The Role Of Corporate Governance And Its Impact On Risk And Firm Performance Of Real Estate Industry: Amanahraya Reit

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ABSTRACT

This study examines the performance of Amanahraya Real Estate Investment Trusts (ARREIT) with risk factor and macroeconomic factor towards profitability performance. The information from annual report of ARREIT starting from 2011-2015. This study can assist investors, regulatory body, fund managers and academics to make a better informed investment decision on Malaysia REITs.

This study has provided interesting and important information and insights into the performance of Malaysia REITs. There are internal and external factors which are return on assets, return on equity, return on investment, current ratio, total assets turnover and debt ratio.

Keywords: Credit risk, liquidity, profitability and macroeconomics.

1.0 Introduction

AmanahRaya Real Estate Investment Trust ("AmanahRaya REIT") was set up on 10 October 2006 compliant with the Trust Deed dated 10 October 2006 between the Manager, AmanahRaya-REIT Managers Sdn. Bhd. ("ARRM" or "Administrator") and the Trustee, CIMB Islamic Trustee Berhad ("Trustee"). It is named land venture finance and was recorded on the Main Board of Bursa Malaysia Securities Berhad on 26 February 2007. In the course of the most recent 3 years, it has arranged 2 of its properties and submitted on its third transfer on 9 December 2014, empowering it to return capital increases to unit holders. As at 31 December 2014, the arrangement of AmanahRaya REIT incorporates 14 properties with an aggregate book estimation of RM1.09 billion.

AmanahRaya-REIT Managers Sdn. Bhd, wholly owned of Amanah Raya Berhad is the manager of AmanahRaya REIT. ARRM was formed on 8 May 2009 and assumed control over the management of AmanahRaya REIT from the former supervisor i.e. AmanahRaya-JMF Asset Management Sdn Bhd (known as AmanahRaya Investment Management Sdn Bhd) on 7 September 2009 upon the enlistment of the Second Supplemental Deed of AmanahRaya REIT dated 27 August 2009 with the Securities Commission. As at 31 December 2014, the authorized share capital of the Manager is RM5 million and the paid-up share capital is RM1.5 million.

ARRM is essentially in charge of the management of AmanahRaya REIT's investment strategies to meet its speculation targets. Its essential movement is to oversee and manage AmanahRaya REIT for the benefit of the unit holders as per the Trust Deed dated 10 October 2006 (as supplemented by the Supplemental Trust Deed dated 4 January 2007 and the Second Supplemental Trust Deed dated 27 August 2009) and rules issued by Securities Commission and Bursa Malaysia Securities Berhad. ARRM's principle part is to guarantee positive and feasible return to ARREIT unit holders.

Working costs increased by 18% fundamentally because of the general increment in costs as a consequence of implementing GST in April 2015. The gearing ratio insignificantly lessened to 33% from 34% in 2014 and NAV as at 31 December 2015 was RM681.54 million or RM1.19 sen for each unit which is an expansion of roughly 4% when contrasted with the NAV recorded in the year 2014. Rental income for 2015 was higher by 12% to RM61.6 million when compared to RM55.20 million in the earlier year. The higher rental income was contributed by rental income produced from Wisma Comcorp and Wisma Amanahraya.

In guaranteeing the implementation and operation of appropriate corporate governance, ARRM is guided by the measures prescribed by the Securities Commission's Guidelines on Real Estate Investment Trusts ("REIT Guidelines"), the Malaysian Code on Corporate Governance (Revised 2012), the Capital Markets and Services Act 2007 and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Board view that the internal control framework received by the Manager is satisfactory and adequate to guarantee great corporate governance for AmanahRaya REIT. Confirmation had been gotten from the Chief Operating Officer that the risk management and internal control arrangement of the Manager in connection to dealing with the operations of AmanahRaya REIT, is working sufficiently and adequately, in every single material angle, in light of the risk management and internal control framework set up by the Manager.

2.0 Literature Review

Numerous studies have attempted to explain about Systematic and Unsystematic Risk Determinants of Liquidity Risk between Islamic and Conventional Banks.

(Bordeleau, É., Graham, C. (2010), the connection between liquid assets and profitability relies on upon the bank's plan of action and the risk of financing business sector problems. Receiving a more traditional i.e., deposit and loan-based business model permits a bank to upgrade benefits with a lower level of liquid assets. In like manner, when the probability of subsidizing business sector challenges is low proxied by financial development, banks need to hold less liquid assets for streamline profits.

Moreover, profitability is enhanced for banks that hold some liquid assets, in any case, there is a time when holding further liquid assets reduces a banks' profitability. The coefficient of the deposit proportion is certain and very huge. A bank with a more deposit can acquire profit. The coefficient of credit asset proportion is positive and significant. This constructive outcome infers that saves money with a high extent of credit asset proportion have a higher benefit, (M. Shahchera (2012).

Later, (Waemustafa 2016) the interesting way of Islamic banks combines of assets and liabilities form a new type of risk particularly liquidity risk which is very noticeable risk in Islamic banking. This is on account of the crisscross of its assets and liabilities may bring about a genuine bank rushed to request investors. In any case, with the Two-Windows demonstrate, an Islamic bank is for all intents and purposes bankruptcy verification that permits it to work all the more productively in light of genuine financial exercises.

Another study examined to determine the specific of credit risk in Islamic Banks and Conventional Banks.

Management proficiency, risk weighted assets and size of total assets have critical impact on credit risk of Islamic banking, while regular conventional banking credit risk are altogether influenced by loan exposure to unsafe segments, regulatory capital, loan loss provision and risk-weighted assets. While both watch comparable impacts of leverage, financing cost, risk-weighted using a credit risk, Islamic banking encounters diverse effect of management proficiency, regulatory capital and loan loss provisions on their credit risk. Ahmad and Ahmad (2004).

Boumediene (2011) make an effort to achieve the question: Is credit risk really higher in Islamic banks? The outcome shows that credit risk is undoubtedly higher in Islamic banks compared with conventional banks. There are numerous procedures accessible and Shari'ah compliant. The center issue is the slant to deal with this risk like Conventional Banks. It is conflicting in light of the fact that agreements in both Banks are not of a similar sort. The arrangement is elsewhere. It is in the strict relevance of Islamic contracts and profound information of their systems; as well as the choices they offer.

Waemustafa and Sukri (2015), this area displays the consequence of looking at the distinctions of the determinants of credit risk between Islamic banks and conventional banks from the viewpoint of banks specifics components and macroeconomic factors. The finding shows just four out of fourteen variable shows inconsequential differences between Islamic banks and conventional banks such as, DTAR, DER, MGT and ROA. This recommend there is no distinction in term of solvency, leverage, management efficiency and profitability between Islamic banks and conventional banks while CR, RSL, LLP, LEV, REGCAP, SIZE, FINANCE, RWA, EM and LIQUID, these variable show noteworthy diverse between Islamic banks and conventional banks.

Another study looks is there connections between the potency of Shariah supervisory board (SSB), and their remuneration and method of financing Islamic bank. The study involves 18 Islamic banks in which working in Malaysia from the year 2012 to 2013 as a specimen by Waemustafa, W and Abdullah, A. (2015). The study expose the mode preferences of financing toward BBA and Murabahah by Shariah supervisory board. The analysis demonstrates that an effective SSB does not have significant connection towards financing mode but the remuneration have significant connection and may give some knowledge towards the idea of 'cosmetic reason'.

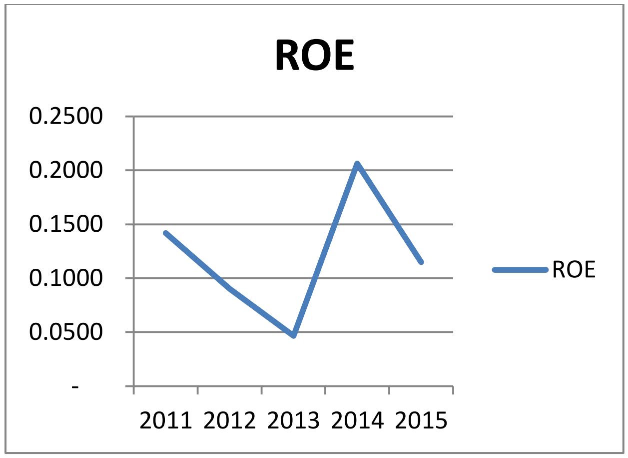
The dilution of the Islamic legitimate standards in banking products might be partly due external factors that are not under the control of the Islamic banks. New products need to consent to the laws and directions of the country they work in and at times these can confine the sort of products that Islamic banks can offer. In any case, in different cases the calculus of financial variables may strife with the standards of Shari'ah. Ahmed, H. (2014).

This paper investigates whether risk management-related corporate governance mechanisms, such as for example the presence of a chief risk officer (CRO) in a bank's executive board and whether the CRO reports to the CEO or directly to the board of directors, are associated with a better bank performance during the financial crisis of 2007/2008. Standard governance measures as utilized as a part of an extensive collection of literature on corporate governance and its valuation impact in non-financial firms may fall short in describing the relevant governance structure of banks, in particular to their crisis. Specifically, to be better arranged to confront the following financial crisis, that bank need to altogether enhance the quality and profile of their risk management function, additionally embed the appropriate risk governance having CEO and CRO at a similar level, preferably both reporting to the top managerial staff. This, in any case, may come at the cost of a lower execution in a typical market environment. Aebi, V. (2011)

Francoeur, C., Labelle, R., & Sinclair-Desgagné, B. (2008) investigate whether and how the participation of women in the firm's board of directors and senior management enhances financial performance. Women are frequently selected to initiative positions under problematic organizational circumstances associated with serious risk of failure and criticism, which proposes the presence of a 'glass cliff.' Firms with a high extent of women in both their management and governance frameworks make enough an incentive to stay aware of typical securities exchange returns. In any case, given the "glass cliff" theory, this may even imply that female chiefs beat their male partners in light of the fact that, compared to men, the positions women are given might be less encouraging to begin with.

3.0 Descriptive Analysis

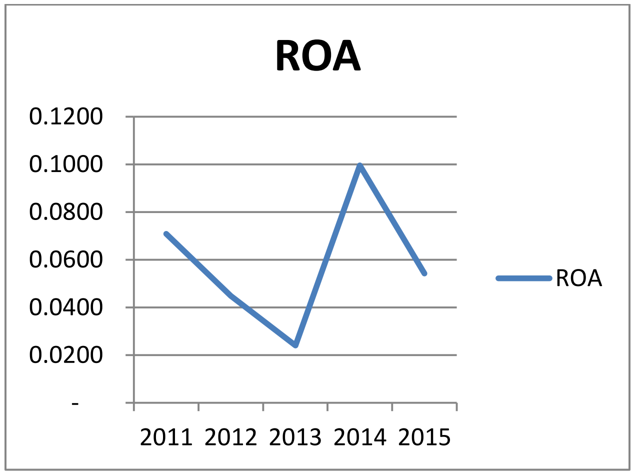
	2011	**2012**	**2013**	**2014**	**2015**
Return on Equity (%)	**0.1418**	**0.0902**	**0.0467**	**0.2064**	**0.1148**



Return on value (ROE) is the measure of net income returned as a rate of shareholders value. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. Based on the graph above, it's showed that the return on the equities for the Amanahraya REIT (ARREIT) was recorded in the unsteady pattern. What we can see, for the year of 2011, it was recorded high percentage compare to the year of 2012 and the year of 2013. But it rapidly increase at year 2014 then decrease back at 2015. From the situations, it can be concluded that for the year of 2014 the ARREIT has a lot of amount of the shareholder that are invested in the ARREIT that leads to the highest percentage of the return on the equities for the ARREIT compare to the three year that been recorded. For the year of 2015, it was shows that a little bit decrease of the return on equities rate that may be influence by the numbers of the shareholder invested in the ARREIT.

ARREIT can improve its return on equity using more financial leverage. They can finance themselves with debt and equity capital. By increasing the amount of debt capital relative to its equity capital, ARREIT can increase its return on equity. ARREIT also should increase profit margins. As profits are in the numerator of the return on equity ratio, increasing profits relative to equity increases a company's return on equity. Increasing profits does not necessarily have to come from selling more products. It can also come from increasing prices of each product sold, lowering the cost of goods sold, reducing its overhead expenses, or a combination of each.

	2011	2012	2013	2014	2015
Return on Asset	**0.0708**	**0.0448**	**0.0240**	**0.0996**	**0.0542**

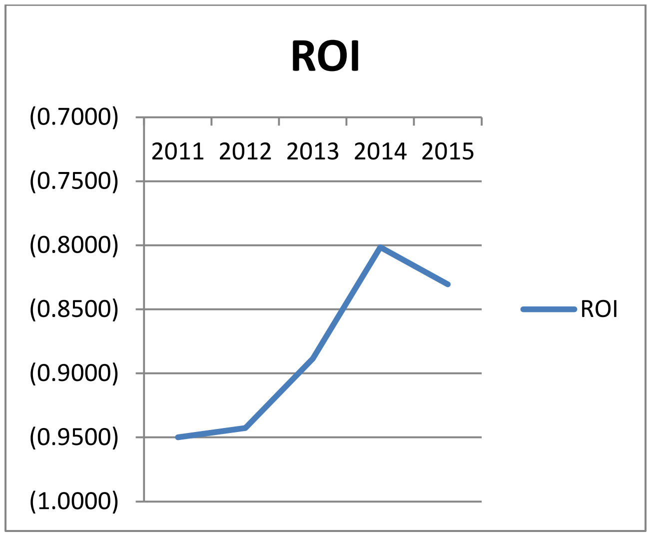


Return on assets (ROA) is an indicator of how profitable Amanahraya REIT (ARREIT) is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculate by dividing a company's annual earnings by its total assets. The cash return on assets ratio is used to compare a business' performance among other industry members. It is an efficiency ratio that rates actual cash flows to company assets without being affected by income recognition or income measurements. The ratio can be used internally by the company's analysts or by potential and current investors.

Based on the table above, the return on assets for the ARREIT was recorded in the downwards trends from the year of 2011 to the year 2013. It was recorded, from the years of 2014, it rise from 0.0240 to the 0.0996 which is increase by 0.0756 and drop back from 2014 at year 2015 from the 0.0996 to the 0.0542. It shows that , the return on assets for ARREIT in year 2014 state the most efficient rate that the ARREIT companies manage to utilize their assets for generating more revenue in that years.

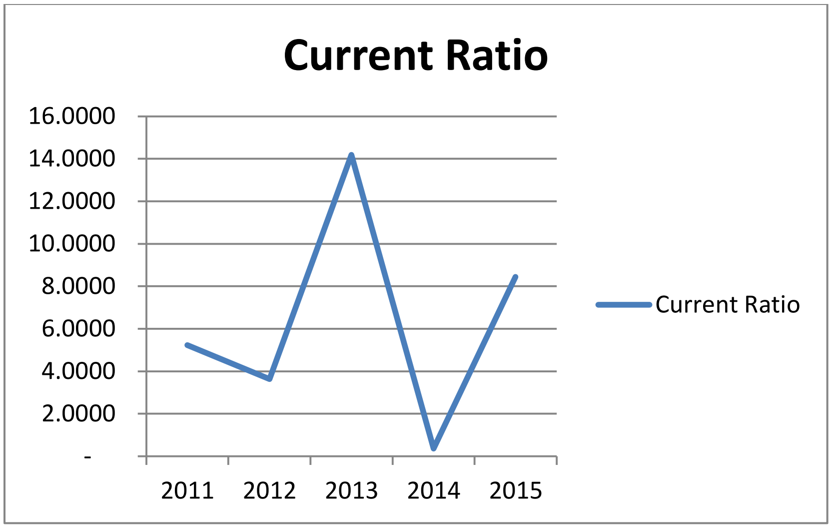
Based on this situation, the ARREIT did not use the asset that has been incurred properly in term of generating the revenue for the ARREIT at the year 2011 to 2013. According to the balance sheet of the ARREIT, it shows that the enhancement of the total assets that was incurred year by year, with that situation, the ARREIT might be facing some problem in order to attract the investor come and joining to invest in the ARREIT. To overcome this problem, ARREIT should keep asset costs down by monitoring their asset expenses monthly.

	2011	2012	2013	2014	2015
Return on Investment	**-0.9499**	**-0.9426**	**-0.8884**	**-0.8015**	**-0.8305**



Return on Investment (ROI) is the advantage to an investor resulting investment of some asset. A high ROI implies the speculation gains contrast positively with investment cost. As an execution measure, ROI is utilized to assess the proficiency of a speculation or to analyze the productivity of various distinctive investments. In absolutely economic terms, it is one method for considering profit in connection to capital contributed. In business, the purpose behind the "return on investment" (ROI) metric is to gauge, per period, rates of return for cash put resources into a monetary substance keeping in mind the end goal to choose whether or not to embrace a speculation. It is additionally utilized as pointer to look at changed venture speculations inside a venture portfolio.

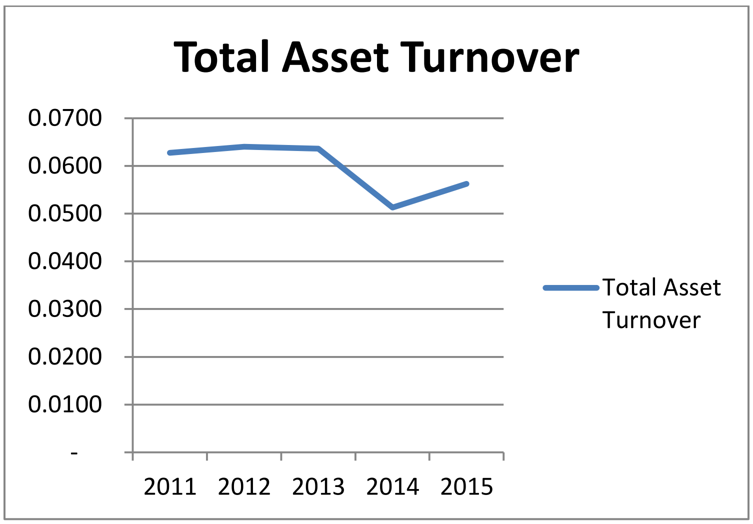
	2011	2012	2013	2014	2015
Current Ratio	**5.2320**	**3.6284**	**14.1831**	**0.3656**	**8.4470**



The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations. To gauge this ability, the current ratio considers the current total assets of a company (both liquid and illiquid) relative to that company's current total liabilities. The current ratio is mainly used to give an idea of the company's ability to pay back its liabilities (debt and accounts payable) with its assets (cash, marketable securities, inventory, and accounts receivable). As such, current ratio can be used to take a rough measurement of a company's financial health. Based on the table above, it was recorded that the current ratio for the year of 2011 of the ARREIT was 5.2320 and decrease to 3.6284 at year 2012. However, it's rapidly rise at 2013 which is increase by 10.5547 while for the year of 2014 its drop drastically to 0.3656 and for 2015 its show enhancement by 8.0814.

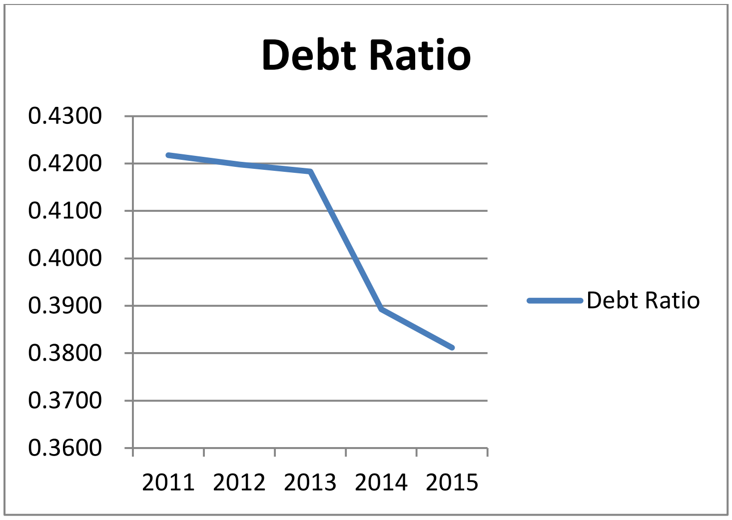
What can be conclude based on this scenario, the current ratio for the ARREIT can be assumed as a good condition at year 2014 since the current ratio for ARREIT is highest which means the ARREIT is considered manage to meet the short and long term obligations that has been incurred by them. The higher the current ratio, the more capable the company is of paying its obligations, as it has a larger proportion of asset value relative to the value of its liabilities. This kind of things also will entrust the third parties confidence with the ARREIT such as supplier, bank and so on. As the example, it's not easy for the particular companies to get the loan from the bank or any financial institutions. Sometimes the benchmark that has been set by the financial institutions might be cannot fulfill the companies and with this situation it will lead to the unsuccessful for the particular companies to get the fund from the financial institutions like the bank in order expanding their business. Based on the current ratio of the ARREIT, it must be not a problem in order to gain the confidence from the third parties to provide the fund to ARREIT based on the current ratio that has been recorded.

	2011	2012	2013	2014	2015
Total asset turnover	**0.0628**	**0.0640**	**0.0636**	**0.0513**	**0.0562**



Asset turnover is a financial ratio that measures the proficiency of an organization's utilization of its assets in creating sales to the company. Organizations with low net revenues have a tendency to have high resource turnover, while those with high profit margin have low asset turnover. Organizations in the retail business have a tendency to have a high turnover ratio due for the most part to relentless and aggressive evaluating.

	2011	2012	2013	2014	2015
Debt ratio	**0.4218**	**0.4198**	**0.4183**	**0.3893**	**0.3812**



The debt ratio is appeared in decimal format because it computes total liabilities as a rate of total assets. A lower debt ratio for the most part infers a more stable business with the capability of life span because an organization with lower ratio has lower overall debt. Based on the historical performance from 2011 until 2015, the percentage is decreasing but in a small changes. Although, we can see that the ARREIT's liabilities are only less than 50 percent of its total asset. Essentially, only its creditors own half of the company's assets and the shareholders own the remainder of the assets.

4.0 Discussion and Conclusion

Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.058680	.0284463	5
ROE	.119980	.0596409	5
ROI	-.882580	.0660578	5
LIQUID	6.371220	5.2493497	5
LEVERAGE	.406080	.0192696	5
GDP	5.3000	.49497	5

INFLATION	2.5800	.74632	5
UNEMPLOY	3.0600	.13416	5
EXCHANGE	3.5660	.47019	5

Correlations

		ROA	ROE	ROI	LIQUID	LEVERAGE	GDP	INFLATION	UNEMPLOY	EXCHANGE
Pearson Correlation	ROA	1.000	.999	.440	-.840	-.456	.853	.067	-.088	.236
	ROE	.999	1.000	.475	-.835	-.496	.847	.065	-.049	.263
	ROI	.440	.475	1.000	-.132	-.905	.249	.309	.441	.446
	LIQUID	-.840	-.835	-.132	1.000	.220	-.968	.472	.221	.091
	LEVERAGE	-.456	-.496	-.905	.220	1.000	-.232	-.146	-.722	-.696
	GDP	.853	.847	.249	-.968	-.232	1.000	-.393	-.339	-.207
	INFLATION	.067	.065	.309	.472	-.146	-.393	1.000	.090	.431
	UNEMPLOY	-.088	-.049	.441	.221	-.722	-.339	.090	1.000	.861
	EXCHANGE	.236	.263	.446	.091	-.696	-.207	.431	.861	1.000
Sig. (1-tailed)	ROA	.	.000	.229	.037	.220	.033	.457	.444	.351
	ROE	.000	.	.210	.039	.197	.035	.459	.469	.335
	ROI	.229	.210	.	.416	.017	.343	.307	.229	.226
	LIQUID	.037	.039	.416	.	.361	.003	.211	.360	.442
	LEVERAGE	.220	.197	.017	.361	.	.353	.408	.084	.096
	GDP	.033	.035	.343	.003	.353	.	.257	.289	.369
	INFLATION	.457	.459	.307	.211	.408	.257	.	.443	.234
	UNEMPLOY	.444	.469	.229	.360	.084	.289	.443	.	.031
	EXCHANGE	.351	.335	.226	.442	.096	.369	.234	.031	.
N	ROA	5	5	5	5	5	5	5	5	5
	ROE	5	5	5	5	5	5	5	5	5
	ROI	5	5	5	5	5	5	5	5	5
	LIQUID	5	5	5	5	5	5	5	5	5

LEVERAGE	5	5	5	5	5	5	5	5	5
GDP	5	5	5	5	5	5	5	5	5
INFLATION	5	5	5	5	5	5	5	5	5
UNEMPLOY	5	5	5	5	5	5	5	5	5
EXCHANGE	5	5	5	5	5	5	5	5	5

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.999[a]	.998	.997	.0015529	
2	1.000[b]	1.000	1.000	.0003467	3.193

a. Predictors: (Constant), ROE

b. Predictors: (Constant), ROE, LEVERAGE

c. Dependent Variable: ROA

Malaysia's economy continued to witness a healthy growth in 2015 with overall gross domestic product of 4.5%, as affirmed by Bank Negara Malaysia (“BNM”), driven by domestic demand as against weak net export. Both the private and public sectors remain as the anchor of growth for the Malaysian economy.

Based on the result from descriptive statistics refer to appendix 1, shows that mean of return on asset for the 5 year is 0.0586 and the standard deviation 0.0284. Return on equity (ROE) positively correlated to return on asset (ROA). If the return on equity increases, return on equity also will increase. P value is almost 100% so it is good for the company.

As we can see this performance based on unsystematic risk that most significant to the profit. Unsystematic risk is a risk that comes with the internal factor and it can be reduced through diversification. ARREIT should manage their equity properly to generate the profit. So ARREIT should improve their corporate governance in terms of equity.

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