



**CORPORATE EARNING PERFORMANCE
IN MALAYSIA FROM 1993 TO 2000**

A STUDY OF THE CONSTRUCTION SECTOR

**ABDUL RAZAK BIN ALI
99529642**



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

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ABSTRACT

This study is aimed at determining and analysing construction company's earning performance in Malaysia during the period 1993 - 2000. Two models have been selected to test and analyse that performance (multiple regression analysis and hypothesis testing). The findings have revealed that GDP is found to be the most significant independent variables in influencing the changes and variation of their earning. On the other hand, CPI and interest rate are of low significant.

The weaknesses of this study is the attention and focus only on the economic variables which is external and no consideration at all on the internal variables for example, the organizational and management capability. For example, management influences on corporate earning performance may vary with organizational characteristics and managerial leadership behavior, one manager may exploit an economic movement opportunity, while another leader may forgo such an opportunity or adapt slowly to it. A manager is important in times of organizational growth, development and crisis, for most part of the organizations require maintenance, and the corporate manager will therefore make little difference to their performance.

Therefore the study recommends to other future student and researcher to include the organizational and management capability which is internal to the firm as one of the independent variables.

INTRODUCTION

Following nine consecutive years of robust economic growth and buoyant economy, construction and property sector continued to experience positive growth and strong earning performance in tandem with the robust economic growth. But the unexpected happened, our robust economic growth has been spoiled by the so-called 'currency speculator' led by George Soros. The crunch came in late 1997 after the Thai baht collapsed in July 1997. The regional financial turmoil took its toll on the Asian tigers. Malaysia was not spared. The Asian financial turmoil has indeed left many property players, investors and speculators, as well as construction magnate in an inopportune disposition. The construction industry cycle is on its descent once again. Our country suffered high inflation, economic recession and rising interest rates coupled with many economic problems such as high unemployment, non-performing loan (NPL), ringgit devaluation and the most serious of all is the fall of conglomerates which once contribute to the nation's economic growth.

Bank Negara Malaysia in September reported that the first two quarters of 2000 have shown growth of 1.2% and 2.1% respectively. In 1999, the construction volume increased by 44.1% in volume compared to the previous year. If the Malaysian economy continues to expand and further recover from the past crisis, the construction market is expected to follow suit. Recent policy initiatives by the government regarding the financial system and banking structure will help make the country and its economy more resilient to outside shock. While construction industry may not reach its pre-crisis boom in the near future, a steady improvement throughout the sector could be expected as the demand picks up. With the onset of globalisation, the national construction sector has to prepare to become more resilient and

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).²

Researchers in the strategic management field have offered a variety of models for analysing corporate performance. However, little consensus has emerged on what constitutes a valid set of performance criteria (Cameron, 1981; Lewin and Minton, 1986).³ For instance, researchers have suggested that studies on corporate performance should include multiple criteria analysis (Cameron and Hitt, 1988).⁴ This multidimensional view of performance implies that different models or patterns of relationship between corporate performance and its determinants will emerge to demonstrate the various sets of relationships between the dependent and the independent variables in different models specified (Ostroff and Schmitt, 1993).⁵

Weiner and Mahoney (1980)⁶ have indicated that there are numerous measures of corporate performance that could serve as dependent variables. However, more important

²Weiner, N. and T.Mahoney. 1981. *A Model of Corporate Performance as a Function of Environmental, Organizational and Leadership Influences*. *Academy of Management Journal*. pg. 24, 453 - 470.

³Lewin, A. and J. Minton. 1986. *Determining Organizational Effectiveness: Another Look and an Agenda for Research*. *Management Science*. pg. 32, 539 - 553.

⁴Cameron and Hitt, M. 1988. *The Measuring of Organizational Effectiveness: Multiple Domains and Constituencies*. *Management International Review*. pg. 28 - 40.

⁵Ostroff, C. and N. Schmitt. 1993. *Configuration of Organizational Effectiveness and Efficiency*: *Academy of Management Journal*. pg. 36, 1345 - 1361.

⁶Weiner, N. and T.Mahoney. 1980. *A Model of Corporate Performance*. Mineapolis, Minn: Minnesota Computer Centre.