Firm Risk And Performance The Role Of Corporate Governance

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Firm Risk And Performance: The Role Of Corporate Governance

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ABSTRACT

The reason for this review tried to look at the performance of Sunway Real Estate Investment Trust (REIT) with particular risk variables and macroeconomic component on productivity execution. The information is acquired from annual report of Sunway REIT from year 2011-2015. The estimation of liquidity proportion and working proportion used to see the general execution of Sunway REIT in 5 years which supposedly past benchmark. To see the relationship of dangers variables to the benefit, this paper is using profitability ratio which include return on assets, return on equity, and return on investment, liquidity ratio that consists of current ratio. The activity ratio, it is calculated based on total asset turnover and the leverage ratio using the debt ratio. There are also GDP and inflation stated. There are few types of risk which are credit risk, liquidity risk and market risk. The study is to find the relationship between the corporate governance and risk performance as well as to the company performance and profit.

Keyword: Credit Risk, liquidity, profitability and macroeconomics.

1.0 Introduction

The worldwide macroeconomic pointers and household vulnerabilities are motioning towards many times, against the setting of softening monetary development, debilitating money and product costs, softening business and buyer estimation. In addition, the property sub-divisions are confronting headwinds emerging from escalating rivalry because of oversupply economic situation for the workplace sub-part and new approaching supply for the cordiality and retail sub-parts.

Sunway REIT was listed on the Main Board of Bursa Malaysia Securities Berhad on 8 July 2010. Sunway REIT is a retail-focused REIT sponsored by Sunway City Berhad ("SunCity") which is one of the leading integrated real estate developers in Malaysia. Sunway REIT is managed by Sunway REIT Management Sdn Bhd, a wholly-owned subsidiary of SunCity.

Sunway REIT was established with an initial portfolio of 8 assets and has now grown to 11 assets which comprise retail assets, hotels and offices spanning across 4 high growth locations in Bandar Sunway, Kuala Lumpur, Penang and Ipoh. Sunway REIT was officially incorporated as the only REIT in the FTSE-Bursa Malaysia Mid 70 Index in December 2010. The investment objective of Sunway REIT is to provide unit holders with exposure to a diverse portfolio of authorized investments that will give stable cash distributions with the potential for sustainable growth in net asset value per unit.

The vision of Sunway REIT is to become the leading REITs in Malaysia in terms of the value of assets and in providing the maximum amount of return to unit holders. While the mission is to deliver sustainable and distribution growth in total return to unit holders within long term through active asset management, yield-positive acquisition and optimal capital and risk management.

Based on Sunway REIT annual report, they consider corporate administration important and trust a vigorous arrangement of check and adjust is vital and in addition an arrangement of qualities, which will be expounded in the following segment, to control the Board, administration group and partners to complete business professionally and morally at all circumstances. Sunway REIT likewise have made the correct stride of issuing a Code of Conduct yet they recognize that is a long voyage and will continue gaining from the prescribed procedures and receive them as indicated by their own corporate culture. They will apply the essential standard of substance over shape when they execute the Corporate Governance in the business and will continue re-stressing over the long haul and insert it into corporate culture.

For three consecutive years, Sunway REIT was awarded the National Annual Corporate Report Awards (“NACRA”) under the category of Industry Excellence Awards for REITs and Closed-End Funds. The recognition epitomizes Sunway REIT’s steadfast belief in corporate reporting excellence, transparency and accountability. Sunway REIT continues to be recognized as part of the elite group of listed companies on Bursa Malaysia under The Edge Billion Ringgit Club 2015 for the fifth consecutive year. Likewise, Sunway REIT was nominated by the Malaysian Investor Relations Association in their annual Malaysia Investor Relations Awards 2015.

The presentation of Sunway REIT in July 2010 was a distinct advantage for the M-REITs industry prompting the presentation of M-REITs with extensive market capitalization. This changed the venture scene of M-REITs and set M-REITs in the global outskirts. The resulting posting of Pavilion REIT, IGB REIT and KLCC Stapled Group additionally raised the noticeable quality and contribute capacity of M-REITs. The market capitalization of M-REITs extended by 7.9% to RM36.8 billion as at 30 June 2015, contrasted with RM34.1 billion as at 30 June 2014, principally because of increment in unit costs and units available for use. In accordance with the development in M-REITs' market capitalization, Sunway REIT's market capitalization developed by 7.3% to RM4.5 billion as at 30 June 2015, supporting its position as the main 3 M-REITs positioned by market capitalization. Sunway REIT is a segment of the FTSE Bursa Malaysia Mid 70 Index and TR/GPR/APREA Composite REIT Index Malaysia.

Based on the price change for the past 5 year which is from 2011 to 2015, it shows that the total mean is -0.0002. The mean is the most usually utilized measure of focal inclination. The mean is basically the total of the qualities isolated by the aggregate number of things in the set. The outcome is alluded to as the number-crunching mean. The variance measures how far each number in the set is from the mean. Variance is figured by taking the contrasts between each number in the set and the mean, squaring the distinctions in order to make them positive and partitioning the whole of the squares by the quantity of qualities in the set. Variance for Sunway REIT is 0.0003

Standard deviation is a number used to tell how estimations for a gathering are spread out from the normal (mean), or expected value. A low standard deviation implies that a large portion of the numbers are near the normal. A high standard deviation implies that the numbers are spread out. In the Sunway, the standard deviation is 0.0163.

2.0 Literature Review

Numerous studies have attempted to explain about corporate governance, risk and profit. A good corporate governance, is very important as it tends to encourage honesty, integrity, transparency, accountability and responsibility amongst all stakeholders in an organization. Throughout the last 30 or 40 years, there has been a relentless increment in concern communicated about, and the data delivered by, extensive associations in connection to their social and natural effects (Gray et al., 1996; Hall, 2002). This has emerged for a scope of reasons including the development of enterprises in size, power and obligation change, and comparing increments in effects on the social orders where associations are allowed to work. (Gray, 2002b).

(Grey et al., 1996, 1995a; Adams et al., 1998). Grey et al. (1996: 3) express that CSR as "the way toward imparting the social and ecological impacts of associations' financial activities to specific intrigue gathers inside society and to society on the loose. All things considered, it includes augmenting the responsibility of organizations (particularly organizations), past the conventional part of giving a monetary record to the proprietors of capital, specifically, shareholders".

Ahmad and Ahmad (2004) Ahmad and Mohamed (2007) suggest that large risky portfolio contribute to higher risk which is consistent to moral risk hypothesis. Before proceeding to a next stage, it is basic to at first recognize the procedure of risk development before continuing to a further phase of risk administration handle (Muljawan, 2005). According to Ghazali (2008), he found that liquidity and return on asset has a positive relationship. Besides that, it also can be supported with the studies of Bourke (1989). Kosmidou and Pasiouras (2005) state that there a significant positive connection amongst liquidity and return on asset.

It is fundamental to comprehend the way of liquidity and its impact using a credit risk to determine for observational confirmation of cooperation amongst liquidity and credit chance. The higher the liquidity the lower credit risk occur. Quickening in credit extension will bring down default rate as higher expansion win because of the way that swelling. Another study conducted to compare the liquidity risk between Islamic and Conventional banks in Malaysia who analyzed by (Waemustafa, W., 2016). The liquidity performance result is dominates by Islamic bank compared to conventional bank which represented with the mean percentage.

Late advances in financial hypothesis propose that the directorate is an essential piece of the administration structure of expansive business enterprises (Fama and Jensen, 1983a; Williamson, 1983, 1984). The leading group of directors, which has the ability to contract, fire, and remunerate senior administration teams, serves to determine irreconcilable circumstances among decision makers and residual risk bearers.

The administration of liquidity risk is simply untrustworthy without legitimate learning of risk arrangement in Islamic method of financing. Islamic banks work on the premise of benefit and misfortune sharing where the standard and specialist relationship is on the premise of capital supplier and business person. This method of financing permits capital supplier and business person to share the benefit from the endeavors embraced in light of a concurred or common proportion. This participative nature permits genuine business exercises for the way that both sides need to hold up under the benefit or misfortune that would be shared in light of the concurred rate (Sundararajan and Errico, 2002).

Other administration systems exist for instance, organization law, the market for administrative ability, capital markets, the inward structure of the firm, and these can substitute for an unequivocally autonomous board (Williamson, 1983). Besides, singular executives may serve their organizations in routes outside of their lawful administration capacities. Subsequently, more free sheets might be less viable in giving counsel or connecting associations together through effective bury locking.

A few reviews (Lee et al., 1992; Gompers et al., 2003) have demonstrated that great administration hones have driven the critical increment in firm execution, higher efficiency and lower danger of orderly money related disappointment for nations.

As indicated by Alman (2012), Shariah Supervisory Board (SSB) is one of inner administration systems which includes the checking of Islamic banks' exercises in agreement to the Sharia (i.e. Islamic law) particularly on its execution and consistence. Ponders by Grais, W., Pellegrini, M., (2006) and Farook, S., Hassan, K., and Lanis, R., (2011) contended that the interesting characteristics of SSB must be cleared up as to fusing SSB as a feature of corporate administration systems structure.

3.0 Descriptive Analysis

i. Return On Assets (ROA)

Year	2011	2012	2013	2014	2015
Return On Assets (ROA)	0.1243	0.0900	0.0744	0.0733	0.0842

Table 1 : Return On Assets

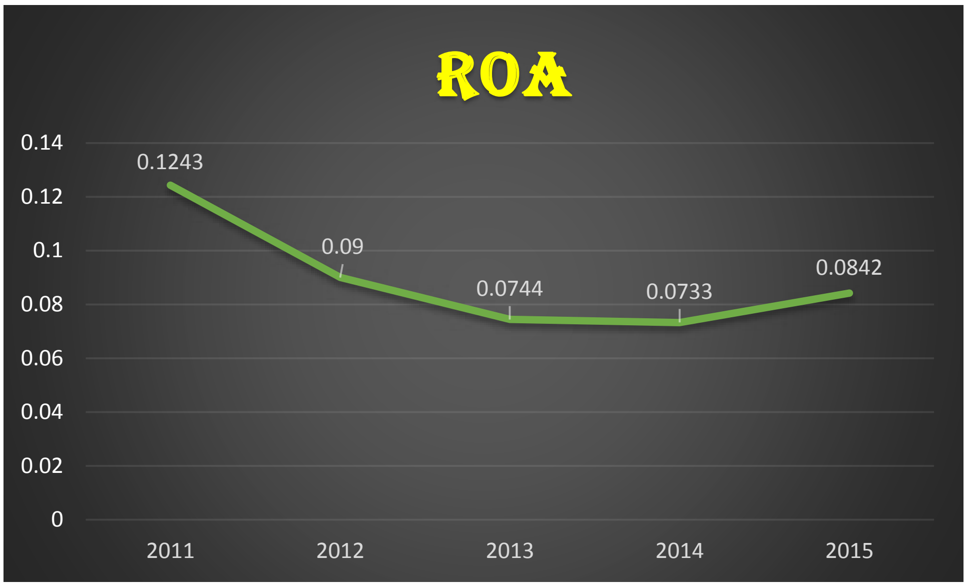


Figure 1 : Return On Assets

Return on assets (ROA) is a financial ratio that shows the percentage of profit a company earns in relation to its overall resources. It is commonly defined as net income divided by total assets. Net income is derived from the income statement of the company and is the profit after taxes. *ROA* gives an idea as to how efficient management is at using its *assets* to generate earnings. The higher the return, the more efficient management is in utilizing its asset base. Based on the table and graph above, we can see that Sunway assets management is decrease from 2011 to 2012 which is from 12.43% to 9%. It continue to drop in 2013 and 2014 which is 7.44% and 7.33% respectively. But it has improved in 2015 where it has risen up to 8.42%.

ii. Return On Investment

Year	2011	2012	2013	2014	2015
Return On Investment (ROI)	-0.9802	-0.9810	-0.9799	-0.9640	-0.9528

Table 2 : Return On Investment

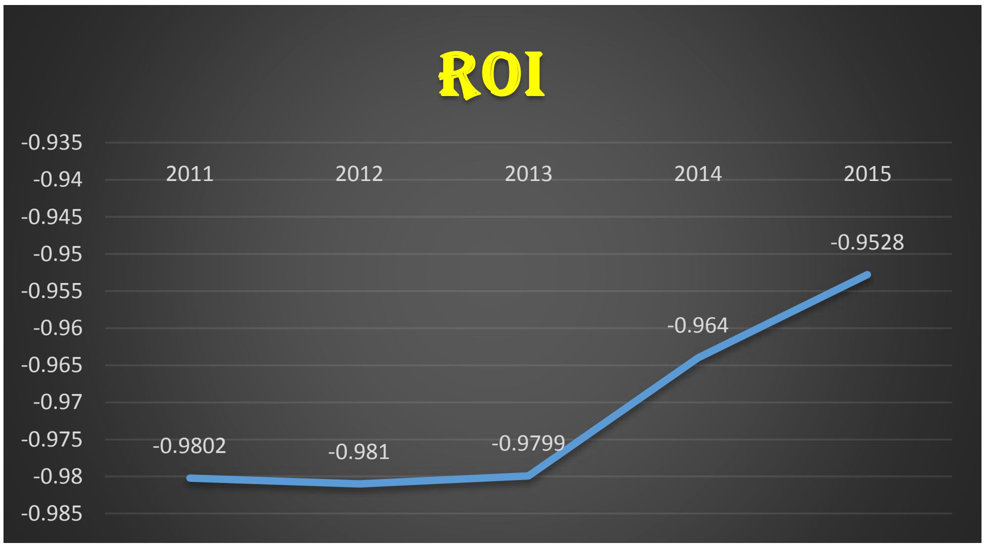


Figure 2 : Return On Investment

Return on investment (ROI) measures the profit or loss created on a speculation with respect to the measure of money contributed. ROI invested is generally communicated as a rate and is commonly utilized for individual monetary choices, to contrast an organization's productivity or with think about the effectiveness of various speculations. With ROI, there are benefit and advantages to the investors in order to resulting investment of some assets. To compute ROI, the benefit (or return) of a speculation is separated by the cost of the venture, and the outcome is expressed as a rate or a proportion.

For the first 3 years, Sunway REIT do not show much different. For 2011 until 2013, it is -98.02%, -98.1% and -97.99% respectively. In 2014, it has risen to -96.40% and continue to increase to -95.28% in 2015.

iii. Return On Equity

Year	2011	2012	2013	2014	2015
Return On Equity (ROE)	0.2355	0.1780	0.1458	0.1521	0.1993

Table 3 : Return On Equity

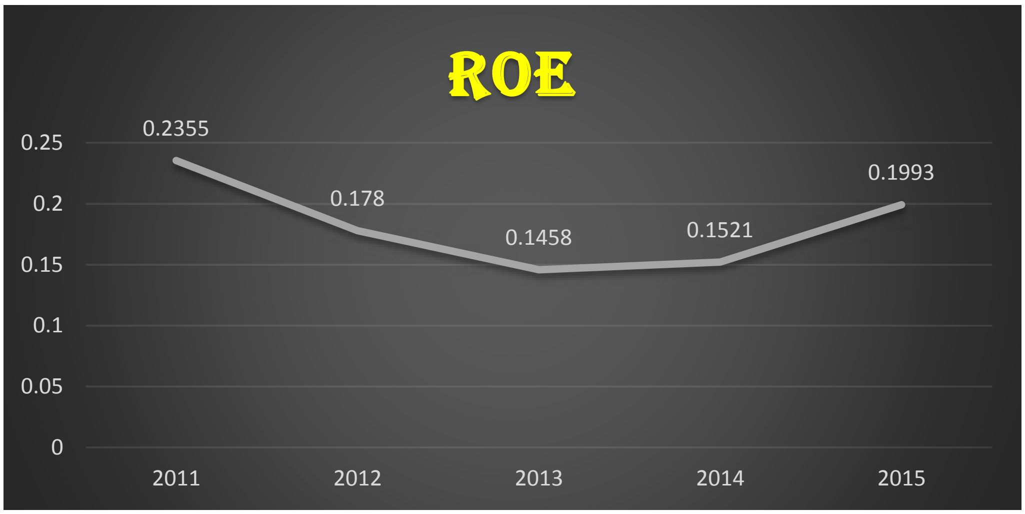


Figure 3 : Return On Equity

The return on equity ratio or ROE is a profitability ratio that measures the ability of a firm to generate profits from its shareholders investments in the company. In other words, the return on equity ratio shows how much profit each dollar of common stockholders' equity generates. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to investors.

What we can see is in 2011, the ratio shown 23.55% and it has dropped in 2012 and 2013 to 17.80% by 14.58% respectively. In 2014, in has increase a little where it rise to 15.21%. But in 2015, it increase back by 4.72% become 19.93%. From this ratio, we can conclude that, Sunway reputation in managing its assets and return to investors has a lowest condition in 2013.

iv. Current Ratio

Year	2011	2012	2013	2014	2015
Current Ratio	0.5773	0.0341	0.1902	0.0972	0.1022

Table 4 : Current Ratio

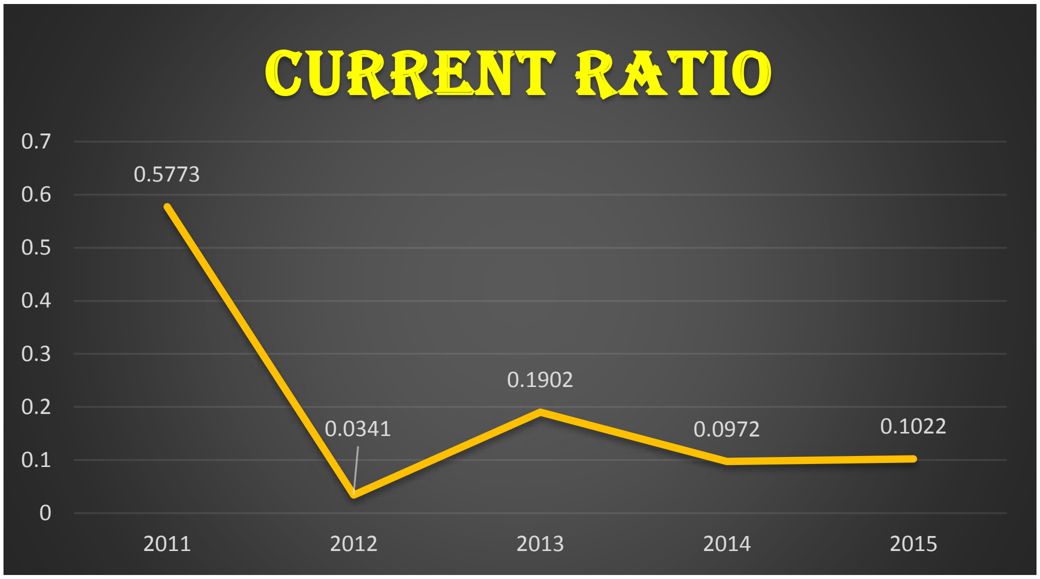


Figure 4 : Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations. To gauge this ability, the current ratio considers the current total assets of a company (both liquid and illiquid) relative to that company's current total liabilities. Current ratio also shown how many dollars of short-term assets are available for every dollar of short-term liabilities owned. For this ratio, higher the ratio, more liquidity the assets and vice versa.

Based on the table and graph above, it shown that Sunway's assets are most liquidate in 2011 with 57.73%. But in 2012, the ratio has a drastic decrease become 3.41%. It has increase to 19.02% in 2013 but in 2014, its amount is decrease back to 9.72%. In 2015, the amount has slightly increase to 10.22%. From this graph, we can see that in 2011, Sunway's asset are most liquidate than others years.

v. Total Asset Turnover

Year	2011	2012	2013	2014	2015
Total Asset Turnover	0.0735	0.0868	0.0789	0.0763	0.0705

Table 5 : Total Asset Turnover

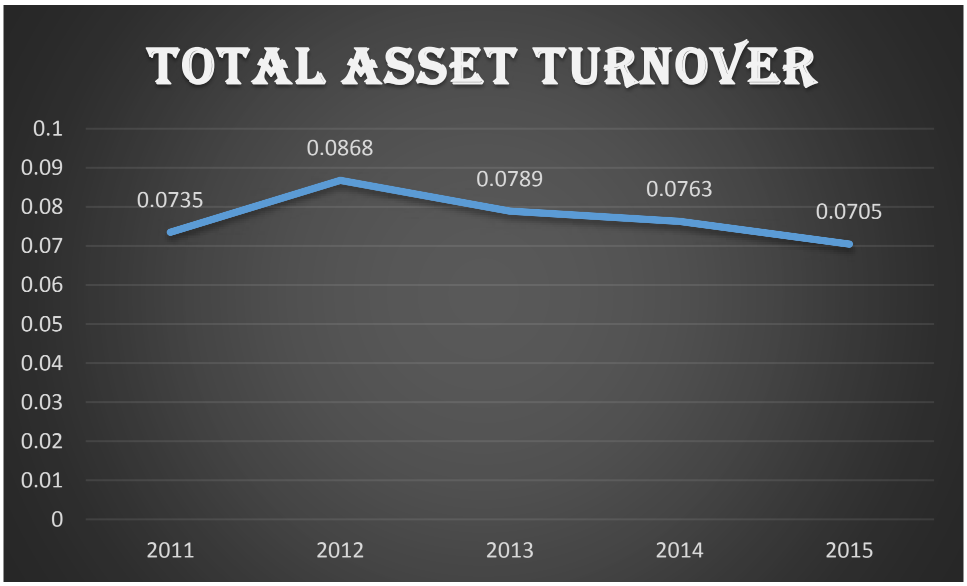


Figure 5 : Total Asset Turnover

Total asset turnover is an efficiency ratio that measures a company's ability to generate sales from its assets by comparing net sales with average total assets. In other words, this ratio shows how efficiently a company can use its assets to generate sales. The higher the ratio is the better.

From the table and graph above, Sunway shown not too much different of amount every year in order to gain sales, where it show amount of 7.35%, 8.68%, 7.89%, 7.63% and 7.05% respectively. Every year, Sunway shows a horizontal pattern which shows they are stable in used their assets to generate sales, and also show that they are efficient in manage their assets.

vi. Debt Ratio

Year	2011	2012	2013	2014	2015
Debt Ratio	0.3777	0.3576	0.3346	0.3422	0.3807

Table 6 : Debt Ratio

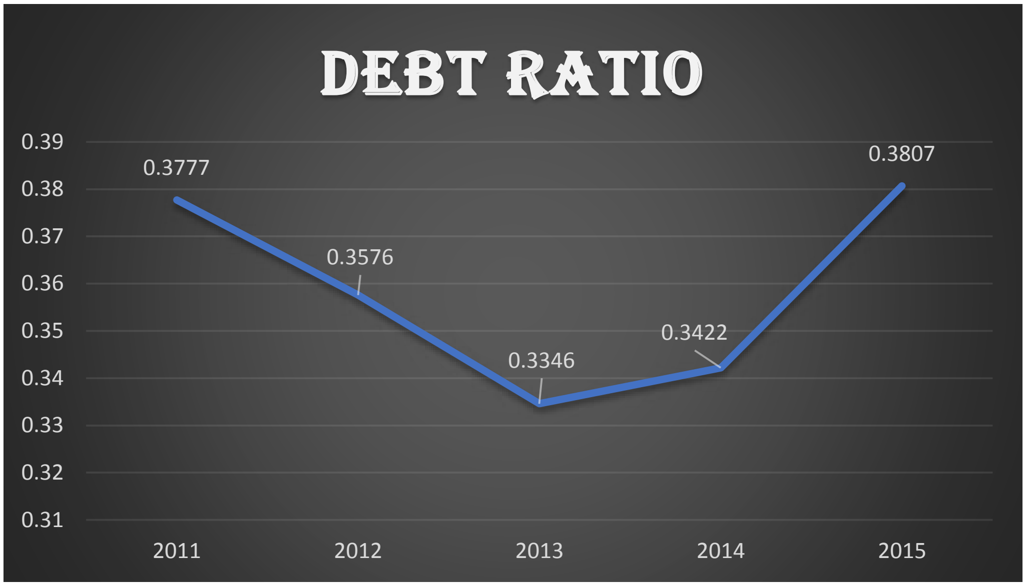


Figure 6 : Debt Ratio

Debt ratio is defined as the ratio of total long-term and short-term, which is debt to total assets, expressed as a decimal or percentage. It can be interpreted as the proportion of a company's assets that are financed by debt. In a sense, the debt ratio shows a company's ability to pay off its liabilities with its assets. In other words, this shows how many assets the company must sell in order to pay off all of its liabilities. As with many solvency ratios, a lower ratios is more favorable than a higher ratio.

For debt ratio as stated in the table and graph above, the ratio for 2011 is 37.77%. It shows a decline pattern in 2012 and 2013 which is 35.76% in 2012 and the lowest in the 2013 with 33.46%. It But it show risen pattern from 2014 and 2015 with 34.22% and 38.07% respectively. A lower debt ratio usually implies a more stable business with the potential of longevity because a company with lower ratio also has lower overall debt. Each industry has its own benchmarks for debt, but 0.5 is reasonable ratio.

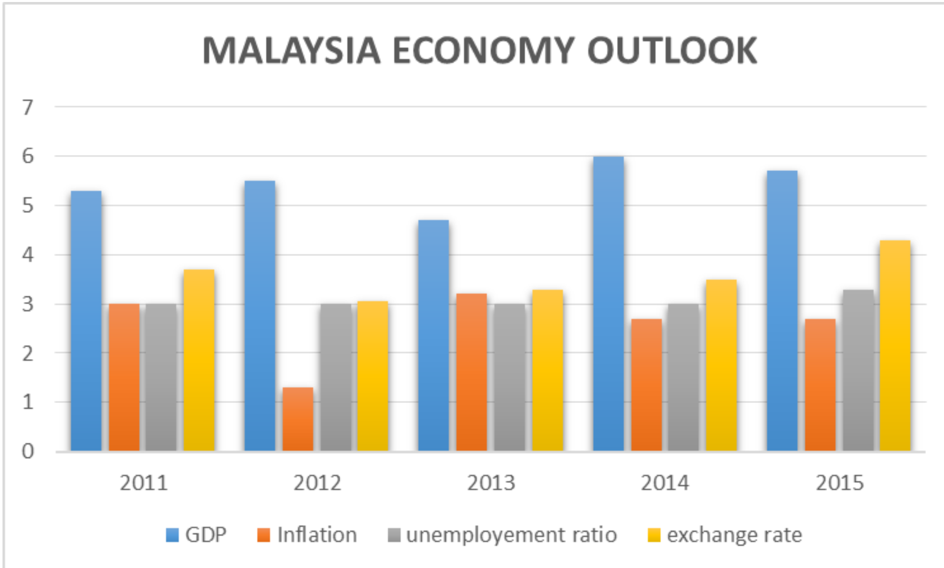
4.0 Discussion and Conclusion

Market risk that include in this study including the Gross Domestic Price (GDP), inflation, unemployment ratio and exchange rate. Gross Domestic Product (GDP) is one of the essential pointers used to gage the wellbeing of a nation's economy. For the most part, GDP is expressed as a correlation with the past quarter or year.

Based on the table below, the GDP shows that after a firm take 5.6% development in the principal quarter of CY2015, the Malaysian economy is required to be moderate in the second quarter of CY2015 taking after the front stacking exercises preceding the execution of Goods and Services Tax ("GST") in April 2015, gentler business and shopper conclusion, frail money and repressed raw petroleum costs. Bank Negara Malaysia ("BNM") projected a consistent Gross Domestic Item ("GDP") development of 4.5% - 5.5% for CY2015. Inflationary pattern kept on being on the upward direction and quickened to 2.5% y-o-y in June 2015. Risk that Sunway REIT is exposed to foreign currency and exchange rate fluctuations.

Year	Gross Domestic Product (GDP)	Inflation	Unemployment Ratio	Exchange Rate
2011	5.3	3	3	3.7
2012	5.5	1.3	3	3.06
2013	4.7	3.2	3	3.28
2014	6	2.7	3	3.5
2015	5.7	2.7	3.3	4.29

Table 7: Malaysia Economic Outlook



Graph 7 : Malaysia Economic Outlook

Based on the descriptive statistic table and graph, there are internal and external factors. The internal factors is return on assets (ROA), return on equity (ROE), return on investment (ROI), liquidity ratio and leverage ratio. While, the external factors are Gross Domestic Price (GDP), inflation, unemployment and exchange.

For the past 5 years, Sunway REIT shows total mean of 0.08922. The main dependent variable is Return on Assets (ROA). Return on Investment (ROI) is negatively correlated with the ROA with the p value of -0.381 which is < 0.001. It means that ROA and ROI are inversely related. When the ROA is increase, ROI will decline and vice versa. ROI is significantly related to the ROA with the 0.264.

Based on the coefficient table, model 1 which is ROE, it has impact value of -0.224 that effect the ROA. As a conclusion, the most significant factor that will influences the ROA is the ROE. Other than ROE, there are other that effects ROA but least significant, which are ROI, liquidity, leverage, gross domestic price, inflation, unemployment and exchange rate.

Because ROE is the most significant influences to the profit of Sunway REIT, so the company should improve and manage their corporate governance in terms of the equity in order to become more success.

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