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FACTORS AFFECTING PERFORMANCE OF CONSUMER PRODUCTS COMPANIES IN MALAYSIA

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Abstract

Paper examines the factors affecting performance of consumer products companies in Malaysia. A total of 42 consumer products companies in Malaysia were collected on annual basis for 10 years continuously ranging from 2006 until 2015. Regression Analysis method is used to test four hypotheses regarding the effects of quick ratio, debt to equity ratio, sales growth and tax rate towards profitability. In total, sales growth was found to be positively and significantly related to profitability. On the other hand, debt to equity ratio was found to be negatively and significantly related to the profitability. However, quick ratio and tax rate were found to have positive but insignificant relation to profitability. The findings clearly indicate that the higher the sales growth, the higher the company's performance; and the lower the debt to equity ratio, the higher the company's performance.

Keywords: Performance, consumer products

Introduction

After global financial crisis in 2008, most of the countries around the world fell into gloom for the past following years. Malaysia is one of the country which depends much on export has bad impact on the company's' sales. However, in 2009 most of the Malaysian companies start to improve their financial statement by increasing the sales. According to Cirmizi *et. al.* (2011), financial crisis affected the company's performance by reducing its demand of the goods and services. Moreover, Manufacturers of Consumer Goods (CPG) indicates that most of the consumer products companies face two challenges in 2015. The first challenge was a negative development in people's disposable incomes. Draca *et. al.* (2011) stated that the minimum wages gave more impact on company's performance compared to the unemployment rate. The second challenge was changing customer's perspective towards local products and labels. Malaysian consumers always feel not confident with the domestic production of products and brands. Renko *et. al.* (2012) identified that consumers' ethnocentric tendency positively related to locally produced products and brands.

Thus, the main objective of this study is to evaluate the factors affecting performance of consumer products companies in Malaysia. The profitability and development of the companies can be measure by evaluating the company's liquidity, capital structure, sales growth and tax rate management. From this study, it will be beneficial to consumer products companies in Malaysia by providing a better understanding of financial statement ratios and profitability. Besides that, this study will create awareness and provide information to the investors. This may also help the firm to make more profit for the coming years. Therefore, this study focuses on the company's liquidity, capital structure, sales growth and tax rate management affecting the performance of consumer products companies in Malaysia and how those factors influence the return and growth of a firm.

Literature Review and Hypotheses

Profitability is defined as the ability of the company's to make more revenues than its expenses. The performance of the companies can be measured by using some ratios such as return on assets, return on equity, earning per share and dividend per share. Profitability can be characterized as the final measure of financial achievement accomplished by an organization in link to the capital invested. This financial achievement determined by the size of the net profit.

Besides that, liquidity is one of the important indicators that measure the company's capacity to meet its short-term liabilities. It measured the capability of the company's to pay its current liabilities by only using the current company's current assets (Billah *et. al.*, 2015). A study done by Podilchuk (2013) was found that quick ratio has a strong positive effect on profitability. If the company increases its quick ratio, it will cause increases the company's profitability. Thus, the finding shows that liquidity has an effect towards company's profitability.

However, empirical analyses by Rehman *et. al.* (2015) and Phan (2013) found that quick ratio has a negative impact on company's profitability. This study revealed that, when the quick ratio rises, the company's profitability will decrease and vice versa. Therefore, the company needs to reduce its current assets and increase its current liabilities in order to decrease the quick ratio. Therefore, this study proposes that:

H1: There is a significant relationship between liquidity towards performance of consumer products companies in Malaysia.

Furthermore, capital structure is used to determine the company's debt and equity to run or operates its long-term activities and development. This ratio evaluates the amount of a company borrows in a long period. If the ratio of the debt to equity equal to one, it means that half of the company assets are financed by debt which are from lenders and shareholders. Study conducted by Rastogi and Saxena (2016) were found that debt to equity ratio has a negative relationship with the profitability. It was consistent with study done by Ebrati *et. al.* (2013) also revealed that debt to equity ratio was negatively significant to the profitability. Hence, the following hypothesis is developed:

H2: There is a significant relationship between capital structure towards performance of consumer products companies in Malaysia.

Moreover, sales growth is the most suitable indicator to measure the firm value because it can be rise without considering the company's staffs and assets. Sales growth is the sum of the average sales volume of an organization's products and services has increased, ordinarily from year to year. A study done by Phan (2013) shows that there is a positive effect between sales growth towards profitability. However, Ting *et. al.* (2014) claims that sales growth has a positive relationship with profitability but the coefficient is insignificant. This might be because of the way that sales itself serves as a measure of potential profitability. Therefore, the company can increase their profitability by improving products, quality, make better policies to sale force and do continuous market research. Hence, hypothesis 3 is stated as follows:

H3: There is a significant relationship between sales growth towards performance of consumer products companies in Malaysia.

Last but not least, tax rate is used to evaluate its effect on investment process, indicates the corporate taxation rate and measure corporate tax preferences. Tax rate has a direct effect on productivity of an organization. It is the tax imposed by the government and a few states in light of an individual's assessable wage or an enterprise's income. Research conducted by Laura (2012) indicates that there is a negative correlation between the effective tax rate and the company's performance. The negative relationship for financial profitability can be clarified by the way that organizations more productive and profitable record tax rates lower, a possible reason that these organizations productive by management, as much favourable position of existing tax incentives. Therefore, the next hypothesis was postulated:

H4: There is a significant relationship between tax rate towards performance of consumer products companies in Malaysia.

Methodology

Data were obtained using secondary data by extracting from Bursa Malaysia and Thomson Reuters. A total of 42 consumer products companies in Malaysia were collected on annual basis for 10 years continuously ranging from 2006 until 2015. The financial data includes return on equity, quick ratio, debt to equity ratio, sales growth and tax rate. These sets of data were used to evaluate the factors affecting performance of consumer products companies in Malaysia. Table 1 shows the consumer products companies that had been selected for this study based on data availability. The research model used in this study is visually shown in Figure 1.

No.	Name of Companies	No.	Name of Companies
1.	Ajinomoto Malaysia Bhd	22.	LTKM Bhd
2.	Amtek Holdings Bhd	23.	Magni-Tech Industries Bhd
3.	Apollo Food Holdings Bhd	24.	Milux Corporation Bhd
4.	Asia Brands Bhd	25.	New Hoong Fatt Holdings Bhd
5.	Asia File Corporation Bhd	26.	NTPM Holdings Bhd
6.	Bonia Corporation Bhd	27.	Oriental Food Industies Holdings Bhd
7.	CAB Cakaran Corporation Bhd	28.	Padini Holdings Bhd
8.	CCK Consolidated Holdings Bhd	29.	PCCS Group Bhd
9.	Chee Wah Corporation Bhd	30.	Pensonic Holdings Bhd
10.	Classic Scenic Bhd	31.	Poh Huat Resources Holdings Bhd
11.	Cocoaland Holdings Bhd	32.	Poh Kong Holdings Bhd
12.	Ekowood International Bhd	33.	PWF Consolidated Bhd
13.	Eng Kah Corporation Bhd	34.	Spritzer Bhd
14.	Euro Holdings Bhd	35.	SWS Capital Bhd
15.	Fraser & Neave Holding Bhd	36.	SYF Resources Bhd
16.	Formosa Prosonic Industries Bhd	37.	Tek Seng Holdings Bhd
17.	Hovid Bhd	38.	UPA Corporation Bhd
18.	Hup Seng Industries Bhd	39.	Wang-Zheng Bhd
19.	Hwa Tai Industries Bhd	40.	Yee-Lee Corporation Bhd
20.	Kawan Food Bhd	41.	Yen Global Bhd
21.	London Biscuits Bhd	42.	Y.S.P. Southeast Asia Holding Bhd

Table 1. Samples of Consumer Products Companies in Malaysia

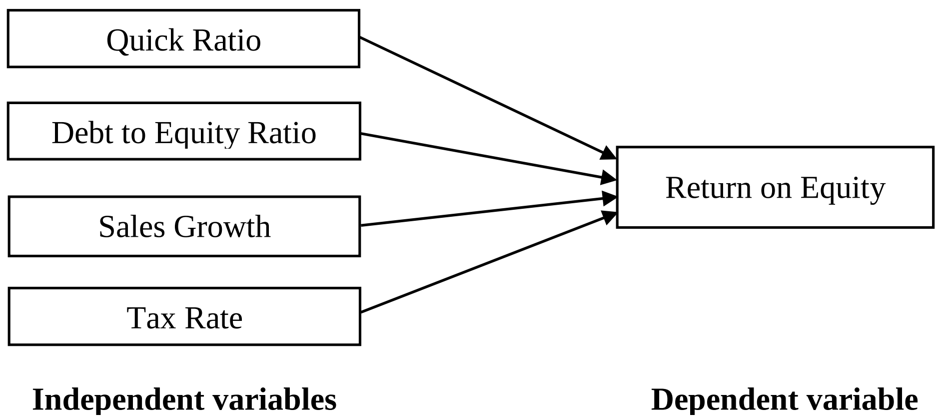

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Figure 1. The Research Model

Variables	Proxies
Return on Equity	$\frac{\text{Profit for shareholders}}{\text{Average total shareholder's equity}}$
Quick Ratio	$\frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$
Debt to Equity Ratio	$\frac{\text{Firm's total debt}}{\text{Shareholder's equity}}$
Sales Growth	$\frac{\text{Current year's sales} - \text{Previous year's sales}}{\text{Previous year's sales}}$
Tax Rate	$\frac{\text{Income tax expense}}{\text{Pretax income}}$

Table 2. The Variables and Proxies

This study used multiple regression analysis to evaluate the factors; liquidity, capital structure, sales growth and tax rate towards performance of consumer products companies in Malaysia. The regression models used in this study are as the following:

$$ROE = \alpha 0 + \beta 1(QR) + \beta 2(DTE) + \beta 3(SG) + \beta 4(TR) + \varepsilon \quad (1)$$

Where:

ROE = dependent variable; α = constant value; β = regression coefficient; QR = quick ratio; DTE = debt to equity ratio; SG = sales growth; TR = tax rate; and ε = residual term

Results and Findings

Table 2 presents the correlations of the major constructs used in this study. The results indicate that quick ratio (20.1%), sales growth (21.0%) and tax rate (6.4%) were positively correlated towards profitability. On the other hand, debt to equity ratio (-46.2%) was found to be negatively correlated towards profitability.

Variables	ROE	QR	DER	SG	TR
Return on Equity (ROE)	1.000				
Quick Ratio (QR)	0.201	1.000			
Debt to Equity Ratio (DER)	-0.462	-0.379	1.000		
Sales Growth (SG)	0.210	-0.015	0.023	1.000	
Tax Rate (TR)	0.064	0.037	-0.039	0.021	1.000

Table 2. Correlation Results

Table 3 presents the multiple regression analysis, in which to examine the impact between profitability and four independent variables. Based on the table 3, sales growth (p-value = 0.000, t = 5.226) was found to be positively and significantly related to profitability. It was confirmed by findings in Phan (2013). On the other hand, debt to equity ratio (p-value = 0.000, t = -0.072) was found to be negatively and significantly related to the profitability. This result is consistent with previous study done by Ebrati *et. al.* (2013). Quick ratio (p-value = 0.500, t = 0.002) and tax rate (p-value = 0.336, t = 0.003) were found to have insignificant relation to profitability. These results were supported by Rehman *et. al.* (2015), Phan (2013) and Laura (2012). Adjusted R^2 value for return on equity is 0.258 indicating that 25.8 percent of the variation of determinants affecting profitability of consumer products companies in Malaysia could be explained by the four independent variables.

Variables	**β**	**t-value**	**p-value**
Quick ratio	0.002	0.675	0.500
Debt to equity ratio	-0.072	-9.982	0.000
Sales growth	0.065	5.226	0.000
Tax rate	0.003	0.964	0.336
R^2 = 0.265			
Adjusted R^2 = 0.258			

Table 3. Regression Results

Based on the table 4, Hypothesis 2 (H2) and Hypothesis 3 (H3) were accepted. Only sales growth was found to be positively and significantly related to profitability. However, liquidity and tax rate were found to have positive but insignificant related to the profitability. Lastly, capital structure was found to have negative but significant relation to profitability.

Table 4. Summary of Findings

Independent Variables	**Remark**	**Result**
Significant relationship between liquidity towards profitability	Reject H1	Supported
Significant relationship between capital structure towards profitability	Accept H2	Supported
Significant relationship between sales growth towards profitability	Accept H3	Supported
Significant relationship between tax rate towards profitability	Reject H4	Supported

Conclusion

The purpose of this study is to evaluate the factors affecting performance of consumer products companies in Malaysia. This study measures four variables, namely quick ratio (liquidity), debt to equity ratio (capital structure), sales growth and tax rate. A secondary data has been collected from Bursa Malaysia and Thomson Reuters. A total of 42 consumer products companies in Malaysia were collected on annual basis for 10 years continuously ranging from 2006 until 2015. Succeeding collecting of data, correlation analysis and regression analysis have been tested.

Based on the findings, sales growth was found to be positively and significantly related to profitability. On the other hand, debt to equity ratio was found to be negatively and significantly related to the profitability. However, quick ratio and tax rate were found to have positive but insignificant relation to profitability. Hence, Hypothesis 2 (H2) and Hypothesis 3 (H3) were accepted. By studying the effect between these four important factors, thereby this study provides further empirical evidence for the relevance factors of performance of consumer products companies in Malaysia. As a conclusion, the findings clearly indicates that the higher the sales growth, the higher the company's performance; and the lower the debt to equity ratio, the higher the company's performance.

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