



**THE RELATIONSHIP BETWEEN LEVEL OF
DIVERSIFICATION AND PERFORMANCE OF
70 KLCI COMPANIES IN BURSA MALAYSIA**

**MAZLINA BINTI MAHMUD
2005808938**

**Submitted in Partial Fulfillment
of the Requirement for the
Bachelor of Business Administration
(Hons) Finance**

**FACULTY OF BUSINESS MANAGEMENT
UITM, JOHOR**

OCTOBER 2007

ACKNOWLEDGEMENT

Alhamdulillah, all praise to the ALLAH s.w.t, the most merciful and most benevolent for giving me the strength and help in completing this research. Here, I would like to take this opportunity to present my special thanks and appreciation to those who directly and indirectly involved and give their moral support in the accomplishment of this project paper.

First of all, this deepest and greatest gratitude goes to my beloved and respected advisor, Mrs.Nor Hazila binti Ismail for her continuous guideline, motivation, moral support and ideas which help me a lot in my research. My special appreciation also goes to Mr. Muhamad Sukor bin Jaafar who gives great commitment and cooperation in accomplishment of this project paper. Without his comments, constructive criticism and encouragements, this research cannot be completed successfully. I also would like to thanks to Prof. Madya Zin bin Ismail for his opinion on the statistical part.

The most important thing, I would like to dedicate this research and my greatest gratitude to my beloved parents for their support, encouragement, understanding and patience throughout the two years of hard work in BBA (Hons) Finance. Lastly, my deepest thanks to all lecturers, staffs and especially to all my friends and everyone who helped me a lot in completing this project paper.

Thank you.

TABLE OF CONTENTS	PAGE
ACKNOWLEDGEMENT	iv
LIST OF TABLES	v
LIST OF DIAGRAM	vi
LIST OF ABBREVIATIONS	vii
ABSTRACT	viii

CHAPTER 1 : INTRODUCTION

1.0	Introduction and background of study	1
1.1	Problem Statement	6
1.2	Objective of Study	8
1.3	Significance of Study	8
1.4	Hypothesis	10
	1.4.1 Hypothesis statement	10
	1.4.1.1 Hypothesis 1	10
1.5	Scope of Study	11
1.6	Limitation of Study	13
	1.6.1 Time constraints	13
	1.6.2 Costly	13
	1.6.3 Reliability and accuracy of data	13
1.7	Definition of Term	14
	1.7.1 Diversification	14
	1.7.2 Level of diversification	14
	1.7.3 Standard Industrial Classification codes	15
	1.7.4 Kuala Lumpur Composite Index	15
	1.7.5 Return On Equity	16
	1.7.6 Return On Asset	16
	1.7.7 Return On Investment	17

CHAPTER 2: LITERATURE REVIEW

2.0	Introduction	18
2.1	Relationship Between Level of Diversification and Performance of Company	22
2.2	SIC codes as determinant for level of diversification	24
2.3	Key variables used in determining performance of company	25

CHAPTER 3: METHODOLOGY

3.0	Introduction	26
3.1	Data collection	27
3.1.1	Journals	27
3.1.2	Data stream at Bursa Malaysia	28
3.1.3	Internet	28
3.1.4	Paper work	28
3.2	Variables and Measurement	29
3.3	Population and Samples	30
3.3.1	Population	30
3.3.2	Sample	30
3.4	Measurement procedures	33
3.5	Hypothesis	36
3.5.1	Hypothesis statement	36
3.5.1.1	Hypothesis 1	36
3.6	Single Regression	37
3.7	Coefficient of Correlation	38
3.8	Coefficient of Determination	38
3.9	F-Test	39
3.10	T-Test	39

CHAPTER 4 : ANALYSIS AND INTERPRETATION OF DATA

4.0	Introduction	40
4.1	Determination the relationship between performances of 70 KLCI companies to level of diversification of each company	41
4.1.1	Model outcome	41
4.1.2	Single Correlation Analysis	42
4.1.3	Level of diversification	45
4.2	Single Regression Linear Equation	46
4.3	Analysis of Hypothesis Finding	46

CHAPTER 5 : CONCLUSIONS AND RECOMMENDATION

5.0	Conclusions	48
5.1	Recommendations	51

BIBLIOGRAPHY	53
APPENDICES	55

ABSTRACT

This paper examines further in studying the relationship between level of diversification and performance of the companies: A study of top 70 KLCI companies listed in BURSA MALAYSIA. These 70 companies consist of ten industries in Malaysia such as trading and services, industrial product, infrastructure, technology, finance, consumer product, plantation, construction, hotels and properties. Standard Industrial Classification (SIC) codes are used in order to measure the level of diversification of these companies. For each industry group, firms were classified as “less diversified” or “more diversified” based on the four digits SIC codes they were operating in. The term of “less diversified” means the firm was operating broadly within the industry and have same most significant digit SIC code. While the term of “more diversified” refer to the company which operating across industries and have different most significant digit SIC code. Most strategy planning is done by managers based on expected future returns measured by parameters like ROA, ROI and ROE. In order to determine the company’s performance, these three parameters (ROA, ROI and ROE) will be use in this extensive research. After that, average return (AR) will be calculated by averaging return on asset (ROA), return on investment (ROI) and return on equity (ROE). The level of diversification affect the performance of company into which industry their operating in. It is very important in this study to determine the level of diversification of each single company and also determine nature of their business.