Evaluation the Impact of Specific Risk Factors on Inventory Turnover and Macroeconomics: Evidence from KUB Malaysia Sdn Bhd

Sylvester Andreas, Flora Kumang

Universiti Utara Malaysia

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FLORA KUMANG ANAK SYLVESTER ANDREAS

Universiti Utara Malaysia

ABSTRACT

Business companies may face a number of speculative financial risks. Successful in every firms based on how they manage the financial risks that are exposures to lose or profit. This study issue to identify the liquidity, a macroeconomic phenomenon and inventory turnover in KUB Malaysia Sdn Bhd. This study was according to 5 years period from year 2011 to 2015. The data were taken from annual report that are listed in Bursa Malaysia. Liquidity ratios and inventory turnover ratio are measured by using certain formulae. We can see the significantly between quick ratio and inventory turnover in descriptive results. A higher value of quick ratio indicates a higher degree of liquidity. (Ali, 2005) found that liquidity adds to number of disappointment in Islamic banks and ordinary banks alike in spite of having admittance to outer liquidity of traditional banks. Thus, a higher value of inventory ratio indicates that inventory can be sold and replaced more frequently. The data was conducted by using regression and bivariate correlation.

Keywords: Liquidity, macroeconomics, inventory turnover

1.0 INTRODUCTION

KUB Malaysia Berhad is an investment holding company listed in Bursa Malaysia. This company have various types of business which is operating in the core business of Agro, Energy, Food, Information & Communication Technology (ICT), Property and Power Industries. By doing of diversified portfolio in business, it is able to offer strong alliances of products and services especially to the government and the domestic consumer market. From several economic and financial cycles that KUB Malaysia has gone through, there giving the experience to the company. By that experience, its make this company able to compete and know how to navigate the storms in term of global financial system and real economy. As beginning, KUB is known as a Bumiputra-controlled co-operative or Koperasi Usaha Bersatu Malaysia Berhad, then it takeover by Permodalan Perak Berhad in 1996 which is a company listed on the Bumiputra Stock Exchange. Permodalan Perak Berhad was changed its name to KUB Malaysia Berhad in October 1996 and hosted on the main board of the Kuala Lumpur Stock Exchange in 1997. Performance in KUB Malaysia Berhad important to the people of enrichment. KUB Malaysia is currently focusing on business diversification and broad experience to address the financial crisis and the global economy, while delivering the expectations of its stakeholders amid challenging conditions. KUB Malaysia run a fast food based on the demand from consumer. A&W (Malaysia) is a name of food business in this companies. Expansion alludes to a general increment in the Consumer Price Index (CPI), which is a weighted normal of costs for various merchandise. The arrangement of merchandise that make up the file relies on upon which are viewed as illustrative of a typical utilization bushel. Along these lines, contingent upon the nation and the utilization propensities for most of the populace, the record will contain diverse products. A few merchandise may record a drop in costs, though others may build, consequently the general estimation of the CPI will rely on upon the heaviness of each of the products regarding the entire crate. Yearly expansion, alludes to the percent change of the CPI contrasted with that time of the earlier year. By looking in Malaysia outlook state that GDP in year 2014 was the highest among 5 years period (20112015) which is 6.0. We can see that inflation rate in year 2011 is 3.2 which is shown the highest among of 5 years. It was declined to 1.7 in 2012. In year 2013 and year 2015 is same rate which is 2.1.

2.0 LITERATURE REVIEW

In the past years, several research papers in management of operations have addressed questions on performance through analysis of inventories level in firm, inventories level in industry and other financial data.

The falls of keeping money industry develop because of the expansion in non-performing advances that adds to credit chance. As per Vodová (2003) considerable misfortune emerges because of borrowers default on their credit reimbursement add to indebtedness and even chapter 11 that prompts saving money emergency. Pappas et al. (2012) opined that numerous doubters see that Islamic banks and customary banks practice are indistinguishable, Waemustafa (2013) and Waemustafa and Sukri (2013) opined that there is have to see how credit hazard is shaped in Islamic banks and ordinary banks considering interior and outside components determinants.

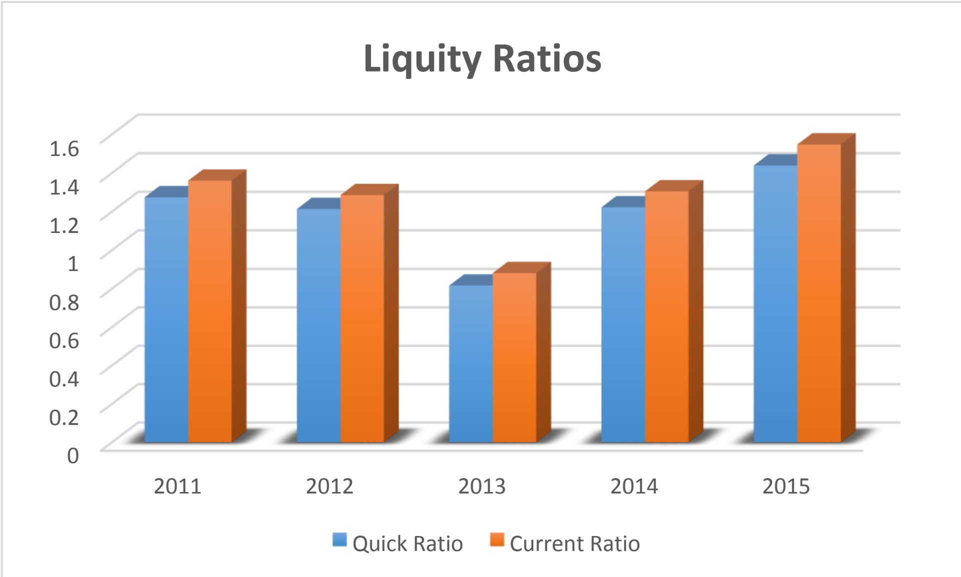
Gaur et al. (2005) state that a significant portion of inventory turnover varies can be explained by capital intensity, actual sales that be expected sales for the year and gross margin. Based on the finding of Gaur et al. (2005), we research the impacts of firm size and deals development rate on stock turnover utilizing information for 353 open recorded US retailers for the period 1985-2003.

Schnabel and Shin's article, "Liquidity and Contagion: The Crisis of 1763," gives an enlightening authentic record of a noteworthy budgetary emergency that hit northern Europe in 1763. The article makes a striking parallel of this scene, which occurred in a world with less advanced budgetary markets and establishments, what's more, later cases of monetary emergencies. The article contends that cross-possessions of liabilities and the high use of market members were the basic elements intensifying the emergency brought about by flame offers of advantages. It underlines that the sort of wonders considered in this exceptional issue are not quite recently essential verifiably yet are still exceptionally important today.

Allen and Gale on "Budgetary Fragility, Liquidity, and Resource Prices," is worried with disease and how even a little stun may trigger a vast emergency. Allen and Gale concentrate the endogenous supply of liquidity without a national bank when the interest for liquidity is stochastic. In arrange for market members to will to supply liquidity by holding low yielding fluid resources as opposed to putting the greater part of their assets in high-yielding illiquid resources, there must be value instability. This value unpredictability permits specialists with fluid portfolios to purchase up the illiquid resources economically when costs are low to make up for the open door cost of holding fluid resources. The price unpredictability might be severe to the point that it makes specialists default and prompts emergency. Indeed, even intense the liquidity stuns turn out to be self-assertively little, the benefit value instability is limited far from zero. It is demonstrated that in the farthest point economy, without any stuns, there are numerous balance varying in liquidity arrangement however the vigorous equilibrium, on the off chance that banks confront eccentric liquidity stuns, include stochastic utilization as well as unstable resource costs.

3.0 Descriptive Analysis

3.1 Performance of Liquidity Ratios



Bar Graph 1: Liquidity Ratios

The data was taken from year 2011 to 2015. The calculation of current ratio and quick ration as the following.

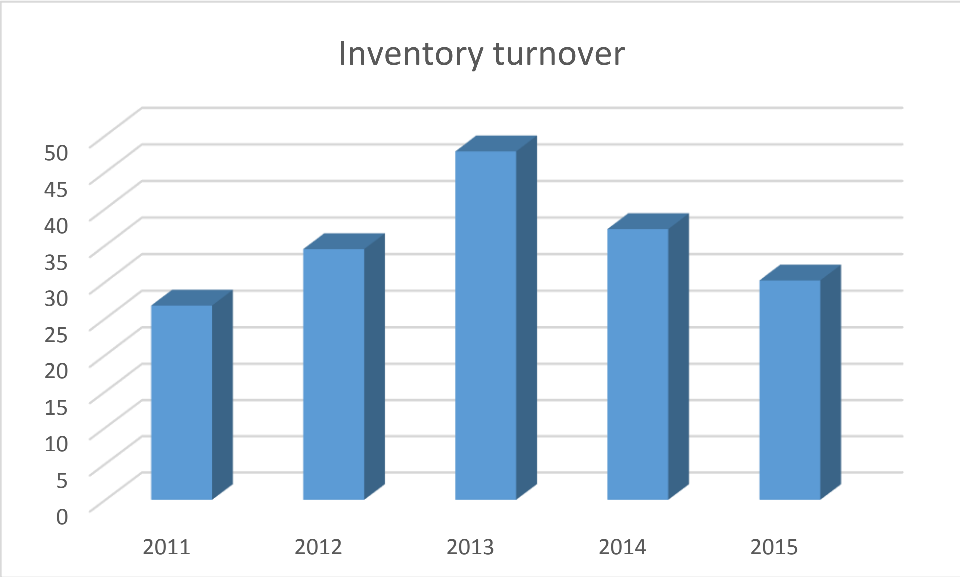
Current Ratio (CR) = Current Asset (CA) ÷ Current Liabilities (CL)

Quick Ratio (QR) = [Current Asset (CA) – Inventory (I)] ÷ Current Liabilities (CL)

Year	CA	CL	I	CR	QR
2011	373373000	274567000	23610000	1.36	1.27
2012	385321000	299804000	21554000	1.29	1.21
2013	247431000	280797000	18241000	0.88	0.82
2014	243194000	186432000	15367000	1.30	1.22
2015	179788000	116174000	12614000	1.55	1.44

The pattern of the graph (Bar Graph 1) shown that quick ratio and current ratio are almost similar. In year 2013, it is show the smallest ratios where quick ratio is 0.82 and current ratio is 0.88. In year 2015, we can see for both of ratios is higher. This is meaning, in year 2015 the high in degree of liquidity.

3.2 Performance of Inventory Turnover



Bar Graph 3: Inventory Turnover (IT)

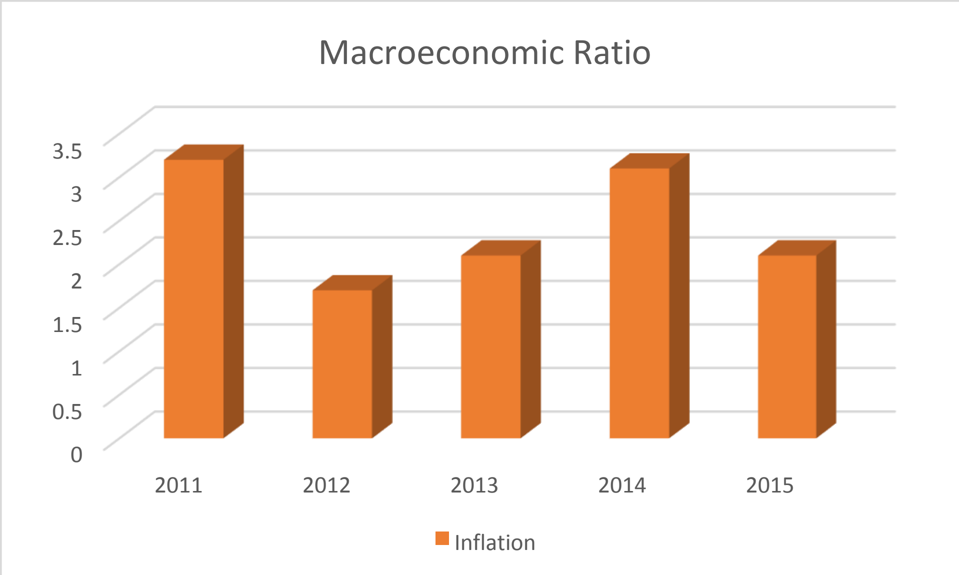
The formulae using as following;

Inventory Turnover= Cost of Goods sold ÷ Inventory

Year	Cost of Goods sold	Inventory	Inventory Turnover (day)
2011	631440000	23610000	27
2012	742653000	21554000	34
2013	872293000	18241000	48
2014	571589000	15367000	37
2015	380661000	12614000	30

We can see that in year 2013 have 48 days length of period which is it take long period for product to sell.

3.3 Inflation Ratio



Bar Graph 4

The data obtained by accessed in Malaysia Outlook Economy.

Bar graph 4 shows the inflation from year 2011 to 2015. We can see that in year 2011, the highest inflation. Increase the price level. It was declined in year 2012 and slight upward in year 2013 and 2014. In 2015, it slightly down. From the pattern of bar graph, we can say that inflation rate always be changing over period.

3.5 Regression Analysis

As a result that we obtained state that the impact of quick ratio toward inventory turnover in KUB Malaysia Sdn Bhd. An indicator factor that make quick ratio inefficiently is inventory turnover. Cordoba and Ripoll's article, "Guarantee Constraints in a Monetary Economy," takes a more macroeconomic point of view to the topic of money related arrangement in an economy where money related resources might be pretty much fluid. Kiyotaki and Moore (1997) show as a trade out propel requirement furthermore, investigate the impacts of a one-time financial stun on harmony progression of speculation and yield. They demonstrate that a one-time fiscal stun creates persevering developments in total yield that can include vast yield variances. Table 1 shows the relationship of variables.

Table 1: The relationship between Macroeconomics, Leverage, and Inventory Turn Over

	QR	GDP	Inflation	Leverage	Index Score	ITO	Rem	ROA
QR	1.000	0.389	0.179	-0.603	0.709	-0.896	0.144	0.247
GDP	0.389	1.000	0.468	-0.060	0.369	-0.302	0.431	-0.021
Inflation	0.179	0.468	1.000	-0.198	0.736	-0.331	0.743	0.632
Leverage	-0.603	-0.060	-0.198	1.000	-0.742	0.305	0.367	0.155
Index Score	0.709	0.369	0.736	-0.742	1.000	-0.663	0.352	0.454
ITO	-0.896	-0.302	-0.331	0.305	-0.663	1.000	-0.496	-0.627
Rem	0.144	0.431	0.743	0.367	0.352	-0.496	1.000	0.845
ROA	0.247	-0.021	0.632	0.155	0.454	-0.627	0.845	1.000

Table 2: Variables Entered

Variables Entered	Variables Removed
Inventory Turnover	

Method using of as the following:

Stepwise (Criteria Probability of for enter <= 0.050, Probability of for remove >= 0.100)

a. Dependent Variable: Quick Ratio

Table 3: Coefficients

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	2.091	.262		7.973	.004		
Inventory turnover	-.025	.007	-.896	-3.495	.040	1.000	1.000

a. Dependent Variable: Quick Ratio

By using stepwise method, the value of R is 0.896 which is shows a high degree of correlation between quick ratio and inventory turnover. This variable are not significantly to performance of profit.

Table 4: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
0.896	0.803	0.737	0.117552580000000	1.000

Predictors: (Constant), Inventory turnover

Dependent Variable: Quick Ratio

4.0 Discussion and Recommendation

The management of liquidity hazard is simply questionable without appropriate learning of hazard arrangement in Islamic method of financing. It is basic to at first distinguish the procedure of hazard development before continuing to a further phase of hazard administration prepare (Muljawan, 2005). Liquidity could toss dissolvable bank into indebtedness since it needs to offer its benefits far underneath their incentive to satisfy its current monetary commitments. The proficient inventory administration prompts a change in a company's quick asset related execution.

Inventory is the most outstanding avoidance, since it is not as quickly convertible to money and is regularly sold using a credit.

Recommendations

i. Asset Management

Financial manager utilize inventory turnover ratio and days in stock to deal with their organizations' asset. To do as such, they may contrast the present year with earlier years to quantify how effectively they have dealt with their stock and resources. They may likewise contrast their numbers and the business normal to gauge their standings in the business.

ii. Just in Time Inventory

On account of the exceptionally aggressive condition, organizations endeavour to expand their assets and stock efficiencies by executing the without a moment to spare stock system. Under this technique, organizations buy or make products without a moment to spare for use by utilizing propelled innovation, for example, standardized tags and radio recurrence recognizable proof (RFID), which track shipments from appropriation to stores.

iii. Days in Inventory

Inventory turnover can be partitioned by 365 days to recognize days in stock, which demonstrates the normal number of day’s stock is put away or kept. Thus, a high turnover proportion shows low days of stock and the other way around.

5.0 Conclusion

This research depends on firm-particular financial data information, it has certain restrictions that can be tended to in future research utilizing more definite informational collections. In this unique situation, given the great number of the conceivable determinants of execution it is hard to disengage the impact of inventories even by utilizing expansive specimens and progressed techniques. Hence a noteworthy issue of concern is that of overlooked factor.

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