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# **Firm Risk and Performance: The Role of Corporate Governance in Bertam Alliance Berhad**

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# **Firm Risk and Performance: The Role of Corporate Governance in Bertam Alliance Berhad**

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## **Abstract**

The aim of this study is to analyze company profit and firm performance with the specific risk. The data obtained from the annual report Bertam Alliance Berhad starting from the year 2012 to the year 2015. The measurement of liquidity ratio and operating ratio used to see the overall performance of the Bertam Alliance Berhad in 5 years. The other measurement that have been used is current ratio, debt to equity ratio, return on asset, return on equity and the average collection period. To see the relationship of the risks factors to the profitability, this study use liquidity ratio which is current ratio, GDP and operating ratio. The data was analysed by using correlation table. In this study found that the return of asset is positively significant to return on equity.

Keyword : Credit risk, liquidity, profitability and macroeconomic

## **1.0 Introduction**

Bertam Alliance Berhad was incorporated in Malaysia as UH Dove Holdings Berhad on 27 June 1994. On 30 May 1995, the company was listed on the Bursa Malaysia Securities Berhad. The Company has grown from a manufacturing concern to a leading property development group. It has transformed itself into a group that has vast experience in the development of residential, commercial and industrial properties, through a major corporate restructuring exercise in 2002 involving the acquisition of some property development companies. To better reflect the new identity, the Company name was changed to Bertam Alliance Berhad on 21 January 2003. Besides, the core activities Bertam Group are in property, development and investment and it is subject to business risks inherent in these economic sectors. The risks includes competition changes in the environment framework within which the industries operate, inter-alia, taxation, changes in inflation rates, interest rates, taxation and other political, economic or social development. Based on sales analysis, sales in this company fell dramatically in 2016, sales at Bertam Alliance Berhad were 11.26 million Malaysian Ringgits

(US\$2.53 million) during the year ended December of 2016. This shows when the company's sales were 127.20 million Malaysian Ringgits, there is a sharp decrease of 91.2% versus 2015.

The Group registered revenue of RM40.140 million against RM32.104 million achieved in 2013 for the financial year end 31 December 2014. Profit before tax recorded in 2013 was RM2.000 million which was lower than the RM4.785 million. The reason of this decline in financial because of lower activities from construction work and development projects. To ensure proper transparency, accountability and the protection of shareholders' and stakeholders' interests, the practise of corporate governance, the board are is committed to have the practise of corporate governance into the group. The risk management involve risk in all business activities. To balance the cost and benefit of managing and treating the risks is the underlying risk management principle of the Group. To ensure the relevant action is taken to mitigate the risk of the Group, there is an on-going process in place to identify, evaluate, and manage the key risk faced by the group and the board reviews the key risk highlighted on the regular basis. Based on the statement of cooperate governance, the company did not release the material variance between the audited results previously and the results of the financial year. Any profit estimate, forecast or projection during the financial year did not released by the company. During the financial year, there is no profit guarantee was given by the company. There are also no non-audit fees paid to External Auditors during the financial year.

## **2.0 Literature review**

According to Donaldson (2003) for increasing investor confidence and market liquidity, a good cooperate governance is important to the regulators, investors, academics and others. Next, Alman, M. (2012) states monitoring of Islamic banks' activities in accordance to the Sharia specifically on its implementation and compliance is one of internal governance mechanisms involve in Shariah Supervisory Board (SSB). Moreover, Bhatti, M., & Bhatti, M.I. (2010) states that issue of independence, transparent, accountable, responsible, and fair should be reflected by good and effective Shariah Supervisory Board. Shleifer and Vishny (1997) state that our first proxy for the firm performance, better-governed firms have better operating performance. Better governed firms should perform than worse-governed firms if better corporate governance is related to better firm performance. Gomper et al. (2003), Bebchuk and Cohen (2004) and Bebchuk, Cohen and Ferrell (2004) state that our second measure of firm, better-governed firms are more valuable when firm with the stronger stockholder have higher

Tobin's, their proxy for the firm. Furthermore, Arnott and Assnes (2003) suggest that, our third proxy for the firm-governed, shows that better-governed firms pay out more cash to shareholders because they found that firm with relatively smaller dividend payout have relatively lower earnings growth.

Moreover, according to Lipton Lorsch (1992) and Jensen (1993), because of the benefits by larger boards of increased monitoring are in the level with the poorer communication and decision-making of larger groups, limiting board size is believe to improve firm performance. Besides, according to Smith and Watts (1992) and Core (1997), for the level of compensation, we include the measure of firm risk as control variables. Furthermore, Banker and Datar (1989) state that with the firm risk, compensation risk may either decrease or increase. Yermack (1996) suggests that there is no association between the firm performance and percentage of outside directors. Furthermore, Yermack (1996) also states that function of board size decreased by firm performance and firm value. Bhagat and Black (1997) suggests between various characteristic of board composition and firm performance, there is no meaningful relation. According to Waemustafa (2013) and Waemustafa and Sukri (2013), by considering internal and external factors determinants, there is a need to understand how credit risk is formed in Islamic banks and conventional banks. Boumediene(2011) states that in Islamic banks' Murabahah, credit risk occurred when the customer opt to cancel to buy the commodity causing the bank to be liable for losses and failing to complete the instalment repayment for the good.

Next, Samad (2004) suggests as a result of the risk is shifted to customers, Islamic banks practically bear no risk when engaging in Murabahah financing as it is backed by asset as collateral. Furthermore, Swartz (2013) states that when client failed to meet the obligation of scheduled repayment for assets, Murabahah financing is exposed to credit risk, which has been delivered by banks. According to Ali (2004), even having access to external liquidity of conventional banks the liquidity contributes to the number of failure in Islamic banks and conventional banks is the same. Sufian and Muhamed (2011) found that credit risk can be reduced if conventional banks are able to diversify their portfolio efficiently. In addition, Rahman and Shahimi (2010) and Said (2013) suggest that large banks that involve in loan sales as risk management tools take higher risk without comprising their risk portfolio will generate stable return, especially large banks take more risk while increasing securitization that may also increase their risk portfolio. Besides, Said (2013) states that in MENA region, liquidity is not significant to credit risk of Islamic bank.

Ghousoud and Reed III (2010) opined that to lower liquidity risk consequently reduce the banks need to hold cash which allow banks to lend more to generate more return is contributed by steady economic growth. Furthermore, Sundararajan and Errico (2002) suggest that the liability needs a long-term maturity to avoid liquidity risks in order to finance assets using the equity modes. Sundararam and Errico (2002) also state that the participation nature enables real business activities to the fact that both parties have to bear the profit and loss will be shared by an agreed percentage. Next, Ghazali (2008) suggests there are positive relationship between return on asset and liquidity. However, Choonet al. (2012) states that with lower liquidity, liquid is negatively significant to return on asset which implies that more financing were made by the Islamic Bank.

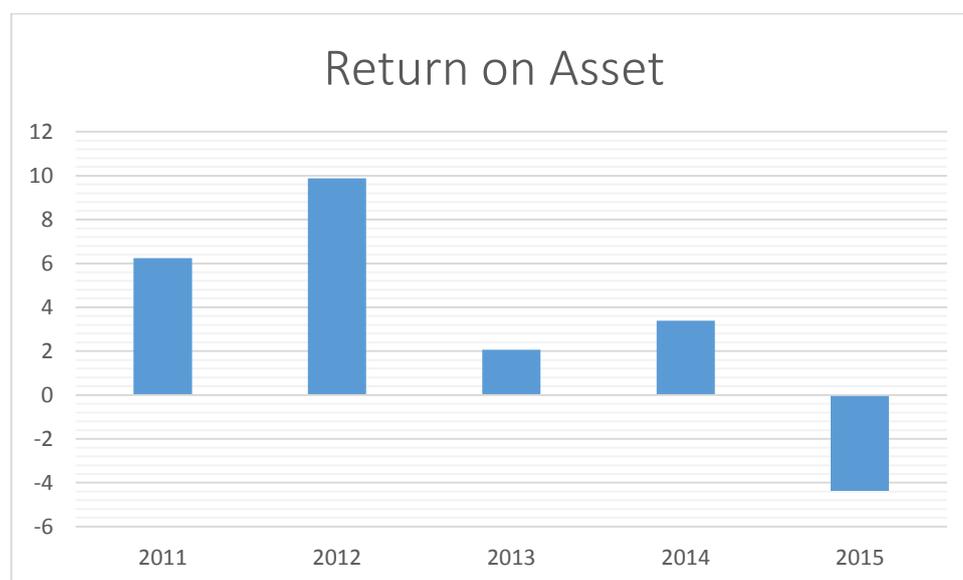
### 3.0 Descriptive analysis

#### 3.1 Performance

##### 3.1.1 Return on Asset

**Table 1: Return on Asset**

2011	2012	2013	2014	2015
6.236128883 %	9.877271031 %	2.06094416 %	3.393730765 %	-4.368043595 %



### Figure 1

This ratio will explain how profitable the company is. It reveal for every dollar of asset, how much profit that a company can earns. Based on the Figure 1, in year 2012, the profit is the highest among the 5 years. This shows that this company is more efficient in utilizing their asset in this year. The decrease in profit of this company decrease about 7.81% from the year 2012 to 2013 and increase about 1.33% in 2014. However, in year 2015, this company is making loss about -4.37%. It show that the company is not efficient in utilizing their asset in the year 2012. This also shows that this company carrying a lot of debt during this year. In year 2011, the company shows a moderate profit among the 5 years.

### 3.1.2 Return on Equity

Table 2: Return on equity

2011	2012	2013	2014	2015
8.5838 %	9.9987 %	2.0959 %	3.614 %	-5.211 %

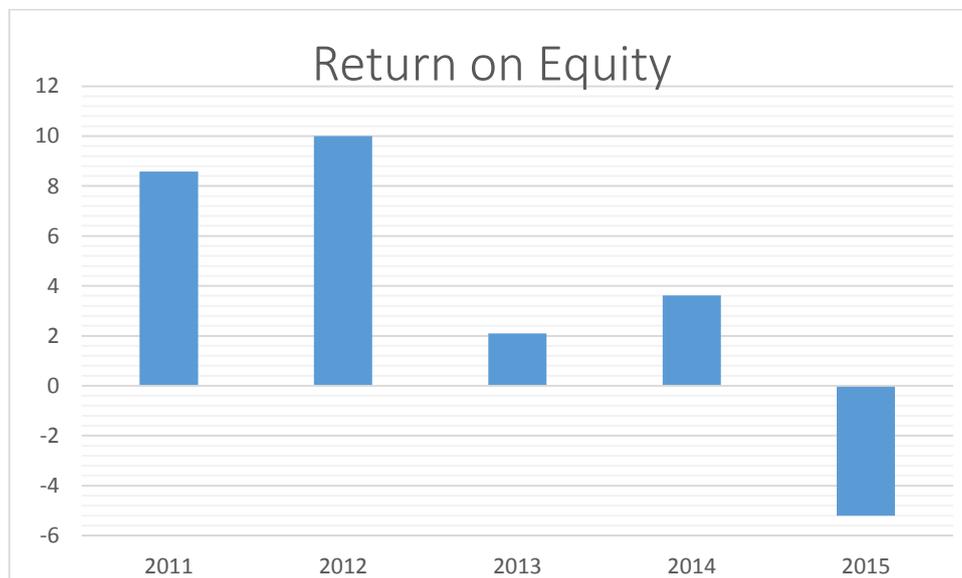


Figure 2

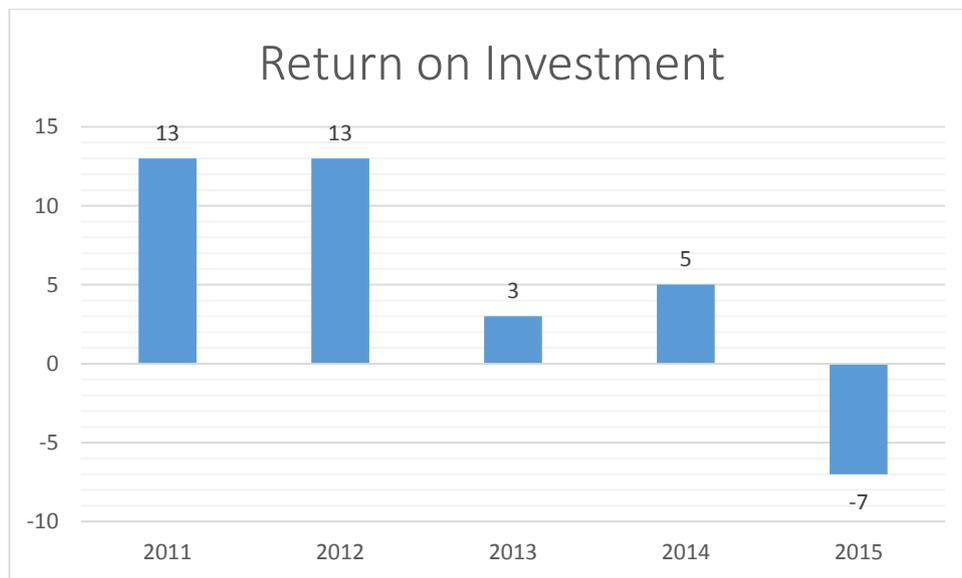
Return on equity indicates the how much company can generates profit by using the money invested by the shareholders. It also shows, whether at an acceptable rate the management is growing with the company value. Furthermore, it also measure how much shareholders will earn for their investment. Figure 2 shows the company return on equity in the

year 2012 is the highest. This shows, this company are efficient in utilizing its equity base. Moreover, in this year also shows that the investors will receive the better return among the 5 years. However, in year 2015, the return on equity shows the lowest value which is -5.21%. This mean, there is bad investment by this company during this year.

### 3.1.3 Return on Investment

**Table 3: Return on Investment**

<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
13%	13%	3%	5%	-7%



**Figure 3**

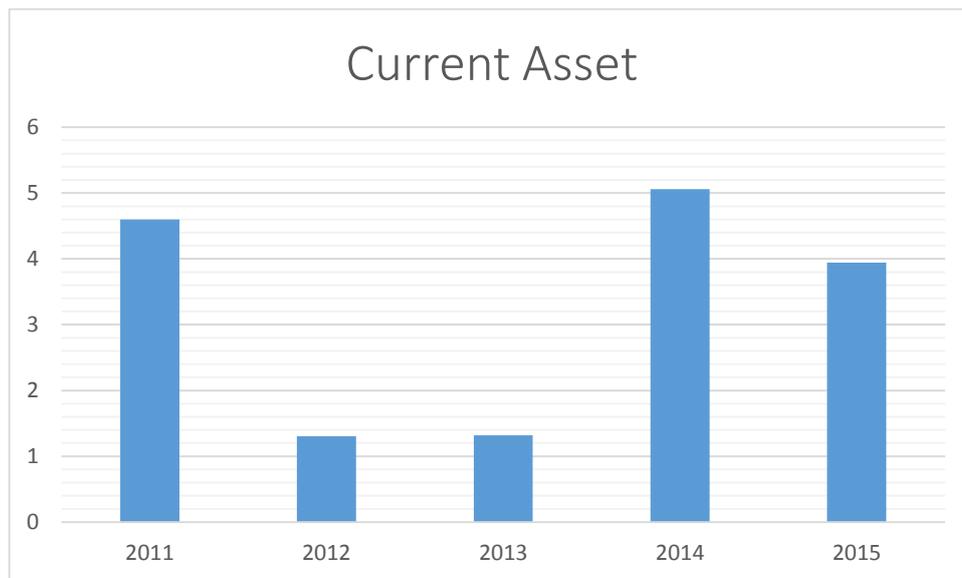
Return on investment shows is to assess the efficiency of an investment which is used to measure a performance. Based on the figure 3, its shows that return on investment recorded the highest value which is 13% in the year 2011 and 2012 respectively. Then it decreased by 10% in the year 2013 and increased by 2% in the year 2014. However, in the year 2015, return on investment shows negative result which is -7%. Negative return in investment shows the project has lost money.

## 3.2 Liquidity

### 3.2.1 Current Ratio

**Table 4: Current Ratio**

2011	2012	2013	2014	2015
4.598329	1.305598	1.3165	5.061715	3.942844



**Figure 4**

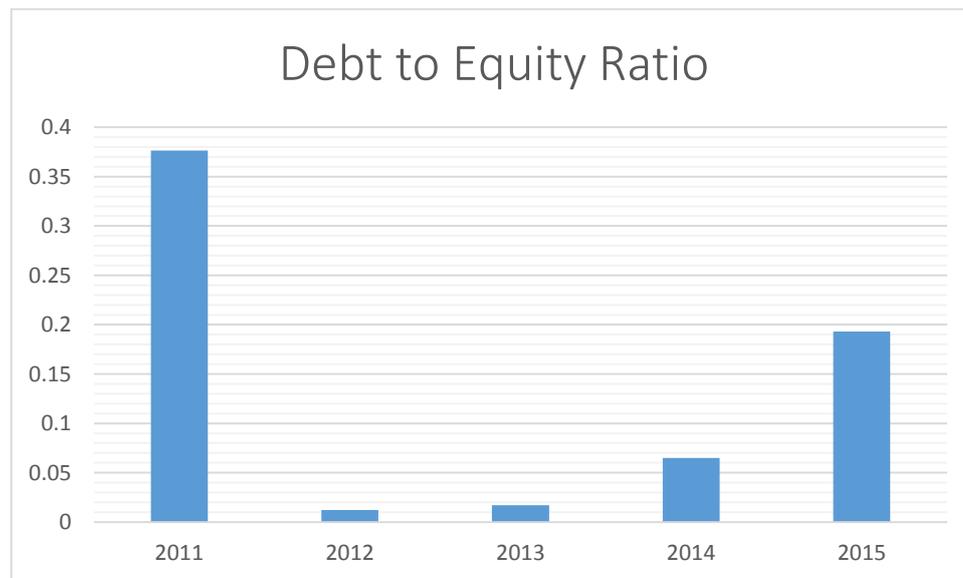
Current ratio is one of the liquidity ratio that measure the ability of the company to pay long term and short term obligations. Based on the figure 4, current asset in year in 2014 is the highest among the 5 years. This means, this company is able to pay its obligation and it has larger proportion of asset than value of its liabilities. In 2012, current asset recorded the lowest value in this company. However, all the ratios is above 1 which means the company is in good financial health. If the ratio below 1, it indicates that the company it unable to pay its obligation and it also means that the liabilities of the company more than its asset. Next, in 2015, shows the moderate value of current asset among the 5 years in the company. Besides, high ratio which over than 3 also shows that the company not efficient in utilizing their current asset which happen in year 2011, 2014, and 2015.

### 3.3 Leverage

#### 3.3.1 Debt to Equity Ratio

**Table 5: Debt to Equity Ratio**

2011	2012	2013	2014	2015
0.376457181	0.012290696	0.016975556	0.064899728	0.193032476



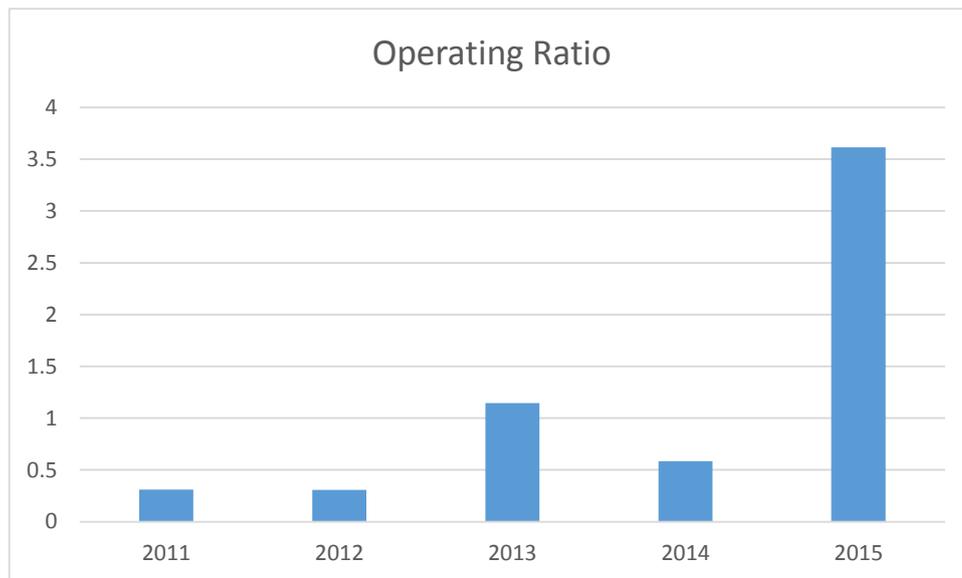
**Figure 5**

Debt to equity ratio is measure of financial leverage of a company. This ratio shows how much company use debt to finance its asset compared to the value that represented in equity of shareholders. Based on the figure 5, it shows the highest debt to equity ratio in year 2011. This means the company is has been vigorous in financing its growth with debt and it may be a higher potential for financial distress. However, in year 2012, Bertam Alliance Berhad has the lowest debt to equity. This shows the company not taking advantage to the increased of profits that brought by the financial leverage. Then, the following year this company showing the increasing trend of debt to equity from the year 2013, 2014 and 2015.

### 3.4 Operational Risk

**Table 6: Operating Ratio**

2011	2012	2013	2014	2015
0.31124573	0.307171044	1.145982579	0.583681348	3.615421825



**Figure 6**

Operating ratio shows that by comparing the operating expenses to net sales, it will indicate the efficiency of a company's management. The lower the ratio, the higher the ability of the organization to generate profit if revenue decreases. Based on Figure 6, the operating ratio shows the highest in the year 2015 among the other five years. On the other hand, in year 2012 the company recorded the lowest operating ratio. It indicates this company is able to generate profit. This is because a lower ratio shows a good indicator of the efficiency of the company. In the year 2013, it shows a moderate operating ratio among the five years.

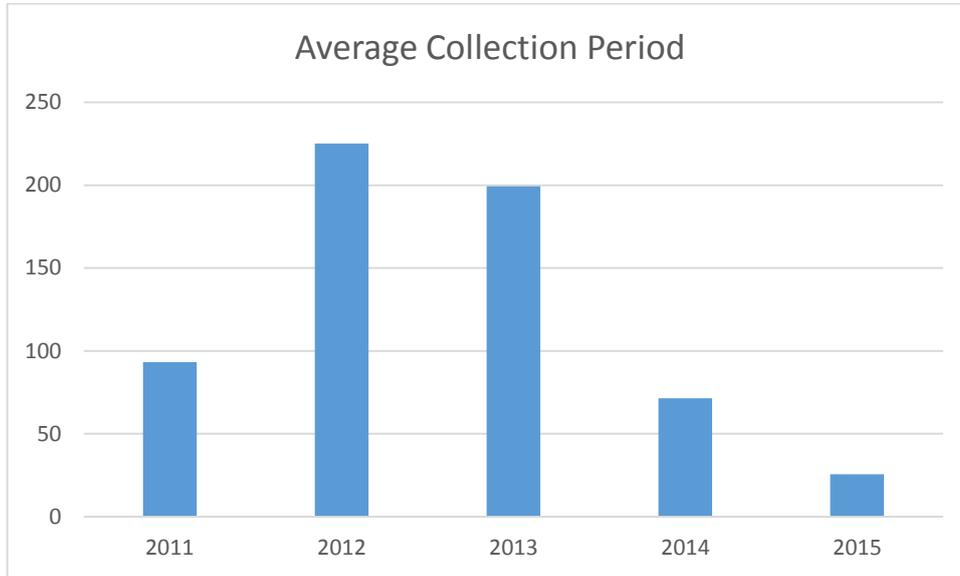
### 3.4 Credit Risk

#### 3.4.1 Average Collection Period

**Table 7: Average Collection Period**

2011	2012	2013	2014	2015
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0.31124573	0.307171044	1.145982579	0.583681348	3.615421825
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**Figure 7**

The average collection period is the average number of days between the date of payment which is received from the credit sale and the date of credit sales is made. Based on the figure 7 it shows the highest average collection period is in 2012. This indicates that this company has a few problem. Many customers not able to pay within the period that has been set. Starting from the year 2012, the average collection period decreases every year which are in 2013, 2014, and 2015. In year 2015, shows the lowest average collection period. This means more customer are able to pay within the time frame. However, in year 2011 shows the average level among the five years of the average collection period.

#### **4.0 Discussion**

By referring to table 8 in appendix, we can see the on average for five years, Bertam Alliance Berhad make profit is about 5 % which is quite small. The standard deviation is about 3.162 % which is not too far from profit. Return on asset shows in 2011 and 2012 shows value above than average while the rest of year show the value below of this average. Furthermore, return on asset is 6 % on average of the five company and again the result for the year 2011 and in the year 2012 shows the value above the average while the rest years shows the value below the average. The standard deviation shows the same value on inflation, exchange rate

and GDP (Gross domestic product) which is 0.548. This is because it is macro factors. The remuneration is about 160569.20 on average for the five year. On the year 2014 and 2015, the remuneration of the company is above the average which means is they pay quite high salary and high remuneration to the non-executive. For the correlations, refer to the table 9 in appendix. The table 9 in appendix show when the return on asset increase, the return on equity increase by 93%. This shows the positive relationship between them. Next, current ratio represent the liquidity. When return on asset increase, the current ratio decreased by -0.270. This indicates, the more profit the company make, the less cash the company has. Therefore, it is true stated by Choon et al (2012) that with lower liquidity, liquid is negatively significant to return on asset which implies that more financing were made by the Islamic Bank. It also shows that when the GDP insignificant with profitability with the P value  $> 0.1$  which is 0.233. Therefore, it will generate demand from this company products. This also can boost the profitability and generate more income. Then, when the p value  $< 0.1$  is consider significant. This table shows the significant value the return on asset, return on equity and size and debt to equity ratio which is 0.010, 0.090 and 0.000 respectively while the current ratio, average collecting period and operating ratio show insignificant value which is p value  $> 0.1$ . The inflation also positive relationship with the significant p value. It explain that when the inflation increase the less rate and can sell at higher price. Besides, based on table 10 in the appendix, with the stepwise method, R value is 0.933 and its shows high degree of correlation between the variable.  $R^2$  is 0.870 and it is indicates 87% of variation in return on asset is explained by the independent variable return on equity. Based on the table 11, only return on equity is significant with the P value 0.010. It shows that return on asset is positively significant to return on equity.

## **5.0 Conclusion**

In conclusion, every company will have loss or profit in doing their business. Besides, all the data and ratios is very helpful in determine the company performance and the company exposure to the risk. It also help to know the real condition and level of the company. This study will help investor to collect info and can be as an indicator to them whether to invest in this company or not. From the finding, Bertam Alliance Berhad have positive relationship between return on asset and return on equity. This company not making too much profit because it is only 5% on average in the 5 years. In term of liquidity, it is negatively significant

to profitability. Therefore, this company should more alert how to handle with the corporate governance. This is because good cooperate governance can increase the performance of the company. Furthermore, the company also should concern about the 4 pillar in corporate governance which is accountability, fairness, transparency, and independence. These pillar is very helpful in managing the company well.

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## Appendix

**Table 8 : Descriptive Statistics**

	Mean	Std. Deviation	N
ROA	5.00	3.162	5
ROE	6.00	3.391	5
size	77587459.20	103178071.632	5
average collecting period	122.80	85.430	5
ROI	5.40	8.295	5
Current ratio	3.20	2.049	5
operating ratio	1.20	1.643	5
Debt to equity ratio	.00	.000	5
unemployment	3.00	.000	5
inflation	2.40	.548	5
exchange rate	3.40	.548	5
GDP	5.40	.548	5
Index score	1.00	.000	5
Remuneration	160569.20	24242.653	5

**Table 9 : Correlation**

		ROA	ROE
Pearson Correlation	ROA	1.000	.933
	ROE	.933	1.000
	size	.708	.879
	average collecting period	.419	.186
	ROI	.629	.675
	Current ratio	-.270	.036
	operating ratio	-.433	-.449
	Debt to equity ratio	.	.
	unemployment	.	.
	inflation	-.144	.135
	exchange rate	-.433	-.404
	GDP	.433	.269
	Index score	.	.
	Remuneration	-.428	-.321
Sig. (1-tailed)	ROA	.	.010
	ROE	.010	.
	size	.090	.025
	average collecting period	.241	.383
	ROI	.128	.105
	Current ratio	.330	.477
	operating ratio	.233	.224
	Debt to equity ratio	.000	.000
	unemployment	.000	.000
	inflation	.408	.415
	exchange rate	.233	.250
	GDP	.233	.331
	Index score	.000	.000
	Remuneration	.236	.299

**Table 10 : Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.933 <sup>a</sup>	.870	.826	1.319	2.195

a. Predictors: (Constant), ROE

b. Dependent Variable: ROA

**Table 11 : Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.217	1.307		-.166	.878		
	ROE	.870	.194	.933	4.472	.021	1.000	1.000

a. Dependent Variable: ROA