Corporate Governance and its Impact on Firm Performance and Risk in Food and Beverages Industry: Empirical Analysis on Dutch Lady Berhad

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Abstract

The main objective of this study was to investigate the relationship between Corporate Governance and its impaction firm performance and risk in food and beverage industry. Specifically, this study examined liquidity risk, credit risk and leverage and how they affect to the Corporate Governance. For the firm performance was measured with using Return on Asset (ROA). In this study it found that a strong relationship exists between the Corporate Governance practices under study and the firm's financial performance. The result of this study indicate that consideration firms' in Corporate Governance can give a good impact to the firm performance and risk in company.

keywords: credit risk, liquidity risk, leverage and profitability risk.

1.0 Introduction

Our name reflects our rich history. Friesland is an area in North Holland known for its green meadows, beautiful lakes, blue skies and Frisian dairy herds. Campina is a wooded region of grasslands in the Netherlands, so named by the Romans more than 20 centuries ago. It's these rich grasslands that families of farmers have made into one of the top dairy producing regions in the world.

Our history dates back to 1871, when farmers decided to join forces and create a community committed to sustainable farming in order to produce a better quality dairy product. We grew stronger over the years and today we have more than 19,000 member farmers in Netherlands, Germany and Belgium, many of whom have been with us since their grandparents or even great-grandparents. We named the community Friesland Campina and today it's one of the world's largest dairy cooperatives. This means that we are supervised and owned by the farmers.

Dutch Lady Milk Industries Berhad offered their customer with delicious products. It is Dutch Lady Purefarm, Dutch Lady Milky, Dutch Lady Chocolate Drink Ezymix, Dutch Lady Family Milk Powder, Dutch Lady Nutriplant with 5x DHA, Dutch Lady Low Fat Yoghurt & Dutch Lady 0% Fat Yoghurt Drink.

For company performance, Dutch Lady achieved a commendable revenue growth in 2011 of 810 million, 16% higher than the previous year. It used highly effective promotions to get demand for the Company's core powder and liquid dairy products continue to be strong and value enhancing product innovations and correct strategies in the market place that drove sales.

For the size of company, we see from the total assets for the year 2011 which is RM 398,514,000. Next, for the year 2012 it was increase to RM 403,463,000 and for the year 2013 the total asset it is still increase to RM 416,461,000. In year 2014 the total asset is decrease to RM 345,507,000 and lastly for the year 2015 the total assets were increased to RM 412,525,000. From the overall total assets for company Dutch Lady, from the year 2012 until 2013 it is increase from the year to year. Otherwise, in year 2014 the total asset was decrease and grow up back in year 2015. Thus, we can say that the total asset for company Dutch Lady still in good size of assets.

2.0 Literature Review

In company to achieve good Corporate Governance it must make sure that the business environment is fair and transparent and that companies can be held accountable in each actions that he takes. On the other hand, if Corporate Governance are weak will be leads to waste, mismanagement and bribery. Corporate Governance has come out as a way to manage modern joint stock corporation, it also important to remember that. It is likely most significant in state-owned enterprise, cooperatives, and family businesses. In any type of venture, only one thing it is Corporate Governance can give sustainable in Good Business Performance (M.Tarek Youssef, 2007).

Performance are become the outcome that obtain from organization's results and actions measurability that shows the organization's success and achievements. Required and accepted standards must be used for the purpose to reflect dissimilar feature of limit in the activities and the chance to use service is the evaluation of organization's performance. To estimate and to measure business units' performance it must be used several principles in accounting studies and researches it will be separate into two common types of market based criteria and accounting data based criteria. With contrast, while market based criteria are more objective, in the same time it will give effect in a great number of aspects uncontrollable with management (Gani and Jermias, 2006). Thus, to study the link among corporate governance and performance of business elements, accounting data based standards are greater to market based standards.

Return on Assets (ROA), a measures the whole effectiveness of management in creating returns to shareholders with its available assets. When Return on Asset (ROA) it shows that the positive aggregate resources used to work will give benefit to the organization. On the other hand, when a negative return on assets it shows that the use of total asset, the organization will be lost. So that if an organization has a high ROA then the organization has a chance to upgrade the development of their own capital. Alternately, if the total asset used by the organization are not making a benefit it will repress the development of their own capital (Alghifari, Triharjono, Juhaeni, 2013).

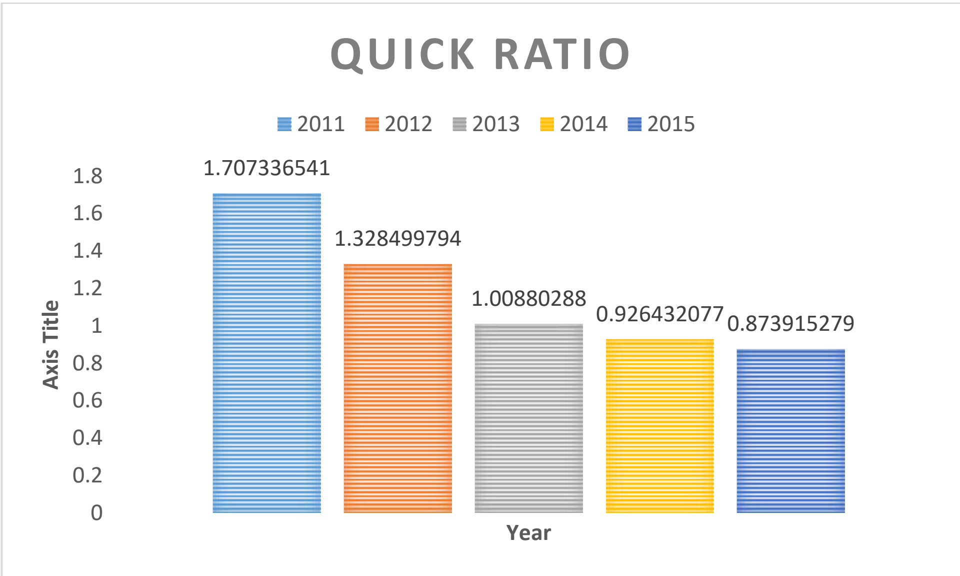
Basically, for the controlling of liquidity risk it is unpredictable without accurate knowledge of risk. Before arranged to a further stage for the process management of liquidity risk, it is critical to primary categorize the method of risk formation. Liquidity will give the solution to solvent bank into collapse since it must to sell their assets far below with value to achieve its current financial duties. The management of risk at the basic level will allows Islamic Banker to take defensive slightly than reactive measure when adapt with risk. It is allowing the possible financing to run part by part with more secure situation and suitable risk in manage process at the bases level (Waemustafa and Sukri, 2016).

Values identified current assets and current liabilities in the Statement of Financial of Position is rely on the current ratio and the quick ratio. By dividing the total current assets by the total current liabilities to arrive at a ratio between the two amounts is simply for the current ratio. Narrower focus and is concerned with only those items are provides by the quick ratio. Otherwise, in the total current assets it is also included such as cash, marketable securities, and accounts receivable. To provide a ratio between the two amounts it will reduce amount with divide by the total current liabilities. Being an indicator of the ability to pay for every dollar that is currently liable it is the analysis in very simple terms relies on the ratio. To be a valuable guide to the analysis process industry benchmarks are considered however, a rule of thumb is generally used where these are not available. on an annual basis will be calculated and included for analysis purposes as part of this research an industry standard (Kirkham, 2012).

3.0 Descriptive Analysis

3.1 Liquidity Risk

Year	2011	2012	2013	2014	2015
Quick Ratio	1.7073	1.3285	1.0088	0.9264	0.8739

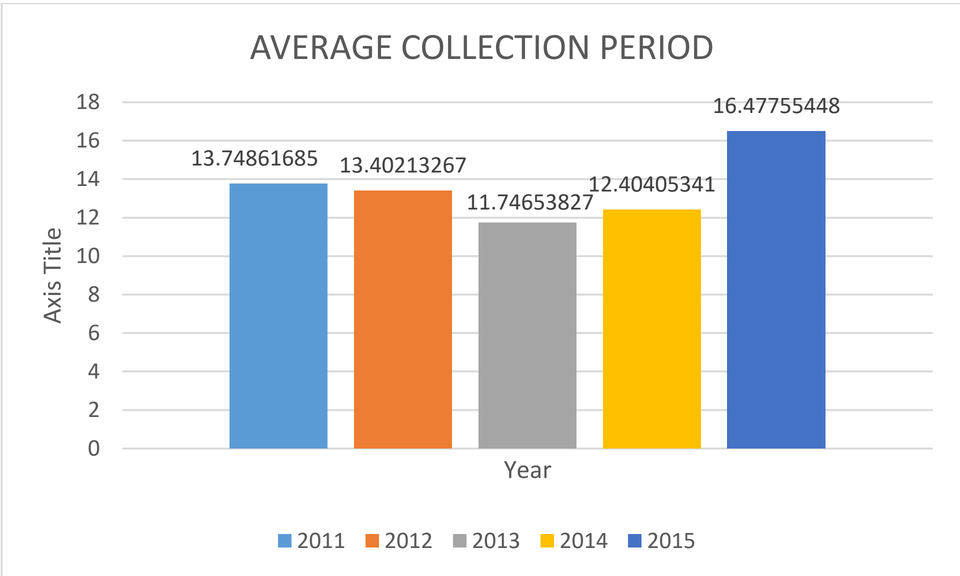


The graph above shows the Quick Ratio by year 2011, 2012, 2013, 2014 and 2015 for the company Dutch Lady Berhad. Basically Quick Ratio indicates company's ability to meet its short-term obligations with its most liquid assets. Therefore, the quick ratio figure will give the investors an idea how effectively the company in ability to meets its short-term liquidity. To calculate the quick ratio is current assets minus inventories and divide by current liabilities.

In 2011 was the most efficient in ability to meet its short-term liquidity which is 1.7073 times compared to year 2015 Dutch Lady slowly less efficient when the quick ratio got the lowest with 0.8738 times. From the year 2012 until year 2015 the quick ratio was decrease slowly from year to year. Thus, we can conclude that the company from year to year are weak in ability to meets its short-term liquidity. This is because the higher the quick ratio, the better the company's liquidity position.

3.2 Credit/Counterparty Risk

Year	**2011**	**2012**	**2013**	**2014**	**2015**
Average Collection Period	14	13	12	12	16



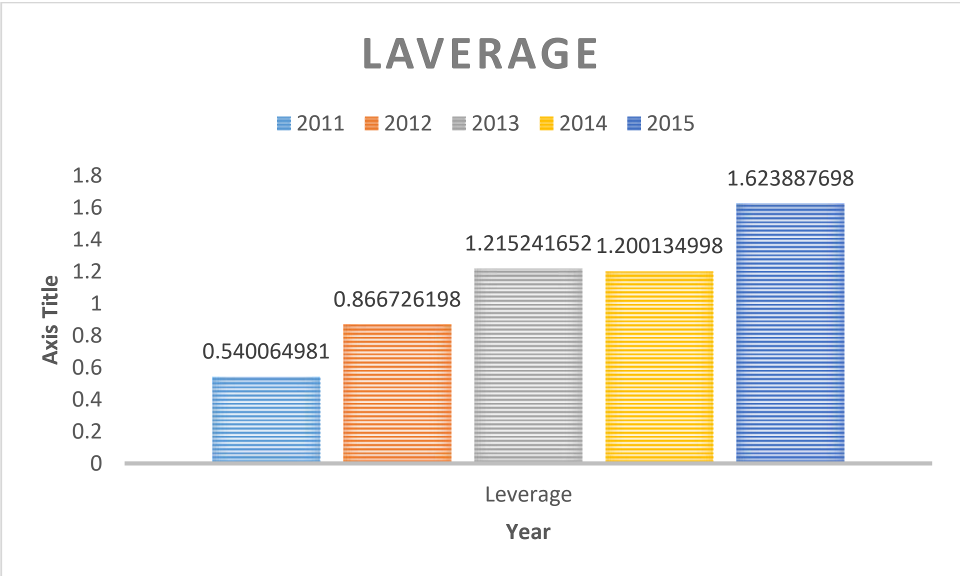
The average collection period is the estimate amount of period time that it takes for a business to receive payments owed in terms of account receivable (Investopedia, 2017). Therefore, the average collection period figure will give the investors an information of how long time the company takes to receive payments owed for their business.

To calculate the average collection period is calculated by dividing the account receivables with annual credit sales. Then, credit sales will divide by number of days in the period. The highest average collection period indicate that the long periods take by the debtor to payback the debt to the company.

Refer to the above chart, it shows the average collection period of Dutch Lady for 5 consecutive years which is year 2011 until 2015. We can see that for year 2015 the average collection period was the longer which is 16 days compared to year 2013 the average collection period was the lowest which is 11 days. Whereby, in year 2013 shows that company get in long time to get the payment from their debtor.

3.3 Leverage

Year	2011	2012	2013	2014	2015
Leverage	54.01%	86.67%	121.52%	120.01%	162.39%



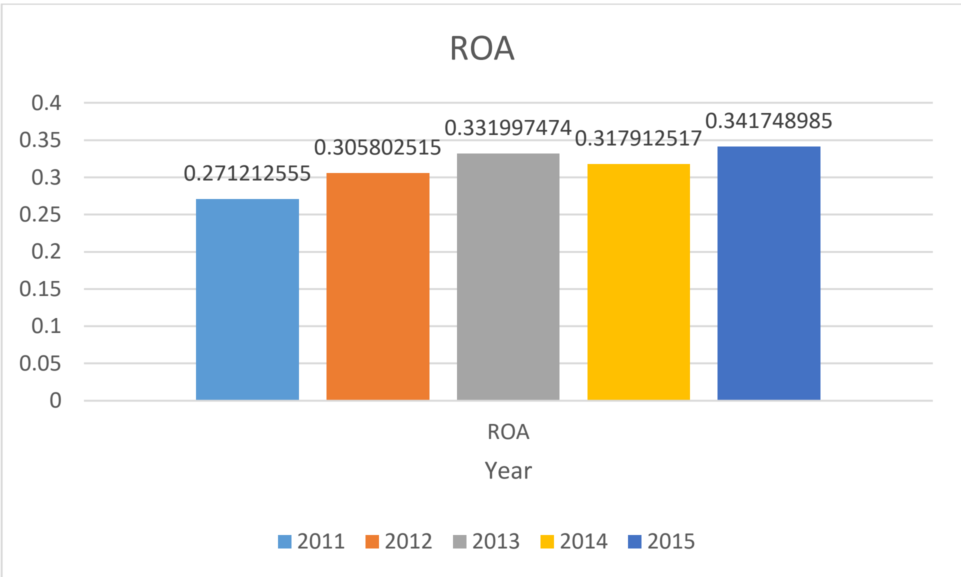
The assets of the company are comprised of both debt and equity. Both of these types of financing are used to fund the operations of the company. Therefore, the leverage ratio figure will give the investors an idea how much debt in the company. To calculate leverage ratio is calculated by total liabilities divide by total equity.

A leverage ratio is to measure how much capital comes in the form of debt or assesses the ability of a company to meet financial obligations (Investopedia, 2017).

Based on the above chart, it shows the leverage ratio of Dutch Lady for 5 consecutive years which is 2011 until 2015. Here, it indicates that for year 2015 the leverage ratio was the highest which is 162.39% compared to year 2011 the leverage was the lowest which is 54.01%. This tells us that, Dutch Lady has been aggressive its growth with debt in financing. Investors will not have interested with company that have too much debt in their financing, it will be effected to the company.

3.4 Return on Asset (ROA)

Year	**2011**	**2012**	**2013**	**2014**	**2015**
ROA	27.12%	30.58%	33.20%	31.79%	34.17%



The return on assets figure will gives the investors an idea of how effectively the company in converting the money it has to invest into net income. Return on Assets (ROA) is to measure the overall effectiveness for management in generating returns with available asset to ordinary shareholder (Alghifari, Triharjono, Juhaeni, 2013).

Based on the above chart, it shows the return on assets of Dutch Lady for 5 consecutive years which is 2011 until 2015. Here, it indicates that for year 2015 the return on assets was the highest which is 34.17% compared to year 2011 the return on assets was the lowest which is 27.12%. This tells us that Dutch Lady, in accounting sense, generates a little less than 40% in profit for every ringgit in assets for year 2015.

Thus, we can conclude that the company is efficient in managing its assets to generate earnings. This is because the higher the return, the better, because it shows that the company is earning more money on less investment and the company is more effective in management to utilized its asset base.

3.5 Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.313734809000000	.027417310300000	5
Index Score	.840	.0894	5
BOD_Remuneration	1991800.00	747055.353	5
Size (Total Asset)	395294000.00	28726275.340	5
Laverage	1.089211105000000	.407776859000000	5
Quick Ratio	1.168997314000000	.348863771000000	5
Average Collection Period	13.370083530000000	1.791528233000000	5
GDP	5.300	.4950	5
Inflation	2.440	.6693	5

From the table above, we can see that Dutch Lady Company is making 31% of return by incurring 27% of risk. We knew that the higher the risk, the higher the return, thus in order for Dutch Lady company to increase their asset, they should go for higher risk. In this situation, we can see that the risk of Dutch Lady already higher to get the return. In addition, for Leverage the mean is 116.90% with the risk of 34.89%. so that, the company should be more efficient and effective to reduce the risk of the company.

3.6 Correlation

		ROA	BOD_Remuneration	Size (Total Asset)	Leverage	Quick Ratio	GDP	Inflation
Pearson Correlation	ROA	1.000	-.742	.146	.958	-.950	-.332	-.537
	Index Score	.948	-.881	-.142	.905	-.990	-.113	-.326
	BOD_Remuneration	-.742	1.000	.409	-.792	.885	-.047	-.151
	Size (Total Asset)	.146	.409	1.000	.059	.166	-.898	-.644
	Laverage	.958	-.792	.059	1.000	-.942	-.251	-.370
	Quick Ratio	-.950	.885	.166	-.942	1.000	.068	.306
	Average Collection Period	.186	.065	.329	.383	-.084	-.175	-.181
	GDP	-.332	-.047	-.898	-.251	.068	1.000	.468
	Inflation	-.537	-.151	-.644	-.370	.306	.468	1.000

Based on the SPSS Correlation table, which is illustrate the results of correlation matrix of Khee San, it shows that basically the company have a relationship between profitability for ROA and Board of Director Remuneration. The relationship between them which is –0.742. Next, the relationship between Size (Total Asset) with ROA it is 0.146, whereby it shows that the higher the size of the company, so the more company can generate their profit. A good asset management also enables the company to increase the shareholder trust as they are certain that the company are efficient in converting their asset into a profit. In addition, based on the SPSS table shows that the relationship between Leverage and Profitability (ROA) is 0.958 in this relationship get the positive significant.

According to Waemustafa and Sukri (2016) the finding on their study shows that liquidity ratio (LIQUID) is positively significant with ROA this implies that Islamic banks adopt a conservative strategy in managing liquidity problem by maintaining sufficient cash reserve and at the same time these banks are able to generate profit. Based on the table SPSS shows that Liquidity Risk (Quick Ratio) also have relationship with Profitability (ROA) with the negative significant which is -0.950.

Besides that, based on the SPSS Correlation table, it shows that for the GDP and Inflation have a relationship with Profitability (ROA) it shows in negative sign. The relationship GDP and Profitability (ROA) is -0.332 and for the relationship Inflation and Profitability (ROA) is -0.537 both of these types was under the average.

3.7 Annova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	**Regression**	.003	1	.003	33.807	.010[b]
	Residual	.000	3	.000		
	Total	.003	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), Laverage

3.8 Coefficient

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	**(Constant)**	.244	.013		19.132	.000		
	Laverage	.064	.011	.958	5.814	.010	1.000	1.000

a. Dependent Variable: ROA

4.0 Discussion and Recommendations

4.1 Discussion

The main objective of this study was to investigate the relationship between Corporate Governance and its impaction firm performance and risk in food and beverage industry. In the descriptive analysis for the consecutive year 2011 until 2015, overall performance results to measure risk and profitability. Corporate governance is the important issue in order to making the profit and manage the risk. It is because good corporate governance is the key factor to make company performance in a good condition. The relationship between ROA and BOD Remuneration in a negative relationship, it is not good in Corporate Governance. Next, to measure the risk which is Liquidity Risk, (Quick Ratio), Credit/Counterparty Risk (Average Collection Period). Its mean for the risk management, Dutch Lady are in the good management. Other than that, for the measure Profitability it uses ROA to show the profit. For the ROA of the company Dutch Lady it is in good performance and will make profit and survive the company. Other than that, relationship ROA and Quick Ratio also in negative average.

4.2 Recommendation for Improvement

Corporate Governance and profitability is a factor basic to give impaction to the business. From the relationship between BOD Remuneration and ROA it is in negative relationship. Is not good to the company. It is because the sign negative it show that BOD in the company are not in good way. Chairman of the company Dutch Lady must plan the best way to solve this issue. BOD are the key factor in any institution to make smooth all the process in the company. Negative average for BOD remuneration and profitability (ROA) are not good performance to show to the investors. Next, for the Quick Ratio (Liquidity Risk) are in negative relationship with ROA must take the action to dissolve it. Therefore, the quick ratio figure will give the investors an idea how effectively the company in ability to meets its short-term liquidity. So, all the BOD in company must take the improvement to enhance company competitiveness in order to generate a greater influence among the investor.

5.0 Conclusion

For the conclusion Corporate Governance give effect to profitability and risk management in the company. It must have good control from Corporate Governance to protect the interest of all stakeholders. Other than that, Dutch Lady also must have a good asset management to enables the company to increase the shareholder trust as they are certain that the company are efficient in converting their asset into a profit. In addition, Corporate Governance also can make reduce the risk that are involved in the company. If the risk will mitigate and manage with good way from Corporate Governance, then it will protect the interest rate and will give the investors an information that company in good performance with stable an interest rate. So, if the company of Dutch Lady Berhad have a good Corporate Governance it will be increase the profit and many investors will join to be one of the shareholder in the company. The result of this study indicate that consideration firms' in Corporate Governance can give a good impact to the firm performance and risk in company.

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