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Risk and Performance of Elsoft Research Berhad

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Abstract

The study analyzes the performance about Elsoft Research Berhad as a company that develop the test and burn-in system and application specific embedded system. It include the observation of Elsoft Research Berhad business activities over the period between 2011 and 2015. The finding shows that the Elsoft company have their own characteristic to control the performance of company among the other competitor company. In year 2011, Elsoft actually face the economic crisis when the other country facing the flooding and also economic crisis such as in Europe.

Keywords: Economy crisis and performance

1.0 Introduction

The fast growth of economy in this era naturally make all of the industries running the best services to all their customer. Elsoft Research Berhad is one of the test and burn-in application specific embedded system industry in Malaysia. The rapid development of information and technology, extremely influenced the industry to spread the systems towards their customers who manufacture optoelectronic devices. Economic growth of country as showned by Gross Domestic Product rate (GDP) in 2012 was increasing from 5.30% in 2011 to 5.50%, however in 2013 the value was falling down until 4.70% but increase faster to 6.0% in 2014, the highest value of GDP in the 5 years (Focus economics, 2017).

Elsoft is the name that consists of two elements which is Electronics and Software and it is the symbol that it is one of the Group's core competency in advanced electronics design and software technology innovation in Malaysia. In 1996, Elsoft Research Berhad that located in Penang was primarily involved in the manufacturing, retailing and designing of computer software, accessories and components with the incorporation of Siangtronics Technology Sdn Bhd (STSB). STSB become a key player in the ATE industry with their

successful achievement in the series of test and burn-in solutions for the semiconductor and also optoelectronic industries from the first inception.

After a few years, under Companies Act 1965, Elsoft was incorporated in Malaysia on 4 June 2003 as a private limited company with the name of Elsoft Research Sdn Bhd. However, it was converted to a public limited company on 10 August 2004 and keep using its present name. To avoid the mismanagement of company, Elsoft also have subsidiaries and associated company such as Siangtronics, AGS and LESO. Leso Corporation Sdn Bhd (LESO) precisely be like investment holding, research, development and also give maintenance services of Video Inspection and Measuring Software Solutions (VIMS). It officially established on 2 May 2006 compare to Siangtronics and AGS Automation who establish in the 90s.

The rapid pace of technological development have been encouraging the management of Elsoft Research Berhad in the early of year 2014. Before that, Elsoft just have three subsidiaries in Malaysia, but at that time the Elsoft progress with the establishment of Elsoft Systems Sdn Bhd (ESSB) was operating completely in March 2014. For the year 2015, Elsoft also have the increase number of subsidiaries which is Butterfly House (PG) Sdn Bhd (BHSB) who incorporation in year 1988. Each of associated company have their own activities to enhance and produce the best product for their customer. This progress also shows that Elsoft Research Berhad already have their own base in the economy environment.

Founded by Mr. Tan Cheik Eaik, Mr. Koay Kim Chiew, Mdm. Tan Ai Jiew and Mr. Tan Ah Lek, this company have more than 10 years of experience in the ATE industry in Malaysia. All of the Board of Directors (BOD) have their own technique and important role to bringing the company become a largest company in Malaysia. Chairman of this company who is person graduated from Universiti Sains Malaysia in 1975 with a Bachelor (Hons) Degree in Chemistry and make it his further study PhD in Chemistry on an Australian National University Scholarship in 1976. He also have many years of experience with Intel Technology Sdn Bhd, Globetronics Technology Bhd and also MQ Technology Berhad before he become a Non-Executive Chairman of Elsoft by the electing session in 2005.

The established company normally will have the line of good Board of Director to running their business such as have a related education with the business. Same like this company, the Chief Executive Officer (CEO) who appointed on 2003 was graduated with a Bachelor (Hons) Degree in Electrical Engineering from Universiti Malaya in 1990. As an engineer, he specializes and have many experiences in the areas of test metrology and embedded application system design that can contribute the successful of the company. The other director also have been through the long journey before they become a director to this company. All of them have their own experience for the business to be more developed.

According to Chairman Statement on Annual Report 2011, this company have been produce the core product portfolios, such as Light-Emitting-Diode (LED) Test and Burn-in Systems, Automated Test Handling Systems and Embedded Peripherals and also want to make a development of new test systems with the latest trends of technological changes besides to enhance the existing product that they offered. Elsoft management also have spent RM3.28 million for R&D activities in year 2012 as much as 17.48% from the total revenue because of the drastically changes in the technology around the world.

The absence of BOD in each company will bring the company in a bad management of work and also the role in the company. Because of that, the successful company can be seen by the system of management and also the type of committee that exist in the line of direction. For the internal purposes in the company, audit committee is the most important committee that should exist in the establishment of company. The accountability should exist in every person to avoid the lack of control and also the mismanagement in the company. In this committee, each company should have internal audit and also external audit to make an adjustment of the activities in the company.

2.0 Literature Review

Discussion about the process of adoption the new technologies has been studied for more than 30 years (Sahin, 2006). From the studies of Innovation Diffusion of New Technologies in the Malaysian Paddy Fertilizer Industry, the findings gets the high level of openness amongs the farmers in the accept of innovation of paddy fertilizer. The lack information about the technology in fertilizer also make them late in the system of technology. However, the studies get that more than half of the respondent informed that

they have attend the relevant seminars and trainings to enhance their knowledge in the area of industry and also to make some improvement in the paddy fertilizer industry. The efficient system link between the research and also technology development. It can be apply in this Elsoft Research Berhad to enhance their revenue in the future. It can be seen by the huge portion that Elsoft use to encourage the R&D in their company.

Next, the recent study about The Effectiveness of Shariah Supervisory Board Matter in the Mode of Islamic Bank Financing state that their result is in two way. First, there is positive relationships between the effectiveness of SSB and mode of financing adopted by the Islamic bank. The other hypothesis is about there is no significant relationship between SSB remuneration and mode of financing adopted by the Islamic bank. It can be relate with the Elsoft Research who has the huge remuneration by the increasing year. It is means that the company have a good management to enhance their company performance.

In the other article about liquidity risk can be seen by the Journal of Systematic and Unsystematic Risk Determinants of Liquidity Risk between Islamic and Conventional Banks. In this article mention that Islamic banking have a unique principle when we compared to the conventional. It is because, the debt-based financing more popular among the Islamic banks because the low risk. In this Islamic banking also encourage principle of profit and loss sharing among the bank and customer is the most focus in the Islamic business activity. It is means that both part that involve in the investment or business activity should make sharing in term of loss and profit. It can be apply in the company that should consider about the shareholder wealth every single thing they make. The BOD also should have accountability towards the action they take to the company.

The studies also can be explain by the journal about Bank Specific and Macroeconomics Dynamic Determinants of Credit Risk in Islamic Banks and Conventional Banks. In this study, the result is about of comparison the differences of the determinants of credit risk between Islamic banks and conventional banks from the perspective of macroeconomic variables. It also suggest that do not have differences in term of solvency, leverage, the efficiency of management and also the profitability between conventional banks and Islamic banks. Besides that, in this study also get that have another thing will affect the credit risk in Islamic bank.

Lastly, the study about ICT impact on SMEs performance define that ICT will impact the organization with the existence of new technologies and innovations for all type of business in the world. Alam and Noor (2009) stated that the adoption of ICT considered as can enable the business activity compete with other competitors on a global scale with improvement of efficiency and become closer with the customer and also make a relationship with supplier. This article more related to the Elsoft Research Berhad because have the same activities such as produce and give a services base on the enhancement of technology and system.

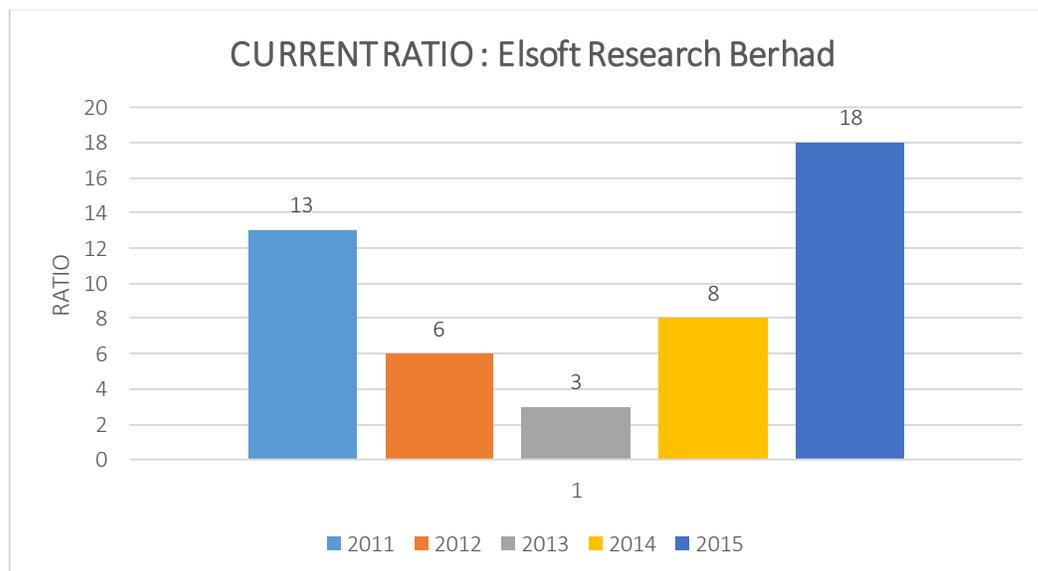
3.0 Descriptive Analysis

3.1 LIQUIDITY RISK

Table 1. Current Ratio

COMPANY	YEAR				
	2011	2012	2013	2014	2015
ELSOFT RESEARCH BERHAD	13	6	3	8	18

Bar Graph 1. Current Ratio Result



The overview of current ratio analysis on the above graph get from the formula as following:

$$\text{Current Ratio (CR)} = \text{Current Assets/Current Liabilities}$$

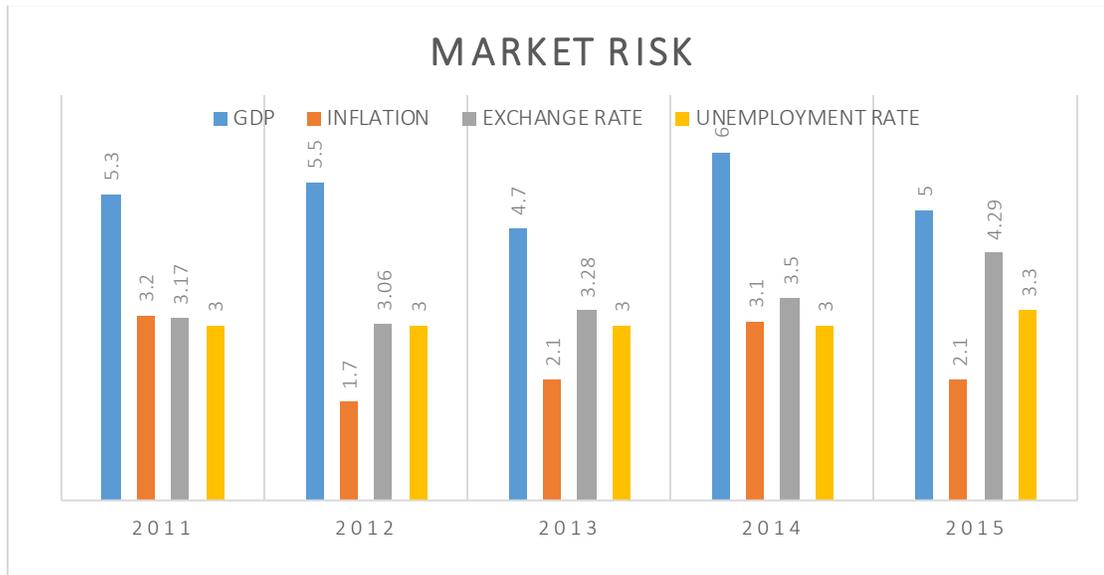
From the observation of current ratio as the graph above, the Elsoft Research Berhad have a changing result in the term of current ratio. From the annual report 2011 until 2015 mention that, the current asset have a little differences among 5 years operation which is bring the amount or percentage of current ratio not much differences. However, because of this current liabilities from year to year change widely, it is made the current ratio increase more and then fall drastically. In 2011, the result shows that current ratio for this company is quite high as 13:1 from the 5 year report because of the small portion in current liabilities in this company. However, in the next year, the ratio down sharply until 6 which means that current liabilities increase more than half from year 2011. The condition of the company also drive the ratio become decrease in year 2013 with a smallest amount just 3:1 because of the increases in term of liability. It is also the indication that company have a low ability to pay back its liabilities. However, the experience from the director in the industry have make the great changes in term of ratio in 2014 which is increase 5 percent from the previous year and continued increasing in 2015 until 18 percent as the highest value recorded during 5 years of observation.

3.2 MARKET RISK

Table 2. Market Risk

	2011	2012	2013	2014
GDP	5.3	5.5	4.7	6
INFLATION	3.2	1.7	2.1	3.1
EXCHANGE RATE	3.17	3.06	3.28	3.5
UNEMPLOYMENT RATE	3	3	3	3
INTEREST RATE	3	3	3	3.25

Bar Graph 2. Market Risk Result



Market risk indication can be analyzed by the GDP, Inflation Rate, Exchange Rate, and Unemployment Rate. All of these rates will explain the economic condition during that year. For example, based on the year 2011, the bar graph showed that GDP has a good indicator which is 5.5% but in terms of inflation rate, 2011 states the highest rate of inflation until 3.2%. However, the highest of GDP and inflation rate also cannot affect the percentage of unemployment rate in that year. The trend of GDP was up and down in small amounts until year 2015. It means that the country still has produced some products in the economic crisis and also can survive with their own. For example, we can see in year 2013, the inflation rate falling down until 2.1% but the unemployment rate remains the same from the year 2011. It is also similar to the Elsoft company, which can survive after they face the electronic crisis because of external changes such as the price increase of electronics in year 2011. Elsoft also survived from the slowdown of world economies from the financial turmoil due to European debts and as well as the supply chain disruptions by flooding in Thailand and earthquake in Japan.

4.0 Conclusion

Elsoft Research Berhad is the established company that always makes the sustainability of the profit and also the performance of the company. The liquidity risk that

measure by the current asset and current liabilities of the company have been explained that the company have the good performance in their business. In the early year 2011, it explain that this company have more asset and huge ability to cover all the current liability but the in middle year such as 2012 and 2013, they face with the huge amount of current liabilities that make difficulty to the company to make more profit. The concept in this company is more relate to the worldwide business because they produce the system and product that important to the ATE industry.

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