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FACULTY OF BUSINESS AND MANAGEMENT

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MGT 666

INDUSTRIAL TRAINING REPORT

MALAYSIAN EMPLOYERS FEDERATION

TOPIC: PROFITABILITY DETERMINANTS OF MALAYSIA SERVICE-BASED INDUSTRY

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ROA	Return on Asset
STATA	Statistics Data Analysis

EXECUTIVE SUMMARY

The purpose of this paper is to explore the factors that affect a company's profitability in Malaysia's service-based industry. It has been stated that profitability is the most important element in a company‘s long-term survival. Although profitability is the primary goal of all organizations, a greater focus has been placed on identifying the most crucial aspects that can influence the company's profitability. This study aims to look into the variables that may impact the company's profitability in Malaysia's service-based industry.

This research analyzed two independent variables to determine their relationship towards profitability. These variables are leverage and company efficiency. The data obtained were from Eikon datastream with 14 service sector companies listed in Bursa Malaysia from 2016 until 2020. Leverage was measured by debt ratio, whereas efficiency is measured by asset turnover ratio. As a result, profitability is measured using the proxy of return on assets.

In this study, the most appropriate panel data regression model was a fixed-effect model. Thus, this study reveals that in relation to return on assets, asset turnover ratio has a significant positive relationship. In contrast, it was discovered that the debt ratio is insignificant and has a negative effect on the return on assets.

The outcome of this research may benefit the company of my internship workplace as they can implement the appropriate determinants to increase their company's profitability. Additionally, the study recommends that businesses seek ways to reduce their operating expenses and implement cost-effective strategies to maximize their profitability.

COMPANY'S PROFILE

Malaysian Employers Federation also known as Persekutuan Majikan-Majikan Malaysia, is the central organization of private-sector employers in Malaysia, which was established in 1959. MEF's headquarter office is located at Pusat Dagangan Phileo Damansara II, Selangor. Malaysian Employers Federation serves as a platform for consultation and discussion among members on issues of common interest, and advocates for the adoption of sound principles and practices of human resources and industrial relations.

VISION

To be the premier employers' representative at national, regional and international levels and to be the leader in the development of human resources and the promotion of good employment practices and harmonious industrial relations with a view to achieving national objectives.

MISSION

- To promote the development of excellence in human resource management to enable employers meet current and future business challenges.
- To promote productivity through inter alia harmonious employer/employee relationship.
- To promote and represent the interests of employers at national, regional and international fora.
- To promote and represent the business interests of employers at national, regional and international fora.

OBJECTIVES

- To provide advisory or consultancy services at all levels
- To providing the professional training and related activities through the subsidiary of MEF Academy
- As the representation of members at conciliation and mediation proceedings and at proceedings before the Labour and Industrial Courts

- Advocacy and representation of employers' interests and business needs at national, regional and international fora
- Research and development of best practices in all relevant fields

COMPANY SERVICES

- Human Resources & Industrial Relations

  MEF assists members in more effectively managing their businesses and human resources by promoting best practises in areas such as employer-employee relations, labour laws, wage systems, and other social benefits.
- Workplace Training and Development

  Members can prepare for current and future challenges by enrolling in a comprehensive range of public courses at competitive rates. MEF's training programmes cover the entire spectrum of Industrial Relations, Human Resources Management & Development, and Occupational Safety & Health. They are led by experienced trainers in their respective fields.
- Research and Information

  In August of each year, this department will conduct surveys focusing primarily on salary and fringe benefits for executives and non-executives. The surveys serve as a benchmark for jobs across all industries and provide useful data on weighted averages for specific job categories. Employers and government agencies rely on our surveys to determine the appropriate compensation for their organisations.
- Occupational Safety & Health

  This is essential for minimising workplace risk. As a result, MEF offers a comprehensive range of safety and health services, including assisting members in developing and improving their safety and health policies, conducting incident analyses, conducting OSH audits, and providing in-house safety and health training.

ORGANIZATIONAL STRUCTURE

EXECUTIVE DIRECTOR
Datuk Hj Shamsuddin Bardan

INDUSTRIAL RELATIONS

GENERAL MANAGER

SENIOR CONSULTANTS

CONSULTANTS

ASSOCIATE CONSULTANT

OCCUPATIONAL SAFETY, HEALTH & ENVIRONMENT

CONSULTANT

RESEARCH & INFORMATION

SENIOR MANAGER

SENIOR RESEARCH ANALYSTS

RESEARCH ANALYSTS

EXECUTIVE ASSISTANTS

EMPLOYER AFFAIRS

SENIOR MANAGER

MEMBERSHIP & PUBLIC RELATIONS

SENIOR MANAGER

MEMBERSHIP & PUBLIC RELATIONS EXECUTIVES

ADMINISTRATION & FINANCE

MANAGER

FINANCE & ADMIN EXECUTIVES

TRAINING'S REFLECTION

My internship period began on 1st March 2021 and ended on 13th August 2021, amounting to six months of training at the Malaysian Employers Federation. The company operates Monday through Friday from 8:30 a.m. to 5:30 a.m.

Throughout my six months of training, I was assigned to the Finance and Administration department. Therefore, there are a lot of things I learned and experienced with the task assign by the employees in the department for me with the position as an intern. Apart from assisting employees with their work, I issue MEF Membership Subscription Invoices and enter key-in the official receipt of payment made by clients on the subscription invoice using SQL systems. Additionally, I assisted them in recording and updating the monthly list of representation invoices through the use of Excel Spreadsheets, as well as preparing and emailing the clients with their updated Statement of Account for the representation invoices.

Along with my internship, I was compensated with monthly allowances of RM500. Besides, there are numerous things that I can value as valuable experiences that I may have while working in a real business setting. Even with the skills I already possessed to contribute to the company, this experience enabled me to enhance my working abilities even further, including my soft skills. I am required to interact with the rest of the company's employees to have good communication with them. Last but not least, this enables me to multitask with the assignments and tasks assigned by the company.

CHAPTER I : INTRODUCTION

1.1 BACKGROUND OF THE STUDY

As the Malaysian Employers Federation is the central organization of private-sector employers in Malaysia, the services provided as the company's main business are providing advisory and consultancy services that represent the members at conciliation and proceedings before the Labour and Industrial Courts. Through best practices, these services will assist members in managing their businesses and human resources more effectively.

This service-based organization faces several challenges nowadays, especially in the era of the competitive labor market. Therefore, the financial decision can be one of the important factors for the business to consider during the operations. Besides, for the firm to maximize their profit and improve the company performance, they need to have a better understanding of the indicator that may affect the company performance.

Therefore, this topic is being conducted as it suits the most to my workplace. Significantly, this time around, almost all of the industries that has been impacted by the pandemic of Covid-19, including Malaysian Employers Federation that have faced the same challenges as well, where this slightly give impact on the company performance as well. As informed by (Kartikasari & Merianti, 2016), the excellent quality of a company depends on how they define the ability to increase company profitability. The measurement can look at internal and external factors that may affect a company profitability.

This study intends to identify the selected independent variables, leverage which is measured by debt ratio, and efficiency that measured by asset turnover ratio, are affecting the company's profitability. These goals aim to be achieved, which are to identify the relationship between debt ratio and return on asset and to examine the relationship between asset turnover ratio and return on asset.

The reason for choosing these two variables is because it is easier to find the data and the collected data is more practical to be applied to my internship place. Besides, there is not enough study covering this sector, as due to the prior research (Imhanzenobe, 2019), most of them had been carried out covering the topic of different sectors. Hence, there are limited studies conducted in Malaysia regarding the profitability determinants of the firm, especially on the service-based industry.

1.2 PROBLEM STATEMENT

A good company will constantly develop new strategies to gain more profitability and be more cautious with the business operation that they run to prevent them from incurred high amount of losses (Atsbeha Berhe & Kaur, 2017). Therefore a company should have future planning to operate their business to gain profit for the company. However, due to the pandemic of Covid-19 that occurred in late 2019, the main activity of the Malaysian Employers Federation cannot be well performed. This mainly includes the training and seminar program conducted by MEF like Digital Human Resources training and Disciplinary Procedures training with the purposes to develop human resources and promotion of good employment practices. The event was usually attended by employees from different companies. The circumstance during this period caused the event to be held online with a limit of events held for a certain period. Profitability determinants are essential for most of the firms, which will contribute as the primary strategy for the economic development as well.

There are many factors that can affect the profitability of a firm. Based on the previous study by (Alarussi & Alhaderi, 2018), this may include, firm size, firm age, leverage, and liquidity. Every firm may have its own factor that will determine the company's profitability. Hence, all these listed factors will have a considerable impact on the profitability of the company to gain maximum profit and reducing the cost of production.

According to the balance sheet statement of the Malaysian Employers Federation's 2019 Annual Report, there is an increment of the total debt by RM 1,286,972, wherein 2018, the amount is recorded as RM 27,173,979, meanwhile, in 2019, the amount was RM 28,460,951. Hence this may increase the uncertainty and risk to the company. As an example, the company should determine the right proportion of debt and equity that can be chosen. This is followed by the trade-off theory, where the debt-financing can actually give tax benefits. However, there will be some bankruptcy cost and financial distress cost.

Poor asset application choices can result in a low asset turnover rate for the company. Thus, improving the financial structure and efficiency of the business will result in a positive transformation in the company's performance, particularly in the context of profitability. By employing these available proxies, the company is able to manage and implement new strategies aimed at improving the company's performance while utilizing available resources.

1.3 OBJECTIVES OF THE STUDY

The main purpose of this study is to investigate the relationship between the firm profitability in Malaysia service based sector that affecting by Debt Ratio and Asset Turnover Ratio. Based on the previous study by (Nanda & Panda, 2017) this is crucial in helping to execute the most significant variables that give impact towards the company performance and to recognize any arising issues as well as to provide the relevant strategies to be implemented.

The objectives are:

1) To examine the relationship between leverage with return on Asset
2) To examine the relationship between efficiency with return on asset
3) To identify the most significant variable that affected the profitability in service based sector

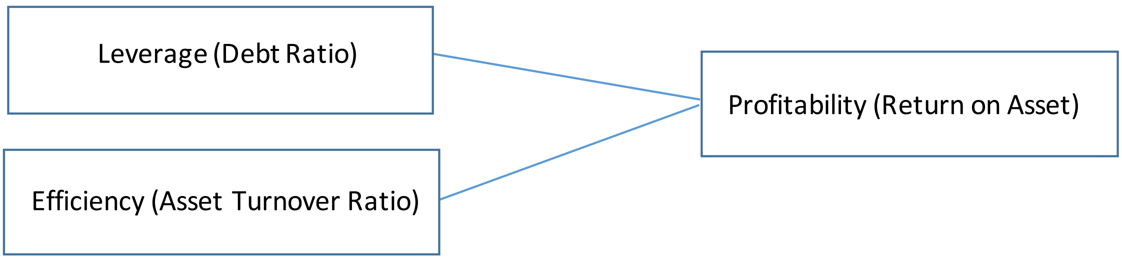
1.4 THEORETICAL FRAMEWORK

1.4.1 DEPENDENT VARIABLE

Dependent variable is the variable that rely on the other factors that are measured. The dependent variable that has been chosen to conduct this study is the company's profitability where it is measured by the Return on Asset.

1.4.2 INDEPENDENT VARIABLES

Independent variable a variable that is being manipulated by dependent variable. The selected independent variables in this study are leverage (debt ratio) and efficiency (asset turnover ratio)



INDEPENDENT VARIABLE **DEPENDENT VARIABLE**

Figure 1.1: The Theoretical Framework

1.5 SCOPE OF STUDY

1.5.1 DEPENDENT VARIABLE AND INDEPENDENT VARIABLES

This study is conducted to give focus towards company financial performance. Profitability is used as the measured of the dependent variable, with the proxy of return on asset. Meanwhile leverage and liquidity are used as the independent variable that measured by debt ratio and asset turnover ratio respectively.

1.5.2 DATA COLLECTION METHOD

This study adopts a quantitative approach where secondary data is used. Data are derived from Eikon with 14 companies selected from service-based sectors.

1.5.3 TIME FRAME

The 5 years range of data has been chosen ranging from year 2016-2020.

1.6 LIMITATION OF STUDY

1.6.1 INFORMATION CONSTRAINT

The difficulties in identifying and to derive the required data and any relevant information that most related to the topics. Besides, the access for the Journal Articles for the referencing purposes are confidential to public which needed the requirement of id and password by purchasing them according to the amount stated.

1.6.2 LACK OF FAMILIARITY AND KNOWLEDGE

It is quite difficult and pretty challenging while in the journey of conducting this study especially this is the first time for the researcher to come out and develop a successful research proposal. As for that, this portray that this study or research can be developed with the broad guidance available.

1.7 SIGNIFICANT OF STUDY

1.7.1 RESERACHER

This study is act as an approach to exposed researchers to the research method skills even though the completion of this study is upon the university requirement to evaluate the academic performance. The unlimited knowledge while applying the interpreting and analyzing skills to run data are such a valuable skill to be learned.

1.7.2 COMPANY

The completion of this study will be beneficial to assist most of the companies in Malaysia especially in the service based industry in improving the company's performance. On top of that, this will allow the manager to be a great decision maker to get a better and favorable decision for the company.

1.7.3 ACADEMICIANS AND PUBLIC

This conducted study will be an advantage to the academicians as well if they are interested in conducting the same research. Besides, this study can extent to be the references for both lecturers and students in obtain the additional information and knowledge. This can also give contribution to the public as an awareness to acknowledge and implement the topic related.

CHAPTER II: LITERATURE REVIEW

In this chapter, the literature review will be focused and discussed on the return on asset, debt ratio and asset turnover ratio where it will be based on the dependent and independent variables.

2.1 PROFITABILITY

The profitability ratio is used to measure a company's ability to create profit over a period of time. It is assumed that the larger the earnings, the higher the profitability that the company will generate over that time (Kartikasari & Merianti, 2016). If there is an excellent combination of sources of financing, the firm's profitability will be enhanced; nevertheless, if it is not effectively managed and handled by the company, it will have a major impact on the organization's profitability (Pratheepan, 2014). Profitability is also measured in terms of the ability to maximize the use of a business's resources. The concept of profitability itself is a commonly used metric to assess a company's growth and the advancement of its business operations in terms of its efficiency and productivity, as well as its overall growth.

Further to that, optimizing profit is a requirement for a business organization if it wishes to maintain and improve its performance (Foyeke, Olusola, n.d.). The return on asset (ROA) is an indicator of a company's profitability. It will illustrate the company's profitability in relation to its total assets. Furthermore, this measure may assist the organization in determining how effective the management is at using assets to generate profits (Ramlan & Bin Nodin, 2018). Profitability is an important element that managers and company managers should take into consideration (Kartikasari & Merianti 2016). Furthermore, numerous researchers from the previous study employed profitability as the dependent variable in determining the company's performance.

2.2 LEVERAGE

The leverage ratio, also known as the solvency ratio, is used to measure the extent of a company's assets financed by debt. Debt can be the source of funding to the company where it needs the concern of company's ability to pay interest and principal if funding through this method. This is due to the fact that the greater the amount of debt held by the corporation, the greater the likelihood that the company will be unable to pay its debts. Furthermore, the greater the proportion of debt, the greater the level of uncertainty regarding the ability to generate returns for shareholders (Kartikasari & Merianti, 2016). It is possible that the use of leverage in a company's business operations will enhance the overall risk of that company. This is because debts can appear to be more expensive, and the increase in the amount of debt in the capital structure may result in a decline in profits (Habib et al., 2016). According to the findings of the study (Habib et al., 2016), there is a statistically significant negative relationship between debt and profitability. Contrary to this, research conducted by Kartikasari and Merianti (2016) demonstrates a positive relationship between debt ratio and company profitability, indicating that the organisation is still capable of managing debt efficiently to generate profits. Meanwhile, Ramlan and Bin Nodin (2018) discovered that the amount of leverage a company has a significant relationship with its profitability. Furthermore, it has been discovered that there is a negative and statistically significant relationship between company leverage and profitability by (Alarussi & Alhaderi, 2018).

2.3 EFFICENCY

The asset turnover ratio can be used to determine the efficiency of a corporation. According to (Irman & Purwati, 2020), by applying this proxy, it is possible to measure the turnover of all assets possessed by a company as well as the sales generated by each asset. Specifically, it is stated that if the financial performance of the company is good, the company will be able to optimise the use of assets in sales and investment while achieving a high asset turnover ratio and return on assets as a result. Moreover, as previously stated by (Alarussi & Alhaderi, 2018), increasing the profitability of a company cannot be achieved solely by increasing its operational efficiency. The asset turnover ratio may provide an insight into the company's ability to achieve its capacity. The amount of revenue generated by a company's assets is measured by how effectively the company has utilised its assets. Furthermore, this proxy used is related to the revenue generated for the period to the company’s expenditure on all of its assets (Imhanzenobe, 2019). According to a study conducted by Alarussi and Alhaderi (2018), there is a positive relationship between company efficiency and profitability. Furthermore, (Irman & Purwati, 2020) said that asset turnover has a statistically significant positive effect on the return on assets. It demonstrates that the higher the asset turnover of a particular company, the higher the return on assets of that organisation.

CHAPTER III : RESEARCH METHODOLOGY

3.0 DATA DESCRIPTION

The topic of Profitability Determinants of Firm in Service Based Industry is conducted to discuss on the data collection, the statistical data to analyze and the effect on relationship between dependent variable and the independent variable also discussing the technique of analyzing the data.

3.0.1 DATA COLLECTION

The data collected for both dependent and independent variables were collected from Eikon by choosing 14 companies of service bas sectors listed in Bursa Malaysia from the period of 2016 – 2020.

3.0. DATA SOURCES

This study employed the use of secondary data only. This include the internal sources from Malaysian Employers Federation 2019 Annual Report.

3.1 DATA ANALYSIS

The target population of the study was all firms that listed in Bursa Malaysia. As a result, from the filtering process, 14 firms have been selected as the final sample for this paper. Table 3.1 below shows the filtering process undertaken to arrive at the final sample of this study.

Table3.1: No of Firms in the Initial and Final Sample

	No of firms
Number of firms in the initial sample	14
Number of firms with incomplete data	0
Number of firms with NO data	0
Number of firms in the final sample	14

CHAPTER IV: FINDINGS AND ANALYSIS

4.0 INTRODUCTION

Under this chapter, it will discuss the result that was obtained on the findings regarding the profitability of the company in manufacturing sector that is listed in Bursa Malaysia. In generating and evaluating the data, STATA was used to analyze the data with the explanation on the hypothesis.

4.1 DESCRIPTIVE ANALYSIS

Table 4.1 Descriptive statistic for return on asset and company financial performance

Variable	Obs	Mean	Standard Deviation	Min	Max
ROA	70	.0148571	.2073277	-1.2	.47
DEBT RATIO	70	.4282857	.5469308	.08	4.09
ASSET TURNOVER RATIO	70	.7652857	.5761836	.06	2.66

Table 4.1 describes the descriptive statistic for return on asset and company financial performance in Malaysia. The table shows that there are 70 observations used in this service sector. The profitability of service based companies that viewed from the proxy of return on assets indicates that there are companies able to generate profits with the net income of 47% of the total assets. Meanwhile, the minimum value is showing a minimum profit recorded by -120%.The average return on asset of service sector companies in Malaysia is 1.49%.

The average debt ratio is 42.83% as the second highest recorded mean. The minimum debt is recorded as 8% with the maximum debt is 40.9%. Meanwhile, the standard deviation shows about 54.69%. The average asset turnover ratio is amounted to 0.77 units as the highest mean. The minimum and maximum value recorded are 0.06 and 2.66 units respectively. The standard deviation is indicate about 0.58 units.

4.2 REGRESSION MODEL

The chosen model is Fixed Effect but with the heteroskedasticity problem. The results suggested to conduct Fixed Effect regression with robust option.

Table 4.2 Regression Analysis

Profitability Determinants of Malaysia Service Based Industry

	Fixed Effect
Debt Ratio	-0.1314
	(-0.90)
Asset Turnover Ratio	0.1317***
	(2.70)
Constant	-0.0297
	(-0.83)
N	70.0000
r2	
r2_a	
r2_w	0.1255
r2_b	0.3839
r2_o	0.2329
F	
p	0.0103
chi2	9.1564

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Notes: (1) definition of your variable: example: ROA = return on asset. (2) Figures in parenthesis are t-statistic. (3) any other information you would like to include

Regression model:

ROAit = (0.0297) + *(0.1314) Debt Ratio + 0.1317 Asset Turnover Ratio + e*

As shown in Table 4.2, the regression result indicated that adjusted R^2 value is 0.2329, which means the effect of the independent variable on the dependent variable is only 23.29%. While the remaining of the 76.71% of profitability variance should be explained by other variables which do not exist in the regression model. The results of the regression also suggest that only asset turnover ratio have a statistically significant relationship with return on asset meanwhile debt ratio illustrates that it has negative relationship with return on asset. From these results, it indicates for every 1% increase in asset turnover ratio will increase return on asset by 13.17%. Hence, the null hypothesis is rejected since the asset turnover ratio is significantly positive with return on asset. Besides return on asset will remain at -2.97% when the debt ratio and asset turnover ratio are at 0. In addition to that asset turnover ratio seems to have the greatest influence on the level of profitability, which is explained by the highest t-statistics of 8.10.

4.2.1 Pearson Correlation Analysis

Table 4.2.1 Pearson Correlation Analysis on Return on Asset and Company Financial Performance

	Return on Asset	Debt Ratio	Asset Turnover Ratio
Return on Asset	1.0000		
Debt Ratio	-0.3488	1.0000	
Asset Turnover Ratio	0.2807	0.1550	1.0000

The correlation analysis measured the degree of association between profitability measured by return on asset and the various profitability determinants including debt ratio and asset turnover ratio. Hence, table 4.4.1 reported the correlation analysis for return on asset and company financial performance. From the result of above table, asset turnover ratio has the highest positive correlation with the amount recorded as 0.2807 units. Hence the result shows a positive relationship between asset turnover ratio and return on asset. Therefore, this shows when there is an increment of the efficiency, hence it will increase the company profitability as well. Furthermore, debt ratio indicates a negative correlation by -34.88% with return on asset.

4.3 DISCUSSION AND RECOMMENDATIONS

This study analyzes the determinants of profitability which are debt ratio and asset turnover ratio. Upon the result obtained under the regression analysis model, only asset turnover ratio indicates a significant relationship with return on asset.

According to the findings of the current study, there is a statistically significant positive relationship between asset turnover ratio and return on asset. This finding is consistent with Alarussi & Alhaderi, (2018), where there is a significant positive effect of asset turnover ratio on the return on assets. As explained in a study by Irman and Purwati (2020), the higher the asset turnover, the better the management of all the assets owned by the company. Furthermore, the high asset turnover ratio represents the high return on assets due to the high sales volume created, which will ultimately result in greater profitability for the organisation. The assets obtained by the company should be operated to their full capacity in order to generate high revenue for a specific time, as well as in the future, according to (Imhanzenobe, 2019). To look at it another way, the company may concentrate on making the most appropriate choice of asset expenditure to avoid any loss that could adversely influence its financial stability. Additionally, a prior study conducted by Irman and Purwati (2020) found the same strong positive relationship between asset turnover ratio and return on asset.

Due to inefficiency in asset management, the asset turnover ratio may be low, and may lead to a low profitability. This asset optimization will provide the firm with an overview of how efficiently the assets are being managed, as well as the ability to focus on the qualities that the company is looking for as a result of the asset optimization.

Additionally, the company should optimise the employees to increase the efficiency of the organisation. A productive employee will contribute to the achievement of the company's objectives. Then, the company should let the employees know what exactly the company expects from them to improve themselves to be more productive with all the works assigned to them.

On top of that, the Malaysian Employers Federation may increase in revenue as one of the ways to improve the asset turnover ratio. Hence regarding the main business operates by the companies which are conducting the Human Resources training and seminar programs, the company may increase its sales by making more promotions by approaching more companies to invite the eligible workers there as participants to join the event organize

CONCLUSION

This study examined the factors that influence the profitability of the service-based industry in Malaysia. As a result, only the asset turnover ratio has a statistically significant positive relationship with return on asset, meanwhile the debt ratio has a negative relationship with return on asset.

The Malaysian Employers Federation should pay greater attention to the most significant factors identified through the findings and analysis performed. So the company should also utilize the most effective approach to maintain its performance, which is applicable in any particular situation. This is needed to prevent any recurrence of the issues in the future. The company should then be aware of the most essential elements that can influence its ability to overcome any difficulties that may arise.

Based on the results obtained, the company may decide to emphasise more on asset optimization and the appropriate asset management decisions to support the company in becoming more profitable. Managers should consider making reasonable and appropriate decisions when it comes to asset expenditure. Assets should not be purchased if they are substandard or do not match the production specification since doing so will lead to the assets being non-effective.

Moreover, before deciding to purchase new assets, it is vital to recognise and take into account the brand of assets that are currently in use by the organisation. This is because purchasing the wrong specification of assets can reduce operational efficiency and result in disadvantages for the company both financially and non-financially.

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