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Necessity of Corporate Governance and Development of Risk Management: APB Resources Berhad

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Abstract

The purpose of this study is to examine the overall performance of the company APB Resources Berhad with the specific risk and their profitability factor on performance. The data that are use is annual report of APB Resources Berhad starting from 2012-2016. The measurement of return on asset, leverage, current ratio and inventory turnover ratio to see overall the performance of this company. The additional measurement is the method of SPSS that give a specific results on the risk and profitability on performance during five years. The relationship return on asset, current ratio, leverage, gross domestic product, inflation remuneration board are the factors of the performance. The regression analysis and correlation shows only the impact and effect on the performance during five years.

Keywords: Credit Risk, Profitability, Risk Management, Corporate Governance

1.0 Introduction

The company APB Resources Berhad is an investment holding company which is listed companies. The APB Resources Berhad with their subsidiaries are involving in the segmentation fabrication of specialized design engineering equipment for the petrochemical process industry and chemical industry. Also for oil palm processing industry, paper mill industry and power generation industry. With several production their product are doing, the investor are can diversify their investment in many industry such as oil palm, fabrication industry and petrochemical process.

This company are very good in diversify their product because they are can switch their market when some market are going down, which is they can recovery their product in

other market segment which is are going up. That is why they are have subsidiaries Company to diversify their production.

Their operating are through three segmentation which is fabrication, non-destructive testing and others. The fabrication segmentation are includes the fabrication of specially designed and manufacturing of engineering equipment APB Resources Berhad. The non-destructive testing segment are include the provision of non-destructive testing services and other related services which is to create more capital in company. The others segments is engaged investment holding and dormant companies which is the company subsidiaries is includes Era Julung Sdn. Bhd., Prescan Sdn. Bhd., Amalgamated Metal Corporation (M) Sdn. Bhd. and Finned Tubes Malaysia Sdn. Bhd.

The oil & gas, petrochemical, energy and oleo-chemical are the main sectors user of process equipment for this company. The middle-eastern region, one of the main traditional markets for process equipment to feed its oil & gas and petrochemical sector, has virtually disappeared in the past few years, on political upheavals, budget constraints and excess capacity. The oleo-chemical sector be the star performing sector and principal demand driver for the process equipment industry for this company that is a big impact on their income company.

Their subsidiaries APB Resources Berhad are Era Julung Sdn.Bhd., Amalgamated Metal Corporation (M) Sdn.Bhd., Finned Tubes Malaysia Sdn.Bhd. and Prescan Sdn.Bhd. These all are have 100% ownership in APB Resources Berhad.



Figure 1.0

According to figure 1.0, Era Julung Sdn.Bhd. are financials sector and their industry are asset management. For Amalgamated Metal Corporation (M) Sdn.Bhd. there are to develop the engineering fabrication and contracting services to present capability of offering complete turnkey projects. Finnes Tubes Malaysia Sdn.Bhd. also principally engaged in the fabrication of finned tubes. For the Prescan Sdn.Bhd. are consumer discretionary sector. They are commercial services industry. This provides a range of commercial services.

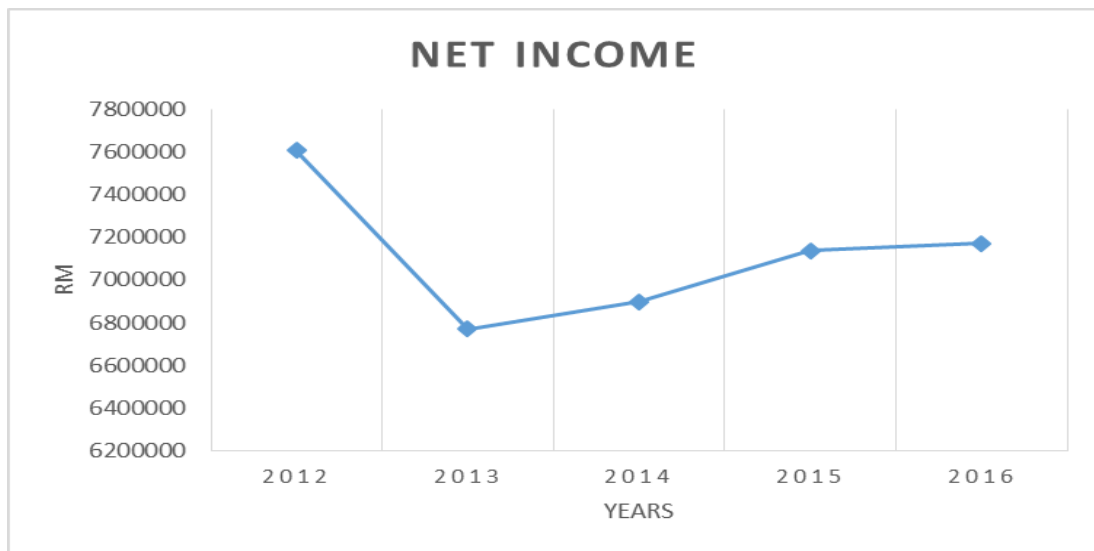


Figure 1.1

Refer in figure 1.1, ABP Resources Berhad show that their profit on year 2012 are RM 7,607,036. For the next year on 2013, their profit are going down drastically RM 6,769,983. On year 2014, their profit are rise around RM 6,899,749. On the next year 2015, their profit are increase again around RM 7,136,047 and year 2016, their profit is increase to RM 7,171,595.

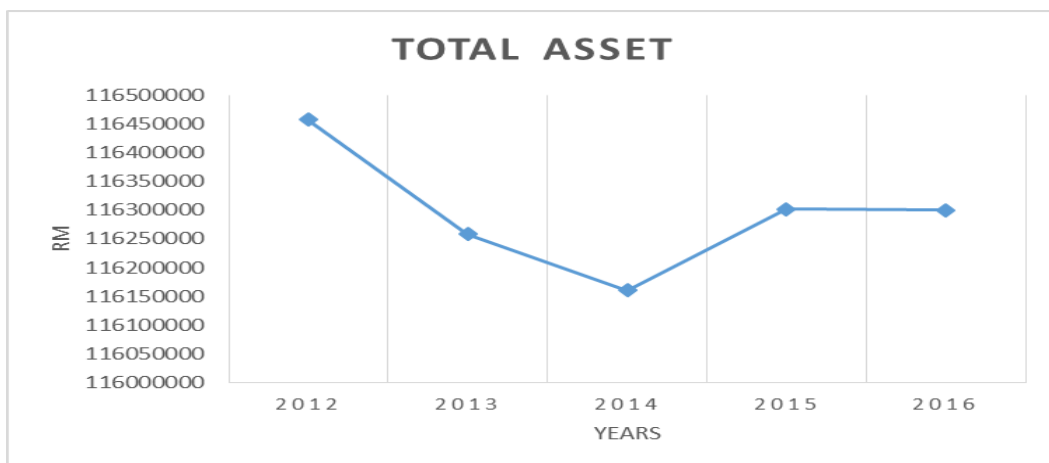


Figure 1.2

Refer in figure 1.2, this company show that their asset on year 2012 are RM 116,457,335. For the next year on 2013, their asset are going down drastically RM 116,257,848. On the next year 2014, their asset are going down again around RM 116,160,674. For the year 2015, their asset increasing about RM 116,302,218 and for the year 2016, their asset are decrease around RM 116,300, 393.

2.0 Literature Review

The study of systematic and unsystematic risk are determinants of liquidity risk between Islamic and conventional banks shows the Islamic banks and conventional are operating of interest base banks. The management of liquidity risk is unreliable without proper knowledge of risk formation in Islamic mode of financing which mean the more information that we get, the easier to analyse the risk. “It is critical to initially identify the process of risk formation before proceeding to a further stage of risk management process Muljawan, (2005)”.

The capital assets pricing theory is to propose two mechanisms of the systematic and unsystematic risks are to analyse contribute of total risk in Islamic banks. The study shows that there are a linear relationships between the bank-specific factors with the macroeconomics factors on the liquidity risks of Islamic banks and conventional banks. Within this study, the SPSS is the method that specific analyse the risk and to develop the relationships between liquidity bank-specific and macroeconomic.

A positive significant shows in this study of return on asset which is implies that Islamic bank are adopt a conservative strategy in managing liquidity problem. To maintaining sufficient cash reserve and to generate the profit. “The finding is consistent with previous studies (Ghazali, 2008)”.

Between Shariah Supervisory Board and their remuneration towards Islamic banks is using the financing mode. It shows that, this study have no sign that relationship among Shariah Supervisory Board (SSB) remuneration and mode of financing. This because the APB resources BHD did not have the SSB because they have the audit committee, nomination committee and remuneration committee which is they are not involve in the Islamic business.

Furthermore, Shariah Supervisory Board (SSB) is the one of internal governance mechanisms which is involving in monitoring of Islamic banks activities that to have a guide from the Sharia (i.e. Islamic law) specifically on its implementation and compliance conducted

by W., Waemustafa and A., Abdullah, (2015). The Shariah governance is a part of the corporate governance, thus the effectiveness of Shariah Supervisory Board should have an impact towards issue of principles in corporate governance.

Thus, the Shariah Supervisory Board provide them a guidelines in business activities in term of Islamic elements that are compliance to the Shariah Committee. For a investment transaction in Islamic activities which is investment that have an element of Islamic content, Shariah Committee company must play the role to conduct activities in term of Islamic activities.

Another study that conducted by Waemustafa and Sukri, (2013) is risk sector financing and Islamic contract are significant to credit risk of Islamic banks. Conventional bank use element of loan loss provision, debt-to-total asset ratio and earning management to analyse or examine the factors that influencing their credit risk bank. Vodová, (2003) conducted that the substantial loss arises due to borrowers default on their loan repayment contribute to insolvency and even bankruptcy that leads to banking crisis.

“Waemustafa and Sukri, (2013) had mention that, financing and Islamic contract to the credit risk of Islamic banks”. They opined that there is need to understand how credit risk is formed in Islamic banks and conventional banks considering internal and external factors determinants. By Samad, (2004) reports that Islamic banks practically bear no risk when engaging in Murabahah financing as it is backed by asset as collateral as a result of the risk is shifted to customers.

Usually the study of corporate governance disclosures and balance sheet is to identify or to analyse is there any relationships between corporate governance and balance sheet ratios that mention by Williamson, (1988). For this APB Resources BHD are have a positive relationship between the selected balance sheet ratios and corporate governance disclosures. “Williamson, (1988) claims that equity and debt can be considered as an alternative to governance mechanisms to monitor and evaluate managerial actions”.

Furthermore, corporate governance towards the financial leverage is to analyse or to identify the relationship between corporate governance and the use of debt financing in company. According to Abdoli, Lashkary and Dehghani, (2012), there is no significant relationship between corporate governance and the degree of leverage. Thus, they examined the effect of corporate governance on financial leverage by using a sample of 77 Iranian

companies. This significant that the board independence between presence of internal auditor have a significant relationship with the ratio of debt.

3.0 Descriptive Analysis

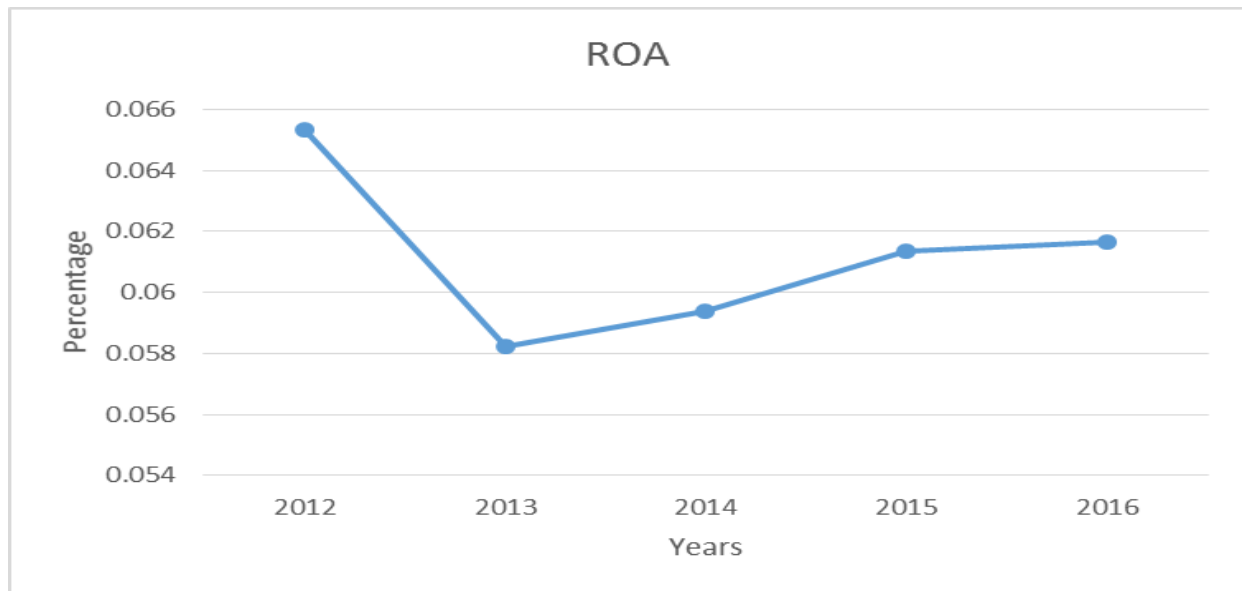


Figure 3.1

In figure 3.1 shows that ROA of the APB Resources BHD are the highest in 2012. Another next year, its shows that ROA this company are going down in 2013 this is may cause on that time the efficiency in management of their asset to turn it into profit are not doing well. As we can see, we have discuss that their profit are going down in year 2013, this are may cause their ROA are going down.

However, the next year their ROA are going up slowly year by year until year 2016. But, their ROA are not going up or not above ROA in year 2012. This shows that their company not higher in term of efficiency in management of asset at the year 2013. As overall, this company have a positive ROA and have a good sign to do investment in this company.

In term of profitability, there are linear relationship between ROA and profitability of the company. However, the internal and external are the factors of profitability in the company. The internal factors for the APB Resources Berhad is actual size. The actual size in the year 2014 there are five and in the year 2015 have six actual size. If the actual size have more of board of directors, the more profit are can make.

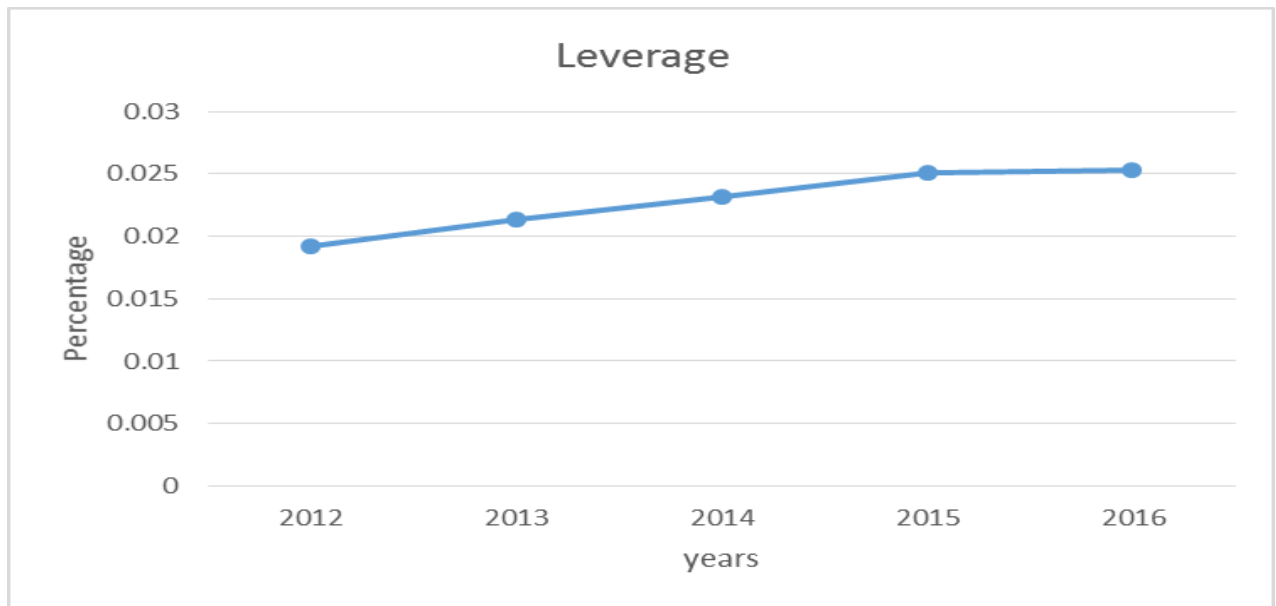


Figure 3.2

As we can see, figure 1.4 shows that APB Resources BHD from 2012 to 2016 in term of leverage. This line graph that shows that leverage for this company are going up from 2012 to 2016. This sign that, this company are have higher total liabilities than total equity from year to year. This give sign that the performance are not good in term of using liabilities than equity for financial performance because of their debt are higher than equity. This may cause that the risky level are high to pay their debt and also the cost of borrowing fund are high. However, leverage can be a prediction on responsibly growing the business.

This figure 3.2.1 below shows that the market risk of APB Resources Berhad:

Mean	0.001758833
Variance	0.00034333
Standard deviation	0.018529165

Figure 3.2.1

This figure 3.2.1 is about the information of price share APB Resources Berhad for the five years. The standard deviation is are lower and it is good for the company. The high standard deviation, the more volatility of the price and it give sign that the company are risky. However, the price share are high give some profit to the company but for the investor are too risky to do an investment for the investor that are not type of risk taker.

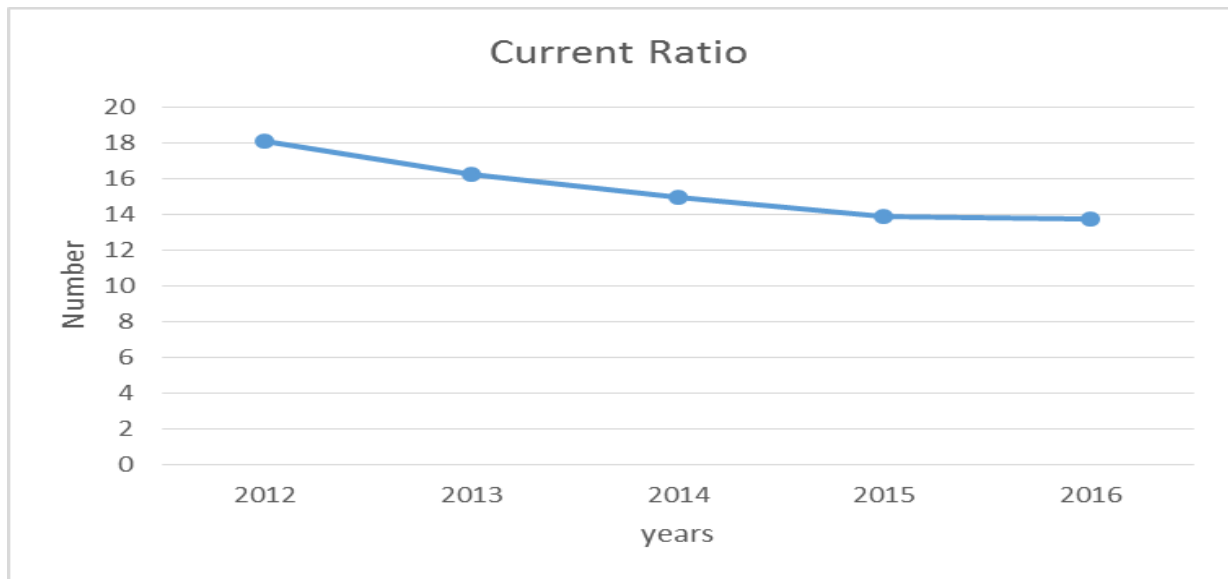


Figure 3.3

Refers on the top figure 3.3, the current ratio that show on the 5 years of APB Resources BHD, the higher current ratio that are achieve at years 2012. The following next year are decline until 2016. However, the changes in 2015 to 2016 are not quite much change. It may cause by that company does not have more capable of paying its obligations. So, that's why the following year of current ratio are decline.

However, this company are still run and making profit and payable to pay its obligation. As we can see, this company have a stable financial health year to year. This is are good for investor to invest in this company. The current ratio for this company are valuable to the investor that give a sign that this company are how they are paying the payable of their obligation.

As we can see, the significant between the risk and the current ratio have a linear connection. Low current ratio are sign of the high risk of bankruptcy and too high of current ratio impacts the profits adversely. So when the profit are decline, the current ratio also decline in year 2012 to 2013 at the figure 3.1 and figure 3.3.

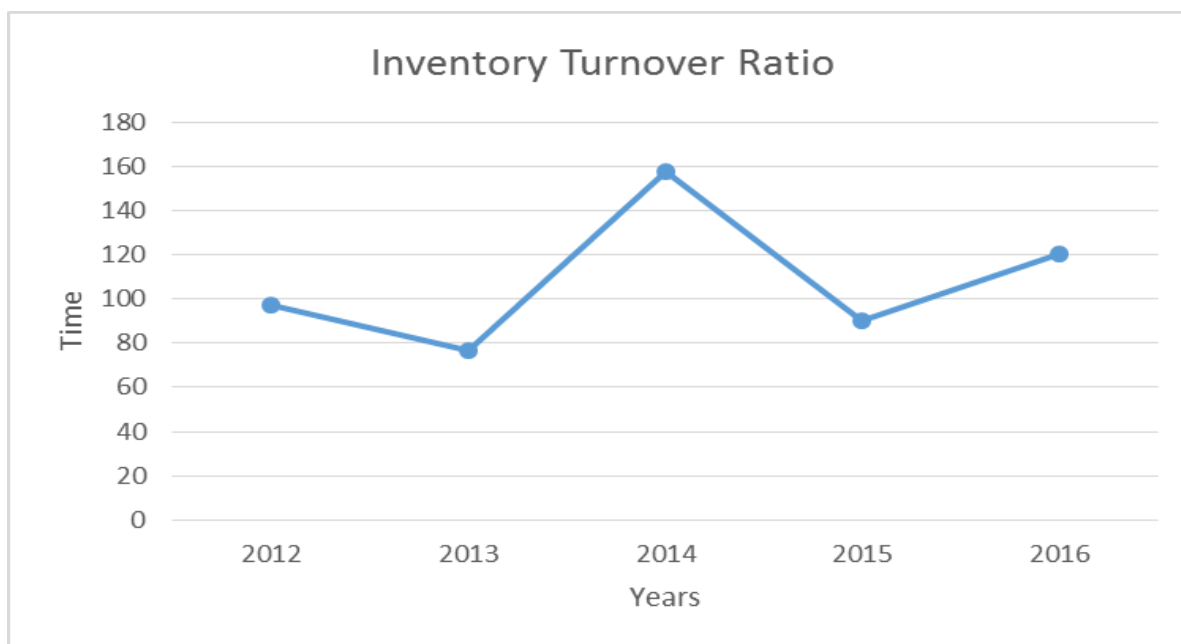


Figure 3.4

As we can see in figure 3.4, there is fluctuation in every year for company APB Resources BHD and have a better in inventory ratio from 2012 until 2016. It measure how fast a company is selling inventory and is generally compared against industry average.

The APB Resources Berhad are having high inventory turnover in 2014 which is company replenishing cash quickly and has a lower risk of becoming stuck with obsolete inventory. After 2014, the inventory ratio are decline but not as bad in year 2013. In 2016, the APB Resources Berhad inventory ratio are increase but not as higher in year 2014.

This shows that, APB Resources Berhad have an inventory that are very good in convert the cash according to the figure 3.4 are so fluctuate. They are very looking forward to their inventory. However, more cash also have a bad side to the company because of the cash are not expanded.

4.0 Discussion and Recommendation

4.1 Discussion

In corporate governance, internal factor are the main important that can give effect to the performance company. As we can see, ROA and profit in year 2012 to 2013 are falling down drastically this may cause by the remuneration board in this company. The remuneration of Board of Directors in that following year are falling down. That is why Board of Directors are does not have interest in their job. Also, the performance on year 2012 to 2013 are going down

drastically. However, on the next year remuneration are going up again, and it will give effect the performance of the company.

The factors that APB Resources BHD by the external factors. The Board of Directors are not the factors that effect on performance their leverage company. The external factors that effects performance this company may cause by the interest tax shield that by the U.S corporate income tax. This leverage ratio increase year by year cause by when the assets that are purchased with the debt capital earn more than cost of the debt that was used to finance them.

On year 2012, this company have the higher current ratio, that is mean on that year the company have more capable of paying its obligations, as it has a larger proportion of assets value relative to the value of its liabilities. However, this company have a stable financial health because of their changes current ratio are to too far year by year.

Inventory turnover for the APB Resources BHD are decreased in 2013 may cause by the smallest size of Board of Director (B.O.D). APB Resources BHD have a small number of board of director and it will reduce the conflict of interest among the B.O.D. That is mean, it easy for them to made the best decision in their meeting. With that, they have more advantages to overcome to any discrepancy in the internal process especially concerning inventory.

Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.0611940	.00270520	5
Year	2014.000	1.5811	5
Net Profit after tax	7116882.00	320584.392	5
Total Assets	116295693.60	107069.109	5
Leverage	.0228220	.00261061	5
Current Ratio	15.3717740	1.82337132	5
Inventory Turnover Ratio	108.2845419	31.56593446	5
Index Score	.6923076923	.0000000000	5
Remuneration Board	737000.00	269475.416	5
GDP	5.080	.6979	5
Inflation	2.700	1.1314	5
Unemployment Rate	3.1660	.23512	5
Exchange Rate	3.7240	.63153	5

Figure 4.1.1

The results of descriptive statistics for the variables are in figure 4.1.1. For average five years APB Resources Berhad makes 6% of profit. The standard deviation are quite small

that's mean that every year the company make a profit not too far from average and it give a sign that the movement are not volatile, because risk and profitability the company are do not want the high volatility.

Leverage tells that the proportion of debt to equity, in the figure 4.1.1 shows that, every 1 ringgit of debt is sponsored by 0.2% equity on average. For the five year, the APB Resources Berhad have an average of 15.37 current ratio. In term of standard deviation, the current ratio are 1.81, that's mean the changes of volatility are not bigger. Inventory turnover ratio have a big average 108.28. That's mean this company are have a good in term of the cash and their inventory. The standard deviation of the inventory turnover are have a big amount, that's mean there are have a big volatility, so there are more risky in term of this.

		Correlations				
		ROA	Leverage	Current Ratio	GDP	Inflation
ROA	Pearson Correlation	1	-.344	.425	.104	-.190
	Sig. (2-tailed)		.571	.476	.868	.760
	N	5	5	5	5	5
Leverage	Pearson Correlation	-.344	1	-.996**	-.415	.671
	Sig. (2-tailed)	.571		.000	.487	.215
	N	5	5	5	5	5
Current Ratio	Pearson Correlation	.425	-.996**	1	.387	-.665
	Sig. (2-tailed)	.476	.000		.520	.220
	N	5	5	5	5	5
GDP	Pearson Correlation	.104	-.415	.387	1	-.431
	Sig. (2-tailed)	.868	.487	.520		.469
	N	5	5	5	5	5
Inflation	Pearson Correlation	-.190	.671	-.665	-.431	1
	Sig. (2-tailed)	.760	.215	.220	.469	
	N	5	5	5	5	5

** . Correlation is significant at the 0.01 level (2-tailed).

Figure 4.1.2

Refer to figure 4.1.2, the significant between leverage and the return on asset is negative. The Pearson Correlation on leverage is decrease whenever the company performance is increase to 34% on average return on asset. Therefore, it shows even the leverage is negative, APB Resources Berhad still can make a profit on their asset. As we can see, the higher leverage is facing the higher risk. That is mean the risk committee must establish for this company to

make the leverage and risk is lower. For the current ratio, it have positive significant between return on asset. When the current ratio increase to 43%, the return on asset also increase. It shows that, this company have a good in term of efficiency of management asset.

The gross domestic product is in positive significant between return on asset. Gross domestic product is 10% when the return on asset are arise. Thus, during five years of company have an export high rather than import activities. The significant between inflation and return on asset is negative relation. When the inflation are high, the return on asset are going down. Inflation is mean the price of product are high and demand also high, thus the APB Resources Berhad have to make a profit from the market.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	2	.000	13.480	.069 ^b
	Residual	.000	2	.000		
	Total	.000	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), Leverage, Current Ratio

Figure 4.1.3

Based on the figure 4.1.3 of ANOVA, the Sig value in this company is 0.069. This value is more than 0.05. Thus, we can conclude that there is no statistically significant difference between ROA, Leverage and Current Ratio.

4.2 Recommendation

As we can see, the profitability and risk have their own factors that can influenced to the performance of company. In my opinion, the corporate governance are the best way to the internal and external control that can affect the APB Resources Berhad performance. In term of internal factors of this company is the board of directors, remuneration board are the big impact in this company. So, my suggestions in order to have a good corporate governance control, the board of directors must have a good interest in doing their job monitoring and analyze the risk and the performance of the company. The remuneration board have an impact in the performance to the board of directors. Board of directors will give the interest if they are given a big amount of remuneration thus they surely produce good performance towards company. However in terms of the company's profit, they did not give the big impact to the performance profitability of the company.

The external factors that have impact on the company performance in profitability is the gross domestic product. What we have shown previously is that, the gross domestic product have a positive relationship between the profitability in the company performance. Gross domestic product that shown in the five years have the positive correlation with the return on assets as refers to the figure 4.1.2. So, the profit for this company are made by the gross domestic product in the five years that are not give a big impact but can give some return to their profit of company. Thus, we might can recommend that GDP can be as a mechanisms to APB Resources Berhad to make profit for this company.

Inflation are another external factors that affect their performance. However for this company, the inflation do not have a good even no sign that when the inflation in five years is were to happen and lead to bad impact of the company. As we can see, return on asset for this company in year 2016, they still can make a profit even the inflation are very high value in that years which is 4.5%. In my opinion, the inflation rate is still the friendly factors on that year because their company are still making a profit and it might be some other reason that will affect to their good performance company. Thus, the suggestions we give to APB Resources Berhad is the inflation are the friendly to company and give them a good return on profit.

5.0 Conclusion

As conclusion, the APB Resources Berhad have a quite good in term of performance of profitability and risk. Their return on asset, leverage, current ratio and inventory turnover ratio are their own factors that give impact to the profitability and their risk of the company. The internal and external factors are also give the impact of the performance in the company.

In term of ratio, on year 2013 this company have a bad performance in their return on asset. The performance of the leverage also have high on that year. However, they covered their performance on the next years with their return are going up but the leverage are arise but not too high. Overall, the internal and external factors are have a give some impact on their profitability and risk.

As we can conclude, the internal factors which is board of directors and their shareholder are must give their best to their performance towards company because of the board of directors are to monitoring the company. Their interest will affect the performance of company which is the remuneration board are tell us when the high remuneration, the performance will affect in the company, but in this company the remuneration are not so affect to the profitability company. By the external factors the gross domestic product, inflation,

unemployment rate and exchange rate are used as mechanism of the performance of company. In conclusion, the top impact that give to performance is the gross domestic performance. So, gross domestic product is the positive related to the profit of the company.

Lastly, the corporate governance in APB Resources Berhad must have a good corporate in the internal and external and must have a good link each other and it will affect to have a good performance of the company. So, the internal and external factors must have good situation and good networking each other.

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