The Influence of Corporate Governance on Changes In Risk Following The Plantation Industry: Evidence From Chin Teck Plantation Bhd

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The Influence of Corporate Governance on Changes In Risk Following The Plantation Industry: Evidence From Chin Teck Plantation Bhd

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Abstract

The purpose of this study sought to examine the overall performance of Chin Teck Plantation Bhd with explicit risk factors and macroeconomic factor on profitability performance. The data obtained from annual report of Chin Teck Plantation Bhd. Starting from 2011-2015. The measurement of index for corporate governance, return on asset, few risk assessment and used to see the overall performance of Chin Teck Plantation Bhd. The further measurement is the asset size, this variable has a negative and no significant relationship with return on asset. To see the relationship of risks factors to the profitability, this paper is utilizing liquidity, inflation ratio, GDP and operating ratio. Data was analyzed by utilizing regression. The regression analysis shows factor of profitability is significant to liquidity and leverage ratio which is ROA with the highest impact to the profitability. However, the liquidity and GDP is not significant to profitability with low impact to the profitability.

Key Words: Credit Risk, Liquidity, Profitability and macroeconomic.

1.0 Introduction

As the world's second-biggest palm oil producer after Indonesia and a leading producer of natural rubber, Malaysia today brags progressively refined products of the soil, rice, domesticated animals and fisheries areas. The plantation and commodities segment, including oil palm, rubber, timber, cocoa, pepper and tobacco has contributed basically to the country's money related progression for whatever length of time that 50 years.

This study will discuss on corporate governance with the implication of Chin Teck Plantation Berhad company performance and their risk. Chin Teck Plantation Berhad was united on 14 August 1958 at Kuala Lumpur Malaysia as their headquartered. Basically, Chin Teck Plantation Berhad runs as an investment holding company that involves in the cultivation of oil palms, production, crude palm oil, palm kernel and sale of fresh fruit bunches as their major activities. Presently, Chin Teck Plantation Berhad has three estates, which are Jemina and Sungei Sendayan Estate, Gua Musang Estate and Keratong Estate with a whole land bank of about 11,300 hectares. Chin Teck Plantation Berhad also retains approximately three mills with a total mining capacity of 70 metric tons per hour. Their estates in Malaysia are placed at Mukim of Jimah, Daerah of Port Dickson, Negeri Sembilan Darul Khusus, Daerah Rompin, Pahang Darul Makmur Mukim of Ketil, Daerah of Gua Musang, Kelantan Darul Naim and Mukim of Keratong. Chin Teck Plantation Berhad property development project is located at Bandar Springhill in Negeri Sembilan. It also contributes in joint ventures with Indonesian oil palm plantations located at Lampung Province, Jambi Province and South Sumatera Province, Sumatera, Republic of Indonesia.

Chin Teck Plantation Berhad has more than ten persons board of directors. Goh Eng Chew 86, who is the Executive Chairman of Chin Teck Plantation Berhad and Goh Wei Lei 49, act as Executive Vice Chairman in the company and also the son of Goh Eng Chew. They are Singaporean that has extensive plantation and financial experience. Goh Eng Chew was appointed as Executive Chairman on March 1, 1996. During back time he used to be a Chariman for a few licensed financial institutions at Singapore and a few Plantation company in Malaysia. Chin Teck Plantation Berhad is a family owned company and has been corporate by a few of their family members before. There are a few of directors who have a family relationship with the directors and also major shareholder of the Chin Teck Plantation Berhad one of them is Goh Pock Ai who is appointed as a board on 1979 and currently he acts as a Senior Executive Director.

Chin Teck Plantation Berhad is one of the company that listed under Kuala Lumpur Stock Exchange. They used to finalize their report using the financial year between 1st September until 31st August every year. Roughly in the past five year they reached positive figure of gross margin 56.57%. But, they lost 1.19% in revenue and 13.26% in net income. It shown that their even there is a gain in gross margin does not mean it can cover the net income and the revenue form loss. All of this result happened might be due to the changes in external factors in Malaysian economic. It can be the inflation rate or gross domestic product or any other factors that relevant. The internal factor also can be the cause of failure for Chin Teck Plantation Berhad. For example, the board management or decision making towards the company have spoiled the result or the size of asset and liabilities itself.

Thus, the Board should commit in managing their decision by ensuring a good corporate governance is practiced throughout the Group in discharging their responsibilities to look after and boost the shareholder`s value and the financial performance. The Board is alert of the principles and recommendations of the Malaysian Code of Corporate Governance 2012 (MCCG 2012) to evaluate the status of Group`s practices. The Board of Chin Teck Plantation Berhad has expressed and accepted a charter which set out its functions. There are Board composition, duties and responsibilities of the Board and management, Board committee such as Audit Committee, Nomination Committee and Remuneration Committee. While, risk management handle by Audit Committee and internal auditors as they do not have their own committee. The Board`s responsibilities are focusing mainly on strategies, performance and critical business issues etc. They attend 5 meeting for the Board meeting during financial year.

2.0 Literature Review

In the meantime, Shariah governance is part of corporate governance, thus, good and effective SSB should reproduce the issue of independence, transparent, accountable, responsible, and fair (Bhatti, M., & Bhatti, M.I., as cited in Waemustafa, W., & Abdullah, A. (2015). This statement did mention about the pillars of corporate governance that all of company should have and not just Islamic bank.

A careful comprehension of every method of financing is imperative to build a solid and effective liquidity hazard administration. It is basic to at first distinguish the procedure of hazard development before continuing to a further phase of hazard administration prepare (Muljawan as refered to in Waeibrorheem and Suriani). It ought to be noted however that the cautious exercise of the value based system will make genuine monetary exercises and produce higher returns contrasted with obligation based component. It is exceptionally fundamental to guarantee that its benefits and obligation is synchronized in light of the span of each term whether it is settled or variable. to fund resources utilizing the value methods of financing, the obligation needs a long haul development to stay away from liquidity dangers (Sundararajan and Errico as refered to in Waeibrorheem and Suriani). Understanding the way of liquidity and its impact using a credit card hazard is indispensable to determine for exact confirmation of communication amongst liquidity and credit chance. (Waeibrorheem and Suriani, 2015)

Viable corporate administration is imperative as it advances the proficient utilization of assets both inside the firm and the bigger economy, and additionally helping firms and economies in drawing in lower-cost speculation capital by means of the enhanced certainty of financial specialists and loan bosses, both locally and globally. They additionally recommend that it helps in expanding the responsiveness of firms to societal needs and desires and in enhancing the long haul execution of firms. At the end of the day, corporate execution is apparently reflected in the way the firm is overseen and in addition the adequacy of the association's administration structure. (Gregory and Simms as refered to in Haniffa, R., and Hudaib, M.)

As Haniffa, R., and Hudaib, M. broke down includes an examination of 347 organizations recorded on the primary leading body of the KLSE in the vicinity of 1996 and 2000. Relapse comes about demonstrate noteworthy relationship between execution (market and bookkeeping measures) and board estimate, beat five generous shareholdings, outfitting, size of organization, capital consumption and industry alliance. Furthermore, the outcomes demonstrate a huge connection between bookkeeping based execution measure and the factors part duality and administrative shareholdings, while different directorships are just essentially connected with market-based execution. It has been proposed that sheets ruled by outcasts or non-official executives (NEDs) may reduce the organization issue by checking and controlling the pioneering conduct of administration (Berle and Means, 1932; Williamson, 1985; and Jensen and Meckling, 1976 as refer to in Haniffa, R., and Hudaib, M. 2006) and furthermore by guaranteeing that administrators are not the sole evaluators of their own execution (Baysinger and Hoskisson, 1990 as refer to in Haniffa, R., and Hudaib, M. 2006). There is a huge connection between firm size and corporate execution.

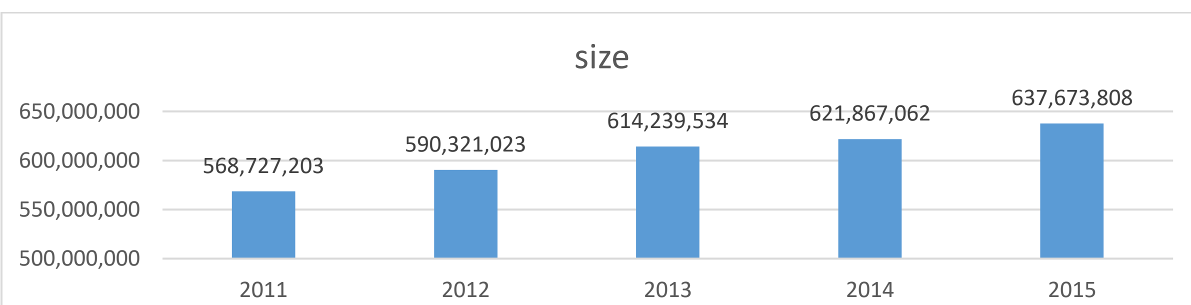
Amran, A., Manaf Rosli Bin, An., and Che Haat Mohd Hassan, B., 2008 expressed that determined by the expanding many-sided quality of working together, hazard administration has turned into a critical and basic piece of the organization's inner control and administration with a specific end goal to accomplish its arrangements and destinations. In Malaysia, dialog on hazard administration and its prerequisite for revelation can be expressly found in the Financial Reporting Act 1997 and Bursa Malaysia posting necessities which stipulate that the organization is required to unveil its money related position, administration, and operations with a specific end goal to empower shareholders and speculators to evaluate its execution for the budgetary period.

As refered to in Amran, A., Manaf Rosli Bin, An., and Che Haat Mohd Hassan, B., 2008, Linsley and Shrives (2006) who analyzed the connection between organization size and level of hazard and the degree of hazard divulgence. Their discoveries recommend that there is a positive connection amongst's size and divulgence however no relationship between's level of hazard and hazard revelation. There is a positive connection between size of the organization and hazard revelation. This can be demonstrated by explanation from (Ahn and Lee, 2004 as refered to in Amran, A., Manaf Rosli Bin, An., and Che Haat Mohd Hassan, B. 2008) that expressed size is likewise incorporated into practically every exposure examine, either as a variable of intrigue or as a control variable.

As refered to in Amran, A., Manaf Rosli Bin, An., and Che Haat Mohd Hassan, B. (2008), Ahn and Lee (2004) expressed that when an organization has an excessively more elevated amount of obligation in its capital structure, the loan bosses might be in a dealing position to constrain the organization to uncover more data. As indicated by this thinking it demonstrated that there is sure connection between organization's use and hazard revelation.

3.0 Descriptive Analysis

3.1 Performance and Profitability

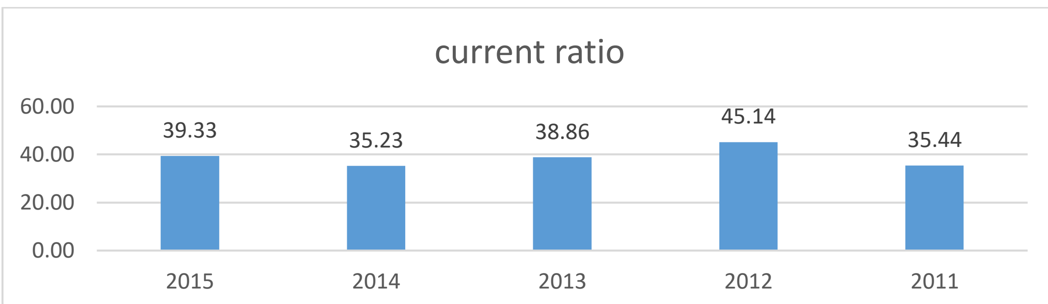


Graph 1: Asset Size

From this graph, we can see there is an upward trend between year 2011 until 2015 for Chin Teck Plantation Bhd. It shows that on 2011 there is only RM568,727,203 total assets that they have but after a year they got 3.66% improvement from the amount during last year. They collect RM590,321,923 for year of 2012 and increase for 3.89% for the year of 2013 with the total assets amounted RM 621,867,062. They continued with the upward trend with added 1.23%, which figured RM621,867,062 for year 2014 even the enhancement of percentage for year before is more than current year. With the increasing of 2.48% for the year 2015, they reached total asset for RM637,673,808. Overall, they have a positive figure for their total asset from year 2011 until 2015 with the positive changes between year by year that we have showed in the Graph 1.

3.2 Risk assessment

3.2.1 Liquidity Ratio

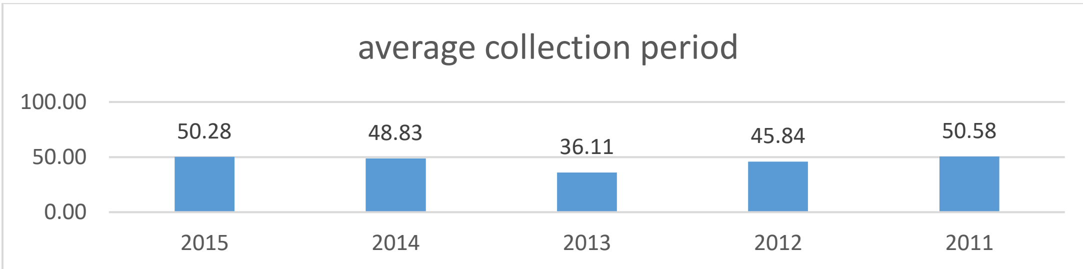


Graph 2: Current ratio

The current ratio is a normally used liquidity ratio that measures a company's capability to pay its current liabilities with its current assets. Before the overview trend analysis for both ratios on the above examined, the formula for those ratios for 2011-2015 can be calculated as current assets divide by current liabilities. Graph above illustrate that, the fluctuate trend between year 2011 until 2015 for current ratio of Chin Teck Plantation Bhd. It illustrates that on 2011 they had RM35.44 current assets for every ringgit of current liabilities. They perform to be able to easily service its short-term debt obligation for the year 2011. After a year, the current ratio increase to RM45.14 for every RM1 of current liabilities. They getting better at year 2012 compared to last year. But, for year of 2013 they might have a little problem with the inventory management, inconsistent of collecting receivable or excess cash burn rate, due to declining in current ratio to RM38.86 for each ringgit current liabilities. The problem is continuing until year 2014 with only

RM35.23 of current ratio to cover a ringgit of current liabilities. Fortunately, at year 2015 they increase the current ratio to RM39.33. it is mean they tried to solve problem that faced during year 2013 and 2014.

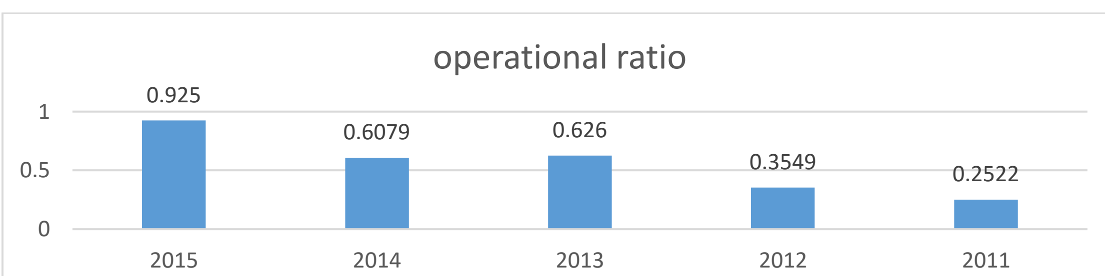
3.2.2 Credit Risk



Graph 3: Average collection period

The average collection period is the average number of days between the day that a credit sale is complete and the day that the money is received from the buyer. The average collection period is also talk about the day's sales in accounts receivable. The average collection period can be calculated as 365 days in a year divided by the accounts receivable turnover ratio. Based on the graph above, there is an v trend of average collection period between year 2011 until 2015. On the year 2011 they have 50.58 days to collect their customer sales back, but then when it comes to 2012 it went down with 45.84 days. It means they adjusted to receive the cash quicker for credit sales have been made. While, for 2013 in decline again to 36.11 days but in rise up to 48.83 days for the year 2014 and again for year 2015 with 50.28 days. Earlier 2013 they received amount receivable faster than before, but cause of certain factors their average collection period become longer and longer.

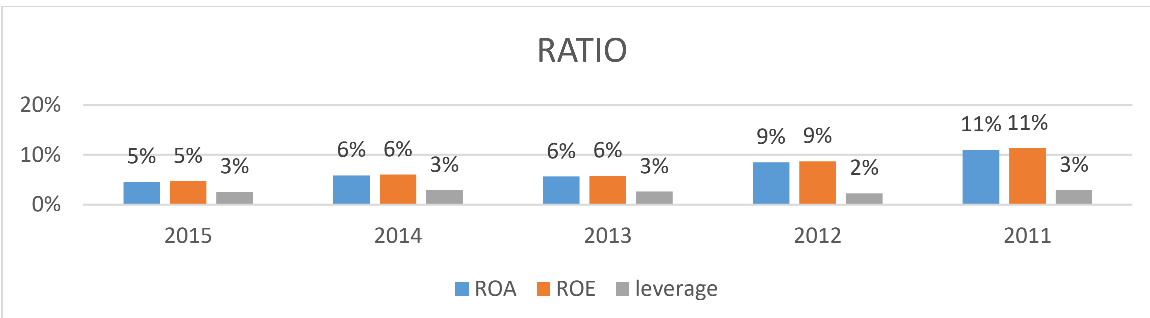
3.2.3 Operational Ratio



Graph 4: Operational Ratio

The operating ratio can be used to define the efficiency of a company's management by calculating operating expenses divide with operating revenue. The lesser the ratio, the larger the organization's ability to generate profit. If we analyzed graph above, it shown that increasing trend from 2011 until 2015. Starting form 2011, they have 25% of operating revenue to cover the operating expenses. Then, 2012 there have been increase to 35% of operating expenses would be used for operating expenses. Again it was going up t year 2013, with 62% should cover the expenses and a bit decline in 2014 with 60%. It might because of their performance in current year due to some factors whether internal or external. Unfortunately, they had a high increase in 2015 with 92% to cover the expenses. It was a highest result compared to another year.

3.3 Ratio



Graph 5: Return on asset, Return on equity and Leverage

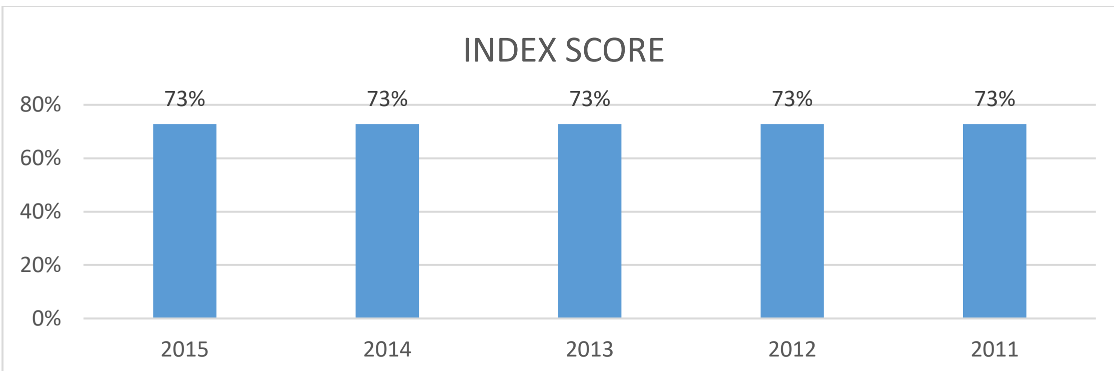
The return on assets ratio is measuring how effective a company can earn a return on its investment in assets. In other words, ROA shows how efficiently a company can convert the money used to purchase assets into net income or profits. There are declining trend for ROA from year 2011 until 2015. They managed to get 11% return from their assets on 2011, but it is going down to 9% for year 2012 due to some internal factors. But they maintained at 6% for year 2012 and 2013. Unfortunately, it decreases again during 2015 for only 5% as the lowest return along the 5 years.

While, return on equity ratio or ROE is a profitability ratio that measures the capability of a firm to produce profits from its shareholder's investments in the company. It can be interpreted as the return on equity ratio shows how much profit each ringgit of common stockholders' equity generates. There are declining trend for ROE from year 2011 until 2015 and the figure closely same with ROA. They achieved to 11% return from their assets on 2011, but it is decreasing to 9%

for year 2012 because of few factors. But then they retained at 6% for year 2012 and 2013. Unluckily, it reduced again during 2015 for only 5% as the lowest return along the 5 years.

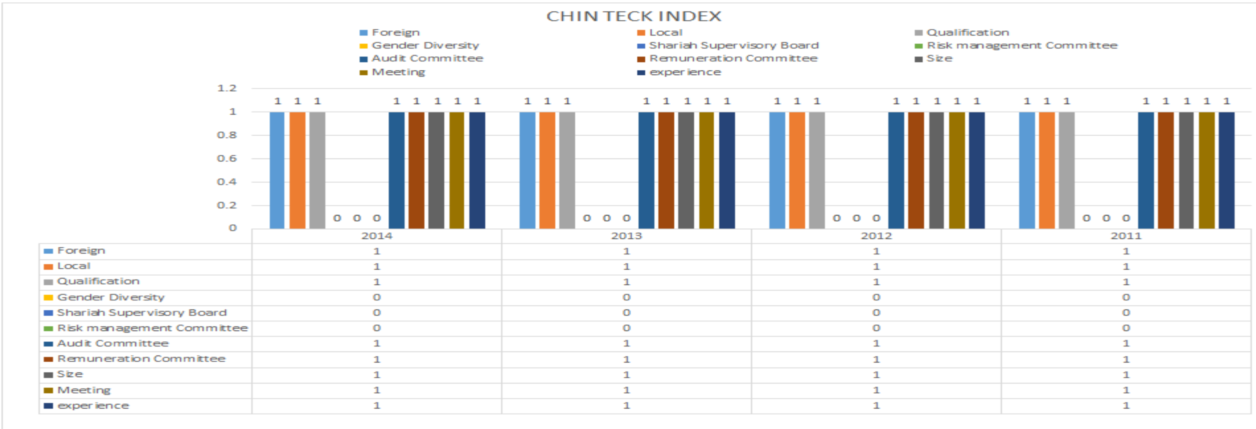
Next is leverage ratios that measure the overall debt of company and compare it with the assets or equity. It is shows how much of the company`s assets fit to the shareholders instead of creditors. Once shareholders own a mainstream of the assets, the company is said to be less leveraged. When creditors possess a majority of the assets, the company is considered highly leveraged. They maintained leverage ratio at 3% from 2011 until 2015 except for year 2012 that got a declining to 2% as the lesser.

3.4 Index score



Graph 6: Index score for corporate governance

This graph is showing a maintain trend for corporate governance index for Chin Teck company. Since 2011 until 2015, they still got the same criteria and requirement for corporate governance. We analyzed it using 10 variables which are nationality, qualification, gender diversity, Shariah supervisory board, audit committee, risk management committee, board remuneration committee, meeting, size of board and experience of board. The existence all of these criteria is same from 2011 until 2015. That is why, they got maintain index score at 73%. They do not have a few criteria from the list above, which are risk management, Shariah supervisory board and gender diversity. This can be seen through graph 7 below with represent that 1 is have it or 0 do not have it.



Graph 7: Corporate governance index score

4.0 Discussion and Recommendation

4.1 Discussion

Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.0717136748580	.02573452889790	5
ROE	.073200	.0267813	5
CURRENT RATIO	27.0260	5.69816	5
OPERATIONAL RATIO	.5500	.27240	5
LEV	.026680	.0026452	5
CREDIT RISK	46.3280	6.01256	5
REMUNERATION BOD	340800.00	31292.172	5
SIZE	606565726.00	27186279.521	5
EXCHANGE RATE	3.4600	.49168	5
INFLATION RATE	2.440	.6693	5
GDP	5.300	.4950	5
INDEX	.727272727300	.0000000000000	5

Table 1: Descriptive statistic for 5 years of Chin Teck Plantation Bhd

As shown in table, ROA is represent as return on asset have value in average for 5 five was about 7.17%, it means that the company only make profit within 5 years about 7% only. While, they got smaller standard deviation for just 2.57%. This implies that Chin Teck Plantation has low profit earned within year 2011 until 2015 due to macroeconomic factors or internal factor. Next, mean of ROE is 7.32% not so far from the mean of ROA, that determine their income earned is just a little from their total equity. Same goes to the standard deviation of ROE that only 2.67%. the company performance might give a big effect towards their profitability collection. It can be any wrong decision making or cause of the external factor. After that, we will look the liquidity ratio`s mean, it shows with RM27 while for the standard deviation is RM5.7. we also analyzed using operational ratio that give result for average is 55% with the following standard deviation of 27%. It shows a positive figure that means, the company tend to make profit more from their operating activities. The standard deviation also shows relevant figure to the mean of operational ratio. Lastly, we figure out the leverage value of mean that shows 2.6%, it was not high for debt and equity management might be less effective enough. While, for the standard deviation is more far from the mean where is just 0.26%. it shows the result is not so volatile and relevant.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.001	.002		.893	.438		
	ROE	.960	.021	.999	46.389	.000	1.000	1.000
2	(Constant)	.127	.028		4.457	.047		
	ROE	.776	.043	.808	18.248	.003	.033	30.143
	SIZE	-1.846E-10	.000	-.195	-4.408	.048	.033	30.143

a. Dependent Variable: ROA

Correlations

		ROA	ROE	CURRENT RATIO	OPERATIONAL RATIO	LEV	CREDIT RISK	REMUNERATION BOD	SIZE	EXCHANGE RATE	inflation rate	GDP	INDEX
Pearson Correlation	ROA	1.000	.999	-.196	-.947	.081	.344	-.956	-.989	-.713	.348	.179	
	ROE	.999	1.000	-.222	-.942	.090	.377	-.960	-.983	-.695	.361	.203	
	CURRENT RATIO	-.196	-.222	1.000	.061	-.845	-.500	.356	.075	-.250	-.905	-.520	
	OPERATIONAL RATIO	-.947	-.942	.061	1.000	-.013	-.152	.817	.969	.889	-.291	-.297	
	LEV	.081	.090	-.845	-.013	1.000	-.026	-.216	-.017	.113	.941	.250	
	CREDIT RISK	.344	.377	-.500	-.152	-.026	1.000	-.458	-.220	.271	.178	.421	
	REMUNERATION BOD	-.956	-.960	.356	.817	-.216	-.458	1.000	.915	.495	-.441	-.077	
	SIZE	-.989	-.983	.075	.969	-.017	-.220	.915	1.000	.795	-.272	-.120	
	EXCHANGE RATE	-.713	-.695	-.250	.889	.113	.271	.495	.795	1.000	-.090	-.198	
	inflation rate	.348	.361	-.905	-.291	.941	.178	-.441	-.272	-.090	1.000	.468	
	GDP	.179	.203	-.520	-.297	.250	.421	-.077	-.120	-.198	.468	1.000	
	INDEX												1.000
Sig. (1-tailed)	ROA		.000	.376	.007	.448	.285	.005	.001	.088	.283	.387	0.000
	ROE	.000		.360	.008	.443	.266	.005	.001	.096	.275	.372	0.000
	CURRENT RATIO	.376	.360		.461	.036	.195	.278	.452	.342	.017	.185	0.000
	OPERATIONAL RATIO	.007	.008	.461		.492	.404	.046	.003	.022	.318	.314	0.000
	LEV	.448	.443	.036	.492		.484	.364	.489	.428	.009	.342	0.000
	CREDIT RISK	.285	.266	.195	.404	.484		.219	.361	.330	.388	.240	0.000
	REMUNERATION BOD	.005	.005	.278	.046	.364	.219		.015	.198	.229	.451	0.000
	SIZE	.001	.001	.452	.003	.489	.361	.015		.054	.329	.424	0.000
	EXCHANGE RATE	.088	.096	.342	.022	.428	.330	.198	.054		.443	.375	0.000
	inflation rate	.283	.275	.017	.318	.009	.388	.229	.329	.443		.213	0.000
	GDP	.387	.372	.185	.314	.342	.240	.451	.424	.375	.213		0.000
	INDEX	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	

Table 2: Correlation

As shown as the table above, the relationship of ROA and ROE is positive with 99%, it shown a good performance of profitability. But, for correlation of ROA and liquidity ratio has negative relationship each other with making a profit of 19.8%. For the profitability against operational ratio they resulted that negative relationship, that implied if the profit is increase the operational value will increase too. Other than that, we also analyzed the leverage value to see the relationship with ROA. It is shows a positive relationship between them, it`s mean that ROA increase about 8.1% it effects the leverage increase to that way also.

4.1.1 Profitability to macroeconomic factors

Other than the internal factors, we also analyzed the external factor for each variable to see the profitability trend. There are a few macroeconomic factors that can be relate to profitability of a company, which inflation rate, gross domestic product, unemployment rate and also exchange rate. But in this study, we will only relate the most relevant to return that company can receive the impact, that are inflation rate and gross domestic product in Malaysia. We used the data from 2011 until 2015 as we analyzed the annual report of company. There is positive relationship between inflation rate and gross domestic product toward the ROA. It is mean that in every increases on the external factor it will increase also the return for asset of the company, same goes to the ROE. While for liquidity and operational ratio was negative result relationship between inflation rate and also for gross domestic product. But for the relationship with leverage was positive to the gross domestic product and inflation rate.

Other than that, the P value for all of the variable is positive relationship even the some of the figure is small. For example, ROA shown $P < 0.1$ for ROE and operational ratio, while, liquidity ratio and leverage is $P > 0.1$. The result is significant for all variable and overall the company have a positive performance within year of 2011 until 2015.

4.2 Recommendation

Panigrahi (2013) who considered on the liquidity administration for the concrete organizations in India, the sufficient liquidity and a cautious administration of its liquidity can fundamentally give some flag to separate amongst effective and disappointment of a firm. The ideal liquidity administration could maintain a strategic distance from a firm from the lower liquidity proportion which the firm is powerless against the loan bosses weight where firm cannot meet their commitment on determined time. Along these lines, there ought to be a change as far as liquidity execution with the estimation of liquidity administration utilizing present, snappy and fluid proportion to see the benefit accessibility. One of advantage liquidity administration, organization is having enough liquidity. It implies that the organization is holding enough money to buy from providers with better evaluating amid obtaining procedure and in this manner the organization may upgrade its benefit. In this way, having liquidity influences the firm benefit in view of study (Lazaridis and Tryfonidis, 2005). For greater change for this organization to augment its benefit is most likely more enhancement of venture in light of advantages utilized for speculation action. By applying liquidity administration, organizations can guarantee themselves not experience the ill effects of the absence of or abundance liquidity to meet its transient commitment. By this liquidity administration additionally, the change of an advantage into money could be overseen well where this money uses to pay commitment in the opportune time.

Next recommendation is to make their inventory control for operational management become smooth. It is another improvement ought to be executed is the better stock control where the organization ought to clear up the load of inventories in the distribution center. For the most part, organization should not have held stock in longer term than it has been relied upon to sold out or changed over to money at convenient way. By stock control, it is helpful to offer the benefit in the correct time as a result of those inventories do not sold out well in the market, the esteem will be drop, then the organization is compelled to sold that stock underneath the book estimation of stock (Investopedia, 2017). This could occur in the organization which thereafter the organization may get bring down money produced from the inventories sold, then it does not add to the benefit of organization. To provide the progressions in macroeconomic component, this organization is in an ideal situation dealing with the stock by taking after the market cycle e.g. Malaysian market is as of now in slow condition, Chin Teck could target spending plan cognizant buyers to accomplish sizeable development of offers to keep up the stock sold and renew at correct time to maintain a strategic distance from esteem diminishment. Furthermore, the change of item quality is required when sold to showcase.

5.0 Conclusion

In conclusion, we got that the return on asset, return on equity, liquidity ratio, operational ratio and leverage is faced to give an affect to all companies and not only for plantation company. MHC managed the profit and liquidity risk efficiently due to result above, but they still need to improve in term of the risk management of leverage and operational management. From performance`s result for this company there is no problem to meet the debt requirement and operates well that can produce higher profit. On the year of 2015 they managed to get best performance among other year. Furthermore, to retain the performance in 2015 ahead, from the findings, the variable that significant is ROA as a profitability variable which influence all of the variables analyzed. Hence, they should stress more to the corporate governance to improve any disorganization that lacking of the company`s ability in producing higher profit. Moreover, to uphold and develop endless profitability, the operation of liquidity and stock administration and control with taking after the pattern or cycle of market ought to put into thought as a piece of productivity commitment in spite of the fact that the discoveries demonstrates fluid and additionally GDP is not huge to benefit.

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