Risk Based Corporate Governance in Damansara Realty Berhad: A Case Study Approach

SANADI, NURSHAFIQA AQEELA

UNIVERSITI UTARA MALAYSIA

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Nurshafiqa Aqeela Binti Sanadi

Universiti Utara Malaysia

Abstract

The main purpose of this analysis to study the performance of corporate governance in Damansara Realty Berhad related to the risk management in the company. It not only assumed all the financial analysis but had to make sure that the accuracy of the financial with using SSPS application to determine the relationship between one elements with another elements. Here, for the financial trending analysis, ROA are relatively relationship with leverage, total assets, average collection period, current ratio, and ROE. The regression and anova analysis showed that only one variable profitability (ROA) that gives positively relationship with remuneration (BOD), size (total assets), GDP and average collection period. At the end of the analysis, it can be seen that the effect of financial performance accordance to the corporate governance structure in the company.

Keywords: Credit Risk, Liquidity, Profitability and Macroeconomics

1.0 Introduction

1.1 Company's Background

Damansara Realty Berhad (DRB) was established in 29 December 1960, Damansara Realty Berhad is primarily involved in investment holding, construction and project management, with subsidiaries engaged in property holding and development, general insurance business, construction and project management, healthcare service provider and advertising. Among its subsidiaries include several companies under the Property Services Division, Healthcare Technical Services (M) Sdn Bhd, TMR Urusharta (M) Sdn Bhd, Metro Parking (M) Sdn Bhd and HC Duraclean Sdn Bhd.

From its modest beginnings, the Group has undergone significant changes and is today geared towards developing the businesses of its property services division, namely in hospital consultancy, facilities management, parking business and industrial cleaning, with a view of capitalising on new opportunities, especially by undertaking selective property management development, green technology initiatives and servicing the Oil and Gas sector.

To date, Damansara Realty Berhad is a public listed company on Main Board of the Bursa Malaysia Securities Berhad and is headed and managed by a group of dynamic Bumiputera individuals of various professions and backgrounds.

In terms of risk management, Damansara Realty Berhad had a sound framework towards the company to ensure that they can mitigate the risk especially the risks are arise in properties industry. Then, to make sure that their company has competitive advantage other than other firms in the same industry. Internal control mechanism covering the financial, operational and compliance aspects of business are covered and highly consent by the board of directors and they acknowledge all this matters to disclose in annual report. It is due to the internal control aspect are highly important to disclose to attract the confident from the public about their company's transparency and integrity. As risk management framework, Damansara Realty Berhad had complied four pillars like:-

- effectiveness and efficiency of operations;
- reliability of financial reporting;
- compliance with applicable laws and regulations; and
- Safeguarding of the Group's assets.

This risk assessment can make the board alert and aware against the external and internal sources in terms of mitigate the risks in properties industry and create the better corporate governance bodies in the company. This company are well in terms of corporate governance relation to the risks assessment due to they have the owned department to analyst the risk itself. So here the risk management for the whole company can be managed by mitigate the risk as well as to enhance the company performance besides to show to the public the good company becomes from the good corporate governance.

2.0 Literature Review

As in the result from the research, the relationship between Return on Assets and board size due to the presence of asymmetric information that derived from principal- agents conflicts like for the corporation the principal agents conflicts tends to shareholders and the company's management line. Return on Assets (ROA) in year 2007 is decreased due to economic crisis and it shows an improvement trend of Q-ratio in year 2008 and 2009 because of market adjustment in the economics. For the performance in board size, the study found that the larger the board size may result in effectiveness in board performance due to they tend to be symbolic compared to execute in the board process. In addition, to be a better board members, it advises do not hold additional directorships to avoid the conflict of interest. Holding additional directorships may tend to the less professionalism and fulfilling the functions of consolidation as argued by Richardson (1987). From the research found that the industrial sector has a significant to perform better compare to mining sector like plantation industry and etc. (Haniffa and Hudaib, 2006). As like Damansara Realty Berhad, it practised double layer board which comprised executives and also non-executives board to boost up the effectiveness among board members.

In term of risks exposed against the corporate governance performance, the studies make a research on the selected risks like financial risk, Operational risk, Empowerment risk, Information and Technology risk, Integrity risk and Strategic risk. All risks exposed are depends on the industry trends, development, group performance and material factors underlying assets and financial position. In addition, industries with greater exposure to risks, such as the infrastructure industry, would have many more things to discuss. So here in this article stated that the risks disclosure among the Malaysians companies are in the infant stage due to the several reasons of the privacy element. The good corporate governance can manage the risks properly as requested by the stakeholders. (Abdul manaf, 2008). As stated by Abdul Manaf (2008), a company should had managed the risks properly like Damansara Realty Berhad had set up the risk management committee to manage all risks in the company as requested by stakeholders to ensure they can gain profits to give return to the shareholders. So here the implementation of stewardship theory to balance the interest between shareholders and stakeholders.

According to Waemustafa (2015) and Sukri (2015) found that the determinants of credit risks involved in banking industry either for Islamic banks or conventional bank. It is due to increasing in the non-performance loan that contribute to the credit risk whenever any mismatch between the bank assets and bank liability will contribute to the liquidity risk and credit risk. Credit risk are also consists of inappropriate credit policies, poor lending practice, limited institutional capacity, volatile interest rate, poor management, inappropriate laws, direct lending, massive licensing of banks, low capital and liquidity risk, laxity in credit assessment, poor loan underwriting, poor lending practice, inadequate supervision by central banks, government interference and inadequate knowledge about borrowers. (Kolapo et al, 2012) and (Kithinji, 2010). So here bank credit risk arises because of many factors like DTAR, DER, MGT and ROA meanwhile there is no effect for both types of banks such as solvency, leverage, management efficiency and profitability. Unlike Islamic banks, the main determinants are derived from ISCON related against the credit risk formation which lead the largest effect size. Risks arise can contribute to the bank failure due to banks have to bear a lot of liabilities compared to gain more assets. For Damansara Realty Berhad which under the properties industry showed that if trade receivables are higher so it may tends to effect in large of credit risk for this company itself.

According to Waemustafa (2015) and Abdullah (2015) state that the effectiveness of Shariah supervisory board (SSB) not influence too much towards the remuneration to the choices of Islamic mode of financing by Malaysian Islamic bank. From the study, it shows that Shariah supervisory board (SSB) still remains maintain with company's management line due to relationship with company itself. Then, another explanation they made is depends on the result of FGROWTH related positively with the MODE , so they assumed that they are maximizing their profit of the company based on the result got by its not too much concern after 25 years the trade-based financing applied by Islamic banking for the transition phase. To conclude from this journal, which state that the effectiveness of Shariah supervisory board with the Islamic bank committee are not influences to the remuneration by choosing Islamic mode financing but it depends on the strong relationship with the company's management itself to maintain. As for Damansara Realty Berhad, there is no Shariah supervisory board (SSB) due do not implement yet.

According to Waemustafa (2016) and Sukri (2016) founds that the liquidity of Islamic banks are higher than conventional banks due to the Islamic bank's unique assets and the liability structure which is the share the risks with their customers that consists the profit and loss-sharing based of investors. In term of credit risk, they found that the Islamic bank exposed to the credit risk are lower rather than conventional banks. This is because of Islamic banks less expose to the individual's bank level so the variation result shows that Islamic banks are less of credit risk. The result shows that relationship in term of liquidity is negatively relationship with ROA because of adopting the conservative strategy in managing liquidity problem that used by Islamic banks. It is accordance against the main principle state that ROA is negatively with liquidity risk whereby when ROA is high, liquidity risk is low. In Damansara Realty Berhad, the trend of ROA in year 2011 is lower than in year 2012 means that liquidity risk in 2011 is higher than in year 2012. Meanwhile, trend of ROA movement in the next 3 years was uptrend and showed that the liquidity risk were getting lower.

3.0 Descriptive Analysis

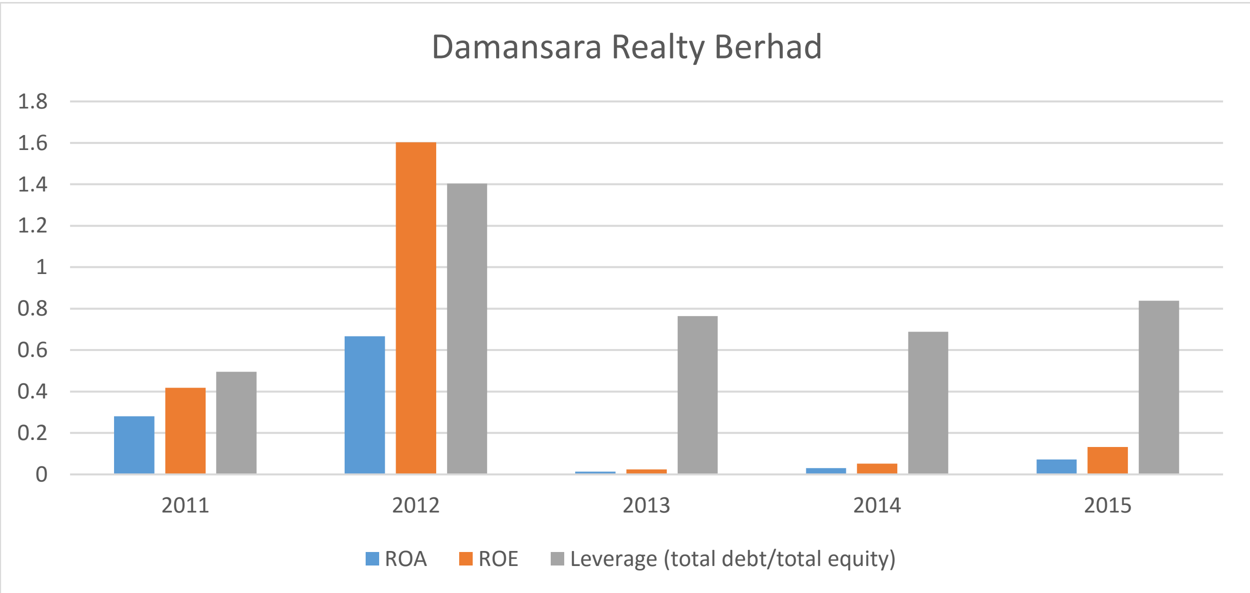

Figure 1

For Return on Assets, Damansara Realty Berhad earned the highest ROA in year 2012 (0.6668) while the lowest ROA in year 2013 (0.0140). It shows that net profit against the total assets is much higher in year 2012 compared year 2011, 2013, 2014, and 2015.

For Return on Equity, Damansara Realty Berhad earned the highest ROE in year 2012 (1.6030) and the lowest ROE in year 2013 (0.0247). This means net profit against the total equity are much highest in 2012 along the 5 year periods. It also reflects that in year 2012 the ownership gains are much better compared to other years.

For leverage in Damansara Realty Berhad, leverage on year 2012 is the highest leverage among 5 year periods back as much as 1.4039 meanwhile for year 2011 (0.4959), 2013 (0.7648), 2014 (0.6887) and 2015 (0.8387).

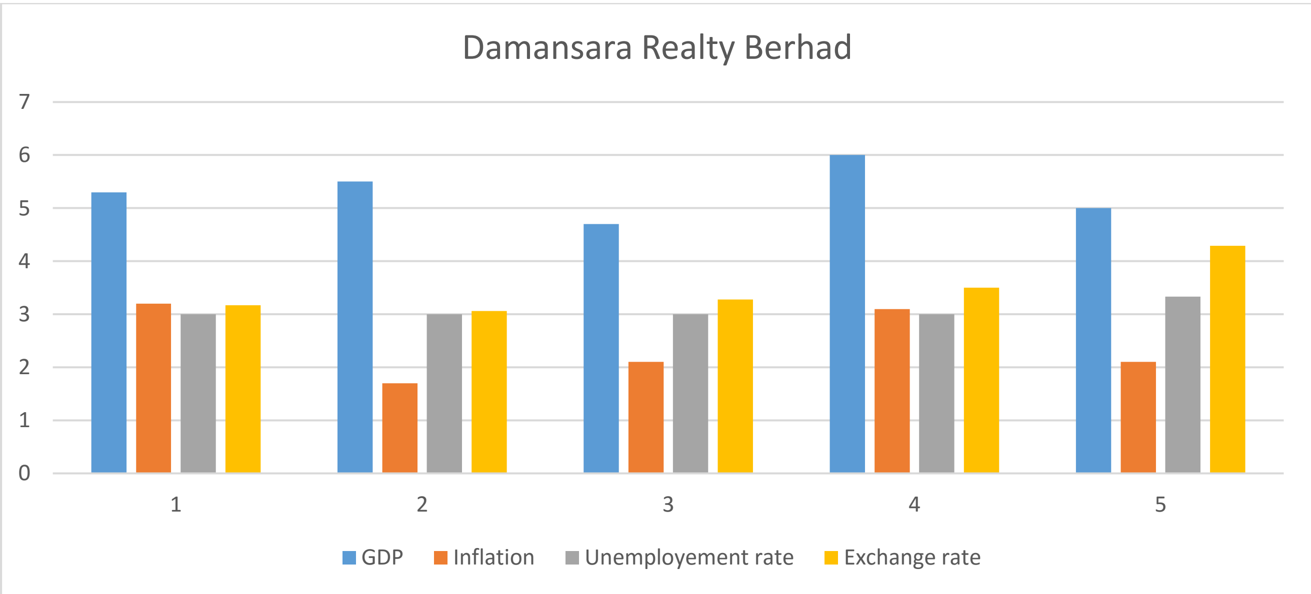

Figure 2

From figure 2, it indicates that the highest GDP is in year 2014 meanwhile the lowest GDP is in year 2013.

Then, the highest inflation is in year 2011 and 2014 meanwhile the lowest inflation is in year 2012.

Next, the highest unemployment rate is in year 2015 among 5 years period.

Last, for exchange rate the highest is in year 2015 meanwhile the lowest exchange rate is in year 2012.

Figure 3

For index score, it shows the fluctuating among 5 years period for Damansara Realty Berhad. The index score in 2015 is higher than in year 2013.

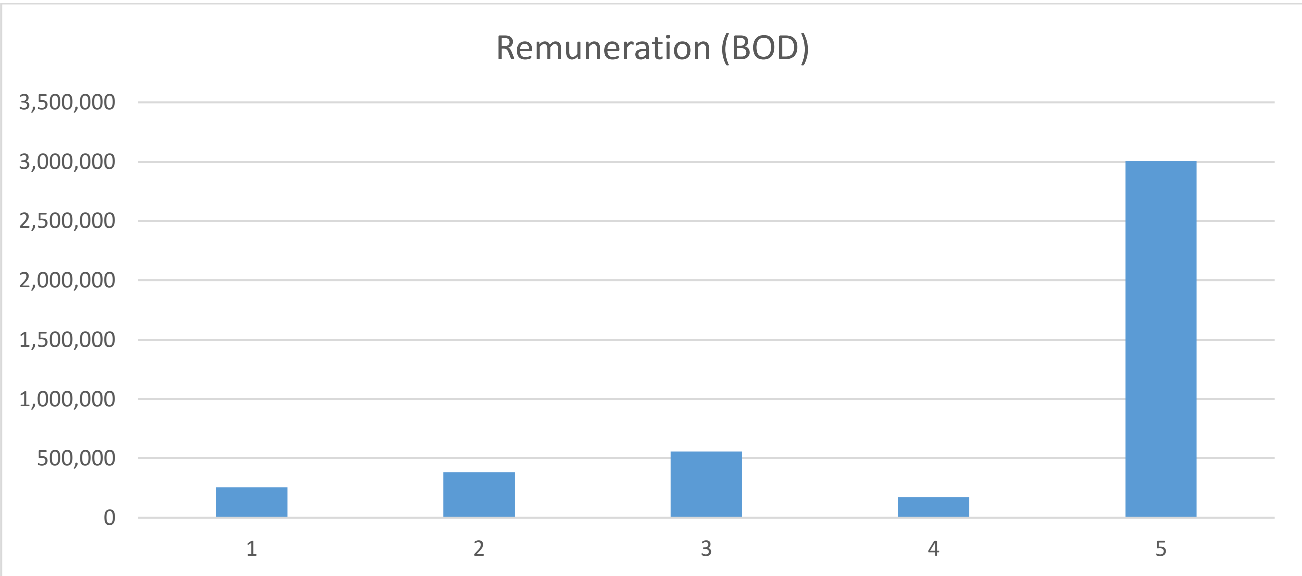

Figure 4

For remuneration, it found that the highest remuneration in year 2015 meanwhile the lowest remuneration in year 2013.

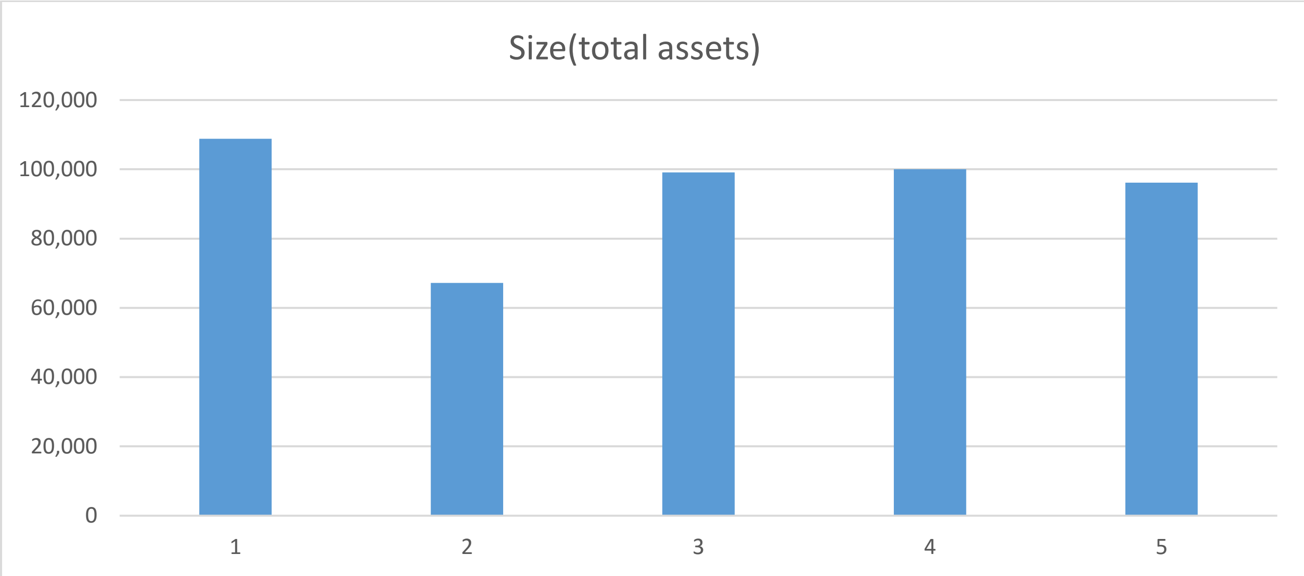

Figure 5

For size, it found that the largest size is in year 2011 (108,855) meanwhile the lowest size is in year 2012 (67,198). It showed that the largest total assets in 2011 much higher compared to in year 2012.

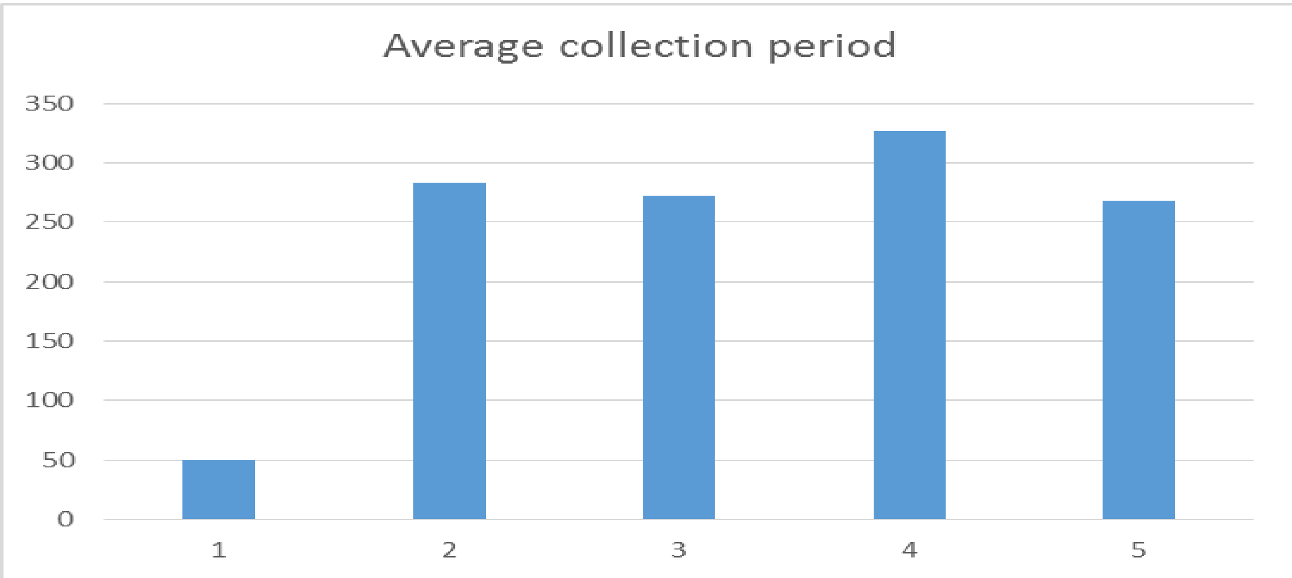

Figure 6

For average collection period, it found that the shortest average collection period is in year 2011 meanwhile the longest average collection period is in year 2014.

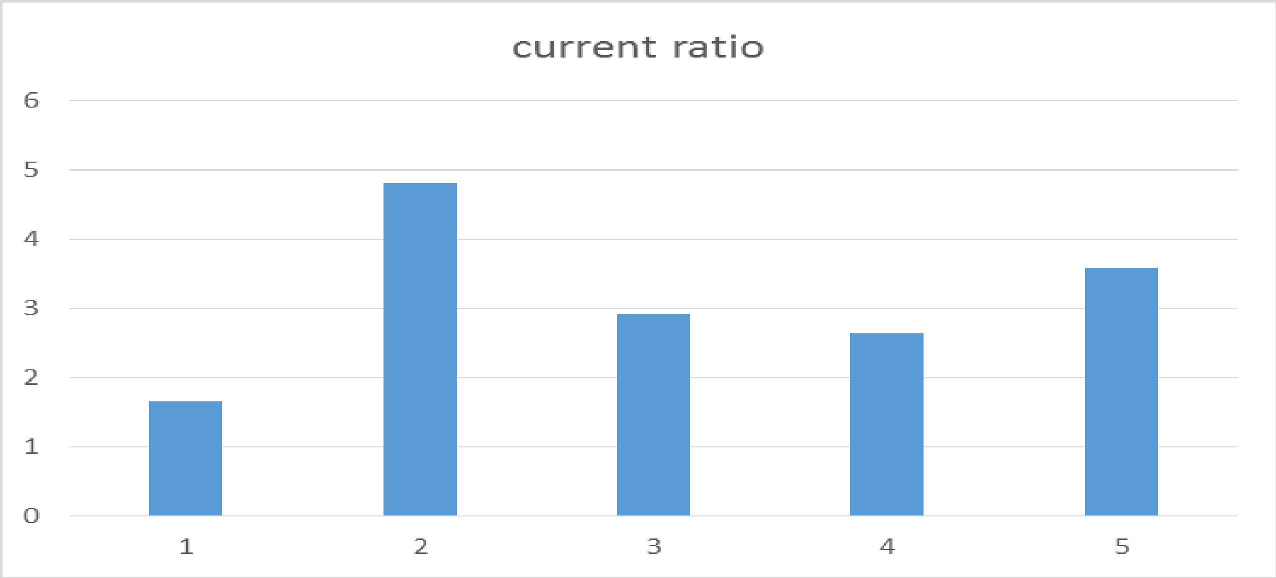

Figure 7

For current ratio, it found that Damansara Realty Berhad had earned the highest current ratio in year 2012 (4.8088) meanwhile the lowest current ratio in year 2011 (1.6611). It showed that current assets is higher than current liabilities.

Damansara Realty Berhad	ROA	ROE	Leverage (total debt/total equity)	Size(total assets)	Average collection period	current ratio	GDP	Inflation	Unemployment rate	Exchange rate	Index score	Remuneration (BOD)
2011	0.2799	0.4188	0.4959	108,855	49.70230363	1.6611	5.3	3.2	3	3.17	0.727272727	255,900
2012	0.6668	1.603	1.4039	67,198	283.3337308	4.8088	5.5	1.7	3	3.06	0.727272727	381,307
2013	0.014	0.0247	0.7648	99,140	272.0969447	2.9227	4.7	2.1	3	3.28	0.545454546	556,332
2014	0.0304	0.0514	0.6887	100,008	326.6792444	2.639	6	3.1	3	3.5	0.727272727	172,196
2015	0.0721	0.1326	0.8387	96,139	267.9804639	3.5769	5	2.1	3.33	4.29	1.181818182	3,006,983

Figure 8

From the analysis above, Damansara Realty Berhad showed that the fluctuating net profit for 5 years trend which are only year 2014 showed the positive net profit meanwhile the other year for 2011, 2012, 2013 and 2015 are showed the net loss.

Table Result 1. Stepwise Regression Analysis for Damansara Realty Berhad Specific Risk Determinants to Remuneration (BOD), Total Assets and GDP

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	1.000[a]	1.000	1.000	.00354	.366

a. Predictors: (Constant), Remuneration (BOD), Size(total assets), GDP, Average collection period

b. Dependent Variable: ROA

Table Result 2. Annova Regression Analysis for Damansara Realty Berhad Specific Risks Determinants to Remuneration (BOD), Total Assets, GDP and Average Collection Period

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.303	4	.076	25.076	.040
	Residual	.000	0	.076		
	Total	.303	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), Remuneration (BOD), Size(total assets), GDP, Average collection period

3.1 Remuneration (BOD), Size (total assets), GDP, Average Collection Period

From the analysis above, it found that stepwise method that R value is 1.000 and shows a bit low degree of correlation between variables R^2 is 1.000. So, it indicates that 100% of variation in ROA is explained by independent variable of Remuneration (BOD), GDP, and Average Collection Period. In terms of relationship to ROA, for dependent variable with a P-value $\geq$ 0.40 indicates negative insignificant relationship. However, the ROA (profitability) variable to remuneration (BOD), size (total assets), GDP, and average collection period has a positive significant relationship with a P-value ≤ 0.40. This positive relation shows that the company can increase the profit of the company by boost up the remuneration of board of directors, size (total assets) and average collection period. It looks more beauty whenever GDP for Malaysian economic outlook is higher than previous year. As a whole, Damansara Realty Berhad is less generating operating income due to the annual net loss for company section. Instead of generate loss, the negative relationship indicates the increases of expenses effect the income of this company that cannot maximise the profit respectively. However, out of all variables tested only one (ROA) has a positively significant relationship to remuneration (BOD), size (total assets), GDP, and average collection period. This model is also significant with the significant of anova regression P ≤ 0.40. Hence, ROA variable has the highest impact against remuneration (BOD), size (total assets), GDP and average collection period.

Furthermore, for level of influences indicates that R, R^2 and Adjusted R^2 is 1.000. Here, it indicates that Damansara Realty Berhad in term of level of influences is perfectly relationship due to more high is better. Then, it also shows that the accuracy is 100% due to R2 is 1.0, this implies that the independent variable which are remuneration (BOD), GDP, Size and Average collection period can predict the dependent variable which are ROA (profitability) with 100% accuracy.

It truly proven by Haniffa and Hudaib (2006) state that there is relationship between Return on Assets and board size due to the presence of asymmetric information that derived from principal-agents conflicts.

3.2 Coefficient Correlations between ROA and Remuneration (BOD), Size (Total Assets), GDP and Average Collection Period

Coefficient Correlations[a]

Model			Average collection period
1	Correlations	Remuneration (BOD)	-.296
		Size(total assets)	.462

		GDP	-.258
		Average collection period	1.000
	Covariances	Remuneration (BOD)	.000
		Size(total assets)	.000
		GDP	.000
		Average collection period	.000

a. Dependent Variable: ROA

For coefficient correlation in Damansara Realty Berhad in terms of remuneration (BOD) it indicates -0.296. It means that it negative relationship between remuneration (BOD) and the average collection period. Then, in terms of size (total assets) it indicates 0.462. It shows that is positively relationship between size (total assets) and the average collection period. Next, in term of GDP it indicates -0.258 that negative relationship between (total assets) and size average collection period. Lastly, in term of average collection period it indicates that 1.000. Means that it perfectly positive relationship. All the analysis it indicates between ROA and remuneration (BOD), size (total assets), GDP, average collection period. Hence, it indicates that size (total assets) is more influences against the ROA in terms of profitability in Damansara Realty Berhad.

4.0 Discussion and Recommendation.

In properties industry has their own demand and supply which are involved in risks, management of the company, government intervention, and the price movement in properties industry. Here, it showed that in previous annual report of Damansara Realty Berhad company had managed the corporate governance well in term of the separation of risk management and also the risk assessment. Even though the net profit for Damansara Realty Berhad also showed a positive trend in year 2012 only along the 5 years period previously but it doesn't mean that Damansara Realty Berhad does not has a good performance or outlook. In term of risk, Damansara Realty Berhad is already has a good risk management and assessment whereby to mitigate the risks they implemented the internal and external risks, control activities, risk assessment, and so on. As under the risk analysis, it also states that there is focus on ongoing process, designed to manage rather than eliminate the risk of failure to achieve business objectives. As accordance to term “high risk, high return”, the risks involved in this company are relatively risky but they also allocated its risk management and assessment in order to mitigate the risk to earn high profit. Even though, this company only had one year positive among 5 years period but they already had managed a systematic in term of its management and assessment in all material aspects. So it indicates the good direction for a company in order to attract or perceived more investors whether local or foreign to invest in their company on order to raise more capitals for their business operations

According to The Sun Daily (2017) states that for 2017 outlook, the economic growth was expected slower due to the challenging global economic and financial landscape but it can maintain the demand’s trend in properties industry by domestic demand itself. It is because of our country still well in term of country’s export. The ringgit weaken can be a driver key to the export site to compete in international business. According to Malaysian Economic Outlook 2016, trend of GDP are 5.3 (2011), 5.5 (2012), 4.7 (2013), 6.0 (2014) and 5.0 (2015). As resulted for GDP in 2016 are tend to be lower compared to year 2015 due to low commodity prices and subdued external demand. However, it shows the positive trend on domestic demand whereby increasing 4.4%. Many consumers are spending on food and beverages, housing and utilities. Meanwhile in term of external factors shows increasing number of 1.3% in term of exports goods and services due to weaker ringgit and higher oil prices until the end of the year 2016. But for forecasting, GDP 2017 tend to increase range from 4.0%- 4.5% due to government projects.

5.0 Conclusion

As a conclusion, this company performance that relate to the risks and it their corporate governance due to all the risks involved can be managed if the corporate governance are implemented well as its complied to Malaysia Code of Corporate Governance. In term of risks involved in properties industry are relatively risky due to many factors. It might be because of economic crisis happened that effect on the supply and demand trends. According to (Haniffa and Hudaib, 2006) states that even though properties industries are relatively risky but they can perform better other than mining industry like plantation industry. Moreover, to produce a good corporate governance, a company should have a good monitoring from board of directors and also the management line itself. It is due to the good corporate governance will make their shareholders and also stakeholders are happy in term of each reward. In order to balance it well, it cannot be denied that there is a lot of conflict of interest behind it. But with complied all the Malaysian Code of Corporate Governance 2012 (MCCG), it enable for the all executives to make sure all units in their company got what they had targeted as well. For financial performance in Damansara Realty Berhad, along 5 years period previously, its showed that only one year which it year 2014 showed positive net profit but it can back up with the good risk management and risk assessment that practiced in this company. According to Damansara Realty Berhad Annual Report 2015, the company’s management had managed and practised the risk framework separately. So it showed to outsiders that Damansra Realty Berhad can manage the risks arise well.

6.0 References

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