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Company Performance of Kotra Pharma (M) Sdn Bhd under The Internal and External Factors

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Abstract

This study is to identify the relationship between the internal and external factors toward the firm performance of the company. The company has been chosen is Kotra Pharma (M) Sdn Bhd. Besides that, there are many independent variables has been used to identify the relationship between independent and dependent variable toward the firm performance of the company. There are many method adopted to identify the relationship such as SPSS, Sampling Method, Structural Equation Modelling and Ordinary Least Squares (OLS) Method. There are 6 independent variables has been concluded as significant related and influenced to the firm performance.

Keywords: *relationship, internal determinants, external determinants, firm performance, significant related and influenced*

1.0 INTRODUCTION

1.1 Introduction

In this research is to focus about the overview of Kotra Pharma (M) Sdn Bhd in Malaysia. The research also study the risk faced by Kotra Pharma. Furthermore, the study will be focus the 4 types of the main risks which are credit risk, liquidity risk, operational risk and market risk. Besides that, researcher is going to analyze how was the performances of the Kotra Pharma by analyze the data from its company annual report.

1.2 Overview

In this assignment is to introduce the overview of Kotra Pharma. Kotra Pharma is a pharmaceutical industry mainly produces pharmaceutical and nutrition products in Malaysia. Furthermore, Kotra Pharma founded in 1982 and they aim to promote better health for all people. In 1985, Korta Pharma starts to manufacturing pharmaceutical products. In over these 27 years, Kotra Pharma has obtained the confidence from thousands of families of the healthcare products and professional. Besides that, they committed to expand the health care products and enhancing the quality to prevent the illnesses from young child to the elderly. (Kotra Pharma, 2009)

The existing products of Korta Pharma are Appeton, Axcel and Vaxcel. After continually investing in building the Appeton brand (children vitamins), Korta Pharma has its own product and market niche in children's health supplements. Now, Korta Pharma is the leading brands of children's multi-vitamins in Asian nation and East Asian countries. Other than that, Korta Pharma also develops a health supplements for the whole family. (MOPI, 2019)

Besides Over-the-Counter (OTC) varies of product, Kotra Pharma manufactures and allocate prescribed product below the name of Axcel and Vaxcel, it includes twenty four different therapeutic categories. Few years later, a separate production facility was produced and has been operational, producing sterile and little volume injectable. Incorporated among this facility is that the producing of the company's cephalosporin product.

In order to maintain the top line of research of the healthcare technology and innovation, Korta Pharma establish a new research center in a global technology-driven park in Melaka is a testament of their commitment to incessantly produce innovative, top quality product aimed toward rising health and enhancing holistic well-being. For the reason of international horizon, it is increasing demand and competitive in the world wide. Thus, health care products' demand are increasing because now the people's living style are in the fast lane cause them more to stress and diseases.

1.3 Problem Statement

As a pharmaceutical company, risk management is very vital to assist and protect the company to continue their operations and prevent the exposure. Thus, Kotra Pharma needs to manage their risk exposure to assure their productivity is effectively and efficiency by analysis the data from the company annual report. For the Kotra Pharma, the main liquidity risk is from the ordinary funding and business activities. While the market risks faced by Kotra Pharma are foreign exchange risk and interest rate risk. The Kotra Pharma exposed to foreign currency risk on transactions and balances that are denominated in the currencies other Ringgit Malaysia. This risk is due to raise the currencies of US Dollar, Euro Dollar, and Singapore Dollar. Moreover, Kotra Pharma also faced heavily regulatory and compliance risk due to the pharmaceutical sector. The company needs to follow the guidelines and deliver the goods on time. Other than that, the operation risk of Kotra Pharma, they faced the problem of increasing prices of the raw materials especially the imported raw materials. Moreover, the credit risk exposed by Kotra Pharma is from the counterparties defaulting of the trade and other receivables. There is a impair loss of financial assets.

1.4 Research Objective

- 1) To identify the relationship between firm performance and internal determinants.
- 2) To identify the relationship between firm performance and external determinants.
- 3) To identify the significant relationship towards internal and external determinants.

1.5 Research Questions

- 1) Does any relationship between firm performance and firm specific factors?
- 2) Does any relationship between firm performance and macroeconomic factors?

2.0 LITERATURE REVIEW

2.1 Credit Risk

Credit risk is the possibility of a company loss from borrowing money or let the customer credit the goods and the customer failure to pay back the obligation. In this problem will influent the cash flow of the company. Furthermore, the company may lack of capital to turnover the company while the default risk is high (Investopedia.com). Credit risk covers risks because of promotion or change of a borrower's credit worthiness and businesses are devoting time and thoughts to shaping and managing credit risk. (Duffie & Singleton, 2003: Basel, 1999). An author indicate that credit risk will be a serious impact to the performance of banks that once unrestrained might lead to the entire collapse of banks (Musa Yelwa Abubakar, Yakubu Shaba, Mary Ovayioza Ezeji and Sunusi Sa'ad Ahmad). Besides that, a firm's exposure to a certain level of credit risk in respect of credit sales might materially and adversely have an effect on the firm's monetary results (Mark Schnitzer and Campbell Pryde, 2006). There are two ways to calculate credit risk which are debt to income (DTI) and average collection period (AVP).

$$\text{Debt to Income (DTI)} \frac{\text{Total Liability}}{\text{Total Income}}$$

$$\text{Average Collection Period (AVP)} \frac{\text{Account Receivable}}{\text{Revenues}/360\text{Days}}$$

2.2 Operation Risk

The meaning of the operation risk is the uncertainty and hazards of the company face the day by day operation. The operation risk can be breakdown in the internal procedures, human resources, and system which are affects by the internal factors. The operational risk also called unsystematic risk. Unsystematic risk is the risk can be diversify and eliminated (Investopedia.com). Santomero (1997) explained operational risk relates to the problems of process, settling and transfer goods on trades for the exchange of money. It involves the record keeping, process system failures and fulfillment of the varied rules. Thus, individual operational issue is tiny portion for a well-managed company. However causes result which can be quite expensive. (Goldmann et al., 2009) explained that internal fraud being operational risk is committed by each staff and management and accounts for 50-80% of

frauds committed in organizations. Staffs have access to info, processes, systems and assets so creating it easier for them to device ways in which of committing fraud while difficult to detect. Besides that, the financial performance of the universal banks in Ghana influence negatively by the operational risk (Samuel Gameli Gadzo, Holy Kwabla Kportorgbi and John Gartchie Gatsi, 2019). Tripe (1998) demonstrates an operational risk can use cost to income ratio and standard deviation to measure operational risk.

Cost to income ratio: $\frac{\text{Operating Cost}}{\text{Income}}$

2.3 Market Risk

Market risk is the possibility of the investor or company face losses due to the causes that changes of the overall performance of the financial markets. Market risks also called systematic risk means that the risk is cannot be eliminated through diversify. This market risk is influent the whole financial market at the same time (Investopedia.com). Changes in foreign currency exchange rates will have an effect on firm value since they directly affected a firm's current and future cash flows. This has been planned by theoretical studies, like Heckerman (1972), Hodder (1982), and Shapiro (1975). Shapiro (1975) analyzes the profit-maximizing strategy of an oligopolistic firm during two-country setting. This foreign exchange risk exposure is particularly for multinationals due to these corporations sell or turn out their products and services abroad. Their revenues or expenses and unrealized gains and losses could be denominated in varied currencies, therefore subjecting these corporations to unsure profits when converted into their home currency. (Kam C. Chan, Gim S. Seow and Kinsun Tam, 2002) Furthermore, a high-interest expense ratio is usually related to extremely geared corporations, that is a crucial negative issue for credit rating agencies and also the high level of certainty gained from exploitation fixed rate finance could also be a strategy for a corporation to adopt (A. Dhanani, S.G.M.Fifield, C.V.Helliar and L.A.Stevenson, 2008). To calculate the market risk, many researchers will use Capital Asset Pricing Model (CAPM).

Capital Asset Pricing Model (CAPM): $R_f + \beta_i(ER_m - R_f)$

2.4 Liquidity Risk

Liquidity risk means that the investor or company lack of the liquidity assets and hard to convert the asset into cash quickly without losing money or minimize a loss. When the liquidity risk occurs, the investor or company cannot meet its short-term debt obligation. The investor or company inability to transform the assets into cash without giving up the capital and profit because of the inefficient market and short of buyers. The liquidity insolvency and liquidity risk due to the structural problem and institution (Investopedia.com). According to the article, the primary source liquid assets that may be sold instantly for the value close to the face value as attainable (Pastor and Stambaugh, 2003). Moreover, liquidity risk is that the risk that the firm cannot be capable with efficiency meets each expected and unexpected current and future cash flow and collateral require not to influencing day to day operations or the financial condition of the company (Belkhir, M, 2012). Besides that, company can calculate the liquidity ratio by current ratio, quick ratio and acid test ration to evaluate the liquidity of the company (Borhan, H. and Naina Mohamed, 2014). The researcher used quick ratio most to investigate the liquidity risk because there can get the accurate information.

Quick ratio:
$$\frac{\text{Current Asset} - \text{Inventory} - \text{Prepaid Expenses}}{\text{Current Liability}}$$

2.5 Performance

The firm performance is one in all the foremost relevant constructs within the field of strategic management (Rumelt, R. P., et al., 1994). A construct to measure firms' performance might have to be developed in such a method to be usually used because the final dependent variable (Richard. P.J., et al., 2009). According to the author (M, 2016) said that there have a significant relationship between the financial performance and the success or failure of the company. Besides that, there have two methods to measure the company performance which are return on assets ratio (ROA) and return on equity ratio (ROE). However, the most suitable ratio to measure the company performance is ROA. This is because ROA can get better metric of financial performance than income statement profitability. It can determine the company have the ability to get a sufficient return on assets instead of merely showing strong return on sales. Asset-heavy corporations would like a better level of net profit to support the business relative to asset light-weight companies

even though fewer margins will generate high return on assets. Therefore, the researcher will use ROA to measure the performance of those companies.

3.0 RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a systematic method and principles for data collection in quantitative or qualitative connected the sector of study. It's a science searching for how analysis is to be disbursed. Methodology is needed for analysis and study the objective of analysis question and objective. (S. Rajasekar, P. Philominathan and V. Chinnathambi 2013).

3.2 SPSS Method

The approach is to compile and analyse data in the Social Sciences (SPSS) Statistics version twenty-five. SPSS was formally named as IBM SPSS Statistics in current version (2015) once being nonheritable by IBM. SPSS is that the foremost typically used programs for statistical analysis in science or analysis because it have many functions like data management, statistics analysis and data documentation choices that improving to do the better decision-making.

3.3 Sampling Method

Furthermore, in this research also use sampling method to do analysis. Sampling method is a method that enables researchers to calculate data from the population supported results from a set of the population, while not having to analyze each individual. Reducing the amount of people during a study and reduces the price and employment, and will create it easier to get top quality info. However this must be balanced against having an oversized enough sample size with enough power to sight a real association.

3.4 Structural Equation Modeling

Structural equation modeling is a technique of multivariate statistical analysis to analyze structural relationships. The structural equation modeling is combination of correlational analysis and multivariate analysis, and it use to analyze the structural relationship between measured variables and hidden constructs. This technique is most well-liked by the researcher due to it estimates the multiple and interconnected dependence during a single analysis.

Model 1:

$$Performance_{ROA} = \beta_0 + \beta_1 CR + \beta_2 QR + \beta_3 ACP + \beta_4 DTI + \beta_5 OR + \beta_6 OM$$

Model 2:

$$Performance_{ROA} = \beta_0 + \beta_1 GDP + \beta_2 I + \beta_3 IR + \beta_4 ER + \beta_5 STDV$$

Model 3:

$$Performance_{ROA} = \beta_0 + \beta_1 CR + \beta_2 QR + \beta_3 ACP + \beta_4 DTI + \beta_5 OR + \beta_6 OM + \beta_7 GDP + \beta_8 I + \beta_9 IR + \beta_{10} ER + \beta_{11} STDV$$

Where:

ROA= Return on assets

CR= Current ratio

QR= Quick ratio

ACP= Average collection period

DTI= Debt to income

OR= Operational ratio

OP= Operating margin

GDP= Gross domestic products

I= Inflation

IR= Interest rate

ER= Exchange rate

STDV= Standard deviation

3.4 Ordinary Least Squares (OLS) method

Ordinary least squares typically known as linear regression, is offered in excel using the XLSTAT add-on statistical software. Ordinary least squares are using to analysis the relationship between one or more independent variables and a dependent variable. This method also can estimates the relationship by minimize the total of the squares within the distinction between the observed and foreseen values of the dependent variable organized as a line (Encyclopedia, 2019).

4.0 FINDINGS AND ANALYSIS

4.1 Introduction

In this chapter, researcher is analyzing the data the company through financial reports. The researcher will use the SPSS analysis to evaluate the relationship and the most significant influence the independent variables to dependent variable. The researcher will use the data of the company from 2014 to 2018 to access the SPSS.

4.2 Correlation

	ROA	Significant
ROA	1.000	
Current Ratio	0.969	**
Quick Ratio	0.966	**
Average-Collection Period	-0.926	**
Debt to Income	-0.991	***
Operational Ratio	-0.604	
Operating Margin	0.860	**
GDP	-0.512	
Inflation	-0.465	
Interest Rate	0.008	
Exchange Rate	0.857	**
STDV	0.010	

P Value <0.10 *, P Value <0.05**, P value <0.01***

Table1: Pearson Correlation and Significant part in Correlation Table.

Person Correlation is known as product moment correlation coefficient (PMCC) or simply correlation. The Person Correlation is the number between 1 to -1 that show the linearly related of two variables. In the table of Pearson Correlation, the higher value of the Pearson Correlation, the higher the correlation between the independent and dependent variable. In the table 1, we can see that the higher values are current ratio (0.969) and quick ratio (0.966). This means that the positive value shows the positive relationship. Thus, the value of current ratio increase 0.969 will increase 1 in ROA. While the values of quick ratio increase 0.966 will leads to increase 1 in ROA.

The statistic of the significant is known as p-value. A small p-value essentially means the data are unlikely below some null hypothesis. A somewhat discretionary convention is to reject the null hypothesis if $p < 0.05$. However, when the smaller p-value, the more significant to the return on assets ratio. The p-value should smaller than 0.1, so that the independent variables are more significant to the dependent variable. In the table 1, the most significant that influent the firm performance is the debt to income. This is because the p-value of the debt to income is the smaller one which scores 0.001. This means that the p-value is <0.001 , it is flagged with three stars significant related to firm performance. Furthermore, the second significant is current ratio (0.003), follow by quick ratio (0.004), average-collection period (0.012), operating margin (0.031) and exchange rate (0.032). This p-value all are under two starts significant to the firm performance which are $p < 0.05$. Besides that, the less significant independent variable to dependent variable is interest rate which the p-value is 0.495. The is because the p-value bigger than 0.1 and this is means that the interest rate is less significant to the return on assets ratio.

4.3 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.023	1	.023	156.438	.001 ^b
	Residual	.000	3	.000		
	Total	.023	4			

a. Dependent Variable: ROA
b. Predictors: (Constant), DEBT TO INCOME

Table 2: ANOVA Table

In the ANOVA table, the p-value is very significant because the p-value is less than 0.001 ($p < 0.001$). Therefore, there is a significant relationship between the independent variable and dependent variable. Furthermore, the F statistic also known as F-value, if the F-value is larger which represent that the larger relative to the within group variability. The F-value in the ANOVA table is 156.438 which mean the impact of the independent variable (debt to income) is very huge to the dependent variable (ROA).

4.4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.991 ^a	.981	.975	.0120543064	2.626

a. Predictors: (Constant), DEBT TO INCOME
b. Dependent Variable: ROA

Table 3: Model Summary

In the Model Summary table, the R Square is interpreting the amount of variance in the dependent variable that is accounted for or explained by the independent variables. Thus, the value of the R Square is 0.981 also as 98.1%. This means that the debt to income have a good explanation to the return on assets ratio.

4.5 Coefficients

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.909	.023		39.349	.000
	DEBT TO INCOME	-.371	.030	-.991	-12.508	.001

a. Dependent Variable: ROA

Table 4: Coefficients Table

In the table 4 is the coefficients table, the data obtained by running the SPSS analysis. The standardized beta coefficient is using to compare the strength of the impact of independent variable to the dependent variable. If the beta coefficient is higher, the impact of the independent variable to the dependent variable are stronger. In the table 4, the more significant of the independent variable to the dependent variable is debt to income. If debt to income increases in 1, there will a decrease -0.371 of ROA.

5.0 DISCUSSION AND CONCLUSION

5.1 Introduction

In this report, the research is to identify the relationship between firm specific factor and macroeconomic factors towards the firm performance of the Kotra Pharma Company. The researcher uses the independent variable to find which is the most influence of the dependent variable. In this chapter, the researcher is to discussion the result and makes a conclusion for the overall research.

5.2 Discussion of the result

For the research of the data from Kotra Pharma, the researcher can get the information about there is a relationship for the firm specific factor and macroeconomic factors to influence the firm performance. For the internal factors, there have a significant ratios that influence the ROA ratio are debt to income, current ratio, quick ratio, average-collection period and operating margin. The about ratio of the P value are less than 0.01 and 0.05 which mean that $p < 0.01$ and $p < 0.05$. Besides that, the external factors that significant and influence the firm performance is exchange rate. The p value of the exchange rate is less than 0.05, means that $p < 0.05$.

In the result of chapter 4, the SPSS analysis shows that there has a negative relationship for the debt to income and ROA ratio. While for the external factors, there is less significant for the ROA ratio. Only the exchange rate is more significant to influent the firm performance.

5.3 Conclusion

For the research above, there has shown that the most significant factor that will influence the firm performance is debt to income. To improve the firm performance, the company should more focus to the debt to income ratio. This is because when the debt to income increase will cause a huge impact for the firm performance. Other than that, the

company also needs to focus and improve the current ratio, quick ratio, average-collection period and operating margin. These ratios also have a significant impact for the firm performance. Furthermore, Kotra Pharma also involve in the international business, the company also needs to focus the exchange rate. The company can uses the future and option to swipe the currency risk to reduce the losses.

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