Performance and risk: empirical evidence from gamuda berhad

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Abstract

The aim of this study is to examine the relationships between profits and risks of Gamuda Berhad Company. This study was carried out using the secondary data which was obtained from the annual reports of Gamuda Berhad in consecutive years from 2011 until 2015. Return on asset (ROA) as the dependent variable has been used to study its relationship with the independent variables such as liquidity risk, operational risk and Gross Domestic Products (GDP). The enter method was used to obtain the correlation and regression result to observe whether the significance level of the risks do has the relationship with the profits. Based on the result attained, both internal (liquidity risk) and external risk (GDP) were positively significant. Another internal risk is the operational risk which has negative insignificant and the lowest impact to the company's performance in terms of profits. Hence, the GDP has the highest impact among the other risks and the most significant in maximising profits of Gamuda Berhad Company.

Keywords: Liquidity risk, Operational risk, Gross Domestic Product, Profitability

1.0 Introduction

1.1 Background of the company

Gamuda Berhad is known as the leading infrastructure and property developer in Malaysia, with significant interest in emerging Asia and the Middle East. On October 1976, the Gamuda is incorporated in Ipoh, Perak as a private company and listed on the main board of Bursa Malaysia on 10 August 1992 (Gamuda, 2015). Moreover, this company also has been involved in various projects, both locally and overseas. Their aim is to lead the region in innovative breakthrough solutions for large scale public infrastructure and property development.

Gamuda Berhad wants to be reliable in delivering innovative world-class infrastructure and leading lifestyle properties in their services and product to the customer as one of their missions. Apart from that, one of the main reasons behind the significant profit achieved over the years is due to the Board of committee that has vast experiences. They are furthermore willing to give full commitments in every aspect. The chairman of the Gamuda Berhad, Yang Berbahagia Dato' Mohammed Hussein and the Board of Directors (BOD) who ensure four pillars corporate governance are practice to leveraging development of company growth and mature.

1.2 Product and services

The company operates in three business segments which are engineering and construction, property development and club operations, and last but not least they also involved in the infrastructure concessions. One of the major projects was the joint venture between MMC Corporation Berhad and Gamuda Berhad such as The Prai Swing Bridge. This bridge is a double-track bridge where it allows trains, ships and ferries to pass through in the shortest time.

Furthermore, Gamuda Berhad is a consumer friendly company as they are involved in the water supply project in Sungai Selangor through the Syarikat Pengeluar Air Selangor (SPLASH). They operate the Selangor dam and two water treatment plants to deliver vivid cleanse water in ensuring the most favourable standard spot of water. Thus, the water is safe to be used and consumed by the residence in that particular area. In addition, overseas projects are also conducted by them such as International airport in Hamad, Qatar was built in 2005 (Gamuda, 2015).

Latest, MMC-Gamuda once again did a joint venture for Klang Valley Mass Rapid Transit (KVMRT) Project which is rail-based public transport network. The purpose of this project is to help ease traffic congestion and increase the public transport modal share from 18% in 2009 to 40% in 2020 (MMC-Gamuda KVMRT, 2017).

1.3 Risk and Performance

Risk is an uncertainty that bring outcomes whether it negatively or positively affecting organizational performance and strategies. Organizational strategy researchers have demonstrated that business risk influences organizational strategies and performance (Bloom and Milkovich, 1995). Risks can have consequences in various aspect not only to the internal of the company such as stakeholder, creditors, customers but also the external can be affected in terms of economic performance, inflation, price changes that out of the authority of the companies.

Every main goal of organizational is to gain profit. In order to secure the revenue of the companies the Board of directors (BOD) must implement exemplary ISO 31000:2009 risk management guidelines in making good decisions. According to John (2015), it was stated that "Enterprises both small and large need to identify, understand and manage the uncertainties or risks that are critical to achieving success. ISO 31000:2009 provides a proven, robust and reliable approach to managing risk".

2.0 Literature review

The most crucial step in organization is identifying the risk or threat that might affect the company objectives before proceed to further steps. Similarly, Dagang Muljawan stated that "It is critical to initially identify the process of risk formation before proceeding to a further stage of risk management process" (Dagang, 2005 as cited in Waemustafa and Sukri, 2016). Every industry needs to manage the risk that matter the most because it is impossible to manage all the risks. Internal and external factors could be the reason in affecting the company's performance such as the internal factors liquidity risk, operational risk, credit risk and others. Next, the external factors that bring impact towards the organization are such as Gross Domestic Products, unemployment rate, inflation rate and many more.

The finding is consistent with previous studies (Owolabi and Obida, 2012) Liquidity plays a significant role in the successful functioning of a business firm. Moreover, the liquidity correlation is positively significant with ROA and this implies that Islamic banks select a moderate policy in advising liquidity complication by maintaining ample cash save and interim the particular banks manage to generate profit (Waemustafa and Sukri, 2016).

According to Kosmidou and Pasiouras (2005), they also found a significant positive relationship between liquidity and ROA. Barakat (2014) stated that, “Operational risks impact the reputation and financial stability of a business significantly”. Managed risk can be relieved by giving careful consideration to corporate culture and by ensuring fundamental controls are set up as for example, by ensuring representatives are completely mindful of the outcomes of poor conduct.

A credit risk is one of the biggest risks that could affect atrocious on the company operation which could lead to bankruptcy if they are not handled with transparency. Waemustafa and Sukri (2015) reported that the credit risk happens when the non-performing loans increases and causes collapses of banking industry around the world. The substantial loss arises due to borrowers default on their loan repayment contribute to insolvency and even bankruptcy that leads to banking crisis (Vodová, 2003 as cited in Waemustafa and Abdullah, 2015).

Researchers found that the issue of customer defaulted towards Murabahah facility. Besides, credit risk refers to the liability of an asset that found defective upon deliver (Waemustafa and Abdullah, 2015). According to Waemustafa and Abdullah (2015), they also found that SSB remuneration and bank’s financial growth shown a positive and significant relationship with mode of financing.

3.0 Descriptive Findings

3.1 Return on Asset and Return on Equity

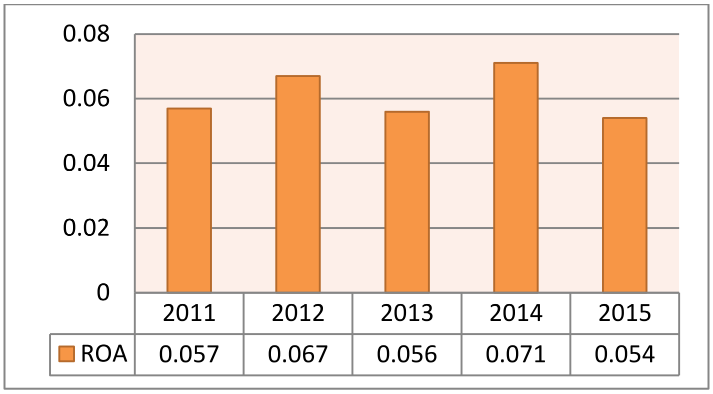

Figure 1: Return on Asset

The amount of return on asset (ROA) fluctuated with 0.057, 0.067, 0.056, 0.071 and 0.054 respectively over the five consecutive years from 2011 until 2015. This shows the positive returns management is utilizing the company's various resources such as assets and has slightly changes in generating profit every year. The highest ROA is in 2014 with 0.071 due to internal factor of liquidity risk in figure 2 is high where the company able to meet short term financial demand and paid expenses obligation in that year.

3.2 Liquidity and Operational ratio

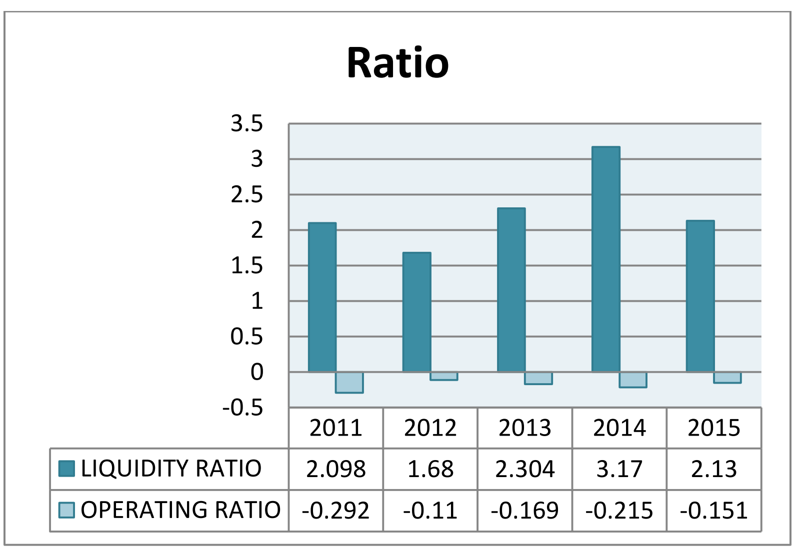

Figure 2: Liquidity ratio and operating ratio

Liquidity ratio (LR) in 2012 was the lowest with 1.68 times the company can convert their asset into cash. In 2014, the performance is quite favourable where the ease of converting asset into cash was 3.17 times and recorded as the highest due to internal and external factor of liquidity risk and GDP was high in that particular year. The economy output was great at that time and there was increase in demand and supply of product and services. Gamuda Company also able to pay to the short-term creditors due to liquidity of the asset converting into cash and reduces their overall risk. However, investors may prefer a lower liquidity ratio since they are more concerned about growing the business using assets of the company. The graph of operating ratio (OR) shows bad performance since beginning of years. Gamuda Berhad had declined in values from -0.292 to -0.11 in 2011 and 2012 consecutive year. Then, gently increase to -0.169 (2013) and continuous for a year at -0.215. Later, in 2015 the OR was dropped at -0.151.

3.3 Relationship of GDP, Liquidity and Operational to the Profitability.

Table 1: Correlations matrix Gamuda Berhad Risks Determinants to Profitability

		ROA	Liquidity ratio	Operating ratio	GDP
Pearson Correlation	ROA	1.000	.446	-.100	.905
	Liquidity ratio	.446	1.000	.372	.493
	Operating ratio	-.100	.372	1.000	.192
	GDP	.905	.493	.192	1.000
Sig. (1-tailed)	ROA	.	.226	.437	.017
	Liquidity ratio	.226	.	.269	.199
	Operating ratio	.437	.269	.	.379
	GDP	.017	.199	.379	.

Model		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		Beta			Tolerance	VIF
1	(Constant)		-.288	.821		
	Liquidity ratio	.116	.309	.809	.677	1.476
	Operating ratio	-.317	-.956	.514	.862	1.160
	GDP	.909	2.570	.236	.757	1.321
	Dependent: ROA					

Table 2: Coefficient Enter Regression analysis for Gamuda Berhad risks Determinants to profitability.

3.3.1 Liquidity to profitability

In Table 1 Liquid measured by liquidity ratio with P>0.10 indicates Liquidity has positively significance to ROA with 0.446. This means that Gamuda Company could convert their assets quickly to cash and able to paid to the short term creditors on time. In regression results shows that liquidity has the most significance of 0.809 to be compares with other variables. The finding is consistent with previous studies (Owolabi and Obida, 2012). Liquidity plays a significant role in the successful functioning of a business firm. According to Kosmidou and Pasiouras (2005), it was also found that there was a significant positive relationship between Liquidity and ROA.

3.3.2 Operating to profitability

As shown in Table 1, OR is negatively correlated to ROA with -0.100 and indicating negatives insignificant relation to the ROA. Operating variable in table 2 have the highest impact of t value -0.956 to the ROA compared to the liquidity and GDP. This negative relationship implies that Gamuda Berhad did not manage their operational risk effectively. Several factors could affect adversely to the reputational and financial performance of company as for example human error, outdated technology could be severely impact the business where the company can longer operate. According to Barakat (2014), it was stated that, “Operational risks impact the reputation and financial stability of a business significantly”.

3.3.3 GDP to profitability

In external factors, the result shows in table 1 relationship between ROA and GDP are correlated positively of 0.905 and the most significance P-value>0.10 to be compared with other than variables. This implies the company products and services keep expanding and when more production of the company was growing it contributes to the country's growth. Therefore, the higher number of GDP of the country could gain expectation of the investors to invest in the country. Table 2 the regression result shows impact of changes GDP to profitability is the highest among liquidity and operating with the t value 2.570.

4.0 Discussion and recommendation

Overall performance of Gamuda Berhad throughout the five years from 2011 until 2015 was showing favourable performance in generating profits based on both internal risk of liquidity risk and external risk of GDP. Gamuda Berhad was able to pay to the short-term creditors due to liquidity of the asset converting into cash and reduces their overall risk. However, investors may prefer a lower liquidity ratio since they are more concerned about growing the business using assets of the company.

Unfortunately, operational risk contributes in decreasing of revenue with the impact t value -0.956 and this shows operational risk negatively insignificant with profits of company. Regardless of the less production in particular year which might be due to the external factors, Gamuda Berhad still has to pay their fixed expenses such as raw and trading materials including the employees' salaries in order for the industry to keep operating. Plus, it shows that the organization did not use the resources efficiently. Other than that, there might be organizational changes and lead to difficulty in recruiting and retaining talented individuals to operate important tasks in the company.

Risk management committees also not available in Gamuda Berhad indicates lack of expertise in managing the company risks that might affected the internal and external of organization such as human error, legal risk, inflation rate and so much more. Even though, the company have BOD with vast experience but they couldn't mainly focus in identify, mitigate or make an assessment on all possibilities risks. Thus, the BODs are risk takers where they implement high risk, high return.

Attention and priority needs to be given by the Gamuda Berhad to maximising their profits in the future are the GDP. Based on result in table 1 and 2 implies positively and statistically significant respectively. In this case the external factors are the one contributes the most in generating the revenues. As the company industry is mainly about constructions they have built various productions such as MRT, SMART tunnel and this entire not only benefit the consumer and promising revenues but also GDP of the country will continue to growth. Hence, the higher number of GDP of the country could gain expectation of international investors to invest in our country.

Several recommendations for Gamuda Berhad are they should appoint the new board of committee such as Risk management committee in BOD for the organization to keep operating smoothly and mitigate the risk that matter the most to the company. According to Matteo (2012), as a support, it was stated that "remains alert to organizational dysfunctional behaviour that can lead to excessive risk taking, and provides input to executive management regarding critical risk issues on a timely basis".

Next, the company can identify, mitigate and asses by using seven-steps approach in managing operating risk. It supports numerous facets, and has the proficiency to ease great risks concurrently. Firstly, segregation of tasks is effective in reducing the fraud and theft that commit by an individual for conflict of interest. Secondly, curtailing complexities in business processes. Third step is enforce strong ethics underlying of principles and values within the employees. Fourth, ensure that every individual given right and compatible tasks within their capacity and skills to avoid human error. Fifth steps, regularly monitoring and reviewing the risks of business performance. Periodically assess the risk should be the sixth step which if the risk manager implement this steps it ease the BODs to make a good decision making.

The seventh step is to looks back and learns. It is very effective by looking back at past experience of the company performance and risks that they have dealt with, Gamuda Berhad could be more conscientious if the same risks ever happen again and be ready to counter for future risk. A corporate governance, risk and compliance (GRC) platform enabled by technology can effectively support the implementation of the 7-step approach to operational risk management (Barakat, 2014).

5.0 Conclusion

In conclusion, there are positive significant and negative insignificant relationship between profits of the Gamuda Berhad and the risks. For internal risks, liquidity has positive significance to ROA with 0.446. This indicates that Gamuda Berhad has organized their liquidity efficiently where assets of the company could be converting promptly to cash and able to paid to the short term creditors on timely manner. Furthermore, the external risk, GDP is the most significant to the profits compared with other risks that have been studied with the impact of t value 2.570. Not only had the production of the Gamuda Berhad but other different industry also contributed to the growth of GDP. Devastatingly, operational risk shows negatively insignificant to the profits express that the company has problem in managing their resources. On the other hand, lack of expertise in managing the company risks might have affecting the internal and external of organization. Hence, GDP the external factors has the most significant relationship with profit in the Gamuda Berhad Company.

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Appendix

Table 1:

ROI	ROE	Operating ratio	Liquidity ratio	ACP ratio
44.48	0.117438591	0.292057216	2.098208347	2.78268657
48.48	0.139818806	0.110334338	1.683298841	6.376438572
62.90	0.112699434	0.168497053	2.304354433	5.102698346
32.56	0.134279099	0.215216857	3.173073407	15.64922774
20.03	0.114476218	0.150586308	2.128281115	90.56278798

Leverage	GDP	Unemployment rate	Inflation	Exhange rate
0.942752925	5.30	3.00	3.20	3.17
0.990907666	5.50	3.00	1.70	3.06
0.92078656	4.70	3.00	2.10	3.28
0.680188072	6.00	3.00	3.10	3.50
0.990927078	5.00	3.30	2.10	4.29

Table 2: Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.061089865338746	.007280969040298	5
Liquidity ratio	2.277443228744062	.550059010784697	5
Operating ratio	.187338354344017	.069603478662971	5
GDP	5.300	.4950	5

Table 3: Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.951[a]	.905	.621	.004480609379498	1.082
a. Predictors: (Constant), GDP, Operating ratio, Liquidity ratio					
b. Dependent Variable: ROA					

Table 4: ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	3	.000	3.187	.385[b]
	Residual	.000	1	.000		
	Total	.000	4			
a. Dependent Variable: ROA						
b. Predictors: (Constant), GDP, Operating ratio, Liquidity ratio						