Firm Risk And Performance: The Role Of Corporate Governance Of Redtone International Berhad

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Abstract

This study aims at analyzing the relationship between corporate governance, REDtone firm liquidity and internal and external factor. In order to carry out the study a descriptive analysis through quantitative approach was used. Descriptive statistics analysis, we analyzed the firm's annual report from year 2011 to 2015, SPSS and correlation helped confirm that the company corporate governance, firm performance and risk. Thus, the better the financial performance (ROA, ROE and liquidity) the lower the risk incurred.

Keywords: corporate governance, liquidity, risk, ROA and ROE

1.0 Introduction

Implementation and enforcement of proper corporate governance practices is important for improve the development of the firms (as well as of an economy as a whole) and their long-term prosperity Khiari, Karaa, and Omri, (2007) Nicholson, G. J. & Kiel, G. C. (2007) empirically demonstrate that poor corporate governance can lead to critical problems. The including low utilization of employed resources and as a result, the disability of companies to attract investment. The authors also argue that the extent of these consequences can vary from organization and country to another, and with the non-uniformity of the implications, only the direction of causality is foreseeable, not the extent.

The REDtone industry were analysis the effect of corporate governance on firm performance that use two earnings based ratios to approximate firm performance that is Return on Assets (ROA) and Return on Equity (ROE) and the liquidity ratio. It's examines the effect of a complete set of governance standards on firm performance approximated by profitability ratios.

REDtone International Bhd is an integrated telecommunications service which provider catering to niche market segments. REDtone is subsidiary by the Berjaya Corporation Bhd and listed on Bursa Malaysia in year 2004. REDtone is a well-respected home-grown brand founded in year 1996, REDtone evolved from a voice provider to one that offers an extensive range of services under three main categories: which is telecommunication services, manage telecommunication network services and industrial digital services. Telecommunication services offer data and voice services to the public including government, enterprise and SEMs. REDtone is the only one that provide the infrastructure integration expertise service to the industry because it able to access to a unique suite of last mile technologies and offer broadband-on-demand. REDtone also managed telecommunication network services which is build, maintain and operating the large scale Wi-Fi hotspots, base station and fiber optic infrastructure. REDtone provide industry digital services which is data centre services, cloud services and applications, Internet of timing (IOT), healthcare solution and managing security services.

Have mentioned in above that REDtone is the only one that provided the infrastructure integration expertise service to their industry. Because REDtone also Multimedia Super Corridor (MSC) status company that has garnered more than 26 company and international awards. REDtone holding the licenses for Network Facilities Provider (NFP), Network Service Provider (NSP), Applications Services Provider (ASP), LTE (4G), WiMAX and Satellite services.

REDtone has presence with technical and after sales support team at main cities in Malaysia e.g. Johor Bahru, Klang Valley, Penang, Kota Kinabalu, Tawau, Labuan, Lahad, Datu, Kuching, Sandakan and Miri. Besides, REDtone has an international workforce of more than 300 employees.

2.0 LITERATURE REVIEW

Review of the literature: CORPORATE GOVERNANCE FIRM PERFOREMANCE RISK OF THE FIRM

The main purpose of this research is to examine and investigate the relationship between corporate governance, redtone firm performance and risk of telecommunication industry.The dependent variable of this research study is firm performance which is measured by two financial ratios, Return on Assets (ROA) and Return on Equity (ROE) while independent variable is current ratio. The investors care much on the ratios as these are fundamental analysis of a company's value.

As indicated by Khanchel, I. (2007). Corporate governance is a framework used to work and supervise an organization. It can be considered as a structure used to adjust the parts of the administration, top managerial staff and shareholders. The style of corporate administration must to meet the objectives of the proprietors, while additionally looking after the interests of representatives, the necessities of customers and the nearby situation. While according to Mcconomy et al. (2000), arrangement of corporate governance could be characterized as "an arrangement of procedures and structures used to coordinate a company's business.

A further arrangement of studies by Coles, J. W., McWilliams, V. B., and Sen, N. (2001). Delineates the corporate governance standards, as well as decide their effect for authoritative execution. The effect of corporate governance on legitimate execution has been pondered in arranged characteristics of estimations. Under each of these considers, the surveys have yielded in a general sense unusual results, since the elements used were unmistakable. This review covers some of these. The analysis of economic and financial indicators requires analyst to aiming at monitoring company's financial performance. In order to achieve this, financial statements are used as a source for calculating the indicators. Thus, financial performance measures are considered as an important management tools (Gitman, 2010). Further study conducted to compare the liquidity risk between Islamic and Conventional banks in Malaysia who analyzed by (Waemustafa, W., 2016). The result showed that Islamic bank dominates the liquidity performance result compared to Conventional bank which represented with the mean percentage.

Velnampy (2013) identifies two measures of organizational achievement for the private and public companies which are Return on Assets (ROA) and Return on Equity (ROE).

They use these two in their analysis the effect of corporate governance on the performance. Using correlation and multiple regressions, they find that corporate governance to have no symbolic effect on the firm performance. Roughly, return on assets is the annual profit or net income divided by the average assets over the year. More precisely, to compute the numerator, researchers usually subtract the interest expense and the interest tax savings from the annual profit. As van Dyck, Frese, Baer, and Sonnentag (2005) highlight, return on assets is a measure of operating efficiency, reflecting the long term financial vigor of organizations.

Consistent with Barber and Lyon (1996) and Core, Guay and Rusticus (2005), consider Return on Assets (ROA) as our dominant measure of firm operating performance. In supplementary tests, they also use stock return (Return) and Tobin's Q (TobinsQ) as alternative measures of firm performance. They consider other control durables as the percentage of stock owned by the CEO, Leverage (the capital structure measure, calculated as the long term debt-to-assets ratio). They assume both of these variables to be indigenous determined.

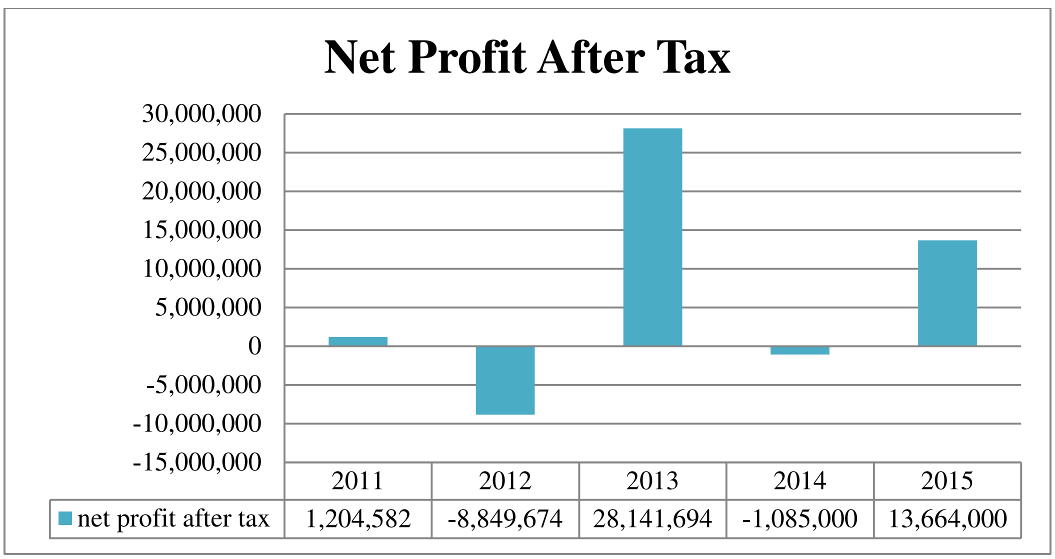
The management of liquidity hazard is only inconsistent without relevant learning of risk arrangement in Islamic method of financing. It is basic to at first recognize the procedure of risk development before continuing to a further phase of risk management process (Muljawan, 2005). The mismatch is assumed to happen when equity financing requires a long-term commitment while debt financing involves short term maturities. Thus, to finance assets using the equity modes of financing, the liability needs a long-term maturity to avert liquidity risks (Sundararajan and Errico, 2002). The finding is consistent with past studies Ghazali (2008), who found a positive relationship between Liquidity and ROA. Bourke (1989). Kosmidou and Pasiouras (2005) also found a significant positive relationship between Liquidity and ROA. The finding is contradictory to the findings of Choon et al. (2012) who found that LIQUID is negatively significant to ROA which implies that more financing were made by Islamic bank with lower liquidity. The finding of this study shows that conventional risk taking behavior is negatively influenced by level of liquidity, the higher the liquidity the lower credit risk exposure, the finding is consistent to Cornett et al. (2011)

3.0 DESCRIPTIVE ANALYSIS

RATIOS OF REDtone TELECOMUNICATION BERHAD FROM 2011 TO 2015

YEARS	**2011**	**2012**	**2013**	**2014**	**2015**
NET PROFIT AFTER TEX	1,204,582	-8,849,674	28,141,694	-1,085,000	13,664,000
TOTAL ASSETS	140,378,563	130,627,107	121,125,811	131,932,000	175,343,000
TOTAL LIABILITIES	55,378,496	51,400,920	13,332,611	26,924,000	27,726,000
SHAREHOLDER'S EQUITY	85,000,067	79,226,187	107,793,200	105,008,000	147,617,000
RETURN IN ASSETS(ROA)	0.0085809	-0.0677476	0.23233441	0.00822393	0.07792726
RETURN ON EQUITY(ROE)	0.014171542	-0.1117014	0.26107114	0.01033255	0.09256386
CURRENT ASSETS	56,441,292	30,614,922	21,467,306	27,792,000	85,761,000
CURRENT LIABILITIES	50,823,612	47,825,243	10,204,357	24,500,000	27,048,000
CURRENT RATIO	1.110532876	0.64014148	2.10373922	1.13436735	3.17069654

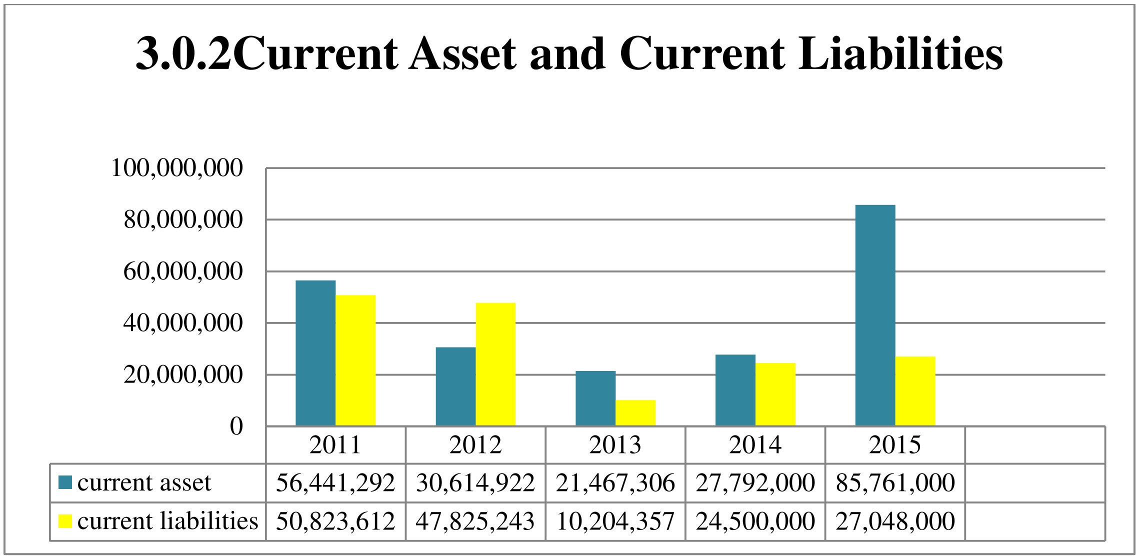
3.0.1 Net Profit After Tax



BAR CHART 1: NET PROFIT AFTER TAX FROM 2011 UNTIL 2015

Net income after taxes (NIAT) is the number of sales dollars remaining after all operating expenses, interest, depreciation, taxes and preferred stock dividends have been deducted from a firm's total revenue. From the car chat above we can see that the net profit after tax from year 2011 to 2015 was fluctuated. In year 2011 the net profit after tax was RM1,204,582 and it drops to -RM-8,849,674 due to revenue decrease. While in year 2013 it rose dramatically to RM28,141,694 which recorded as the highest in this 5 years. In 2014, the net profit after tax dropped again to –RM 1,085,000 and increased to RM13,664,000 in 2015. Through the data we can see that the net profit tax of company redTONE wasn't steady.

3.0.2 Current Asset and Current Liabilities



BAR CHART 2: CURRENT ASSETS AND CURRENT LIABILITIES FROM 2011 UNTIL 2015

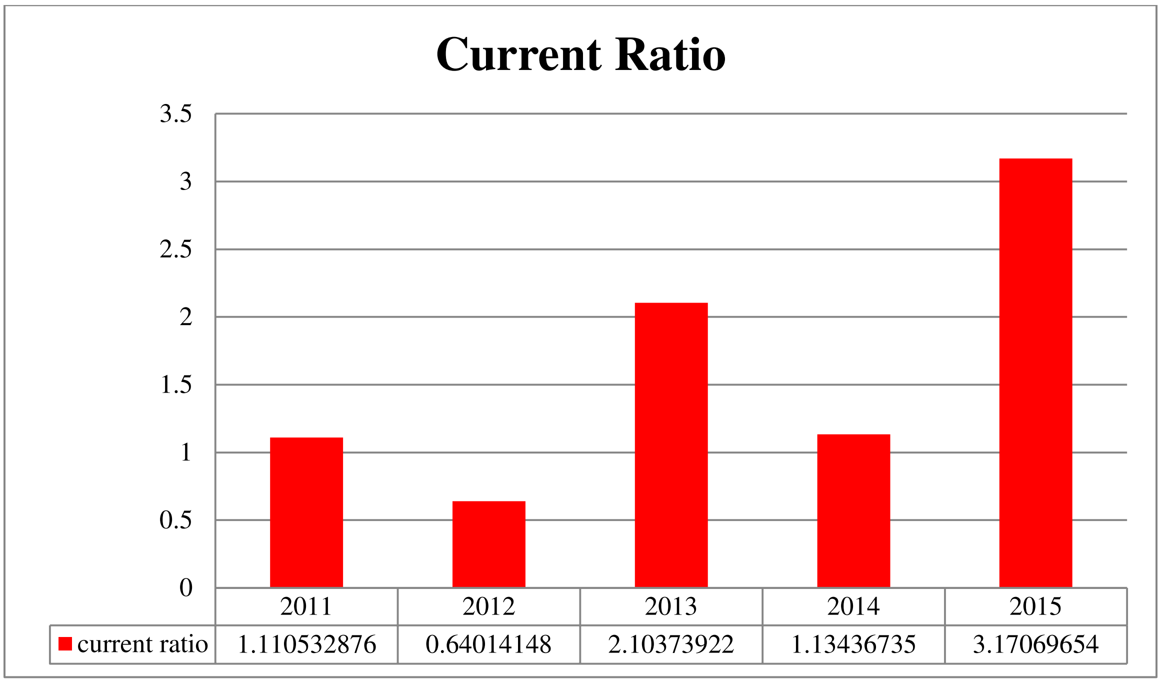
Current assets are balance sheet accounts that represent the value of all assets that can reasonably expect to be converted into cash within one year. Current assets include cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses and other liquid assets that can be readily converted to cash. Current liabilities are a company's debts or obligations that are due within one year, appearing on the company's balance sheet and include short term debt, accounts payable, accrued liabilities and other debts. Current assets and current liabilities are important items that need to study in the financial report.

From the bar chat above, the flow of current asset was decreased from year 2011 to 2012 then increased through year 2014 and 2015. In year 2011, the current asset was RM56,441,292 then decreased 11.63% to RM30,614,922 and RM21,467,306 in 2013. After decreased for 2 years, it increased to RM27,792,000 in 2014 and rose dramatically to RM85,761,000 in 2015.

Current liabilities for this company are fluctuated through the year. In first, it decrease from 2011 to 2014 but rose in 2015.

From here we can know that the company showed the good financial performance as the current asset is always higher that the current liabilities most of the time except in year 2012.

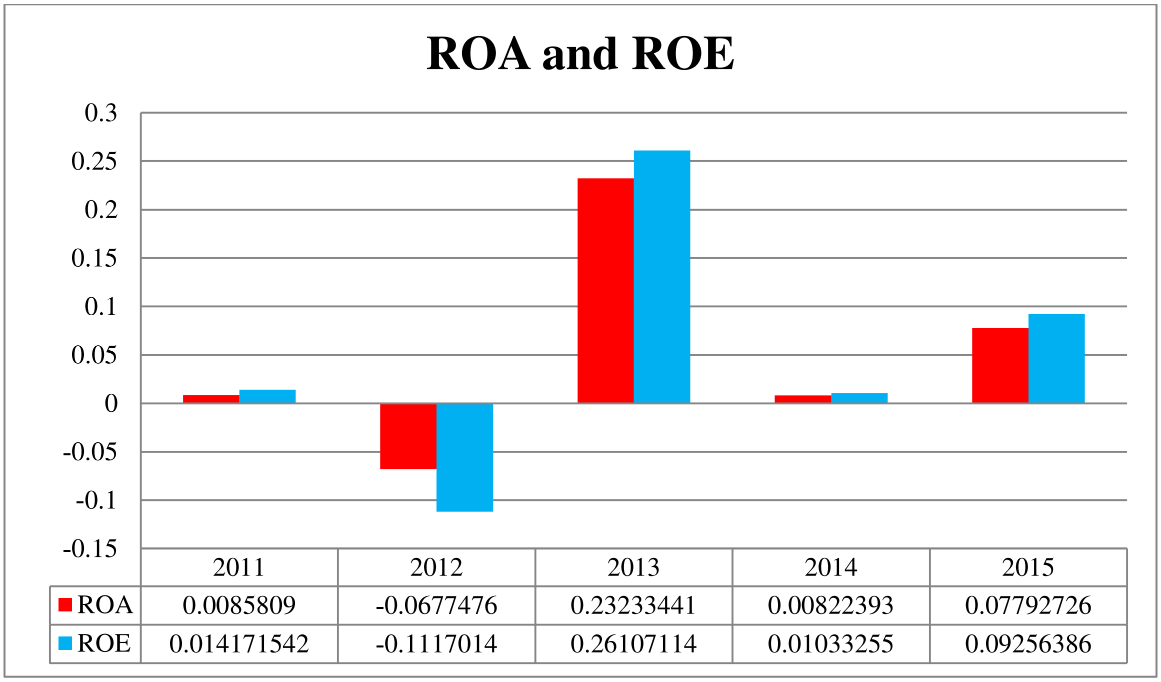
3.0.3 Current Ratio



BAR CHART 3: CURRENT RATIO FROM 2011 UNTIL 2015

The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations. To gauge this ability, the current ratio considers the current total assets of a company (both liquid and illiquid) relative to that company's current total liabilities. The higher the number, the better the performance of the company. The current ratio in the company was fluctuated throughout the year which is 1.11 in 2011, 0.64 in 2012, 2.10 in 2013, 1.13 in 2014 and 3.17 in 2015.

3.0.4 ROA and ROE



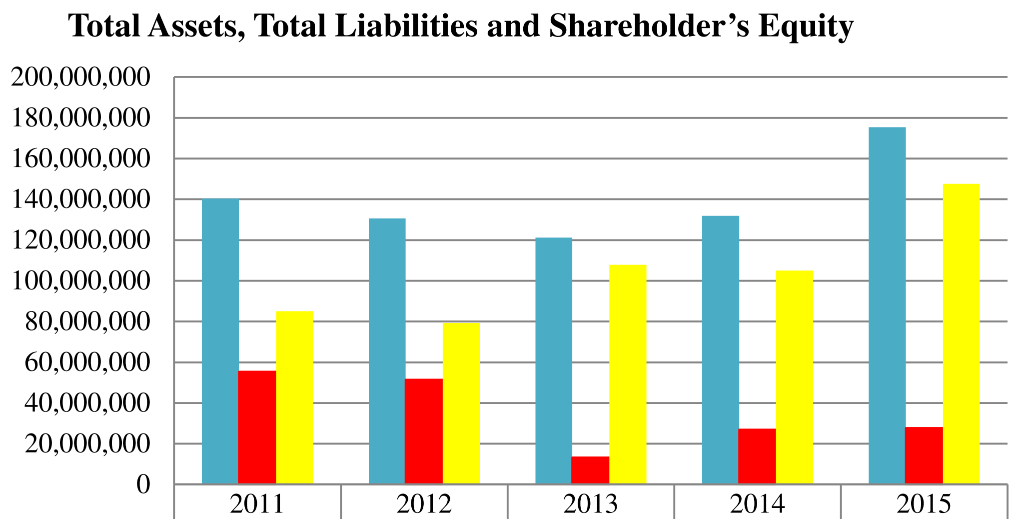
	2011	2012	2013	2014	2015
ROA	0.0085809	-0.0677476	0.23233441	0.00822393	0.07792726
ROE	0.014171542	-0.1117014	0.26107114	0.01033255	0.09256386

BAR CHART 4: ROA AND ROERATIO FROM 2011 UNTIL 2015

Bar chat above showed the data of ROA and ROE of company from year 2011 to 2015. ROA and ROE indicate the profitability of the company. Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment". The ROA was fluctuated throughout the year. In 2011, the reading was 0.0085809 and decreased to -0.0677476 in year 2012. But in year 2013, it increased dramatically to 0.23233441 then dropped to -0.00822393 then rose to 0.07792726.

In a meanwhile, Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The ROE is fluctuated throughout the year from 0.014171542 to 0.09256368 in year 2015.

3.0.5 Total Assets, Total Liabilities and Shareholder's Equity



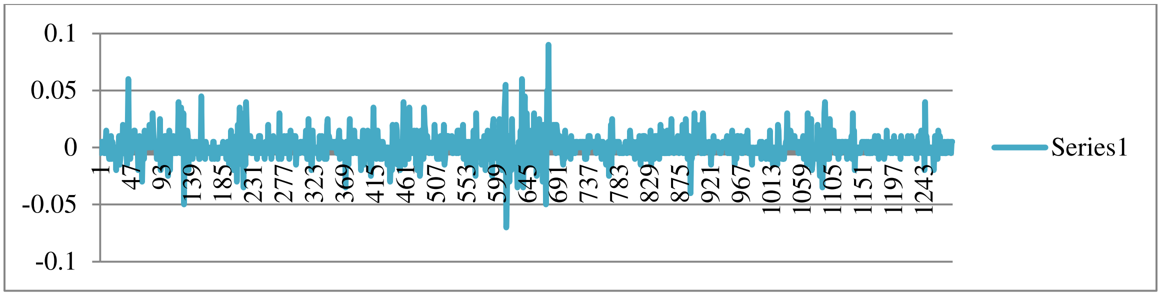
	2011	2012	2013	2014	2015
total asset	140,378,563	130,627,107	121,125,811	131,932,000	175,343,000
total liabilities	55,378,496	51,400,920	13,332,611	26,924,000	27,726,000
shareholder equity	85,000,067	79,226,187	107,793,200	105,008,000	147,617,000

BAR CHART 5: TOTAL ASSETS, TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY FROM 2011 UNTIL 2015

The data from the bar chat 5 we can observe that the trend for total assets was decreased from year 2100 to 2013 then increased dramatically to year 2015. This trend also showed the same to the total liabilities which decreased in the first 2 years then increased. The increased of the total liabilities meant that a very huge proportion of REDtone Company with the total assets was financed by external debt.

Mean	0.000789
Variance	0.000129
STDV	0.011356

3.0.6 Price change



The graph above showed that the price change throughout the year from 2011 to 2015.

Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.06531612260	.098534549815	5
LEVERAGE	.4433394700	.37232114106	5
SIZE	107545496.200000000000	52923607.3955212100000	5
AVERAGE COLLECTION PERIOD	215.200	78.3594	5
GDP	5.300	.4950	5
INFLATION	2.580	.7463	5
UNEMPLOYMENT	3.0660	.14758	5
EXCHANGE RATE	3.4600	.49168	5
INDEX SCORE	1.00000000000	.078567420053	5
REMUNERATION	1783853.200	646662.3394	5
CURRENT RATIO	1.63189549320	1.011616827008	5

The table above showed the descriptive statistics; through the data we can see that the standard deviation of the ROA is the least among others which is 0.098534549815 means that it did not have the big changes in these 5 years. ROA is calculated by net income divide by the total assets.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.943[a]	.890	.853	.388290434023	3.199

a. Predictors: (Constant), REMUNERATION
b. Dependent Variable: CURRENT RATIO

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.641	1	3.641	24.151	.016[b]
	Residual	.452	3	.151		
	Total	4.093	4			

a. Dependent Variable: CURRENT RATIO
b. Predictors: (Constant), REMUNERATION

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1.000	.563		-1.776	.174		
	REMUNERATION	1.475E-6	.000	.943	4.914	.016	1.000	1.000

a. Dependent Variable: CURRENT RATIO

The table above is link to each other; it showed that the coefficients of variation of current ratio are remuneration. This can prove by the sig is 0.016 which is less than 0.16(relevant). Through this we also can understand that if the remuneration increased, then the current ratio will decreased vice versa. As the dependent variable is current ratio, means that the remuneration and the current ratio is effect to each other.

Excluded Variables[a]

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics Tolerance	VIF	Minimum Tolerance
1	LEVERAGE	.057[b]	.175	.877	.123	.515	1.941	.515
	SIZE	.012[b]	.017	.988	.012	.111	9.042	.111
	AVERAGE COLLECTION PERIOD	.111[b]	.501	.666	.334	.999	1.001	.999
	GDP	-.338[b]	-4.017	.057	-.943	.859	1.164	.859
	INFLATION	.207[b]	1.032	.411	.589	.899	1.113	.899
	EXCHANGE RATE	-.788[b]	-1.033	.410	-.590	.062	16.141	.062
	INDEX SCORE	.262[b]	.594	.613	.387	.242	4.132	.242
	ROA	.255[b]	1.472	.279	.721	.884	1.132	.884

a. Dependent Variable: CURRENT RATIO

b. Predictors in the Model: (Constant), REMUNERATION

Table above showed that only the remuneration will be affected by the current ratio, even there is some changes in other variable but it also not change as big as remuneration.

4.0 DISCUSSION AND RECOMMENDATION

This study aims at analyzing the relationship between corporate governance, REDtone firm liquidity and internal and external factor. Through the analysis the revenue of the company is fluctuated and facing loss in year 2012 and 2014. It cannot deny that some of the loss that face by the company is because is fail in corporate governance. Only the company with good corporate governance will able to operate in long-term and make profitable.

In first, they should understand the four pillars of corporate governance. Corporate governance itself means a system that company is directed and controlled (Cadburry report, 2012). Corporate Governance involving then relationship between company's performance, its board, its shareholder and other stakeholder. That the losses face by the company may because due to the weak internal control or weak corporate governance. To solve this, the company should follow the four pillars of corporate governance which is accountability, transparency, fairness and independent. This four pillars is interdependence to each other.

The competition that faces by the telecommunication is strong as they keep chasing to the advances of the technology. Thus, this might be one of the factors that face by REDtone. Even through REDtone is the only one company that provides service to the corporate but still it should more focus on the public customs.

5.0 Conclusion

The objective of this study is to examine the relationship between corporate governance, REDtone firm liquidity and internal and external factor. Through the analysis from the annual report from 2011 to 2015 and also the tool of SPSS, it showed that the remuneration have significant bearing toward the company. There is positive relationship between current ratio and remuneration, means that when the current ratio increased (cash, inventory), the better the remuneration.

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