



**THE DETERMINANTS OF PROFITABILITY:
EVIDENCE FROM SELECTED TRADING AND
SERVICES COMPANIES IN MALAYSIA**

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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF STUDY

Profitability is one of the hot topics that debated by researchers the entire world. Profitability is the most famous topic that always been discussed among the researchers all over the world. Researchers have done many researches about this profitability topic but in difference sectors and industry such as banking sector, construction sector and other industries in Malaysia. Result performances of the firm based on profitability analysis are different because of various industries, different of business activity and purpose. Researcher chooses to examine and evaluate the determinants of profitability of the trading and services companies listed in Bursa Malaysia main board.

Profitability is referring to the capacity of firm to earning profit which is play as main role in development of the firm. During economic crisis about 2007 until 2008, this issue catches much affection toward creditors, investors and also other interest groups. Most of the firms will follow the strategies of maximising their products or outputs in favourable economic conditions to optimize the profitability while firms also will cut in production costs and outputs then reduce their profitability due to unfavourable economic conditions in order to remain sustain in the market.

Measure of profitability is usually used profitability ratios which is a method to measure a company's performance. Profitability can be basically defined as the capacity to make a profit, and also returns earned after deducted all costs and expenses. There are principles or formulas be used to determine a company's performance. Other than that, it is also beneficial to compare the company's performance against other similarly-situated companies or industries.

In business, profitability is based on the goal that set by the company in order to earn revenue and make profit from the sales. Nishantini and Nimalthasan (2009) said in their paper that to measure the success and main objective of the company is based on the profitability while Justyna (2013) stated that profitability is based on the company