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Impact of Selling, General and Administrative Expenses on Financial Sustainability of IT Companies Listed in S&P 500

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Abstract

Purpose – This paper attempts to determine the importance of financial sustainability and the impact of Selling, General and Administrative Expenses (SG&A) on the financial sustainability of the IT industry.

Research design, data, and methodology – Primarily the impact of SG&A expenditure on the sales revenue, assets, gross margins and profit is ascertained. After that the impact of SG&A expenditure, sales revenue, assets, gross margins and profit on the financial sustainability i.e., return on assets is worked out. Finally the impacts of financial sustainability i.e., return on assets on total enterprise value and market valuation multiples are found out.

Results – The empirical result shows that SG&A expenditure most strongly impacted sales revenue, assets, gross margins and profit positively. Financial sustainability impacted in mixed manner with SG&A expenditure, sales revenue, assets, gross margins and profit. Assets and gross margins have weak positive impact on financial sustainability. Sales revenue has no impact on financial sustainability. Finally financial sustainability had moderate positive impact on total enterprise value and had no impact on market valuation multiples.

Conclusions – SG&A expense has moderate positive impact on the financial sustainability and magnitude is very low.

Keywords: Information Technology, SG&A Expenses, Financial Sustainability, Return on Asset, Gross Margin, Revenue, Profit, Total Enterprise Value, Market Multiples.

1. Introduction

This research is to investigate the impact of selling, general and administrative expenses on financial sustainability of Information Technology (IT) companies listed on the S&P 500 Index for the period of 10 years from 2003-2012. Selling, general and administrative expense (SG&A), which is a major non-production operating expense, is the cost of storing goods and preparing them for sale preparing displays, advertising and otherwise promoting sales and delivering goods to buyer if the seller has agreed to pay the cost of delivery. General and administrative expenses include expenses for accounting, personnel, credit checking, collections and any other expenses that apply to overall operations. Although occupancy expenses, such as rent expense, insurance expense and utilities expense, are often classified as general and administrative expenses, they can also be allocated between selling expenses and general and administrative expenses. Financial sustainability is the analysis and use of monetized environmental, social and economically-related information in order to improve corporate environmental, social and economic performance. In this research, ROA (Return on Assets) has been chosen as a measure of financial sustainability. Relationship of SG&A expenditure on Revenue, Assets, gross margin, and profits examined was ascertained in the first stage. In the next stage the impact of each of these performances on ROA has been analyzed which is metric for determining financial sustainability. Finally, the relationship between financial sustainability and total enterprise value and market multiples has been studied.

1.1. Objectives of the Study

The objectives of the study are:

- (1) to determine the impact of SG&A expenditure on the Sales revenues, Assets, gross margin, profit and financial sustainability.
- (2) to determine the impact of SG&A expenditure, Revenue, Assets, Gross margin, profit on financial sustainability of

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IT companies which is measured by Return on Assets.

- (3) to determine the impact of financial sustainability i.e., return on assets on total enterprise value, and market multiples.
- (4) to determine the extent of relationship between SG&A expenditure and Sales revenues, Assets, gross margin, profit and financial sustainability.
- (5) to determine the extent of relationship between financial sustainability and SG&A expenditure, Sales revenues, Assets, gross margin, profit.
- (6) to determine the extent of relationship between financial sustainability and total enterprise value and market multiples and
- (7) to determine the indirect relationship between the SG&A expenditure and the firm value.

1.2. Motivation of the Research

Rogers et al. (2013) state that three pillars or triple bottom line of sustainability are environmental, economic and social and the third pillar offers social capital as one measure of social sustainability. The results of survey by Sánchez-Medina et al. (2011) show a direct positive relationship between environment, innovation and sustainability in three dimensions: economic, social and environmental. Gallego-Alvarez et al. (2014) emphasizes that socio-economic factors, not political factors, are determinant factors for environmental performance in countries world-wide. Le Poire (2014) perceives that societal prosperity is linked with sustainable energy and a healthy environment and of late, energy usage is identified as a major component of economic productivity, along with capital and labour.

Dobre et al. (2015) point out that environmental and social performance has influence on financial performance in the long run. Responding the recent call of sustainable innovation, the study by Lopez-Valeiras et al. (2015) investigates how management accounting and control systems help the adoption of the benefits of sustainable innovation in organizations. The results of the study by Shen et al. (2015) depict that financial constraints comprise the main barrier to the implementation of corporate social responsibility. The study offers both societal and scientific insights, identifies limitations, and provides an approach that may be extended in the future, once additional factors are implemented. The results of the study by Woo et al. (2014) highlight that the business-group affiliation and the listing status as the complementary assets positively moderate the performance of the environmental innovation.

Choi et al. (2014) states that perceived corporate sustainability practices have a positive impact on employees and organizational performance. Chen (2014) suggests that companies may consider an integrated sustainable business and development system to improve talent management, leverage resources effectively, reduce innovation barriers and finally engage sustainable practices strategically. He et al. (2014) provide a new idea for the optimum price ratio of typical energy sources based on the computable general equilibrium model. Shokravi & Kurnia (2014) observe that a quantitative tool to measure the sustainability

performance of an industrial supply network is hard to find.

A business is socially responsible to society on social sustainability, environmental sustainability and economic sustainability. But is it the first priority? Friedman (1960) criticized the above view on the ground that any goal other than profit maximization is bad for the company. It can result in misallocation of resources. By using the concept of profit maximization, Milton Friedman gave importance to financial sustainability as the first priority. Smith (1776) views that the best interest of society as a whole are served by the self-seeking actions of individuals. The undesirable side effects of the market can be tackled by elected governments. Attempts by individual companies to shoulder the role of government are misguided. This is a question of efficiency Vs equity issue. The efficiency issue is concerned with maximizing the output of goals and services. The equity issue is how the output should be distributed among the members of society to fulfill the requirements of achieving social, environmental and economic sustainability (Full employment). The achievement of social, environmental and economic sustainability is possible or feasible only if the business is financially sustainable. Hence, as per Friedman, the managers should not attempt social sustainability directly. Once profits are made to achieve financial sustainability, attempts to discharge social responsibilities can very well be made. Considering the literature presented above, there is a little emphasis on financial sustainability. Kotler (1972) indicates that the purpose of advertisement is to bring the buyer near water. After bringing the buyer near water as a testimony for the awareness of the product, the next step is to whether the buyer drinks the water depends upon the quality and price margin of the product. Both quality and price margin have a sustainability role of increasing profitability to achieve financial sustainability. This argument is very much true in the case of IT companies. The empirical evidence in the study by Mithas et al. (2012) suggest that IT has a positive impact on profitability. Importantly, the effect of IT investments on sales and profitability is higher than that of other discretionary investments. This is the reason for carrying out this research on financial sustainability of IT companies which have been playing dominant role in shaping global organizations in manufacturing, trading and service sectors.

1.3. IT Industry in U.S.A.

The key game changer to drastically change social behavior across the world is new revolution in Information Technology (IT). In the last two decades, Information Technology (IT) has been a key driver of innovation in many areas. In the past two years, manufacturing in the IT industry has been extremely volatile, with leading companies like Google, Motorola, Nokia, Microsoft, Apple, and Hewlett-Packard making major changes in their commercial strategies. Companies need to compete with other and need to attract the customers. The products also should be in lime light. In order to achieve this, advertising, new sales promotions and new innovative thoughts to attract customers is key factor. The SG&A expenditure is a key factor deciding the companies' profits and growth. From the examples

of these companies, it can be concluded that the success in the IT marketplace cannot be sustained merely by being the leader in terms of market share but they also need to spend effectively in promoting their products to through advertisements and sales promotions. This makes the products to penetrate into the market and achieve more market share.

1.4. S&P 500 Index

The 500 is an index of the prices of 500 large-cap common stocks actively traded in the United States. The stocks included in the S&P 500 trade on the New York Stock Exchange or NASDAQ - two of the largest American stock market exchanges. After the Dow Jones Industrial Average, the S&P 500 is one of the most commonly followed equity indices. Many kinds of funds such as mutual funds, ETFs (Exchange-Traded Funds), and pension funds are designed in a way that they track the performance of the S&P 500 index. The S&P 500 is not just to the index, but also to the 500 companies that have their stocks included in the index. The stocks included in the S&P 500 index are also part of the wider S&P 1500 and S&P Global 1200 stock market indices. Companies included in the S&P 500 are broadly classified into ten different industries. Information Technology (IT) is one among them.

2. Literature Review

2.1. Selling, General & Administrative Expenses (SG&A)

High SG&A expenses can be a serious problem for controlling any business. Ratios are compared with industry average of the same companies to decide whether it is higher or lower. This will give an overview to the management whether they are spending wisely and control measures are in place. In any industry, management must carefully monitor their market expenses. Particularly in the case of television industry, business must keep their marketing expense under the tight control and should be limited to a certain percentage of revenue by reducing the corporate overhead. Andras & Srinivasan (2003) found that consumer product organizations have higher advertising intensity than manufacturing product organizations and manufacturing product organizations have higher R&D intensity than consumer product organizations. Advertising intensity and R&D intensity are positively related to firm profit margins. Andras & Srinivasan (2003) study showed that non-manufacturing companies should spend more on advertising expenses when compared to manufacturing companies to have the same level of revenue. Kwon (2011) determined the influence of internal cash flow on the advertising expenses. It showed more significant positive relationship for firms with higher advertising expenses intensity than for firms with lower.

2.2. Revenue

Seizing control of selling, general, and administrative expenses (SG&A) plays a key role in maximizing productivity and staying competitive. SG&A Expenses proportionately increase with the sales revenue amount. In the firms with low sales revenue, SG&A expenses and material cost impact will be equal. In medium revenue firms, SG&A expenses impact is more on the operating income than on the material costs. In firms with high sales revenue, the SG&A expenses impact on earnings. Anderson et al. (2007) explained the SG&A relation to future earnings based on revenue incline and decline. They stated that in revenue declining periods, the SG&A costs are positively related to the future earnings and in revenue incline periods the SG&A costs are negatively associated with future earnings. Baumgarten et al. (2010) stated that in the cost-efficient firms, the increase in SG&A ratio has positive relation with future earnings. In the cost-inefficient firms, the increase in SG&A ratio has negative relation with future earnings. Sidhanta & Chakrabarty (2010) empirical study showed that SG&A expenses have a significant impact on Sales revenue and profits. They found the inverse relation between the debt to equity ratio and expenses. Banker et al. (2006) studied the effect of SG&A expenditure on future economic benefit. They stated that current SG&A expenditure has a positive impact on future earnings.

2.3. Assets

Levesque et al. (2012) studied the spurring growth of the company on the increase of R&D and SG&A expenses. The spending on innovation and research will influence the growth of the company. The spending on the SG&A expenses increase the brand image. Both R&D and SG&A expenses together will increase the profitability and growth of the company but managers need to balance between R&D and SG&A expenses to have profitability and growth of the company. Banker et al. (2006) inferred that investors do not consider all SG&A expenditure as an expense in the current period. Investors feel that some component of SG&A expenses will be used for enhancing the asset base of the firm. Biddle et al. (1997) studies found the role of advertising expenditure in creating an intangible asset. A large component of SG&A is selling expenditure other than advertising that includes sales promotion, customer development and distribution channel management. Both marketing and selling expenditure are capitalized as an adjustment to earnings in calculating EVA. Cleland & Bruno (1996) studies revealed that expenditure on employee training or customer satisfaction systems will create intangible assets that may be associated with future financial performance.

2.4. Profitability

Future operating profits are improved as a result of increasing current selling, general, and administrative expenses for SG&A-cost-efficient firms. Future operating profits are improved

mainly through a reduction in the future cost of goods sold. If the firms with declining sales had managed SG&A costs efficiently, higher improvements will be seen in operating profitability in the future. Enekewe et al. (2013) studied the relationship between the profitability with debtors' turnover ratio, creditors' velocity and total assets turnover ratio. There is a negative relationship between all independent variables with profitability. It also revealed that debtors' turnover ratio, creditors' velocity and total assets turnover ratio have no significant relationship on the profitability of the company while only inventory turnover ratio shows a significant relationship with profitability. Brynjolfsson & Hitt (2000) study showed that many component items SG&A expenditure have long-run impact on a firm's future performance. i.e., operating performance is positively associated with lagged IT spending. Eli et al. (2013) found that revenues and expenses are fundamentally proportional to one another, but are likely to be disproportionally affected by transitory items or economic shocks.

2.5. Gross Margin

As per the experts' opinion, a holistic approach should be considered for managing the total SG&A expenses. Management gives power to control the SG&A expenses by adding value to the organization. Approximately 25-50% of SG&A expenses can be reduced if the management follows the holistic approach to control the costs. SG&A expenses are proportional to the gross margin, but not to any driver. The more they have, they spend more. Converse (1955) study on drug stores revealed that the increase in SG& expense increased the gross margin. The increased sales caused the increased revenue and increased gross margin. Stasz (2003) study showed that gross margin can be improved by integration strategy methodology. New methodologies allow companies to take systematic approach to improve the profitability and gross margin without having to undergo massive transformation. Wright (2009) study offered a new solution to the advertising budgeting problem, developed through empirical optimization. In his empirical optimization, the author showed that for advertising budgeting, if advertising elasticity is 0.10, the optimal advertising budget is always 10 percent of gross margin.

2.6. Financial Sustainability

Kurapatskie & Darnall (2013) found that both types of sustainability activities are similarly associated with firm's financial performance in terms of direction and trend. However, high sustainable activity like developing new product will tend to give high financial performance whereas the lower-order sustainability activities like modifying existing products will tend to give less financial performance. These findings offer initial evidence that companies that reach further by developing higher-order sustainability activities may reap greater financial benefits, while improving the natural environment to a greater degree. Wagner & Blom (2011) stated that there is a reciprocal and non-linear re-

lationship exists between sustainability and financial performance. For financially well performing firms, there is positive relationship with environmental management system (EMS) or sustainability with financial performance. For the less well performing firms, the negative relationship exists between the sustainability and financial performance. Vitezic et al. (2012) research confirmed that sustainability concept of performance has a positive relation with financial performance. These firms disclose their corporate social responsibility activities to have competitive advantage over the other companies. The research concluded that companies with well financial performance and large in size are more aware of their corporate social responsibility. Sustainability is a multi-faceted concept frequently invoked in environmental discourse. A business that is not financially sustainable will only be able to survive in the market for so long. Eventually, all of its savings will be used up and there will be no assets to sell to cover the expenses. This is what makes financial sustainability such an important part of managing a business successfully now and into the future.

2.7. Enterprise Value

Michal (2011) highlighted how the executive incentives create long term value to the firm. SG&A investments in the form of equity incentives to the managers create a long term value to the firm. But measuring SG&A expenses as investment is a black-box in nature. Ou (1990) studied the stock return prediction based on current year non-earning financial number to the future years. The author found that non earnings numbers in the financial statements has no impact on current year earnings. But it has impact on next year earnings. The prediction of stock return response of future earnings change is over and beyond its response to current earnings. Contemporaneous stock prices may already fully value the intangible asset created by contemporaneous SG&A expenditure. Executive compensation causes changes in bonus and equity compensation. This has negatively related to the SG&A expenditure. But this negative relation decreases when SG&A expenditure has a relatively greater effect on future earnings. Yang et al. (2013) found that traditional and strategic asset seeking FDI create value and traditional FDI creates more value than strategic asset-seeking FDI for Chinese MNEs. Tian et al. (2012) determined an important index for measuring the value creating ability of enterprises. Economic Value Added (EVA) proposed a new concept on profit of enterprises, which took the application efficiency of capital in a comprehensive way. Ong & Chen (2013) determined the impact of information technology capabilities on firm performance, future firm performance, and firm value. IT capabilities positively and significantly influence all three constructs and that the significance level of firm value is higher than that of firm performance and that of future firm performance. That is, IT capabilities are more relevant to firm value, which represents growth opportunities, intangible assets, and innovation, etc.

3. Methodology

The sector chosen for this research topic is IT companies in US which are listed in S&P 500 index. To test the relationship implied by the research model and the research hypotheses, this study used secondary sources for data collection. The first step of data collection involved was to identify the IT companies listed on the S&P 500 Index as on 31st December 2013. This gave us a sample of sixty five companies. The sample was analysed for a period of ten years i.e., from 2003 to 2012. The second part of data collection involved was to identify the ratios to measure each of the identified parameter i.e., Sales, general and administrative expenses, Revenues, Assets, Gross margin, Profit, financial sustainability, total enterprise value, market multiples. The data has been collected from Capital IQ data base. The financial data contains the key ratios, income statement, balance sheet, cash flow statement and other statements which come with financials data. In order to have uniformity, all the data are standardized. Standard deviation and mean are calculated for each variable. The mean deviation has been calculated. Then Deviation from the mean value is divided by the standard deviation. This gives the values in multiples of standard deviation. By standardizing the values, variables with different units will be used in the research model to find the relationships between them. The ratios and values are derived as follows:

SG&A expense values taken from the income statement for the ten years. Year on year growth is calculated for all the ten years. The average for ten years is taken as the average increase per year in the SG&A expense.

Revenue YoY growth: All the ten years revenue taken from the income statement. Change in revenues from the previous year to current year is calculated for all the ten years. The average of the ten years change in revenue has given the average revenue change.

Asset YoY growth: Total asset value is taken from the balance sheet. Year on year growth is calculated for all the ten years. Average of the ten years YoY growth value has given the Yearly average increase of as set value.

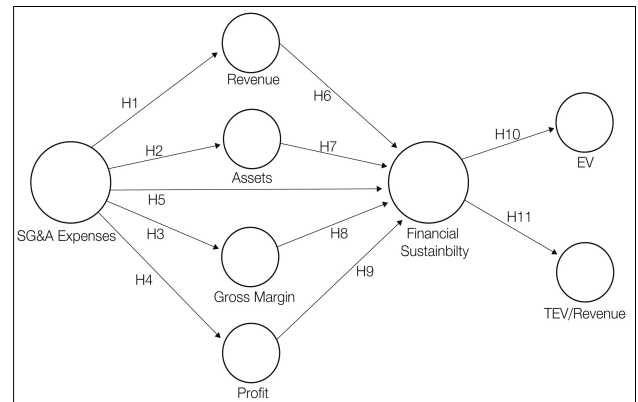
Gross margin: This value is taken from the income statement and average for the ten years is calculated.

Profit: This value is taken from the income statement and average for the ten years is calculated.

Gross margin for each year is calculated by deducting the COGS from revenues. The average value for ten years has been taken for the study.

Return on assets: Net income from income statement divided by total assets from balance sheet has given the ROA. Average 10 years has been taken for the study.

3.1. Research Model and Hypotheses



<Figure 1> Research Model(Adapted from Waddock & Graves, 1997).

The proposed hypotheses based on the above extensive literature review are as below:

- <Hypothesis1> There is significant relationship between SG&A expense and Sales Revenue of IT companies.
- <Hypothesis2> There is significant relationship between SG&A expense and Assets of IT companies.
- <Hypothesis3> There is significant relationship between SG&A expense and Gross margin of IT companies.
- <Hypothesis4> There is significant relationship between SG&A expense and Profit of IT companies.
- <Hypothesis5> There is significant relationship between SG&A expense and financial sustainability of IT companies.
- <Hypothesis6> There is significant relationship between revenue and financial sustainability of IT companies.
- <Hypothesis7> There is significant relationship between Assets and financial sustainability of IT companies.
- <Hypothesis8> There is significant relationship between Gross margin and financial sustainability of IT companies.
- <Hypothesis9> There is significant relationship between Profit and financial sustainability of IT companies.
- <Hypothesis10> There is significant relationship between financial sustainability and total enterprise value of IT companies.
- <Hypothesis11> There is significant relationship between financial sustainability and market multiples of IT companies.

4. Data Analysis and Results

IBM SPSS Statistics 22 has been used for data analysis. The significant factors considered for the model are probability value, co-relation coefficient and R square.

<Table 1> Summary of findings

Hypothesis	Corelation Coefficient	R-Square (%)	p-value	Supported - Yes/No
SG&A to Sales Revenue	0.753	56.70%	<0.05	Yes
SG&A to Asstes	0.798	63.60%	<0.05	Yes
SG&A to Gross margin	0.72	51.80%	<0.05	Yes
SG&A to Profits	0.787	61.90%	<0.05	Yes
SG&A to Financial sustainability	0.305	9.30%	<0.05	Yes
Sales Revenue to Financial sustainability	0.237	5.60%	>0.05	No
Assets to Financial sustainability	0.269	7.30%	<0.05	Yes
Gross margin to Financial sustainability	0.259	6.70%	<0.05	Yes
Profits to Financial sustainability	0.366	13.70%	<0.05	Yes
Financial sustainability to total enterprise value	0.308	9.50%	<0.05	Yes
Financial sustainability to TEV/Revenue	0.206	4.30%	>0.05	No

The co-relation co-efficient gives the positive/negative relation and strength of the relationship between the variables. The R square value gives the magnitude of the influence of the independent variable on dependent variable.

Below are the summary of the co-efficient, R-square, p-value along with hypothesis support status.

5. Discussion

The impact of year-on-year changes in SG&A expenditure on the year-on-year changes in sales revenues is significant and positive. The co-relation coefficient for SG&A expenditure and Sales revenue is 0.753. The p value is less than 0.5. This shows that the impact year-on-year changes in SG&A expenditure on year-on-year changes in sales revenues is positive with 95% significance.

The impact of year-on-year changes in SG&A expenditure on the year-on-year changes in Asset base has significant and positive. The co-relation coefficient for SG&A expenditure and Asset base is 0.798. The p value is less than 0.5. This shows that the impact year-on-year changes in SG&A expenditure on year-on-year changes in Asset base is positive with 95% significance.

The impact of year-on-year changes in SG&A expenditure on the gross margin has significant and positive. The co-relation coefficient for SG&A expenditure and gross margin is 0.753. The p value is less than 0.5. This shows that the impact year-on-year changes in SG&A expenditure on gross margin is positive with 95% significance.

The impact of year-on-year changes in SG&A expenditure on the profits of the firm has significant and positive. The co-relation coefficient for SG&A expenditure and Sales revenue is 0.787. The p value is less than 0.5. This shows that the impact year-on-year changes in SG&A expenditure on firm profits is positive with 95% significance. This concludes that companies SG&A budget increase has an objective to increase the revenue, assets, gross margin and profit. This is possible due to objective increase of SG&A Expenditure rather than uncontrolled

expenditure.

The co-relation coefficient for SG&A expenditure and financial sustainability is 0.305. The p value is less than 0.5. This shows that the impact year-on-year changes in SG&A expenditure on firm financial sustainability is positive with 95% significance.

The co-relation coefficient for Sales Revenue and financial sustainability is 0.237. The p value is more than 0.5. This shows that the impact year-on-year changes in Sales Revenue on firm financial sustainability do not have any significance.

The co-relation coefficient for Assets and financial sustainability is 0.269. The p value is less than 0.5. This shows that the impact year-on-year changes in Assets on firm financial sustainability is positive with 95% significance.

The co-relation coefficient for gross margin and financial sustainability is 0.259. The p value is less than 0.5. This shows that the impact of gross margin on firm financial sustainability is positive with 95% significance.

The co-relation coefficient for profit and financial sustainability is 0.366. The p value is less than 0.5. This shows that the impact of profit on firm financial sustainability is positive with 95% significance. These results conclude that even though financial sustainability is impacted by the SG&A expenditure, assets, gross margin and profits, the increase in financial sustainability is limited. Sales revenue is not able to contribute for the financial sustainability. This gives a clear picture that financial sustainability does not depend on the volume of revenues. Firms have an objective to have more sustainable in the long run requires looking for the right business strategies rather than concentrating on temporary measures like sales promotions etc.

The co-relation coefficient for financial sustainability and total enterprise value is 0.308. The p value is less than 0.5. This shows that the impact of firm financial sustainability on total enterprise value is positive with 95% significance.

The co-relation coefficient for financial sustainability and market multiples is 0.206. The p value is more than 0.5. This shows that there is no impact of firm financial sustainability on market multiples. This concludes that limited effect of financial sustainability on the total enterprise value. But in the case of market multiples, it is no way connected with financial sustainability.

5.1. Limitations and Scope for Further Research

This study has a few limitations. SG&A expenditure can be intentional or unintentional. If the SG&A expenditure is intentional, then the firm has objectives to increase the SG&A expense. This has positive impact on the rest of the variables. Whereas if the SG&A expense are not intentional, that means the firm is not able to have control on the SG&A expenses. This may negatively impact the other variables. This information cannot get from the annual reports. Alternatively IT companies spend their SG&A expenditure for various sales promotions and advertisements. This expenditure also depends on the stage of the product. If the product in the IT Company is in growing stage, even with minimum SG&A expenditure, it will be able to generate large revenue, gross margin, assets and profits. If the product in the declining stage, in order to extend the life of the product the companies will spend the more SG&A expenditure for managing the product. This information is not available in the financial reports which will impact the magnitude of SG&A expenses. If details regarding these expenditures are available, their specific impact on other variables can be ascertained.

This study covered only the IT companies listed in the S&P 500 which is measure for IT companies listed in NASDAQ and New York exchanges only. It is representative of part of American IT industry. Hence these results are reflective for IT companies in America with certain range of revenue. The other IT companies in America and rest of the world are not considered. The environmental, political, socio economic conditions of other regions are different than America. Legal policies, taxation rules, cultural difference also has different for different regions which will influence the variables. In this study each variable influence is represented by R square which are always less than hundred percent. Rest of the percentage influence is due to other factors. If that effected variables are able to figure out and considered in the model, then model will become more accurate.

IT companies could have segregated further into sub-industries as per the Global Industry Classification Standard- 'software and services', 'technology hardware and equipment' and 'semiconductors and semiconductor equipment.' This would've led to a more accurate assessment of SG&A expenditure's impact on ROA. The ROA might be impacted by factors and variables other than the ones that are identified. With a higher number of variables identified in the model, changes in ROA might be explained in a better way.

5.2. Managerial Implications

The companies with high profitability don't mean that the companies are financially sustainable in the long term as the influencing magnitude is low. But SG&A expense is a major considerable influencing factor for the profitability of the company. It is also has significant impact on improvement in sales revenue and Asset base increase. In order to assess the impact of SG&A expense in other regions and other sectors, this study

can be taken as guidance only. Actual impact can be decided by analyzing the concerned data.

6. Conclusion

It was concluded based on above study that SG&A expense has moderate positive impact on the financial sustainability and magnitude is very low. This implies that SG&A expense is not a considerable influencing factor for the financial sustainability. Profitability also has moderate positive impact on the financial sustainability and still the magnitude is low.

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