

REVIEW PAPER ON CRITICAL ANALYSIS OF PROFITABILITY RATIO OF TELECOMMUNICATION SECTOR

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Abstract

This paper examines the macroeconomic factors influencing the profitability performance of private telecommunication firms. This study has been motivated by the declining profitability performance of private telecommunication firms in Malaysia, which has been attributed to the decreasing return on assets. The findings suggest that leverage has a significant and negative relationship with Return on assets, while liquidity has a negative insignificant towards the firms' profitability. On the other hand, firm size and gross domestic product have a substantial and positive relationship with return on assets. Moreover, the findings seemed to suggest that the bigger the size of a firm, the higher the total assets would be, which in turn, would improve the firm's profitable performance. In sum, the prerequisite attribute that a telecommunication firm needed to possess in attaining high profitability performance was its strong and high productivity in the management of its total assets.

Keywords: Telecommunication, Profitability

INTRODUCTION

Profit is the different between revenue and expenses over a period, usually, one year. Profitability ratios are to measure the operating efficiency of the company. Besides management, lenders and owners of the company are interested in the analysis of the profitability of the firm. If profits are adequate, there would be no difficulty for lenders to get payment of interest and repayment of principal. Owner want to get require rate of return on investment. The finance manager should evaluate the efficiency of the company, in terms of profits. So, profit is important to everyone associated with the firm while the operating ratio shows the efficiency of a company's management by comparing the total operating expenses of a company to net sales. The operating ratio shows how efficient a company's management is at keeping costs low while generating revenue or sales. The smaller the ratio, the more efficient the company is at generating revenue vs. total expenses. Investment analysts have many ways of analyzing company performance. Because it concentrates on core business activities, one of the most popular ways to analyze performance is by evaluating the operating ratio. Along with return on assets and return on equity, it is often used to measure a company's operational efficiency. It is useful to track the operating ratio over a period of time to identify trend in operational efficiency or inefficiency.

An operating ratio that is going up is viewed as a negative sign, as this indicates that operating expenses are increasing relative to sales or revenue. Conversely, if the operating ratio is falling expenses are decreasing, or revenue is increasing, or some combination of both. A company may need to implement cost controls for margin improvement if its operating ratio increases over time. (AM Abdulkareem, 2020)

Nowadays, external and internal competitiveness variables in sectors involving agriculture, manufacturing, and telecommunications have shifted up and down widely in the trading market. The telecommunication sector has long been well-established in many Asian countries (**Salleh et al., 2013**). In Malaysia, the telecommunications industry has remained one of the vital sectors that has consistently generated profitability, as well as sustained financial stability in the country. Based on the 2018 Annual Economic Survey report, the gross output value of information and Telco services in Malaysia had shown an increase of 7.8 percent per annum from 2015 to 2017, with the telecommunications service being the largest contributor with RM87.4 billion or 60.4 percent (Department of Statistics, 2019).

Accordingly, a report issued by the Malaysian Communications and Multimedia Commission (MCMC) revealed that the telecommunications sector constituted the largest portion of market share revenues at 69 percent (RM35.63 billion), followed by broadcasting at 12 percent (RM6.2 billion), and postal services at five percent (RM2.58 billion).

Meanwhile, services under Access, Certainty and Efficiency (ACE) market listing applications, network facilities, and network-service providers contributed 14 percent, or RM7.23 billion of the total industry revenue. It is a market in the Bursa Malaysia that has replaced the Second Board and the MESDAQ. This trend illustrates that the largest source of revenue injection has come from the country's telecommunications sector, comprising more than 90 established telecommunications firms, either owned by the government or private entities.

LITERATURE REVIEW

This paper will go through some previous studies discussing about the profitability Ratio of telecommunication sector. Then the researcher discussion about the challenges and risk management for the profitability Ratio of telecommunication sector. This exercise included review and study number of research papers, case studies, market research reports. The concept matrix is created based on the literature review.

Profitability has always been a topic of considerable interest to managers and researchers worldwide. In particular, the variables, which may affect, and influence profitability factors are always an important subject for investigation. Numerous theoretical and empirical investigations have assessed the impact of variables on corporate productivity, such as the return on assets, the return on equity, and the return on sales. Evidence of scholarly studies on these variables can be found in the works by **Kanwal and Nadeem (2013)**, **Khan et al. (2013)** and **Romus et al. (2020)**. Nevertheless, the research findings have been varied, depending on the specific characteristics of each country and industry, as well as each stage of one's economic development (**Le et al., 2020**).

A study done by **Sritharan (2015)** has recorded that the ROA was highly important in measuring the profitability of companies. It has been widely used in scientific research to test the financial performance and sustainability of businesses (**Chatterjee, 2012; Santis et al., 2016; Vaicondam & Ramakrishnan, 2017**). Thus, for the present study, the ROA has been chosen as the dependent variable for analysis because it has been widely used in scientific

research to test the financial performance and sustainability of businesses (Chatterjee, 2012; Santis et al., 2016; Vaicondam & Ramakrishnan, 2017).

Profit is the different between revenue and expenses over a period, usually, one year. Profitability ratios are to measure the operating efficiency of the company. Besides management, lenders and owners of the company are interested in the analysis of the profitability of the firm. If profits are adequate, there would be no difficulty for lenders to get payment of interest and repayment of principal. Owner want to get require rate of return on investment. The finance manager should evaluate the efficiency of the company, in terms of profits. So, profit is important to everyone associated with the firm while the operating ratio shows the efficiency of a company’s management by comparing the total operating expenses of a company to net sales. The operating ratio shows how efficient a company’s management is at keeping costs low while generating revenue or sales.

The smaller the ratio, the more efficient the company is at generating revenue vs. total expenses. (AM Abdukareem, 2020)

DISCUSSIONS OF FINDINGS

It is extremely important to identify a set of relevant metrics while reviewing vast amount of literatures that was published by researchers across the world in the domain of profitability Ratio of telecommunication sector.

Based on some of the components of the profitability Ratio, and also the impact that these factors have on the quality of telecommunication sectors.

Table 1: Concept of Literature Review Matrix Critical analysis of Profitability Ratio of telecommunication sector from 2013 – 2022 (List in Chronological Order)

Author/s (Year)	Topic/ Title of the paper	Type of Research	Source of Data/ Intervention area	Research Tools	Research Methodology
Houshang Habibniya 2022	Impact of Capital Structure on Profitability: Panel Data Evidence of the Telecom Industry in the United States.	A Empirical approach	Telecommunication industry in the USA.	1- Data collected from annual data of the telecom industry from 2012 to 2020.	A document study of formal management.
Abdul Manaf, S. M. 2021	Profitability performance analysis: the Evidence from private telecommunication Firms in malaysia	A qualitative approach.	The five private telecommunication Firms in malaysia.	1- 49 data observations were analyzed using the Random of 5 companies. 2- DataStream.	1- 49 data observations were analyzed using the Random of 5 companies. 2- DataStream.

Dr. Hemant Parmar 2021	Comparative financial analysis of cement manufacturing company and relationship between inventory management and profitability ratio.	A descriptive approach	Indian cement industry.	1- Data collected from the annual reports of the cement companies from 2011 to 2020. 2- Webside of Companies.	A document study of formal management.
Ahmed Mahdi Abdulkareem 2021	An Analytical study of Profitability and Operating Ratio analysis.	A Comparative approach.	Chemical Companies in India	1- Data collected from secondary data taken from published annual reports of selected five companies	A document study of formal management.
Dr. Mohamad Mushtaq Khan 2020	Liquidity-Profitability Analysis & Prediction Of Bankruptcy- A Study Of Select Telecom Companies.	A Comparative approach.	Indian Telecommunication sector.	1- Data collected from financial reports of selected telecom companies.	A document study of formal management.
Nurwita 2020	Liquidity and Profitability Ratio Analysis for Measuring The Financial Performance.	A descriptive approach	PT. Bank Bri Syariah.	1- Reporting data from 2012 to 2019.	A document study of formal management.
Marek Masztalerz (2019)	Profit levels and profitability ratios reported in the Communications of public companies.	A descriptive approach	The communications of public companies included in the WIG20 index.	1- Financial statements, the annual report, chairman's letter.	A document study of formal management.
Renata Aulová 2019	Analysis of Selected Profitability Ratios in the Agricultural Sector	A quantitative approach.	Czech agricultural businesses of legal entities.	1- Amadeus database. 2- Financial statements of agricultural businesses from 2011 - 2015.	A document study of formal management.
Abdul Aziz 2017	The Relationship between Solvency Ratios and Profitability Ratios.	A quantitative approach.	Food Industrial Companies listed in Amman Bursa	1- Sample was selected 8 companies. 2- Data collected from food industrial companies.	A document study of formal management.

Dr. V.BALAK RISHNAN 2017	A study on Profitability Ratio Analysis of the Sundaram Finance Ltd in Chennai.	A descriptive approach	Sundaram Finance Limited, Chennai.	1- Data collected from journals, annual reports and websites.	A document study of formal management.
Murtala Zakari (2016)	The Impact of Cash Conversion Cycle on Firm Profitability: Evidence from Nigerian Listed Telecommunication Companies	A Empirical approach	Telecommunication Companies	1- Data collected from Nigerian Stock Exchange. The annual reports and accounts of companies, and web sites.	A document study of formal management.
Mohamed Khalifa Blaao.(2016)	Financial Analysis by Using Profitability Ratios and Its Role in Evaluating the Performance of Commercial Banks.	A quantitative approach.	Commercial Banks in Libya	1-Financial evaluation of commercial banks for the 2013-2015.	A document study of formal management.
Mrs. Poonam Gautam 2016	Working Capital Management and Its Impact on Profitability: A Case Study of Bharti Airtel Telecom Company.	A quantitative approach.	Bharti Airtel Telecom Company.	1- Data collected from the capital line database, Websites, and Audited Accouts.	A document study of formal management.
Abhimada Gatuth Satryo 2016	The influence of profitability ratio, market ratio, and solvency ratio on the share prices of companies.	A quantitative approach.	Indonesia Stock Ex-change.	1- Purposive sampling method and obtained 15 companies.	1- Sample of companies listed in LQ 45 Index.
Sadiq Rabin Abdullahj 2016	Effects of Standard Costing on the Profitability of Telecommunication Companies.	A descriptive approach	Nigerian MTN telecommunication company.	1- Data collected from books, journal articles and also online data sources.	A document study of formal management.
Dr. Mohmad Mushtaq Khan 2016	Liquidity & Profitability Performance Analysis Of Selected Telecom Companies	A Empirical approach	Indian telecom companies (Bharti Airtel, and Vodafone India).	1- Data collected from financial reports of selected five telecom companies.	A document study of formal management.
Godfred Yaw Koi-Akrofi 2013	Profitability Analysis of the Telecommunication s Industry in Ghana from 2002 to 2006.	A quantitative approach.	Telecommunication s industry in Ghana.	1- Data collected from Financial statements of Telcos in Ghana from 2002 to	A document study of formal management.

				2006.	
Dr. Vinod K. Bhatnagar 2013	Impact Of Foreign Direct Investment On The Profitability: A Study Of Telecom Companies In India.	A Empirical approach	Telecommunication sector in India.	1- Data collected from Top five companies Balance Sheet and Income Statement of sample banks.	A document study of formal management.
Tomasz Węgrzyn 2013	Stock Selection On The Warsaw Stock Exchange – Financial Ratios Or Profitability Ratios. Analysis Between 2001 And 2011.	A quantitative approach.	Warsaw Stock Exchange.	1- Warsaw Stock Exchange between 2001 and 2011.	A document study of formal management.
Irham Fahmi 2013	Analysis of Profitability Ratio in Publishing Right Issue Decision.	A quantitative approach.	Indonesia Stock Exchange.	1- Data collected from financial reports from 1997 to 2001.	A document study of formal management.

CONCLUSION

In summary, the findings of the present study has indicated that firm size positively and significantly influenced the return on assets, while leverage negatively and significantly influenced a company's performance. On the other hand, gross domestic product and liquidity were not significant and did not influence the return on assets. Overall, leverage and firm size influenced profitability in the private telecommunication firms examined in the study. Hence, good, and high efficiency in managing total assets in the telecommunication firms would reflect high profitability and performance in these firms. In addition, the results of this study could have implications for businesses, investors, and policymakers, when these groups are considering the services offered by the private telecommunication companies in Malaysia. The elements that were seen as having an impact on profitability might help to shape the regulatory policies which were aimed at stabilizing and sustaining the performance of Sharia-compliant businesses in general. However, the outcomes of the research need to be interpreted bearing in mind several limitations.

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