The Role of Corporate Governance and Its Impact on Risk and Firm Performance of Consumer Industry: Apollo Food Holdings Berhad

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ABSTRACT

The purpose of this study is to examine the overall performance of Apollo Food Holdings Berhad with specific risk and macroeconomic factor on profitability performance. The data and information get from annual report of Apollo Food Holdings Berhad starting from 2011-2015. The measurement of liquidity ratio and operating ratio used to see the overall performance of Apollo Food Holdings Berhad in 5 years. Besides that, to measure is the asset size, the variable has negative and no significant relationship with liquidity risk. To see relationship of risks factors to the profitability, this paper is utilizing GDP, operational ratio and liquidity ratio. Data was analysed by utilizing regression and bivariate correlation. The regression and bivariate correlation shows only one factors of probability is significant to operating ratio which is ROA with the highest impact to the profitability. However, the liquidity and GDP is not significant to profitability with low impact to the profitability.

Keywords: Credit Risk, Liquidity, Profitability and Macroeconomics

1.0 INTRODUCTION

1.1Company Background

Apollo Food Holdings Berhad is one of the holding company in Malaysia. Apollo Food Holdings Berhad engage with the provision of management services to subsidiaries. This company runs two operating segments, this are investment holding, and manufacturing, marketing and distribution. This two operating segments, engage with manufacturing, marketing and distributing in compound chocolates, chocolate confectionery products and cakes.

Apollo offers their products to consumer in two categories. This two categories are Chocolate Wafer products, and Layer cake, Chocolate Layer Cake and Swiss roll products. Besides that, Apollo distributes their products in Malaysia and also other oversea market. This oversea market are include Singapore, Indonesia, Thailand, Philippines, Vietnam, China, Hong Kong, Taiwan, Japan, India, Middle East, Mauritius and also Maldives.

Companies subsidiary for Apollo are include Apollo Food Industries (M) Sdn. Bhd, Hap Huat Food Industries and Keynote Capital Sdn Bhd. Apollo Food Industries (M) Sdn. Bhd involved in manufacture and trading in compound chocolates, chocolate confectionery products and cakes.

1.2 Statement of Corporate Governance

Based on the annual report 2015, Apollo Food Holdings Berhad possess six Board of Director and also have diversity of gender. Board of Director for this company have 1 female and the rest are male. Two of BOD are Executive Directors including the Executive Chairman cum Managing Director. One of BOD is Non-Independent Non-Executive Directors. The rest are Independent Non-Executive Directors. From this Apollo have many Independence director, mean that the non-executive director is not employed by the company, serving on board for more than 10 years and the important thing Apollo's Board of Directors should not be conflict with interest.

Furthermore, their Board of Directors have different skill, some of them have experience in the field of taxation, graduated with a BA (Hons), an Honorary PhD in Business Administration, Master in Public Administration and graduated with Bachelor of Arts(Economics). Some of their director also member of The Association of Chartered Certified Accountants, UK (ACCA).

Besides, Apollo Food Holdings Berhad board carry out meetings four times a year. All Board meetings are schedule in advance at the beginning of each to enable Directors to plan ahead and maximise their attendance. In the board meeting also had discussed many things including the Group's financial results, major investment, strategic decision, business plan and direction of the group. Lastly, all the Directors have complied with the minimum 50% attendance and also the Company Secretary attends all Board meetings and all proceedings and conclusion from the Board meetings are minute and signed by the Chairman.

For the risk management and Internal Controls, the internal control system is designed. The main of this system is to meet the Group's particular needs and to manage and minimise the risk to which it is exposed. This system also to manage the risk not eliminate the risk of failure to achieve business objectives. This is because risk cannot be damage but manage to reduce the risk. Lastly, this system is designed for provide reasonable, and not absolute, assurance against material misstatement, fraud or loss.

2.0 LITERATURE REVIEW

Credit risk explained by Investopedia credit risk refers to the risk that a borrower cannot repay a loan to the lander. The lander may lose the principal of the loan and also the interest that they charge to borrower. Credit risk happen because borrower expect to use future cash flows or future cash to pay current debt.

According to Vodová (2003) credit risk happen due to borrowers default on their loan repayment. This risk can contribute to insolvency and even bankruptcy that leads to banking crisis. According to Boumediene (2011) opined that credit risk occurred in Islamic banks' Murabahah financing. This happen when customer opt to cancel to buy the commodity causing the bank to be liable for losses. Besides that, failing to complete the instalment repayment for the goods as stipulated also causes credit risk to Islamic banks.

According to Waemustafa and Sukri (2015) they finding only four out of fourteen variable shows insignificant difference between Islamic banks and conventional banks. For example DTAR, DER, MGT and ROA. It show that there is no difference in term of solvency, leverage, management efficiency and profitability between Islamic banks and conventional banks. Meanwhile CR, LLP, LEV, REGCAP, SIZE, FINANCE, RWA, EM and LIQUID show significant different between Islamic banks and conventional banks.

For my company, A & M Realty Berhad don't have credit risk because their business not involve which public or customers money. Credit risk only happen at the bank industry only because this business involve with customers money or another words also known as depositors.

According to Alman, M (2012) Shariah Supervisory Board (SSB) is one of internal governance mechanisms which involves the monitoring of Islamic banks' activities in accordance to the Sharia or Islamic law. This law only specifically o its implementation and compliance and it is also a part of the big corporate governance framework. It different is only by the existence of Shariah Supervisory Board.

Since Shariah governance is part of corporate governance. Bhati, M & Bhatti MI. (2010) opined that is good and effective SSB should reflect the issue of independence, transparent, accountable, responsible and fair.

According to Waemustafa and Abdullah (2015) they support the nation that there is no serious effort was taken to implement the profit and loss sharing mode of financing among Islamic bank. Is not about SSB effectiveness, but it seems that their remuneration may determine the preference toward BBA and Murabahah mode of financing. They also find that there is an insignificant portion of these asset portfolio is mainly dominated by murabahah, BBA and other than profit and loss mode of financing. For A & M Berhad they not involve this problems because they not involve in banking business.

According to Abdul Rahman (2006) find that many listed firms in Malaysia are owned or manage by family and these companies appear to be inherited by their own family member. Besides, according to Jasani (2002) he finds that Small and Medium Scale Enterprise (SME) are managed by the founder and anchored to the family in terms of funding and employment. This family business involve with activities concentration on trading, manufacturing and retailing. . He finds that 59 percent, that is the majority of the businesses in Malaysia, are still managed by the founder while 30 percent are run by the second generation where the majority are the founder's children. The founder's reign is highlighted with 65 percent of them linked to the SME.

According to Haslindar and Fazilah (2011) they finds that, on average, firm value is lower in family ownership than non-family ownership but family ownership shows a higher value than non-family ownership based on ROE. Therefore, family firms basically invest a high share of their assets. They also find that relationship between firms with smaller boards and firm value suggesting that small board size could be a good and superior corporate governance mechanism for firms to improve performance. A & M Realty Berhad are not family owned

According to Sloan (2001) the financial information is the first source of independent and true, communication about the performance of company managers. The integrity of financial reporting is highly dependent on the performance and conduct of those involved in the financial reporting ecosystems, particularly directors, management and auditors

(Mohd Hassan Che Haat, Rashidah Abdul Rahman & Mahenthiran, S. 2008; Nik Mohd Hasyudeen Yusoff, 2010)

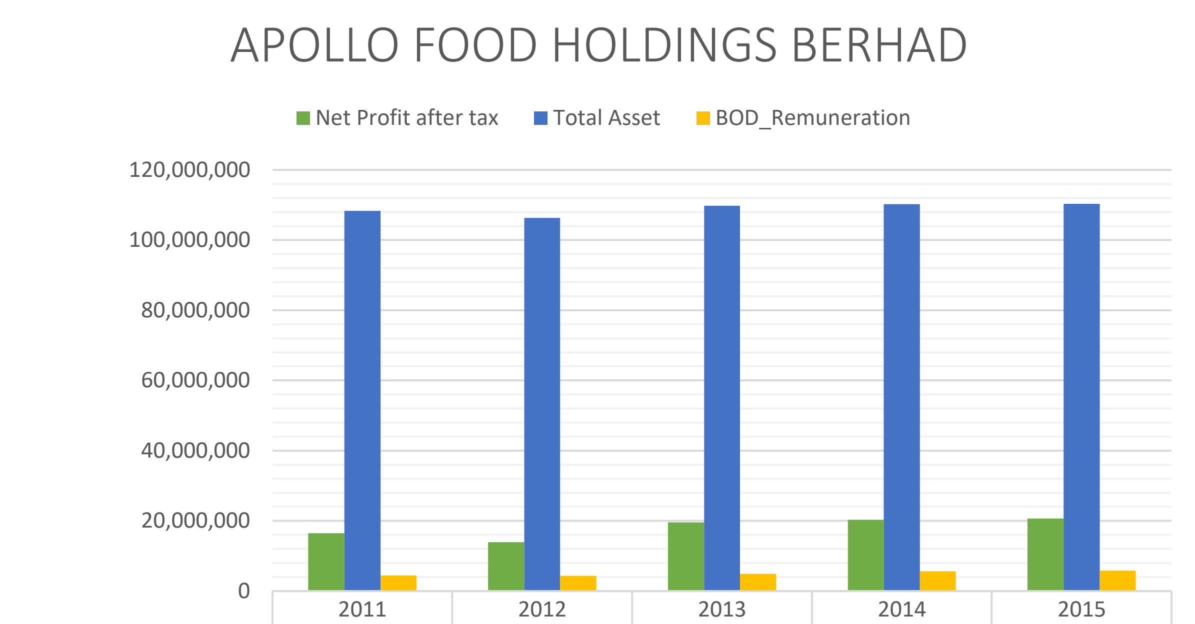
According to Norlia, Zam, Ibrahim (2011) they opined that corporate governance become important because most of big companies collapse. Malaysia and also another country find the best solution to battle the corporate governance issues. Relationship between corporate governance and financial reporting are important and can't be denied. The failure in corporate governance could lead to the failure in financial reporting.

Based on my analysis A & M Realty Berhad follow the MCCG. MCCG is the guideline that government introduce to listed company. They disclose their financial report every year.

According to Muljawan (2005) the management of liquidity risk is merely unreliable without proper knowledge of risk formation in Islamic mode of financing. It is critical to initially identify the process of risk formation before proceeding to a further stage of risk management process.

Based on Waemustafa and Sukri (2016) Islamic banking activities have unique in term of principle compare to conventional banking activities. For instance, the debt-based financing is considered very popular among Islamic banks because of its low risk especially with risk-averse clients who prefer the debt-based mode of financing. However, the issue of compliance is always argued within the debt-based mode of financing.

3.0 DESCRIPTIVE ANALYIS



	2011	2012	2013	2014	2015
Net Profit after tax	16,494,049	13,893,295	19,607,431	20,327,975	20,649,098
Total Asset	108,295,760	106,342,013	109,831,286	110,202,203	110,323,880
BOD_Remuneration	4,439,867	4,381,472	4,880,071	5,668,320	5,832,482

3.1 Net Profit after Tax

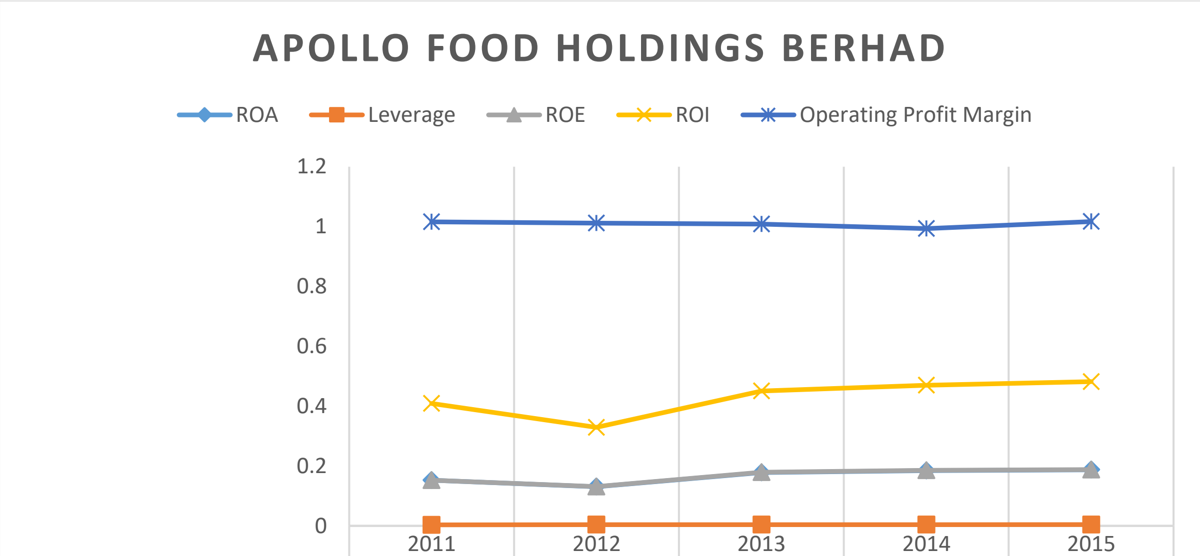
For Apollo Food Holdings Berhad in 2012 their net profit after tax are decline from RM 16,494,049 in 2011 to RM 13,893,295. Meanwhile, their net profit are increase in 2013 until 2015. Net profit for 2013 are RM 19,607,431 for 2014 are RM 20,327,975 and for 2015 are RM 20, 649,098. Net profit are important because it is the source of compensation to shareholders of the company. If company cannot generate or make more profit to compensate owner, the value of share will decline or reduce. But for Apollo Food Holdings Berhad their share price increase in 2012 even though their net profit decline because their Group net profit are increase from 2011 to 2012. Their price changes from RM 0.2223 sen to RM 0.2718 sen. The important things is net profit is not measure of how much cash a company earned during that period.

3.2 Total Asset

Apollo Food Holdings Berhad in 2012 their total asset are decline from RM 108,295,760 in 2011 to RM 106,342,013. However their total asset are increase in 2013 until 2015. Total Asset for 2013 RM 109,831,289, for 2014 are RM 110,202,203 and for 2015 are RM 110,323,880. Assets are the total current assets plus non- current assets such as cash, investment, building of firm, inventories and so on. Total assets are very important and when company total assets are less than total liability company cannot pay back the loan, also company declare as bankrupt.

3.3 Bod Remuneration

Apollo Food Holdings Berhad in 2012 their BOD remuneration are reduce from RM 4,439867 in 2011 to RM 4,381,472. However, they increase their remuneration in 2013 until 2015. Remuneration for 2013 are RM 4,880,071 for 2014 are RM 5,668,320 and for 2015 are RM 5,832,482. The factor why Apollo increase their BOD remuneration because they don't want their BOD go to another company.



	2011	2012	2013	2014	2015
ROA	0.152305584	0.130647282	0.178523185	0.184460695	0.187167982
Leverage	0.003260483	0.004068506	0.003903249	0.004091445	0.004165593
ROE	0.152802174	0.131178822	0.17922005	0.185215406	0.187947648
ROI	0.40878537	0.32912726	0.450679202	0.470120018	0.481903893
Operating Profit Margin	1.015642598	1.011156105	1.008611876	0.993210027	1.016677689

3.4 Return of Assets (ROA)

ROA is net income or profit divide by total assets. The graph show that the ROA in 2012 decline from 15.23% in 2011 to 13.06%. Meanwhile in 2013 until 2015 ROA are increase. For 2013 are 17.85% for 2014 are 18.45% and for 2015 are 18.72%. Why ROA for 2012 are decline because in 2012 net profit income and total assets for that year are smaller than another year. In 2012 also show that the Apollo not effectively earn a return on its investment in assets compare to another year.

3.5 Leverage

The graph show that leverage in 2011 are 0.00326 and increase to 0.00407 in 2012 and decrease again in 2013 to 0.00390. In 2014 the leverage also increase to 0.00409 and decrease again in 2015 to 0.00416. Leverage show that when the ratio show 1 means that investors and creditors have an equal stake in the business assets. Besides that a lower leverage ratio usually implies a more financially stable business. Year that show with higher leverage ratio are considered more risky to creditor and investors than companies with lower ratio.

3.6 Return of Equity (ROE)

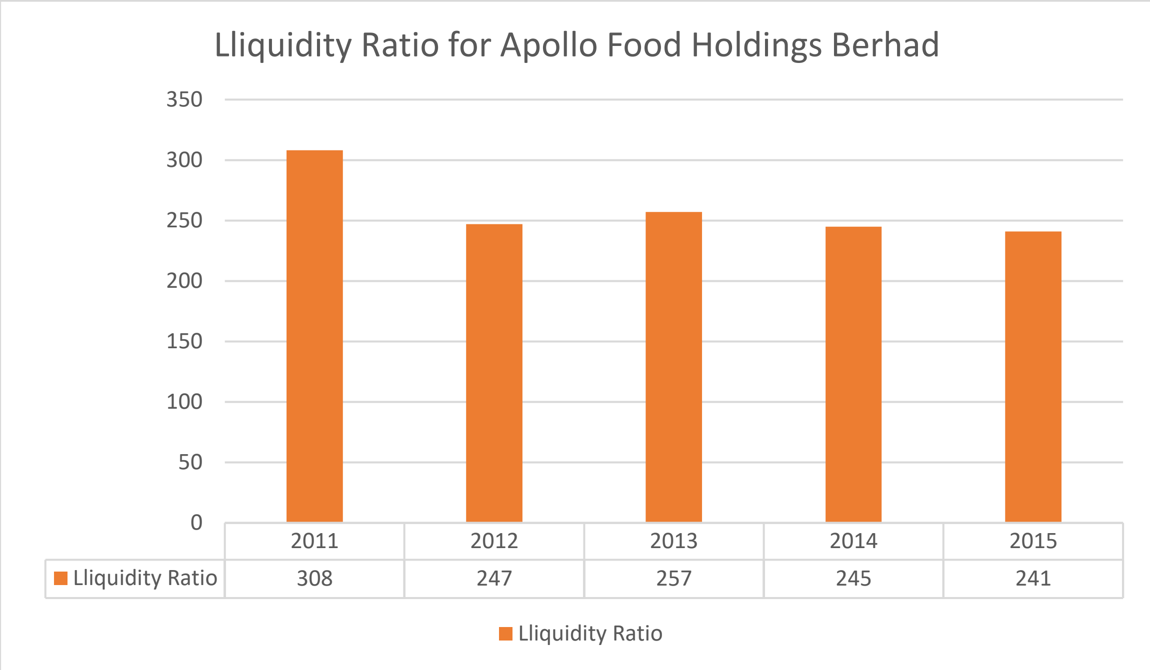
The graph show that ROE for Apollo decline in 2012 from 15.28% in 2011 to 13.12%. ROE for 2013 increase until 2015. ROE for 2013 are 17.92% for 2014 are 18.52% and 2015 are 18.79%. ROE ratio measure the ability of a firm to generate profits from its shareholders investment in the company and shows how much profit each dollar of common stockholders' equity generates. Because of that, investors want to see high ratio for ROE because this indicates that the company is using its investors, fund effectively. Conclusion, higher ratios are almost always better than lower ratios.

3.7 Return of Investment (ROI)

The graph show that ROI for Apollo decline in 2012 from 40.87% in 2011 to 32.91%. ROI for 2013 increase until 2015. ROI for 2013 are 45.07% for 2014 are 47.01% and 2015 are 48.19%. ROI measures how much company make money was made on the investment as a percentage of the purchase price. Besides that, when ROI ratio are positive is considered a good return and another words higher return rates are always better than lower return rates.

3.8 Operating Profit Margin

The graph show that Operating Profit Margin for Apollo in 2011 are 105.6% and decline in 2012 are 101.11% and in 2013 also decline this is 100.86%. Besides that, in 2014 are 99.43% and increase 101.67%. Investors and creditors want to see the operating profit margin ratio to see how businesses are supporting their operating. As conclusion higher ratio for operating margin is more favourable compared with a lower ratio. This is because, this shows that the company is making enough money from its ongoing operations to pay for its variables costs as well as its fixed costs.



3.9 Liquidity Ratio

The graph show that liquidity ratio for Apollo decline in 2012 from 308 in 2011 to 247. Meanwhile in 2013 increase to 257 and decline again in 2014 to 245 and also decline in 2015, this is 241. Liquidity ratio show that how company measures the ability to pay off its liability with its assets. Besides that, liquidity also means that companies with larger amounts of assets will more easily be able to pay off liabilities. As conclusion, a higher assets is always more favourable than a lower current ratio because it shows the company can more easily make debt payments.

4.0 DISCUSSION AND RECOMENDATION

4.1Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.166620945850944	.024398435936231	5
Net Profit after tax	18194369.60	2913976.617	5
Total Asset	108999028.40	1691879.936	5
Leverage	.00389785520	.000368969731	5
Liquidity Ratio	259.600	27.6912	5
ROE	.16727282000	.024516818193	5
ROI	.42812314860	.061925391992	5
Operating Profit Margin	1.009059659040	.0094495488067	5
GDP	5.300	.4950	5
Inflation Rate	2.440	.6693	5
BOD_Remuneration	5040442.40	678639.962	5

Table: Descriptive Statistics

This table show the results of descriptive statistic for the variable. For average five years (2011-2015) Apollo Food Holdings Berhad makes 17% profits from their assets. Standard deviation quiet small meaning that every year the company make profit not so far from average and it is good because it is not volatile, because risk and profitability the company do not want volatility. Leverage tells that proportion of debt to equity, in the table above shows that every 1 ringgit of debt is sponsored by 0.0039 of equity on average. For five consecutive years Apollo Food Holdings Berhad have an average of 259.600 liquidity ratio. This is because company hold many assets compare to their liability. This study include two macroeconomic independent variable which is GDP 5.3 mean and Inflation rate 2.4 mean.

4.1 Pearson Correlation

Correlation table

		ROA	Net Profit after tax
Pearson Correlation	ROA	1.000	1.000
	Net Profit after tax	1.000	1.000
	Total Asset	.995	.995
	Leverage	.333	.332
	Lliquidity Ratio	-.338	-.336
	ROE	1.000	1.000
	ROI	.986	.987
	Operating Profit Margin	-.327	-.326
	GDP	-.166	-.165
	Inflation Rate	.252	.254
	BOD_Remuneration	.874	.874

Based on the table we can see the relationship using Pearson Correlation between the variables and ROA. This study uses SPSS to see the relationship in correlation ROA as dependant variable with other variable. Based on table, net profit after tax is strong positive to ROA 100%, this means when ROA increase net profit after tax increase by 100%. It shows that net profit of Apollo Food Holdings Berhad is making profit more from its total asset.

Liquidity ratio has negative relationship with ROA –0.338. It mean that when ROA increase liquidity ratio decrease. This means Apollo Food Holdings Berhad have low liquidity risk because many of the assets were current assets. So the ability for Apollo to convert its assets to cash are very easy. But is not good also when company hold many cash, so company must manage their cash very well.

Based on this Durbin Watson Pearson Correlation shows leverage ratio shows that positive relationship between ROA and leverage on average. Positive relationships shows that the company have higher return when debt increase.

Return on investment in average compared to ROA was 0.989, which is means that both variable have a positive relationship. This shows that, Apollo Company, do diversified their investment.

Remuneration in average was 0.874. This shows that remuneration have positive relationship with ROA. That means when Apollo increase their remuneration their total assets also increase.

Macroeconomics variables that used are GDP and inflation rate. These both variable have weak relationship with ROA on average. This study shows the evident that that external factors does not affect too much on the performance of Apollo Food Holdings Berhad. It is because Apollo Food Holdings Berhad active in their export. That why Apollo does not being affected by the external factors.

4.2 RECOMMENDATION

My recommendation to Apollo Food Holdings Berhad for improve their performance. Firstly, Apollo Food Holdings Berhad must manage their liquidity risk efficiently. This is because according to their annual report they hold current assets more than 1 million compare to their liability that amount less than 1 million. That why their liquidity ration more than 1 this is more than 100. So, they can do investment from their cash or current assets to provide more capital to their company.

Lastly, Board of Directors must come to meeting to discuss together how to improve the firm performance and give idea how to mitigate or reduce the risk. Directors can give idea best on their skills.

5.0 CONCLUSION

In conclusion, it is show that liquidity risk, operational risk (unsystematic risk) and also systematic risk is faced by all companies and also my study of the food or consumer firm and company. Apollo Food Holdings Berhad could handle the liquidity risk and operational risk effectively and efficiently. The liquidity ratio show that Apollo Food company ratio more than 100. That means Apollo hold many assets and cash, this is because according to their annual report they hold current assets more than 1 million compare to their liability that amount less than 1 million. Besides, it is shows that Apollo cannot manage their cash very well. However, every year (2011-2015) Apollo Food Holdings Berhad net profits always increase and also their total assets. In terms of corporate governance, their Directors must always involves in Board meeting because previous year some Directors cannot came to meeting. Lastly Apollo Food Holdings Berhad can avoid interest conflict between Board of Directors because 4/6 are non-executive directors and independent.

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