An Analysis of the External and Internal Factors Affecting Honda Motor Company's Performance

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ABSTRACT

Profitability is primarily goals of a company and it is important to an organization to be profitable and survive in a long run. The aim of this study is to determine the company performance towards internal and external factors for Honda Motor Company Ltd in Japan. The data analysis shows that firm-specific factors (debt to income) and macroeconomics influence the profitability of the company. This study covers all the latest financial statement from 2014 until 2018. This analysis will help the investors directly and indirectly on either the company is worth to invest or not. This is because this study contains all five years of information for the investor to compare. This study also studies how the economics of a country can influence Honda Motor Company within five years.

Keywords: *Profitability, Insolvency risk, Macroeconomic*

1.0 INTRODUCTION

1.1 Introduction

This chapter begins with an overview of Honda Motor Company Ltd in Japan. It contains the discussion of the problem statement, research objectives, research questions, scope of study and the organisation of the report.

1.2 Overview of Honda Motor Company Ltd

Honda Motor Company Ltd is a Japanese public multinational corporation known as a manufacturer of automobiles, motorcycles, and power equipment. Honda Motor established in 1947 by Soichiro Honda to manufacture motors for bicycles. The company expanded speedily as a motorcycle producer in the following years. Honda entering the U.S. market well and yet penetrating the automobile manufacturing industry in 1963.

Honda are building up the trust of its shareholders, customers and the public by established corporate governance as an important objective to its management. Honda seek to reinforcing the corporate value and sustainable expansion with strengthen the principles of up-to-date, determinant and risk analyse. Honda encouraging the managerial responsibility of the Board of Directors and securing immediate decision making, by supporting a company with a system which is Audit and Supervisory Committee system. This system is stimulated the separation of the supervisory management and executive management.

Honda is training to disclose all the company information such as yearly and quarterly financial statement and company policies. This information is disclosed in an accurate period and systematic presence to strengthen the trust from shareholders, customer and the public. Honda will remain to ensure the transparency of its company information. The company has assign Outside Director who have a high amount of independent to overseeing the business management.

1.3 Problem Statement

The company also involve in certain risk in the business operation such as liquidity risk, credit risk, operational risk and market risk. The increasing in cost attributable have affected the operating expenses rise, aim to gain more revenue in the business operations. The Europe company have been influenced by the changes of the worldwide automobile manufacturer systems and the loss in settlement of multidistrict class action litigation.

The devaluation of financial situation cause Honda unable to pay back all the liabilities on time, which will expose to the liability risk. The managing of capital resources, maintaining the level of liquidity and a stable financial information will regulate the exposure of liquidity risk. Honda found that its working capital gather from cash generated by business operations and bank loans. Honda invested in commercial paper, short-term notes, bonds and securitization of finance receivables.

Honda has exposed three types of credit risk which develop on consumer and dealer finance receivables and equipment on lessor. Credit risk on consumer finance receivables in Honda is affected by the world economic situation such as an increase in unemployment. The level of credit risk, lump sum contract for the predictable losses and concentrating the debt collection are managed by controlling and modifying the finance standards.

Whereas, the financial assets of the group of dealer, the significant of indemnity the financing and economics factors that distress the dealer's wealth are influencing the credit risk on dealer finance receivables. This risk has been supervised by Honda with launching financial engagements and controlling the finance receivables and dealer's solvency to manage its dealer's broad performance analyse. Hence, credit risk on equipment on lessor are mostly alike to the consumer finance receivables. The losses of Honda are recognized on the nature of recovered lessor.

The changes in foreign currency exchange rates and interest rates have been exposed to market risks where the value and cash flows of the financial statement are fluctuated. Derivatives are used by Honda to decrease the fluctuation of cash flows of the financial statement. It is a contract underlying financial asset include foreign currency contract, interest rates swap contracts and foreign currency option contracts.

1.4 Research Objectives

The aim of this study is to determine the company performance towards internal and external factors for Honda Motor Company Ltd. in Japan. Objectives of this study are:

1. To study the firm-specific factors toward company performances.
2. To study the macroeconomics factors toward company performances.
3. To study the firm-specific factors and macroeconomics toward company performances.

1.5 Research Questions

1. Is there any relationship between firm-specific factors and company performance?
2. Is there any relationship between macroeconomics factors toward company performance?
3. Is there any relationship between firm-specific factors and macroeconomic factors toward company performances?

1.6 Scope of Study

The sample of study is from automobile industry which is Honda Motor Company Ltd. in Japan. The accounting and financial ratios was based on 5 year companies' annual report from 2014 to 2018.

1.7 Organization of Study

This study consists of five main chapters. Chapter one is about introduction which consists of an overview of the study, problem statement, research objectives, research questions, scope of the study and organization of the study. Chapter two provides the literature review which discussed about company's corporate governance, liquidity risk, market risks, credit risks and operational risks toward company performance. Chapter three discusses the stapling technique, research analysis, data analysis and statistical package for social sciences. Chapter four details the result and findings of the study, which include descriptive analysis, descriptive statistics, correlation, coefficient, model summary and ANOVA. Finally, chapter five is about the conclusion of the study, limitation of the study and some suggestions.

2.0 LITERATURE REVIEW

2.1 Introduction

This study aim is to discuss the relevant literature. This chapter includes two sections which Section 2.2 details the definition of financial risks and provides more understanding about the company governance and its determinants consisting of firm specific factors and macroeconomic factors.

2.2 Financial Risk

2.2.1 Corporate governance of Honda Company

According to Claessens (2006), corporate governance definitions have two classes. The first definitions are establishing the behaviour of the corporations which is performance and growth of the firm, financial information and dealing of shareholders, customers and investors. The second explanation attention in the regulating structure of the firms. The management rules of the firms are bases from the country's legal system, financial markets and other aspect markets.

Doidge, Karolyi and Stulz (2004) concluded that a healthier governance helps to reduce the financing cost of a firms where the investors are believing that the firms to be managed well after the costs have been elevated. Therefore, it is important for a firms to pledge the management into a better value of governance. The firms will be benefit in entering to equity market where the shareholders have the power to decide and the capability to evaluate the management of the firms. The shareholders not often in dismissal the directors in a general meeting of company. Accountability has started to be concern in Japan which is the mostly important in restricting the corporate governance of a firm (Demise, Miwa, Nabayashi, & Nakoshi, 2006).

2.2.2 Credit Risk

Credit risk also known as default risk, performance risk and counterparty credit risk. Credit risk is a risk that counterparty is fail to pay as obligated in an agreement (Brown & Moles, 2016). According to Mutua (2014), the importance of credit risk is rising because of the economic disaster, bankruptcies of company, violation of rules in financial management, deteriorating values of endorsement and bank for international settlements risk on financing obligation. Credit risk will determine the growth and profitability of a company.

According to Dafikpaku (2011), during the economic crises, Honda have taken some critical decisions to maintain competitive among others companies. Most of the companies have decrease the number of workers to save cost. Some of company will shutting down their businesses due to lack demand for their products such as Honda. Honda are forcing to shut down its business in Swindon for four months in 2009 which is cause by the decline of sales (Julia Kollewe, 2009)

2.2.3 Liquidity Risk

The concept of liquidity refers to the capability to exchange current capital for goods and services of a company. Liquidity can be defined in terms of movement and relates to the debt (Nikalaou, 2009). Pastor L. & Robert (2001) examined that the liquidity is performs as a priced adjustment. It is important for financing resolution and the variations in degree of liquidity are associated with companies' stocks.

Anzala Noor and Samreen (2015) have concluded that the liquidity management is a trade of monetary indicator which distressing its price, finance into different investment and the ability to pay off its short term obligations to reduce the company losses and raise its profitability.

2.2.4 Market Risk

Market risk is a risk of losses in financing book because of the changes in equity values, interest rates, foreign country exchange rates, prices of goods and other values are fixed in a market (Amit Mehta, 2012). Whereas according to Frain and Meegan (1996), the method of market risk management is to control risk in a consolidated method. The concept of Value-at-risk (VAR) is one of the method to achieving the aggregation of market risks in assets and result in financing book.

Honda as a production and distribute high values of products at a lower cost are necessitate the ability in supply chain management, well manufacturing and enhance distribution competencies. This outcome helps Honda in maximizing its shareholders' benefits and the customer value with developing the required processes and coordinate them with a suitable result. (Symons, 2005)

2.2.5 Operational Risk

Operational risk is a risk of cost from insufficient and unsuccessful management, community and structure or macro-environment (Helen Matthews, 2008). According to Robert A. Jarrow (2007), operational risk is important in illustrative the concern about the determination of working capital.

Japan have faced a serious disruption to all the firms and factories in 2011 due to the magnitude earthquake (Rasoul Sorkhabi, 2011). Honda is also affected in this problem where the performance of production and management department are declining. Honda unable to export its products in order to serve foreign markets whereas it has expanded the foreign companies' production (William Schmidt & David Simchi, 2013)

2.2.6 Company Performance

Wu (2006) concluded that the environment of the company is related to the trustworthy and obligations of their stakeholders. The environment also interrelated to the company's prospects of quality, competitors, and on time delivery. The importance of company performance is well organized in the usage of current assets. It can gain more profit and have a progressive result for the company in the form of better organizing, policies and others sources (Burja, 2011). Honda has presented the presence of extremely high efficiency in expanding its manufacturer lines. Honda growth more rapidly compare to other automobile companies in Japan. Honda has resulted in the most complexity project among companies (MA Cusumano & K Nobeoka, 1992)

3.0 METHODOLOGY

3.1 Introduction

This chapter is discussing framework applied in data collection. It is also cover on sampling technique, statistical analysis and data analysis.

3.2 Sampling Technique

The unit of analysis is the real element that is being analysed in a study. A unit of analysis can be analysed in individual, groups, organisation and many more. In this study, the organisation will be the unit of analysis. All companies in automobile industry in Japan are the population in this study. In order to conduct the study, one company were chosen as sample which is Honda Motor Company Ltd. Data are taken from the annual report to measure the dependent variable and the independent variables from year 2014 to 2018.

3.3 Statistical Analysis

Balance sheet and income statement in annual report of Honda Company is the main references doing the data that have been collected from 2014 to 2018. Compile all the data and record it in excel are making it easy to count every part of it and manage to get data in term of ratio. All the ratios are based on financial statement of Honda Company. The ratio commonly used in determining the company's performance which are return on assets ratio, current ratio and quick ratio, average-collection period and debt to income, operational ratio and operating margin. Other than that, some economic factors are also using in evaluated the firm's performance such as GDP, inflation rate, interest rate and exchange rate. Multiple regression analysis was employed using SPSS software to measure the relationship and correlation between liquidity and performance of Honda Company.

In this study, IBM SPSS version 25 was used to compute the data to obtained a result. According to Leech, Barrett and Morgan (2014), statistical package for social sciences is designed to help researchers analyse and interpret research data with intermediate statistics. This software is becoming more popular in research and interpreting. However, the linear regression and correlation between dependent variables and independent variables will be analyse by using IBM SPSS Statistics. The data were obtained from the annual report of Honda Motor Company Ltd.

3.4 Data Analysis

In order to forming to the conceptual framework of this study, there are includes of one dependent variable and three independent variables. The framework is as shown below:

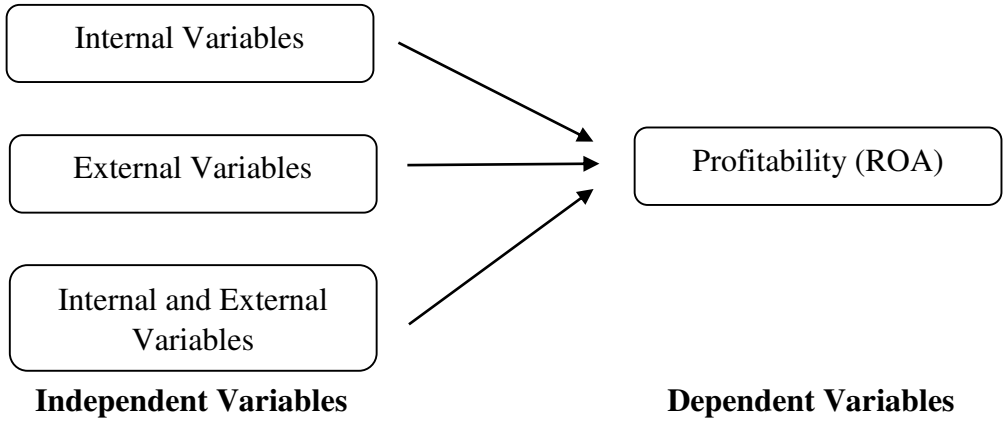


Figure 1: Research framework

Multiple regression analysis was used to determine the dependent variables to independent variables. It is a regression technique will summary the outcome of the dependent variables and independent variables. The multiple regression can be form in equation as shown below:

$$ROA = \alpha_1 + \alpha_2 CR + \alpha_3 QR + \alpha_4 ACP + \alpha_5 DTI + \alpha_6 OR + \alpha_7 OM + \alpha_8 INDEX + e \quad \text{Equation 1}$$

$$ROA = \alpha_1 + \alpha_2 GDP + \alpha_3 INFLA + \alpha_4 INTR + \alpha_5 EXCHR + e \quad \text{Equation 2}$$

$$ROA = \alpha_1 + \alpha_2 CR + \alpha_3 QR + \alpha_4 ACP + \alpha_5 DTI + \alpha_6 OR + \alpha_7 OM + \alpha_8 INDEX + \alpha_9 GDP + \alpha_{10} INFLA + \alpha_{11} INTR + \alpha_{12} EXCHR + e \quad \text{Equation 3}$$

Table 3.1: Measurement of Variables

Variables	Formulating	Measurement
Return on Assets	$\frac{Net\ Income}{Total\ Assets}$	To measure profitability
Current Ratio	$\frac{Current\ Assets}{Current\ Liability}$	To measure liquidity risk
Quick Ratio	$\frac{Current\ Assets - Inventory - Prepaid\ Expenses}{Current\ Liability}$	To measure liquidity risk
Average-collection Period	$\frac{Account\ Receivable}{Average\ Receivable\ Turnover}$	To measure insolvency risk
Debt to Income	$\frac{Total\ Liability}{Total\ Income}$	To measure insolvency risk
Operational Ratio	$\frac{Operating\ Expenses}{Net\ Sale}$	To measure operational risk
Operating Margin	$\frac{Earnings\ before\ Interest\ and\ Taxes}{Revenue}$	To measure operational risk

4.0 FINDINGS AND ANALYSIS

4.1 Introduction

This chapter will present the interpretation of finding from regression analysis and analysis of the company performance towards internal and external factors for Honda Motor Company Ltd.

4.2 Descriptive Statistics

	Mean	Std. Deviation	N
ROA	0.0376	0.0135	5
CURRENT RATIO	1.1763	0.0551	5
QUICK RATIO	0.9134	0.0443	5
AVERAGE-COLLECTION PERIOD	71.6842	7.1372	5
DEBT TO INCOME	17.6196	6.6230	5
OPERATIONAL RATIO	0.1246	0.0125	5
OPERATING MARGIN	0.0657	0.0129	5
INDEX	0.960	0.0894	5
GDP	0.980	0.5933	5
Inflation	1.040	1.0407	5
InterestRate	0.100	0.0000	5
ExchangeRate	115.8520	4.5817	5

Table 1: Descriptive Statistics Result for internal and external variables

Table 3 illustrates that the descriptive statistics of dependent (ROA) and independent variables. The return on asset also is an internal variable in this study of Honda Motor Company. For ROA, in within five years it means is 3.77% in within five years and it can be assumed that the return on asset for the company is good to make income in the company. As for the standard deviation of return on asset it has 1.35%. Based on that, the percentage of standard deviation is lower than the mean. The percentage different by 2.42% for both mean and standard deviation.

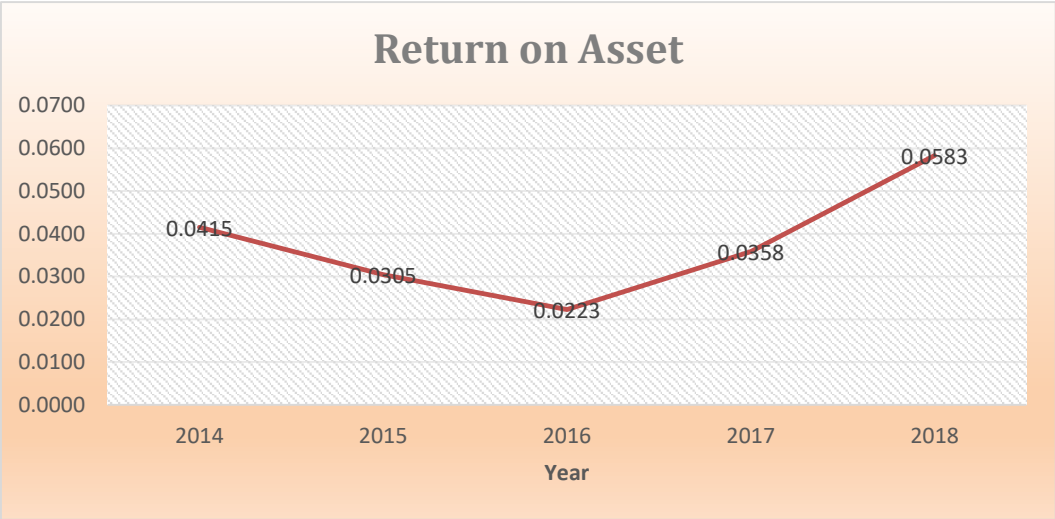
Moreover, current ratio and quick ratio is used to know whether the company is capable or not to pay its debts. The mean of current ratio is 117.63% and the standard deviation is 5.51%. Whereas, for the quick ratio the percentage of mean is 91.34% while the standard deviation is 4.42%. It can be assumed that the company is able to increase the percentage of liquidity. Then, the average-collection period that used is to know how many days that the company can receives it payment. The mean for this ratio is 71.68 and the standard deviation is 7.14, it can assume that the company are efficient in collecting its payments.

After that, the debt to income is to measure how a company's use its income to pay its liabilities. The mean and standard deviation for debt to income is 17.62 and 6.62 respectively, it shows that the company's debt are affordable. Furthermore, the operational ratio is used to know how efficiency a company use its income to generate operating expenses. Operational ratio is 12.46% and 1.25% respectively, it can be assumed that the company are using small portion of its income to generate the operating expenses. Whereas, the operating margin indicates how much of revenues is left after cost of goods sold and operating expenses is considered. The mean and standard deviation of operating margin is 6.57% and 1.29% respectively.

The variable of macroeconomics is made up of gross domestic product (GDP), inflation, interest rate and exchange rate. The mean of GDP is 0.98 and the standard deviation is 0.5933. For the inflation rate, the percentage of mean is 1.04 while the standard deviation is 1.0407. Then, the mean for interest rate is 0.1. Lastly, for the exchange rate, the mean is 115.85 and the standard deviation is 4.58. Overall, it can be assumed that the external variables that being used in the analysis have a slightly differences gap between the mean and standard deviation.

4.3 Descriptive Analysis

4.3.1 Return on Asset (ROA)



Graph 1: Return on Assets of Honda

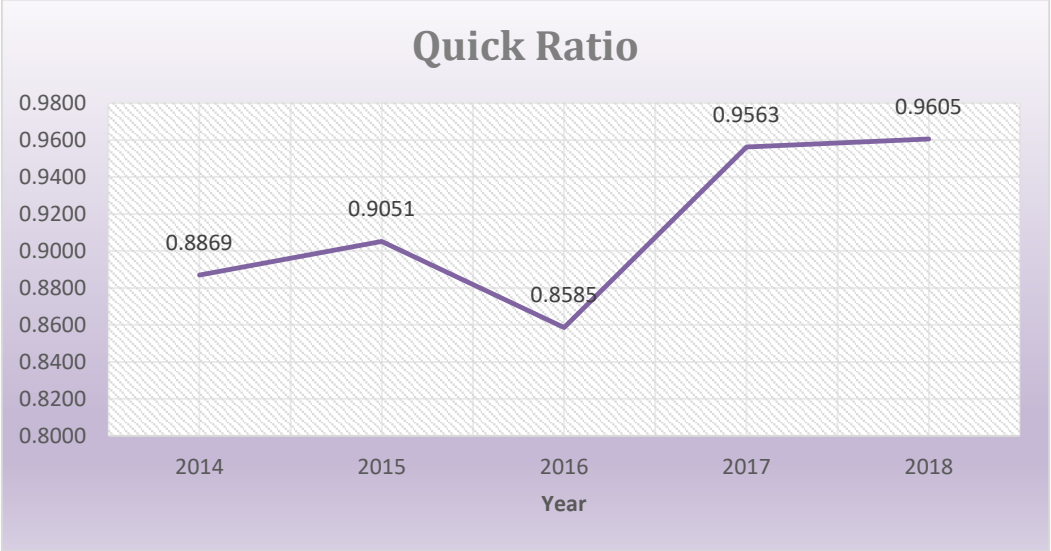
Return on Asset is a economic ratio that meausre the profit earn by the company towards its assets. ROA as an indicator to the shareholders, stakeholders and manager to analyse the efficiency of the company in using its assets to grow earnings. Graph 1 illustrates the percentage of return on asset of Honda from the year 2014 to 2018. From the year 2014 to 2016, we can see that the ROA have decrease from 4.15% or 0.0415 to 2.23% or 0.0223. Then, it increases rapidly from 2.23% or 0.0223 to 5.83% or 0.0583 in the year 2018. From the graph, we can concluded that the return on asset are more efficient using its asset to increase profit since 2016 (FL Barnard & M Boehlje, 2004).

4.3.2 Current Ratio

Graph 2: Current Ratio of Honda

Current ratio measures how liquidity is the company pay its debt using the income of company. Graph 2 show that the current ratio of Honda from the year 2014 to 2018. At the year 2014, the current ratio show a slightly increase from 1.1678 to 1.1877 in the year 2015. Then, it has dropped rapidly to 1.0873 in the year 2016 and it increase again in 2017, which is 1.2075. At the year 2018, the ratio rises to 1.2314. We can concluded that the increase in the current ratio may indicate Honda is growing into its capacity and satisfying its debt (KJ Chabotar, 1989).

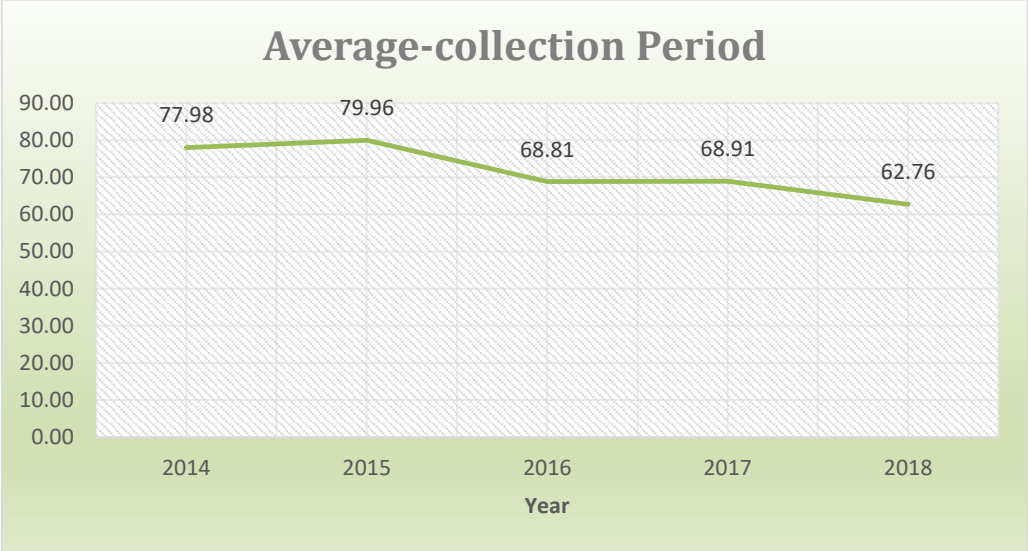
4.3.3 Quick Ratio



Graph 3: Quick Ratio of Honda

Quick ratio is used to measures the capability of a company to withdraw its liabilites by using the resources. Graph 3 illustrate that the quick ratio of Honda from year 2014 to 2018. From the year 2014, the quick ratio is 0.8869 and it slightly goes up to 0.9051 in 2015. Then, it has fall to 0.8585 in year 2016 and sudden increase in year 2017, which is 0.9563. In year 2018, the ratio has rises to 0.9605. As the result, we can concluded that the company is not efficient enough to pay back its liabilities in small period from the year 2014 to 2018 (SH Atieh, 2014).

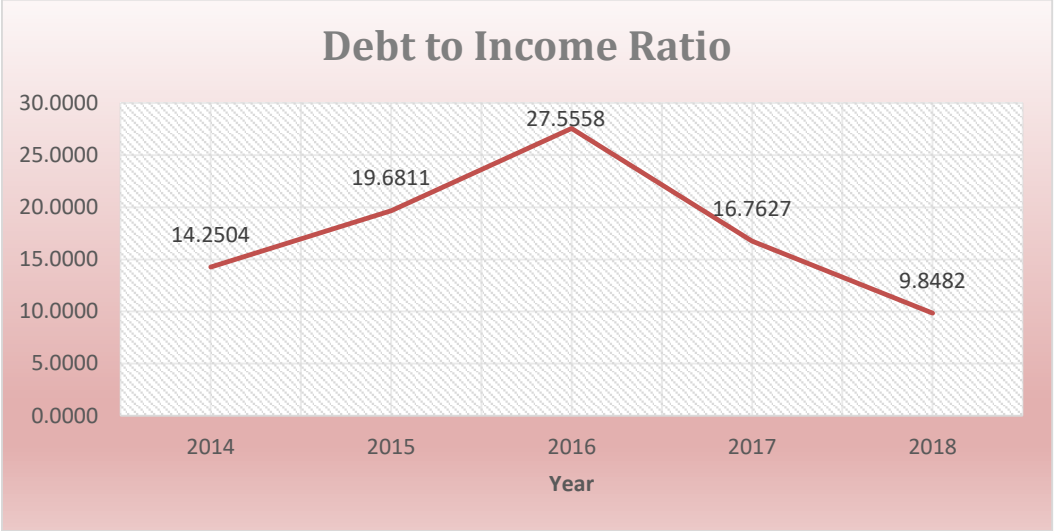
4.3.4 Average-collection Period



Graph 4: Average-collection Period of Honda

Average-collection Period is to measure the average number of days required to received payment from customers. Graph 4 shows the average-collection period of Honda from year 2014 to 2018. At the year 2014, the average-collection period is 77.98 days and it has slowly increase to 79.96 days in 2015. Then, it has decrease in 2016 and rises again in 2017, which is 68.81 days and 68.91 days respectively. At the year 2018, the average-collection period decline to 62.76 days. From the graph, we can assume that the average number of days to collect payment from customers are being more effective (Brigham, 1995).

4.3.5 Debt to Income Ratio



Graph 5: Debt to Income Ratio of Honda

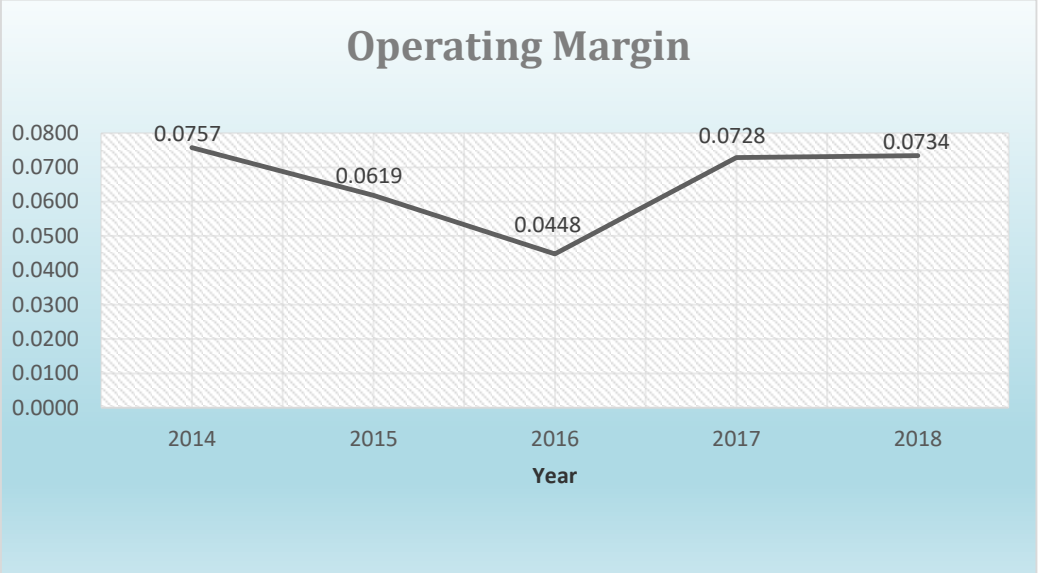
Debt to income ratio is the percentage of a company income that goes to pay the liabilities. Debt to income ratio is a monetary ratio used in making decision. Graph 5 show the debt to income ratio of Honda from year 2014 to 2018. From the graph, the debt to income ratio in the year 2014 is 14.2504 and it has increased to 27.5558 in the year 2016. Then, the ratio decline from 27.5558 to 16.7627 in 2017 and continue decrease to 9.8482 in year 2018. We can conclude that the debt to income ratio in 2018 is 9.8482 and it means 9.84% of a company income goes to pay the debt (A Ramachandran & M Janakiraman, 2009).

4.3.6 Operational Ratio

Graph 6: Operational Ratio of Honda

Operational ratio is a measurement of operating expenses to net sale. Graph 6 illustrated the operating ratio of Honda from year 2014 to 2018. At the year of 2014, the ratio is 11.94% and it has increased less than 1% to 12.91% in 2015. Then, the ratio rises again in 2016, which is 14.44%. The ratio sudden dropped to 11.44% in the year of 2017 and it has slightly increased to 11.56% in 2018. From the graph, we can assume that the company used 11.56% of the net sale to pay for the operating cost, and the remaining 88.44% to cover the other expenses such as interest expenses, taxes and others that related to the company's day to day operations. A low operational ratio also shows that the company are able to earn more income (SF In).

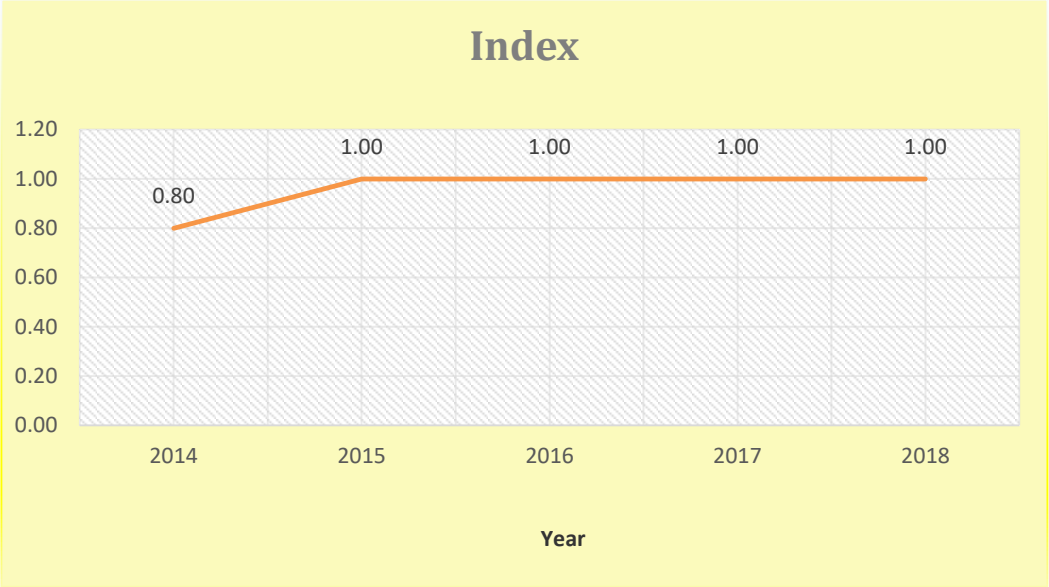
4.3.7 Operating Margin



Graph 7: Operating Margin of Honda

Operating margin indicates the percentages of remaining of total revenue after cost of goods sold and operating expenses are measured. Graph 7 shows the operating margin of Honda from 2014 to 2018. From the graph, the operating ratio is 7.57% in year 2014 and it decreased to 4.48% in 2016. Then, it has increased in both year 2017 and 2018, which is 7.28% and 7.34% respectively. We can conclude that the higher the operating margin, the more profitability a company is. The operating margin are become higher after the year of 2016, therefore the company are more profitability (KE Gbegnin & T Gurbuz, 2014).

4.3.8 Index of company



Graph 8: Index of Honda Company

Index is a measurement of accountability, independent, sustainability, fairness and transparency of a company have. It is used to rate the company performance. Graph 8 illustrates that the index of Honda Company. In the year 2014, Honda get 80% in the index because Honda does not have independent board of director in management. Then, from 2015 to 2018, Honda rate the highest rating which is 100%. This means that Honda has good sound corporate governance in the company.

4.4 Correlation

		ROA
Pearson Correlation	ROA	1.000
	CURRENT RATIO	.783
	QUICK RATIO	.708
	AVERAGE-COLLECTION PERIOD	-.442
	DEBT TO INCOME	-.947
	OPERATIONAL RATIO	-.775
	OPERATING MARGIN	.766
	INDEX	-.157
	GDP	-.105
	Inflation	.409
	InterestRate	.
	ExchangeRate	-.627
Sig. (1-tailed)	ROA	.
	CURRENT RATIO	.059
	QUICK RATIO	.091
	AVERAGE-COLLECTION PERIOD	.228
	DEBT TO INCOME	.007
	OPERATIONAL RATIO	.062
	OPERATING MARGIN	.065
	INDEX	.400
	GDP	.433
	Inflation	.247
	InterestRate	.000
	ExchangeRate	.129

Table 2: Pearson Correlation Result for internal and external variables

Pearson correlation was used to measure the correlation of profitability which is return on asset (ROA) with current ratio, quick ratio, average-collection period, debt to income, operational ratio, operating margin, index, gross domestic product (GDP), inflation, interest rate and exchange rate. Current ratio and quick ratio shows a positive correlation with ROA 0.783 and 0.708 respectively. It implies that when profitability increase, liquidity also will increase. The company with a high liquidity is capable to get more profit.

Average-collection periods have a negative correlation -0.442. It indicates that when profit increase average-collection period will decrease. Debt to income also has a negative correlation with ROA -0.947 means that when profit increase debt to income decrease. It shows that good management in debt to increase in profitability. Meanwhile, operational ratio shows a negative correlation with ROA -0.775. It indicates that when profitability increase the operational ratio will decrease.

Then, operating margin have a positive correlation with ROA 0.766 means that when the operating margin increase the profit will also increase. Index score show weakly negative correlation to profitability. It indicates that when the profit increase the corporate governance index scores will decrease. We can conclude that when the company complied more on corporate governance will decreases the profit of a company.

In this study, macroeconomic factors also used to examine the correlation with profitability which is gross domestic product (GDP), inflation, interest rate and exchange rate. GDP and exchange rate has negative correlation with ROA -0.105 and -0.627 respectively. Meanwhile, inflation have positive correlation with ROA 0.409. Good management in estimating financial risks is to confirm that the company are ready to face any problem in future.

4.5 Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.072	.007		10.142	.002	.049	.094
	DEBT TO INCOME	-.002	.000	-.947	-5.083	.015	-.003	-.001

a. Dependent Variable: ROA

Table 3: Coefficient Result for internal variables

Based on the table above, the debt to income variables has the highest influence with t value, -0.5083 to profitability compared to others internal variables which is Current Ratio, Quick Ratio Average-collection Period, Operating Margin, Operational Ratio and Index score. It also shows a coefficient of Honda Company from the year 2014 until 2018. The debt to income shows a big influence to the company. The beta of debt to income indicates that it is a negative relationship to the company (Fama & French, 2002)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.332	.147		2.259	.265	-1.537	2.202
	GDP	-.001	.010	-.044	-.096	.939	-.134	.132
	Inflation	.009	.006	.698	1.505	.373	-.068	.086
	ExchangeRate	-.003	.001	-.885	-2.075	.286	-.019	.013

a. Dependent Variable: ROA

Table 4: Coefficient Result for external variables

Based on the table above, the Exchange Rate Variables has the highest influence with t value, -2.075 to profitability compared to Gross Domestic Product (GDP), inflation and interest rate. It also shows a coefficient of Honda Motor Company from the period 2014 to 2018. The exchange rate shows a big influence to the company. The beta of Exchange Rate illustrates that it is a negative relationship with to the company (N Kemuma, 2015).

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.072	.007		10.142	.002	.049	.094
	DEBT TO INCOME	-.002	.000	-.947	-5.083	.015	-.003	-.001

a. Dependent Variable: ROA

Table 5: Coefficient Result for internal and external variables

Based on the table above, compared to the Current Ratio, Quick Ratio, Average-collection Period, Operational Ratio, Operating Margin, GDP, interest rate, inflation and exchange rate, the Debt to Income Variables has the highest influence with t-value, -5.083 to the profitability It is also shows a coefficient of Honda Motor Company for a period from 2014 to 2018. The Debt to Income show a big influence to the company. The beta of Debt to Income indicates that it is negative influence to the company (M Salim & R Yadav, 2012).

4.6 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.947[a]	.896	.861	.005043260155615	2.455

a. Predictors: (Constant), DEBT TO INCOME

b. Dependent Variable: ROA

Table 6: Model Summary Result for internal variables

Based on the table above, R Square is equal to 86.1%. The variables used in the model able to explains 86.1% of the adjustment in the profitability for Honda Motor Company. While the remaining 13.9% of the R square unable to be clarified by internal variables.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.919[a]	.845	.382	.010647822319530	2.619

a. Predictors: (Constant), ExchangeRate, GDP, Inflation

b. Dependent Variable: ROA

Table 7: Model Summary Result for external variables

Based on the table above, R square is equal to 38.2%. The variables used in the model able to explains 38.2% of the adjustment in the profitability for Honda Motor Company. While the remaining R square of 61.8% of the adjustment in the profitability of Honda Motor Company is unable to be clarified by the external variables.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.947[a]	.896	.861	.005043260155615	2.455

a. Predictors: (Constant), DEBT TO INCOME

b. Dependent Variable: ROA

Table 8: Model Summary Result for internal and external variables

Based on the table above, R square is equal to 86.1%. The variables used in the model able to explained 86.1% of the adjustment in the profitability for Honda Motor Company. While the remaining 13.9% of the adjusted R square is unable to be clarified by internal and macro variables.

4.7 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	25.836	.015[b]
	Residual	.000	3	.000		
	Total	.001	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), DEBT TO INCOME

Table 9: ANOVA Result for internal variables

The ANOVA table indicates the Debt to Income is the most significant value towards ROA with a p value of 0.015 which is below the alpha value ($p < 0.05$). It shows that the variable is perfectly significant towards ROA compare to others internal variables.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	3	.000	1.823	.487[b]
	Residual	.000	1	.000		
	Total	.001	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), ExchangeRate, GDP, Inflation

Table 10: ANOVA Result for external variables

The ANOVA table illustrates the GDP, exchange rate and inflation is the most significant value towards ROA with a p value of 0.487 which is above the alpha value ($p < 0.05$). It indicates that the variable is not significant towards ROA compared to others external variables.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	25.836	.015[b]
	Residual	.000	3	.000		
	Total	.001	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), DEBT TO INCOME

Table 11: ANOVA Result for internal and external variables

The ANOVA table shows that debt to income is the most significant value towards ROA with a p value of 0.015 which is below the alpha value ($p < 0.05$). It shows that the variable is perfectly significant towards ROA compared to others internal and external variables.

5.0 CONCLUSION

5.1 Introduction

The aims of this study is to determine the company performance towards internal and external factors for Honda Motor Company Ltd. in automobile industry in Japan. Firm-specific factors and macroeconomics factors were used to achieve the objectives of this study. In this chapter, it includes discussion based on the findings in chapter four, conclusions and recommendations.

5.2 Summary of the study

The aims of this study is to determine the company performance towards internal and external factors for Honda Motor Company Ltd. in automobile industry in Japan. This study has been completed to achieve the research objectives as shown below:

1. To study the firm-specific factors toward company performances.
2. To study the macroeconomics factors toward company performances.
3. To study the firm-specific factors and macroeconomics toward company performances.

Based on the findings in chapter four, the profitability has been influenced by internal factors in term of debt to income. The correlation table shows that debt to income has a strongly negative relationship to profitability. It implies that, when debt to income decrease, the profitability will increase. Meanwhile, based on the coefficient table, debt to income is negative and have a big influence to profitability. It concluded that when any fluctuations in debt to income will effected the profitability of company. Macroeconomic factors will also affect the profitability of automobile industry in Japan. From the correlation and coefficient table, the exchange rate has a greater influence with the company profitability. The relationship between exchange rate and ROA has shown negatively and gives a meaning that the profitability will increase when the exchange rate of the country is decreasing. When the comparison is made between internal and external variables, the debt to income ratio show a strongly relationship with ROA. The correlation table show that when the debt to income increase, the profitability of a company will decrease. It can be concluded that, the debt to income ratio are affecting the company profit.

5.3 Limitations

This study has limited to one of the company in automobile industry in Japan. This study also refers only five years of financial statement from 2014 to 2018. Thus, it only collect limited amount of information due to the time constraint.

5.4 Suggestions

Based on the findings, debt to income shows an important relationship with profitability. Thus, it is important for the company to manage the payments that make to repay their debts. The company must well control the debt in order to gain more profit. If the company fail to manage its debt, it can affect the profitability. The company must focus on liquidity management to enhance the firm performance. The firms can convert their assets to cash more efficiency and able to make investment. However, the trend of the quick ratio of Honda Motor Company from 2014 to 2018 is low. The company with a quick ratio of less than 1 cannot pay backs its liabilities in short term. It implies that the current liabilities are greater than the current assets. Therefore, the company must pay more attention when the quick ratio is less than 1. This might influence the company to meet the short term obligations.

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APPENDICES

A. SPSS result

Table A.1 Descriptive Statistics for internal and external variables

	Mean	Std. Deviation	N
ROA	.037680736326032	.013540916022222	5
CURRENT RATIO	1.176345237400171	.055058396412179	5
QUICK RATIO	.913449252192031	.044253779672257	5
AVERAGE-COLLECTION PERIOD	71.684191864257800	7.137175397219488	5
DEBT TO INCOME	17.619640064234140	6.623014683323327	5
OPERATIONAL RATIO	.124573909762420	.012516380107550	5
OPERATING MARGIN	.065714070176635	.012879869364734	5
INDEX	.960	.0894	5
GDP	.980	.5933	5
Inflation	1.040	1.0407	5
InterestRate	.100	.0000	5
ExchangeRate	115.8520	4.58165	5

Table A.2: Correlation table for internal and external variables

		ROA	CURRENT RATIO	QUICK RATIO	AVERAGE-COLLECTION PERIOD	DEBT TO INCOME	OPERATIONAL RATIO	OPERATING MARGIN	INDEX	GDP	Inflation	InterestRate	ExchangeRate
Pearson Correlation	ROA	1.000	.783	.708	-.442	-.947	-.775	.766	-.157	-.105	.409	.	-.627
	CURRENT RATIO	.783	1.000	.917	-.179	-.882	-.902	.840	.087	.460	.205	.	-.510
	QUICK RATIO	.708	.917	1.000	-.489	-.747	-.836	.695	.335	.622	-.098	.	-.768
	AVERAGE-COLLECTION PERIOD	-.442	-.179	-.489	1.000	.207	.158	.007	-.493	-.100	.460	.	.933
	DEBT TO INCOME	-.947	-.882	-.747	.207	1.000	.913	-.926	.284	-.048	-.544	.	.473
	OPERATIONAL RATIO	-.775	-.902	-.836	.158	.913	1.000	-.972	.231	-.381	-.441	.	.475
	OPERATING MARGIN	.766	.840	.695	.007	-.926	-.972	1.000	-.433	.212	.635	.	-.300
	INDEX	-.157	.087	.335	-.493	.284	.231	-.433	1.000	.546	-.945	.	-.470
	GDP	-.105	.460	.622	-.100	-.048	-.381	.212	.546	1.00	-.488	.	-.316
	Inflation	.409	.205	-.098	.460	-.544	-.441	.635	-.945	-.488	1.000	.	.350
	InterestRate	.	.	.	.	.	.	.	.	.	.	1.000	.
	ExchangeRate	-.627	-.510	-.768	.933	.473	.475	-.300	-.470	-.316	.350	.	1.000
Sig. (1-tailed)	ROA	.	.059	.091	.228	.007	.062	.065	.400	.433	.247	.000	.129
	CURRENT RATIO	.059	.	.014	.386	.024	.018	.038	.445	.218	.371	.000	.190
	QUICK RATIO	.091	.014	.	.202	.073	.039	.096	.291	.131	.438	.000	.065

AVERAGE-COLLECTION PERIOD	.228	.386	.202	.	.369	.400	.496	.199	.437	.218	.000	.010
DEBT TO INCOME	.007	.024	.073	.369	.	.015	.012	.321	.469	.172	.000	.210
OPERATIONAL RATIO	.062	.018	.039	.400	.015	.	.003	.354	.264	.229	.000	.209
OPERATING MARGIN	.065	.038	.096	.496	.012	.003	.	.233	.366	.125	.000	.312
INDEX	.400	.445	.291	.199	.321	.354	.233	.	.170	.008	.000	.212
GDP	.433	.218	.131	.437	.469	.264	.366	.170	.	.202	.000	.302
Inflation	.247	.371	.438	.218	.172	.229	.125	.008	.202	.	.000	.282
InterestRate	.000	.000	.000	.000	.000	.000	.000	.000	.000	.000	.	.000
ExchangeRate	.129	.190	.065	.010	.210	.209	.312	.212	.302	.282	.000	.

Table A.3: Coefficient for internal variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.072	.007		10.142	.002	.049	.094
	DEBT TO INCOME	-.002	.000	-.947	-5.083	.015	-.003	-.001

a. Dependent Variable: ROA

Table A.4: Coefficient for external variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.332	.147		2.259	.265	-1.537	2.202
	GDP	-.001	.010	-.044	-.096	.939	-.134	.132
	Inflation	.009	.006	.698	1.505	.373	-.068	.086
	ExchangeRate	-.003	.001	-.885	-2.075	.286	-.019	.013

a. Dependent Variable: ROA

Table A.5: Coefficient for internal and external variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.072	.007		10.142	.002	.049	.094
	DEBT TO INCOME	-.002	.000	-.947	-5.083	.015	-.003	-.001

a. Dependent Variable: ROA

Table A.6: Model Summary for internal variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.947[a]	.896	.861	.005043260155615	2.455

a. Predictors: (Constant), DEBT TO INCOME

b. Dependent Variable: ROA

Table A.7: Model Summary for external variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.919[a]	.845	.382	.010647822319530	2.619

a. Predictors: (Constant), ExchangeRate, GDP, Inflation

b. Dependent Variable: ROA

Table A.8: Model Summary for internal and external variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.947[a]	.896	.861	.005043260155615	2.455

a. Predictors: (Constant), DEBT TO INCOME

b. Dependent Variable: ROA

Table A.9: ANOVA for internal variables

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	25.836	.015[b]
	Residual	.000	3	.000		
	Total	.001	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), DEBT TO INCOME

Table A.10: ANOVA for external variables

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	3	.000	1.823	.487[b]
	Residual	.000	1	.000		
	Total	.001	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), ExchangeRate, GDP, Inflation

Table A.11: ANOVA for internal and external variables

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	25.836	.015[b]
	Residual	.000	3	.000		
	Total	.001	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), DEBT TO INCOME