Corporate Governance and Its Determinants: A Study of Pharmaniaga Sdn Bhd

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Abstract

This study focusses at the aspects that can impact the outcomes of Pharmaniaga Berhad. The goal is to discover internal and external variables, as well as the combination of factors that may have an impact on the performance of Pharmaniaga Berhad. To determine the degree of significance of the connection between these variables, methods such as statistical and regression techniques have opted in this research case. When certain variables are considered, it becomes evident that return of equity (ROE) compared to other determinants, has the most significant influence on Pharmaniaga Berhad' s performance. Nevertheless, even though the Pharmaniaga Berhad financial issue in 2022 possibly had an impact in the company subsequent slump in their performance but it is highlight that the financial issue is not coming from the any fraudulent activities.

Keywords: *Pharmaniaga Sdn Bhd (Malaysia), performance, profitability, Return of Assets (ROA), corporate governance*

1.0 Introduction

The subject matter of this chapter will be briefly discussed on the comprehensive overview of Pharmaniaga Berhad, mainly focusing on its history and background. Later, the problem statement, research goals, scope of the study, research questions and organisation of the report will all be explored in further detail as well.

1.1 Background of Pharmaniaga SDN BHD

Established in 1994, Pharmaniaga has evolved into one of Malaysia's largest listed integrated pharmaceutical groups, playing a pivotal role across the entire pharmaceutical value chain—from research and development to the production of generic drugs, over-the-counter medicines, logistics and distribution, and sales and marketing. Notably, in 2021, Pharmaniaga achieved a significant milestone by becoming the first Malaysian pharmaceutical company to fill and finish manufacture a human vaccine. With a formidable presence in the domestic market, Pharmaniaga is actively exploring strategic expansion opportunities to enhance its international reach.

Their mission is to provide quality products and superior services through the efforts of professional, committed, and caring employees. Them aspire to be recognized as the preferred pharmaceutical brand in regional markets, guided by our core values of Creativity, Integrity, and Innovation, and a commitment to always doing things right.

The company's "DIRA" campaign is aimed at embedding Environmental, Social, and Governance (ESG) values in our organizational culture. Pharmaniaga is unwavering in its commitment to adhering to the best ESG practices, fostering a safe, effective, and harmonious working environment, and consistently generating value for stakeholders. Through the DIRA campaign, their reinforce the dedication to sustainable business practices and responsible corporate citizenship.

1.2 Problem Statement

A problem statement serves as a concise and explicit depiction of a particular issue or challenge that requires attention and resolution. It plays a pivotal role in guiding problem-solving endeavours by outlining the parameters and significance of the problem at hand.

According to Berita Harian, on February 28, 2023, the financial distress faced by Pharmaniaga Bhd, categorized under PN17 due to reported losses, prompts the need for swift recovery measures. Despite the incurred net loss of RM607.2 million for the financial year ending December 31, 2022, attributed to factors like the 'slow-moving COVID-19 vaccine stock,' it is emphasized that the losses stem from regular business transactions rather than fraudulent activities. The decline in share value and the possibility of a further decrease necessitates an exploration of effective recovery strategies. Two main shareholders, Boustead Holdings Bhd and Lembaga Tabung Angkatan Tentera (LTAT), play a crucial role in Pharmaniaga's future financial stability. The proposal of additional equity funding, potentially through a rights issue, private placement, special issue, or privatization by main shareholders, is highlighted as a plausible coordination plan. However, the feasibility and acceptance of this approach among investors are subject to uncertainty, especially given the challenging economic environment. The overarching problem is how Pharmaniaga can efficiently recover from its financial setbacks, considering the impact on shareholders, potential fundraising strategies, and ongoing efforts to sell COVID-19 vaccine supplies, amidst the challenges posed by the PN17 classification (Mohd Zaky Zainuddin, 2023).

1.3 Research Objectives

The objectives of this research are:

1. To ascertain the internal or firm-specific factors that could have influence on Pharmaniaga Berhad performance.
2. To identify the external or macroeconomic factors that could have influence on Pharmaniaga Berhad Performance.
3. To investigate the internal and external factors that could have influence on Pharmaniaga Berhad performance.

1.4 Research Question

1. Is there any relationship between the internal factors with Pharmaniaga Berhad performance?
2. Is there any relationship between the external factors with Pharmaniaga Berhad performance?
3. Is there any relationship between the internal and external factors with Pharmaniaga Berhad performance?

2.0 Introduction

Performing a relevant literature review for this study is the focus of this chapter. It comprises two components: internal and external factors, mainly focusing on the context of corporate governance, performance, liquidity risk, credit risk, operational risk, and market risk.

2.1 Corporate Governance

According to the Ching et al (2006), corporate governance refers to the set of processes, structures, and rules in order to control and lead the company. The implementation of the corporate governance in the company is very vital as it determines the relationship between the top management, shareholder and stakeholder that involved in the company. Since all the parties involved will be affected by the performance of the company or affect the company itself. A good corporate governance practices in the company will make it easier for the internal parties to monitor and control the input in the company. So, the company must take a serious suggestion about the well-rule company in order to achieve long-term financial performance and sustainability, Singh and Pillai (2001). Owing to the fact that the external parties also will look at the company whether they are really implied the corporate governance rule in their company before deciding the relationship with that company. Some of the companies might think they will lose the profit if they be too ethical in determining company big decisions. However, according to the J J Irani, he strongly believes that being ethical do not means that the company will deprivation on profit, but the company can gain profit by be an honest and transparent company and later the company can give back those goods to the local community. He also highlighted that the practices itself do not inflict by the law but the by the change of the mindset.

2.2 Performance

Performance is defined as the profit that company gain from their primary company activities, Gofwan (2022). The financial performance is the key indicator whether the company is good in handling their money and optimize their resources in the best way to make sure it meets the needs for their internal parties as since they will keep an eye on the company financial performance, Man & Wong (2013). There are so many key indicators that we can use to analyse company financial performance such as

ROA and ROE. According to the Bansal (2004), return of asset (ROA) shows how effective the company turns out its assets into the net capital. The higher the value of the ROA, means the good it is for the company management. Instead, if the ROA is low means there is something that company lack or affected by any other factors. Next is the return of equity (ROE), Wahjudi (2009) says that ROE is known as the profitability used by the company to calculate the return of the shareholders' investment as it will shows that the capability of the which of the shareholders' investment have been used. The higher value of the ROE means that the company successfully turns out the investment fund into profit.

2.3 Liquidity Risk

According to the Women (2010), current ratio is defining as not a representative for the company in which to determine the future earnings growth. As we know, current ratio is medium to show that the company ability to pay off their short-term debt by using the current assets of the company. Ang (2001) says that if the current ratio is high, it will lessen the unsureness for the investors. Toto Pribadi (2008, says that the current ratio is determined by comparing the current assets and current liabilities. The high value of company liquidity means that the value in the current ratio is high. Additionally, according to the Wardana (2015), company with the low value of current ratio will use the current assets to pay the short-term liabilities and the high value in current ratios shows that the company is not good enough to manage the cash and inventory.

2.4 Credit Risk

Credit risk is defined as the risk that the borrower will failure to pay on any type of the debt. The debt is full responsible for the borrower to pay because the credit risk is considered as the primary risk to the lender as it is including the principal and the interest rate. As result, the lender will be facing the interference in the cash flows which is may be partial or complete of the loss, Markowitz (1952). So, it is very important to the bank to analyse the risk and mitigate it. This is because credit risk helps the bank to modify their capital.

2.5 Operational Risk

Operational risk refers to the risk of a loss because of the insufficient or not achieving internal processes, people, or system or from the external events, Basel Committee on Banking Supervision (2006). Operational risk can emerge from any sources and can have significant relationship to the company ability to reach their goals. Operating margin refers to financial indicators that shows the percentage of the company revenues after deducting company operating expenses. Through operating margin, it provides an overview of the company efficiency in handling the operation and capacity to make the profit. Most of the time, the high value in the operating margin, the greater operational efficiency and profitability.

2.6 Market Risk

Market risk is defined as the risk in financial loss occurring from the movements in the market price. On top of that, market risk is evaluated by the responsiveness of the financial institution especially in earnings or economic value. Such as inflation, interest rate, FX rate (vs. USD), unemployment, GDP growth, and industrial production rate, Board of Governors of the Federal Reserve System, (2023). Market risk can affect the investment. However, we can't simply remove it as fundamental in the market in the general market. Additionally, the investors must cautiously think and control the market risk in their portfolio as it is part of the investment.

3.0 Introduction

Research methodology refers to the methods used to conduct the research. Additionally, this section will cover sampling techniques, statistical techniques, and data analysis, all of which will be carried out using the Statistical Package for Social Sciences (SPSS) Version 27.

3.1 Sampling Technique

The population for which inferential statistics will be used is Malaysia healthcare industry. Nonetheless, for this study, the report sample is the Pharmaniaga Berhad which is one of the most popular companies in the healthcare industry in Malaysia. Data from Pharmaniaga Berhad annual report from the 2018 until 2022 was selected to examine the relationship between Pharmaniaga Berhad performance and its determinants. In result, the dependent variable which is return of asset (ROA) as performance, meanwhile the independent variable will be internal factors, external factors, and internal and external factors.

3.2 Statistical Technique

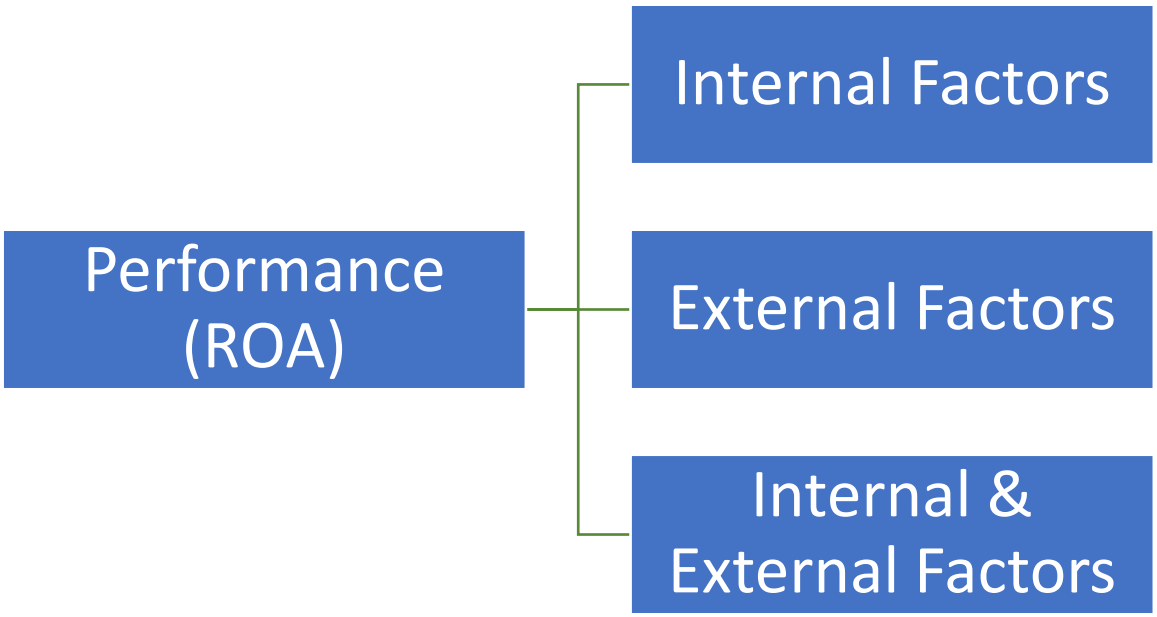
The data utilised in this study will be derived from the company annual report for the five years which is from the year 2018 until year 2022. The income statement and balance sheet included in the annual report are used to analyse the company's financial performance by estimating financial ratios like return on equity (ROE), return on asset (ROA), current ratio, debt to income, operating margin, and corporate governance index. Moreover, for the external data, such as inflation, interest, FX rate (vs. USD), unemployment, GDP growth and industrial production rate to evaluate economic state from the year 2018 until year 2022. After all the data has been collected, we will key-in the data in the Microsoft Excel sheet so that the charts will appear by using all the ratios that are significant to the outcomes of Pharmaniaga Berhad company. In result, we can see the difference of the ratios that change from time to time. Lastly, the primary approach utilised in this research is Linear Regression. There' is two types of linear regression and one of it is multiple linear regression. According to Moore (2006) 'statistical techniques that can be used to analyse the relationship between a single dependent variable and several

dependent variables through multiple linear regression'. SPSS 27 will be used to calculate the linear regression.

3.3 Data Analysis

In this study, one dependent variable and the three independent variables were chosen based on the theoretical framework of future research. The methodology's flow chart is as displayed below:

Dependent Variable



Independent Variable

The relationship between one or more independent variables and a dependent variable was evaluated using the Ordinary Least Squares (OLS) method. Based on the values of the independent variables, a dependent variable's value may be determined using multiple regression analysis because regression analysis is always used for evaluating the independent variables impact on the dependent variable. We can see the independent variables impact on the dependent variable may be shown using the above regression approach.

Model 1: Impact of firm's internal factors on return on asset (ROA)

Performance ROA = $\beta 0 + \beta 1ROE + \beta 2CR + \beta 3DTI + e$…Model 1

Model 2: Impact of the external factors on return of asset (ROA)

Performance ROA = $\beta 0 + \beta 1INFLATION + \beta 2IR + \beta 3FXRATE + e$…Model 2

Model 3: Impact of both firm's internal factors and the external factors on return on asset (ROA)

Performance ROA = $\beta 0 + \beta 1ROE + \beta 2CR + \beta 3DTI + \beta 1INFLATION + \beta 2IR + \beta 3FXRATE + e$…Model 3

3.4 Statistical Package for Social Sciences (SPSS)

Through this study, IBM SPSS version 27 will be used to measure the data that we obtain from the annual report. According to Landau and Everitt (2003) say that SPSS is known as Statistical Package for the Social Sciences is sophisticated, user friend data processing and statistical analysis software package. SPSS allows users to enter and manage data effectively. Through SPSS, we can input data manually or import it from other sources like Excel. The software provides tools for data cleaning, handling missing values, and transforming variables. In this study, SPSS will analyse quantitative data from the annual report and the official; website to develop the descriptive statistics, correlations table, model summary and coefficients table to know the relationship between the three independent variables with single dependent variables.

4.0 Introduction

In this study, SPSS analysis will be used to analyse and evaluate financial data and outcomes produced from the company annual report. Pharmaniaga Berhad performance concerns are analysed in this study by using its financial ratios from the year 2018 until year 2022.

4.1 Descriptive Statistics

Descriptive statistics are reported in the following tables. The data shown is generated from 5 samples of data analysed, and the financial reports and aggregated data are collected from Pharmaniaga Sdn Bhd (Malaysia) annual report from 2018 until 2022. A descriptive statistic is technique that have been used to describe and summarize significant of the data set including patterns, characteristics and the trends that will help us to easily understand and interpret. The dependent variable (Return of Asset) and the independent variable are shown in the first column, meanwhile the mean of the dependent variable (Return of Asset) and the independent variables are shown in the second column. At last, the standard deviation of the dependent variable (Return of Asset) and the independent variable is shown in the third column.

Table 1: Descriptive Statistics

	Mean	**Std. Deviation**	**N**
ROA	.041023540023729	.061306925158674	5
ROE	.064704883495111	.092388256882413	5
Current Ratio	.27130465900	.070163898523	5
Debt to Income	.098735649367170	.138317935495695	5
Operating Margin	.066619019637098	.040235298616441	5
Corporate Governance Index	.75384640	.064358399	
INFLATION	1.740	1.1589	5
INTEREST	2.5000	.70711	5

FX rate (vs. USD)	4.1780	.13217	5
Unemployment	3.580	.5215	5
GDP growth	5.340	2.0403	5
Industrial Production Rate	4.760	2.1893	5

The study above shown that ROA recorded 0.4102 in the mean and 0.6131 in the standard deviation clarify that Pharmaniaga company annual profit is in the concerning 41% and small volatility in profit within 5 years. The mean of ROE is 0.6470 describe that company financial performance is 64% and the standard deviation of ROE is 0.0924 describe that small volatility in profit within 5 years. As for the liquidity risk, current ratio, 0.2713 of Mean that which suggest that Pharmaniaga short term liquidity is concerning 27% and the standard deviation is 0.7016 describe small volatility in profit within 5 years.

Additionally, as for the credit risk, debt to income recorded 0.9874 and 0.1383 refers that Pharmaniaga have a larger proportion of their income dedicated to debt payments and the value of standard deviation mean small volatility in profit within 5 years. Next, as for the operational risk, operating margin, recorded of 0.6662 and 0.4024 in the mean and standard deviation describe that Pharmaniaga efficiency in generating profits is concerning 67% and the standard deviation describe that small volatility in profit within 5 years. According to the Hayes (2021), the higher value of the operating margin means that the more efficient the company it is in way converting the sales into profits. For the corporate governance index, the mean and the standard deviation value are 0.7638 and 0.0644 which is show that Pharmaniaga non-financial output is concerning 76% and the standard deviation value show small volatility in profit within 5 years.

On top of that, as for the macroeconomic (market risk) factors, inflation recorded 1.740 and 1.1589 in the mean and standard deviation that assumes that a rise in the cost of product and services of the Pharmaniaga is concerning 174% and significant volatility in profit within 5 years. According to the Pettinger (2016), the higher inflation, will increase the profitability of the company. The mean of the interest rate is 2.5000 that show that Pharmaniaga cost of borrowing the principal is concerning 250% while the standard deviation is 0.7071 show that small volatility in profit within 5 years. The mean of the FX rate (vs. USD) is 4.1780 show that the foreign currency is stronger relative to the USD while the standard deviation is 0.1322 show that small volatility in profit within 5 years. The mean of the unemployment is 3.580 that show that economic challenge such as economic downturn is affecting about 358% while the standard deviation is 0.5215 show small volatility in profit within 5 years. As for the GDP growth, the mean is 5.340 (positive) show that economic expansion in producing more goods and services and the standard deviation is 2.0403 show that significant volatility in profit within 5 years. Lastly, the mean for the industrial production rate is 4.760 show that increase in industrial production as much as 476% and the standard deviation is 2.1893 that show significant volatility in profit within 5 years.

4.2 Correlations

Table 2: Correlations

		ROA	ROE	Current Ratio	Debt to Income	Operating Margin	Corporate Governance Index	INFLATION	INTEREST	FX rate (vs. USD)	Unemployment	GDP growth	Industrial Production Rate
Pearson Correlation	ROA	1.000	1.000	0.421	-0.530	0.598	0.227	-0.508	0.646	-0.226	-0.170	-0.184	-0.563
	ROE	1.000	1.000	0.397	-0.531	0.612	0.209	-0.489	0.654	-0.202	-0.143	-0.158	-0.552
	Current Ratio	0.421	0.397	1.000	-0.290	-0.288	0.414	-0.858	-0.164	-0.966	-0.949	-0.824	-0.579
	Debt to Income	-0.530	-0.531	-0.290	1.000	0.164	-0.092	0.692	-0.560	0.325	0.077	-0.202	0.890
	Operating Margin	0.598	0.612	-0.288	0.164	1.000	-0.176	0.377	0.439	0.512	0.445	0.207	0.279
	Corporate Governance Index	0.227	0.209	0.414	-0.092	-0.176	1.000	-0.531	0.423	-0.344	-0.527	-0.653	-0.497
	INFLATION	-0.508	-0.489	-0.858	0.692	0.377	-0.531	1.000	-0.229	0.858	0.763	0.561	0.912
	INTEREST	0.646	0.654	-0.164	-0.560	0.439	0.423	-0.229	1.000	0.288	0.305	0.238	-0.541

	FX rate (vs. USD)	-0.226	-0.202	-0.966	0.325	0.512	-0.344	0.858	0.288	1.000	0.946	0.752	0.583
	Unemployment	-0.170	-0.143	-0.949	0.077	0.445	-0.527	0.763	0.305	0.946	1.000	0.922	0.441
	GDP growth	-0.184	-0.158	-0.824	-0.202	0.207	-0.653	0.561	0.238	0.752	0.922	1.000	0.229
	Industrial Production Rate	-0.563	-0.552	-0.579	0.890	0.279	-0.497	0.912	-0.541	0.583	0.441	0.229	1.000
Sig. (1-tailed)	ROA		0.000	0.240	0.179	0.144	0.357	0.191	0.120	0.357	0.392	0.383	0.162
	ROE	0.000		0.254	0.179	0.136	0.368	0.201	0.116	0.372	0.409	0.400	0.167
	Current Ratio	0.240	0.254		0.318	0.319	0.244	0.031	0.396	0.004	0.007	0.043	0.153
	Debt to Income	0.179	0.179	0.318		0.396	0.442	0.098	0.163	0.297	0.451	0.372	0.021
	Operating Margin	0.144	0.136	0.319	0.396		0.389	0.266	0.230	0.189	0.226	0.369	0.325
	Corporate Governance Index	0.357	0.368	0.244	0.442	0.389		0.179	0.239	0.286	0.181	0.116	0.197
	INFLATION	0.191	0.201	0.031	0.098	0.266	0.179		0.356	0.032	0.067	0.163	0.015
	INTEREST	0.120	0.116	0.396	0.163	0.230	0.239	0.356		0.319	0.309	0.350	0.173

	FX rate (vs. USD)	0.357	0.372	0.004	0.297	0.189	0.286	0.032	0.319		0.008	0.071	0.151
	Unemployment	0.392	0.409	0.007	0.451	0.226	0.181	0.067	0.309	0.008		0.013	0.228
	GDP growth	0.383	0.400	0.043	0.372	0.369	0.116	0.163	0.350	0.071	0.013		0.356
	Industrial Production Rate	0.162	0.167	0.153	0.021	0.325	0.197	0.015	0.173	0.151	0.228	0.356	
N	ROA	5	5	5	5	5	5	5	5	5	5	5	5
	ROE	5	5	5	5	5	5	5	5	5	5	5	5
	Current Ratio	5	5	5	5	5	5	5	5	5	5	5	5
	Debt to Income	5	5	5	5	5	5	5	5	5	5	5	5
	Operating Margin	5	5	5	5	5	5	5	5	5	5	5	5
	Corporate Governance Index	5	5	5	5	5	5	5	5	5	5	5	5
	INFLATION	5	5	5	5	5	5	5	5	5	5	5	5
	INTEREST	5	5	5	5	5	5	5	5	5	5	5	5
	FX rate (vs. USD)	5	5	5	5	5	5	5	5	5	5	5	5

Unemployment	5	5	5	5	5	5	5	5	5	5	5	5
GDP growth	5	5	5	5	5	5	5	5	5	5	5	5
Industrial Production Rate	5	5	5	5	5	5	5	5	5	5	5	5

The study above shows that ROA of Pharmaniaga financial performance is statistically significant to the ROE with a p-value of 0.000. The other independent variables, current ratio, debt to income, operating margin, corporate governance index, inflation, interest, FX rate (vs. USD), unemployment, GDP growth, and industrial production rate are not significant to ROA because of the p-value is $p > 0.10$.

4.3 Model Summary

4.3.1 Internal Factors

Table 3: Model Summary of Internal Factors

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.922[a]	0.850	0.401	0.047444075907361	2.005

a. Predictors: (Constant), Corporate Governance Index, Debt to Income, Operating Margin
b. Dependent Variable: ROA

The study above shows that out of six variables, only three variables contributed to Pharmaniaga ROA with an adjusted r square of 0.401 or 40%. Meanwhile, the other variables are not contributing to ROA.

4.3.2 External Factors

Table 4: Model Summary of External Factors

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
2	.700[a]	0.491	-1.037	0.087509591862319	2.638

a. Predictors: (Constant), Industrial Production Rate, GDP growth, Unemployment
b. Dependent Variable: ROA

The study above shows that out of six variables, only three variables contribute to Pharmaniaga with an r square of 0.491 or 49%. While the other variables are not contributing to ROA.

4.3.3 Internal and External Factors

Table 5: Model Summary of Internal Factors External Factors

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
3	.700[a]	0.491	-1.037	0.087509591862319	2.638

a. Predictors: (Constant), Industrial Production Rate, GDP growth, Unemployment
b. Dependent Variable: ROA

The study above shows that out of 12 variables, only three variables contribute to Pharmaniaga with an adjusted r square of -1.037. While the other variables are not contributing to ROA.

4.4 Coefficients

4.4.1 Internal Factors

Table 6: Coefficients of Internal Factors

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	-0.225	0.294		-0.765	0.584	-3.963	3.513		
	Debt to Income	-0.277	0.174	-0.625	-1.591	0.357	-2.491	1.936	0.969	1.032
	Operating Margin	1.148	0.606	0.753	1.894	0.309	-6.550	8.845	0.947	1.056
	Corporate Governance Index	0.288	0.375	0.302	0.768	0.583	-4.480	5.056	0.965	1.036

a. Dependent Variable: ROA

The study above shows that debt to income, operating margin, and corporate governance index are not significant to the ROA because of the p-value > 0.10 which is 0.357, 0.309 and 0.583. Bases on the study by Schneider et al. (2010) says that single independent variables are not

enough to contribute as must explain the dependent variables on its own. In result, it shows that none of the variables is significant to the ROA.

4.4.2 External Factors

Table 7: Coefficients of External Factors

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Tolerance	VIF
2	(Constant)	-0.212	0.597		-0.356	0.783	-7.800	7.375		
	Unemployment	0.158	0.274	1.347	0.579	0.666	-3.318	3.634	0.094	10.632
	GDP growth	-0.037	0.064	-1.226	-0.571	0.670	-0.856	0.782	0.111	9.034
	Industrial Production Rate	-0.025	0.026	-0.877	-0.947	0.517	-0.354	0.305	0.594	1.684

a. Dependent Variable: ROA

The study above shows that the unemployment, GDP growth and industrial production rate are not significant to the ROA because of the p-value > 0.10 which is 0.666, 0.670 and 0.517. According to the Ropella (2007) state that one independent variable alone is not quite sufficient to interpret the result which is lead to no influence between the independent variable and ROA.

4.4.3 Internal and External Factors

Table 8: Coefficients of Internal Factors and External Factors

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Tolerance	VIF
3	(Constant)	-0.212	0.597		-0.356	0.783	-7.800	7.375		

Unemployment	0.158	0.274	1.347	0.579	0.666	-3.318	3.634	0.094	10.632
GDP growth	-0.037	0.064	-1.226	-0.571	0.670	-0.856	0.782	0.111	9.034
Industrial Production Rate	-0.025	0.026	-0.877	-0.947	0.517	-0.354	0.305	0.594	1.684

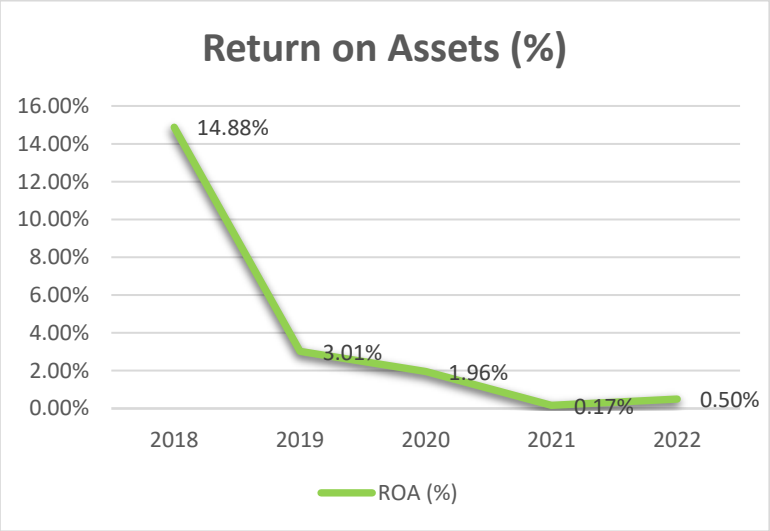
a. Dependent Variable: ROA

The study above shows that the unemployment, GDP growth and industrial production rate are not significant to the ROA because of the p-value > 0.10 which is 0.666, 0.670 and 0.517. According to the Ropella (2007) state that one independent variable alone is not quite sufficient to interpret the result which is lead to no influence between the independent variable and ROA.

4.5 Trend Analysis

4.5.1 Performance

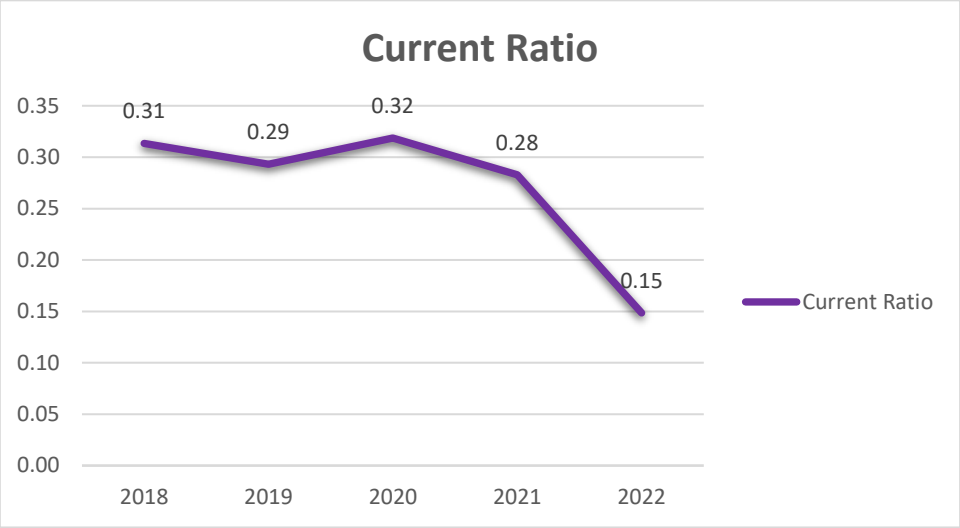
Table 9: Return on Asset



Return on Assets (ROA) is used in this study to measure Pharmaniaga Sdn Bhd performance from the year 2018 until year 2022. Pharmaniaga ROA show the decrease in 2018 until 2021with the value of 14.88%, 3.01%, 1.96% and 0.17% respectively. But in 2022, the ROA value of pharmaniaga increase a bit with the value of 0.50%.

4.5.2 Liquidity Risk

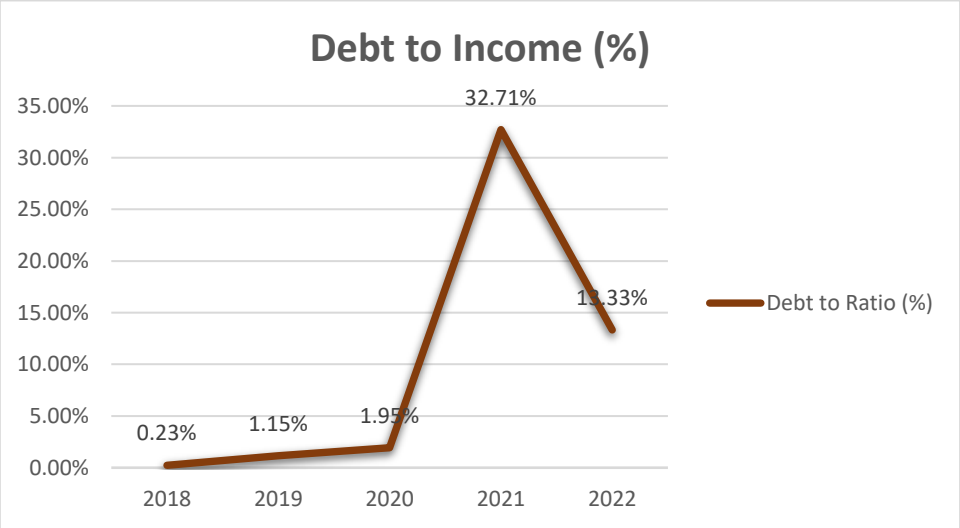
Table 10: Current Ratio



As for the current ratio of the Pharmaniaga Sdn Bhd indicates the decrease in 2019 which 0.29 much better than in 2018 which 0.31. In 2020, the current ratio is up until 0.32 but decreases back in 2021 and 2022 which 0.28 and 0.15.

4.5.3 Credit Risk

Table 11: Credit Risk

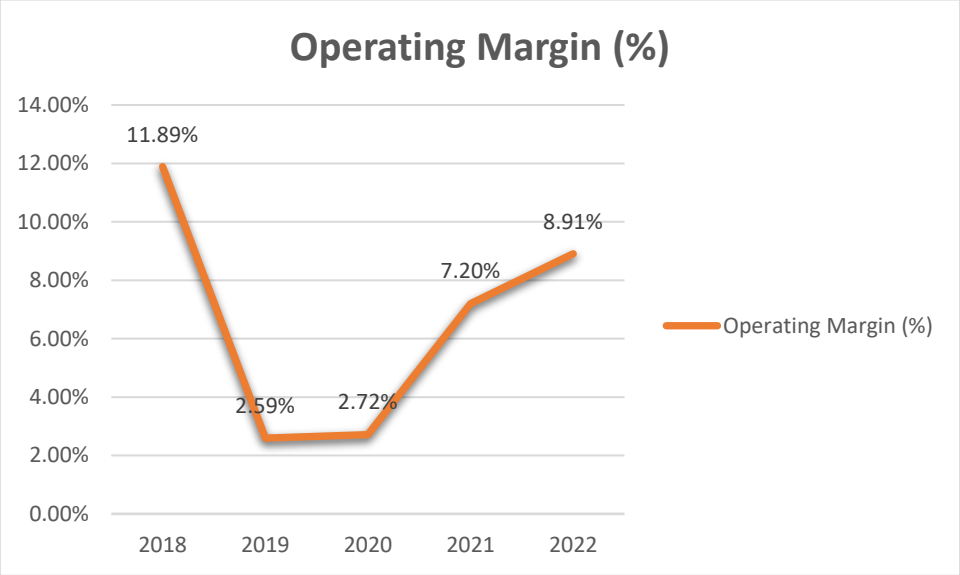


As for the debt to income, Pharmaniaga Sdn Bhd recorded a lower value of debt to income in 2018 which is 0.23% but it is increasing in the next few years which is 1.15%, 1.95%, 32.71% in 2019, 2020 and 2021. After that, it decreases back to the 13.33% in 2022. Lower percentage

is good thing to the company as it is considered as positive impact that means the Pharmaniaga know how to the manage the debut.

4.5.4 Operational Risk

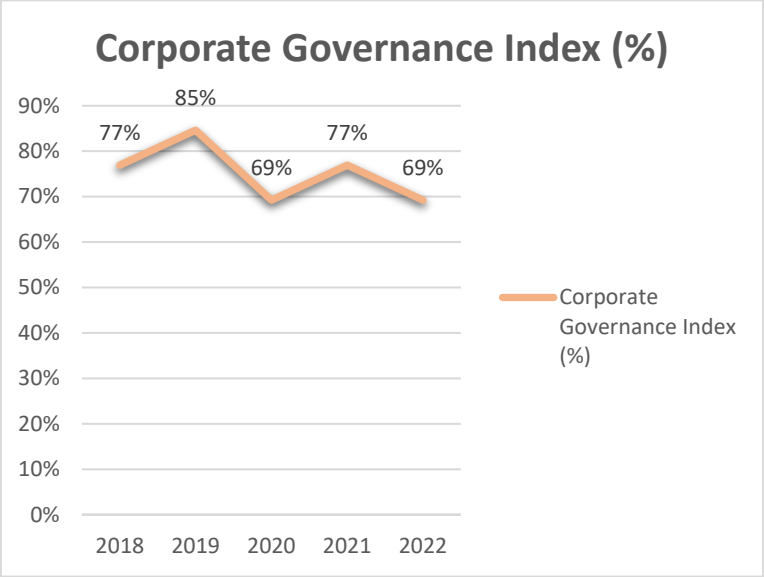
Table 12: Operating Margin



Pharmaniaga Sdn Bhd experienced instability in the operating margin value from 2018 to 2022. Even though Pharmaniaga recorded a good operating margin in 2018 which is 11.89 but it decreases into 2.59% in 2019. However, the operating margin keep increase back in the next few years which is 2.72%, 7.20% and 8.91% respectively. A high value in the operating margin shows that the company ability to generate profit from its main business activities that will give the better profitability in the company.

4.5.5 Corporate Governance Index

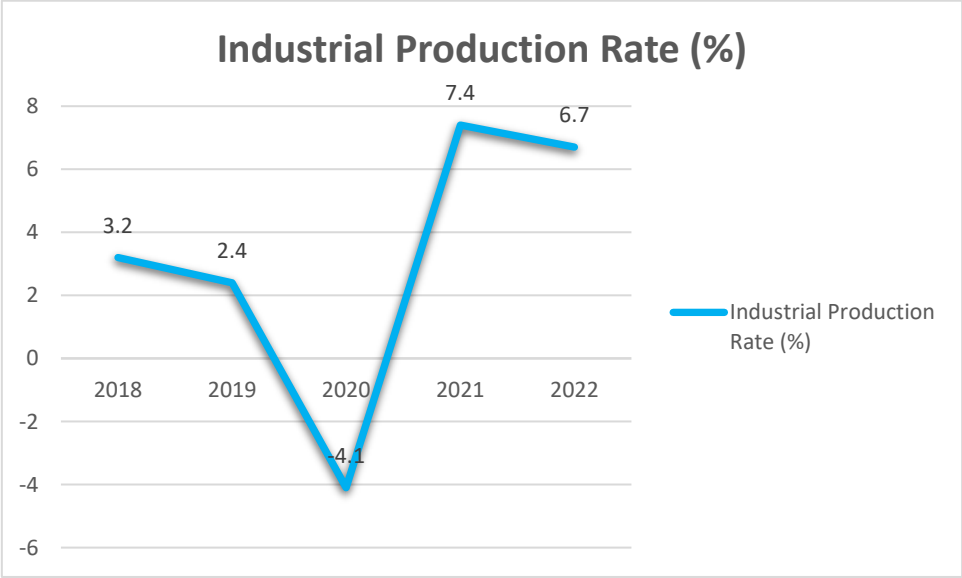
Table 13: Corporate Governance Index



Based on the graph above, we can conclude that Pharmaniaga recorded up and down value in the corporate governance index. Start with the 77% in the 2018 and up back to 85% in 2019. Then, it is continued to down back to 69% in 2020, up back to 77% in the 2021 and down back to 69% in 2021. A good corporate governance is important to the company as it shows that the company is well governed or not especially to the investors or stakeholders in their views.

4.5.6 Macroeconomic (market risk)

Table 14: Industrial Production Rate (%)



As for the industrial production rate (%) in Malaysia, it is important indicator as it can impact the Pharmaniaga company. In 2018, the value of the industrial production rate is 3.2% and it keep down to 2.4% and -4.1 in 2019 and 2020. However, we can see the value rose back high in 2021 which is 7.4% but decreases a bit in to 6.7% in 2022. We can see the demand for the pharmaceuticals high in 2021 because of the pandemic covid-19 that help to boost the demand for the healthcare needs. This thing will lead to increased income in the company especially Pharmaniaga company.

5.0 Introduction

The purpose of this study is to analyse the financial performance and macroeconomic (market risk) of Pharmaniaga Sdn Bhd that is known as good and famous in the pharmaceuticals industry. This study aims to analysis the internal and external factor that could affect the performance and determinants of Pharmaniaga Sdn Bhd. So through in this chapter, the focus will be on the discussion of the result, limitations, and recommendations.

5.1 Discussion of the Result

Pharmaniaga Sdn Bhd, a prominent player in the pharmaceutical industry, was the focus of this study. This study aimed to understanding the factors that influencing the performance of Pharmaniaga Sdn Bhd. The variables of this dataset that includes return on equity (ROE), current ratio, debt to income ratio, operating margin, corporate governance index, inflation, interest rates, foreign exchange (FX) rate (vs. USD), unemployment, GDP growth, and industrial production rate.

Firstly, regression model, there are three types of the framework used which is internal factors, external factors, and internal and external factors. Each one of these frameworks provides the different result. As for the internal factors, the R square value nearest to 1, following by the external factors and internal and external factors. In result, we can say that the internal factors are significant compared to other factors.

Next, correlation, in this study, as much as eleven of independent variables which is return of equity (ROE), current ratio, debt to income, operating margin, corporate governance index, inflation, interest, FX rate (vs. USD), unemployment, GDP growth, and industrial production rate firmly affect Pharmaniaga Sdn Bhd performance if it is increase. Interestingly, my findings reveal a statistically significant relationship between return on equity (ROE) and return on assets (ROA). This implies that Pharmaniaga's overall performance is notably influenced by its return on equity. The implications of this discovery are noteworthy for

stakeholders and decision-makers in the pharmaceutical sector, offering valuable insights into strategies for enhancing financial outcomes.

5.2 Limitations

We must acknowledge that the dataset from year 2018 until year 2022 was not perfect enough to analyse as it is very limited. The simple of size (n) that is only concerned with the five years only may not be fully reflective of the overall Pharmaniaga Sdn Bhd financial performance and macroeconomic (market risk). On the other hand, we also must consider that external factors, believe or not quite influence the dataset in this study. At last, the specific period which is only five years might affect the quality and generalizability in this study.

5.3 Recommendations

In conclusion, the most significant relationship between of the return of assets (ROA) is return of equity (ROE) in Pharmaniaga Sdn Bhd company through these five years. ROE is the one of internal factors used in this study. For that reason, I think the Pharmaniaga Sdn Bhd company should focus more and make effective use of internal operation such as business input, cost of structure and business activities to increase the performance. As ROE is determine as the only internal variables that significant with the dependent variable, I think Pharmaniaga Sdn Bhd should regularly monitor and manage its ROE. Through the improvement such as intensify profitability, effective use of equity and control the debt levels. Besides that, Pharmaniaga Sdn Bhd should take the proper action by do the collaboration with the Ministry of Health (MOH) Malaysia or other organizations to sale the remaining the COVID-19 vaccine. In result, at least, by doing this small action will help to recovery Pharmaniaga Sdn Bhd financial as Pharmaniaga company facing a worse flashback financial in 2022. Moreover, I think Pharmaniaga Sdn Bhd must present a complete plan that specify enough the requirements to demolish the PN17 title. So, it will help the Pharmaniaga company to build back financial stability. Additionally, even though only internal variables recorded significant relationships

with the dependent variable, Pharmaniaga should not ignore the external variables. In view of the fact that continuous evaluation of external economic indicators is vital for amend the Pharmaniaga company strategies to grow more big inn global economy. Last but not least, corporate governance issue, we can conclude that Pharmaniaga Sdn Bhd have a quite not bad corporate governance index. In order to maintain this, I think it is very crucial for Pharmaniaga to always take action to increase its corporate governance practices. The practice like buildup the transparency, ethical standards, and accountability among the workers in the organization. By doing this, it will help the reputation of Pharmaniaga company within the stakeholders and investors especially about the trustworthy reliable.

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