The Relationship of Financial Risks Towards the Performance of Vivocom Intl Holdings Berhad.

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Abstract

The purpose of this study is to examine the overall performance of Vivocom Intl Holdings Berhad with specific risk and corporate governance variables on profitability performance. The data obtained from annual report of Vivocom Intl Holdings Berhad starting from 2011-2015. The measurement of liquidity ratio and operating ratio used to see the overall performance of Vivocom Intl Holdings Berhad in 5 years which allegedly beyond benchmark. To see the relationship of risks factors to the profitability, this paper is utilizing liquidity (current ratio), operating ratio, corporate governance (index and BOD's remuneration). Data was analysed by utilizing regression and bivariate correlation. The regression analysis and bivariate correlation shows that index, BOD's remuneration, current ratio, liquidity ratio, operating ratio, and size have a significant relationship on profitability. However, the leverage, exchange rate, inflation rate, GDP and unemployment rate is not significant to profitability with low impact to the profitability.

Keywords: Liquidity Risk, Operational Risk, Systematic Risk, Corporate Governance, Profitability

1.0 Introduction

VIVOCOM INTL HOLDINGS BERHAD is an end to end solution provider for the telecommunication industry, where it has a strong foothold in providing telecommunications network services to the telecommunications carriers and operators all over Malaysia. At the beginning of the establishment, this company is known as I-Power Berhad. It is established in October 2002 that locally nurtured e-business solutions specialist and system integrator with a wide range of dominant e-Solutions products that caters for the business needs of both medium and large-sized organizations. I-Power Berhad has been listed in Malaysian Exchange of

Securities Dealing and Automated Quotation Bhd (MESDAQ) since 18th January 2005, which has now been known as the ACE Market of Bursa Malaysia Securities Berhad.

On 8th October 2012, the new and enlarged Instacom Group was created when Instacom Engineering Sdn Bhd completed the restructuring and reverse take-over of I-Power Berhad and then changed its name to Instacom Group Berhad. The Group also has close working relationship with major telecommunications infrastructure, hardware and equipment market players, which put the Group in a good position to undertake subcontract telecommunications network services related jobs from these telecommunications infrastructure, hardware and equipment market players. However, it change its name again on 14 January 2016 to VIVOCOM INTL HOLDINGS BERHAD to strengthen the Group's brand image and to better reflect the Group's new focus and aspiration to be a regional construction group (Vivocom Intl Holdings Berhad, 2017). Their products and services can be segmented as follows :-

i) Civil, mechanical and electrical works (CME)
ii) Telecommunication equipment installation (TI)
iii) Turnkey build and finance (TBF)

Liquidity is a measure where the organization has cash to meet immediate and short-term obligations, or assets that can be quickly converted to do this. In investing perspective, liquidity is the ability to quickly convert an investment portfolio to cash with little or no loss at all in value (Business Dictionary, 2017). The goal for liquidity management is not to steer the ship in such way that no one drowns if the ship sinks, but to steer the ship in such a way that it does not sink (Neu, 2007). There are two types of liquidity risk which are asset liquidity risk that refers to inability to conduct a transaction at current market prices because of the size of the transaction, while funding liquidity risk refers to inability to access sufficient funds to meet payment obligations in a timely manner (Winfrid Blaschke, 2001).

Risk itself known as the chance of an investment's actual return will differ from the expected return and it is includes the possibility of losing some or all of the original investment. Risks cannot be eliminate at all. It only can be reduced or minimised. Liquidity risk can be reduced in these ways which are by holding cash and loans that mature in two or more periods, diversifying the sources of funding, preserving access to funding markets, and thoroughly credible "lender of last resort" (Stuart I. Greenbaum, 2016).

The parts of study will be divided into four parts where the second part will be literature review which discuss about the previous study done by different researches. The next part will discuss about the descriptive findings which examine the relationship of liquidity risk and operational risk towards company's performance and the relationship of corporate governance on company's performance and includes the Vivocom Intl Holdings Berhad overall performance. The last part contains some discussion, recommendation, and conclusion to the Vivocom Intl Holdings Berhad.

2.0 Literature Review

An attention from the past researches have make the regulators and financial institution given to the liquidity risk because of crises occur across the globe in various economic and banking segment. This measurement is important to see the adequate liquid reserve availability to meet cash obligations in due where this inadequacy leads to liquidity risk which firm may have to take costly actions for instance delay payments, obtain temporary financing at unfavourable terms or even sell assets. (Canina & Carvell, 2007)

The purpose of the study by (Ahmed Arif, 2012) is to examine liquidity risk in Pakistani banks and evaluate the effect on banks' profitability during 2004 to 2009. The sample includes 22 main banks in Pakistan. The results of this finding shows that the liquidity risk have a negative relationship towards the bank profitability significantly. Contemporary risk managers should mitigate liquidity risk by having sufficient cash resources. This will help to reduce the liquidity gap.

Waemustafa and Suriani (2016) conducted a study attempted to investigate the influence of external and internal factors affecting liquidity risk of Islamic and conventional banks involve the time series regression analysis of Islamic banks and conventional banks from 2000 to 2010. The result shows that Islamic banks maintain higher liquidity compared to conventional banks. The multivariate regression analysis shows that 4 out of 14 bank-specific factors and one macroeconomic factor significantly influence the liquidity risk of Islamic bank whereas conventional banks show that 5 out of 13 bank-specific factors are significant to liquidity risk.

Further study by Waemustafa and Sukri (2015) is to analyse the macroeconomic and bank specific determinants of credit risk in Islamic and Conventional Banks which is applied on the sample of 15 conventional banks and 13 Islamic Banks in Malaysia between 2000 and 2010. The results of this study shows that the banks specific determinants of credit risk are uniquely influenced the credit risk formation of Islamic and Conventional banks. The study found that regulatory capital (REGCAP) and Islamic Contract are significant to credit risk of Islamic banks. For Conventional Banks, loan loss provision, debt-to-total asset ratio, REGCAP, size, earning management and Liquidity are significant factors influencing credit risk. Only Inflation and M3 are significant to credit risk for both Islamic and Conventional banks represent the macroeconomic factors.

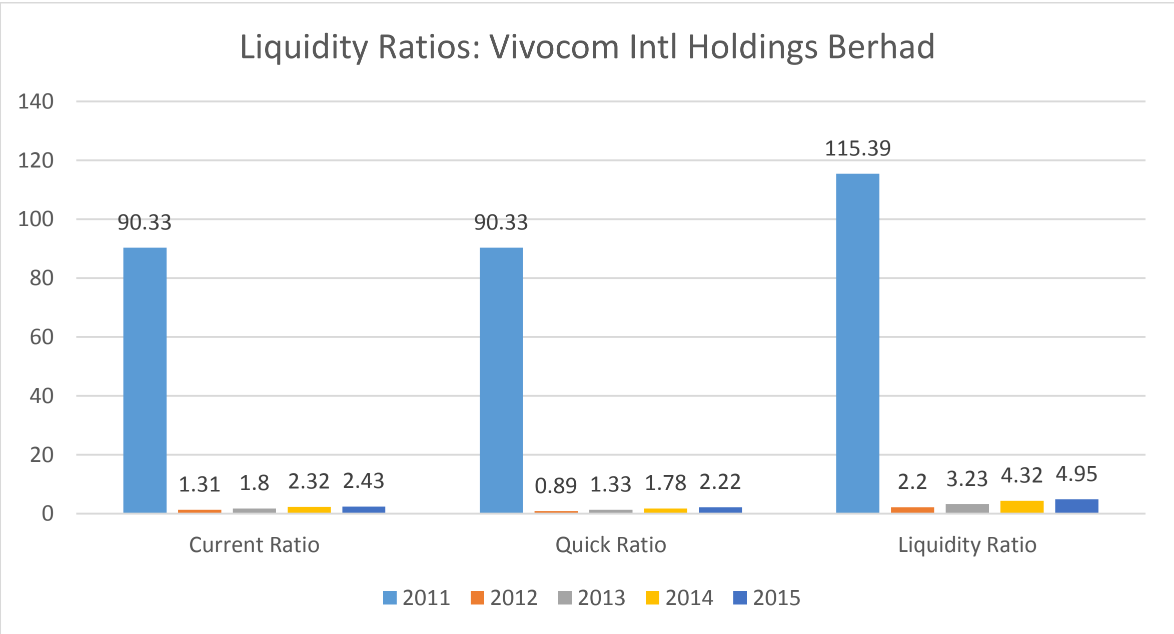
Waemustafa and Abdullah (2015) analysed 18 Islamic banks from the year 2012 to 2013 which operated in Malaysia to examine the relationships between the effectiveness of Shariah supervisory board (SSB), their remuneration and mode of financing Islamic bank. The result shows that the effectiveness of SSB does not concern with the mode of Islamic bank financing, while their remuneration and bank's financial growth shown a positive and significant relationship with mode of financing.

(Epps & Cereola, 2008) study about the relationship between the actual corporate governance rating received by a firm and the firm's performance during the years 2002-2004. The method used is Institutional Shareholder Services' (ISS) corporate governance quotient (CGQ) rating of a firm's corporate governance structure and analyse this rating towards the firm's operating performance. The result shows that there is no statistical evidence proved that the firms' operating performance is related to the firms' ISS corporate governance rating.

3.0 Descriptive Findings

3.1 Liquidity Performance

Figure 1 Descriptive Results



According to (Andrew, 2007), liquidity ratios is the ratios is the ratios that measure the ability of a firm to meet its short-term obligations. Failure to pay such obligations can lead to the bankruptcy. This ratios is used to see how the firm has invested in assets. Before examined the trend analysis for the ratios in Figure 1, the formula for those ratios for 2011-2015 can be calculated as following:

Current Ratio = Current Assets/Current Liabilities

Quick Ratio = (Current Assets-Inventories)/Current Liabilities

Liquid Ratio = Total Asset/Total Liabilities

Table 1 Descriptive Results

Current Asset	Current Liability	Current Ratio	Current Asset-Inventories	Quick Ratio	Total Asset	Total Liability	Liquidity Ratio
12,860,439	142,364	90.33	12,860,439	90.33	16,427,208	142,364	115.39
116,814,277	89,277,860	1.31	79,386,235	0.89	253,259,918	115,343,607	2.20
108,946,049	60,577,554	1.80	80,849,028	1.33	237,399,780	73,608,155	3.23
84,097,179	36,185,944	2.32	64,270,160	1.78	217,981,557	50,487,035	4.32
174,702,854	71,896,570	2.43	159,945,277	2.22	412,872,680	83,383,652	4.95

Vivocom Intl Holdings Berhad shows that all liquidity variables are beyond its benchmark of standard conventional rule of 2:1 and 1:1 respectively for current ratio and quick ratio. The liquid ratio shows the same pattern as current ratio and quick ratio. The performance is quite favourable during the consecutive year from 2012-2015. However, the value is quite high on year 2011. It shows that the company is facing problems in managing its working capital. The three ratios shows the same pattern which indicate the speed of conversion asset or inventory into cash have high performance which move in the same way.

3.2 Operational Performance

Figure 2 Descriptive Results

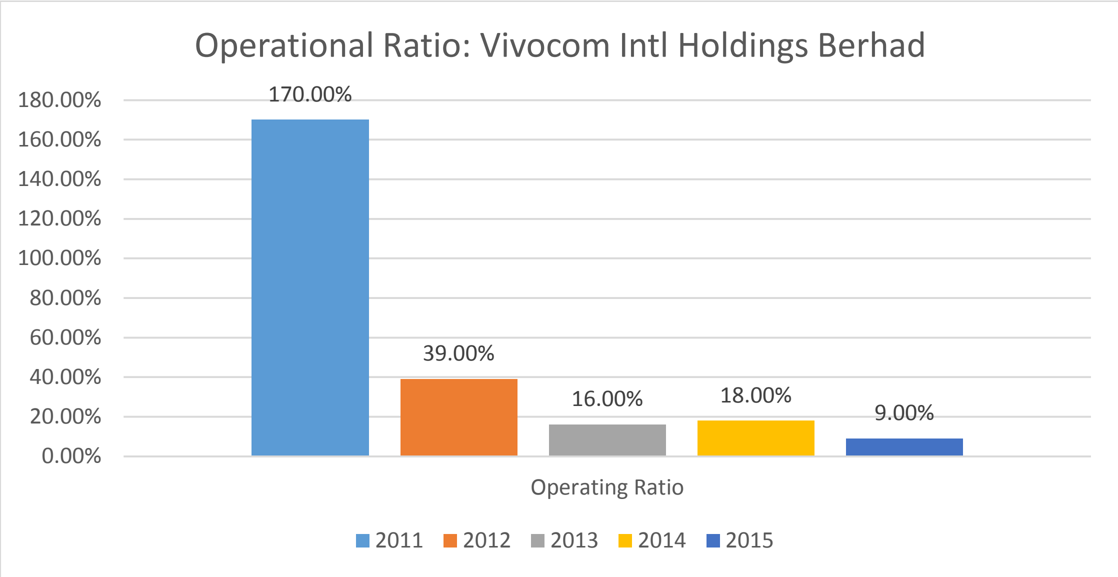


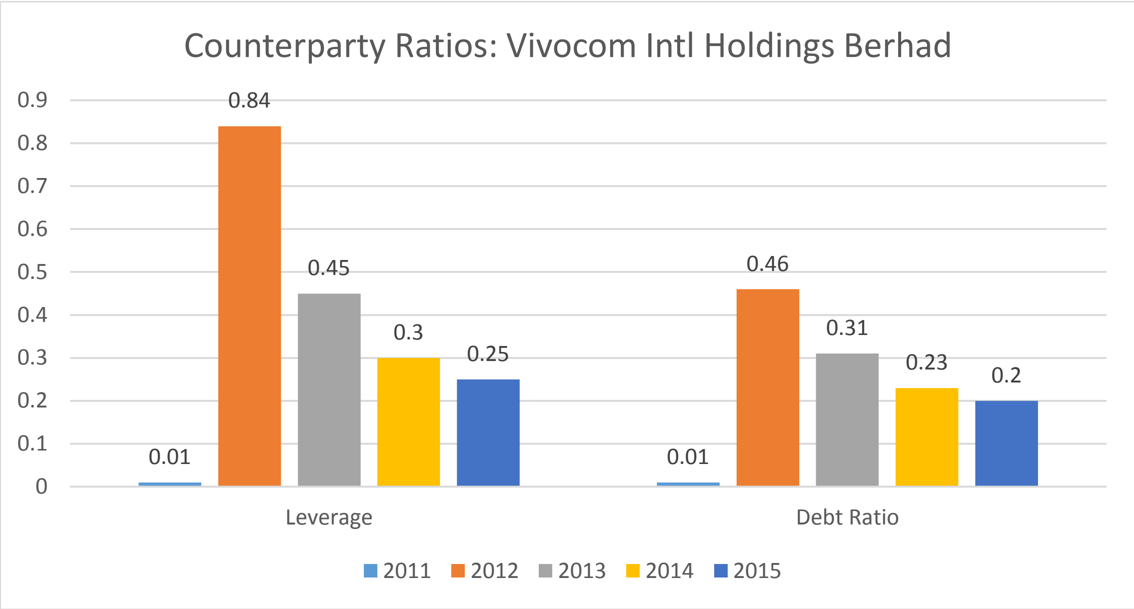
Table 2 Descriptive Results

Total Operating Expenses	Total Operating Revenues	Operating Ratio
20,308,397	11,965,525	1.70
12,721,893	32,354,784	0.39
19,971,215	121,311,492	0.16
12,393,381	68,134,669	0.18
9,372,475	98,760,947	0.09

Operating ratio is computed by comparing operating expenses with operating revenues. It measures cost and should be kept low (Gibson, 2013). Starting from 2011-2013, the percentage of ratio has decreasing significantly which indicates the company is efficient in operation. On 2014, the percentage is increased indicates that there is an inefficiency in operation of the company. However, the efficiency of company's operation regained back to better condition in 2015. A lower operating ratio presents a good indicator of operational efficiency, especially when the ratio used to compare the same ratio for competitors and benchmark firms. (Accounting Tools, 2017)

3.3 Debt Payments Performance

Figure 3 Descriptive Results



The formula for those ratios shown in Figure 3 for 2011-2015 can be calculated as following:

Leverage ratio = Total liability/Total equity

Debt ratio = Total liability/Total assets

Table 3 Descriptive Results

Total Liabilities	Total Equity	Leverage	Total Liabilities	Total Assets	Debt Ratio
142,364	16,284,844	0.01	142,364	16,427,208	0.01
115,343,607	137,916,311	0.84	115,343,607	253,259,918	0.46
73,608,155	163,791,625	0.45	73,608,155	237,399,780	0.31
50,487,035	167,494,522	0.30	50,487,035	217,981,557	0.23
83,383,652	329,489,028	0.25	83,383,652	412,872,680	0.20

Counterparty is another name for credit risk. It also known as solvency ratios that used to show a company's ability to make payments and pay off its long-term obligations to creditors, bondholders, and banks. Each industry has their own ratio benchmarks for debt, as some industries tend to use more debt financing than others, but 0.5 is a reasonable ratio (My Accounting Course, 2017). A better solvency ratios indicate a more creditworthy and financially sound company in the long-term. For Vivocom Intl Holdings Berhad, both ratio show the same pattern. Ratio in 2011 to 2012 shows that the value is increasing drastically indicates higher leverage and risky for lender. But, it is still a reasonable ratio because it did not beyond its benchmarks. Then the stable and more favourable percentage occur afterwards in 2012.

3.4 Company's Performance

Figure 4 Descriptive Results

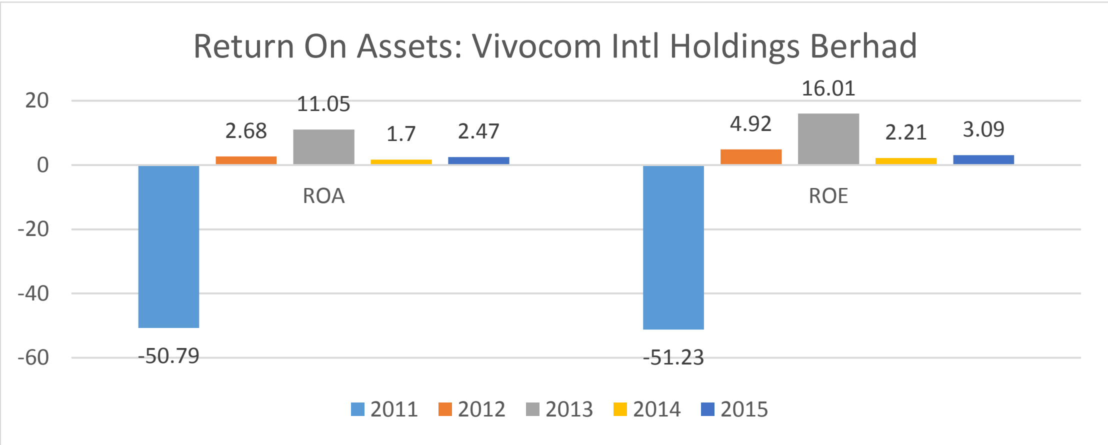


Table 4 Descriptive Results

Net Income After Taxes	Total Assets	Total Equity	ROA(%)	ROE (%)
-8,342,872	16,427,208	16,284,844	-50.79	-51.23
6,788,276	253,259,918	137,916,311	2.68	4.92
26,224,249	237,399,780	163,791,625	11.05	16.01
3,702,897	217,981,557	167,494,522	1.70	2.21
10,194,606	412,872,680	329,489,028	2.47	3.09

ROA shows how efficiently a company can convert the money used to purchase assets into net income or profits, while ROE indicator of how effective management is at using equity financing to fund operations and grow the company. For Vivocom Intl Holdings Berhad, the ROA is increasing from 2011 to 2013 shows that it is more effectively managing its assets to produce greater amount of net income. Then, the ratio is decrease in 2014 and gained back in 2015. The pattern of ROE is same goes to the ROA. The ratio is increasing from 2011 to 2013 indicates that the company is using its investors' funds effectively. Then, the ratio is decrease in 2014 and increase back in 2015. For both ratios, the higher is better.

3.5 Relationship of Liquidity Risk, Operational Risk and Corporate Governance variables to the Profitability

Table 5 Correlation Matrix Vivocom Intl Holdings Berhad Specific Risk

	ROA	Index	BOD's Remuneration	Leverage	Current Ratio	Liquidity Ratio	Operating Ratio	ROE	Exchange Rate	Inflation Rate	Gdp	Unemployement rate	Size
ROA	1												
Index	-0.983	1											
Sig.	0.001												
BOD's Remuneration	-0.818	0.79	1										
Sig.	0.045	0.056											
Leverage	-0.646	0.661	0.929	1									
Sig.	0.119	0.112	0.011										
Current Ratio	0.983	-1	-0.795	-0.669	1								
Sig.	0.001	0	0.054	0.108									
Liquidity Ratio	0.982	-1	-0.798	-0.676	1	1							
Sig.	0.001	0	0.053	0.105	0								
Operating Ratio	0.964	-0.986	-0.689	-0.534	0.985	0.983	1						
Sig.	0.004	0.001	0.099	0.177	0.001	0.001							
ROE	0.996	-0.964	-0.806	-0.61	0.962	0.961	0.947	1					
Sig.	0	0.004	0.05	0.137	0.004	0.005	0.007						
Exchange Rate	-0.378	0.33	0.016	-0.326	-0.321	-0.312	-0.447	-0.418	1				
Sig.	0.265	0.294	0.49	0.296	0.299	0.305	0.225	0.242					
Inflation Rate	0.588	-0.635	-0.813	-0.798	0.641	0.644	0.57	0.545	-0.09	1			
Sig.	0.149	0.125	0.047	0.053	0.122	0.121	0.158	0.171	0.443				
Gdp	-0.135	0	0.123	0.054	0.001	0	0.059	-0.195	-0.198	0.468	1		
Sig.	0.414	0.5	0.422	0.466	0.499	0.5	0.463	0.377	0.375	0.213			
Unemployment rate	-0.299	0.25	0.109	-0.214	-0.243	-0.236	-0.341	-0.334	0.944	-0.284	-0.339	1	
Sig.	0.312	0.343	0.431	0.365	0.347	0.351	0.287	0.291	0.008	0.322	0.289		
Size	-0.85	0.836	0.654	0.395	-0.833	-0.829	-0.868	-0.852	0.729	-0.667	-0.226	0.733	1
Sig.	0.034	0.039	0.115	0.255	0.04	0.041	0.028	0.033	0.081	0.109	0.358	0.079	

3.5.1 Liquidity and profitability

The finding of this study shows that liquidity ratio is positively significant with ROA. it can be proved by looking at the P value < 0.10. It indicates that Vivocom Intl Holdings Berhad is able to raise enough cash or convert assets into cash to pay off both its current liabilities and their long-term liabilities. The finding is consistent with previous studies Ghazali (2008), who found a positive relationship between Liquidity and ROA. Waemustafa and Sukri (2016) also found the same result as this. However, the finding is contradictory to the findings of Bhunia, Khan & Mukhuti (2011) and Pandey & Jaiswal (2011) that found the negatively significant relationship between profitability and liquidity.

3.5.2 Operating ratio and profitability

For operating ratio variable, it shows that the P value < 0.10 indicates positive significant relation to profitability. This positive relation indicates that the company's operation can increase the profitability of company. Vivocom Intl Holdings Berhad is generating more operating income while reducing the operating expenses where this company achieve positive amount of profitability with more production as an income factor without incurred more expenses during the operation process.

Table 6 Stepwise Regression Analysis for Vivocom Intl Holdings Berhad Specific Risk Determinants to profitability

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.983[a]	.967	.956	.0440211	2.772

a. Predictors: (Constant), Index

b. Dependent Variable: ROA

Table 7 Anova Regression Analysis for Vivocom Intl Holdings Berhad Specific Risk Determinants to profitability

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.172	1	.172	88.548	.003[b]
	Residual	.006	3	.002		
	Total	.177	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), Index

3.5.3 Corporate governance and profitability

After the test conducted and all of variables added. By using the stepwise method, it shows that R value is 0.983 and shows a high degree of correlation between variables. R^2 is 0.956 and indicates that 95.6% of variation in ROA is explained by independent variable "Index". In terms of relationship to profitability, the corporate governance variable is reviewed by index and BOD's Remuneration. The results show that the P value < 0.10 indicates negative significant relation to profitability for both variables. This model is also significant with the significant of anova regression where the P value < 0.10

4.0 Discussion and Recommendation

4.1 Discussion

The overall performance of Vivocom Intl Holdings Berhad was showing favourable in the performance result for all measurements of liquidity and operation in annual basis during the consecutive year from 2011 to 2015. This company also effective in managing their assets as they convert their assets into cash to repay the debt without any issue and the operation is working efficiently without incurring any additional expenses are reflected to the overall performance of Vivocom Intl Holdings Berhad. The operating ratio also affects the profitability of the company. The positively significant relationship shows that the increasing in operating ratio will increasing the profitability of the company.

4.2 Recommendation

4.2.1 Improve Working Capital Management For A Better Liquidity and Profitability

Working capital usually represents a large part of a firm's assets and can be reduced by more efficient inventory and accounts receivables management. The manager could create more value by managing the working capital effectively with different components. The effective inventory management in working capital management effects on profitability and the additional value can be created by reducing inventories and the number of day's accounts outstanding. The company also need to monitor their accounts receivables effectively to ensure that they billing their clients properly and receive prompt payments.

4.2.2 Better Practice Corporate Governance to Improve Profitability

The people failure might be the caused inefficiency with increasing operating expenses since the wrongdoings of a person lead this inefficiency. Corporate governance itself is about how the company is managed and controlled. Joh, S. W., (2003) shows the weak corporate governance systems allowed poorly managed firms to stay in the market and resulted in inefficiency of resource allocation despite low firm profitability for many years. The involvement of proactive board of directors is required by taking the leading role to make sure that the mission, objectives, strategy and policies of the company was established and modified to reduce any failure.

5.0 Conclusion

In conclusion, it is clear that liquidity risk, operational risk (unsystematic risk), and systematic risk is faced to all the companies especially in the study of the company that manage technology's business. Vivocom Intl Holdings Berhad could handle the liquidity risk and operational risk effectively and efficiently as long as their ratio is beyond and below the standard of benchmark. The liquidity and operational performance in recent years show this company is not having problem to settle their obligations and could generate more profit. The concern should be given more to the corporate governance to reduce any inefficiency that can affect the ability of a company in generating more profit.

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