

# The Impact of COVID-19 Pandemic on Firms' Profitability and Leverage: Evidence from Malaysian Public Listed Companies

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## Abstract

**Purpose:** The objective of this study is to determine the impact of Impact of COVID-19 pandemic on firm profitability and leverage in Malaysian public listed firms.

**Design/methodology/approach:** Statistical analysis were used in this study. 67 public listed firm were selected as the sample for this study consisting of annual report from 2019-2020 to obtain financial information before and during COVID-19 pandemic.

**Findings:** This study found significant negative impact of COVID-19 pandemic on firm profitability and there no relationship between COVID-19 pandemic and firm leverage.

**Research limitations/implications:** There is a limitation in the number of samples which is this study only used 67 samples and only 2 years analysis were estimated. The findings more accurate if larger samples and longer period of data is included in the study.

**Practical implications:** This study contribute to the literature on the impact of COVID-19 towards organisation. Academicians and researchers will be able to have better understanding on the influence of COVID-19 pandemic on corporate performance.

**Originality/value:** This study will provide an understanding on audit committee effectiveness in public listed companies and this study is among the first study in Malaysia that focus on the impact of COVID-19 towards organisation.

**Paper type:** Research paper

**Keywords:** COVID-19, Profitability, Leverage, Malaysia

## Introduction

The recent COVID-19 had a significant impact on all corporate performance. It affects an organisation's revenue, profitability, leverage, and investment, especially publicly traded companies in Malaysia. Malaysia's economy is now contracting at a rate much greater than that of the 1998 Asian financial crisis, and with the current increase of COVID-19 instances, it seems that the negative effect on the economy would be protracted. Bank Negara (2021) has cautioned that there is considerable uncertainty about the pandemic's development and direction, despite indications of economic recovery and worldwide vaccination deployment. Numerous businesses remain prohibited from operating, severely impairing their operations. Even if the nation is able to contain the epidemic, the firm will continue to suffer. The objective of this study is to determine the impact of pandemic on firm profitability and leverage. The significant of this study is it enhancing the literature on the impact of COVID-19 towards the

organisation. Academicians and researchers will be able to have better understanding on the influence of COVID-19 pandemic on corporate performance. This study is also to look into Malaysian economy environment whether the impact is similar to the other countries that are facing the same COVID-19 pandemic.

### **Literature Review**

Forecasting is nothing more than guesswork due to the uncertainties surrounding the potential spread of COVID-19 and the length of the economic halt needed to fight the virus. Malaysia faces with 20,000 COVID-19 positive cases each day, raising concerns about the economy's recovery. The economic damage is expected to exceed that of the 2008 global financial crisis (Reinhart, 2020). The World Bank (2021) highlighted the economy is projected to expand at a slower rate (4.5 percent) than previous predictions of 6.0 percent, indicating a slower road toward pandemic suppression in Malaysia. A high cases of COVID-19 infections has led to a 2.0% decline in Malaysia's gross domestic product (GDP) from the first quarter (The Straits Times, 2021). The unemployment rate has risen to 5.3 percent, or 826,100 individuals in 2020, suggesting that Malaysian businesses have had to cope with the effect of the COVID-19 epidemic (DOSM, 2021). Additionally, manufacturing companies were not permitted to function at full capacity, with just 60% permitted under movement control orders, despite strong demand for rubber gloves, electrical and electronic products, and technology-related products (Reuters, 2021). There are limitation to number of study in Malaysia that focusing the influence of COVID-19 to the firm performance where it become the research problem to this study.

### **Hypotheses Development**

#### ***Impact of COVID-19 on Firm Profitability.***

According to Yusuf and Surjaatmadja (2018), profitability is also critical for the long-term sustainability of a business since it shows if the business has favourable future possibilities. According to Xinhua (2020), the pandemic has had a major influence on Chinese financial sector, with the Chinese financial market being steadier in comparison to international markets even with the high cases of COVID-19. Baret et al. (2020) examined the financial sectors and financial institutions during the pandemic. The research discovered proof of COVID-19's substantial impact on the broader financial sectors, since the world recently saw a decline in economy. Shen et al. (2020) found that COVID-19 has a greater contradict effect on Chinese companies with a lower investment size or sales revenue. This indicates that big firms, especially publicly traded businesses, will bear a disproportionate share of the cost of the COVID-19 epidemic. Gormsen and Koijen (2020) said that throughout the pandemic that firms would perform worse in the future as a result of COVID-19. Cui et al. (2021) discovered that companies show different return on equity during the pandemic era. Sutrisno et al. (2020) stated that the COVID-19 epidemic had a significant detrimental effect on the economies of all conventional and Islamic banks in Indonesia. Daryanto et al. (2021) discovered a decline in company profitability during COVID-19, but no statistically significant connection between COVID-19's effect and profitability. Therefore, the hypotheses is developed:

H1: There is significant negative association between COVID-19 pandemic with firm profitability.

#### ***Impact of COVID-19 on Firm Leverage***

According to the Times of India (2021), corporate debt has surged in several nations as a result of the epidemic. The number was already high in the majority of these countries prior to the

COVID-19 issue, for example, in France, China, Japan, and South Korea. Corporate debt is relatively low in other countries such as India, Brazil, and Indonesia (Times of India, 2021). According to the OECD (2020), businesses are expected to reduce the equity and increase the leverage during a crisis, indicating that firms increased their financing debt in order to address liquidity constraints during the COVID-19 epidemic. Similarly, KPMG (2021) noted that certain businesses may fail to meet legal or contractual commitments, which may have a negative effect on future financial performance. According to Kalemli-Ozcan et al. (2019) increased corporate debt forces companies to cut down on investment after economic crises and this is supported by Barbiero et al. (2020) who found the same result. Iverson (2018) said that there would be a greater number of viable businesses liquidated than desired, resulting in detrimental impacts on company development. Vo et al. (2021) discovered that companies situated in countries where COVID-19 has increase their leverage compare to the company situated in low COVID-19 cases countries. Therefore, the hypotheses is developed:

H2: There is significant positive association between COVID-19 pandemic with firm leverage.

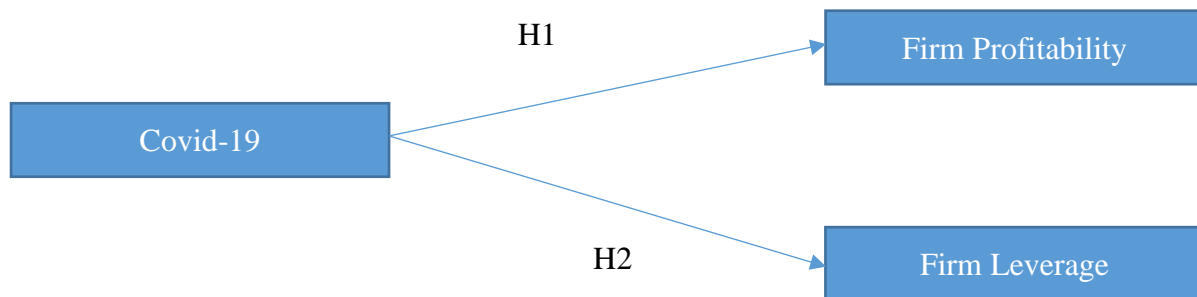


Figure 1: Conceptual Framework

## Research Method

### *Type of Research and Sample Selection*

Statistical analysis was used in this study. 67 Malaysian public listed firm based on market capitalisation were selected as the sample for this study consisting of a total of 134 annual report from 2019-2020 to obtain financial information of the company before and during COVID-19 pandemic. Sampling technique for this study is purposive sampling, a non-probability sampling which this study used own judgment in selecting the samples and this sample selection method is deemed to be appropriate for this study.

### *Measurement of Variables*

COVID-19 which is the independent variables for this study were measured by dichotomous 0 and 1 where 0 is representing financial statement for 2019 (before COVID-19 period) and 1 is representing financial statement for 2020 (during COVID-19 period). Dependent variables were divided into two; firm profitability and leverage. Firm profitability were measure by the Return on Assets (ROA) and Return on Equity (ROE). These two ratios were commonly used to determine the corporate profitability. Firm leverage were measured by Debt to Asset (DTA) and Debt to Equity (DTE).

Table 1: Measurement of Variables

Variable	Measurement
COVID-19	0 = Before COVID-19 period 1= During COVID-19 period
Firm Profitability	Return on Asset and Return on equity
Firm Leverage	Debt to asset and Debt to equity

### Findings

This section will begin with descriptive analysis and further regression analysis to determine the association between COVID-19 with firm profitability and leverage.

### Descriptive Analysis

Table 2: Descriptive Analysis of Firm Profitability and Leverage Before and During COVID-19 Pandemic Period

		ROA	ROE	DTA	DTE
N		67	67	67	67
Before COVID-19	Mean	7.2696	18.7806	0.2566	0.8467
	Median	3.91	10.23	0.25	0.56
	Std. Deviation	8.85362	28.29635	0.18828	0.99202
	Minimum	-1.4	-5.14	0.1	0.1
	Maximum	42.15	183.26	0.74	4.43
During COVID-19	Mean	4.6552	7.4925	0.2667	0.6712
	Median	2.03	6.75	0.27	0.57
	Std. Deviation	7.53853	43.80658	0.18558	0.89802
	Minimum	-22.59	-311.3	0.1	-3.84
	Maximum	24.28	102.53	0.7	2.95

Based on the Table 2, the mean value for ROA before the pandemic is 7.27 and it is decreasing at 4.66 during the pandemic, where the similar finding is found at ROE, show a decreasing value of 18.78 to 7.49. DTA has a mean value 0.26 before pandemic and it almost similar during pandemic with 0.27 and DTE is increasing from 0.85 to 0.9. This show that in average, the leverage of Malaysian public listed companies is still a reasonable level even during COVID-19 pandemic. The value for ROA is between -1.4 to 42.15 before pandemic and -22.59 to 24.28 during pandemic. For ROE, the value -5.14 to 183.26 before pandemic and -311.3 to 102.53 during pandemic. DTA value is similar in both period, at 0.1 and 0.7 where DTE value is between 0.1 to 4.43 before pandemic and -3.84 to 2.95 during COVID-19 pandemic.

### Regression Analysis

The regression analysis was conducted to determine significant influence between COVID-19 pandemic with firm profitability and firm leverage in Malaysian public listed companies.

Table 3: Regression Analysis

Dependent Variable		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
ROA	(Constant)	7.192	0.998		7.205	0.000
	COVID-19	-2.496	1.422	-0.151	-1.755	0.082*
ROE	(Constant)	18.597	4.474		4.157	0.000
	COVID-19	-11.087	6.375	-0.150	-1.739	0.084*
DTA	(Constant)	0.259	0.023		11.427	0.000
	COVID-19	0.005	0.032	0.014	0.159	0.874
DTE	(Constant)	0.842	0.115		7.339	0.000
	COVID-19	-0.169	0.164	-0.090	-1.036	0.302

The result in Table 3 shows that COVID-19 pandemic negatively affecting firm profitability and the result is statistically significant at 10% level (90% confidence level) by using ROA and ROE as measurement. 10% significant level is accepted in this study since the sample size is small. This findings suggest that the firm performances are badly impacted by the pandemic and this result is similar to the study conducted by the Xinhua (2020), Baret et al. (2020), Shen et al. (2020) and Sutrisno et al. (2020). This also shown that the assets and equities were not fully utilise to generate more revenue during COVID-19 pandemic. Therefore, H1 is accepted. However, the study found that the COVID-19 does not affecting firm leverage which is measure by DTA and DTE, indicating that public listed firms in Malaysia maintaining its debt even during the pandemic. Therefore, H2 is not accepted.

### Conclusion

The study's objective is to determine the impact of COVID-19 on firm profitability and leverage in Malaysian public listed companies. The study's hypotheses is COVID-19 might have a negative impact of firm performance, particularly on profitability and leverage. This study supported H1; there is negative relationship between COVID-19 and firm profitability which is ROA and ROE. However this study found there is no significant association between COVID-19 and firm leverage. This indicate that with the rise of COVID-19, it will reducing the firm income and revenue and during the pandemic most of the Malaysian public listed did not plan in increasing the firm leverage, lead to the no significant influence of COVID-19.

### Limitations and Suggestions for Future Research

There is a limitation in the number of samples which is this study only used 67 samples and only 2 years analysis were estimated. The findings more accurate if larger samples and longer period of data is included in the study.

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