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COMPANY'S PERFORMANCE AND ITS DETERMINANTS: A STUDY ON HUP SENG INDUSTRIES BERHAD

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Abstract

Performance of a company is very important from time to time. This study attempted to investigate the factors that will influencing the performance of HSIB in Malaysia. The financial data is collected from the annual report from 2014 to 2018. The independent variables consist of eight internal factors and five external factors. This study used multi-regression analysis. The data is analyzed by using descriptive statistic, correlations, modal summary and coefficients. The findings show operating margin is very strong positively and moderate significantly correlated to the performance. Therefore, the study is provided some recommendations that can be taken in order to improve HSIB's performance through operating margin at the end.

Keywords: *Performance, Internal Factors, External Factors, Corporate Governance*

Chapter 1
Introduction

1.1 Introduction

This chapter will start with the overview of selected company, which is Hup Seng Industries Berhad (HSIB). Next, the associated risks faced by this company will be discussed followed by the research objectives, research questions and the scope of the study. Lastly, the research organization will be discussed too.

1.2 Hup Seng Industries Berhad Overview

Hup Seng Industries Berhad (HSIB) was incorporate on 4th October 1991 and was later listed on the Main Board of Bursa Malaysia Securities Berhad on 2 November 2000. It is a Malaysia-based investment holding company, in which its subsidiary companies engage in the manufacture and sale of biscuits, coffee mix, confectionery and other foodstuff (Hup Seng Industries Berhad, 2019). The company is separated into three segments, namely biscuit manufacturing, beverage manufacturing and trading division. The biscuit manufacturing segment is engaged in the business of manufacture and sales of biscuits while the beverage manufacturing segment is engaged in the business of manufacture and wholesale of coffee mix and all kinds of foodstuff. Meanwhile, the trading division segment is engaged in the business of sales and distribution of biscuits, confectionery and other food items.

1.3 Associated Risks

In this study, it is going to exam and highlight the associated risks that faced by HSIB, namely credit risk, operational risk, liquidity risk and market risk. First, HSIB faced credit risk. HSIB found out that it is hard to collect the trade and other receivables over these years. The company loss the amount of value due to failure in handling credit risk management. This increased the company exposed to the chance of default by the buyers.

Moreover, HSIB exposed to the operational risk due to poor management team and operating system. It clearly shown that the operating cost of HSIB are slightly increasing over these years, which emerged from RM219 million in 2016 to RM249 million in 2018. HSIB should really work on improving efficiency and reducing operational costs to overcome operational risk.

Furthermore, liquidity risk is one of the most important keys in managing a company. HSIB consistence its investment in placement of deposits for more than 3-months maturity with licensed banks. Besides, HSIB's invested in buying properties, plant and equipment in order to control the net increase or decrease in cash and cash equivalents.

Lastly, HSIB interacts with market risk in the segment of exportation. Sales affected when Malaysia's currency are much higher than the other countries, which means that the product that export are going to sell in higher price. It obviously gets into market risk especially in Bangladesh, Indonesia and Filipina. Meanwhile, it is an intense competition for HSIB to survive in China market while the group need to focus on developing new flavors and new packaging to attract sales.

1.4 Research Objectives

This study was created to determine the company's performance and its determinants of HSIB. The objectives of this study are below:

1. To investigate the internal variables towards HSIB's performance.
2. To investigate the external variables towards HSIB's performance.
3. To investigate the internal and external variables towards HSIB's performance.

1.5 Research Questions

There are three research questions for this study:

1. Is there any relationship between internal variables and HSIB's performance?
2. Is there any relationship between external variables and HSIB's performance?
3. Is there any relationship between internal and external variables and HSIB's performance?

1.6 Scope of Study

The sample of this study consist five years of financial data which collected from HSIB's annual report from 2014 to 2018. All financial ratios are calculated based on the data collected.

1.7 Organization of Study

There will be five chapters for this study. Chapter one will explain briefly regarding the company's background and the research objectives of study. Chapter two is literature review which contains the past studies conducted by the other researcher. Chapter three will be discussion the

methodology used. Chapter four will begin with findings and analysis of results. Here will include descriptive statistical analysis, correlation and diagnostic test. Lastly, chapter five will conclude and provide some recommendations for the study.

Chapter 2
Literature Review

2.1 Liquidity Risk

Liquidity risk is a risk that the company incapability to perform due obligations (Juneja, 2018). Liquidity risk happens when lack of marketability of an asset to be bought or sold in a short period in order to limit the loss. Liquidity risk can be classify into 2 types, namely funding liquidity risk and market liquidity risk. Funding liquidity risk occurs when the debtors unable to meet its obligation immediately while market liquidity risk occurs when the market participant incapable to liquidate a position with low cost (Jamal and Ali, 2014).

A study conducted by M. Saifullah Khalid (2019) shows that the liquidity risk has no significant impact on the return on asset (ROA) and return on equity (ROE). It means that the performance of the company is not affected by the liquidity risk. However, this result is contrast to the study conducted by Ourania (2014). The outcome stated that liquidity risk is positively significant to the profitability of the firms. Thus, liquidity risk has different important level depends on the nature and type of business since these studies examined different sectors. In this studies, the indicators that used to represent the liquidity risk are current ratio and quick ratio.

2.2 Credit Risk

Credit risk is defined as default risk, it is the chance of a party failed to practice its financial obligation to another party with a stated financial contract (Tomasz R. Bielecki, 2004). According to Bank for International Settlements (BIS), credit risk is the possibility that a counterparty does not fulfil a contractual commitment in accordance with agreed terms. In a simple way, credit risk is the situation that the company exposed to in which the debtor unable to repay the money to the creditor. No matter manufacturing or sales company, the credit buyer that incapable to make repayment to the seller is a kind of credit risk occurs.

Based on Iftikhar Ahmad (2019) studies, the result showed that credit risk is independently affects the company's performance, it stated that the impact is very significant to the firm. According to Musyoki (2011) studies, 10 banks was used to analyze their performance by looking the profitability ratio for 7 financial years. The performance was compared to default rate, cost of debt collection and cost per loan asset. The result revealed that all the parameters have an inverse impact on banks' perfoemance. Meanwhile, there was a same result obtained by Poudel (2012) literature. Both of the studies stated that the most predictor of the firm's performance was the default rate. Thus, it is clearly to be see that credit risk has a very significant influence toward the firm's performance. In this studies, the indicators that used to represent the credit risk are average-collection period and debt to income ratio.

2.3 Operational Risk

Operational risk is faced by every company, it is arising due to human error. A study conducted by Nastiti (2017) stated that the operational risk faced by companies are different among each others depend on the way of operation practicing by the company. In 2012, Allied Irish Banks confessed to sending inaccurate statements to the Irish Credit Bureau detailing missed loan repayments regarding to alomost 12,000 client. This had affected the creditworthiness of the clients and lead to a high cost in order to overcome the error (Carswell, 2012). This illustrated how serious is a company when facing the operational risk.

On the other hand, Saeed (2015) examines the impact of risk management on bank performance in Malaysia by comprised of 27 conventional commercial banks in Malaysia. The results show that the operational risk are significant to return on equity (ROE) as well as return on asset (ROA). The hypothesis of the significant relationship of operational risk and bank performance are supported. Therefore, the operaional risk is positively correlated with the firm's performance. In this studies, the indicators that used to represent the operational risk are operational ratio and operating margin.

2.4 Corporate Governance

Corporate Governance (CG) is the arrangement of rules, practices and procedures coordinated and controlled by a company. It basically includes adjusting the interests of an organization's numerous stakeholders, for instance, government, community, investors, senior

management, executives, clients, suppliers and so on. Since CG likewise gives the system to achieving an organization's goal, it incorporates for all intents and purposes each sphere of management, from action plans and internal controls to company's performance estimation and corporate disclosure (Chen, 2019).

There is some study conducted previously regarding CG. According to Florinita (2011), it shown that the corporate governance has positive relationship with liquidity. It means that increasing of corporate governance will increase the liquidity of a company. Besides, a low corporate governance will increase the liquidity risk of the company had been explained by another study (Almieda, 2014).

2.5 Market Risk

Market risk is defined as the possible loss of value in assets and liabilities due to the movements in market factors. Market risk depends on the macroeconomics situation, it is the subset of macroeconomics (Pieter Klaassen, 2009). According to Woods M (2008), market risk is arise from unpredictable movement of market prices. It stated that the risk result from adverse changes in underlying risk factors, including interest rate, exchange rate and so on that will bring impact to the value of company.

A study conducted by Pratheepkanth (2012) found that the market risk is significantly positive to the performance of the company. Market risk can influence the company's performance in different ways (Mirkovic, 2013). In this studies, the indicators that used to represent the market risk are GDP, inflation, interest rate and exchange rate.

Chapter 3
Methodology

3.1 Introduction

According to Cohen (2007) stated that methodology is the research methods used to collect data. The method is used to implement the research target, and at the end of the study to obtain results. This study is conducted to know the company's performance and its determinants for Hup Seng Industries Berhad (HSIB).

3.2 Population / Sampling Technique

The unit of analysis is the main entities that analyzed in the study. For example, individuals, groups and artifacts may be in the study of a unit of analysis. In this study, the organization will be the unit of analysis. The study of the population is food and beverage industry in Malaysia. From the population, HSIB is chosen as the sample in conducting the study. Financial data from the year 2014 to 2018 is collected from the annual report. It is then used to measure the dependent variable (performance) and the independent variables (internal and external factors).

3.3 Statistical Technique

HSIB is chosen as the sample in conducting the study. Financial data from the year 2014 to 2018 is collected from the annual report. In the annual report, the financial ratio that been collected are from income statement and balance sheet to calculate the internal factors impact on the company's performance. In order to determine the external factors, it is obtained from Malaysia Economic Outlook. It is including the GDP growth rate, inflation, interest rate and exchange rate to see the trend of economic for Malaysia from the year 2014 to 2018.

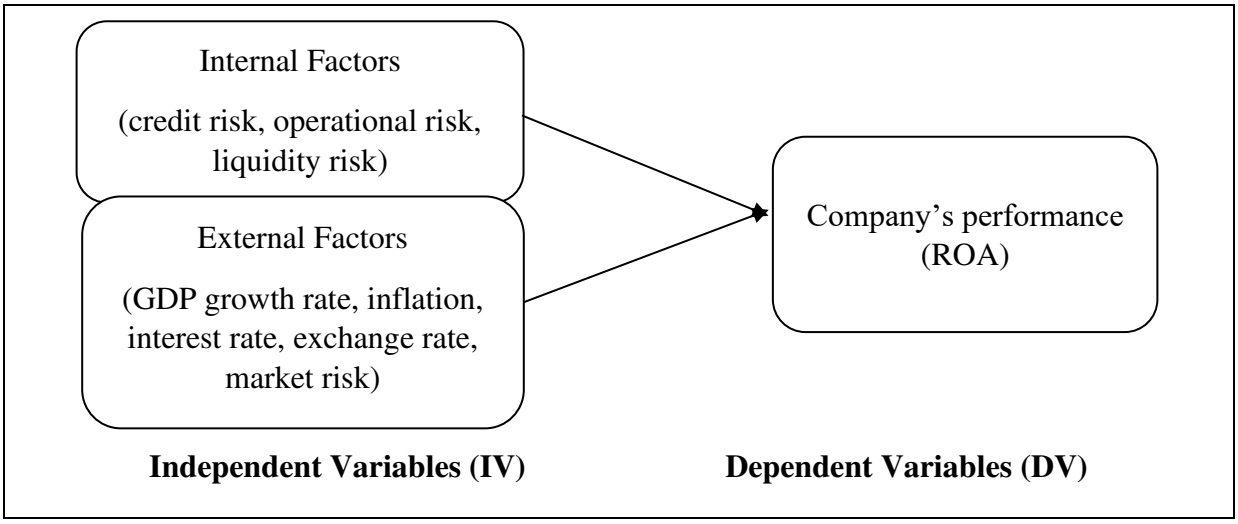
In this study, the main and the most commonly used technique is the ordinary least squares (OLS) regression. This technique is used to analyze the data and form the basis of other technologies. The specific recorded in order to simulate the response variables, OLS is basically we can use the integrated modeling technique. This technique can be applied to single or multiple explanation and coding classification explanation variables. Through the sample data, we use the least square principle to fit a regression function. The principle regulation, in order to minimize the dependent variable observed value and the square of the distance between SRF estimate, should build the sample regression function (SRF). Therefore, even if there are other alternatives, the

necessity of OLS is still estimate regression of the optimization technology. This is because compared with other alternative technologies, OLS are easier to understand and the result has the characteristics of the ideal.

3.4 Data Analysis

According to the concept of future research framework, this study has a dependent variable and two type of independent variable. A research framework is as follows:

Figure 1: Research Framework



3.5 Statistical Package for Social Sciences (SPSS)

In this study, IBM SPSS 25 edition is used to generate the data in order to obtain the result. Statistical package SPSS, also known as social science, it is a powerful software, statistical data analysis can help researchers. However, in 2014, SPSS in 2009 was renamed after the IBM acquisition IBM SPSS Statistic. The software is usually used in social science, now in data mining, market research and marketing. This is because the IBM SPSS Statistic can produce descriptive statistics, bivariate statistics, numerical results predict and identify group prediction. Nevertheless, in this study, the IBM SPSS Statistic will only be used for computing based on linear regression and obtain the quantitative data of the correlation between variables. Quantitative data is basically about digital variable data, the data is obtained from annual report for HSIB. The following table shows the notation of the variables.

Table 1: Notation

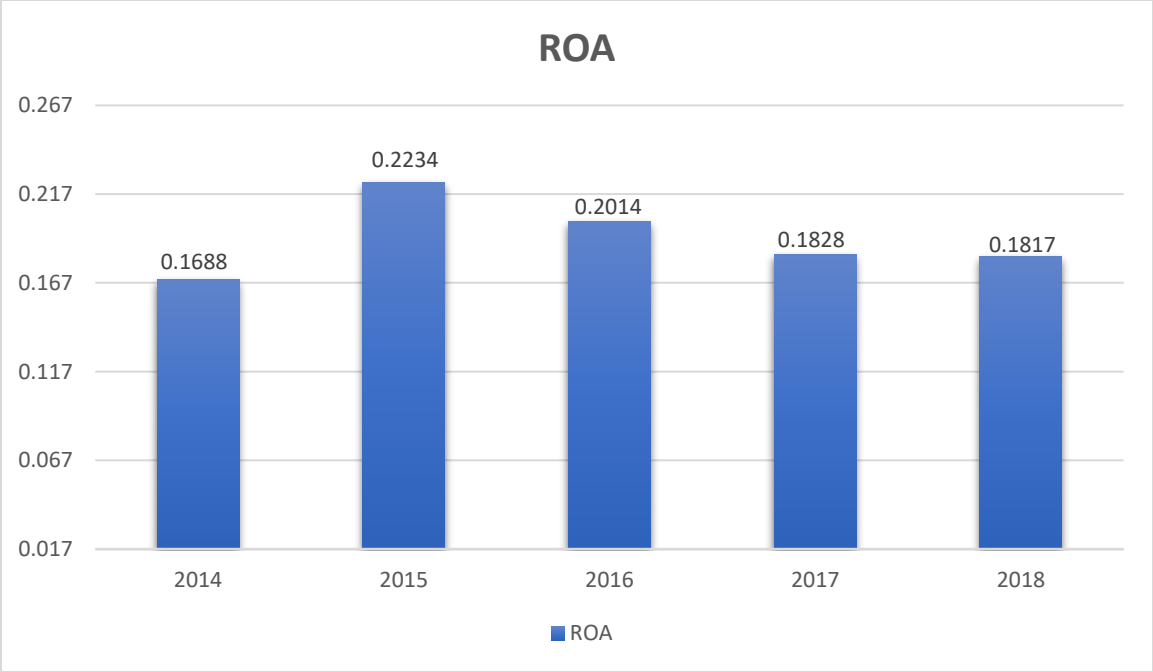
No	Variables	Notation
1	Return on Asset	ROA
2	Current Ratio	CR
3	Quick Ratio	QR
4	Average-Collection Period	ACP
5	Debt to Income	DTI
6	Operational Ratio	OPR
7	Operating Margin	OM
8	Corporate Governance Index	CGI
9	Gross Domestic Product	GDP
10	Inflation	INF
11	Interest Rate	INTR
12	Exchange Rate	EXR
13	Standard Deviation	STDV

Chapter 4

Findings and Analysis

4.1 Performance

Figure 2: Return on Asset for HSIB from 2014 to 2018

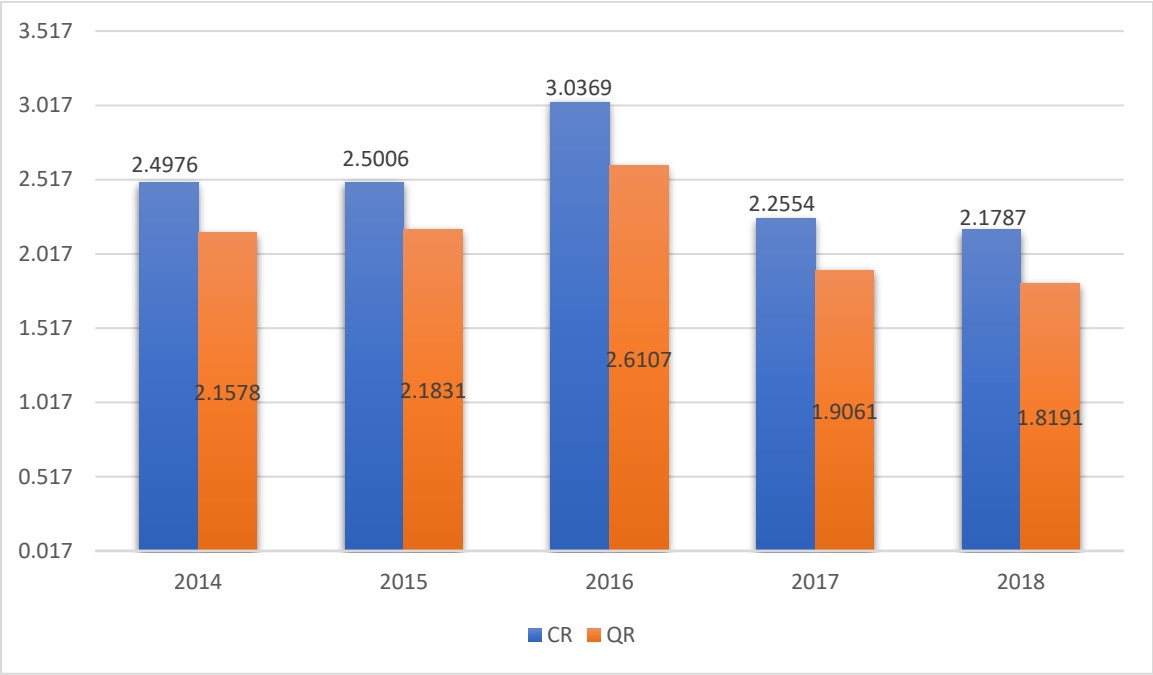


Return on Asset (ROA) shows the performance of the company. It is used to measure how much of the company can generate profit from their total assets. Based on the figure above, the highest ROA is 0.2234 in 2015 while the lowest is 0.1688 in 2014. This means HSIB use their assets to generate profit much efficiently in the year 2015 compared to 2014. However, the efficiency keeps decreasing after the year of 2015. ROA dropped to 0.2014, 0.1828 and 0.1817 in 2016, 2017 and 2018 respectively. In order to interpret the value of ROA, 0.1688 means that the company can generate 16.88 cents from each Ringgit Malaysia of the assets. To conclude, HSIB's performance was declined for these years.

4.2 Risk Assessment

4.2.1 Liquidity Risk

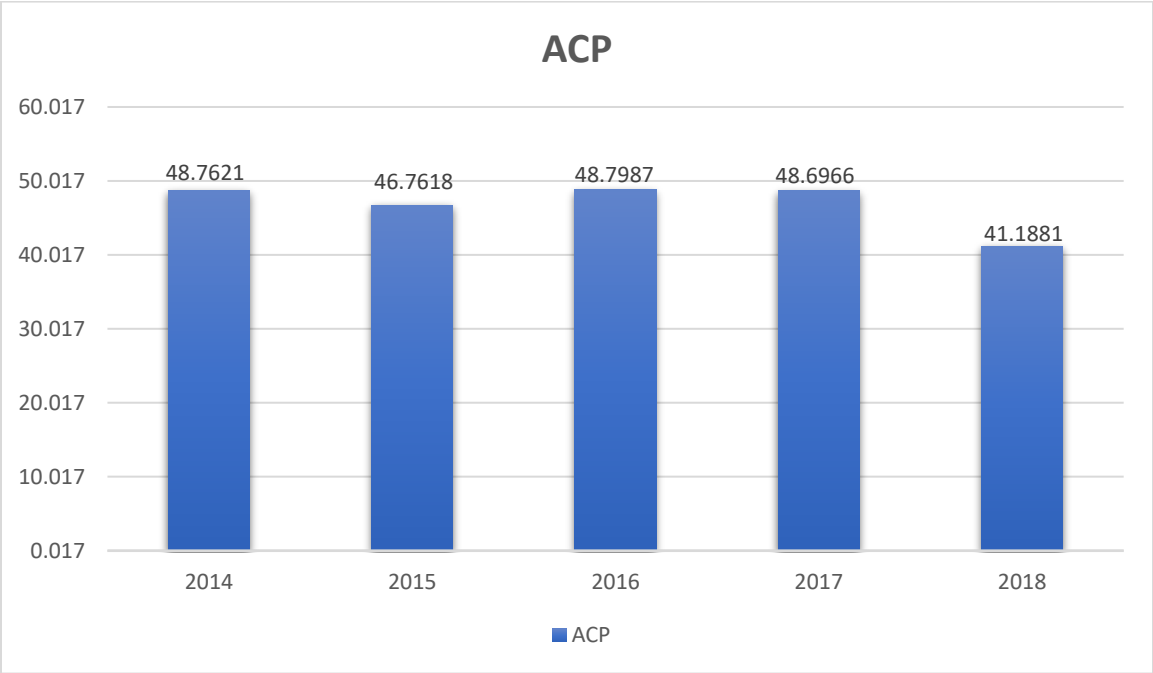
Figure 3: Current Ratio and Quick Ratio for HSIB from 2014 to 2018



Current ratio and quick ratio are used to measure the liquidity risk faced by the company. The higher the value, the lower the liquidity risk. From Figure 3, both ratios increasing from 2014 to 2016, but afterward it was decreased until year of 2018. The highest current ratio and quick ratio hit by HSIB was in 2016 with the value of 3.0369 and 2.6107 respectively. For this year, the company is said to be most ability in term of repay back the short-term financial obligations with their current assets. Since the current ratio decreased after 2016, it means that the liquidity risk faced by HSIB. However, the value still consider good since no one is lower than 1, the company still capable to pay back the short-term debts with available of current assets.

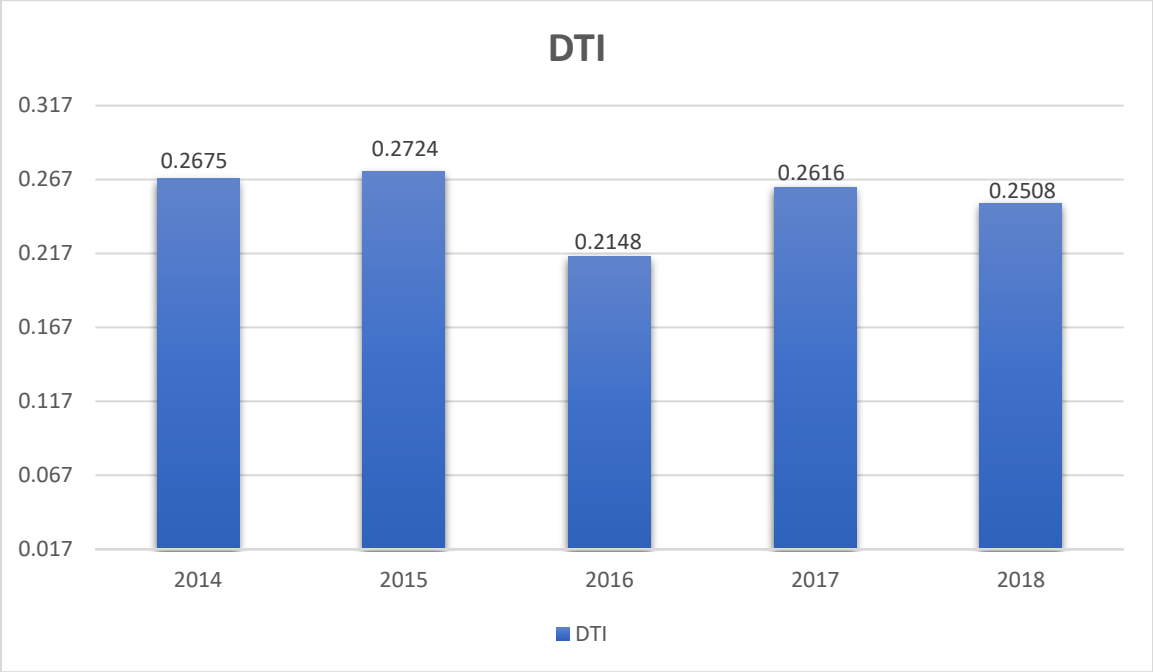
4.2.2 Credit Risk

Figure 4: Average-Collection Period for HSIB from 2014 to 2018



Average-collection period (ACP) is used to determine the credit risk exposed by the company. According to Peavler (2019), the higher the value indicates the longer the time for HSIB to collect back their money from account receivables. Otherwise, the lower the value means the company takes shorter time to collect back their money from those who owe. Based on the values we obtained, the company took almost 41 to 49 days (one and a half month) in order to get back the money from debtors.

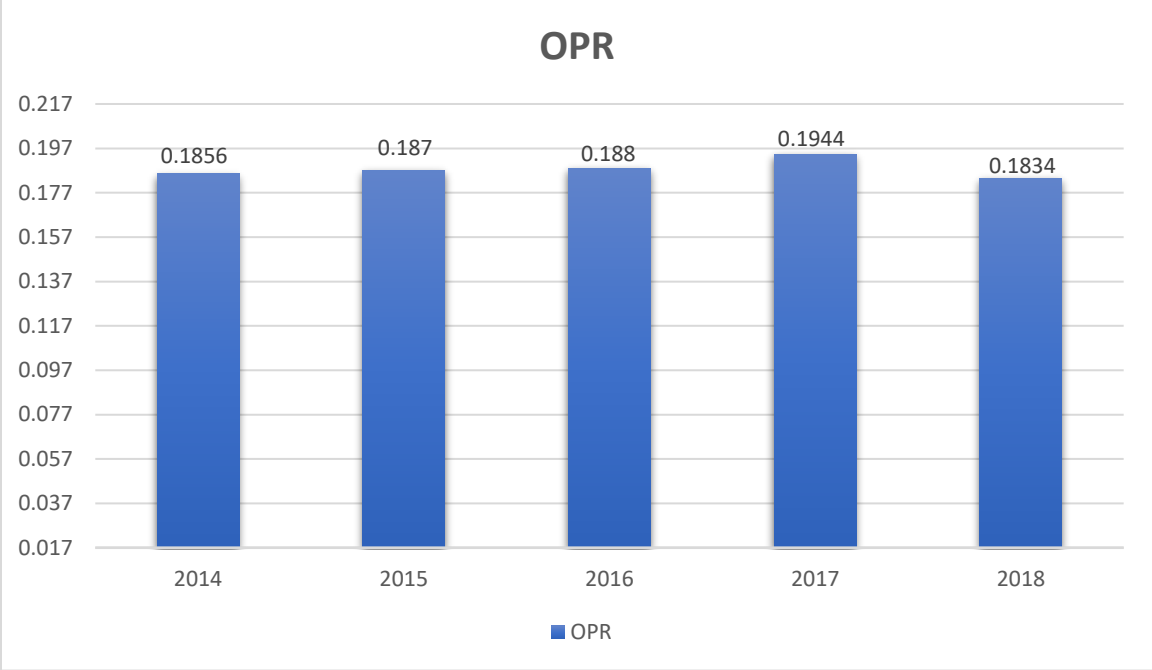
Figure 5: Debt to Income for HSIB from 2014 to 2018



Debt to income is one of the measurements that can be used to determine the credit risk of a company too. This ratio shows how much of the company's total liabilities compared to the total income obtained. The lower the value indicates that HSIB has lower liabilities that need to repay back to the creditors. From the figure above, it is obviously shown lowest debt to income ratio is in 2016 with the value of 0.2148. This value indicates that the company has 21.48% of debts with the total income. However, the rest of the years has higher credit risk as HSIB need to pay more on debts that they took.

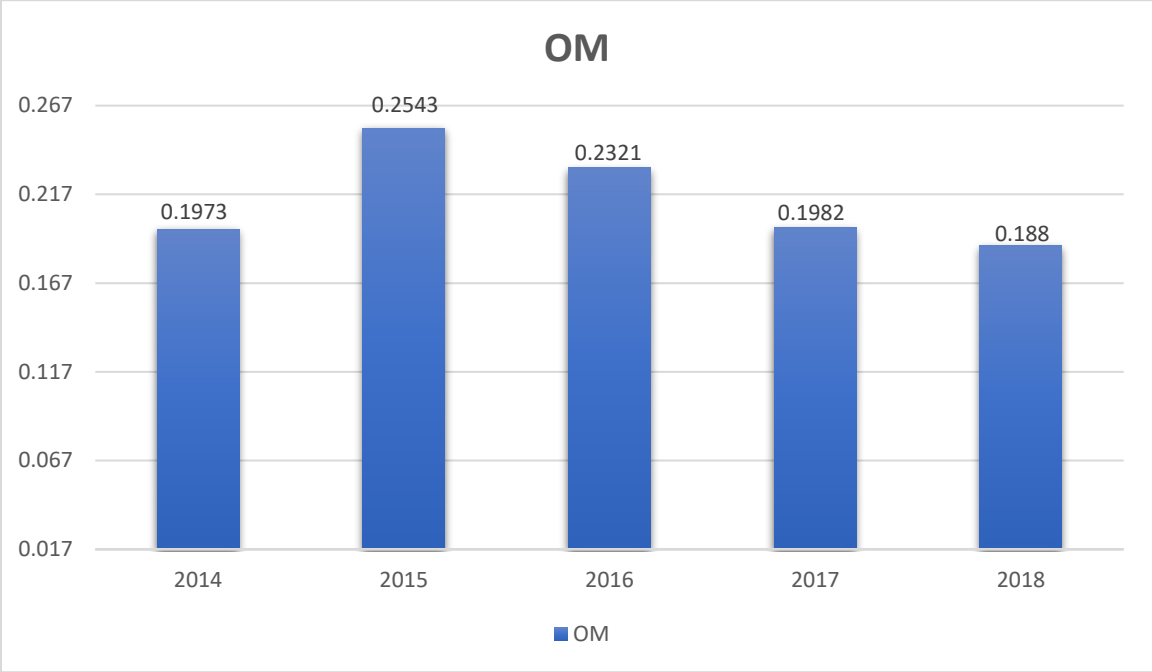
4.2.3 Operational Risk

Figure 6: Operational Ratio for HSIB from 2014 to 2018



Operational ratio becomes one of the ratios used to measure operational risk. The higher the value shows the higher the operational risk exposure faced by the company due to the operation. This is because it used the operational expenses in the calculation compared to net sales. From the above figure, HISB has the highest operational ratio at 0.1944 in 2017. It illustrates the company manage its operational not that well compared to the other years. HSIB has lowest ability to manage their operational efficiently in 2017.

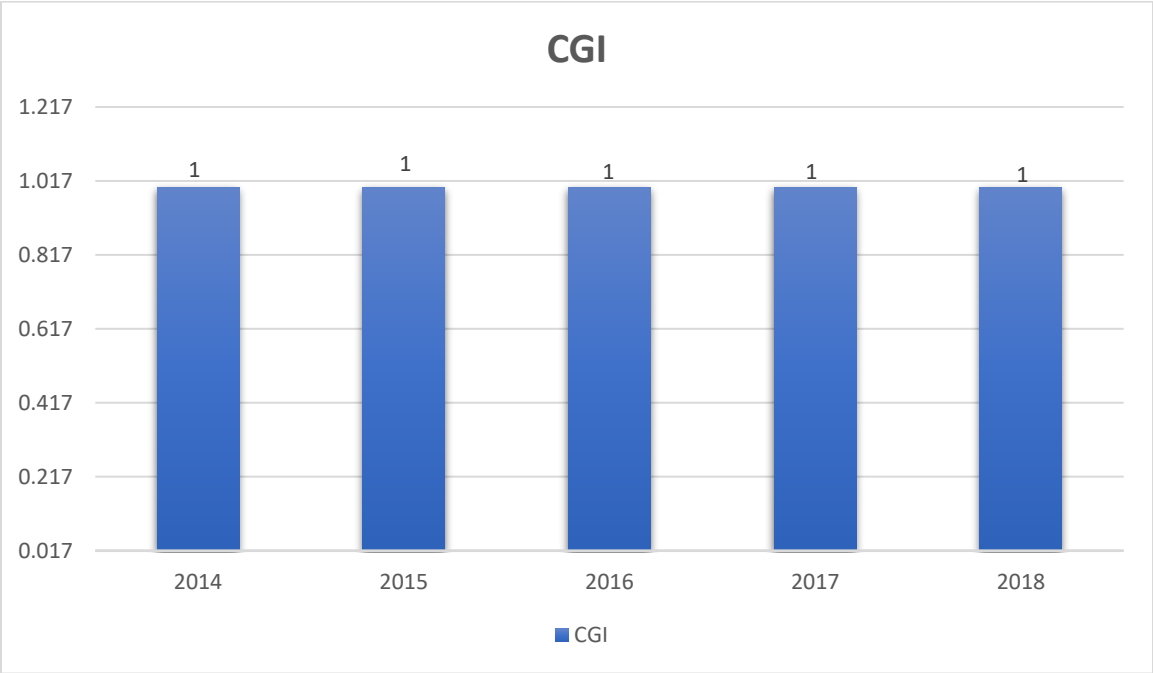
Figure 7: Operating Margin for HSIB from 2014 to 2018



Operating margin let us know the amount of earnings gained before deducting the taxes or interests from each Ringgit Malaysia of sales. In 2015, HSIB has the highest operating Margin within these years. It means that HSIB had the ability to generate sales with most profits after cover the variable production costs in that particular year. The lowest operating margin is 0.188 in 2018. This value means the company had generate least profit after cover its non-operating expensess in the year.

4.2.4 Corporate Governance

Figure 8: CG Index for HSIB from 2014 to 2018



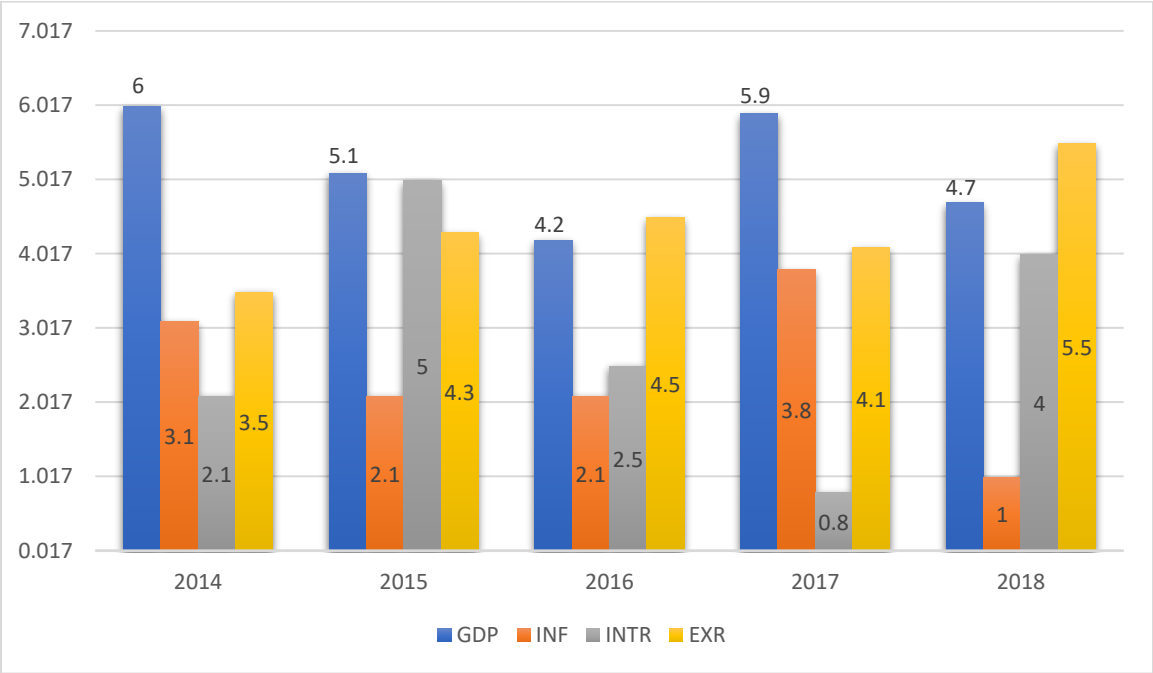
There are steps to calculate the corporate governance index (CGI). CGI is based on the five principles of corporate governance. For each of the principle, the value is either rate as 1 or 0. After that the total up the number and divided it by five to obtain the CGI.

The first principle is accountability. The measurement is if the company held meeting during the year will be rated as 1 or otherwise of 0. Next is transparency, it is rated as 1 if there is any audit committee available. Besides, independence is very important for CG too. If the board has more than half of non-executive position consider as 1, if not, then 0 will be given. Furthermore, fairness identifies the gender of the board. If the board include at least one female will be rated as 1. Moreover, if any corporate sustainability responsibility (CSR) program had been conducted will be score 1 for the CGI.

By obtaining the data and details from the annual report, HSIB has the corporate governance index of 1 from 2014 to 2018, which is full. This indicates that the company has followed well five principles of corporate governance.

4.2.5 Market Risk

Figure 9: External Variables from 2014 to 2018



There are few external variables represent the market risk, it is including GDP, inflation, interest rate and exchange rate. From the above figure, GDP highest value was in 2014. GDP value illustrates the performance of the economy of one's country. The higher the value, the better the economy performed. Thus, 2016 had experienced worst of the economy among these five years.

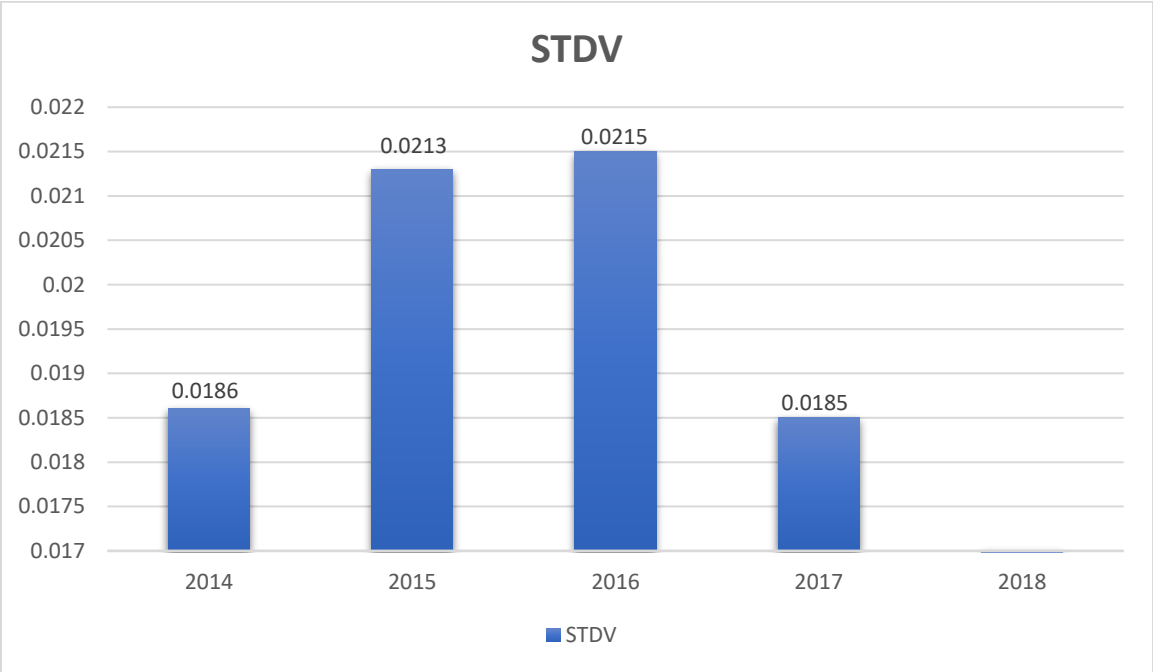
Inflation happen will reduce the purchasing power of household or corporation. From the above figure, market hit highest inflation at 3.8% for the year of 2017. It could be said that excess demand happens, the demand is greater than supply. Excess demand causes shortage of the products and make the prices go up significantly.

Furthermore, interest rate plays important role in the market. The highest interest rate hit by the market is in 2015. The value shoots up more than the previous year. For the year 2015, HSIB might experience the high demand on credit, thus the interest rate increased drastically. However, the rate declined up to the year 2017. After that, in 2018, the values shoot up back to 4.

Lastly, exchange rate has the most noteworthy value in 2018 (5.5%). The higher the percentage doesn't mean a good exchange rate. For instance, if there is huge demand of local to the foreign currencies, it will cause the exchange rate to become higher. Conversely, the lowest

exchange rate among five years is 3.5% in 2014. It indicates that the inflation rate of country in that year is lower relative to other countries and brings higher demand for home currency.

Figure 10: Standard Deviation from 2014 to 2018



Standard deviation is used to measure the volatility of price movement of share. The lower the value, the lower the risk. From the above figure, the prices fluctuated significantly in year 2015 and 2016.In contrast, the standard deviation for year 2018 is the lowest with the value of 0.0124, this means the company has less volatile price movement in the year.

4.3 Descriptive Statistic

Table 2: Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.1916	.0212	5
CR	2.4938	.3359	5
QR	2.1354	.3088	5
ACP	46.8415	3.2760	5
DTI	.2534	.0231	5
OPR	.1877	.0041	5
OM	.2140	.0281	5
CGI	1.0000	.0000	5
GDP	5.1800	.7727	5
INF	2.4200	1.0710	5
INTR	2.8800	1.6453	5
EXR	4.3690	.7392	5
STDV	.01847	.0037	5

Based on the Table 2, the mean for ROA is 0.1916 while the standard deviation is 0.0212. The mean value indicates that HSIB can generate an average of 19.16 cents of profits from each Ringgit Malaysia of the assets. The volatility for ROA is quite small within these five years because the value of standard deviation is near to zero.

Then, the current ratio's mean is 2.4938 and its standard deviation is 0.33359. It shows that an average of RM2.4938 of company's current assets can be used to cover each Ringgit Malaysia of the current liabilities. It is almost similar to quick ratio of the company. HSIB has a mean of 2.1354 and standard deviation of 0.3088. This means that there would be an average of RM2.1254 of quick assets which available to cover each Ringgit Malaysia of the current liabilities. The company's quick assets are enough to cover its current liability since the value is more than 1. The movement of current ratio and quick ratio of HSIB among these five years are considered stable since both value of standard deviation is less than 4.

Furthermore, the mean and standard deviation of average-collection period is 46.8415 and 3.2760 respectively. This implies that the period that company needs to collect back the money from account receivable is about 47 days. The company has a volatile average-collection period within these five years since its standard deviation value is near to 4 which has a much higher value compared to other ratios. On the other hand, debt to income has mean of 0.2534 and standard deviation of 0.0231. This shows that the company's used average of 25.34% of their income to repay back the liabilities of the company. The volatility of company's debt to income among these five years is considered stable because its standard deviation is near to zero.

Next, the mean for operating ratio is 0.1877 while the standard deviation is 0.0041. This value indicate that the average of company used of operating expenses to generate the revenue is 18.77% for these five years. The variation in operating ratio is very small and close to zero as well. It indicates that nearly no differences in operating ratio among these years. Besides, operating margin has mean of 0.214 while standard deviation of 0.0281. It indicates that company gained 21.4 cents of profit from each Ringgit Malaysia of revenue. The standard deviation indicates that the operating margin of company is less volatile within five years. Apart from that, mean value of corporate governance index is 1.0000 while zero standard deviation. This implies the company's corporate governance index among these five years is the same with the value of 1.

Based on the descriptive statistic table, the mean for GDP growth rate is 5.18% while the standard deviation is 0.7727. The mean value indicates that the average GDP growth rate is 5.18% among the years. Nevertheless, the variation in GDP growth rate among the five years is moderate fluctuate from 2014 to 2018 in Malaysia. Then, the mean for inflation is 2.42% while the standard deviation is 1.071. The mean value indicates that the average inflation is 2.42% among the years. Besides, the inflation for Malaysia among the five years is unstable since the standard deviation is greater than 1. This is quite similar to interest rate with mean 2.88 and standard deviation of 1.6453.

Moreover, Malaysia's exchange rate has the mean value of 4.3690 and its standard deviation is 0.7392. It shows that the average of exchange rate among these five years is 4.369%. The standard deviation for exchange rate is 0.7392 which means that there is some difference of exchange rate among these five years. Lastly, the mean and standard deviation of company's standard deviation is 0.01847 and 0.0037 respectively. This implies that the average standard deviation among these five years is 0.01847 and the movement of company's prices among five years is considered least volatile.

4.4 Correlations

Table 3: Correlations

		ROA	CR	QR	ACP	DTI	OPR	OM	CGI	GDP	INF	INTR	EXR	STDV
Pearson Correlation	ROA	1.000												
	CR	.373	1.000											
	QR	.412	.995	1.000										
	ACP	.046	.547	.576	1.000									
	DTI	-.072	-.708	-.639	-.066	1.000								
	OPR	.037	-.015	-.021	.618	.032	1.000							
	OM	.938**	.583	.634	.320	-.089	.041	1.000						
	CGI	.	.	.	.	.	.	.	1.000					
	GDP	-.493	-.530	-.487	.367	.773	.387	-.387	.	1.000				
	INF	-.295	-.038	-.015	.805	.313	.795	-.124	.	.777	1.000			
	INTR	.634	-.024	.013	-.584	.158	-.687	.516	.	-.486	-.787	1.000		
	EXR	.158	-.224	-.279	-.876	-.352	-.423	-.134	.	-.702	-.843	.495	1.000	
	STDV	.559	.724	.770	.842	-.136	.417	.779	.	-.009	.442	-.096	-.641	1.000

*Note: * = p-value <0.10, ** = p-value < 0.050, *** = p-value < 0.001*

Correlation is statistical technique that determine how strongly the pairs of variables are related *(Creative Research Systems, 2016)*. The outcome of a correlation is called correlation coefficient (r), value fall from -1.00 to +1.00. Correlation can show the degree of relationship between two variables *(Hayes, 2019)*. The table below is used as benchmark to determine the relationship among the variables.

Table 4: Table of correlation benchmark

Size of correlation	Relationship
(+/-) 0.90 to 1.00	Very strong positive (negative)
(+/-) < 0.90	Strong positive (negative)
(+/-) < 0.70	Moderate positive (negative)
(+/-) < 0.50	Weak positive (negative)
(+/-) < 0.30	Very weak positive (negative)
Approximate to 0.00	None

From the table, the closer the r to 1 (regardless positive or negative), the more closely the two variables are correlated. However, when r is close to 0 means the variables have no relationship between each other. Meanwhile, if r is positive means that both variables will move in the same direction, one variable increase will be followed by another variable or vice versa. In contrast, if r is negative means that one variable decreases, another variable will increase, this correlation often called as inverse relationship between the pairs.

By referring to the table, the operating margin is the only variable that significant corelated to ROA. This is due to the significant value is 0.009, it is less than the p-value of 0.05. For this, the operating margin has a very strong positive relationship to ROA. This is because r is 0.938 which is close to 1. The operating margin increases will be followed by the increase of ROA.

Furthermore, the other internal factors that has positive relationship with ROA are current ratio, quick ratio, average-collection period and operational ratio. However, debt to income is negative correlated with ROA. Meanwhile, the external factors that has positive relationship with ROA are interest rate, exchange rate and standard deviation. Nevertheless, GDP and inflation are negative correlated to ROA. However, these variables are not significant to ROA because the significant level of these variables are greater than p-value of 0.1.

4.5 ANOVA

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.938[a]	.879	.839	.0085280	1.414

a. Predictors: (Constant), OM

b. Dependent Variable: ROA

By referring to the model summary table, the adjusted R square is 0.839. This indicates that the variables of internal and external factors that used can explain 83.9% of the variance in HSIB's performance from 2014 to 2018. The remaining of 16.1% is unable to be explain by the variables, it could be explained by the other variables out of this study.

Table 6: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	1	.002	21.784	.019[b]
	Residual	.000	3	.000		
	Total	.002	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), OM

Based on the ANOVA table, the significant value of 0.019 shows the model is reasonable to be accepted. The research is reliable with the significant value which less than p-value of 0.05.

4.6 Coefficients

Table 7: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	.040	.033		1.229	.307	-.064	.144		
	OM	.708	.152	.938	4.667	.019	.225	1.191	1.000	1.000

a. Dependent Variable: ROA

Coefficients table is generated to determine which variables have influence toward the dependent variables. If the significant value is less than the p-value of 0.001 shows the variable is highly influence towards the dependent variable. However, if the value is less than p-value of 0.05 and 0.1 indicates the variable is moderate influence and least influence towards the dependent variables respectively.

Based on the Table 7, operating margin is the only variable that significantly influence on ROA. This is because the significant value is 0.019 which is less than 0.05 of p-value. The significant level is just moderate as well. It indicates that the company's performance was affected by the operating margin moderately for these five years.

4.7 Excluded Variables

Table 8: Excluded Variables

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics		
						Tolerance	VIF	Minimum Tolerance
1	CR	-.262[b]	-1.093	.388	-.612	.660	1.514	.660
	QR	-.305[b]	-1.305	.322	-.678	.598	1.672	.598
	ACP	-.283[b]	-1.715	.228	-.772	.898	1.114	.898
	DTI	.012[b]	.047	.967	.033	.992	1.008	.992
	OPR	-.002[b]	-.007	.995	-.005	.998	1.002	.998
	GDP	-.154[b]	-.632	.592	-.408	.851	1.176	.851
	INF	-.181[b]	-.853	.484	-.516	.985	1.016	.985
	INTR	.205[b]	.827	.495	.505	.734	1.363	.734
	EXR	.289[b]	2.059	.176	.824	.982	1.018	.982
	STDV	-.436[b]	-1.798	.214	-.786	.393	2.542	.393

a. Dependent Variable: ROA

b. Predictors in the Model: (Constant), OM

Since there is only operating margin which bring impact on the company's performance, so the other variables are excluded from the model. All these variables have no influence on the performance of the company from 2014 to 2018.

Chapter 5
Discussion and Conclusion

5.1 Discussion of Result

This study aims to determine the company's performance and its determinants of HSIB from 2014 to 2018. The objectives of this study are below:

1. To investigate the internal variables towards HSIB's performance.
2. To investigate the external variables towards HSIB's performance.
3. To investigate the internal and external variables towards HSIB's performance.

Based on the Correlation table, there is only one variable from internal factors that has significant towards HSIB's performance, it is operating margin. Besides, the operating margin has a very strong positive relationship to ROA. If the operating margin decreases will be followed by the decline of ROA significantly.

Furthermore, current ratio, quick ratio, average-collection period and operational ratio are the other internal factors that has positive relationship with ROA. Meanwhile, the external factors that has positive relationship with ROA are interest rate, exchange rate and standard deviation. However, debt to income, GDP and inflation are negative correlated with ROA. These variables are not significant to ROA due to the significant level which greater than p-value of 0.1.

According to model summary table, it shows that 83.9% of the variance in HSIB's performance from 2014 to 2018 can be explained. However, the remaining parts are unable to be explained by the variables in this study. Besides, ANOVA table illustrates the model is acceptable and reliable with significant value which less than p-value of 0.05.

On the other hand, coefficients table shows that operating margin is the only variable that significantly influence on ROA. The significant level is just moderate as well. It indicates that the company's performance was affected by the operating margin moderately from 2014 to 2018.

5.2 Limitations

This study has some limitations. There is only one company selected as the sample to conduct this study. Besides, this study covered only five financial years from 2014 to 2018. The information collected from the annual report are limited due to the time constraint. Apart from

that, the independent variables used in this study are limited to few only. The variables used might not fully represent the risk associated with the company.

5.3 Recommendations and Conclusion

There are some suggestions can be provided in order to improve the findings and analysis of result. Since the study exposed to limitations, so the later study is suggested to select more companies as the sample. Besides, the number of financial years could be increase to more than five years. This can provide more accurate findings and results to be analyzed. The increase for the sample size (N) can make the results obtained more precisely. Last but not least, the variables used is suggested to add on as well.

On the other hand, the findings show operating margin has strong positive relationship that is also significant to HSIB's performance for the year 2014 to 2018. Therefore, it is important for HSIB to improve their operating margin in order to maintain the good performance of the company.

There are several ways and strategies can be taken to improve the operating margin. First, HSIB is suggested to remove the unprofitable products and services. It is important to identify the products and services that profitable to the company, so that the unprofitable one can be evacuated completely. Therefore, the company can be more focus on the profitable items which consequently improve the earnings of the company. An increasing in profit will increase the operational margin of the company, hence, the performance is said to be raised too.

Furthermore, new customers can help to develop the growth of business. HSIB is recommended to find new customers with strategies. One of the simple ways is to approach the current customers with incentives in order to inspire them to initiate referrals for the company. This is because word of mouth is the most powerful form of advertising. Meanwhile, it is important to review the current pricing structure from time to time. Change in prices will bring some consequences to the company's performance in term of profits. Thus, it is vital to correct the prices which favorable by the customers, at the same time match with the cost of products and services. It is good to make a survey on the pricing too.

In a conclusion, this study found that HSIB faced various types of financial risk such as liquidity risk, credit risk, operational risk and market risk that might influenced the company's performance. Based on the findings, there is evidence to prove that operating margin brought impact towards the performance of the company.

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Appendices

Appendix A

A. Financial Risk Data

Table 9: Internal Factors for HSIB from 2014 to 2018

	ROA	CR	QR	ACP	DTI	OPR	OM	CGI
2014	0.1688	2.4976	2.1578	48.7621	0.2675	0.1856	0.1973	1
2015	0.2234	2.5006	2.1831	46.7618	0.2724	0.1870	0.2543	1
2016	0.2014	3.0369	2.6107	48.7987	0.2148	0.1880	0.2321	1
2017	0.1828	2.2554	1.9061	48.6966	0.2616	0.1944	0.1982	1
2018	0.1817	2.1787	1.8191	41.1881	0.2508	0.1834	0.1880	1

Table 10: External Factors for HSIB from 2014 to 2018

	GDP	INF	INTR	EXR	STDV
2014	6.0	3.1	2.1	3.5	0.0186
2015	5.1	2.1	5.0	4.3	0.0213
2016	4.2	2.1	2.5	4.5	0.0215
2017	5.9	3.8	0.8	4.1	0.0185
2018	4.7	1.0	4.0	5.5	0.0124

B. SPSS output for Model 1

Table 11: Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.1916	.0212	5
CR	2.4938	.3359	5
QR	2.1354	.3088	5
ACP	46.8415	3.2760	5
DTI	.2534	.0231	5
OPR	.1877	.0041	5
OM	.2140	.0281	5
CGI	1.0000	.0000	5

Table 12: Correlations

		ROA	CR	QR	ACP	DTI	OPR	OM	CGI
Pearson Correlation	ROA	1.000	.373	.412	.046	-.072	.037	.938	.
	CR	.373	1.000	.995	.547	-.708	-.015	.583	.
	QR	.412	.995	1.000	.576	-.639	-.021	.634	.
	ACP	.046	.547	.576	1.000	-.066	.618	.320	.
	DTI	-.072	-.708	-.639	-.066	1.000	.032	-.089	.
	OPR	.037	-.015	-.021	.618	.032	1.000	.041	.
	OM	.938	.583	.634	.320	-.089	.041	1.000	.
	CGI	.	.	.	.	.	.	.	1.000
Sig. (1-tailed)	ROA	.	.268	.245	.471	.454	.477	.009	.000
	CR	.268	.	.000	.170	.090	.490	.151	.000
	QR	.245	.000	.	.155	.123	.487	.125	.000
	ACP	.471	.170	.155	.	.458	.133	.300	.000

	DTI	.454	.090	.123	.458	.	.480	.443	.000
	OPR	.477	.490	.487	.133	.480	.	.474	.000
	OM	.009	.151	.125	.300	.443	.474	.	.000
	CGI	.000	.000	.000	.000	.000	.000	.000	.
N	ROA	5	5	5	5	5	5	5	5
	CR	5	5	5	5	5	5	5	5
	QR	5	5	5	5	5	5	5	5
	ACP	5	5	5	5	5	5	5	5
	DTI	5	5	5	5	5	5	5	5
	OPR	5	5	5	5	5	5	5	5
	OM	5	5	5	5	5	5	5	5
	CGI	5	5	5	5	5	5	5	5

Table 13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.938[a]	.879	.839	.0085280	1.414

a. Predictors: (Constant), OM

b. Dependent Variable: ROA

Table 14: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	1	.002	21.784	.019[b]
	Residual	.000	3	.000		
	Total	.002	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), OM

Table 15: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	.040	.033		1.229	.307	-.064	.144		
	OM	.708	.152	.938	4.667	.019	.225	1.191	1.000	1.000

a. Dependent Variable: ROA

Table 16: Excluded Variables

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics		
						Tolerance	VIF	Minimum Tolerance
1	CR	-.262[b]	-1.093	.388	-.612	.660	1.514	.660
	QR	-.305[b]	-1.305	.322	-.678	.598	1.672	.598
	ACP	-.283[b]	-1.715	.228	-.772	.898	1.114	.898
	DTI	.012[b]	.047	.967	.033	.992	1.008	.992
	OPR	-.002[b]	-.007	.995	-.005	.998	1.002	.998

a. Dependent Variable: ROA

b. Predictors in the Model: (Constant), OM

C. SPSS output for Model 2

Table 17: Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.191617	.0212275	5
GDP	5.180	.7727	5
INF	2.420	1.0710	5
INTR	2.880	1.6453	5
EXR	4.369	.7392	5
STDV	.018473	.0036955	5

Table 18: Correlations

		ROA	GDP	INF	INTR	EXR	STDV
Pearson Correlation	ROA	1.000	-.493	-.295	.634	.158	.559
	GDP	-.493	1.000	.777	-.486	-.702	-.009
	INF	-.295	.777	1.000	-.787	-.843	.442
	INTR	.634	-.486	-.787	1.000	.495	-.096
	EXR	.158	-.702	-.843	.495	1.000	-.641
	STDV	.559	-.009	.442	-.096	-.641	1.000
Sig. (1-tailed)	ROA	.	.199	.315	.125	.400	.164
	GDP	.199	.	.061	.203	.093	.494
	INF	.315	.061	.	.057	.037	.228
	INTR	.125	.203	.057	.	.198	.439
	EXR	.400	.093	.037	.198	.	.122
	STDV	.164	.494	.228	.439	.122	.
N	ROA	5	5	5	5	5	5
	GDP	5	5	5	5	5	5
	INF	5	5	5	5	5	5
	INTR	5	5	5	5	5	5
	EXR	5	5	5	5	5	5
	STDV	5	5	5	5	5	5

D. SPSS output for Model 3

Table 19: Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.1916	.0212	5
CR	2.4938	.3359	5
QR	2.1354	.3088	5
ACP	46.8415	3.2760	5
DTI	.2534	.0231	5
OPR	.1877	.0041	5
OM	.2140	.0281	5
CGI	1.0000	.0000	5
GDP	5.1800	.7727	5
INF	2.4200	1.0710	5
INTR	2.8800	1.6453	5
EXR	4.3690	.7392	5
STDV	.01847	.0037	5

Table 20: Correlations

		ROA	CR	QR	ACP	DTI	OPR	OM	CGI	GDP	INF	INTR	EXR	STDV
Pearson Correlation	ROA	1.000	.373	.412	.046	-.072	.037	.938	.	-.493	-.295	.634	.158	.559
	CR	.373	1.000	.995	.547	-.708	-.015	.583	.	-.530	-.038	-.024	-.224	.724
	QR	.412	.995	1.000	.576	-.639	-.021	.634	.	-.487	-.015	.013	-.279	.770
	ACP	.046	.547	.576	1.000	-.066	.618	.320	.	.367	.805	-.584	-.876	.842
	DTI	-.072	-.708	-.639	-.066	1.000	.032	-.089	.	.773	.313	.158	-.352	-.136
	OPR	.037	-.015	-.021	.618	.032	1.000	.041	.	.387	.795	-.687	-.423	.417
	OM	.938*	.583	.634	.320	-.089	.041	1.000	.	-.387	-.124	.516	-.134	.779
	CGI	.	.	.	.	.	.	.	1.000	.	.	.	.	.
	GDP	-.493	-.530	-.487	.367	.773	.387	-.387	.	1.000	.777	-.486	-.702	-.009
	INF	-.295	-.038	-.015	.805	.313	.795	-.124	.	.777	1.000	-.787	-.843	.442
	INTR	.634	-.024	.013	-.584	.158	-.687	.516	.	-.486	-.787	1.000	.495	-.096
	EXR	.158	-.224	-.279	-.876	-.352	-.423	-.134	.	-.702	-.843	.495	1.000	-.641
	STDV	.559	.724	.770	.842	-.136	.417	.779	.	-.009	.442	-.096	-.641	1.000

Sig. (1-tailed)	ROA	.	.268	.245	.471	.454	.477	.009	.000	.199	.315	.125	.400	.164
	CR	.268	.	.000	.170	.090	.490	.151	.000	.179	.476	.485	.359	.083
	QR	.245	.000	.	.155	.123	.487	.125	.000	.203	.491	.492	.325	.064
	ACP	.471	.170	.155	.	.458	.133	.300	.000	.272	.050	.150	.026	.037
	DTI	.454	.090	.123	.458	.	.480	.443	.000	.063	.304	.400	.280	.414
	OPR	.477	.490	.487	.133	.480	.	.474	.000	.260	.054	.100	.239	.243
	OM	.009	.151	.125	.300	.443	.474	.	.000	.260	.421	.187	.415	.060
	CGI	.000	.000	.000	.000	.000	.000	.000	.	.000	.000	.000	.000	.000
	GDP	.199	.179	.203	.272	.063	.260	.260	.000	.	.061	.203	.093	.494
	INF	.315	.476	.491	.050	.304	.054	.421	.000	.061	.	.057	.037	.228
	INTR	.125	.485	.492	.150	.400	.100	.187	.000	.203	.057	.	.198	.439
	EXR	.400	.359	.325	.026	.280	.239	.415	.000	.093	.037	.198	.	.122
	STDV	.164	.083	.064	.037	.414	.243	.060	.000	.494	.228	.439	.122	.

N	ROA	5	5	5	5	5	5	5	5	5	5	5	5	5
	CR	5	5	5	5	5	5	5	5	5	5	5	5	5
	QR	5	5	5	5	5	5	5	5	5	5	5	5	5
	ACP	5	5	5	5	5	5	5	5	5	5	5	5	5
	DTI	5	5	5	5	5	5	5	5	5	5	5	5	5
	OPR	5	5	5	5	5	5	5	5	5	5	5	5	5
	OM	5	5	5	5	5	5	5	5	5	5	5	5	5
	CGI	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
	INF	5	5	5	5	5	5	5	5	5	5	5	5	5
	INTR	5	5	5	5	5	5	5	5	5	5	5	5	5
	EXR	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 21: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.938[a]	.879	.839	.0085280	1.414

a. Predictors: (Constant), OM

b. Dependent Variable: ROA

Table 22: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	1	.002	21.784	.019[b]
	Residual	.000	3	.000		
	Total	.002	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), OM

Table 23: Coefficients

		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	.040	.033		1.229	.307	-.064	.144		
	OM	.708	.152	.938	4.667	.019	.225	1.191	1.000	1.000

a. Dependent Variable: ROA

Table 24: Excluded Variables

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics		
						Tolerance	VIF	Minimum Tolerance
1	CR	-.262[b]	-1.093	.388	-.612	.660	1.514	.660
	QR	-.305[b]	-1.305	.322	-.678	.598	1.672	.598
	ACP	-.283[b]	-1.715	.228	-.772	.898	1.114	.898
	DTI	.012[b]	.047	.967	.033	.992	1.008	.992
	OPR	-.002[b]	-.007	.995	-.005	.998	1.002	.998
	GDP	-.154[b]	-.632	.592	-.408	.851	1.176	.851
	INF	-.181[b]	-.853	.484	-.516	.985	1.016	.985
	INTR	.205[b]	.827	.495	.505	.734	1.363	.734
	EXR	.289[b]	2.059	.176	.824	.982	1.018	.982
	STDV	-.436[b]	-1.798	.214	-.786	.393	2.542	.393

a. Dependent Variable: ROA

b. Predictors in the Model: (Constant), OM