than the specific measure chosen is the use made of multiple measures, because different criteria o performance are likely to be differentially accepted by the various independent variables (Lieberson and O'Connor,1972).