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on Dutch Lady Milk Industries Berhad**

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ABSTRACT

Nowadays, the business environment has undergone some changes, bringing more and more complexity and occurrence of unpredictable events. In today's ever-changing global economy, companies face enormous competitive pressures that require them to become better, faster and cheaper. They need to cope with the increasingly serious challenges of the environment and need to improve their adaptability. Today, continuous performance is the goal of any company. This is because only through performance, companies can experience development and progress. Therefore, this study is to know the influences of internal variables and external variables toward company's performance for effective and efficient results.

Keywords: *Company's performance, Internal and External Variables*

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter included the overview of the Dutch Women's Milk Industries Berhad, problem statements, the research objectives, the scope of the study and the discussion of the research organization.

1.2 Dutch Lady Milk Industries Berhad's Overview

Since the 1960s, Dutch Lady Milk Industries Berhad (doing business as Dutch Lady Malaysia) has been a cow milk and dairy manufacturer in Malaysia. It used to be under Royal FrieslandFoods, a multinational cooperative based in the Netherlands. Dutch Lady Malaysia is currently a subsidiary of FrieslandCampina, which was established after the Friesland Foods and Campina merger in December 2008. Its present products include adult milk, UHT milk, pasteurized milk, sterile milk, family dairy powder and low fat yogurt.

The firm began on 28 May 1963 as Pacific Milk Industries (Malaya) Sdn Bhd where it was commissioned to create sweetened condensed milk in its plant in Petaling Jaya, becoming the first out-of-the-Netherlands manufacturing facility for FrieslandFoods. It was incorporated as a limited private joint-stock company and began producing condensed milk only before expanding into dairy products. Prior to the expansion, many of its products began to be distributed to surrounding countries in Asia and Oceania.

The firm became the first milk corporation to be listed on the Kuala Lumpur and Singapore stock exchanges on 24 September 1968 and changed its name to Dutch Baby Milk Industries (Malaya) Berhad by 1975. Following the company's modernization, it changed its name to Dutch Lady Milk Industries Berhad in 2000 and has been using ultra-high-temperature processing(UHT) and packaging technology to produce milk in the country since the 1970s.

The company continued to gradually manufacture and bring in new products to the Malaysian market – sterilized milk was produced locally and sold in plastic bottles in 1983, the production of chilled milk products began in 1986, and the introduction of fruit yogurt and growing milk in 1988.

Dutch Lady Malaysia was revealed to be the market share leader in the increasing dairy sector in 2011, with the Dutch Lady brand holding 40% of domestic market share. Its financial record for the first quarter of 2012 showed a 9% rise in revenue year-on-year, with a net gain of RM27.5 million (US\$ 8.72 million). Despite a slowdown in the Malaysian milk sector, it was revealed that Dutch Lady Malaysia is on track to reach its RM1 billion sales target for 2013.

1.3 Problem Statement

According to Abdul Wahab (2007), governance researchers showed that reforming corporate governance (CG) leads to the success of companies in various nations. In contrast, if company did not manage corporate governance well, it will cause negative impact toward company. Jensen (1993) found that directors in large board of directors have different opinions and it is difficult to reach a consensus, so the efficiency is low. If the number of directors increases, the situation may worsen. Dutch Lady Milk Industries Berhad has many directors in the company to manage the performance of company. Since there were many directors in the company, the corporate governance problem may be faced by them due to the different opinions of different directors when they are making decisions.

Credit risk should be managing well in order to make sure company is performing well. Credit risk may lead to capital adequacy and the worst is will lead to insolvency of company. Dutch Lady Milk Industries Berhad need to manage the credit risk well by evaluate the parties before lending. Besides, operational risk is the chance of loss due to the inadequate process,

systems or policies (Target, 2019). Operational risk can occur tangibly in the likes of corporate disturbance, failures in command, mistakes, misdeeds or external occurrences. Operational risk is not a new risk, but hard evidence indicates that this risk is important and possibly increasing, nearly every disastrous loss of financial institutions that has occurred over the last 20 years (Mwaura, 2016). Dutch Lady Milk Industries Berhad need to pay efforts in managing this risk.

Liquidity risk relates to the risk that even short-term financial needs may not be met by a company. To avoid future insolvency and long-term financial needs, the business requires to manage its liquidity risk effectively (Awin, 2018). Dutch Lady Milk Industries Berhad may face the problem which is inability to convert company's assets into cash immediately when there was insufficient of cash.

Market risk is the possibility that a variable will affect the overall financial market performance of the investor. It cannot be eliminated through diversification (Market Risk, 2019). The market risk may reduce the company's profitability. Dutch Lady Milk Industries Berhad need to pay attention in the movement of the interest rate, stock price and others to make sure market risk being minimized.

1.4 Research Objectives

This study was conducted to determine the influences of independent variables on company's performance of Dutch Lady Milk Industries Berhad. The objectives of this study are:

1. To investigate the relationship between internal variables and company's performance.
2. To investigate the relationship between external variables and company's performance.
3. To investigate the relationship between internal and external variables and company's performance.

1.5 Research Question

1. Will internal variables influence company's performance?
2. Will external variables influence company's performance?
3. Will internal and external variables influence company's performance?

1.6 Scope of Study

The sample of study consist of 5 years of financial performance of Dutch Lady Milk Industries Berhad. All the financial ratios were based on each year's annual report which is from year 2014 to 2018.

1.7 Organization of Study

This study consists of five chapters. The first chapter provides research background, including research overview, problem statement, research objectives, research scope and research organization. Chapter two include literature review and the subject discussed in this chapter is about company's performance and its determinants. Chapter three included the theoretical framework, measurement of variables, research methodology and data analysis. Chapter four discusses about the results and findings of the study, which includes the descriptive statistical analysis, correlation and diagnostic test. Finally, Chapter five includes the conclusions of the study, the significance of the research, the limitations of the research, and future recommendations.

CHAPTER 2

LITERATURE REVIEW

2.1 Corporate Governance

According to Humera Khan (2011), corporate governance is a broad term that describes procedures, practices, policies, regulations, and institutions that guide organizations and companies in how they operate, manage, and control their activities. It works to achieve organizational goals and manage stakeholder relationships, including boards and shareholders.

Tafara and Peterson (2016) stated that globalizing high-quality corporate governance policies is in everyone's best interest as such measures reassure investors, reduce the expenses associated with investor due diligence and subsequently reduce the expenses associated with otherwise perceived corporate governance measures that are not always of individual interest (Tafara, 2016). The way an organisation is directed and regulated can then influence the organization's performance. As dominant shareholders may thwart minority shareholders, therefore, ownership structure and concentration can influence the quality of choices (Patience Siwadi, 2015).

However, on the positive, autonomous directors have a positive impact on corporate performance that provides objectivity and professionalism. Institutional investors' existence could also attract investment and affect performance through experience and superior skills (Aluchna, 2009). Based on the research, there were positive relationship between corporate governance ratings and company performance (Jensen M. M., 1976).

2.2 Credit Risk

Credit risk or default risk includes a customer's or counterparty's failure or unwillingness to fulfil lending, trading, hedging, settlement and other financial transactions

obligations. Credit risk usually consists of risk of transaction or default risk and risk of portfolio. In turn, the risk of the portfolio includes the risk of intrinsic and concentration. Credit risk includes credit risk default, risk of the guarantor or counterparties of the derivatives. (Adamko, 2015).

Although credit risk has negative impact toward companies, but according to Ifurueze (2013), credit grants have indeed increased sales, which has increased profit margins. Thus, companies in food and beverages industry tend to grant credit to their customers. It is essential to manage the account receivables to avoid large amounts of bad and dubious debts. Based on the study, there is a positive relationship between effective management of credit sales and company performance in food and beverage sector. They should provide credit sales to creditworthiness consumers with suitable credit control mechanism in order for firms to maximize their profit (Ifurueze, 2013).

2.3 Operational Risk

Operational risk can occur tangibly in the likes of corporate disturbance, failures in command, mistakes, misdeeds or external occurrences. According to Basel Committee on Banking Supervision (2004), operational risk is the risk of loss due to insufficient or failed inner procedures, individuals and systems, or external occurrences. Operational sources of risk can be internal or external to the company and are produced by individuals, procedures and technology (Matthews, 2008).

Kerongo Maatwa Meshack and Rose Wairimu Mwaura (2016) claims that an organization's culture is critical to its operational risk management achievement. According to the writer, operational risk has two causes: an act of God (flood, earthquake and windstorm) and a person. People at the heart of organizational culture are designing and maintaining processes and systems, and creating operational risk events by doing things they should not do

or what they should do. He claims that an organization's culture is critical to its operational risk management achievement. Based on this study, operational efficiency positively influenced the financial performance of company.

2.4 Liquidity Risk

Liquidity is usually described as a financial company's capacity to fulfil its debt obligations without incurring unacceptable huge losses. "Liquidity risk" is the risk that a company will not be able to fulfil its current and future cash flow and collateral needs, both anticipated and unexpected, without significantly influencing its daily operations or the overall financial situation (FRBSF, 2008).

According to Orshi and Yunusa (2016), there is an insignificant adverse relationship between liquidity management and return on equity (ROE) as a measure of financial performance of listed food and beverage companies in Nigeria. This is because of the longer cash conversion cycle (CCC). Therefore, management shortens the company's CCC to a justifiable minimum to maximize shareholder returns. Consequently, a shorter CCC would improve financial performance.

2.5 Market Risk

According to the Basel Accord, market risk is the risk of failure in balance sheet products and off-balance sheet products owing to market price modifications. There are some factors that will cause market risk emergence which is equity prices, interest rates, foreign exchange rate and commodity risk. Market risks can affect company's performance in several ways which is in direct impact and indirect impact (Vladimir Mirković, 2013).

Based on the past study, Nimalathan and Pratheepkanth (2012) stated that the relationship between market risk and financial performance of companies was found to be

significantly positive. Besides, from the study of Diby and Dilesha (2019), they found that market risk indices jointly adversely impacted the financial performance of companies which is return on assets, return on equity and profit margins. While the book-to-market ratio was the market risk indicator which had a greater and significant effect on the profitability of the companies.

CHAPTER 3

METHODOLOGY

3.1 Introduction

Research methodology is a method of systematically solving research problems. It can be understood as the science of researching scientific research methods (Bhattacharyya, 2006). This method is used to accomplish the research objectives, so the results are obtained at the end of the study. The purpose of this study was to understand the company's performance and its determinants in the food and beverage industry in Malaysia. The method used to collect the data is Statistical Package for the Social Sciences (SPSS) version 25.

3.2 Sampling Technique

The sample in this study is five years of financial performance of Dutch Lady Milk Industries Berhad. The year that selected in this study are year 2014 to 2018. The data is taking from the five years' annual reports of Dutch Lady Milk Industries Berhad which is from year 2014 until 2018. The data is used to measure the dependent variables which is company's performance (ROE) and the independent variables which are internal and external variables.

3.3 Statistical Technique

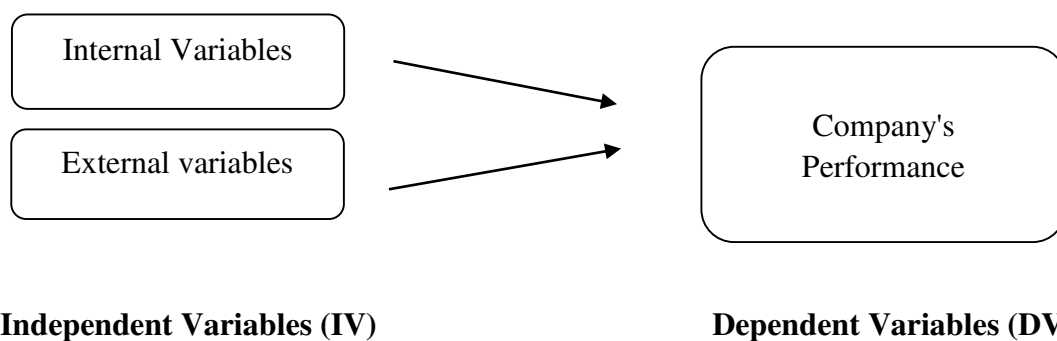
Dutch Lady Milk Insutries Berhad had been chosen and the data from five years' annual report (from 2014 to 2018) was collected. In the annual report, the data that be used is based on the income statement and balance sheet from various aspects, profitability, liquidity, operational, and credit to calculate effect of firm specific factors for the company. For non-financial performance, use the information disclosed by the Board of Directors regarding nationality, qualifications, gender diversity, audit committee, compensation committee and board size, board meetings, experience and information to find index scores from total

compensation. In order to determine the external variables, the data is obtained from Malaysia gross domestic product (GDP), inflation rate, interest rate, exchange rate and changes of prices to see the trend of economic from 2014 to 2018.

In this study, the main and the most commonly used technique is the ordinary least squares (OLS) regression. According to Hutcheson, G. D (2011), Ordinary Least Squares (OLS) regression is a generalized linear modelling technique that can be used to model a single response variable obtained at least on an interval scale. The OLS regression assumes that all input analysis variables are continuous, and the process of regression values the actual values. OLS regression is the preferred technique for estimating regression, even if other alternative methods are necessary. It's because OLS is easier than other alternative techniques, sensitive, and in its outcome have desirable features.

3.4 Data Analysis

In this analysis, there is one dependent variable and two independent variables for line with the conceptual framework for future research. The structure for analysis is as follows:



Several regression analyses were used to assess the effect of independent variables on the dependent variable. It is a regression technique that with the dependent variable would explain the effect of the independent variables.

3.5 Statistical Package for Social Sciences (SPSS)

In this study, the IBM SPSS 25 version was used to calculate the data to obtain the results. Statistical package SPSS, also known as social science, is a powerful software that helps researchers analyse statistical data. (Landau&Everitt, 2004). However, in 2014, after IBM acquired IBM SPSS Statistic, it was renamed SPSS in 2009. The software is commonly used in social sciences and is now used for data mining, market research and marketing. This is because IBM SPSS Statistic contains descriptive statistics, bivariate statistics, numerical result prediction, and identification group prediction(Statistical Package for the Social Science (SPSS), n.d). However, in this study, IBM SPSS Statistic will only be used for linear regression-based calculations and obtain quantitative data on the correlation between variables. Quantitative data is basically data about digital variable data obtained from Dutch Lady Milk Industries Berhad's 2014 to 2018 annual report.

CHAPTER 4

FINDINGS AND ANALYSIS

4.1 Descriptive Statistics

Table 1 : Descriptive Statistics

Descriptive Statistics

	Mean	Std. Deviation	N
ROE	.9712	.2097	5
Current Ratio	1.1768	.1944	5
Quick Ratio	.7507	.1919	5
Average-Collection Period	27.8141	10.7914	5
Debt To Income	26.0675	13.1549	5
Operational Ratio	.17223	.01591	5
Operating Margin	.1674	.0204	5
Corporate Governance Index	1.0000	.0000	5
GDP	5.1800	.6686	5
Inflation Rate	2.4200	1.0710	5
Interest Rate	2.8800	1.6453	5
Exchange Rate	4.3900	.7811	5
Stdv	.3729	.1105	5

Based on the table above, ROE has a mean value of 0.9712 which implies that company is able to generate 97.12 cents profit from each Ringgit Malaysia of common shareholders' equity generate. The standard deviation for ROE is 0.2097 which indicates that there is less volatile for ROE movement within five years.

Next, current ratio's mean value is 1.1768 and its standard deviation is 0.1944. This indicates that every RM1.1768 of current assets is used to cover RM1 of current liabilities of the company. The movement of current ratio of company among these five years is considered as stable since its standard deviation is less than 4 which.

Moreover, quick ratio of company has a mean value of 0.7507 and a standard deviation of 0.1919. This means that there is only 75.07cents of quick assets which need to cover RM1 of current liabilities. The company's quick assets are insufficient to cover its current liability since the value is less than 1. The company's quick ratio has a stable movement within five years because its standard deviation is less than 4.

Average-collection period has a mean value of 27.8141 and its standard deviation is 10.7914. This implies that the period that company collects back the money from account receivable is about 28 days. The company has a very volatile average-collection period within five years since its standard deviation value is more than 4.0.

Furthermore, debt to income has a mean value of 26.0675 and a standard deviation of 13.1549. This shows that company's 26.0675% of monthly gross income is used to pay for its debt each month. The volatility of company's debt to income among these five years is considered as very high because its standard deviation is greater than 4.

Operational ratio's mean value and standard deviation is 0.17223 and 0.1591 respectively. This means that every 17.23% of company's revenue are used to cover their operating expenses. The standard deviation of company shows there is less volatile for operational ratio within five years.

Apart from that, operating Margin has a mean value of 0.1674 while its standard deviation is 0.0204. It indicates that company gained 16.74 cents profit from every Ringgit Malaysia of sales. The standard deviation of the operating margin is 0.0204 which indicates that the operating margin of company is less volatile among five years.

Next, mean value of corporate governance index is 1.0000 while its standard deviation is 0.0000. This illustrates that the company's average corporate governance index among five years is 1.0000 and it is very stable with zero volatility within five years since its standard deviation is zero.

Furthermore, the mean value for five years GDP growth rate is 5.1800 and its standard deviation is 0.6686. This indicates that the average GDP growth rate from year 2014 to 2018 is 5.18% and its volatility considers as less since the standard deviation is less than 4.

Besides, the mean value and standard deviation of inflation rate is 2.4200 and 1.0710 respectively. This illustrates that the average inflation rate within five years is 2.42% and the inflation rate is less volatile among these five years.

Moreover, interest rate has a mean value of 2.8800 and a standard deviation of 1.6453. This means that the average interest rate among these five years is 2.88%. The standard deviation for interest rate is 1.6453 which means that the movement for interest rate is consider as less volatile among five years.

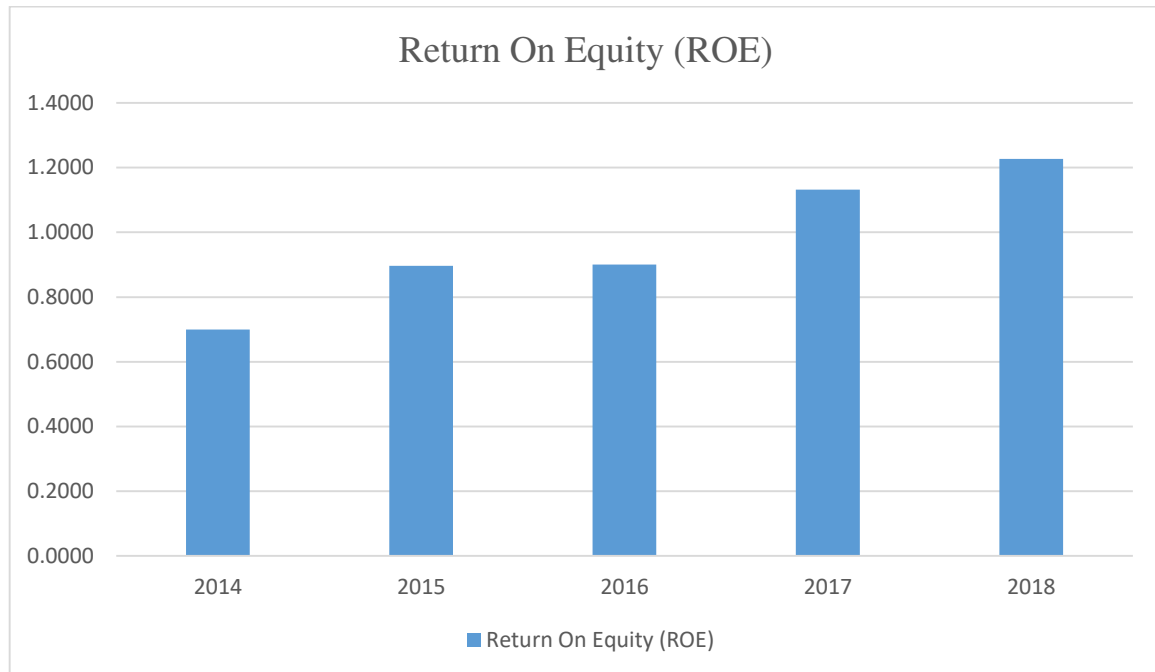
Company's exchange rate has the mean value of 4.3900 and its standard deviation is 0.7811. It shows that the average of exchange rate among these five years is 4.39%. The standard deviation for exchange rate is 0.7811 which means that the movement of exchange rate among these five years is less volatile.

Lastly, standard deviation of company is 0.3729 and its standard deviation is 0.1105. This implies that the average standard deviation among these five years is 0.3729 and the movement of company's prices among five years is consider as less volatile.

4.2 Performance

4.2.1 Return on Equity

Figure 1 : Return on Equity (ROE) from year 2014 to 2018

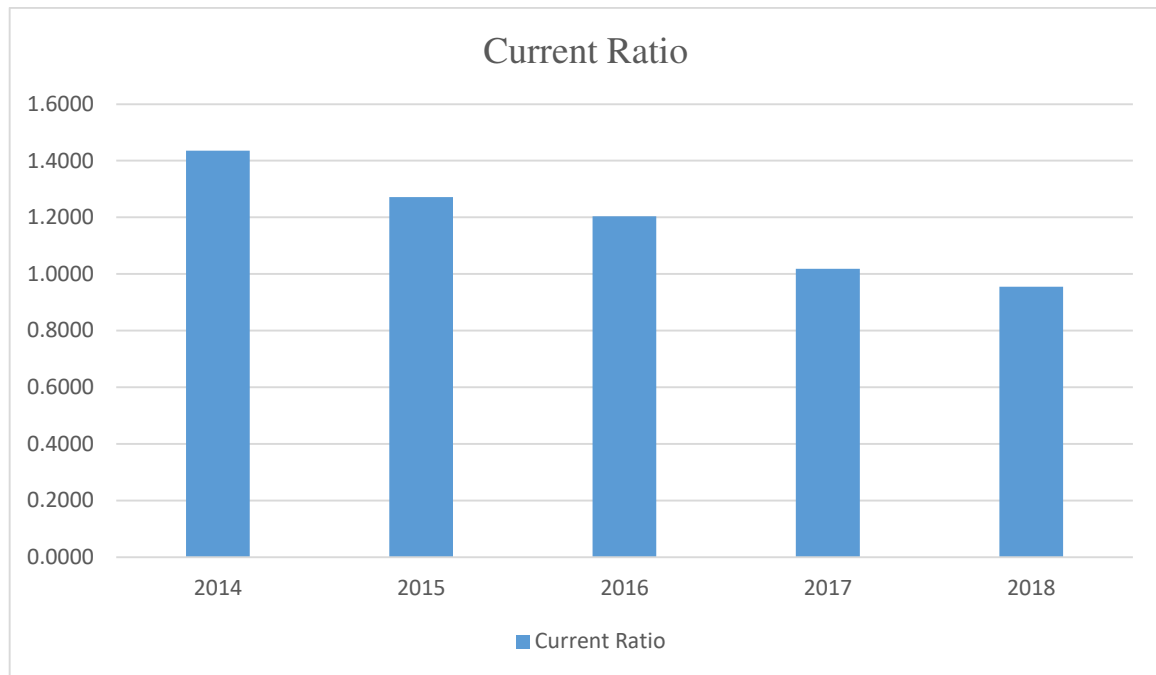


Return on equity (ROE) ratio shows the performance of the company. According to Sakina Ichسانی (2015), return on equity (ROE) ratio is used to measure the rate at which a company succeeds in generating profits for shareholders. Based on the figure above, the highest ROE is 1.2275 in year 2018. This shows that in year 2018, the company fund the its operations and development by using equity financing effectively. In the other hand, the lowest ROE is 0.6993 which is in year 2014. This means that company did not have effective management in order to generates profits from its shareholders in that year.

4.3 Liquidity Risk

4.3.1 Current Ratio

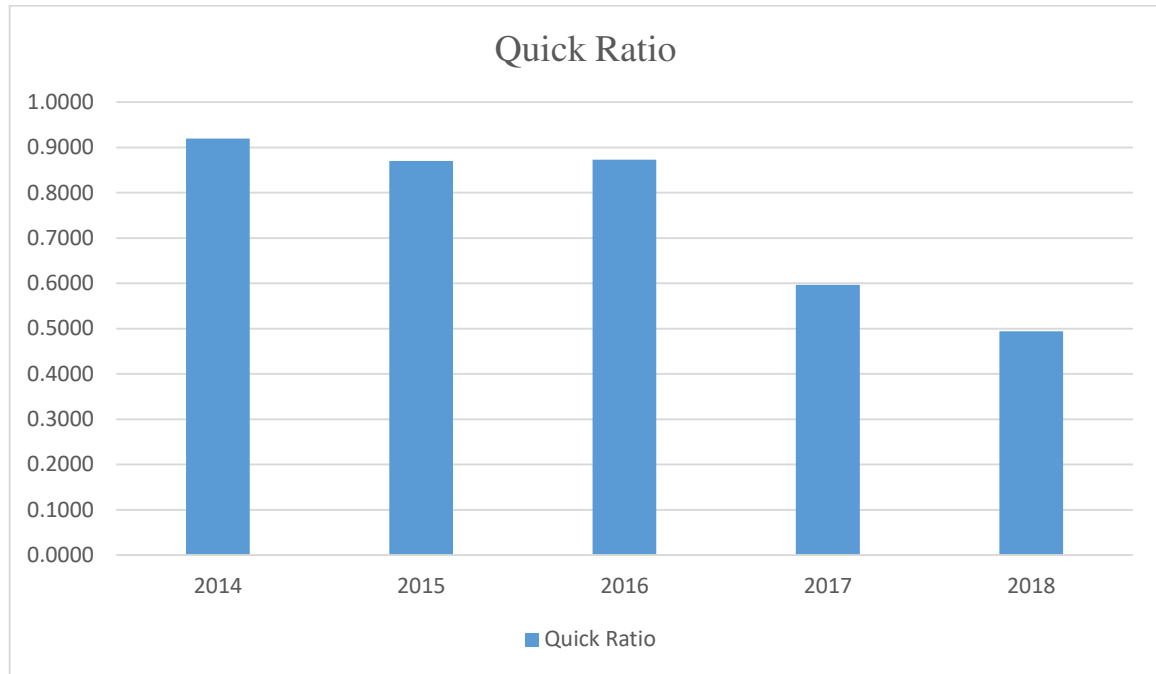
Figure 2: Current Ratio from year 2014 to 2018



The current ratio is a ratio of liquidity and efficiency that measures a company's ability to repay short-term debt with its liquid assets (Current Ratio, 2019). From the figure above, the highest current ratio is in year 2014 which is 1.4356. This means that company has the most ability to repay its short-term debt with current assets. While in year 2018, the current ratio is the lowest which is 0.9547. This indicates that company has insufficient current assets to repay its short-term debt in that year.

4.3.2 Quick Ratio

Figure 3: Quick Ratio from year 2014 to 2018

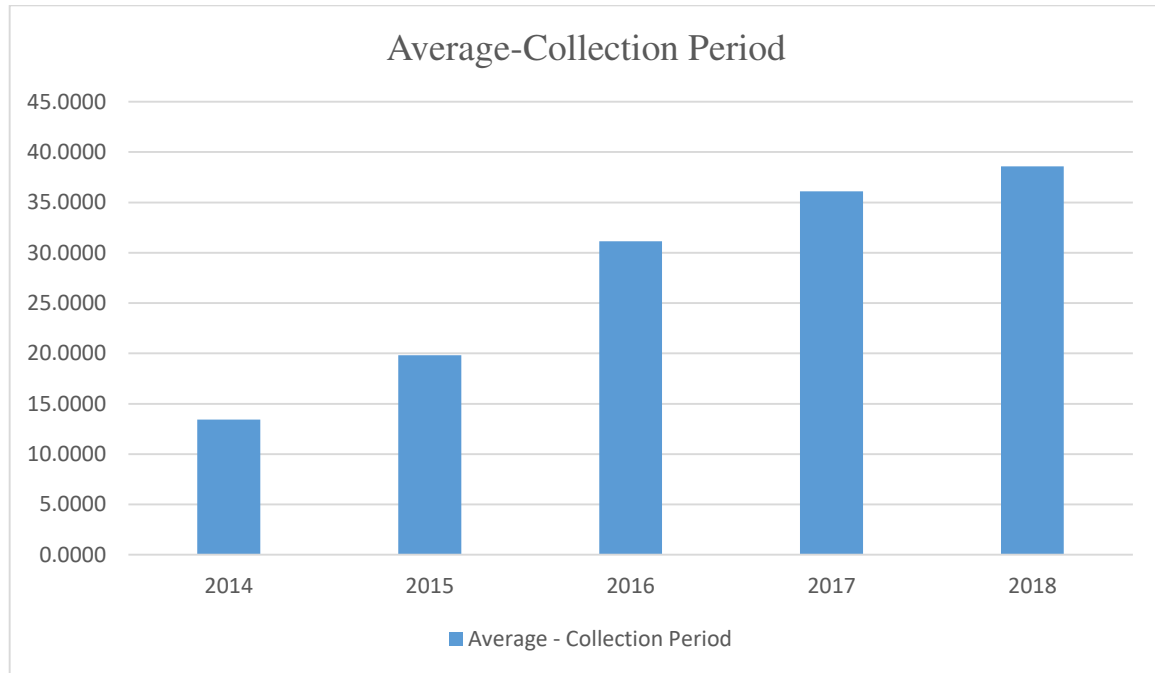


Quick ratio includes the most liquid assets and current liabilities. The increase in the ratio value indicates that the company's liquidity is high (Durrah, 2016). Based on the figure above, company has the highest quick ratio within five years is in year 2014 which is 0.9197. It shows that the company has sufficient liquidity to pay its debts to increase efficiency in order to conduct business between 2014 and 2018. However, company's lowest quick ratio among these five years is 0.4941 in year 2018 which implies that company faces the liquidity risk when it repays its current debt in that year.

4.4 Credit Risk

4.4.1 Average – Collection Period

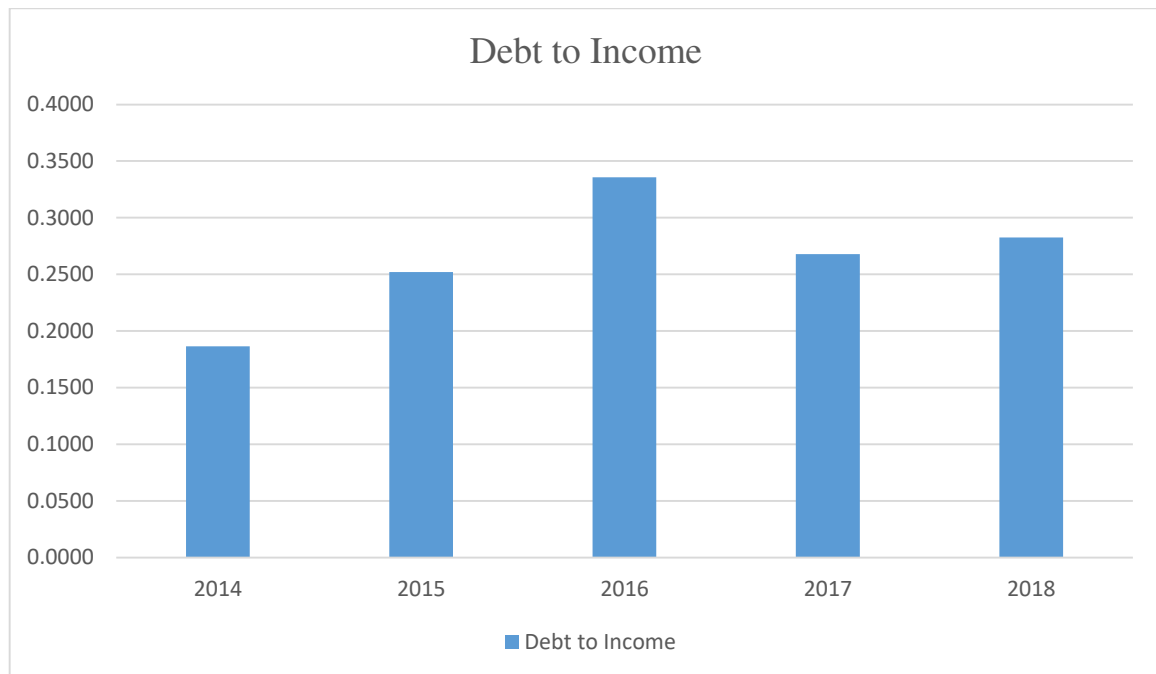
Figure 4: Average – Collection Period from year 2014 to 2018



The average-collection period can be used to measure the credit risk exposure of a company. The value is the period of time which the company takes to collect money from the debtor. The lower the value, the shorter the average time the company takes to collect the accounts receivable (Peavler, 2019). The lowest average average-collection period within these five years is 14.4413 days in year 2014. This means that the company is most efficient in handling accounts receivable during the year. However, in year 2018, company has the highest average-collection period which is 38.5832 days in year 2018. This shows that the company need the longest time to collect money from the debtors.

4.4.2 Debt to income

Figure 5: Debt to income from year 2014 to 2018

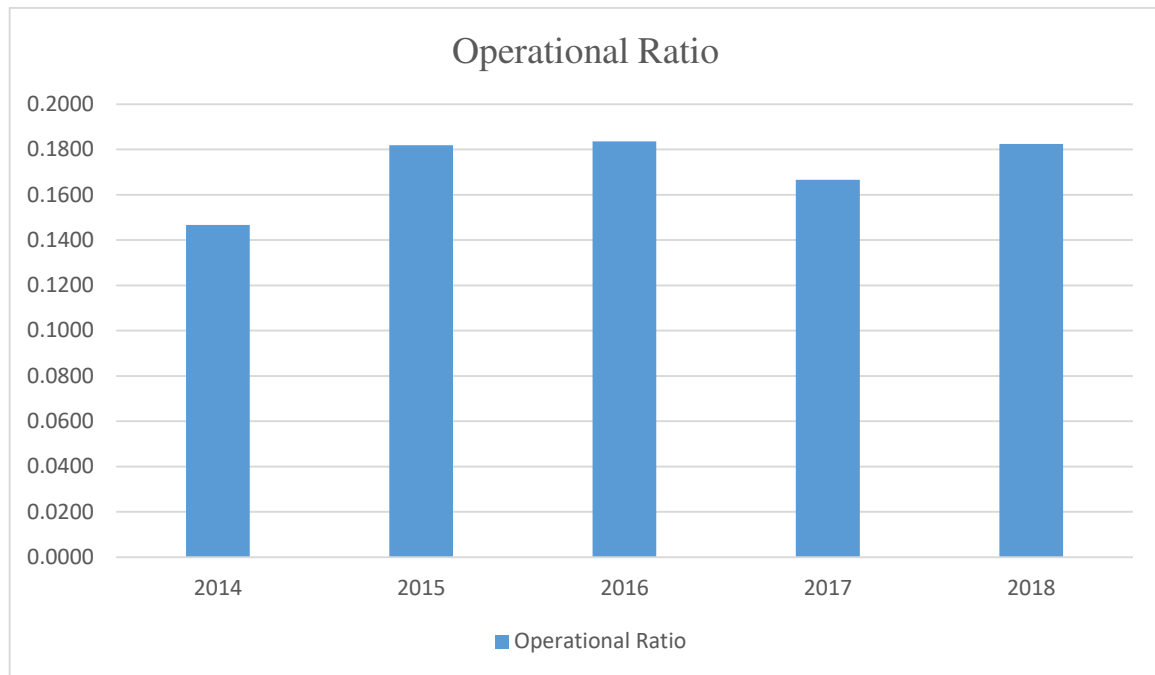


The debt-to-income ratio is a measure of the percentage of income repayments by comparing monthly payments to monthly gross income. The ratio of lower debt to income is always better than the higher ratio of debt to income. This is because it shows that the monthly repayment of debt is smaller percentage of monthly gross income. (Debt to income ratio, 2019). In year 2014, company has the lowest debt to income ratio which is 0.1864 which means that the company's percentage of income repayments is low in that year. However, the highest debt to income ratio is 0.3356 in year 2016. This shows that company has the highest income repayment percentage in that year.

4.5 Operational Risk

4.5.1 Operational Ratio

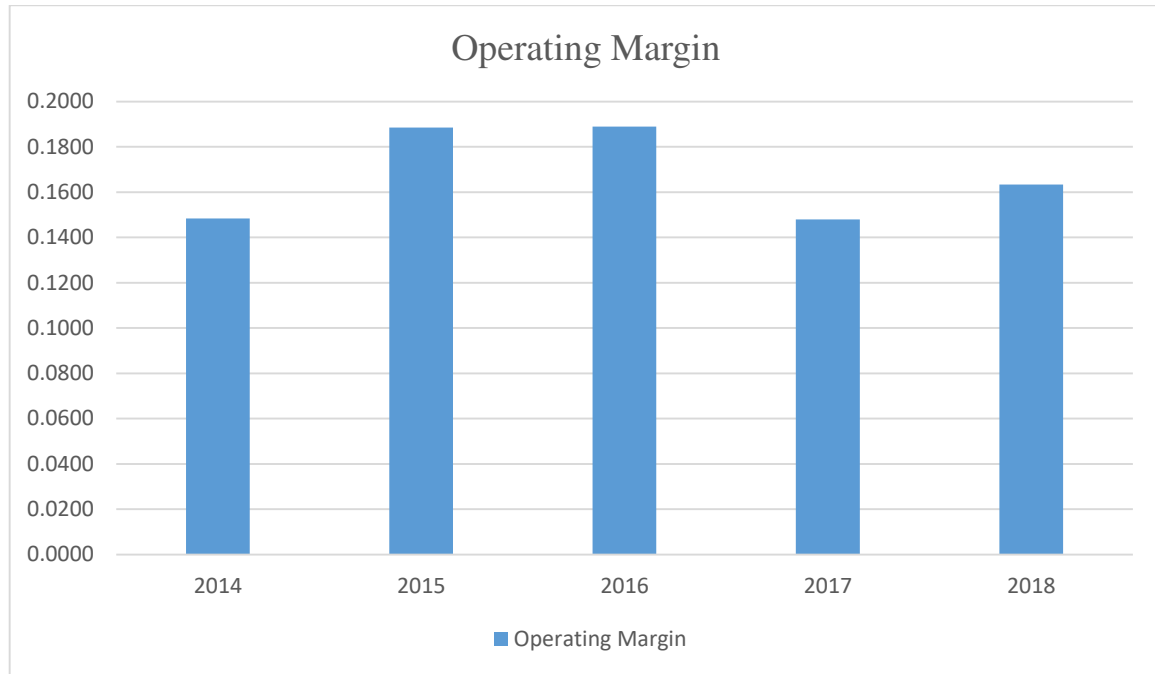
Figure 6: Operational Ratio from year 2014 to 2018



Operational risk is the risk of loss due to internal processes, insufficient personnel and systems, or failure or external events (Shiels, 2010). Operational risk of company was measured by using average operational ratio for five years which is from year 2014 to 2018. Based on the figure above, it can be seen that company has the lowest average operational ratio which is 0.1467 in year 2014. This indicates that company manage its operation most efficiently in that year. While in year 2016, company has the highest average operational ratio which is 0.1836. This means that company has the lowest ability to manage its operation efficiently in that year.

4.5.2 Operating Margin

Figure 7: Operating Margin from year 2014 to 2018



Operating profit margin measures how much profit a company can earn from a dollar of sales after paying variable production costs before paying interest or taxes. (Operating Margin Definition, 2019). From the figure above, company has the highest average operating margin which is 0.1890 in year 2016 within five years. This means that the company are able to generate the most profits after cover the variable production costs in that year. However, in year 2017, company has the lowest average operating margin which is 0.1480. This indicates that the company has the generate least profits after cover its non-operating costs in that year.

4.6 Corporate Governance

4.6.1 Corporate Governance Index

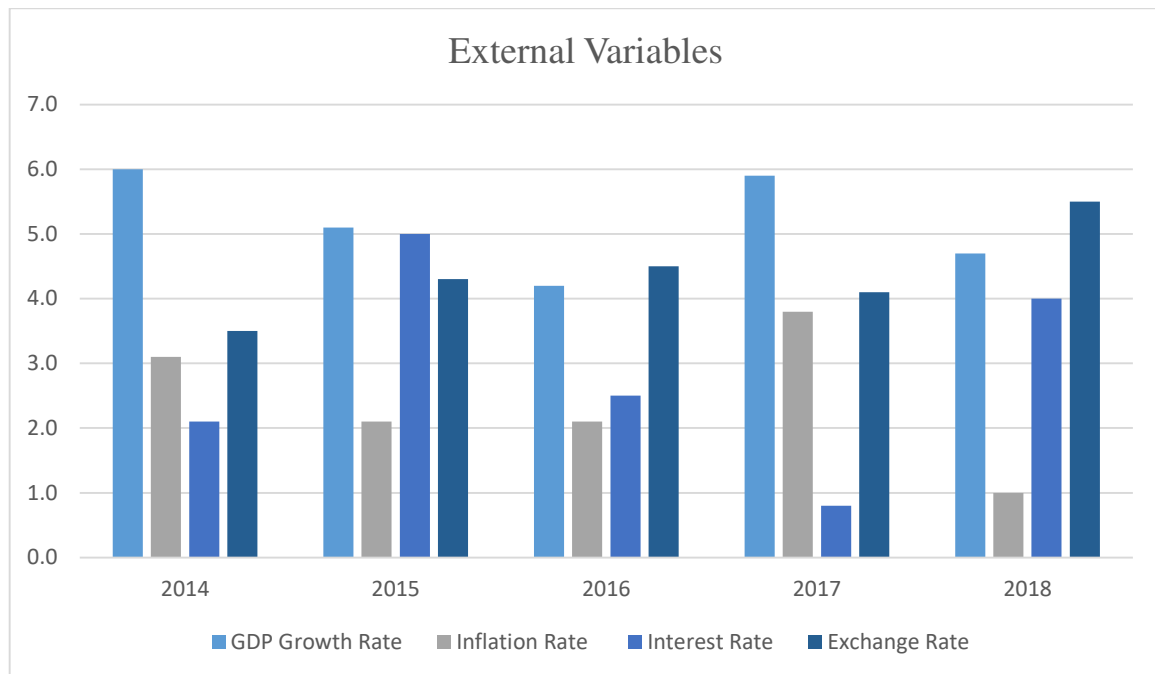
Figure 8: Corporate Governance Index from year 2014 to 2018



According to Humera Khan (2011), corporate governance is a broad term that describes the procedures, practices, policies, regulations, and institutions that guide organizations and companies in how they operate, manage, and control their activities. There are five variables that used to calculate the index score. The variables are accountability, transparency, independence, fairness and sustainability. Based on the figure above, the company has the corporate governance index of 1.0 from year 2014 to 2018. This means that the during the five years, the company's compliance with corporate governance was good.

4.7 Market Risk

Figure 9: External Variables from year 2014 to 2018



Market risk is the risk of loss of liquidity portfolios due to changes in market prices, including interest rates, exchange rate, stocks and commodity risks (Ekinici, 2016). The figure above shows the trends of various external variables from year 2014 to 2018. The highest GDP growth rate in these five years was in 2014 which is 6.0%. This shows during that year, the economy performed well. In contrast, GDP growth in 2016 was the lowest among these five years which is 4.2%. This shows that the country's economy fell into recession that year.

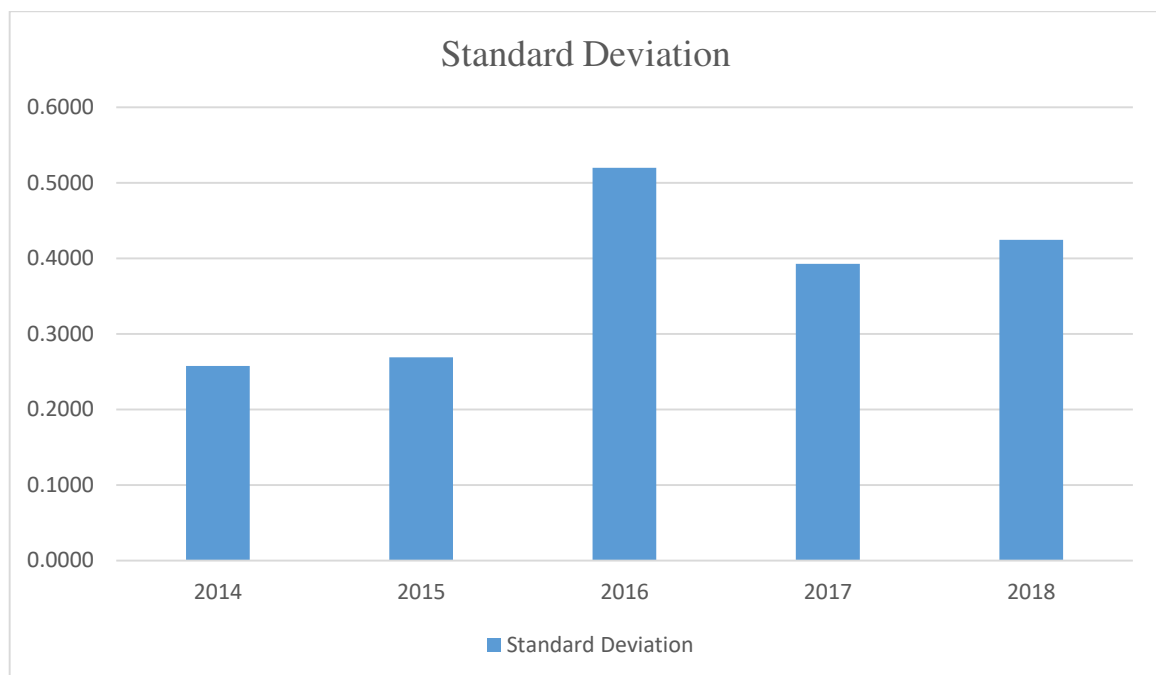
Inflation rate has the highest value in year 2017 which is 3.8% among five years. When commodity demand is greater than supply, the inflation rate will be high and there will be a shortage, which will lead to an increase in inflation. Thus, in year 2017, there is the highest demand for goods relative to supply compare to other years. However, in year 2018, there is the lowest inflation rate which is 1.0% which means that there is low demand of commodity relative to supply compare to other years.

Next, the highest interest rate within these five years was in 2015 which is 5.0%. This means that demand for money or credit is high during the year, which leads to higher interest rates than that year. While the lowest interest rate among these five years is in year 2017 which is 0.8%. This means that the demand for money or credit in that particular year is lower compare to other years.

Lastly, exchange rate has the highest value in year 2018 which is 5.5%. This may cause by the inflation rate of country in that year is higher relative to other countries, thus there is an increase in foreign currency demand which lead to an increase in exchange rates. In contrast, the lowest exchange rate among five years is 3.5% in year 2014. This means that the inflation rate of country in that year is lower relative to other countries and brings higher demand for home currency. Thus, the exchange rate become lower.

4.8 Standard Deviation

Figure 10: Price Changes from year 2014 to 2018



The standard deviation is a measure of variability. It is used to estimate overall variability based on sample (Altman D.G., 2005). From the figure above, in year 2016, there is the highest average standard deviation which is 0.5202. This implies that Dutch Lady Milk Industries Berhad's prices movement within five years is consider most volatile compare to other four years. In contrast, the lowest average standard deviation is in year 2014 which is 0.2577. This indicates company has a less volatile price movement in that year compare to other years.

4.9 Correlations

Table 2: Pearson Correlation

Correlations

		ROE	Current Ratio	Quick Ratio	Average-Collection Period	Debt To Income	Operational Ratio	Operating Margin	Corporate Governance Index	GDP	Inflation Rate	Interest rate	Exchange rate	Stdv
Pearson	ROE	1.000	-.992	-.956	.923	.527	.535	-.121	.	-.359	-.313	.025	.768	.488
Correlation	Current Ratio	-.992***	1.000	.936	-.964	-.591	-.546	.103	.	.399	.280	.055	-.751	-.587
	Quick Ratio	-.956*	.936	1.000	-.847	-.451	-.288	.381	.	.149	.230	.085	-.689	-.356
	Average-Collection Period	.923**	-.964	-.847	1.000	.641	.569	-.031	.	-.506	-.263	-.171	.722	.775
	Debt To Income	.527	-.591	-.451	.641	1.000	.130	-.227	.	.052	.527	-.647	-.039	.464
	Operational Ratio	.535	-.546	-.288	.569	.130	1.000	.773	.	-.903	-.681	.567	.752	.573

Operating Margin	-.121	.103	.381	-.031	-.227	.773	1.000	.	-.775	-.545	.649	.292	.287
Corporate Governance Index	.	.	.	.	.	.	.	1.000	.	.	.	.	.
GDP	-.359	.399	.149	-.506	.052	-.903	-.775	.	1.000	.779	-.485	-.750	-.729
Inflation Rate	-.313	.280	.230	-.263	.527	-.681	-.545	.	.779	1.000	-.787	-.843	-.292
Interest rate	.025	.055	.085	-.171	-.647	.567	.649	.	-.485	-.787	1.000	.492	-.234
Exchange rate	.768*	-.751	-.689	.722	-.039	.752	.292	.	-.750	-.843	.492	1.000	.535
Stdv	.488	-.587	-.356	.775	.464	.573	.287	.	-.729	-.292	-.234	.535	1.000

Notes: * = p-value < 0.10, ** = p-value < 0.05, *** = p-value < 0.001

Based on the table above,

Next, average-collection period is strongly positive and moderate significant correlated to ROE with p-value < 0.05 which means that when average-collection period increase, ROE will also increase. This is due to when the period of time to collect back company's account receivable, the revenue of company that generated by sales of assets is slow. Thus, company will use other alternative which is increase in equity to gain more return on investment to cover the longer period of collect back the account receivable.

Furthermore, quick ratio is strongly negative and least significant correlated to ROE with p-value < 0.10 . This indicates that when quick ratio increases, there will be a slightly decrease in ROE. Besides, exchange rate is strongly positive and least significant correlated to ROE with p-value < 0.10 which means that when exchange rate increase, ROE will also slightly increase.

In the other hand, debt to income, operational ratio and standard deviation are moderate positively but not significant correlated to ROE with p-value > 1.0 . This means that there will be no influences on ROE when these variables changes. Interest rate is least positively and not significant correlated to ROE which means that interest rate has no influences at all on ROE. Operating margin. GDP growth rate and inflation rate are moderate negatively and not significant correlated to ROE with p-value > 1.0 . This indicates that the changes of these variables will not affect ROE.

Corporate governance has no data show in SPSS. This is because the index of corporate governance of Dutch Lady Milk Industries Berhad is same which is 1.0 from year 2014 to 2018. Thus, there is no variation among corporate governance index among these five years and there will be no data shows in the Pearson correlation table.

4.10 Model Summary

Table 3: Model Summary

Model Summary^c

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.992 ^a	.983	.978	.0312	
2	.999 ^b	.999	.998	.0099	2.784

A. Predictors: (Constant), Current Ratio

B. Predictors: (Constant), Current Ratio, Average-Collection Period

C. Dependent Variable: ROE

Based on table above, the adjusted R square is 0.998 which is equal to 99.8%. This means that by using Model 3 which is internal and external variables is able to explain 99.8% of the variance in the company's performance among five years. The remaining 0.02% of adjusted R square unable to explain the variance in the company's performance for five years.

4.11 ANOVA

Table 4: ANOVA

ANOVA^a

		Sum of				
Model		Squares	df	Mean Square	F	Sig.
1	Regression	.173	1	.173	177.330	.001 ^b
	Residual	.003	3	.001		
	Total	.176	4			
2	Regression	.176	2	.088	898.362	.001 ^c
	Residual	.000	2	.000		
	Total	.176	4			

a. Dependent Variable: ROE

B. Predictors: (Constant), Current Ratio

C. Predictors: (Constant), Current Ratio, Average-Collection Period

Based on the table above, the significant value is 0.001 which is smaller than alpha value ($P < 0.05$). This indicates that the variable is perfectly significant to represent the model. Therefore, the above significant values are acceptable values and is indicating that the research model is acceptable and reliable.

4.12 Coefficients

Table 5: Coefficients

Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.	95.0% Confidence Interval for B		Collinearity
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance
1	(Constant)	2.230	.096		23.337	.000	1.926	2.534	
	Current Ratio	-1.070	.080	-.992	-13.317	.001	-1.325	-.814	1.000
2	(Constant)	3.062	.160		19.096	.003	2.372	3.752	
	Current Ratio	-1.560	.096	-1.446	-16.210	.004	-1.974	-1.146	.070
	Average-Collection Period	-.009	.002	-.472	-5.284	.034	-.017	-.002	.070

a. Dependent Variable: ROE

The independent variables that affecting company's performance can be determined by identifying significant levels with p-values. P -value < 0.001 indicates that the independent variable has the greatest influence on the dependent variable. While when p-value < 0.05 , it indicates a moderate influence of the independent variable on the dependent variable and the variable with p-value of < 0.10 has the least influence on the dependent variable.

Based on the table above, current ratio is significant influences on company's performance (ROE) with p-value < 0.05 . This indicates that changes in current ratio will significantly affect company's performance (ROE). Next, average-collection period is also significant influences on company's performance (ROE) with p-value < 0.05 . This means that changes in averages-collection period will significantly affected company's performance (ROE).

CHAPTER FIVE

DISCUSSION AND CONCLUSION

5.1 Introduction

The purpose of this study is to investigate the relationship between internal and external variable toward company's performance. This study is conducted by using independent variables which is internal and external variables in order to investigate the influences of independent variables on dependent variables which is company's performance. Therefore, in this chapter, the discussion of result is referring to findings and analysis in chapter four. Besides, limitations and recommendations for future research are included in this chapter.

5.2 Discussion of result

Based on the table of Pearson Correlation and table of coefficient, internal variables which are current ratio and average-collection period will significantly influence company's performance (ROE). In Pearson correlations table, current ratio is strong negatively but perfectly significant correlated to company's performance (ROE) with the p-value < 0.001 . This means that when current ratio increase, the company performance (ROE) will decrease significantly. While in coefficient table, current ratio is significant influences on company's performance (ROE) with p-value < 0.05 . This indicates that changes in current ratio will significantly affect company's performance (ROE).

Next, from the Pearson correlations table, average-collection period is strongly positive and moderate significant correlated to ROE with p-value < 0.05 which means that when average-collection period increase, ROE will also increase. Based on the coefficient table, average-collection period is significant influences on company's performance (ROE) with p-

value < 0.05 . This means that changes in averages-collection period will significantly affected company's performance (ROE).

Furthermore, quick ratio is strongly negative and least significant correlated to ROE with p-value < 0.10 . This indicates that when quick ratio increases, there will be a slightly decrease in ROE. Besides, exchange rate is strongly positive and least significant correlated to ROE with p-value < 0.10 which means that when exchange rate increase, ROE will also slightly increase.

The model summary show that the model 3 which is internal and external variables is able to explain 99.8% of the variance in company's performance among five years. The ANOVA table show that the research model is acceptable and reliable with show the significant value of 0.001. Overall, internal variables have more influences on company's performance (ROE) compare to external variables.

5.3 Limitations

The limitations for this study is the limitations of sample that used to conduct the study. There is only one company are used to determine the influences of internal and external variables on company's performance which the result could not represent for the entire business market. Besides, the data collected is only five years' financial reports from year 2014 to 2018. Therefore, only limited information can be collected due to the limitations period of years.

5.4 Recommendations

According to the findings and analysis in Chapter 4, the current ratio has significant influences toward Dutch Lady Milk Industries Berhad's performance. Thus, it is important to manage the current ratio effectively to improve company's performance. When there is too much current assets' proportion, there will be negative impact on return on equity of company.

However, insufficient current assets will also cause liquidity risk towards company. Thus, company should manage its current ratio wisely and balance without excess or shortage.

Besides, the findings and analysis also shows that average-collection period has significant influences on company's performance (ROE). Hence, company should also pay efforts on average-collection period in order to increase company's performance. From the table of Pearson correlations, there is a negatively relationship between average-collection period and ROE. When the period of time to collect back company's account receivable, the revenue of company that generated by sales of assets is slow. Thus, company will use other alternative which is increase in equity to gain more return on investment to cover the longer period of collect back the account receivable. In order to improve company's performance, company should manage the average-collection period wisely which can increase both return on assets and return on investment.

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APPENDICES

A. Financial Risk

Table A. 1: Performance from year 2014 to 2018

Year	Net Income	Shareholders' Equity	ROE
2014	109814000	157039000	0.6993
2015	140980000	157219000	0.8967
2016	149074000	165493000	0.9008
2017	117717000	104010000	1.1318
2018	129449000	105459000	1.2275

Table A. 2: Liquidity risk from year 2014 to 2018

Year	Current Ratio	Quick Ratio
2014	1.4356	0.9197
2015	1.2719	0.8703
2016	1.2038	0.8732
2017	1.0183	0.5968
2018	0.9547	0.4941

Table A. 3: Credit risk from year 2014 to 2018

Year	Average-Collection Period	Debt To Income
2014	1.4356	0.9197
2015	1.2719	0.8703
2016	1.2038	0.8732
2017	1.0183	0.5968
2018	0.9547	0.4941

Table A. 4: Operational risk from year 2014 to 2018

Year	Operational Ratio	Operating Margin
2014	0.1467	0.1484
2015	0.1819	0.1884
2016	0.1836	0.1890
2017	0.1666	0.1480
2018	0.1824	0.1634

Table A. 5: Corporate governance from year 2014 to 2018

Year	Accountability	Transparency	Independence	Fairness	Sustainability	CGI
2014	1	1	1	1	1	1.0
2015	1	1	1	1	1	1.0
2016	1	1	1	1	1	1.0
2017	1	1	1	1	1	1.0
2018	1	1	1	1	1	1.0

Table A. 6: Market risk from year 2014 to 2018

Year	GDP Growth Rate	Inflation Rate	Interest Rate	Exchange Rate
2014	6.0	3.1	2.1	3.5
2015	5.1	2.1	5	4.3
2016	4.2	2.1	2.5	4.5
2017	5.9	3.8	0.8	4.1
2018	4.7	1	4	5.5

Table A. 7: Prices Changes from year 2014 to 2018

Year	Standard Deviation
2014	0.2577
2015	0.2691
2016	0.5202
2017	0.3929
2018	0.4248

B. SPSS Output (Model 1)

Table B. 1: Descriptive Statistics

Descriptive Statistics

	Mean	Std. Deviation	N
ROE	.9712	.2097	5
Current Ratio	1.1768	.1944	5
Quick Ratio	.7507	.1919	5
Average-Collection Period	27.8141	10.7914	5
Debt To Income	26.0675	13.1549	5
Operational Ratio	.17223	.01591	5
Operating Margin	.1674	.0204	5
Corporate Governance Index	1.0000	.0000	5

Table B. 2: Pearson Correlation

Correlations

	ROE	Current Ratio	Quick Ratio	Average-Collection Period	Debt To Income	Operational Ratio	Operating Margin	Corporate Governance Index
Pearson Correlation	1.000	-.992	-.956	.923	.527	.535	-.121	.
Current Ratio	-.992	1.000	.936	-.964	-.591	-.546	.103	.
Quick Ratio	-.956	.936	1.000	-.847	-.451	-.288	.381	.
Average-Collection Period	.923	-.964	-.847	1.000	.641	.569	-.031	.
Debt To Income	.527	-.591	-.451	.641	1.000	.130	-.227	.
Operational Ratio	.535	-.546	-.288	.569	.130	1.000	.773	.
Operating Margin	-.121	.103	.381	-.031	-.227	.773	1.000	.
Corporate Governance Index	.	.	.	.	.	.	.	1.000
Sig. (1-tailed)	.	.000	.005	.013	.181	.176	.423	.000
Current Ratio	.000	.	.010	.004	.147	.170	.434	.000
Quick Ratio	.005	.010	.	.035	.223	.319	.263	.000

Average-Collection Period	.013	.004	.035	.	.122	.158	.480	.000
Debt To Income	.181	.147	.223	.122	.	.417	.357	.000
Operational Ratio	.176	.170	.319	.158	.417	.	.063	.000
Operating Margin	.423	.434	.263	.480	.357	.063	.	.000
Corporate Governance Index	.000	.000	.000	.000	.000	.000	.000	.

N	ROE	5	5	5	5	5	5	5
	Current Ratio	5	5	5	5	5	5	5
	Quick Ratio	5	5	5	5	5	5	5
	Average-Collection Period	5	5	5	5	5	5	5
	Debt To Income	5	5	5	5	5	5	5
	Operational Ratio	5	5	5	5	5	5	5
	Operating Margin	5	5	5	5	5	5	5
	Corporate Governance Index	5	5	5	5	5	5	5

Table B. 3: Model Summary

Model Summary^c

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.992 ^a	.983	.978	.03123	
2	.999 ^b	.999	.998	.00989	2.784

Table B. 4: ANOVA

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.173	1	.173	177.330	.001 ^b
	Residual	.003	3	.001		
	Total	.176	4			
2	Regression	.176	2	.088	898.362	.001 ^c
	Residual	.000	2	.000		
	Total	.176	4			

Table B. 5: Coefficients

Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.	95.0% Confidence Interval		Collinearity
		B	Std. Error	Coefficients			for B	Statistics	
				Beta			Lower Bound	Upper Bound	Tolerance
1	(Constant)	2.230	.096		23.337	.000	1.926	2.534	
	Current Ratio	-1.070	.080	-.992	-13.317	.001	-1.325	-.814	1.000
2	(Constant)	3.062	.160		19.096	.003	2.372	3.752	
	Current Ratio	-1.560	.096	-1.446	-16.210	.004	-1.974	-1.146	.070
	Average-Collection Period	-.009	.002	-.472	-5.284	.034	-.017	-.002	.070

C. SPSS Output (Model 3)

Table C. 1: Descriptive Statistic

<i>Descriptive Statistics</i>			
	Mean	Std. Deviation	N
ROE	.9712	.2097	5
Current Ratio	1.1768	.1944	5
Quick Ratio	.7507	.1919	5
Average-Collection Period	27.8141	10.7914	5
Debt To Income	26.0675	13.1549	5
Operational Ratio	.17223	.01591	5
Operating Margin	.1674	.0204	5
Corporate Governance Index	1.0000	.0000	5
GDP	5.1800	.6686	5
Inflation Rate	2.4200	1.0710	5
Interest Rate	2.8800	1.6453	5
Exchange Rate	4.3900	.7811	5
Stdv	.3729	.1105	5

Table C. 2: Pearson Correlation

Correlations

		ROE	Current Ratio	Quick Ratio	Average-Collection Period	Debt To Income	Operational Ratio	Operating Margin	Corporate Governance Index	GDP	Inflation	Interest rate	Exchange rate	Stdv
Pearson	ROE	1.000	-.992	-.956	.923	.527	.535	-.121	.	-.359	-.313	.025	.768	.488
Correlation	Current Ratio	-.992	1.000	.936	-.964	-.591	-.546	.103	.	.399	.280	.055	-.751	-.587
	Quick Ratio	-.956	.936	1.000	-.847	-.451	-.288	.381	.	.149	.230	.085	-.689	-.356
	Average-Collection Period	.923	-.964	-.847	1.000	.641	.569	-.031	.	-.506	-.263	-.171	.722	.775
	Debt To Income	.527	-.591	-.451	.641	1.000	.130	-.227	.	.052	.527	-.647	-.039	.464
	Operational Ratio	.535	-.546	-.288	.569	.130	1.000	.773	.	-.903	-.681	.567	.752	.573
	Operating Margin	-.121	.103	.381	-.031	-.227	.773	1.000	.	-.775	-.545	.649	.292	.287
	Corporate Governance Index	.	.	.	.	.	.	.	1.000	.	.	.	.	.
	GDP	-.359	.399	.149	-.506	.052	-.903	-.775	.	1.000	.779	-.485	-.750	-.729
	Inflation Rate	-.313	.280	.230	-.263	.527	-.681	-.545	.	.779	1.000	-.787	-.843	-.292
	Interest rate	.025	.055	.085	-.171	-.647	.567	.649	.	-.485	-.787	1.000	.492	-.234

	Exchange rate	.768	-.751	-.689	.722	-.039	.752	.292	.	-.750	-.843	.492	1.000	.535
	Stdv	.488	-.587	-.356	.775	.464	.573	.287	.	-.729	-.292	-.234	.535	1.000
Sig. (1-tailed)	ROE	.	.000	.005	.013	.181	.176	.423	.000	.276	.304	.484	.065	.202
	Current Ratio	.000	.	.010	.004	.147	.170	.434	.000	.253	.324	.465	.072	.149
	Quick Ratio	.005	.010	.	.035	.223	.319	.263	.000	.405	.355	.446	.099	.278
	Average-Collection Period	.013	.004	.035	.	.122	.158	.480	.000	.192	.335	.392	.084	.062
	Debt To Income	.181	.147	.223	.122	.	.417	.357	.000	.467	.181	.119	.475	.215
	Operational Ratio	.176	.170	.319	.158	.417	.	.063	.000	.018	.103	.160	.071	.156
	Operating Margin	.423	.434	.263	.480	.357	.063	.	.000	.062	.171	.118	.317	.320
	Corporate Governance Index	.000	.000	.000	.000	.000	.000	.000	.	.000	.000	.000	.000	.000
	GDP	.276	.253	.405	.192	.467	.018	.062	.000	.	.060	.204	.072	.081
	Inflation rate	.304	.324	.355	.335	.181	.103	.171	.000	.060	.	.057	.036	.317
	Interest rate	.484	.465	.446	.392	.119	.160	.118	.000	.204	.057	.	.200	.353
	Exchange rate	.065	.072	.099	.084	.475	.071	.317	.000	.072	.036	.200	.	.177
	Stdv	.202	.149	.278	.062	.215	.156	.320	.000	.081	.317	.353	.177	.
N	ROE	5	5	5	5	5	5	5	5	5	5	5	5	5

Current Ratio	5	5	5	5	5	5	5	5	5	5	5	5	5
Quick Ratio	5	5	5	5	5	5	5	5	5	5	5	5	5
Average- Collection Period	5	5	5	5	5	5	5	5	5	5	5	5	5
Debt To Income	5	5	5	5	5	5	5	5	5	5	5	5	5
Operational Ratio	5	5	5	5	5	5	5	5	5	5	5	5	5
Operating Margin	5	5	5	5	5	5	5	5	5	5	5	5	5
Corporate Governance Index	5	5	5	5	5	5	5	5	5	5	5	5	5
GDP	5	5	5	5	5	5	5	5	5	5	5	5	5
Inflation Rate	5	5	5	5	5	5	5	5	5	5	5	5	5
Interest rate	5	5	5	5	5	5	5	5	5	5	5	5	5
Exchange rate	5	5	5	5	5	5	5	5	5	5	5	5	5
Stdv	5	5	5	5	5	5	5	5	5	5	5	5	5

Table C. 3: Model Summary

Model Summary^c

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.992 ^a	.983	.978	.03123	
2	.999 ^b	.999	.998	.00989	2.784

Table C. 4: ANOVA

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.173	1	.173	177.330	.001 ^b
	Residual	.003	3	.001		
	Total	.176	4			
2	Regression	.176	2	.088	898.362	.001 ^c
	Residual	.000	2	.000		
	Total	.176	4			

Table C. 5: Coefficient

Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.	95.0% Confidence Interval		Collinearity
		B	Std. Error	Coefficients			for B	Statistics	
				Beta			Lower Bound	Upper Bound	Tolerance
1	(Constant)	2.230	.096		23.337	.000	1.926	2.534	
	Current Ratio	-1.070	.080	-.992	-13.317	.001	-1.325	-.814	1.000
2	(Constant)	3.062	.160		19.096	.003	2.372	3.752	
	Current Ratio	-1.560	.096	-1.446	-16.210	.004	-1.974	-1.146	.070
	Average-Collection Period	-.009	.002	-.472	-5.284	.034	-.017	-.002	.070