Performance and Size: Empirical Evidence From Batu Kawan Berhad

nazarudin, fatin hidayah

universiti utara malaysia

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Fatin hidayah binti Nazarudin

University utara Malaysia

Abstract

The purpose of this study sought to examine the overall performance of Batu Kawan Berhad with specific risk factors and macroeconomic factor on profitability performance. The data obtained from annual report of Batu Kawan Berhad. starting from 2011-2015. The measurement of liquidity ratio and operating ratio used to see the overall performance of Batu Kawan Berhad. in 5 years which allegedly beyond benchmark. The additional measurement is the asset size, this variable has a negative and no significant relationship with liquidity risk. To see the relationship of risks factors to the profitability, this paper is utilizing liquidity (current ratio), GDP and operating ratio. Data was analyzed by utilizing regression and bivariate correlation. The regression analysis and bivariate correlation shows only one factor of profitability 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.

***Keyword*: liquidity risk, operational risk, market risk, profitability**

1. Introduction

Batu Kawan Berhad was incorporated in 1965 and commenced operations as a plantation company when it took over the assets and liabilities of its predecessor company, Batu Kawan Rubber and Coconuts Plantations Ltd in 1971 under a scheme of reconstruction. From its center plantation business, the Company has throughout the years differentiated into subsidiaries and investment in organizations that make fundamental chemicals, fading earth, latex examination gloves and elastic wood parquet and into stock broking. With the exception of its fundamental chemicals and ranches business, the Company has since arranged and left every one of these backups and speculations.

Batu Kawan Bhd. is a speculation holding organization, which participates in synthetic assembling, transportation, property venture, and manors organizations. It works through the accompanying fragments: Plantation, Manufacturing, Property Development, and Investment Holding and Others. The Plantation segment develops and forms palm and elastic items, and refines palm items. The Manufacturing section concentrates on the assembling of oleochemicals, soap noodles, industrial amides, fatty amines, cationic surfactants, rubber gloves, parquet flooring items, pharmaceutical items, non-ionic surfactants and esters, biofuel, chlor-alkali, and sulphur based chemicals; transportation benefits; and putting away and circulation of mass fluid. The Property Development fragment creates residential and commercial properties. The Investment Holding and Others portion includes in situation of stores with authorized banks; interest in settled wage confide in assets; interest in cited and unquoted organizations; letting out of office space and auto parks; grain and sheep cultivating; administration administrations; and cash loaning. The organization was established on December 9, 1965 and is headquartered in Ipoh, Malaysia.

Currently Batu kawan berhad have six member of board of director which are Tan Sri Dato' Seri Lee Oi Hian, Dato' Lee Hau Hian, Dato' Yeoh Eng Khoon, R.M. Alias, Dato' Mustapa bin Mohd Ali and Quah Chek Tin. Back to 2011 to 2014, there was another board of director which is Tan Sri Datuk Seri Utama Thong Yaw Hong that was retire on 20^{th} August 2014. Tan Sri Dato' Sri Lee Oi Hian as a non-independent non-executive chairman, Dato' Lee Hau Hian as managing director, and the other four board of director was acted as independent non-executive director.

The parts of study will 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 manufacturing specific risk factors and macroeconomic factors on profitability performance and includes the Batu Kawan Berhad overall performances. The last part contains some discussion, recommendation, and conclusion to the Batu Kawan Berhad

2. Literature review.

Based on this task given, it will be discuss about five article that relate to the performance and risk that relate to our industry. Current ratio is indicates how the management can be able to meet current liability which demand deposit with the current asset. The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations. Moreover, the high of current asset ratio can indicated that a bank has more liquid assets. A lower ratio is a sign for liquidity as more of the assets are long term in nature. Credit risks defined that credit risk is significantly affected by GDP Growth, housing price indices, unemployment rates, interest rates, credit growth, real exchanges rates and the recent financial crisis. The formation of credit risk include, inappropriate credit policies, poor lending practice, limit institutional capacity, volatile interest rate, poor management, inappropriate laws, direct lending, massive licensing of banks, low capital and liquidity risk, laxity in credit assessment, and poor lending practice (W. Waemustafa, S. Sukri, 2015). Therefore, credit risks are imperative for any administration or bank to know the capacity to reimburse any instalment back later.

Furthermore, the other study conducted to compare the liquidity risk between Islamic and Conventional banks in Malaysia who analyzed by Waemustafa, W. (2016). The article showed that Islamic bank overpowers the liquidity execution result stood out from Conventional bank which addressed with the mean percentage. . The calculation of liquid variable measured by cash plus short term market securities to aggregate bank resource. The component of this control is a direct result of the nonappearance of advance pro last resort and interbank currency advertise and another is the preferred standpoint and hazard structure of Islamic bank. With the limited option for Islamic bank to get outside financing which sourced from interbank money market and credit master of last resort, this condition obliged the Islamic bank to keep up an attractive liquidity course of action to fulfill the typical incident from Islamic bank' financing works out. For addition, the uniqueness Islamic bank as far as its benefit and obligation structure of benefit and misfortune sharing-based speculation account permits both risk and benefit shared among Islamic banks and their clients.

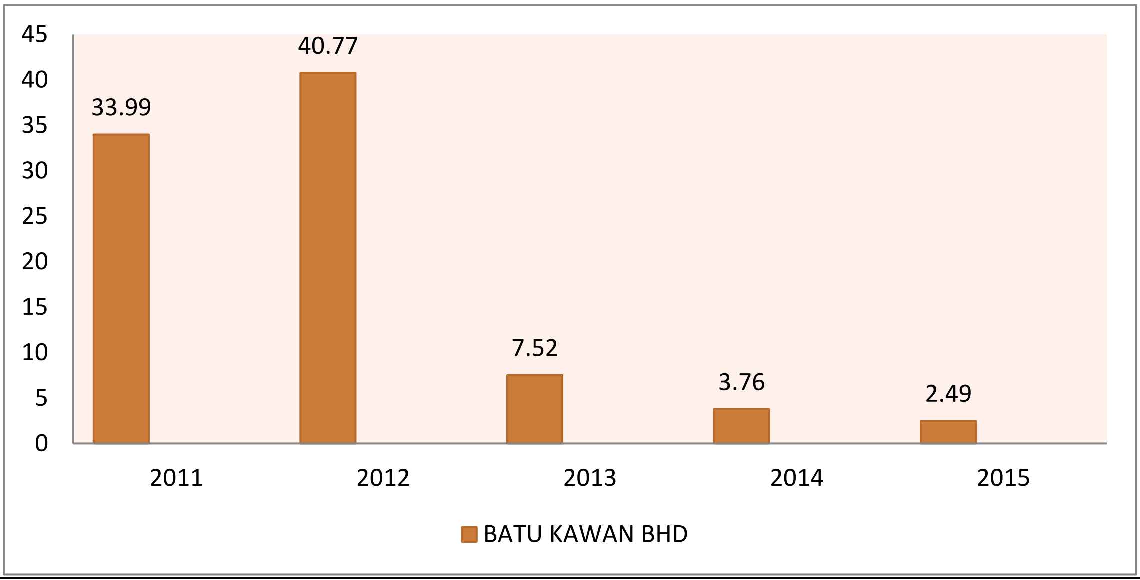
Other study examined whether there is any significant influence between Shariah supervisory boards and their remuneration towards Islamic banks choices in financing mode. The study used 18 Islamic banks from the year 2012 to 2013 which operated in Malaysia and analyzed by Waemustafa, W and Abdullah, A. (2015). The study reveal that the Shariah supervisory board may determine the mode preference of financing toward BBA and Murabahah, however the SSB effectiveness does not have significant relationship into the financing mode but the remuneration have significant relation to the choice of Islamic financing mode where the notion lead to “cosmetic reason”.

Working capital management is an important part in firm financial management decision. The ability of the firm to continuously operate in longer period is depends on how they deal with investment in working capital management (M. A. Zariyawati, M. N. Annuar, H. Taufiq, A.S. Abdul Rahim,2009). The optimal of working capital management could be achieved by firm that manage trade off between profitability and liquidity. The objective of this study is to investigate the relationship between working capital management and firm profitability. Results of this study found that cash conversion cycle are significantly negative associated to the firm profitability. Consistent with previous researcher (Shin and Soenen, 1998; Deloof, 2003; Rahemen and Nasr, 2007), this study also suggests that firm manger should concern on reduction of cash conversion period in intention of creation shareholder wealth.

According to Campello, M. (2010) this study uncovers important, new aspects of the liquidity role of credit lines when credit is tight. It is found that the financial crisis limited, but in general did not preclude access to credit lines. According to the evidence, credit lines seem to ease the impact of the financial crisis on capital investment and other real-side decisions, such as technology spending and employment. This findings provide context to observed governmental efforts to help financial intermediaries around the world.

3. Descriptive finding

3.1 Liquidity ratio.

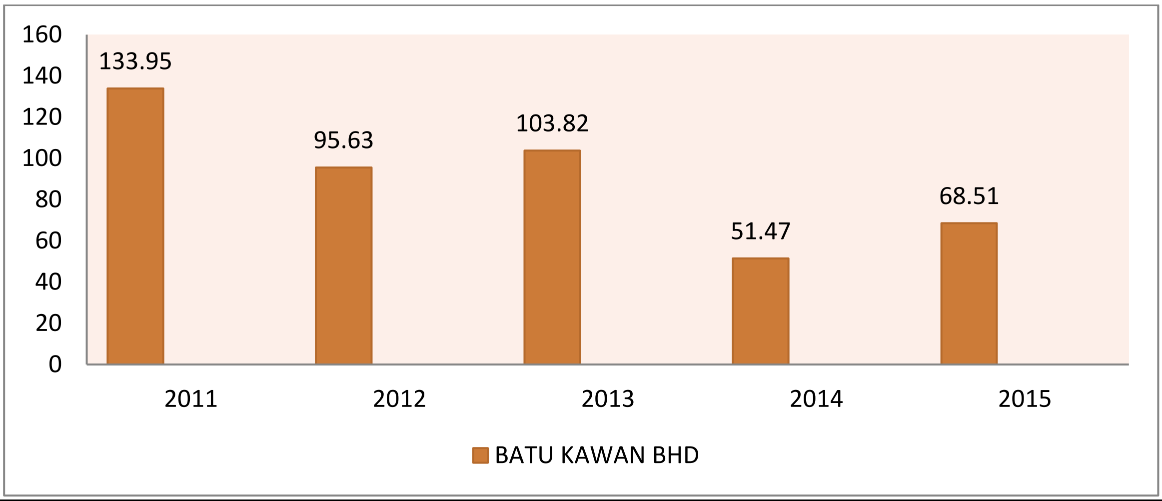


Graph 1

Liquidity risk is the risk that a company or bank may be unable to meet short term financial demands. This more often than not happens because of the failure to convert a security or hard assets to cash without lost capital or potentially pay all the while. Liquidity ratio is shown to gauge the company's capacity to meet their current obligation. Also, it pushes investor and loan bosses to comprehend the level of liquidity by contrasting the company assets with its liabilities.

On the line graph above, the higher figure is meant that the business in the financial condition is better and also it has enough for liquid the assets for its operation when the company needed. Based on the graph 3, the most efficient in Batu Kawan Berhad is paying off their liability is at 2012 that is 40.77 compared to other years. This gives a positive sign to the company as its indicate that the company has better performance in order to fulfill the short term and long term liability and it will make easier for investor to make investment decisions. From the graph above, the liquidity ratio of the company is increasing in year 2011 and year 2012 but it turn down starting from year 2013 until 2015. But, they are still successfully managing the liquidity ratio to pay off their liabilities. This displays that in the dropping in debt ratio does not affect their performances because they still can manage well their company. If the performance keep on the track then there will no such issue on risk.

3.2 Credit risk.

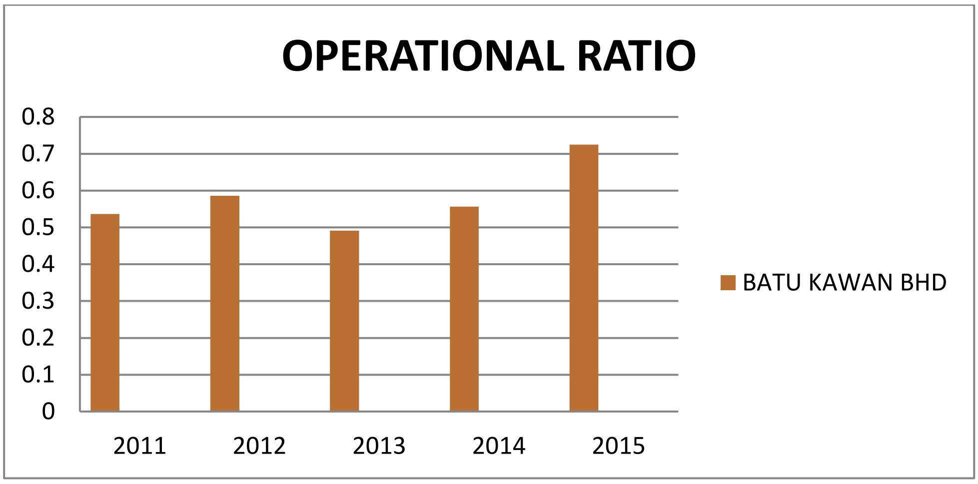


Graph 2.

Credit risk refer to the risk that a borrower may not repay an advance and that the bank may lose the key of the advance or the premium related with it. Credit risk appears on the grounds that borrowers hope to use future money streams to pay current obligations; it's never conceivable to guarantee that borrowers will have the assets to repay their obligations. Interest payments from the borrower or issuer of an obligation commitment are a loan specialist's or speculator's reward for accepting credit chance.

The performance of the credit risks in assessment that it was measured by an average collection period and it depends on credits sales and account receivable. The average collection period can be calculated as follows, 365 days in a year divided by the accounts receivable turnover ratio. Based on the graph 4 above, on the year 2011 until 2015 the Batu Kawan Berhad's credit risks keep fluctuating from 134 days (133.94) to 69 days (68.51). The highest number of day for average collection period is 134 days. Meanwhile, the lowest number of days for average collection period is 69 days in 2015. The decreasing number of collection period shows that the company perform well. The average collection period represents the average number of days between the date a credit sale is made and the date payment is received from the credit sale. This means that the company wants the borrower to repay the loan back in the short period. So, the quicker the creditor pays to them, the better for them because they can use the money to invest in somewhere. This also can reduce the risk of credit risk.

3.3 Operational performances.



The operating ratio is a calculation that shows the efficiency of the management of the company by comparing on the operating expense to the net sales. The formula for operating ratio is total operating expense divided by total operating revenue. It indicated that the smaller the ratio, the greater the organization's ability to generate profit if revenue decrease, which means that the smaller the ratio and it will gives good sign to the company. Based on the chart above, on the year 2015 the company has more efficient to generate the profit that is 0.72. Then, the operating ratio is kept fluctuate in the five years from 0.53 until 0.72.

3.4 Relationship of GDP, Liquidity and Operational to the Profitability

batu kawan	INDEX	REMUNERATION (BOD)	ROA	LEVERAGE	OPERATIONAL
2011	0.6364	774,000	0.20422446	0.02219068	0.53682452
2012	0.6364	1,098,000	0.15571825	0.02514044	0.58620308
2013	0.6364	1,290,000	0.1032249	0.15325996	0.49129068
2014	0.6364	1,410,000	0.03682168	0.59662974	0.55601703
2015	0.6364	1,710,000	0.02603816	0.70866048	0.72473887

AVERAGE COLLECTION PERIOD	LIQUIDITY	ROE	SIZE	GDP	INFLATION
133.9502396	33.9949793	0.2087563	2,816,722,000	5.3	3.2
95.62622571	40.7765466	0.1596331	3,889,634,000	5.5	1.7
103.8248211	7.52486142	0.1190451	4,685,972,000	4.7	2.1
51.47413924	2.67608138	0.0587906	14,164,100,000	6	3.1
68.51305307	2.41111297	0.0444904	18,620,360,000	5	2.1

Table 1

Correlations

		ROA	INDEX	REMUNERATION (BOD)	LEVERAGE	OPERATIONAL	ACP	LIQUIDITY	SIZE	GDP	INFLATION
Pearson Correlation	ROA	1.000	.	-.959	-.937	-.504	.915	.894	-.911	-.085	.099
	INDEX	.	1.000	.	.	.	.	.	.	.	.
	REMUNERATION (BOD)	-.959	.	1.000	.881	.638	-.834	-.819	.886	-.116	-.335
	LEVERAGE	-.937	.	.881	1.000	.650	-.858	-.831	.990	.182	.113
	OPERATIONAL	-.504	.	.638	.650	1.000	-.466	-.232	.750	-.033	-.305
	ACP	.915	.	-.834	-.858	-.466	1.000	.683	-.841	-.437	.075
	LIQUIDITY	.894	.	-.819	-.831	-.232	.683	1.000	-.762	.131	-.120
	SIZE	-.911	.	.886	.990	.750	-.841	-.762	1.000	.163	.036
	GDP	-.085	.	-.116	.182	-.033	-.437	.131	.163	1.000	.468
	INFLATION	.099	.	-.335	.113	-.305	.075	-.120	.036	.468	1.000

Table 2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.368	.047		7.915	.004		
	REMUNERATION (BOD)	-2.094E-7	.000	-.959	-5.826	.010	1.000	1.000

a. Dependent Variable: ROA

Table 3

3.4.1 Liquid to Profitability

Liquid measured by liquiditity ratio with P value > 0.10 indicates that liquidity have positive and significant relation to profitability in all respective variables of the measurement. In addition, the impact of changes liquidity to profitability is relevant because the profit of the company also derived the impact to liquidity. This positive relationship implied that when liquidity represented by liquid ratio increases, any profitability ratios will react by increasing in value. This positive relation could relate to the cash conversion which this company is mostly maintaining cash in reserve with a conservative strategy which consistent to the result found in Waemustafa and Sukri (2015). Batu Kawan Bhd thinks that when cash is retained for the company's development or debt obligation payment which it might affect further profit generated in future. This conversion affects profitability since the company has receive or hold actual cash value from transaction that the cash can transform to another profit which is making new investment.

3.4.2 GDP to Profitability

As a part of macroeconomic factor, the GDP variable tested with P value > 0.10 indicates insignifican relation to profitability. This implies that the economic growth will decrease the demand for Batu Kawan products. This could generate less profit received which eventually it boosts profitability. However, 3 out of 10 variables (remuneration, operational, average collection period) that want to investigate have negative insignificant relation to GDP. Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. It can be measured in nominal or real terms, the latter of which is adjusted for inflation. Negative relationship between GDP and profitability shows that there was increase in demand but the company was not able to supply more because of the company think that would be a surplus to the economy. When the surplus goods and services happen to the market, then the price will decrease just to meet the equilibrium point. When the price of the goods decrease in market, there will be bad impact to the company because they can get less profit if they produce more goods to the market. So, the company think that if they product not too much is much better for them to avoid surplus supply.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.959[a]	.919	.892	.0251156891	2.609

a. Predictors: (Constant), REMUNERATION (BOD)

b. Dependent Variable: ROA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.021	1	.021	33.944	.010[b]
	Residual	.002	3	.001		
	Total	.023	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), REMUNERATION (BOD)

Table 4

3.4.3 Remuneration to Profitability

After the test conducted and all of variables added, with the stepwise method shows that R value is 0.959 and shows a high degree of correlation between variables. R^2 is 0.892 and indicates that 89.2% of variation in ROA is explained by independent variable REMUNERATION (BOD). In terms of relationship to profitability, for remuneration variable which it measured by remuneration with a P-value > 0.01 indicates negative insignificant relation to profitability. However, the operate variable to profitability (ROA) has a positive significant relation with a P value < 0.001. This positive relation indicates that the remuneration of board of directors can increase the profitability of company. Batu Kawan Berhad is generating more income while reducing the remuneration expenses which is board of director salary where this company achieve positive amount of profitability with more production as an income factor without incurred more expenses of board of director's salary because the company was based on family business. Instead of having profit, the negative relation indicates the increases of expenses effect the income of this company that cannot maximize the profit. Maybe because of family business, the board of director is just created in the paper so that the board do not even bother about their remuneration.

4 Discussion and recommendation.

4.1 Discussion.

During the consecutive year 2011-2015, overall performance of Batu Kawan Berhad was showing unfavourable movement in the performance result for all measurements of liquidity and operation in annual basis. The effective conversion asset into cash to repay the debt without any issue and the efficient operation without incurring any additional expenses are reflected to the overall performance of Batu Kawan Berhad company. However, since the remuneration has the result with the highest t-value= -5.826 indicates that this variable impacted much on profitability measurements. One of profitability measurement has a significant relationship which is ROA to REMUNERATION (BOD) variable. With this high impact of operate to profitability and one of profitability measurement is significant relationship to operate. Therefore, the attention of the company into the remuneration factor should become priority on 2015 onwards beside the GDP and liquidity to enhance the profitability.

4.2 Recommendation.

4.2.1 Better credit management in future

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximise a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organisation.

Batu Kawan Berhad face fluctuating scenario on credit risk in five year which are from year 2011 to 2015. The data keep fluctuating throughout the year. That means the company have confront the unmanaged credit risk. For the solution, Batu Kawan Berhad need to look the customer that always give a late payment to them and also take an action to them such as give them high interest rate or discount rate if they pay quicker. The company need to manage well their credit risk because of the money that they get will use for investment purposes. They have to do that to diversified their risk so that they are making a minimum lost.

4.2.2 Review and revise liquidity management

Liquidity management describes the effort of investors or managers to reduce liquidity risk exposure. Investors, lenders and managers all look to a company's financial institutions, using liquidity management ratio to evaluate liquidity risk. This is usually done by comparing liquid assets and short-term liabilities. Companies that are over-leveraged must take steps to reduce the gap between their cash on hand and their debt obligations.

Batu Kawan berhad experienced decline in liquidity ratio that means that their management on liquidity was not on the track. Declining in liquidity ratio will make the company having a crucial condition which is they do not have money is anything unfavourable happen. So that, the company need to do some deregulation to their companies for the benefit of their company. Maybe the deregulation will make the customer pay out their payment punctually. . By this liquidity management also, the conversion of an asset into cash could be managed well where this cash use to pay obligation in the right time.

4.2.3 Review and Measure the Board of Director’ Salary.

Another enhancement should be implemented is the review and measure Board of Director salary where the company analysis and measure the salary is it relevant to profitability of the company. The Board of Director might think that the company was stable enough so they don’t have to worry a lots if their salary is going to declined. They was knowledgeable enough about the company, so they think everything the company do is just to increase the profit. If the company was increasing in profit due to declining of remuneration, they also get the benefit in terms of dividend. If the dividend payout was pay to the shareholder very high, the company can creates good image to the public. The image for the company now is very important if the company want to sustain in very long term because now all information is at the fingertips.

5.0 Conclusion

In conclusion, it is clear that liquidity risk, remuneration and systematic risk is faced to all the companies especially in the study of the plantation company. Batu Kawan Bhd could handle the liquidity risk and credit risk effectively and efficiently with the ratio is beyond and below the standard of benchmark. The liquidity and credit performance annually shows this company is having problem to settle the obligation and operates efficiently that could not generate more profit for the company. The company need to pay attention to the liquidity performances and also credit risk where measure by average collection period which are both of the variables was declining in value. The scenario here give a sign that the management of the company must take an action for the sake of the company benefit in order to gain more profit. The company also have to review back the salary of board of director as an option to them if they want to sustain longer in the industry even if the objective of the company is to increase shareholder value but they still have to reconsider that.

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