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The Effect of Leverage and Managerial Skills on The Return of Shareholders in Malaysia's Top 30 Listed Companies in Malaysia

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Abstract
The aim of this study is to explore the effect of leverage and management skills on the return of the shareholder. The study selected the top 30 Bursa Malaysia companies listed as a sample. Proxies of leverage, management expertise, size, price to book ratio, effective tax rate and industry effects are the data collected. The data are collected from the Thomson Reuters from the year 2013 until 2017. The study employed multiple regression analysis to prove the existence of relationships between shareholder's return and other variables. The main results of the study show the influence of total debt, managerial skills, company size and industry on shareholder's return. However, price to book and effective tax rate have no significant influence on shareholder's return. The results indicated the importance of total debt and managerial skills towards shareholder's return when size and industry are controlled. The study contributes to current literature in the field.
Keywords: Leverage, Managerial Skills, Shareholder's Return, Malaysia

Introduction

Shareholder's return becomes the most important issue for majority of companies all over the world. Because one of the purposes of a company's existence is to maximise shareholder's wealth (Khan and Hussane, 2018). Maximum shareholder's wealth can be influenced by many factors. One of the factors is the level of debt of the company while the others include the managerial skills possess by the managers (Matemilola et al., 2013).

The rise in the risk premium and shareholder return worldwide is partially due to the use of immoderate leverage by top management. Since the use of high leverage raises financial risk, shareholders will expect a higher return to compensate them for the financial risk involved.

Finance analysts have over the years identified reliable factors such as leverage, tax, price-to - book ratio, and size as some of the variables influencing the return of shareholders. However, owing to the fact that it is unobservable and difficult to calculate, the managerial capacity factor has often been overlooked, which explains why these variables are regularly ignored in the return model.

While recognizing leverage is associated with high risks for companies, it is said as one of the compulsory parts that a company must have in order to continue its main operation in order to maintain its business success. To the extent that we know, a company needs a lot of money to continue its operations, which makes some of them leverage to help their lack of money. Toh (2017) suggests the leverage of Malaysia's listed companies to be high. A higher leverage may help the company allocate the money to any project in which the company can make a profit.

Therefore, if corporations are unable to meet their debts on time, a corporation with higher debt could also face a financial risk that may lead to bankruptcy. It also reported in the news that the corporate debt had outpaced the profits earned by the firms as the net debt was rising while the earnings per share stayed flat.

Mehta (2014) published a report on financial leverage and the return of shareholders in Pakistan's sugar market from 2005 to 2010. He found that the leverage indicated by the equity to debt ratio had an effect on the return.

On the other hand, Pachori and Totala (2012) conducted a further analysis in which data was collected from automotive cluster companies in India for two periods from 2006 to 2007 and 2010 to 2011. They found that the relationship between leverage and return was negligible.

As for management skills, from 2000 until 2009, Matemilola et al (2013) researched Malaysian listed companies. They analysed the skills of 94 top managers, assessed by their level of education and also by the length of work experiences based on 2009, and found that the outcome was important and positive in relation to the manager's skills and return. In conjunction with Matemimola et al (2013); Nadeem et al (2016) have found that there is a significant and constructive connection between CEO education and the company's success experience.

Since research on the effect of leverage and management skills on the return of companies have different outcomes, this study aims to study the effect of both leverage and management skills on the return in different scopes of study.

This study is basically intent to investigate about the impact of the managerial skills and leverage towards the shareholder's return. The reason for selecting the top 30 listed companies in Malaysia is due to the companies that are having biggest market capitalization in the year of 2018. The researcher randomly selects by market capitalization from all the top 30 listed businesses. Since their market capitalization is not as high as last year, some of the business that was listed in that top position was replaced by another company.

Review of Literatures

Shareholders' Return

There are many measures of shareholders' return. According to Kijewska (2016) return on equity (ROE) is the measure of shareholders' return. Rosikah et al (2018) meanwhile indicate that the return on assets (ROA) and earnings per share (EPS) are the proxies of the return of shareholders. Djamaluddin et al (2017) used return on asset as a proxy for shareholders return. Return on equity (ROE) could be a better measure of return as according to Kijewska (2016) the higher a company's return on equity, the better management is at employing investors' capital to generate profits. A rising ROE can signal that a company is able to grow profits without adding new equity into the business, which dilutes the ownership share of existing shareholders.

Leverage

A few researchs on the relationship between the leverage on the return of shareholders have been carried out. The results of this relationship are either significant or insignificant; positive or negative. Javed (2012) found a strong but negative relationship between the leverage and the return of shareholders in Karachi Stock Exchange from 2005 to 2010. However, Kumar (2015) found leverage and the return of Dubai's financial market to shareholders are significant and related positively. Mirza, Rahat and Reddy (2016) found a similar result to Kumar (2015) for the 2001-2013 Karachi stock market. Through a different angle, through 2005 to 2010, Hassan et al (2013) found insignificant relationships between leverage and dividend payout in Karachi. Similarly, Innocent, Ikechukwu, and Nnagbogu (2014) found a negative and negligible relationship in the Nigerian stock market between the leverage and return on assets from 2001 to 2012. Shakibjoo and Hassanzadeh (2016) analysed the Tehran Stock Exchange and found an important relationship between the return of shareholders and leverage. Based on the above studies the following hypothesis can be developed:

H_A1: There is a significant relationship between leverage and the return of shareholders

Managerial Skills

Managerial skills has been regarded as important factor for shareholders' return. A research by Hayes and Schaefer (2002) showed that the variations in the capacity of the individual responsible for running and managing the business may have an effect on the return of the shareholder. Pundziene and Turauskas (2009) established a link between the characteristics of the manager and the performance of the organisation, where age and education are essential determinants when naming a company's new manager. Huang (2013) examined the relationship between the characteristics of Corporate Social Responsibility (CSR) that the CEO has, such as age, gender, nationality, tenure and educational capability. The scope of the analysis included 392 observations available from 2005 to 2010 in the major ranking agencies. The research concludes that better CSR could be done by CEOs with better educational specialisations such as Master's Degree in Business Administration (MBA) and Master's Degree in Science and Engineering. The CEO's educational capacity created a better and more constructive relationship with the CSR rather than gender.

Moghrabi and Sharabati (2014) found that the skills the manager has to their behaviour are strongly and positively related. The company's manager will handle its power by getting a strong skill and perform well in the future. Shakibjoo and Hassanzadeh (2016) studied Tehran

Stock Exchange and found a significant relationship between shareholders' return and managerial skills.

Gottesman and Morey (2010) have analyzed the characteristics of the CEO on the basis of their educational context against the results of the companies themselves, where their research used the findings of the companies listed in the NYSE as of 1 January 2000, including the CEOs with US undergraduate degrees. They discovered that any academic education the CEO has is not having an impact on the companies' success. The following hypothesis was developed based on the aforementioned arguments:

H_A2: There is a significant connection between management abilities and the return of shareholders

Size

Some studies found size as a significant return factor while the others found different results. Hassan et al (2013) found that size has an important and optimistic relationship with Karachi stock exchange's dividend payout policy from 2005 to 2010. Kuwara (2018) found similar findings in respect of consumer goods listed companies in Nigeria from 2006 to 2016. Yet Salamat and Mustafa (2016), who researched Amman stock exchange industrial firms, found that a favorable yet negligible relationship exists between the firms' size and return. Hamal (2020); Olawale et al (2017); Hashmi et al (2020) found size as significant but negatively affected ROE. The following hypothesis can be established from the arguments mentioned above:

H_A3: There is a significant relationship between size and the return of the shareholders

Price to Book Ratio

The price to book ratio is the market value proxy that separates the book value of stocks where the stock growth index is shown. Moridipour and Farrahipour (2013), who researched 56 Tehran Stock Exchange companies from 2005 to 2009, discovered that the price-to-book ratio had an effect on the return on equity. Marangu and Jagongo (2014), who used all of the Nairobi Stock Exchange's listed firms, found a substantial relationship between equity return and price to book ratio. Djamaluddin et al (2017), who researched 46 Indonesian Stock Exchange companies between 2011 and 2014, found an insignificant relationship between price-to-book ratio and return. Salamat and Mustafa have found similar findings from 2017 to 2014 on the Amman stock exchange. One hypothesis can be established from the above literature:

H_A4: There is a significant relationship between price to book ratio and the return of shareholders

Effective Tax Rate

An important but negative association between the effective tax rate and the return on assets was found by Noor et al (2004), who researched Malaysian listed companies from 2000 to 2004. Another study of 427 Stockholm Stock Exchange companies by Holmen, Knopf and Peterson (2008) found that there is a relevant but negative association between the effective tax rate and the dividend. On the other hand, Kuwara (2018) found a negative and negligible relationship between the effective tax rate and the return on assets of companies. Based on the above, the following hypothesis was developed.

H_A4: There is a significant impact between the effective tax rate and the return of the shareholder.

Industrial Effect

Industrial effect is a factor in which various industries may play a different role in determining the return, profitability or even success of the companies listed, as different industries operate in different ways and processes with different levels of risk.

In explaining firm performance, Hawawini et al (2003) found firm-specific factor is more dominant than industry effect.

Gu et al (2010) conduct an empirical study on the data of 1070 listed companies in 20 industries through the analysis of variance components; the results indicate the industry variables have a notable impact on short-term payoff. Caloghirou et al (2004) found that in both SMEs and large enterprises, firm factors exert a far greater impact than industry factor.

In the period of 2007-2010, Matyjas (2014) analyzed 387 companies listed on the Warsaw Stock Exchange and found that industry effects had no substantial impact on the performance of the companies. Taking into account any industry impact on firm results as proposed by Hawanini et al (2003); Gu et al (2010); Caloghirou et al (2004), the following hypothesis has been formulated:

H_A5: There is a substantial impact between the effect of industry and the return of the shareholder

Research Methodology

Sampling

Due to their market capitalisation and the availability of details, the sample used in this study is the top 30 companies listed in Bursa Malaysia. This research is using a random-sampling method when choosing the firms. This study yields 120 firm-year results in total. In this study the data and variables were collected from Thomson Reuters Eikon and cover the period from 2013 to 2017. The annual data were collected for a period of 5 years.

Variables

Table 1

List of Variables and their operational measurement

Variables	Measurement
Dependent:	
Shareholder's return (SR)	Net income after preferred dividend divided by total equity.
Independent:	
Leverage (LEV)	Total debt divided by total asset.
Managerial skills (MS)	1 for diploma, 2 for bachelor's degree, 3 for qualified professional, 4 for master's level and 5 for PhD holder.
Size (Size)	Log total asset.
Price-to-book ratio (PB)	Market capitalisation divided by book value of equity.
Effective tax rate (ETR)	Tax expense divided by net income time 100%.
Industry effect (IE)	Dummy (0 for other sector, 1 for conglomerate).

Statistical Model

$SR = \beta_0 + \beta_1 LEV + \beta_2 MS + \beta_3 Size + \beta_4 PB + \beta_5 ETR + \beta_6 IE + \varepsilon$

Where;

SR = Return of shareholders

β = Coefficient beta value

β_o = Constant variable

LEV = Leverage

MS = Managerial skills

Size = Size of firms

PB = Price to book ratio

ETR = Effective tax rate

IE = Industrial effect

ε = Error term

Results

Descriptive Analysis

Descriptive analysis is used to interpret the core information features in the data. Results from Table 2 show the mean, median, maximum, minimum, standard deviation and skewness of each variable. All variables are normally distributed except for shareholders' return (SR) and price-to-book ratio. Since the data comprise of 120 firm-year, normal distribution is not an issue.

Table 2

Descriptive Results

	SR	LEV	MS	SIZE	PB	ETR	IE
Mean	0.2967	0.2475	3.0127	16.375	11.367	0.1872	0.3333
Median	0.1226	0.2461	3.0950	16.385	4.4629	0.2030	0.0000
Max	3.3167	0.5775	3.8300	18.771	443.8397	0.4230	1.0000
Min	0.0118	0.0043	1.8500	13.754	0.237712	-0.3050	0.0000
Std. Dev	0.6017	0.1479	0.4609	1.2119	42.69382	-0.0981	0.4734
Skewness	3.8454	0.3689	-0.5931	0.0718	9.084155	-1.3128	0.7071

Correlation Analysis

Correlation analysis is to test the linear correlation between two variables. The result shows a significant correlation between SR and IE, LEV and MS, LEV and SIZE, MS and ETR and, SIZE and IE. The rest of the correlations are not statistically significant at 5% level.

Table 3
Correlation Analysis

Correlation	SR	LEV	MS	SIZE	PB	ETR
LEV	0.1399					
MS	0.1340	-0.3884*				
SIZE	-0.3057	0.2681*	-0.0188			
PB	0.0483	0.0558	0.0111	0.1294		
ETR	0.1560	0.1035	0.2306*	-0.0523	0.0502	
IE	-0.2346*	0.1725	0.0048	0.2278*	0.0840	0.1535
Note: * significant at 5% level						

Regression Analysis

Regression analysis is to test linear relationships between dependent variable and independent variables. From correlation test, only IE is significantly correlated with SR at 5% level. However, it can be seen from Table 4 that more independent variables are significantly related to SR. The result shows that LEV, EDU, SIZE and IE are significant at 5% significant level.

$$SR = 1.8039 + 1.4618LEV_i + 0.3262MS_i - 0.1741SIZE_i + 0.0012PB_i + 0.4585ETR_i - 0.3009IE_i + \varepsilon$$

Table 4
Regression Analysis

Variable	Coefficient	t-Statistic	Prob.
Constant	1.8039*	2.3893	0.0185
LEV	1.4618*	3.7982	0.0002
EDU	0.3262*	2.7016	0.0080
SIZE	-0.1741*	-4.0243	0.0001
PB	0.0012	1.0655	0.2889
ETR	0.4585	0.8632	0.3898
IE	-0.3009	-2.7948	0.0061
N	120		
R^2	0.2624		
Adjusted R^2	0.2233		
F-statistic	6.7022*		
Note: * significant at 5% level			

The 6.7022 F-statistics (p=0.000) suggest that the model is fit and at least one independent variable can be used to interpret SR. The R^2 of 0.2624 shows that 26.24 % of the independent variables LEV, MS, Height, PB, ETR and IE would describe the SR, which in this test is the dependent variable. The 73.75 per cent balance can be explained by other factors. The modified R^2 of 0.2233 means that the independent variables LEV, MS, Scale, PB, ETR and IE clarify 22.33 percent of the variance in the SR, while a further 77.67 percent is clarified by other variables not included in the analysis.

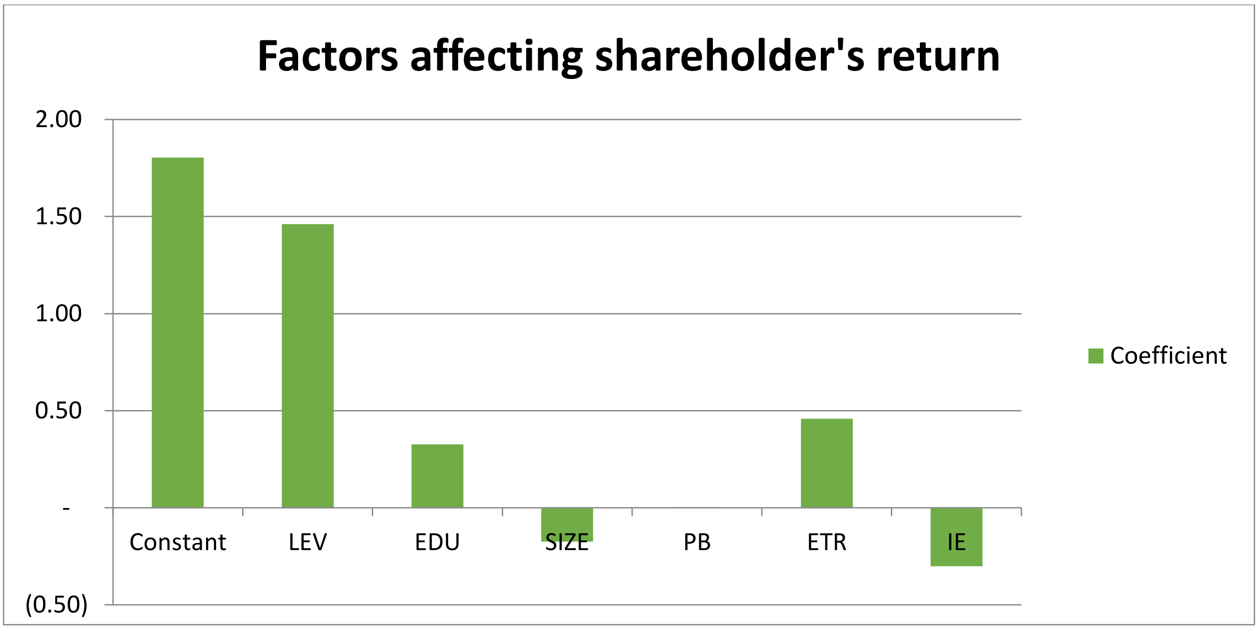

Figure 1: Factors affecting shareholder’s return

The shareholder's return would increase by around 1.46 percent if LEV increases by 1 percent. This is in line with the study conducted by Mirza et al. (2016), in which a significant relationship is formed between leverage and return on assets. With regard to management skills represented by the level of education of the top manager (EDU), the coefficients of 0.3262 (p=0.0080) suggest that there is a substantial association between educational skills and the return of shareholders. This result is comparable to that of Huang S.K. (2013) where he discovered that a manager can do better with a better education such as a Master's degree. Next, the relationship between size and return has a coefficient of -0.1741 (p=0.0001), which, at a significant level of 5%, shows a significant relationship between size and return. If the size increases by 1%, the return will decrease by 0.17%, since there is an inverse relationship between the two variables. The outcome of this research consistent with Hamal (2020); Olawale et al (2017); Hashmi et al (2020), where they also used asset logs to find the scale of the business.

The price-to-book ratio has a coefficient of 0.0012 and its p-value suggests that the price-to-book ratio has an insignificant relationship with return at a meaningful amount of 5 percent. The return of the investor would increase by 0.0012 percent if the book-to-price ratio rises by 1 percent. This finding is consistent with Djamaluddin et al (2017), where the relationship between the price-to-book ratio and the return is also negligible.

The effective tax rate has an insignificant relationship with the return of shareholders (coefficient= 0.4585; p= 0.3898), which indicates that there is an insignificant relationship at 5 percent significance level between the effective tax rate and the level of return to shareholders. The shareholder's return will rise to around 0.4585 percent by growing the effective tax rate to 1 percent. This finding is similar to the previous study in which Kurawa (2018) found the same result when all listed companies in Nigeria studied consumer goods.

The last variable examined is the impact of industry, as the companies used in this study vary from different industries, where the effect of different industries on return is concerned. The variable coefficient of -0.3009 (p=0.0061) shows that there is a significant relationship between the impact of the industry and the level of return at a significant level of 5 percent. The higher return of the investor is related to another market, while the lower return of the shareholder is related to the conglomerate. This result is in line with Matemimola et al (2013) in which they concluded that the return was influenced by different sectors.

In conclusion, this study found that total debt (LEV), management skills (MS), SIZE and IE have an important relationship with the shareholder's return, whereas the other two variables, the price-to-book ratio (PB) and the effective tax rate (ETR), do not have an important relationship with the shareholder's return.

Conclusions

The purpose of this research is to investigate whether there is any correlation between leverage, management skills, scale, price-to-book ratio, effective tax rate, and the return of shareholders from the top 30 companies listed on Bursa Malaysia from 2013 to 2017.

Based on the findings, a few conclusions can be made. First, level of leverage is important to a company as it has a significant effect on shareholders' return. The higher the leverage the higher is the return. This is similar to Karachi Stock Exchange finding for a period from 2001 to 2013 (Mirza et al., 2016). Based on this, shareholder's return the Top 30 companies could be improved if the company increase the percentage of leverage if it is necessary and the level of existing leverage is not to high. However, the recommendation may not be applicable to smaller companies as the sample only covers Top 30 companies.

Second, academic qualification in management is also essential to an organisation as it has a direct impact on the return of shareholders. Huang's (2013) indicated that the proposed manager with a higher education level such as a master's degree would lead to better results of the business rather than the ones that are not. Therefore, companies should ideally choose management workers with higher academic qualifications.

Thirdly, high shareholders' return is associated with smaller firms whereas low shareholders' return is associated with large firms. This follows the findings of (Hamal, 2020; Olawale et al., 2017; Hashmi et al., 2020). To improve the level of shareholders' return, the firm should not reduce the their size by selling their assets but companies need to increase total sales (Olawale et al., 2020) at the same time make use the effect of other factors which are level of leverage and level of education of its managers as those factors are within the control of the company.

As found by Djamaluddin et al (2017) price-to-book ratio shows a negligible effect on shareholders' return. So, high share price and high market capitalisation does not affect shareholders' return significantly. Effective tax rate also has an insignificant effect on return of the shareholders. This is confirming the work of (Kurawa, 2018). Last but not least, industry has an influence on shareholders' return, implying that companies belonging to different industries yield different returns to shareholders. This is consistent with the result of Matemimola et al (2013) that studied Malaysian companies for 2000-2009.

This study noted that the price-to-book ratio and the effective tax rate do not affect the return the investor earns from the businesses, so future studies may take into account those factors that could affect the return, such as the trading day, the share price, and the profitability of the company itself.

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