Risk and performances: financial performance of sime darby berhad

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ABSTRACT

The aim of this study are used to investigate the relationship between company performance and the profitability of the company. Firm organisation that used to identify this relationship is Sime Darby Berhad. In this study, the factors that indicate to profitability such as return on asset (ROA), return on equity (ROE), return on investment (ROI), average collection period (ACP), leverage, remuneration, liquidity, operational etc. Financial instrument merely related to financial performance of the organization either internal or external financial aspect. Financial transaction usually known as an agreement, exchange of payment or communication between two parts of transaction. Financial transaction involved two parties among in the business which is buyer seller, whether businesses or individual. Financial risk that will affect company profitability such as credit risk, liquidity risk, operational risk, market risk and legal risk. In managing financial risk in banking institution, organization need to adopt with barriers or risks that may cross the transaction such as risk transaction could be as default, interest rate, market risk along with liquidity and operation. Financial risk be measure by the regression and correlation analysis to define the significant relationship between business entity and variable that related to analysis.

Keywords: Liquidity risk, operational risk, profitability, risk and return, correlation and regression.

1.0 INTRODUCTION

Sime Darby Berhad is a public company major base of multinational conglomerate industry sector in Malaysia. Sime Darby generate revenue from 5 sectors which is plantations, property, industrial equipment, motors and energy and utilities, the amount of the profit revenue that made by Sime Darby is more RM43.7 billion (2015). Sime Darby were listed in the Bursa Malaysia (MYX:4197) on the Main Board and has a market capitalisation of RM52.9 billion (30 June 2015) with business operation in 26 countries and 4 territories and government meant to had close relationship with Sime Darby to brace the economy.

Sime Darby Berhad founded in 2007 through predecessor of corporation three merger companies known as “three Malaysia giants” describe for: Sime Darby, Guthrie and Golden Hope, named Synergy Drive and on November 2007 Synergy Drive renamed as Sime Darby. Sime Darby Berhad biggest proportion for business growth is plantation sectors and remains the most important business sector of the company compare to others sectors. Sime Darby able to manage and achieve more business proportion by expend their business sector.

Sime Darby vision are to leading of multinational in delivering sustainability value in future to contribute more opportunity to sustainable in businesses development. The mission is too committed in developing stable portfolio to sustain the business, good in corporate governance and ethical, excellence in financial performance and to enhance the potential from environment. Sime Darby embrace the responsibility towards well-being community by option of contributing to a better society, minimizing environmental harm and delivering sustainable development.

2.0 LITERATURE REVIEW

In determination of banking institution there will be credit risk, according to the Bank for International Settlements (BIS), credit risk can be identify as the potential counterparty or bank borrower that may failed to meet its obligations terms. The reasons that lead to credit risk mostly is by loans, bonds, financial futures, foreign exchange and etc. Therefore, difficulty in non-performing on credit risk would affect transaction of macroeconomics dynamic and bank specific that will collapse the banking industry either in Islamic or Conventional banking. In Malaysia there is implementation for the Islamic banking institution and derived by Islamic Financial Services Act 2013 (IFSA) framework. IFSA objective are to compliance with the Shariah principle and to emphasise financial stability in banking industry via advance from Central Bank. On other sides, conventional banking or known as commercial bank usually refers to the financial activities to earn profit based from business activities and conventional financial relationship often defined as creditor-debtors.

Based on the article, that stated by Vodova (2003) banking crisis may be effected because of the borrowers failed to pay back the loan and this will cause bank industry become insolvency and leads to bankruptcy. If the probability of bankruptcy occur is higher, banking industry will receive an impact towards transaction stability to manage the inflow and outflow of the financing process. Other than that, internal and external factors need to determine by banking industry in order to understand how the credit risk been functional towards banking system, determination of this factors should be identify by both Islamic banking or conventional banking that according to Waemustafe (2013) and Sukri (2013).

According to Kolapo et al. (2012) and Kithinji (2010), credit risk instrument that involved in banking transaction formation is liquidity risk, interest rate that volatile, inappropriate laws and credit policies, low quality in loan underwriting, information and knowledge about the borrowers, capacity of institution, unorganized management, etc. Based on this article, there are few variable used to identify the relationship between banking and macroeconomics aspect which is credit risk, size, liquidity risk. In order to minimize the credit risk from received counterparty, lender which is bankers can change the rate of the interest rate before hand over to borrowers. The factors that lead to counterparty happen such as unstable of income, type of employment, or low of credit aim. Credit risk would cause negative impact on the financial result and banking operation in the future. Credit risk can be manage by credit risk management as prevention from credit risk exposure.

Waemustafa (2016) and Sukri (2016), define that risk exposure in the banking industry might be as liquidity risk by article systematic and unsystematic risk determinants of liquidity risk between Islamic and conventional banks. Risk management for managing liquidity risk can be more effective if risk formation be analysis before further steps (Mulkawan, 2015). Liquidity risk exposure will affect internal and external of the banking institution and factor that may leads to liquidity risk in financial result due to the uncertain liquidity of the transaction such as lower in investment return. Another negative sides of liquidity risk is bank institution or a firm being unable to meet financial demands this because of the process of converting from asset to cash. This is merely arise in the situation where ability of asset in market are lower to be trade. To avoid exposure from liquidity risk, financial need to adapt long-term maturity liability to turn on equity modes of assets (Sundararajan and Errico, 2012).

Mechanism that influence in the bank specific factors would affect the financing modes of banking institutional, there will be obligations that need to ensure before transaction occurs. Level of liquidity in total financing risk were contributed by banking system distribution, risk formation of equity, interest rate, investment, etc. Liquidity risk can be define in two types which is market liquidity risk and funding liquidity risk, if both risk experience the collateral it hard to be funding. In this article the liquidity and profitability are identify and finding by using the liquidity ratio either be significant or not with ROA that apply in the banking institutional and become the strategy to manage the liquidity problem, as stated by Ghazali (2008) said that there is positive relationship between liquidity and ROA but Choo et al. (2012) found that significant between liquidity ratio and ROA are negative. According to Kohler (2012), suggest that liquidity asset can be stabilized if bank retain it with large proportion in order to prevent themselves from undefined risk.

In Islamic banking industry, refers to banking system that complies with Shariah law or also call as Islamic law. The principle that underlying by the Shariah law is where the risk and profit of transaction are divided fairly based on the business activity. There are two principle that follow by Islamic banking which is Bai'Bithaman Ajil (BBA) and Musharkah Mutanaqisah (MM). Shariah law prohibit activities that involved gambling, interest, and speculative trading in the Islamic finance, however to maintain the banking system Islamic financial used to accumulate another concept such as profit sharing (mudharabah), partnership (musyarakah), leasing (ijarah), to establish financial institution in Islamic banking.

Shariah supervisory board (SSB) are examined to identify the effectiveness between banking financial mode and banking remuneration. From the article, it was shows that SSB are not effective in the banking transaction, however on other hand mode financing are positively significant with mode of finance. (Waemustafe and Abdullah, 2015). Shariah is a part of the governance that used to manage the banking industry framework, this related to banking transparent, responsible, and accountable according to Shariah requirement. Shariah requirement usually does not same like conventional banking, elements that used to measured is composition, authority, diligence and resource. Based on the variable and descriptive analysis, SSB were can be effective in banking finance however because of the unclosed information SSB are not require as significant towards financing mode. However, Shariah a part of management governance and be able to manage the organization mechanism.

Financial exposure problem absolutely will affect the financial performance of the organization, however financial exposure can be manage by using risk management assessment to decrease the losses that might face by company, risk exposure need to be identified because the risk can divided into there are can be managed and uncertainty to occur and risk of financial exposure also may affect short-term and long-term financial transaction. The relationship of cash conversion cycle are related to each other between business activity and performance of the firm organization, working capital, and liquidity risk. Based on the article that publish by Farooq et al (2016) which is about liquidity risk, performance and working capital relationship of cash conversion cycle (CCC), the article show how does cash conversion cycle and profitability works, measuring method that used to measure profitability in this article such as EBIT, ROE, ROI and ROA. The main purpose of the investigation is to define about the risk and return from the business activities, capital structure, investment or dividend of company valuation where need to deals with current liabilities and current asset.

Nevertheless, management of the working capital are important in managing the organization financial transition, in this article stated that traditional measure are been used in order to measure the ratio that involved in the corporate management such as current ration, net working capital ratio and quick ration. Investment of organization also will give an impact towards company stability in future. There are two aspect in the research finance approaches to capital management which is by the view of static or dynamic (Moss and Stine, 1993. Lancaster et al., 1999. Farris and Hutchison, 2002).

In the article of the effect of holding company affiliation on bank risk and the 2008 financial crisis by (Dandapani and R.Lawrence, 2016) explain that financial crisis happen in around 2007-2008, known as global financing crisis. During 2008 financial crisis happen in USA, most economist consider that financial crisis in 2008 is the worst financial crisis since the Great Depression on 1930's. Financial crisis in 2008 begin because of the crisis on subprime mortgage market in the USA and this crisis blown away the international banking in 2007. According to the crisis that occur in USA, one of the reason why it's happen because of the high default rate in subprime home mortgage sector, that was encourage by Community Reinvestment Act (CRA) and US federal law were designed to help American get the mortgage loans. The financial crisis affect the global economic, fiscal policies, financial institution, banking systems and others monetary practice. Purpose of the investigation is to know either banks affiliated to manage company structure.

The financial crisis happens because of the bank being unable to generate more money in short time and this may cause speculation on financial markets. Financial institution are related to leverage, liquidity, level of risk and capitalization. In cases of financial crisis in 2008, it because of the lower levels of liquidity and capitalization, high in leverage and level of risk. According to the argument, another factors that consider as the reason behind of financial crisis is high financial leverage, shadow banking system and excessive stock market volatility. Based on discussion result, economist Alan Greenspan said that equity ratio are higher than unaffiliated banks and level of leverage also higher. During the crisis, increasing in risk means that bank derived the security or subprime mortgage loans from them. In this article, conclusion that can be conclude impact of the affiliation was related with higher level of leverage position to engage in capital adequacy, liquidity and home mortgage. Therefore, there is differences between affiliated banks and unaffiliated banks, this can be identify by leverage, liquidity and capitalization.

3.0 DESCRIPTIVE ANALYSIS

The data of Sime Darby Berhad are collected from the annual report of the company and organization official website, the data that collected from 2011-2015. The measurement funding that used to describe the data and to define the relationship is Return on Asset (ROA), Return on Equity (ROE), Return on Investment (ROI), operating ratio and liquidity ratio which is to define the profitability of the company within 5 years.

3.0.1 Return on Asset (ROA)

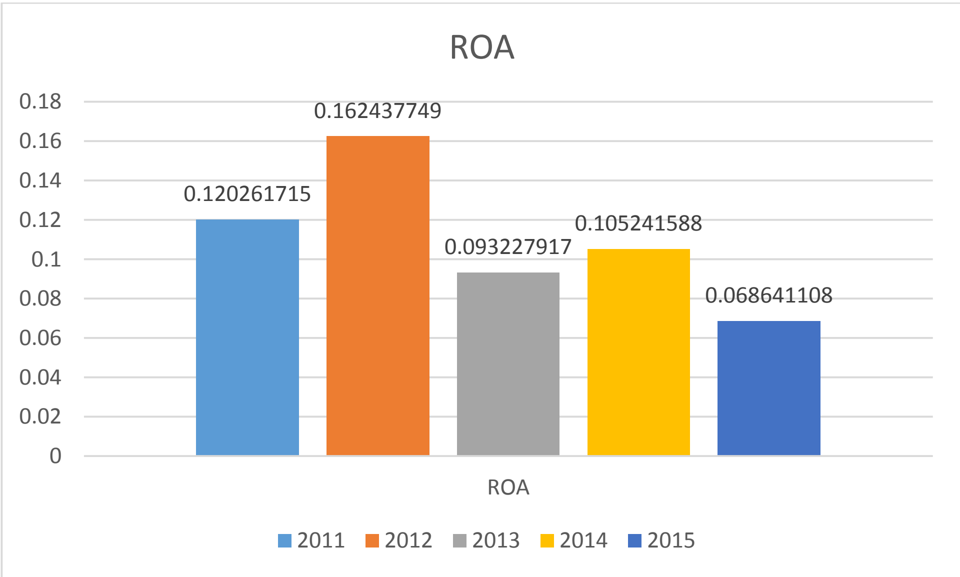
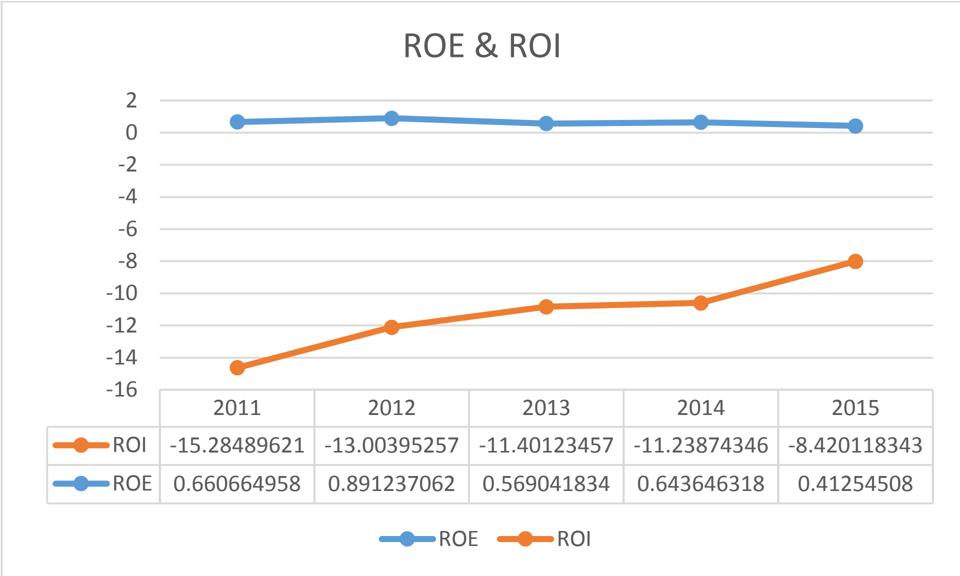


Figure 1

In figure 1, shows that ROA for Sime Darby from year 2011-2015, in year 2011-2012 shows that ratio was increase 0.4, however decrease in 2013 about 0.07, then increase again 0.01 in 2014, but decrease 0.04 in 2015. Factors that influence increase and decrease of the ROA such as internal and external factors.

Return on Asset (ROA) are used to measure the amount of the company profitability by showing in the percentage of the total asset value. ROA indicates company ability to allocate and manage the resources effectively. Calculation for ROA are Net Income / Average Total Asset, ratio of the ROA are different based on earnings that made by company.

3.0.2 Return on Equity (ROE) and Return on Investment (ROI)



	2011	2012	2013	2014	2015
ROI	-15.28489621	-13.00395257	-11.40123457	-11.23874346	-8.420118343
ROE	0.660664958	0.891237062	0.569041834	0.643646318	0.41254508

Figure 2

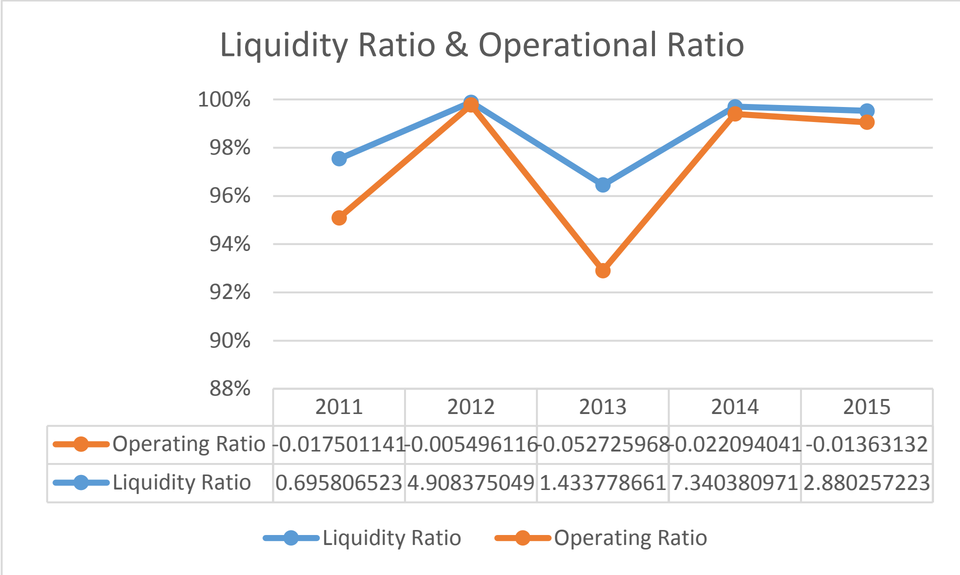
Figure 2 shows ROE for Sime Darby in 2011-2012 there are positive relationship with increasing about 0.23. In 2013 decrease with 0.33 then in 2014 increase 0.08, then in 2015 it was sloping down by 0.23. On other than, ROI became slightly increase in every year of investment within 5 years operation. Which is 2011-2012 with 2.28, in 2013 with 1.77 the in 2014, 0.17 and in 2015 by 2.81.

In definition, ROE is the amount of net income from shareholder equity that return as a percentage. Corporation profitability are measured by ROE and calculate how much does profit that company gain from the money that shareholder invest. ROE also known as return on net worth. ROI is a measurement of the profit or loss that generated from investment relative to amount of money that has been invested. The amount are expressed in percentage, and the profitability indicate whether company used the resources effectively or not.

ROE = Net Income / Shareholder Equity.

ROI = (Net Profit / Cost of Investment) x 100

3.0.3 Liquidity Ratio (LR) and Operational Ratio (OP)



	2011	2012	2013	2014	2015
Operating Ratio	-0.017501141	-0.005496116	-0.052725968	-0.022094041	-0.01363132
Liquidity Ratio	0.695806523	4.908375049	1.433778661	7.340380971	2.880257223

Figure 3

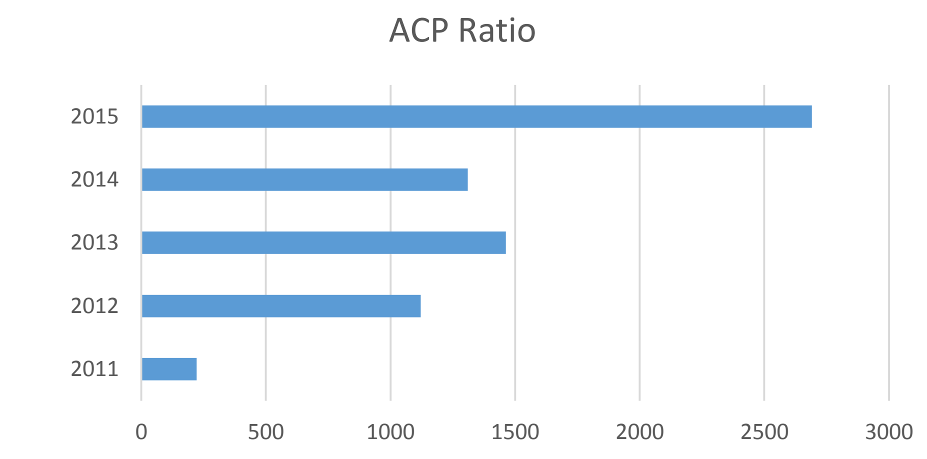
In Figure 3, shows the relationship between liquidity ratio and operational ratio during the operation for year 2011-2015. In operating ratio, for year 2011-2012 operation increase with 4.21 however drop from 2012-2013 with 3.47. In 2013-2015, increasing about 5.91 and 4.46. Liquidity ratio also increase at 0.01 in 2012 but decrease 0.05 in 2013, from 2013-2014 ratio increase 0.03 and in 2015 slight up to 0.01.

Liquidity ratio is to measure company ability to make a debt obligation payment during its short-term. LR can be done with comparing the company liquid asset or asset that can be converted into cash, liquidity fully covered if the value are greater than 1.00. In operational ratio, measurement of percentage of revenue in the company operating expenses and expenses on net sales. The smaller the ratio and decreasing in revenue means organization be able to generate more profit.

Liquidity Ratio = Liquid Asset /Short-term Liabilities

Operational Ratio = Operating Expenses / Net Sales

3.0.4 Average Collection Period (ACP)



	2011	2012	2013	2014	2015
ACP Ratio	222.6104931	1120.852998	1463.227596	1310.274596	2690.870813

Figure 4

Figure 4 shows the average collection period for Sime Darby with 5 years operation, the ratio shows that most of the ACP are increasing in every years. Form year 2011-2013 ratio are increasing with 898.24 and 342.37. In 2014 it was decrease about 152.95 and for 2015 its increase up to 1380.6.

Average Collection Period (ACP) ratio is the average number of the days such as date of credit sales made and the date that received money from customers. This ratio are used to determine the effectiveness of the firm's credit and collection efforts. ACP also can be referred as account receivable in day's sales.

ACP = 365 x Acc Receivable / Revenue

4.0 DISCUSSION AND RECONMENDATION

Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.109962015274715	.034890959972421	5
Liquidity Ratio	3.451719685504005	2.703573751929674	5
Operating Ratio	.022289717506590	.018071573061455	5
Remuneration	12562800.00	807048.450	5

Based on descriptive statistics above four variable are used to measure the regression analysis and correlation, which is return on asset as dependent, liquidity ratio, operating ratio and remuneration. Correlation and regression is a techniques that used to analysing the relationship of dependent variable and others independent variables. By using this method it's will to manage the investment and financial transaction of the company asset and to identify the relationship between variable that related to the organization transition.

Correlations

		ROA	Liquidity Ratio	Operating Ratio	Remuneration
Pearson Correlation	ROA	1.000	.231	-.429	-.899
	Liquidity Ratio	.231	1.000	-.350	-.032
	Operating Ratio	-.429	-.350	1.000	.519
	Remuneration	-.899	-.032	.519	1.000
Sig. (1-tailed)	ROA	.	.354	.236	.019
	Liquidity Ratio	.354	.	.282	.479
	Operating Ratio	.236	.282	.	.185
	Remuneration	.019	.479	.185	.
N	ROA	5	5	5	5
	Liquidity Ratio	5	5	5	5
	Operating Ratio	5	5	5	5
	Remuneration	5	5	5	5

Based on the analysis above, Pearson correlation was identify by the variable that related to content of the analysis. There are significant amount that related to the variable based on the ratio categories. This method are to measure the linear correlation between two variable X and Y, in this calculation ROA will be dependent variable.

Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
(Constant)	.623	.224		2.780	.220		
Liquidity Ratio	.003	.005	.259	.653	.632	.846	1.181
Operating Ratio	.330	.896	.171	.368	.775	.619	1.616
Remuneration	-4.234E-8	.000	-.979	-2.252	.266	.705	1.419

a. Dependent Variable: ROA

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions (Constant)	Variance Proportions Liquidity Ratio	Variance Proportions Operating Ratio	Variance Proportions Remuneration
1	1	3.423	1.000	.00	.02	.01	.00
	2	.455	2.742	.00	.31	.23	.00
	3	.121	5.323	.01	.66	.50	.00
	4	.001	52.841	.99	.02	.25	1.00

a. Dependent Variable: ROA

To define the significant among the variable and company operating management, correlation can be done. Amount can be measure by covariance two variable divided by product of their standard deviations. It has a value between +1 and −1, where 1 is total positive linear correlation, 0 is no linear correlation, and −1 is total negative linear correlation.

The Relationship Between Return on Asset, Liquidity, Operating And Remuneration Towards Profitability.

Liquidity Risk. From the regression result of ROA to variable, where $P > 0.05$, it shows that ROA does not giving significant affect toward the variable. Pearson correlation generally shows that there are significant correlation within all the variable of profitability measure which is liquidity, operation and remuneration except ROA which it shows that there a might be negative or positive correlation between ROA and variable. The negative correlation happens because of the liquidity are lower, this because the relationship between two variable are in opposite way where one variable increase the other decrease and the positive correlation is a relationship between two variables such that their values increase or decrease together.

The relationship between ROA and liquidity been measured with the result 0.231, this shows that positive relationship between ROA and liquidity of the company, from correlation means that rate of liquidation are lower. The factors can be internal or external factors of inflow and outflow of the company asset transition.

Operation Risk. From the regression result of ROA to operation, where $P > 0.05$, it shows that from the correlation result with -0.429, it shows negative relationship between ROA and operation of the organization. Operation risk in the company were influence by the failure in the procedure, policies or operation system that resulting from human errors or systems failures that will disrupts the business process. Decreasing either increasing in operation ratio means that amount of expenses that used to generate sales value even in the same level of sales. Based on the correlation ROA increases while the operation risk decrease and vice versa.

Remuneration. Regression results shows that negative correlation relationship between ROA and remuneration variable with -0.899. Amount of the remuneration each categories in the company are different, remuneration is the reward that giving by company for employment towards organization that given in salary or wage including allowances, benefits, bonuses or others. Remuneration usually known as the compensation that one parties receives in exchange for the work or services performed.

5.0 CONCLUSION

In conclusion, organization of the company have to manage financial transaction internally and externally to avoid company from facing risk financial exposure that will led to losses towards company. Financial transaction surely become important aspect of organization in order to subtilize the company also to increase profitability of the company in short-term or long-term operation. Business organisation merely can prevent risk financial exposure in the organisation, financial risk management can be done to avoid or to decrease the level of uncertainty that risk could harm company. Framework of financial risk management are usefully to manage the environment of uncertainty or volatility financial market or for financial documentation or for auditing.

On other hand, financial risk may affect all types of business either financing institution or non-financing because both will facing business risk and financial risk, exposure to financial risk would leave impact to organisation those does not apply any financial risk management. Level of financial risk usually related to business operations, if the company had a large amount of debt during operation the business likely to defaulting financial obligation. Profitability of the business can be define by measure the return on asset, return on equity, return on investment, liquidity ratio, operational ratio, asset and liabilities, leverage etc. Result from the measurement are used to define how the business operate their organisation and to maintain the business for long-term period.

Furthermore, financial transaction that occur within dealer can emerge of financial risk among themselves. The probability of financial risk exposure depends on how various risks that will occur and may give an impact towards internal risk and external risk of the organization, this absolutely will affect profitability of the firm company. Other than that, business performance were affected from financial terms that develop in the transaction, and the information of the transaction need to disclose. Financial position of in the organization are very important in order to manage and to measure the sustainability of the company.

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