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Al-Anshari, Thalhah

Universiti Utara Malaysia

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Firm Risk And Performance: Spritzer Berhad

Thalhah Al-Anshari bin Fauzi Rahman

Universiti Utara Malaysia

ABSTRACT

This study is aiming to analyse and measure Spritzer Berhad performance with specific risk factors and macroeconomics factor on performance. The data obtained from annual report of Spritzer Berhad starting from year 2012 to 2016. The measurement of liquidity ratio and operating ratio used to see the overall performance of Spritzer Berhad for 5 years. Data was analysed by utilizing regression and correlation. This study found that liquidity has nearly strong relationship with performance and external factors have weak relationship with performance.

Keyword: liquidity risk, profitability ratio, performance

1.0 INTRODUCTION

1.1 Background of study

Spritzer is well known manufacturing and distribution mineral water in Malaysia. The company is well established in late 1980s. These are products that produce by Spritzer:

- Natural Mineral Water
- Sparkling Natural Mineral Water
- Distilled Drinking Water
- Carbonated Fruit Flavoured Drink
- Non- Carbonated Fruit Flavoured Drink
- Functional Water

Spritzer Bhd is leading in sales of bottled water in 2016 with a 48% value share and value sales of MYR258 million. This company is well favourable since late 1980s reflected the long-time well known company in Malaysia. Based on this fact, demand for bottled water is expected to be increase due to hot weather nowadays.

The study conducted to evaluate the performance of the company and its relationship with variables that can affected it. Risk, efficiency, and liquidity are the variable that affected company performance.

1.2 Size of company

Figure 1.0 shows that total asset represent the size of the company in five consecutive years from 2012 to 2016. It can be see that Spritzer Berhad is doing well in business by looking at the size of the company keep increasing the five consecutive years.

Figure 1.1

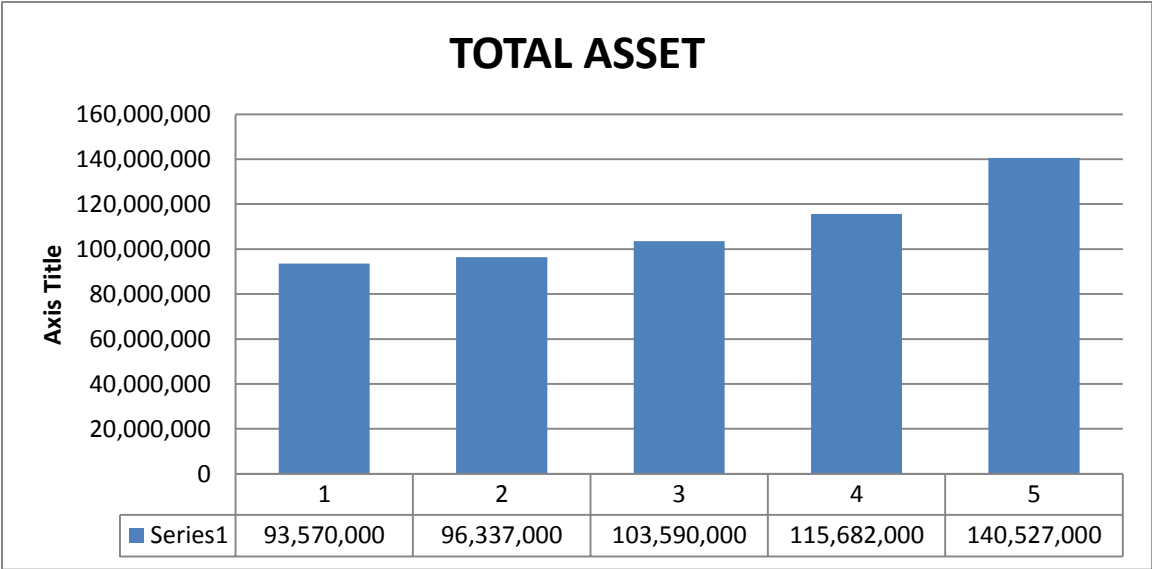
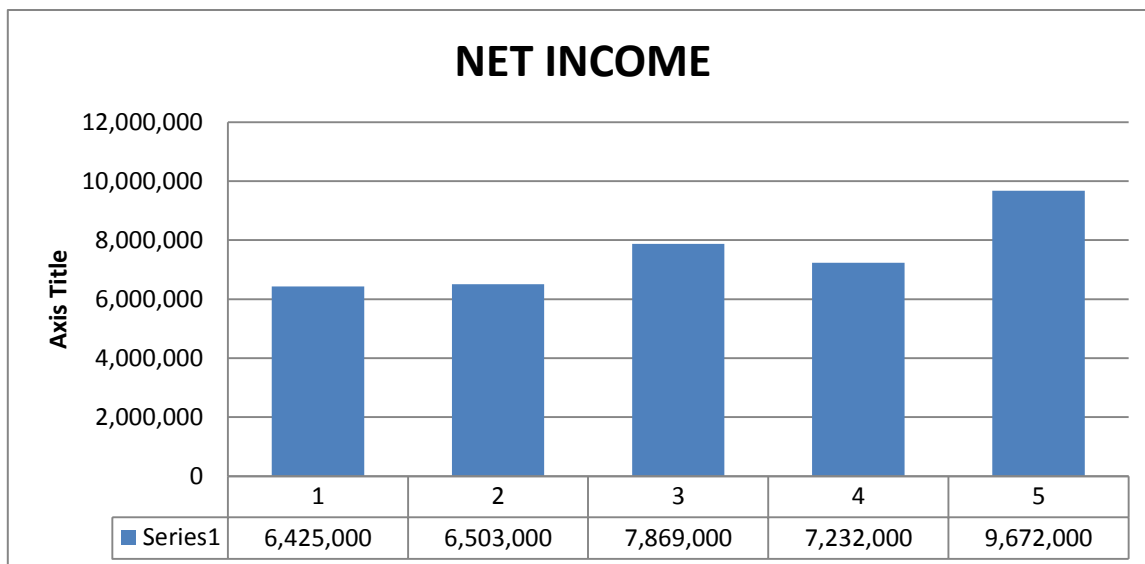


Figure1.2



Based on figure 1.2, it can be seen that net income after tax for Spritzer company in the five year. Highest net income is on year 2016. From 2012 to 2014 net income of Spritzer keep increasing. In 2015 net income decrease from RM7,869,000 in 2014 to RM7,232,000 in 2015 and increase back to RM9,672,000 in 2016. According to a market research soft drink has growth in 2016 and strong performance (euromonitor.com).

2.0 LITERATURE REVIEW

Based on previous research Islamic banks (Waemustafa W., and Sukri 2015) used risk management in different and unique way to mitigate risk and gain more competition in financial industry. According to this study on Spritzer Berhad, there is no Shariah Supervisory Board implement the company that might mitigate risk. Good board procedure in corporate governance requires that board must be appropriate composition and mix of skills. Moreover, control environment which require board to have risk management framework to sustain and mitigate risk of a firm. (Waemustafa and Abdullah 2015), on the previous study discuss that Shariah Supervisory Board in Malaysia is indicating to better performance statistically.

In previous study conducted by (Waemustafa and Abdullah 2015) Cabilies (2012) give an opinion about size of a bank that might affected loan sales as an instrument that helping in riskier situation without compromise risk portfolio in the same time can produce a good and stable income. Higher size contributes that a firm have an advantage in having better security in loan that can helping in converting loan into sales. Previous study supported that in this study Spritzer increasing their size or total asset continuously in five consecutive year. It also found that internal risk can be mitigate by higher size of a firm.

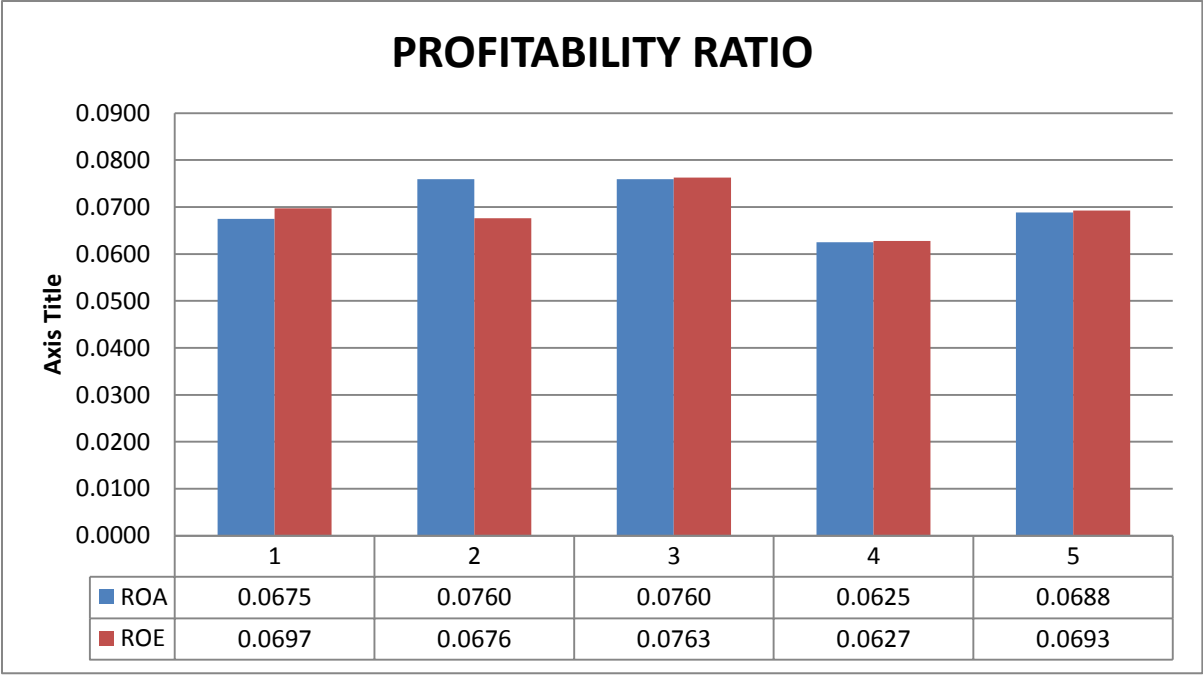
Shamsul Nahar Abdullah, (2006) stated that in previous study found that director's remuneration is not align with company performance and used return on asset as indicator. There are negative relationship between board of director remuneration and return on asset. Similar to this study found that Spritzer board of director's remuneration have negative relationship with return on asset.

Abuzar M.A. Eljelly, (2004) stated the study found that current ratio is the most important liquidity measure that affects profitability. This effect, however, varies with the level of liquidity as measured by current ratio. However, within sectors the cash gap, as a liquidity measure, is found to be more important than current ratio in affecting profitability. Size is also found to bear some influence over profitability within economic sectors, but not in the overall sample

3.0 DESCRIPTIVE ANALYSIS

3.1 Performance

Figure 3.1 shows that profitability of Spritzer Berhad in five years. Return on asset (ROA) and return on equity (ROE) are used as indicator in this study. ROA indicates that how much return are generated by asset and ROE shows that how much return are generated from equity. The higher these two ratios are indicates better in performance and profitability. The highest ROA is at year 2013 and 2014, and it shows these two years are the best year that Spritzer use of its asset to generates its profit. In year 2012 ROE is higher than ROA while in year 2013 ROA is lower than ROE, this explain that in year 2012 Spritzer generates its profit by equity is higher than profit that generates by asset. In year 2015 ROA have significantly dropped. Overall there are no such big changes in this two ratios and reflected that good company performance. In this five years, the salary of board of director increase year by year. It can be said that company performance is align with board of director interest. According to Stewardship theory, board of director and managers are working for the shareholders, and maximize their profit.



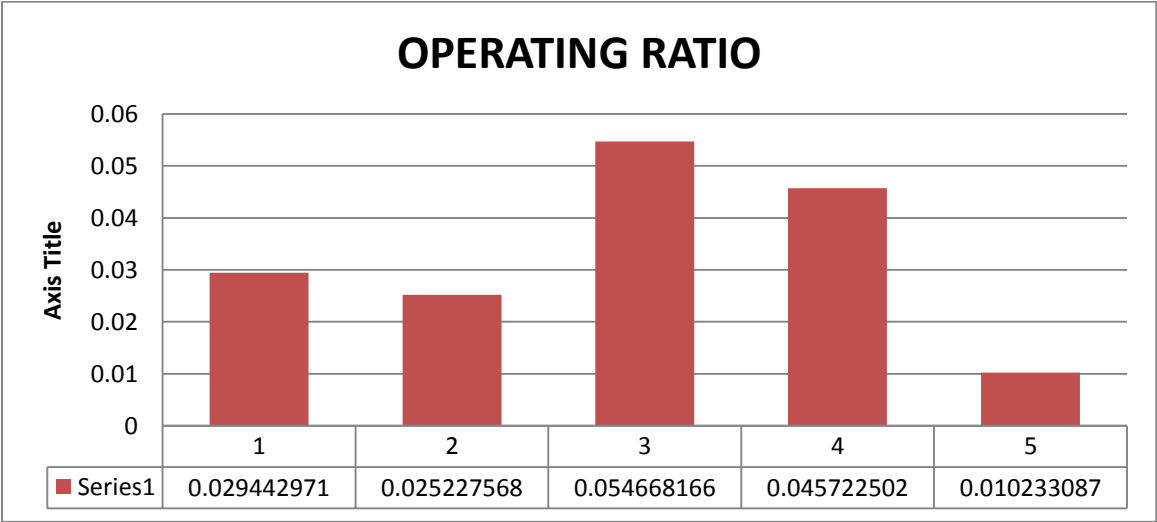
Return on Asset (ROA) = Net profit/Total Asset

Return on Equity (ROE) = Net Profit/Total Equity

Figure 3.1

3.2 Operational Performance

Operating ratio is used in this study to indicate efficiency of Spritzer Berhad. Figure 3.2 shows operating ratio Spritzer Berhad. Higher operating ratio indicates that low efficiency in management expenses to generate sales. Highest operating ratio is at year 2014 indicates low efficiency in term of operating expense. In 2016, the efficiency is good and the lowest in the five years.



Operating Ratio = operating expense/net sales

Figure 3.2

3.3 Liquidity to profitability

Based on figure 3.3 it shows that average number of day Spritzer Berhad collect its account receivable annually. The shorter no of days taken to collect the account receivable the better the firm liquidity because it can meet their debt quickly. According to figure 3.2 in year 2012 Spritzer Berhad takes 56 day on average to have payment from credit sales. In year 2013 and 2014 the number of days taken to collect debt is nearly similar to previous year. In year 2015 number of days taken to collect debt for Spritzer Berhad increase significantly. This may cause by long term debt that given to account receivable.

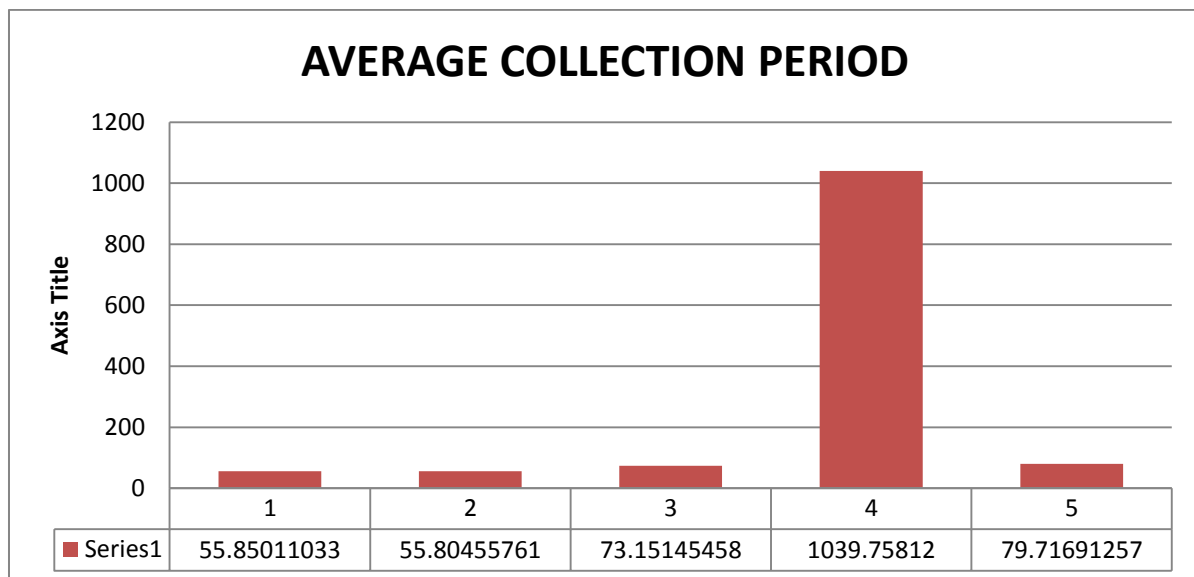


Figure 3.3

Current ratio indicates that current asset to meet short term obligations. In this study it shows efficiency of Spritzer Berhad in meet short term liabilities. The current asset of a firm must be a level that can cover current liabilities at margin of safety. High current ratio contributes that good in liquidity because it can cover short term debt. In this study it is found that there are negative relationship between liquidity and risk, higher liquidity reflected low risk. It can be seen at figure 3.4 in year 2013 shows highest current ratio and at figure 3.5 in year 2013 the lowest leverage in five consecutive years. Lowest current ratio is in year 2012. In year 2014, current ratio drop and bounced back in 2015 and drop back in 2016.

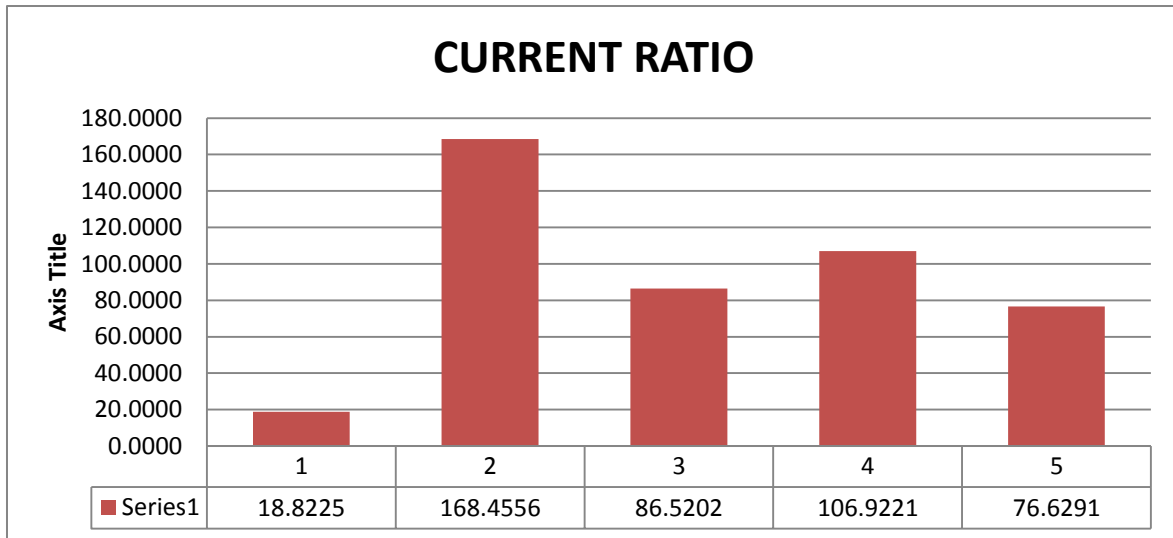


Figure 3.4

3.3 Risk assessment

Figure 3.5 shows leverage ratio in Spritzer Berhad. Highest leverage is in year 2012 while in the next year is the lowest leverage in the five year. The lower the ratio contributes goods performance because it has low percentage of equity to cover debt. In year 2014 leverage increase and drop back in 2015 and increase back in 2016. Based on figure 3.5 leverage ratio of Spritzer Berhad is in margin of safety.

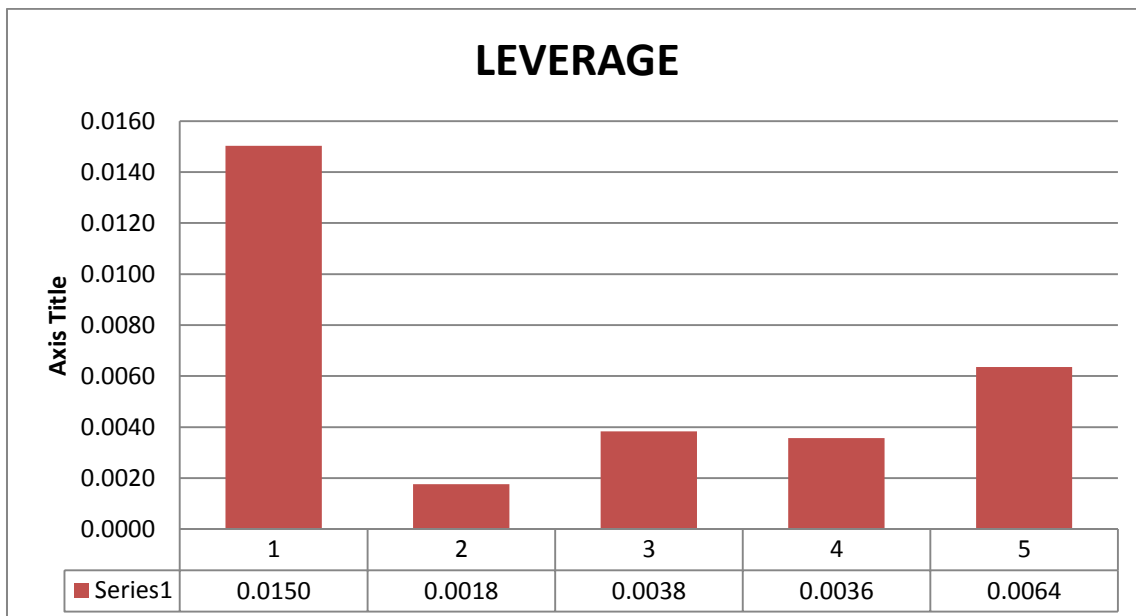


Figure 3.5

Leverage = Total debt/Total equity

4.0 DISCUSSION AND RECOMMENDATION

Descriptive Statistics			
	Mean	Std. Deviation	N
ROA	.070154264400000	.005801183830000	5
Total Assets	109941200.00	19117244.410	5
NET INCOME	7540200.00	1329203.032	5
ROE	.069115234500000	.004853254130000	5
LEVERAGE	.006109495960000	.005251225160000	5
CURRENT RATIO	91.46991241000000	54.05544709000000	5
	0	0	
ACP	260.8562311000000	435.5474678999999	5
	00	60	
Operating Ratio	.033058858900000	.017483918700000	5
REMU BOD	1905200.00	1001244.576	5
INDEX SCORE	.633333333000000	.045643546500000	5
GDP	5.040	.7635	5
INFLATION RATE	2.400	.7280	5
EXCHANGE RATE	3.72320	.630318	5
UNEMPLOYEMENT RATE	3.140	.1949	5

Table 4.1

4.1 Risk and performance

Table above shows return on asset on average for five years is 7%. This is low because it generates lower return from asset on average. Standard deviation is low and it reflected good performance in company. It is because the price change on average is not high and it means Spritzer Berhad is less risky. Less risky is favourable. Leverage on average also low indicates low percentage of debt finance by equity. It means that company have low cost of fund by debt and can generate high profit. Lower operating ratio shows low expense in

generating net sales. It can be suggested in this study that, Spritzer should increase return on asset, means that Spritzer Berhad should put more effort in generating income through its asset. Higher return on asset is important because it can show efficiency of a company in converting asset into return.

According to table 4.2 using Pearson correlation, net income has a negative relationship with return on asset. Net income is not generated from asset. Spritzer Berhad generates net income by using derivative means, generates most of net income not by using its asset. Return on equity has a strong positive relationship with return on asset on average statistically. Leverage on average has a negative relationship with return on asset, means that when return on asset increases, level of leverage decreases and it is favourable because it is less risky on average.

Table 4.2

4.2 Liquidity to performance

By looking at average current ratio in table 4.1, it shows that high current ratio and contributes that Spritzer have better liquidity on average. According to table 4.2 current ratio has a nearly strong relationship with return on asset. High current ratio shows better liquidity of a firm. In addition, highly liquid is important because ready cash is needed in paying wages to workers, paying taxes and for urgent cash needed to cover losses. Average collection period (ACP) has a negative relationship with return on asset. When Spritzer gains return from its asset, average number of collecting debts decreases on average. Statistically it is good to have less number of collecting debts, and make Spritzer more liquid. Liquidity is very closely related to working capital which is the money needed to finance the daily revenue generating activities of the firm. According to Vahid, Mohsen and Mohammadreza (2012) working capital management plays a main role in determining good or bad of firm in business performance due to its effect on firm's performance.

4.3 Corporate governance and performance

Nazli Anum Mohd Ghazali (2010) shows the result of weak evidence to indicate that companies which applied good corporate governance are statistically significant in showing corporate performance. Based on this correlation it shows that statistically when Spritzer Berhad increases in profitability, the remuneration of board decreases. So it can be stated that company performance has a weak relationship with corporate governance. It also can be

suggested that Spritzer should have positive relationship between corporate governance and company performance according to stewardship theory that good performance of company must align with managers and board of directors' interest. The issue of directors' remuneration have a close relationship with corporate governance. Good and sound corporate governance should constrain more payments being made to directors and remuneration should be hugely determined by the firm's performance. No prescription in the Cadbury Report (1992) or the Greenbury Report (Greenbury, 1995), on how to determine the directors' remuneration is provided.

4.4 External factors to performance

Based on table 4.2 GDP and inflation has weak relationship with return on asset on average, and that's indicate statistically that Spritzer is doing well when GDP and inflation are drop. Exchange rate has strongly negative relationship with return on asset on average. These are favourable because risk management committee is committed in mitigate the risk that happen in Malaysia. That's reflected Spritzer can survive in low economic growth. It may cause by efficiency Spritzer to manage the sales and derivatives of the company like running more export production during bad domestic economy. When exchange-rate is lower, cost of exporting product to other country will be lower and it helps increase the profitability. Unemployment-rate has negative relationship with Spritzer on average. It is can be related with Spritzer does not affected in bearing cost of unemployment.

It is recommends that Spritzer should have increase return on asset and expand the business widely. Even though Spritzer is on safe position statistically Spritzer should have good management in total asset.

5.0 CONCLUSION

Based on this study it can be concluded that Spritzer Berhad performance has affected by risk, liquidity, efficiency and corporate governance. In this study also proved that net income have negative relationship statistically. This cause related between correlation on return on equity and return on asset. High net income in five year mostly generates small amount from asset 7% on average five year. This study also shows that liquidity have positive relationship with performance of Spritzer Berhad. High remuneration does not have positive relationship with performance, based on this study. Overall Spritzer Berhad is doing good and better in future.

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APPENDIX

Pearson Correlation	ROA	1.000
	Total Assets	-.354
	NET INCOME	-.053
	ROE	.708
	LEVERAGE	-.353
	CURRENT RATIO	.409
	ACP	-.737
	Operating Ratio	.057
	REMU BOD	-.133
	INDEX SCORE	-.248
	GDP	.230
	INFLATION RATE	.439
	EXCHANGE RATE	-.510
