# THE EFFECTS OF LIQUIDITY RISK AND MARKET RISK ON MCDONALD'S CORPORATION PERFORMANCE FROM 2014 TO 2018

Chai, Wei Jian

Universiti Utara Malaysia

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CHAI WEI JIAN
UNIVERSITI UTARA MALAYSIA

## ABSTRACT

Profitability is a crucial aspect that in the study of the company namely McDonald's Corporation. The main goal of this study is to determine the impacts of liquidity and market risk towards profitability or return on assets of McDonald's Corporation from 2014 to 2018. As a result, the analysis shows that quick ratio as liquidity risk and standard deviation as the market risk that influences the profitability of McDonald's Corporation the most along the period 2014 to 2018. This study also pointed out the suitable solutions for McDonald's Corporation, which are diversify investments by using more cash and increase the share price by monitoring company performance in generating higher profits.

***Keywords:*** *ROA, Quick ratio, standard deviation, market risk, Corporate Governance, company performance*

# 1.0 INTRODUCTION

## 1.1 Introduction

In this introduction, overview of McDonald's Corporation will be discussed first. After that, it is followed by the problem statement, research objectives, research questions, scope of study and organisation of the report.

## 1.2 Overview of McDonald's Corporation

McDonald's Corporation (or known as McD) is a company that operates at a franchise system in which the franchise restaurants of McDonald's come across more than 100 countries worldwide. The franchise restaurants of McD owned and operated under one of the following structures which are conventional franchise, developmental license or affiliate. The optimal ownership structure for an individual restaurant, trading area or market is based on a variety of factors, namely the availability of individuals with the entrepreneurial experience and financial resources, as well as the local legal and regulatory environment in critical areas including property ownership and franchising.

There are seven concepts of sound corporate governance taken into practice by a company. These seven concepts are openness, honesty and transparency, independence, accountability, responsibility, fairness, reputation and social responsibility. First of all, McDonald's Corporation has the concept of openness, honesty and transparency. Openness defined as a willingness to provide information to individuals and group about the company. Honesty is defined as obvious quality for a company to have and that the sign of honesty id the company's statement believed by shareholders and investors to be a true statement by the Board of Directors, whereas transparency referred to the ease with which an outsider is able to make a meaningful analyst of a company and its actions. McDonald's Corporation has this concept by disclosing enough information for the reference of outsiders as a benchmark, no matter the information is financial nor non-financial aspects. McDonald's Corporation provides a brief explanation on the financial data provided in the annual report such as brief explanation on the financial performance of the company annually and further analysis of McDonald's Corporation stock performance across the years. In addition, the annual report is audited in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) in conformity with U.S. generally accepted accounting principles. These informations are easily identified and compared with for the outsiders.

Next, the second concept is independence. Independence refer to the extent to which procedures and structures are in place to minimise or avoid completely potential conflicts of interest that could arise such as the domination of a company by an all-powerful chairman-cum-CEO or a major shareholder. In other words, Board of Directors are free from the influence of others. In the annual report of McDonald's Corporation, there are complete executive members in this company in which there are no positions that overpower others exist in the company. McDonald's Corporation has 4 presidents, 1 Chief Executive Officer and several chief officers of different departments such as Chief Financial Officer, Chief Marketing Officer and Chief Information Officer. Mr. Stephen Easterbrook is the president and Chief Executive Officer as well. Thus, there will be a possibility of potential conflict of interest arise among the Board.

After that, the third concept is accountability. Accountability is defined as individuals who make a decision in a company on specific issues should be accountable for the decisions they make and the actions they take. It also plays an important role in ensuring that management is accountable to the Board and the Board is accountable to shareholders. In the annual report of McDonald's Corporation, presidents of the company are responsible in every decision making in order to maintain and maximise the shareholder's wealth. Whereby management is responsible to manage all the risks that are mentioned in the annual reports such as evolution of business strategies, anticipation of consumer preferences and intense competition so that the Board of Directors may be convinced and make better decisions.

Besides, the fourth concept is responsibility. Responsibility is a key issue in corporate governance is to decide who should have responsibility whether directors should be liable for their performance to the stakeholders and their shareholders in particular. Executive managers are responsible for the operations of the business and the ultimate responsibility rests with the Chief Executive Officer. This is shown in the executive officers of the registrant of the annual report of McDonald's Corporation. In the annual report of McDonald's Corporation, management of the company manage the whole business in a very serious and strict way because they are accountable to the Board of Directors for every gains and losses. So, they will list out and put concern about the ways to manage the risk of the company in every management aspect in ensuring the accountability of the business.

After responsibility, the fifth concept is fairness. Fairness refers to the principle that all shareholders should receive equal consideration with the importance of protecting shareholder’s rights and treat all shareholders including minorities equally. According to the annual report of McDonald’s Corporation, there is a share-based compensation plan which authorizes the granting of various equity-based incentives including stock options and restricted stock units to employees and non-employee directors and the company also will estimate the forfeitures during the determination of compensation costs amount in each period in ensuring the fairness to the shareholders.

Then, the sixth concept is reputation. A company will be made known widely by its reputation. A good reputation is influenced by code of ethics, corporate social responsibility, fair treatment of staff, attitudes to customers, community involvement and willingness to obey the spirit as well as the letter of the law. According to the annual report of McDonald’s Corporation, the company responds and anticipates to continuous shifting consumers demographics in order to improve the strategy of the company to achieve long-term business objectives. Moreover, McDonald’s Corporation also will develop mobile ordering and payment systems to improvise the service provided to the customers.

Lastly, the seventh concept is social responsibility. Social responsibility is an ethical framework and suggests that an entity, be it an organization or individual, has an obligation to act for the benefit of society at large. This is shown in the annual report of McDonald’s Corporation whereby the company put a lot of effort to improve social responsibility on environmental matters. McDonald’s Corporation launched Scale for Good Framework 2018 with the initiative of reducing System greenhouse gas emissions, responsibly source ingredients and packaging, and increase the availability of recycling in restaurants to reduce waste.

The main risk associated with this company is liquidity risk and market risk. Liquidity risk is the risk that a company or bank may be unable to meet short term financial demands. From 2014 to 2018, McDonald’s Corporation facing an unstable liquidity performance due to an obvious rise and fall of the cash and equivalents and the increasing amount of accounts payable which are extracted from balance sheet. Thus, this company faces a big crisis in managing their cash flows well, making the current assets and current liabilities remain unstable in the past 5 years. If the liquidity risk not managed well, then this company may not meet short-term obligations in the future, making this risk the main problem of this company. In addition, if the market risk does not manage well by McDonald’s Corporation, then this will affect the share price whereby the shareholders will not be satisfied because of poor performance of the company. Poor performance indicates the lower expected returns and this will decrease the ROA of the company.

### 1.3 Problem statement

Most of the companies are facing shut down crisis as these companies failed to solve insolvency problems occurred. Any company also need a sum of cash on hand to maintain its operating activities as well as generating profit by sales. If the company lack of cash and equivalents to meet short-term obligation, then the company is exposed to the liquidity risk. However, we believe that liquidity risk may affected by the other risk, such as credit risk, and corporate governance. Based on the previous study by Ruoyu Cai and Mao Zhang (2017), credit risk has a positive relationship with liquidity risk in the banking sector. Since there maybe possibilities of relationship between liquidity risk and the credit risk, therefore in this study conducted on McDonald's Corporation, the determinants of liquidity risk of McDonald's Corporation are to be discovered later on. Besides, corporate governance is also a possible internal factor to control the liquidity risk. Based on the previous study by Waemustafa and Sukri (2016), Islamic Banks keep up higher liquidity compared to conventional banks. Since there may exist a relationship between liquidity risk and the corporate governance, therefore in this report, the determinants of liquidity risk of McDonald's Corporation also need to be discovered. Moreover, macroeconomic factors such as public deficit, gross domestic products (GDP) and unemployment rate is a suggested factor to influence the liquidity as well. Based on research conducted by Muhammad Farhan Malik and Amir Rafique (2013), monetary policy interest rate and size of company has a positive influence on Pakistan bank's liquidity meanwhile inflation has the negative influence. Thus, this shows that there are uncertainties of macroeconomic factors or external factors will be significant to the liquidity risk. Therefore, determinants of liquidity risk of McDonald's Corporation also need to be discovered.

### 1.4 Research objectives

This study has an aim to achieve, which is to determine the impacts of determinants or independent variables towards the profitability or return on assets of McDonald's Corporation from 2014 to 2018. There are three research objectives stated below:

1. To study the correlation and influence of internal factors towards profitability.
2. To study the correlation and influence of external factors towards profitability.
3. To study the correlation and influence of internal and external factors towards profitability.

### 1.5 Research questions

1. What is the internal factor which has the highest correlation and significance on the profitability of McDonald's Corporation?
2. What is the external factor which has the highest correlation and significance on the profitability of McDonald's Corporation?
3. What is the internal and external factors combined which has the highest correlation and significance on the profitability of McDonald's Corporation?

## 2.0 LITERATURE REVIEW

### 2.1 Corporate governance

In corporate governance itself, there are several definitions and elements of corporate governance that put into practice today. Based on Governance: The World Bank's Experience (1994), good governance is defined as "the manner in which power is exercised in the management of a country's economic and social resources for development". Accountability as one of the elements discussed in this report. Based on Governance: The World Bank's Experience (1994), accountability is defined as governments and their employees should be held responsible for their actions taken. In McDonald's Corporation, presidents of the company are responsible in every decision making in order to maintain and maximise the shareholder's wealth. Based on Governance: The World Bank's Experience (1994), transparency and information are also an element of corporate governance with the following description "…Access to information for the various players in the market is essential to a competitive market economy." which means that the information of any aspects of an individual or a company is to be well known by the public without any intention to hide. In McDonald's Corporation, this corporation has this element by disclosing enough information for the reference of outsiders as a benchmark, no matter the information is financial nor non-financial aspects in the annual reports.

According to Francis N. Botchway (2001), governance also defined as "the conscious management of regime structures with a view in enhancing the legitimacy of the public realm." The most important segment in the democratic process is the holding of free and fair elections which can be done by ownership of the McDonald's Corporation among shareholders by holding Board of Directors meeting for voting purposes with fairness. Rule of law is also an element of corporate governance with the following features, "All laws must be open and clear and closely related to the foregoing element in which both legal system and individual laws must be reasonably stable. In McDonald's Corporation, there are a lot of lawsuits filed in various jurisdictions which include franchising, suppliers, employees, customers, intellectual property and government regulations. If the law is broken by McDonald's Corporation likely, then McDonald's Corporation will practice a bad corporate governance and faces shut down crisis as well.

According to OECD (2011), corporate governance reform aims to secure an environment attractive to both domestic and foreign investors and enhances the benefits of investment to society. A good corporate governance practices are able to improve the confidence of domestic investors, decrease the cost of capital, and induce more stable sources of financing. The corporate governance is important in order for the disclosure of the information to the outsiders. In McDonald's Corporation, the financial and non-financial information in the annual report are disclosed properly for the benchmarking purposes and comparison for the outsiders to make changes in their own businesses. If failed to do so, then the outsiders unable to compare their performance with this company. At the same time, McDonald's Corporation unable to ensure the trust from the shareholders to invest for higher return.

## 2.2 Company performance

In general, company performance is a very important aspect in corporate governance. This is because the corporate governance has a significant influence on a company performance. According to a research conducted by Murugesan Selvam, Jaypal Gayathri, Vinayagamootrhi Vasanth, Kasilingam Lingaraja and Sigo Marxiaoli (2016), company performance is defined as a relevant construct across the globe and it is used as a dependent variable frequently nowadays. The study on the identification of relevant determinants of company performance is required in the context of changed and competitive business environment. This is because the environment constantly changing and need to maintain the company performance with hard work. There are several determinants of firm performance namely profitability performance, market value performance, growth performance, employee satisfaction, customer satisfaction, environmental performance, customer satisfaction, environmental performance and social performance. All the determinants above are present in McDonald's Corporation with the full disclosure of information provided in the annual report for benchmark purpose.

According to research conducted by Judita Narkunienė and Aurelija Ulbinaitė (2018), company performance evaluation is a wide and multifunctional process which combines all its significant performance indicators in a way that allows it in evaluating performance, enabling a constant company management process and creating values that lead to improvement and growth of the company. The non-financial indicators are closely related with the long-term goals of an organization as well, and that is the reason why they are better indicators of the financial results in the future. It is worthy to note that the non-financial information is considered a compliment of the financial information; therefore, company's performance evaluation should not focus on barely financial indicators alone. The non-financial informations of McDonald's Corporation also informs a lot of information to outsiders about the conditions of the company such as legal proceedings, strategies taken and long-term outlook which can be used as a comparison and exchange of ideas with the outsiders as well.

According to Ebrahim Mohammed Al-Matari, Abdullah Kaid Al-Swidi, and Faudziah Hanim Bt Fadzil (2014), the company's success is basically explained by its performance over a certain time period. This measurement is crucial in enabling the comparison of performances of a firm over different time periods. They also mentioned in the research that corporate governance plays a key role in the growth of the firm performance because an effective corporate governance protects against probable financial challenges and facilitates remarkable growth to the firm. Theoretically, the performance concept creates the core of strategic management and most strategy studies make use of the construct of business performance in their attempt to examine various strategy content and process issues. Company performance is measured by using (ROA), (ROE), (ROS), (PM), (ROI), (OCF), (EPS), (OP), (GRO), (ROCE), (ETA), (CTA), (STS) and others. The measurements of the McDonald's Corporation performance are all related to accounting measurement methods by extracting data from consolidated statements and external factors data from United States of America.

### 2.3 Credit risk

According to Edgar R. Fiedler (1971), credit risk is defined as the probability that a loan will not be repaid according to the terms of the contract rather than the less well-defined idea of "credit quality ". Credit risk is also known as a forward-looking concept, focusing on the probable incidence of credit difficulties in the future. An increment or decrement of this probability will make a major difference in the liquidity and working-capital ratios of business lenders. These changes in the composition of risk-related characteristics in the continuing stock of credit outstanding will have a great impact on the incidence of collection difficulties. The costs of a very low level of credit risk will reduce the output and employment, and forfeit profits within the firm. In McDonald's Corporation, there are some agreements that require each party to post collateral if credit ratings fall below, or aggregate exposures exceed certain contractual limits in order to manage the credit risk in a properly manner for business continuity.

According to Bank Negara Malaysia (2018), credit risk also has different definition as well. Credit risk is defined as the risk of a counterparty failing to perform its obligations. Credit risk is important to be managed with a comprehensive approach through purchase of debt securities and entering securities financing transactions and derivatives contracts so that the company capable to secure their financial positions for survival. In creating and approving the credit risk strategy, the board must consider the interactions between the credit risk strategy and institution-specific factors as well as the wider operating environment to make the best decision for the company. In McDonald's Corporation, credit risk is the risk exposed to credit-related losses in the event of non-performance by its derivative counterparties.

According to Tony Van Gestel and Bart Baesens (2009), credit risk is the most obvious risk of a bank by the nature of its activity. Credit risk is also defined as the risk that a borrower defaults and does not honour its obligation to service debt which can occur when the counterpart is unable to pay or cannot pay on time. Credit risk can be divided into two, namely pre-settlement risk and settlement risk. Pre-settlement risk is defined as the potential loss due to the counterpart's default during the life of the transaction such as loan, bond, and derivative product, whereas settlement risk is defined as the risk present due to action whereby an institution makes the required payment until the offsetting payment is received as the payment or the exchange of cash flows is made indirectly to the counterpart. One way to reduce settlement risk is by netting, that is by transferring only net amounts, the amount exposed to settlement risk is reduced. The longer the time between the two payments, the higher the credit risk of the firm. In McDonald's Corporation, for financial reporting purposes, this company presents gross derivative balances in the financial statements and supplementary data, including for counterparties subject to netting arrangements.

### 2.4 Operational risk

According to Rodney Coleman (2010), operational risk is also known as "Oprisk". This risk is known as the day-to-day hazards of running a business beyond those from its money-making activities. This risk losses will generally occured through weak management in the firm, outsourcing non-strategic activities, or from external factors. The objective of measuring operational risk events is required to answer questions of how high to build a flood barrier, how much to spend on railway safety, and how much to put into reserves to protect a bank from collapse, for examples. In other words saying, operational risk is measured in order to prevent hazards of risk to occur in a company. Operational risk is measured by advanced measurement approaches such as reasonably estimate unexpected losses based on the combined use of internal and relevant external loss data, scenario analysis, and bank-specific business environment and internal control factors (BEICF). In McDonald's Corporation, this company analyses the dangers of trading vitality and as well as their decreased credit ratings of the company so that this company will always aware of their current conditions and improve it.

According to Caroline Coombe, Michael Siscic, Tom Ivell, and Sean McGuire (2015), company operates at a range of organisational models in managing and measuring operational risk including locating resources almost entirely within business units. The embedding of operational risk relies both on defined rules and on organisational culture, and as well as the linkages between compensation with operational risk performance have been put in place by majority companies. The Board was least likely to see its compensation tied to operational risk performance, whereas business and support functions were the most likely ones. Thus, the conflict of interest started to occur. Operational risk appetite statements now still a priority for further development, especially among smaller companies. For McDonald's Corporation, since this company is large in size despite of its franchise business system, thus this company will even more focus on this risk to prevent heavy losses in the future.

According to Helen Matthews (2008), operational risks are often less visible than other risks and are often difficult to pin down precisely because this risk is generally within the control of the organisation through risk assessment and risk management practices, including internal control and insurance. The sources of operational risk may be internal or external to the business and are usually generated by people, processes and technology. Operational risks are commonly based on procedures and processes due to the use of audit for risk identification purposes. Operational risks can be managed by accepting the risk, sharing or transferring risk, risk reduction and risk avoidance. In McDonald's Corporation, this company will use risk reduction method to overcome this risk because customers and shareholders are their priorities instead of making profits. Because of that, this company reduce this risk as low as possible to maintain their reputation.

### 2.5 Market risk

According to Financial Institutions Supervision Group, The Bank of Thailand (2003), market risk refers to the risk arisen from movements of interest rate, foreign exchange rates and prices of instruments in the money and capital markets which negatively affects the earning and capital of the financial institution. Market risks divided into three types namely interest rate risk in which earnings may be negatively affected from changes in interest rate of assets, debts, and off-balance sheet items. Next is foreign exchange risk in which earnings or capital may be negatively affected from the fluctuation of exchange rate, due to a transaction in a foreign currency or from holding an asset or debt in a foreign currency. Last but not least, price risk is also a type of market risk in which earnings or capital may be negatively affected from the changes in the price of debt or equity instruments. Thus, McDonald's Corporation uses franchising system which enables the company to contribute to the company's plans by funding at reasonable interest rates.

According to Central Bank of Cyprus (2008), market risk is defined as the risk of losses in on and off-balance-sheet positions arising from movements in market prices. The main risks that closely-related to this definition are the risks pertaining to interest rate related instruments and equities in the trading-book and foreign exchange risk and commodities risk throughout the bank. Banks must set market risk limits that are commensurate with their size and complexity and reflect all material market risks and the risk limits should be approved by the Board of Directors and adhered to. Banks must perform scenario analysis, stress testing and contingency planning as appropriate and periodic validation or testing of the systems used to measure market risk. Unlike McDonald's Corporation, this company shows up the stock performance graph to make comparison of cumulative five-year total return to the shareholders. Through that graph, it is concluded that the interest rate is higher by years, thus the return also higher.

According to John Frain and Conor Meegan (1996), market risk defined as the risk to an institution's financial condition resulting from adverse movements in the level or volatility of market prices. The process of market risk management is the endeavour to measure and monitor this risk. Market risk can be measured by using correlation method in which this method is essentially a parametric approach in which an estimate of VAR is derived from the underlying variances and covariances of the constituents of a portfolio. Unlike McDonald's Corporation, the VAR method will not be used as the approach because there are presence of trading in the company, making this method inappropriate to measure market risk.

**2.6 Liquidity risk**

Liquidity risk has different definitions as well. According to Jose A. Lopez (2008), liquidity is generally defined as the ability of a financial firm to meet its debt obligations without incurring unacceptably large losses. Funding liquidity risk is also well known as the risk that a firm will not be able to meet its current and future cash flow and collateral needs, both expected and unexpected, without materially affecting its daily operations or overall financial condition. Financial firms can meet their liquidity needs through several sources such as from existing assets to debt obligations and equity. The most readily available sources in the firm is operating cash flows arising from interest and principal payments from existing assets, service fees, and the receipt of funds from various transactionsThus, a firm must be able to measure and forecast the prospective cash flows for its assets, liabilities, off-balance sheet commitments, and derivative positions. For McDonald’s Corporation, this company will issue more debts in the future to fund more activities in USA in order to elect for repatriation for a greater portion of future periods' earnings from foreign jurisdictions, as mentioned in the annual report.

According to the research conducted by Chung-Hua Shen, Yi-Kai Chen, Lan-Feng Kao, and Chuan-Yi Yeh (2009), normally banks seldom face the liquidity crisis, and liquidity risk may vary with overall economic environment. Ratio of financing gap to total assets (FGAPR) is calculated to measure company’s liquidity risk. If FGAPR is higher, then the company have to use more cash, sell more liquid assets and external funding to fund the gap which makes the liquidity risk larger. Higher economic growth will run down liquidity buffer of the company and lends even more money. For McDonald’s Corporation, this company will concern on economic factors and as well as market price of the stock to determine whether they want to carry out more cash activities or not that will bring effects to current assets and current liabilities.

According to Eugenia Ana Matiè and Crenguìa Alina Matiè (2015), liquidity risk is defined as a situation where the bank does not have enough liquidity to meet its financial obligations which becomes a threat when a bank cannot predict the demand for new loans or deposit withdrawals. Liquidity risk is monitored and limited by more restrictive internal limits in the case of the liquidity ratio, establish and monitor the thresholds in order to control the high liquidity risk of each person separately, the bank's own liquidity indicators and the information system on liquidity for bank management. If the crisis turns out to be long lasting, the bank should consider the monetization of the less liquid assets such as fixed assets, loans or equity. For McDonald’s Corporation, liquidity ratios are used to measure the liquidity risk by extracting the data from balance sheet of the company. Thus, the company will manage their financial obligations which involve current assets and current liabilities easier.

## 3.0 METHODOLOGY

### 3.1 Introduction

This part will provide a proper outline of methodology on carrying out research on McDonald's Corporation by using two main types of data's namely primary data and secondary data.

### 3.2 Population or sampling technique

The unit of analysis is the actual element to be analysed and discussed in the study of certain subject. Comparatively, individual, groups, and even organisation also can be a unit of analysis as well. The organisation will be the unit of analysis of the study that I conducted. All companies in the food and beverages sector in United States of America are taken as the population in this study. To conduct the study well, one company were chosen as sample namely McDonald's Corporation. Data are extracted from the annual reports 2014 until 2018 to measure the dependent variable of the company namely Return on Assets and the independent variables which consists of internal factors and external factors from 2014 to 2018.

### 3.3 Statistical Analysis

The statistical analysis is carried out on McDonald's Corporation through primary and secondary data.

Primary data also known as primary sources, which defined as sources that contain first-hand information, which also mean that the ideas proposed are by author's own account or knowledge on a specific topic or event that he or she participated in. Some of the examples of primary resources are scholarly research articles, books, and diaries. Primary sources such as research articles basically will not explain about terminology and theoretical principles of a subject in details. The primary resources are used widely to obtain a first-hand account to an actual event and identify original research done in a field.

For the study conducted on McDonald's Corporation, primary data that is being used are scholarly research articles. Those articles are written by the authors whom are experts in their related fields including accounting, finance and economics. 18 articles are summarized and related to the company performance along the time from 2014 to 2018 in literature review of the research conducted. In those articles, they do mention about the definition of corporate governance and its elements, company performance and four risks associated with the company namely credit risk, operational risk, market risk and liquidity risk. All the idea's contributed by authors are closely related to McDonald's Corporation current situation.

Secondary data which also known as the sources used in describing, summarizing, or discussing information or details originally presented in another source. This also means that the author, in most cases, did not participate in the event at all or just slightly participate in the event. Secondary source is written for a broad audience and will include definitions of specific terms of the event, history relating to the topic, significant theories and principles, and summaries of major studies or events which are closely related to the topic discussed or focused on.

For research conducted on McDonald's Corporation, secondary data that is being used are in numerical forms. Basically, the data's required are obtained from the annual reports and use specific formulas to calculate the ratios associated with the four main risk as mentioned earlier. Firstly, historical data of McDonald's Corporation from 1 January 2014 until 31 December 2018 is obtained through Yahoo Finance website in order to calculate the mean of price change, standard deviation or market risk, maximum price change and minimum price change of the derivative stocks in the market annually. In addition, the financial and non-financial information of McDonald's Corporation are obtained through annual reports from 2014 to 2018 and further analysed to obtain ratio for measurements of company performance and the Corporate Governance Index score by looking on the 5 main principles of corporate governance namely accountability, transparency, independence, fairness and sustainability. For the ratios, the ratios are calculated by inserting the data into Excel spreadsheet and construct graphs for the ratios that significant to company performance of McDonald's Corporation to see the movement of the ratios along the period. Besides, the external factors namely GDP, inflation, interest rate, exchange rate, and standard deviation or market risk data are obtained through website such as World Bank website and Yahoo Finance to see the movement of the economic conditions of United States of America from 2014 to 2018. The Corporate Governance Index score also calculated in order to see the correlation of this index score with the performance of McDonald's Corporation.

### 3.4 Data Analysis

In this study, there is a conceptual framework which is used to describe the relationship or correlation between one dependent variable with the other independent variables. The study framework best described as follows:

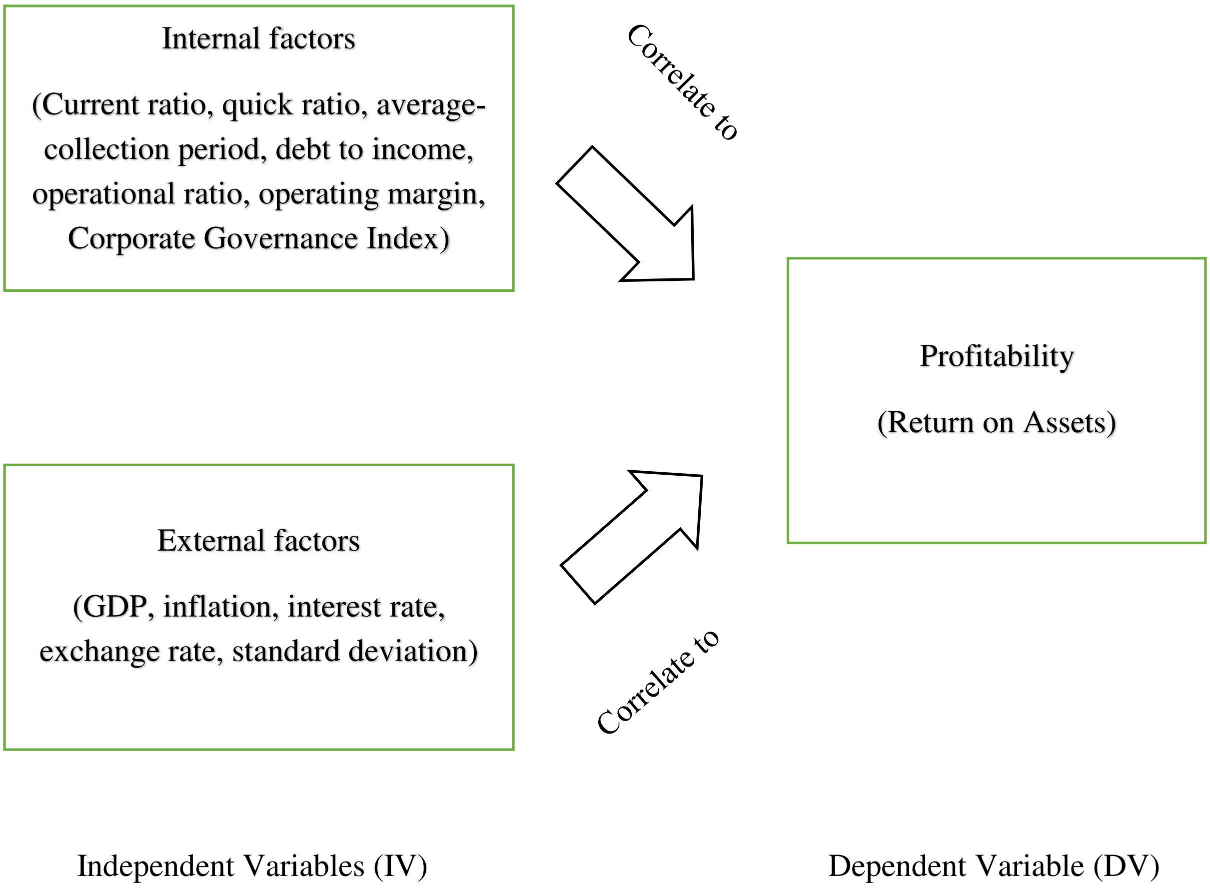



Figure 3.4.1 Study Framework

Multiple regression analysis was used to figure out the effect of dependent variables which is liquidity risk to independent variables which are firm specific factor and macroeconomic factor. It is a regression technique which will outline the effect of the independent variables towards dependent variable. The multiple regression can be presented in the equation form as shown below:

$$ROA = \beta 0 + \beta 1CR + \beta 2QR + \beta 3ACP + \beta 4DTI + \beta 5OR + \beta 6OM +$$

$$\beta 7CGIDXS + e \text{..............................} \text{ Equation 1}$$

$$ROA = \beta 0 + \beta 1GDP + \beta 2INFLA + \beta 3i + \beta 4EXCGR + \beta 5STDV +$$

$$e \text{.......................................... Equation 2}$$

$$ROA = \beta 0 + \beta 0 + \beta 1CR + \beta 2QR + \beta 3ACP + \beta 4DTI + \beta 5OR + \beta 6OM + \beta 7CGIDXS + \beta 8GDP + \beta 9INFLA + \beta 10i + \beta 11EXCGR + \beta 12STDV + e \text{.......................................... Equation 3}$$

Table 3.4.2 Measurement of Variables

| No | Variables | Notation | Measurement |
|---|---|---|---|
| 1 | Return on Assets | ROA | Net Income / Total Assets |
| 2 | Current Ratio | CR | Current Assets / Current Liabilities |
| 3 | Quick Ratio | QR | Inventory / Prepaid Expenses |
| 4 | Average-Collection Period | ACP | Accounts Receivable / (Revenue / 360 Days) |
| 5 | Debt to income | DTI | Total liabilities / Total income |
| 6 | Operational ratio | OR | Operating expenses / Net sales |
| 7 | Operating margin | OM | EBIT / Revenue |
| 8 | Corporate Governance Index | CGIDXS | Corporate Governance elements |
| 9 | Gross Domestic Product | GDP | 5 years gross domestic product rate |
| 10 | Inflation | INFLA | 5 years inflation rate |
| 11 | Interest rate | *i* | 5 years interest rate |
| 12 | Exchange rate | EXCGR | 5 years exchange rate |
| 13 | Standard deviation | STDV | 5 years variation of stock price derivative |

## 3.5 Statistical Package for Social Sciences (SPSS)

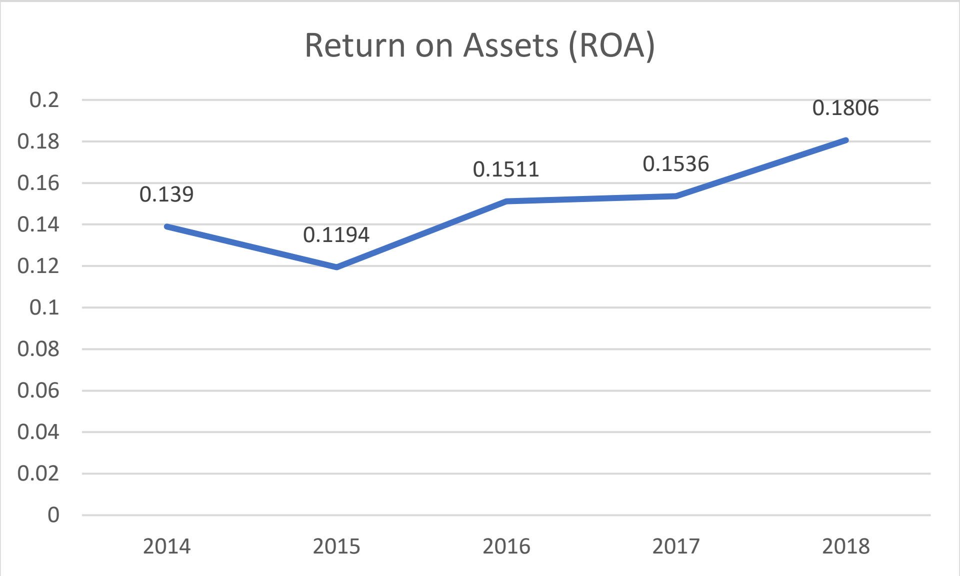
In this study, IBM SPSS version 25 was used to compute the data to obtain the final results. This software is popular in data mining, research on market and also for marketing. This is because IBM SPSS Statistics software is capable in conducting descriptive statistics, bivariate statistics, numeral outcome prediction and also prediction for identifying groups (Techopedia, n.d). However, only the linear regression and correlation analysis done between the variables obtained from the quantitative data will be compute by using this IBM SPSS Statistics. Quantitative data is a data about the numerical variables and in this study, data were obtained from the annual report of McDonald’s Corporation from 2014 to 2018.

## 4.0 FINDINGS AND ANALYSIS

### 4.1 Trend Analysis

The movement of McDonald's Corporation ratios is analysed from 2014 to 2018

#### 4.1.1 Return on Assets

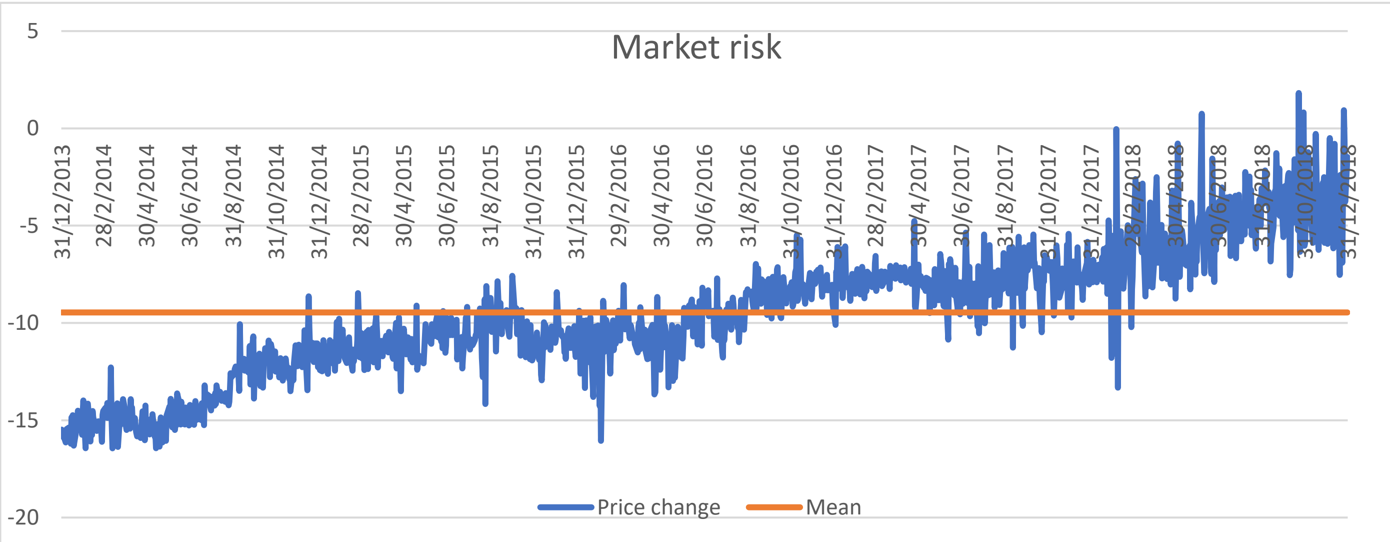



Graph 1: Return on Assets of McDonald's Corporation 2014-2018.

As the graph above illustrates the ROA from 2014 to 2015, there is a decrement from 13.90% to 11.94%. After that, McDonald's Corporation faces continuous increment of ROA from 2015 to 2018 in which the ROA bounces back from 11.94% to 18.06%. In 2015, ROA of McDonald's Corporation was recorded the lowest among five years that symbolized decrease of income generated instead of using a higher number of assets company owned. Another way of explanation for ROA decrease is due to incline of net profit. Thus, this also indicates that McDonald's Corporation also has the worst company performance among the period. Besides, the sales also have the influence on the ROA of McDonald's Corporation. According to C.R.(2015), in The Economist Explains, McDonald's Corporation faces food health issues in Asia market which contributes to nearly a quarter of the income generated. There ae some Japanese customers found out that there are plastic bits and a tooth in the food prepared by McDonald's Corporation. Some Russian outlets also closes down due to food inspection as well. In addition, McDonald's Corporation also faces a strong competition from its main rival namely Burger King. Burger King introduced a cheaper and simpler McDonald's Corporation menu to attract more customers to boost up their income generated by sales. Thus, based on the explanation above, these are the main factors that causes the worst performance recorded from 2015 to 2018.

After that, the ROA bounces back until 2018 because McDonald's Corporation President and Chief Executive Officer, Steve Easterbrook made several amendments on the business strategies of McDonald's Corporation after he appointed as this position in 2015. According to Danny Klein in QSR Magazine dated December 2017, Steve Easterbrook restores the growth of this company by introducing a new organizational structure to provide greater focus on customers and improving operating fundamentals. Under Steve Easterbrook, he changes the old menu of McDonald's Corporation and introduce mobile order service for transactions and delivery service as well to customers for ordering meals there. Thus, this improvised the company performance of McDonald's Corporation by increasing its ROA.

### 4.1.2 Market Risk

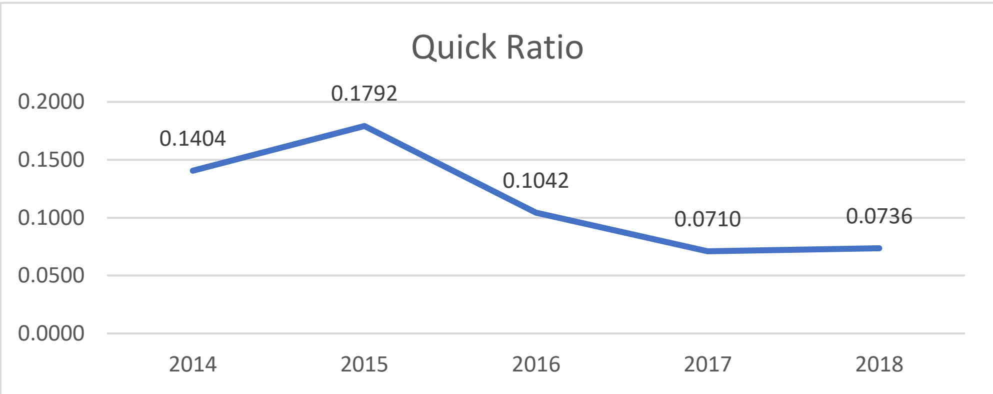



Graph 2: Market Risk of McDonald's Corporation 2014-2018.

As shown in the graph above, it is clearly stated that the average of price changes was -RM9.4592 per unit stock. Standard deviation used as an indicator of market risk. Historical speaking, market risk of McDonald's Corporation recorded highest in year 2018 and year 2014 was the lowest among five years period as the increment of market risk occurs continuously along the period above. McDonald's Corporation is the company which generally borrows money on a long-term basis and exposed to impact of interest rate changes and foreign currency fluctuations. In 2014, debt obligations as at 31 December 2014 recorded at total USD15.0 billion as compared with 2013 because this due to the net issuances of USD1.5 billion partly offset by changes in exchange rates on foreign currency denominated debt of USD663 million.

Unlike 2018, debt obligations as at 31 December 2018 recorded at USD31.1 billion, compared with $29.5 billion at 31 December 2017, in which the debt obligations amount is already doubled in five years. The net increase in 2018 was primarily due to net long-term issuances of USD2.0 billion. Thus, this situation leads to bigger disaster for McDonald's Corporation because most of the transactions involved in this company are denominated in foreign currency as mentioned above. From this situation, McDonald's Corporation was used the financial instruments in an ineffective manner to hedge the risk of the company. Thus, the increment of market risk is obvious along the period.

**4.1.3 Liquidity Risk**



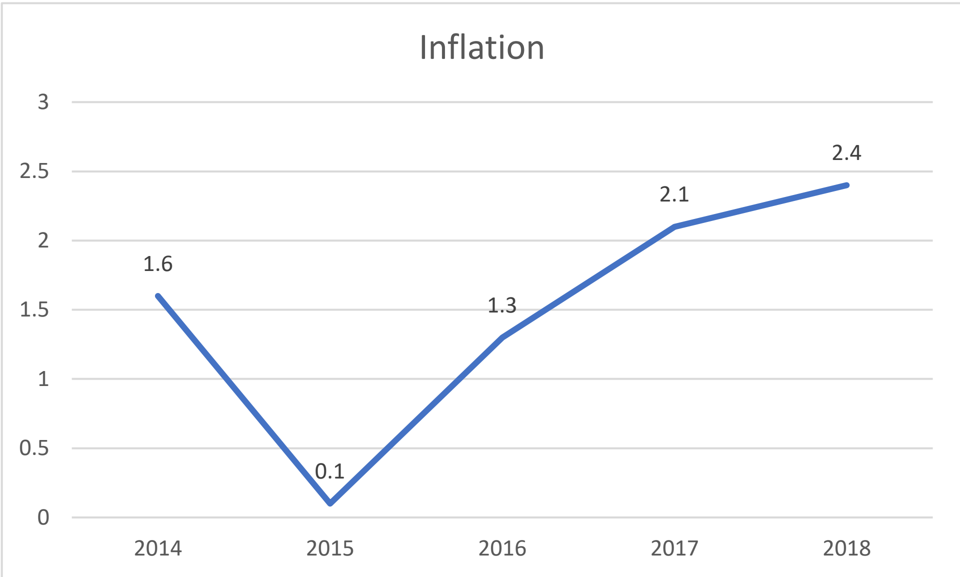

Graph 3: Liquidity Risk of McDonald's Corporation 2014-2018.

Liquidity risk is gauge by using quick ratio or acid-test ratio which used to determine how liquid a company is and how easy they could pay all of their outstanding balances in the company. The higher the quick ratio is, this means that the higher the ability of McDonald's Corporation to pay off outstanding balances. This also indicates that the higher the quick ratio is, the stronger the company financially. As shown in the graph above, the quick ratio only shows a short increment period from 2014 to 2015 and decline from 2016 to 2018. The quick ratio uses inventory and prepaid expenses as measure components. In 2014 and 2015, the quick ratio of McDonald's Corporation is increasing because the company has the ability to generate more cash through sales made by the company. This also indicates that McDonald's Corporation also convert current assets into cash more frequently this period.

On the other hand, from 2016 to 2018, the quick ratio declines as the inventory purchased in McDonald's Corporation had declined drastically, which is almost half of the amount of inventory purchased in 2015. But the prepaid expenses incurred fluctuates around the amount of USD565 million to USD 828 million from 2016 to 2018. This indicates that McDonald's

Corporation made more investments through cash and equivalents in the market in order to improve the company performance of McDonald's Corporation.

### 4.1.4 Inflation




Graph 4: Inflation of United States of America 2014-2018.

Inflation is the rate of growth of price of goods and services in the country or worldwide continuously along the period. Based on this graph, the movement of this graph is declining from 2014 to 2015 and bounce back until 2018 with 2.4 as its peak among these 5 years. According to Vice Chairman of the US Federal Reserve, Stanley Fischer (2015), the inflation is low in United States as the prices of gasoline and other energy items are low at that time. At the same time, the core inflation also heavily influenced by the drop of oil prices too. According to Marc Stocker, John Baffes, and Dana Vorisek (2018), the drop of oil prices from mid of 2014 to 2016 in the market was caused by a growing supply glut with the failure of delivering the increment to global growth that many had expected. In the event, the benefits of substantially lower oil prices were muted by the low responsiveness of economic activity in key oil-importing emerging markets and an abrupt slowdown in key oil exporters. Thus, this increases the consumption of consumers since the inflation had dropped drastically. Because of that, this increases the cash and equivalents for McDonald's Corporation since the consumers have more purchasing powers.

From 2016 to 2018, the inflation increases until 2.4%. According to CBS News by Aimee Picchi, October 2018, the inflation of United States is increased because of increment of oil prices and the Trade war between United States and China will cause the inflation even worse.

According to Kimberly Amadeo, 25 June 2019, the oil prices increases because of 4 main factors namely high demand, low supply, OPEC quotas, or a drop in the dollar's value. Because of increase in demand for oil for driving in summer vacations, low supply of oils due to war and natural disasters globally, OPEC members reduce the oil output starting January 2017 and decline in US Dollars in the market, these factors trigger the increment of inflation of United States. Therefore, the increment of inflation will cause the purchasing power of consumers to decrease and McDonald's Corporation will use more cash to invest in the market to generate higher profits.

**4.2 Data Analysis**

**4.2.1.1 Internal factors (Descriptive Analysis)**

| Descriptive Statistics | | | |
|---|---|---|---|
| Variables (constant) | Mean | Std. Deviation | N |
| ROA | .148740 | .0223604 | 5 |
| CURRENT RATIO | 1.879120 | .7993502 | 5 |
| QUICK RATIO | .113680 | .0461646 | 5 |
| AVERAGE-COLLECTION PERIOD | 25.774280 | 10.6672130 | 5 |
| DEBT TO INCOME | .435520 | .0847176 | 5 |
| OPERATIONAL RATIO | 3.269300 | .9153381 | 5 |
| OPERATING MARGIN | .310740 | .0580015 | 5 |
| CORPORATE GOVERNANCE INDEX | .600 | .0000 | 5 |

Table 1: Descriptive statistics for internal factors of McDonald's Corporation.

Based on the table above, it shows the results of descriptive statistics for the variables. The mean of ROA for McDonald's Corporation is 14.874% which indicates that McDonald's Corporation makes 14.874% profits from assets for every five years. This shows that the performance of McDonald's Corporation is effective along the period. The standard deviation of ROA for McDonald's Corporation is 2.236% which means return of McDonald's Corporation not so volatile from average within five years. The bigger the standard deviation means ROA is vary greatly from the average. The most significant variable that affect the ROA among the internal factors of McDonald's Corporation is its quick ratio. The mean of quick ratio is 11.368% which implied the decision of McDonald's Corporation is made by quick ratio which measures the ability of a company to use its near cash or quick assets to extinguish or retire its current liabilities immediately. Thus, quick ratio has great impact on the performance of the company from 2014 to 2018. But, the standard deviation of quick ratio is only 4.616% which is also illustrates that the rate of changes is significantly low along the period. In other words, this also indicates that quick ratio is significantly interrelated to ROA of McDonald's Corporation.

**4.2.1.2 Internal factors (Correlation analysis)**

| Correlations | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Variables (constant) | | ROA | CURRENT RATIO | QUICK RATIO | AVERAGE-COLLECTION PERIOD | DEBT TO INCOME | OPERATIONAL RATIO | OPERATING MARGIN | CORPORATE GOVERNANCE INDEX |
| Pearson Correlation | ROA | 1.000 | -.770 | -.894 | .880 | .334 | -.876 | .799 | . |
| | CURRENT RATIO | -.770 | 1.000 | .734 | -.387 | .162 | .429 | -.416 | . |
| | QUICK RATIO | -.894 | .734 | 1.000 | -.802 | -.286 | .875 | -.887 | . |
| | AVERAGE-COLLECTION PERIOD | .880 | -.387 | -.802 | 1.000 | .547 | -.984 | .914 | . |
| | DEBT TO INCOME | .334 | .162 | -.286 | .547 | 1.000 | -.492 | .329 | . |
| | OPERATIONAL RATIO | -.876 | .429 | .875 | -.984 | -.492 | 1.000 | -.968 | . |
| | OPERATING MARGIN | .799 | -.416 | -.887 | .914 | .329 | -.968 | 1.000 | . |
| | CORPORATE GOVERNANCE INDEX | . | . | . | . | . | . | . | 1.000 |
| Sig. (1-tailed) | ROA | . | .064 | .021 | .025 | .291 | .026 | .053 | .000 |
| | CURRENT RATIO | .064 | . | .079 | .260 | .397 | .235 | .243 | .000 |
| | QUICK RATIO | .021 | .079 | . | .051 | .320 | .026 | .022 | .000 |
| | AVERAGE-COLLECTION PERIOD | .025 | .260 | .051 | . | .170 | .001 | .015 | .000 |
| | DEBT TO INCOME | .291 | .397 | .320 | .170 | . | .200 | .294 | .000 |
| | OPERATIONAL RATIO | .026 | .235 | .026 | .001 | .200 | . | .003 | .000 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | OPERATING MARGIN | .053 | .243 | .022 | .015 | .294 | .003 | . | .000 |
| | CORPORATE GOVERNANCE INDEX | .000 | .000 | .000 | .000 | .000 | .000 | .000 | . |
| N | ROA | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| | CURRENT RATIO | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| | QUICK RATIO | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| | AVERAGE-COLLECTION PERIOD | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| | DEBT TO INCOME | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| | OPERATIONAL RATIO | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| | OPERATING MARGIN | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| | CORPORATE GOVERNANCE INDEX | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |

Table 2: Correlation analysis table for internal factors of McDonald’s Corporation

Refer to table 2, the table shown the variables or factors used to determine the performance of McDonald’s Corporation from 2014 to 2018. The variables are namely current ratio, quick ratio, average-collection period, debt to income, operational ratio, operating margin, and Corporate Governance Index. Return on assets (ROA) used as a main indicator to evaluate the performance of McDonald’s Corporation. The method adopted in this study is use of Statistical Product and Service Solutions or known as SPSS software.

Based on the table given, Pearson correlation for McDonald’s Corporation has shown that the quick ratio of McDonald’s Corporation is -0.894 which have the strong negative relationship with ROA. It represents that any changes in quick assets of McDonald’s Corporation will give the inverse impact to ROA. In other word saying, increment of quick ratio will decrease the ROA of the company. For the significant correlation, it is recorded with the figure of 0.021, the lowest among the variables, which also shown that any variation of quick ratio is the most significant to ROA. This can be explained that McDonald’s Corporation is an opportunistic company in which the company converts the quick assets into cash and equivalents to diversify its investments in the market to maximize shareholder's value, which is the main objective of a company.

Another variable shown is current ratio. Pearson correlation for this variable is -0.770 that indicates there are also a strongly negative relationship with ROA of McDonald's Corporation. This figure symbolized that the decline of current ratio will increase the ROA of the company. The significant value of this variable is recorded at 0.064 which means that the current ratio is slightly significant to ROA. This indicates that McDonald's Corporation has enough current assets especially cash to cover its short-term liabilities along the period. Based on the research conducted by Justyna Zygmunt (2013), current ratio of polish listed IT companies has the highest dependence on profitability or Return on assets besides receivable conversion period and inventory conversion period.

Next variable in this discussion is average collection period. Pearson correlation shown here is 0.880 which has a strong positive relationship with ROA. This represents that if the average-collection period increases, thus it will increase the ROA of McDonald's Corporation. For the significant value, it is recorded at 0.025, which is slightly higher than quick ratio. But that also indicates that average-collection period is significant to ROA. This indicates that McDonald's Corporation have enough financial support for the company to overcome financial distress without negatively influence the company performance.

Besides, another variable is debt to income which is also known as one of the elements of credit risk. According to Pearson correlation, the figure is recorded at 0.334 which shows a strong relationship with ROA of McDonald's Corporation. This shows that if debt to income increases, then the ROA also will increase. But for the significant value, it is recorded at the value of 0.291 which indicates that debt to income is insignificant to ROA. Based on these figures, this show that any increase or decrease of debt to income will have no direct influence on the McDonald's Corporation's performance as this company capable to manage the debt issuing for cash lending purpose as the cash is fully utilised for generating revenue.

Moreover, operational ratio also is one of the internal factors that will be analysed for McDonald's Corporation. According to Pearson correlation, it is recorded at -0.876 which means that this ratio has a strongly negative relationship with ROA of McDonald's Corporation. If operational ratio increases, then the ROA of the company decreases. At the same time, the significant value of operational ratio is recorded at 0.026, which means that the variation of operational ratio is significant to McDonald's Corporation performance. This indicates that

McDonald's Corporation increases its financial performance with the increment of net profit generated by sales.

The next internal factor in this analysis is operating margin. According to Pearson correlation, it is recorded at a reading of 0.799 which indicates that operating margin has a positive relationship with ROA. If operating margin increases, ROA also increases. Whereas the significance value of this factor is recorded at 0.053. With this reading, this is interpreted as the operating margin is weakly significant to McDonald's Corporation performance along the period. From this set of readings, it is shown that McDonald's Corporation capable to have cash leftovers in generating extra profits to improve the company performance. According to research conducted by Md. Sayaduzzaman (2006), operating margin has positive correlation to return on assets of Bangladesh Tobacco Company Ltd. with the correlation matrix of 0.688.

The last internal factor taken into consideration is Corporate Governance Index. This index is consisted of five main principles namely accountability, transparency, independence, fairness and sustainability. Based on Pearson correlation, it is recorded at 0.600 which indicates that Corporate Governance Index has a positive relationship with ROA. If Corporate Governance Index increases, then the ROA increases. Based on significance value, it is recorded at 0.000 that indicates this index has zero variance which also mean as not related at all with the ROA. Thus, these readings interpreted as the decision of the board is not a point of consideration towards the company performance of McDonald's Corporation.

#### 4.2.1.3 Internal factors (Model summary)

| Model Summary[b] | | | | | |
|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .894[a] | .798 | .731 | .0115939 | 2.332 |

a. Predictors: (Constant), QUICK RATIO

b. Dependent Variable: ROA

Table 3: Model summary for internal factors of McDonald's Corporation

Refer to table 3, it illustrates the most significant variables that affect the company performance of McDonald's Corporation from 2014 to 2018. Internal factors are tested with the results shown. Stepwise method is used with statistics and plot linear regressions to obtain the most accurate results for the model summary. The stepwise method is also used to show the R square value and adjusted R square value of the variable which is most significant to company performance or known as ROA. The only model for internal factors is quick ratio with the R value of 0.894 that shows the highest level of correlation among other variables with the company performance of McDonald's Corporation. The quick ratio also has the R square value of 0.798 which indicates that it is around 79.80% of variation in ROA of McDonald's Corporation is explained by this variable namely quick ratio. In addition, this variable is also had the most significant influence to the company performance as it has the lowest significance value among all variables with the value of 0.021. Moreover, the quick ratio also has strongly negative relationship with McDonald's Corporation with the value of -0.894 and significant relationship with this company's performance with the lowest significance level of 0.021, which is the significance level below 0.05. In addition, the Durbin-Watson of this model is recorded at 2.332 which shows the autocorrelation in the sample given between ROA and quick ratio. The readings of Durbin-Watson show the autocorrelation if the value is between 1.500 until 3.500.

#### 4.2.1.4 Internal factors (Anova analysis)

**ANOVA**[a]

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .002 | 1 | .002 | 11.879 | .041[b] |
| | Residual | .000 | 3 | .000 | | |
| | Total | .002 | 4 | | | |

a. Dependent Variable: ROA
b. Predictors: (Constant), QUICK RATIO

Table 4: Anova analysis table for internal factors of McDonald's Corporation

Refer to table 4, this model has the significance value or p-value of 0.041, which symbolizes that this model fit of McDonald's Corporation is significant. The readings of P-value indicate that the model fit is significant if the p-value is less than 0.1.

#### 4.2.1.5 Internal factors (Coefficients analysis)

**Coefficients**[a]

| Model | | Unstandardized Coefficients B | Std. Error | Standardized Coefficients Beta | t | Sig. | 95.0% Confidence Interval for B Lower Bound | Upper Bound | Collinearity Statistics Tolerance | VIF |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | (Constant) | .198 | .015 | | 13.033 | .001 | .150 | .246 | | |
| | QUICK RATIO | -.433 | .126 | -.894 | -3.447 | .041 | -.832 | -.033 | 1.000 | 1.000 |

a. Dependent Variable: ROA

Table 5: Coefficients analysis table for internal factors of McDonald's Corporation

Refer to table 5, standard coefficients beta, t-value and p-value will be analysed. For model 1, the standardized coefficients beta is recorded at -0.894 which indicates that this model is strongly inversely related to the company performance. In this model too, the t-value also recorded at -3.447. This is because if the t-value recorded the highest, then the p-value of that internal factor is recorded the least. When the p-value recorded the least, then this shows that quick ratio has the highest influence on the company performance of McDonald's Corporation. Since this model has only one independent variable, quick ratio, then the coefficient implies that the ROA is expected to decrease 0.894 when quick ratio increases by one.

#### 4.2.2.1 External factors (Descriptive analysis)

| Descriptive Statistics | | | |
|---|---|---|---|
| Variables (constant) | Mean | Std. Deviation | N |
| ROA | .148740 | .0223604 | 5 |
| GDP | 2.396000000000000 | .539842569644151 | 5 |
| Inflation | 1.500 | .8916 | 5 |
| Interest Rate | 1.8700 | .44637 | 5 |
| Exchange Rate | 1.1720 | .09284 | 5 |
| STDV | 1.45341580 | .493521342 | 5 |

Table 6: Descriptive analysis table for external factors of McDonald's Corporation

Refer to table 6, it shows the results of descriptive statistics for the variables. The mean of ROA for McDonald's Corporation is 14.874% which indicates that McDonald's Corporation makes 14.874% profits from assets for every five years. This shows that the performance of McDonald's Corporation is effective along the period. The standard deviation of ROA for McDonald's Corporation is 2.236% which means return of McDonald's Corporation not so volatile from average within five years. The bigger the standard deviation means ROA is vary greatly from the average. The most significant external factor to the ROA of McDonald's Corporation is inflation. The mean of inflation is 1.500% which implied the decision of McDonald's Corporation is made by variations of prices of goods and services available in the market. Thus, inflation has high impact on the performance of the company from 2014 to 2018. In addition, the standard deviation of inflation is 89.16% which is also illustrates that the rate of changes is significantly high along the period. In other words, this also indicates that inflation is significantly interrelated to ROA of McDonald's Corporation.

#### 4.2.2.2 External factors (Correlation analysis)

| Correlations | | | | | | | |
|---|---|---|---|---|---|---|---|
| Variables (constant) | | ROA | GDP | Inflation | Interest Rate | Exchange Rate | STDV |
| Pearson Correlation | ROA | 1.000 | -.057 | .893 | -.342 | .022 | .757 |
| | GDP | -.057 | 1.000 | -.101 | -.520 | .204 | .142 |
| | Inflation | .893 | -.101 | 1.000 | -.538 | .293 | .585 |
| | Interest Rate | -.342 | -.520 | -.538 | 1.000 | -.862 | -.555 |
| | Exchange Rate | .022 | .204 | .293 | -.862 | 1.000 | .386 |
| | STDV | .757 | .142 | .585 | -.555 | .386 | 1.000 |
| Sig. (1-tailed) | ROA | . | .464 | .021 | .286 | .486 | .069 |
| | GDP | .464 | . | .436 | .185 | .371 | .410 |
| | Inflation | .021 | .436 | . | .175 | .316 | .150 |
| | Interest Rate | .286 | .185 | .175 | . | .030 | .166 |
| | Exchange Rate | .486 | .371 | .316 | .030 | . | .260 |
| | STDV | .069 | .410 | .150 | .166 | .260 | . |
| N | ROA | 5 | 5 | 5 | 5 | 5 | 5 |
| | GDP | 5 | 5 | 5 | 5 | 5 | 5 |
| | Inflation | 5 | 5 | 5 | 5 | 5 | 5 |
| | Interest Rate | 5 | 5 | 5 | 5 | 5 | 5 |
| | Exchange Rate | 5 | 5 | 5 | 5 | 5 | 5 |
| | STDV | 5 | 5 | 5 | 5 | 5 | 5 |

Table 7: Correlation analysis table for external factors of McDonald's Corporation

Refer to table 7, external factors also included. They are namely GDP, inflation, interest rate, exchange rate and standard deviation (Market risk). All these factors also being tested to see the correlation with ROA of McDonald's Corporation. All the external factors data are based on United States of America.

First external factor being tested is GDP. GDP also known as Gross Domestic Product is the total market value of all the finished goods and services produced in a country's borders within a specific time frame. Based on Pearson correlation, it is recorded at a value of -0.057. This indicates that GDP has a weak negative relationship with the performance of McDonald's Corporation. If the GDP increases, then the ROA of the company decreases. Based on significance value, it is recorded at 0.464 which means that GDP is strongly insignificant to the company performance. Thus, the small conclusion for this factor is that any variations in the demand and supply for goods and services provided by McDonald's Corporation will not affect its profitability.

Second external factor being considered in this analysis is inflation. Generally, inflation is known as the situation whereby the products and services sold in the market experiences growth in price continuously along the time. Based on Pearson correlation, it is recorded at 0.893 which indicates that inflation has a strong positive relationship with the company performance of McDonald's Corporation. According to research conducted by Sehrish Gul, Faiza Irshad and Khalid Zaman (2011), inflation has the positive relationship with the profitability of banks in Pakistan due to positive value of Pearson correlation recorded in correlation matrix. If inflation increases, thus the ROA of the company increases. At the same time, based on the significance value, it is recorded at 0.021. This reading implies that inflation is significant to the company performance. In a small conclusion, McDonald's Corporation buys the raw materials at a lower price and sell it at a higher price in the market to maximize profits of the company.

Next, the third external factor in this analysis is interest rate. In general, interest rate is the rate or proportion amount incurred to an individual or a company based on the total borrowings from other relevant sources such as banks and financial institutions. Based on Pearson correlation, it is recorded at a value of -0.342 which means that interest rate has a strongly inverse relationship with the company performance of McDonald's Corporation. If the interest rate increases, ROA decreases. Whereby based on significance value, it is recorded at a value of 0.286 which indicates that interest rate is insignificant to the ROA. Thus, ROA of

McDonald's Corporation not affected by variations of interest rate on total borrowings. According to Christine Nanjala Simiyu and Lessah Ngile (2015), the interest rate had recorded a negative relationship and significance to the return on assets or profitability of listed commercial banks in Kenya with the Pearson correlation of -0.337 and significance level of 0.000.

Moreover, exchange rate also being tested in correlation analysis. In general, exchange rate is the value of the currency of one country towards another country for conversion of value of money. According to Christine Nanjala Simiyu and Lessah Ngile (2015), the exchange rate had recorded a positive relationship to the return on assets or profitability of listed commercial banks in Kenya with Pearson correlation of 0.167 in correlation matrix. Based on Pearson correlation, it is recorded at 0.022 which indicates that exchange rate has low positive relationship with the ROA of McDonald's Corporation. If the exchange rate increases, it will slightly increase the ROA. Based on significance value, it is recorded at 0.486 which implies a strong insignificance to company performance. Thus, McDonald's Corporation continue making profits without being affected by variations of exchange rate in the global economy.

Last but not least, the last external factor being analysed is standard deviation or known as STDV. STDV is the derivative of market risk. Based on Pearson correlation, it is recorded at a value of 0.757 which indicates that the STDV has a strongly positive relationship to the company performance. Based on significance value provided, it is recorded at a value of 0.069 which indicates a slightly weak significance to the company performance. Thus, this is shown that McDonald's Corporation focuses on creating shareholder's value which also increases the value of the company. Based on the research conducted by Mukhtaruddin, Relasari and Messa Felmania (2014), the value of the firm increase as the stock prices in the market increases and this will increase the shareholder's wealth or profit.

#### 4.2.2.3 External factors (Model summary)

**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .893[a] | .798 | .730 | .0116174 | 2.144 |

a. Predictors: (Constant), Inflation

b. Dependent Variable: ROA

Table 8: Model summary for external factors of McDonald's Corporation

Refer to table 8, it illustrates the most significant variables that affect the company performance of McDonald's Corporation from 2014 to 2018. External factors are tested with the results shown. Stepwise method is used with statistics and plot linear regressions to obtain the most accurate results for the model summary. The stepwise method is also used to show the R square value and adjusted R square value of the variable which is most significant to company performance or known as ROA. The only model here is inflation with the R value of 0.893 that shows the highest level of correlation among other variables with the company performance of McDonald's Corporation. In model 1, the quick ratio also has the R square value of 0.798 which indicates that it is around 79.80% of variation in ROA of McDonald's Corporation is explained by this variable namely quick ratio. In addition, this variable is also had the most significant influence to the company performance as it has the lowest significance value among all variables with the value of 0.021. Moreover, the quick ratio also has strongly negative relationship with McDonald's Corporation with the value of -0.894 and significant relationship with this company's performance with the lowest significance level of 0.021, which is the significance level below 0.05.

#### 4.2.2.4 External factors (Anova analysis)

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .002 | 1 | .002 | 11.818 | .041[b] |
| | Residual | .000 | 3 | .000 | | |
| | Total | .002 | 4 | | | |

a. Dependent Variable: ROA
b. Predictors: (Constant), Inflation

Table 9: Anova analysis table for external factors of McDonald's Corporation

Refer to table 9, this model has the significance value or p-value of 0.041, which symbolizes that inflation has influence on the company performance of McDonald's Corporation. This also shows that this model fit has the positive correlation to the study conducted on ROA of McDonald's Corporation from 2014 to 2018.

#### 4.2.2.5 External factors (Coefficients analysis)

| Coefficients[a] | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 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) | .115 | .011 | | 10.404 | .002 | .080 | .150 | | |
| | Inflation | .022 | .007 | .893 | 3.438 | .041 | .002 | .043 | 1.000 | 1.000 |

a. Dependent Variable: ROA

Table 10: Coefficients analysis table for external factors of McDonald's Corporation

Refer to table 10, standard coefficients beta, t-value and p-value will be analysed. For this model, the standardized coefficients beta is recorded at 0.893 which indicates that this model is strongly positive related to the company performance. In this model too, the t-value also recorded at 3.438 which shows that the highest t-value will result in the lowest p-value which shows that inflation has the greatest influence on McDonald's Corporation. Since this model has only one independent variable, inflation, then the coefficient implies that the ROA is expected to increase 0.893 when inflation increases by one. According to research conducted by Sehrish Gul, Faiza Irshad and Khalid Zaman (2011), inflation is positively related to ROA of banks in Pakistan and has a direct relationship with ROA with the coefficients level of 0.161.

#### 4.2.3.1 Internal and external factors (Descriptive analysis)

| Descriptive Statistics |
|---|

| Variables (constant) | Mean | Std. Deviation | N |
| --- | --- | --- | --- |
| ROA | .148740 | .0223604 | 5 |
| CURRENT RATIO | 1.879120 | .7993502 | 5 |
| QUICK RATIO | .113680 | .0461646 | 5 |
| AVERAGE-COLLECTION PERIOD | 25.774280 | 10.6672130 | 5 |
| DEBT TO INCOME | .435520 | .0847176 | 5 |
| OPERATIONAL RATIO | 3.269300 | .9153381 | 5 |
| OPERATING MARGIN | .310740 | .0580015 | 5 |
| CORPORATE GOVERNANCE INDEX | .600 | .0000 | 5 |
| GDP | 2.396000000000000 | .539842569644151 | 5 |
| Inflation | 1.500 | .8916 | 5 |
| Interest Rate | 1.8700 | .44637 | 5 |
| Exchange Rate | 1.1720 | .09284 | 5 |
| STDV | 1.45341580 | .493521342 | 5 |

Table 11: Descriptive analysis table for internal and external factors of McDonald's Corporation

Refer to table 11, it shows the results of descriptive statistics for the variables. The mean of ROA for McDonald's Corporation is 14.874% which indicates that McDonald's Corporation makes 14.874% profits from assets for every five years. This shows that the performance of McDonald's Corporation is effective along the period. The standard deviation of ROA for McDonald's Corporation is 2.236% which means return of McDonald's Corporation not so volatile from average within five years. The bigger the standard deviation means ROA is vary greatly from the average. The most significant variable that affect the ROA is its quick ratio. The mean of quick ratio is 11.368% which implied the decision of McDonald's Corporation is made by quick ratio which measures the ability of a company to use its near cash or quick assets to extinguish or retire its current liabilities immediately. Thus, quick ratio has great impact on the performance of the company from 2014 to 2018. But, the standard deviation of quick ratio is only 4.616% which is also illustrates that the rate of changes is significantly low along the period. In other words, this also indicates that quick ratio is significantly interrelated to ROA of McDonald's Corporation. Whereby STDV is significantly interrelated to company performance of McDonald's Corporation with the mean of 1.453 and standard deviation of 0.494 which shows that this company is influenced by variation of stocks in the market.

**4.2.3.2 Internal and external factors (Correlation analysis)**

## Correlations

| | | ROA | CURRENT RATIO | QUICK RATIO | AVERAGE-COLLECTION PERIOD | DEBT TO INCOME | OPERATIONAL RATIO | OPERATING MARGIN | CORPORATE GOVERNANCE INDEX | GDP | Inflation | Interest Rate | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ant) | | | | | | | | | | | | | |
| ion | ROA | 1.000 | -.770 | -.894 | .880 | .334 | -.876 | .799 | . | -.057 | .893 | -.342 | |
| | CURRENT RATIO | -.770 | 1.000 | .734 | -.387 | .162 | .429 | -.416 | . | .474 | -.831 | .383 | |
| | QUICK RATIO | -.894 | .734 | 1.000 | -.802 | -.286 | .875 | -.887 | . | .300 | -.904 | .137 | |
| | AVERAGE-COLLECTION PERIOD | .880 | -.387 | -.802 | 1.000 | .547 | -.984 | .914 | . | .255 | .732 | -.238 | |
| | DEBT TO INCOME | .334 | .162 | -.286 | .547 | 1.000 | -.492 | .329 | . | -.003 | -.057 | .594 | |
| | OPERATIONAL RATIO | -.876 | .429 | .875 | -.984 | -.492 | 1.000 | -.968 | . | -.149 | -.787 | .207 | |
| | OPERATING MARGIN | .799 | -.416 | -.887 | .914 | .329 | -.968 | 1.000 | . | .117 | .820 | -.250 | |
| | CORPORATE GOVERNANCE INDEX | . | . | . | . | . | . | . | 1.000 | . | . | . | |
| | GDP | -.057 | .474 | .300 | .255 | -.003 | -.149 | .117 | . | 1.000 | -.101 | -.520 | |
| | Inflation | .893 | -.831 | -.904 | .732 | -.057 | -.787 | .820 | . | -.101 | 1.000 | -.538 | |
| | Interest Rate | -.342 | .383 | .137 | -.238 | .594 | .207 | -.250 | . | -.520 | -.538 | 1.000 | |
| | Exchange Rate | .022 | -.388 | .129 | -.236 | -.871 | .245 | -.172 | . | .204 | .293 | -.862 | |
| | STDV | .757 | -.683 | -.406 | .525 | .095 | -.430 | .276 | . | .142 | .585 | -.555 | |
| | ROA | . | .064 | .021 | .025 | .291 | .026 | .053 | .000 | .464 | .021 | .286 | |
| | CURRENT RATIO | .064 | . | .079 | .260 | .397 | .235 | .243 | .000 | .210 | .040 | .262 | |
| | QUICK RATIO | .021 | .079 | . | .051 | .320 | .026 | .022 | .000 | .312 | .018 | .413 | |
| | AVERAGE-COLLECTION PERIOD | .025 | .260 | .051 | . | .170 | .001 | .015 | .000 | .340 | .080 | .350 | |
| | DEBT TO INCOME | .291 | .397 | .320 | .170 | . | .200 | .294 | .000 | .498 | .464 | .145 | |
| | OPERATIONAL RATIO | .026 | .235 | .026 | .001 | .200 | . | .003 | .000 | .405 | .057 | .369 | |
| | OPERATING MARGIN | .053 | .243 | .022 | .015 | .294 | .003 | . | .000 | .426 | .045 | .342 | |
| | CORPORATE GOVERNANCE INDEX | .000 | .000 | .000 | .000 | .000 | .000 | .000 | . | .000 | .000 | .000 | |
| | GDP | .464 | .210 | .312 | .340 | .498 | .405 | .426 | .000 | . | .436 | .185 | |
| | Inflation | .021 | .040 | .018 | .080 | .464 | .057 | .045 | .000 | .436 | . | .175 | |
| | Interest Rate | .286 | .262 | .413 | .350 | .145 | .369 | .342 | .000 | .185 | .175 | . | |
| | Exchange Rate | .486 | .259 | .418 | .351 | .027 | .346 | .391 | .000 | .371 | .316 | .030 | |
| | STDV | .069 | .102 | .249 | .182 | .440 | .235 | .327 | .000 | .410 | .150 | .166 | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ROA | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| CURRENT RATIO | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| QUICK RATIO | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| AVERAGE-COLLECTION PERIOD | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| DEBT TO INCOME | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| OPERATIONAL RATIO | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| OPERATING MARGIN | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| CORPORATE GOVERNANCE INDEX | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| GDP | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Inflation | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Interest Rate | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Exchange Rate | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| STDV | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |

Table 12: Correlation analysis table for internal and external factors of McDonald's Corporation

Refer to table 12, the table shown the variables or factors used to determine the performance of McDonald's Corporation from 2014 to 2018. The variables are namely current ratio, quick ratio, average-collection period, debt to income, operational ratio, operating margin, Corporate Governance Index, GDP, inflation, interest rate, exchange rate and standard deviation. Return on assets (ROA) used as a main indicator to evaluate the performance of McDonald's Corporation. The method adopted in this study is use of Statistical Product and Service Solutions or known as SPSS software.

Based on the table given, Pearson correlation for McDonald's Corporation has shown that the quick ratio of McDonald's Corporation is -0.894 which have the strong negative relationship with ROA. It represents that any changes in quick assets of McDonald's Corporation will give the inverse impact to ROA. In other word saying, increment of quick ratio will decrease the ROA of the company. For the significant correlation, it is recorded with the figure of 0.021, the lowest among the variables, which also shown that any variation of quick ratio is the most significant to ROA. This can be explained that McDonald's Corporation is an opportunistic company in which the company converts the quick assets into cash and equivalents to diversify its investments in the market to maximize shareholder's value, which is the main objective of a company.

Another variable shown is current ratio. Pearson correlation for this variable is -0.770 that indicates there are also a strongly negative relationship with ROA of McDonald's Corporation. This figure symbolized that the decline of current ratio will increase the ROA of the company. The significant value of this variable is recorded at 0.064 which means that the current ratio is slightly insignificant to ROA. This indicates that McDonald's Corporation has enough current assets especially cash to cover its short-term liabilities along the period.

Next variable in this discussion is average collection period. Pearson correlation shown here is 0.880 which has a strong positive relationship with ROA. This represents that if the average-collection period increases, thus it will increase the ROA of McDonald's Corporation. For the significant value, it is recorded at 0.025, which is slightly higher than quick ratio. But that also indicates that average-collection period is significant to ROA. This indicates that McDonald's Corporation have enough financial support for the company to overcome financial distress without negatively influence the company performance.

Besides, another variable is debt to income which is also known as one of the elements of credit risk. According to Pearson correlation, the figure is recorded at 0.334 which shows a strong relationship with ROA of McDonald's Corporation. This shows that if debt to income increases, then the ROA also will increase. But for the significant value, it is recorded at the value of 0.291 which indicates that debt to income is insignificant to ROA. Based on these figures, this show that any increase or decrease of debt to income will have no direct influence on the McDonald's Corporation's performance as this company capable to manage the debt issuing for cash lending purpose as the cash is fully utilised for generating revenue.

Moreover, operational ratio also is one of the internal factors that will be analysed for McDonald's Corporation. According to Pearson correlation, it is recorded at -0.876 which means that this ratio has a strongly negative relationship with ROA of McDonald's Corporation. If operational ratio increases, then the ROA of the company decreases. At the same time, the significant value of operational ratio is recorded at 0.026, which means that the variation of operational ratio is significant to McDonald's Corporation performance. This indicates that McDonald's Corporation increases its financial performance with the increment of net profit generated by sales.

The next internal factor in this analysis is operating margin. According to Pearson correlation, it is recorded at a reading of 0.799 which indicates that operating margin has a positive relationship with ROA. If operating margin increases, ROA also increases. Whereas the significance value of this factor is recorded at 0.053. With this reading, this is interpreted as the operating margin is weakly significant to McDonald's Corporation performance along the period. From this set of readings, it is shown that McDonald's Corporation capable to have cash leftovers in generating extra profits to improve the company performance.

The last internal factor taken into consideration is Corporate Governance Index. This index is consisted of five main principles namely accountability, transparency, independence, fairness and sustainability. Based on Pearson correlation, there is no data available for analysis which also means that this index has does not have any relationship with the ROA of McDonald's Corporation. Based on significance value, it is recorded at 0.000 that indicates this index has zero variance which also mean as not related at all with the ROA. Thus, these readings interpreted as the decision of the board is not a point of consideration towards the company performance of McDonald's Corporation.

In SPSS analysis, external factors also included. They are namely GDP, inflation, interest rate, exchange rate and standard deviation (Market risk). All these factors also being tested to see the correlation with ROA of McDonald's Corporation. All the external factors data are based on United States of America.

First external factor being tested is GDP. GDP also known as Gross Domestic Product is the total market value of all the finished goods and services produced in a country's borders within a specific time frame. Based on Pearson correlation, it is recorded at a value of -0.057. This indicates that GDP has a weak negative relationship with the performance of McDonald's Corporation. If the GDP increases, then the ROA of the company decreases. Based on significance value, it is recorded at 0.464 which means that GDP is strongly insignificant to the company performance. Thus, the small conclusion for this factor is that any variations in the demand and supply for goods and services provided by McDonald's Corporation will not affect its profitability.

Second external factor being considered in this analysis is inflation. Generally, inflation is known as the situation whereby the products and services sold in the market experiences growth in price continuously along the time. Based on Pearson correlation, it is recorded at 0.893 which indicates that inflation has a strong positive relationship with the company performance of McDonald’s Corporation. If inflation increases, thus the ROA of the company increases. At the same time, based on the significance value, it is recorded at 0.021. This reading implies that inflation is significant to the company performance. In a small conclusion, McDonald’s Corporation buys the raw materials at a lower price and sell it at a higher price in the market to maximize profits of the company.

Next, the third external factor in this analysis is interest rate. In general, interest rate is the rate or proportion amount incurred to an individual or a company based on the total borrowings from other relevant sources such as banks and financial institutions. Based on Pearson correlation, it is recorded at a value of -0.342 which means that interest rate has a strongly inverse relationship with the company performance of McDonald’s Corporation. If the interest rate increases, ROA decreases. Whereby based on significance value, it is recorded at a value of 0.286 which indicates that interest rate is insignificant to the ROA. Thus, ROA of McDonald’s Corporation not affected by variations of interest rate on total borrowings.

Moreover, exchange rate also being tested in correlation analysis. In general, exchange rate is the value of the currency of one country towards another country for conversion of value of money. Based on Pearson correlation, it is recorded at 0.022 which indicates that exchange rate has low positive relationship with the ROA of McDonald’s Corporation. If the exchange rate increases, it will slightly increase the ROA. Based on significance value, it is recorded at 0.486 which implies a strong insignificance to company performance. Thus, McDonald’s Corporation continue making profits without being affected by variations of exchange rate in the global economy.

Last but not least, the last external factor being analysed is standard deviation or known as STDV. STDV is the derivative of market risk. Based on Pearson correlation, it is recorded at a value of 0.757 which indicates that the STDV has a strongly positive relationship to the company performance. Based on significance value provided, it is recorded at a value of 0.069 which indicates a slightly weak significance to the company performance. Thus, this is shown that McDonald’s Corporation focuses on creating shareholder’s value which also increases the value of the firm.

#### 4.2.3.3 Internal and external factors (Model summary)

| Model Summary[e] | | | | | |
|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .894[a] | .798 | .731 | .0115939 | |
| 2 | .992[b] | .984 | .968 | .0039973 | |
| 3 | 1.000[c] | 1.000 | 1.000 | .0001692 | |
| 4 | 1.000[d] | 1.000 | . | . | 1.019 |

a. Predictors: (Constant), QUICK RATIO

b. Predictors: (Constant), QUICK RATIO, STDV

c. Predictors: (Constant), QUICK RATIO, STDV, CURRENT RATIO

d. Predictors: (Constant), QUICK RATIO, STDV, CURRENT RATIO, AVERAGE-COLLECTION PERIOD

e. Dependent Variable: ROA

Table 13: Model summary table for internal and external factors of McDonald's Corporation

Refer to table 13, it illustrates the most significant variables that affect the company performance of McDonald's Corporation from 2014 to 2018. Internal and external factors are tested with the results shown. Stepwise method is used with statistics and plot linear regressions to obtain the most accurate results for the model summary. The stepwise method is also used to show the R square value and adjusted R square value of the variable which is most significant to company performance or known as ROA. There are 2 models which that will be discussed in the model summary table. The first model is quick ratio with the R value of 0.894 that shows the highest level of correlation among other variables with the company performance of McDonald's Corporation. In model 1, the quick ratio also has the R square value of 0.798 which indicates that it is around 79.80% of variation in ROA of McDonald's Corporation is explained by this variable namely quick ratio. In addition, this variable is also had the most significant influence to the company performance as it has the lowest significance value among all variables with the value of 0.021. Moreover, the quick ratio also has strongly negative relationship with McDonald's Corporation with the value of -0.894 and significant relationship with this company's performance with the lowest significance level of 0.021, which is the significance level below 0.05.

Whereas for the model 2, model 2 have quick ratio and standard deviation which have the R value of 0.992 that show the highest level of correlation among other variables with the company performance of McDonald's Corporation. In this model, the quick ratio and standard deviation also have the R square value of 0.984 which indicates that it is around 98.40% of variation in ROA of McDonald's Corporation is explained by these variables. In addition, these variables are also had the most significant influence to the company performance as quick ratio has the lowest significance value among all variables with the value of 0.021, whereas the standard deviation has the second lowest significance level among all external factors. Moreover, the quick ratio also has strongly negative relationship with McDonald's Corporation with the value of -0.894 and significant relationship with this company's performance with the lowest significance level of 0.021, which is the significance level below 0.05. The standard deviation shows a strongly positive relationship with McDonald's Corporation with the value of 0.757 and significant relationship with this company's performance with the significance level of 0.069, which is the significance level below 0.1.

#### 4.2.3.4 Internal and external factors (Anova analysis)

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .002 | 1 | .002 | 11.879 | .041[b] |
| | Residual | .000 | 3 | .000 | | |
| | Total | .002 | 4 | | | |
| 2 | Regression | .002 | 2 | .001 | 61.582 | .016[c] |
| | Residual | .000 | 2 | .000 | | |
| | Total | .002 | 4 | | | |
| 3 | Regression | .002 | 3 | .001 | 23292.453 | .005[d] |
| | Residual | .000 | 1 | .000 | | |
| | Total | .002 | 4 | | | |
| 4 | Regression | .002 | 4 | .000 | . | .[e] |
| | Residual | .000 | 0 | . | | |
| | Total | .002 | 4 | | | |

a. Dependent Variable: ROA

b. Predictors: (Constant), QUICK RATIO
c. Predictors: (Constant), QUICK RATIO, STDV
d. Predictors: (Constant), QUICK RATIO, STDV, CURRENT RATIO
e. Predictors: (Constant), QUICK RATIO, STDV, CURRENT RATIO, AVERAGE-COLLECTION PERIOD

Table 14: Anova analysis table for internal and external factors of McDonald's Corporation

Refer to table 14, model 1 has the significance value or P-value of 0.041, which symbolizes that quick ratio has moderate influence on the company performance of McDonald's Corporation, whereas model 2 have 2 most significant variables namely quick ratio and standard deviation or market risk. In the Anova table, both variables have the P-value of 0.016 which symbolizes that quick ratio and market risk together have the higher influence on McDonald's Corporation's performance compared to model 1, 0.041. Model 3 and 4 is not used for analysis as the R value is simply too perfect to determine the correlation and relationship with the ROA of McDonald's Corporation.

#### 4.2.3.5 Internal and external factors (Coefficients analysis)

| Coefficients[a] | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 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) | .198 | .015 | | 13.033 | .001 | .150 | .246 | | |
| | QUICK RATIO | -.433 | .126 | -.894 | -3.447 | .041 | -.832 | -.033 | 1.000 | 1.000 |
| 2 | (Constant) | .156 | .010 | | 15.490 | .004 | .113 | .200 | | |
| | QUICK RATIO | -.340 | .047 | -.702 | -7.177 | .019 | -.544 | -.136 | .835 | 1.198 |
| | STDV | .021 | .004 | .472 | 4.820 | .040 | .002 | .040 | .835 | 1.198 |
| 3 | (Constant) | .144 | .001 | | 252.897 | .003 | .137 | .151 | | |
| | QUICK RATIO | -.403 | .003 | -.832 | -146.578 | .004 | -.438 | -.368 | .445 | 2.249 |
| | STDV | .026 | .000 | .581 | 110.046 | .006 | .023 | .029 | .514 | 1.947 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CURRENT RATIO | .007 | .000 | .237 | 33.400 | .019 | .004 | .009 | .284 | 3.522 |
| 4 | (Constant) | .145 | .000 | | . | . | .145 | .145 | | |
| | QUICK RATIO | -.433 | .000 | -.894 | . | . | -.433 | -.433 | .004 | 276.245 |
| | STDV | .028 | .000 | .616 | . | . | .028 | .028 | .011 | 88.986 |
| | CURRENT RATIO | .008 | .000 | .288 | . | . | .008 | .008 | .005 | 185.253 |
| | AVERAGE-COLLECTION PERIOD | .000 | .000 | -.049 | . | . | .000 | .000 | .006 | 169.889 |

a. Dependent Variable: ROA

Table 15: Coefficients analysis table for internal and external factors of McDonald's Corporation

Refer to table 15, there are differences occurred between model 1 and model 2. Standard coefficients beta, t-value and p-value will be analysed. For model 1, the standardized coefficients beta is recorded at -0.894 which indicates that this model is strongly inversely related to the company performance. In this model too, the t-value also recorded at -3.447. Since this model has only one independent variable, quick ratio, then the coefficient implies that the ROA is expected to decrease 0.894 when quick ratio increases by one.

In model 2, the standardized coefficients beta of quick ratio is -0.702 and market risk is 0.472, whereby t-value for quick ratio is -7.177 and market risk is 4.820. This model has multiple independent variables namely quick ratio and market risk which will affects the ROA of McDonald's Corporation. This coefficient implies that ROA is expected to decrease 0.702 when quick ratio increases by one and ROA is expected to increase by 0.472 if quick ratio is increased by one.

## 5.0 DISCUSSIONS AND RECOMMENDATIONS

### 5.1 Discussions

Based on the Anova table, the discussion of the company performance is made by model 2, which is the model whereby 98.40% of variation of ROA for McDonald's Corporation is explained by its independent variable, which are quick ratio as internal factor of the company and standard deviation or market risk derivative as the external factor of the company. As already explained on coefficient analysis of model 2, the standardized coefficients beta of quick ratio is -0.702 and market risk is 0.472, whereby t-value for quick ratio is -7.177 and market risk is 4.820. This model has multiple independent variables namely quick ratio and market risk which will affects the ROA of McDonald's Corporation. This coefficient implies that ROA is expected to decrease 0.702 when quick ratio increases by one and ROA is expected to increase by 0.472 if quick ratio is increased by one. Based on coefficient table in internal and external factor, the quick ratio has the lowest p-value of 0.019 and followed by standard deviation or market risk with the p-value of 0.040. The t-value of both factors are also crucial as they have much influence on the performance of McDonald's Corporation. Therefore, McDonald's Corporation need to pay more intention on the liquidity risk and market risk to improve the company performance.

**5.2 Recommendations**

As the quick ratio inversely influence the performance of McDonald's Corporation with its highest t-value of -7.177, quick ratio needs to be managed properly by this company. Therefore, I would like to make some suggestions on this influence by managing this liquidity risk through diversification of investments. The diversification of investments enabling McDonald's Corporation to earn the highest return for the least risk carried by the company itself. The higher the return, the higher the profit generated to the company which will create higher value to the shareholders. To do so, there are four assets classes that need to be consider namely US stocks, US fixed income, foreign stocks, and foreign fixed income. US stocks condition must be monitored from time to time and do investments on the companies with different market capitalization in their portfolios. For the US fixed income, US fixed income are consisted of bonds with different risk and return. Since McDonald's Corporation's performance is influenced by quick ratio negatively, McDonald's Corporation can consider investing more cash on bonds with higher risk to get the higher return for McDonald's Corporation to make higher profits. For foreign stocks, McDonald's Corporation can invest overseas to achieve greater diversification. For foreign fixed income, McDonald's Corporation can buy more corporate and government issues in the public to generate higher profits on the promised return of those issues.

Last but not least, market risk also needs to be managed since the market risk has a strong positive influence on the performance of McDonald's Corporation with the t-value of 4.820. If the market risk increases, this will also increase the ROA of McDonald's Corporation which resembles the profitability of the company. Based on the concept of risk and return, the higher the risk, the higher the return is. The suggestions that I would like to recommend for McDonald's Corporation is to increase the share price of the company. If the share value of the company increases, then the shareholder's value will be created. There are some ways that McDonald's Corporation would put into practice such as by making strategic decisions that maximize expected share value. McDonald's Corporation should always evaluate the competitive environment surrounding the company in order to form a strategy to increase the share price. Next, McDonald's Corporation also being recommended to not to manage the earnings in a conservative way as the conservative approach will decrease the expected return of the stocks. Thus, if the expected return decreases, the investment opportunities of McDonald's Corporation also being limited or even decrease as well. If this situation continues, this will decrease the confidence of the investors or shareholders towards the company as they are opportunity seekers. So, it is rational for McDonald's Corporation to invest more cash at the rates above the cost of capital to make higher profits in the future.

## 6.0 CONCLUSION

In conclusion, throughout the findings shown by regression analysis by using SPSS software, it is shown that liquidity risk and market risk are the common risks that McDonald's Corporation faced along the period 2014 until 2018. McDonald's Corporation should handle these risks from time to time in order to ensure the company making higher profits to boost its performance and create value for the company. Based on the findings, McDonald's Corporation still capable to manage these two risks stated as the quick ratio and market risk or standard deviation still beyond the standard of benchmark. This indicates that McDonald's Corporation does not have any issues in investing cash to earn a higher return for the company and its shareholders with the purpose of generating profits to boost the company performance. In general, this company should be more opportunity seeking and more radical to invest more cash instead of making profits through sales. At the same time, McDonald's Corporation also should monitor the share prices of the company from time to time so that the company can evaluate the financial and non-financial performance with a better decision making and setting up strategies to deal with the loss resulted from market risk. Quick ratio and market risk should be the greatest concern of McDonald's Corporation to focus on in order to improve company performance.

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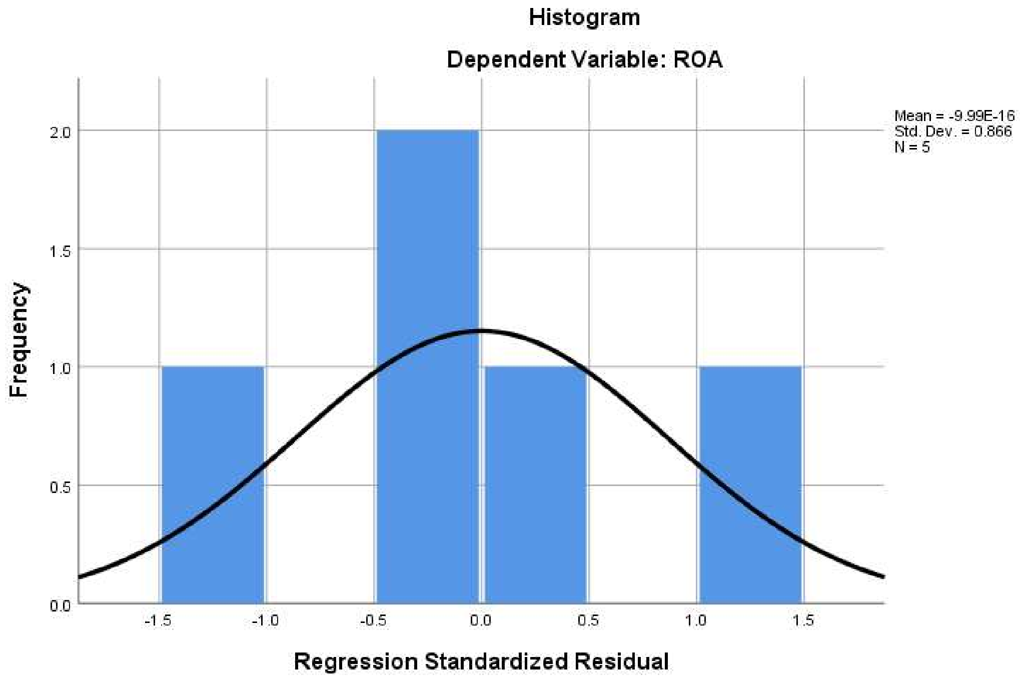
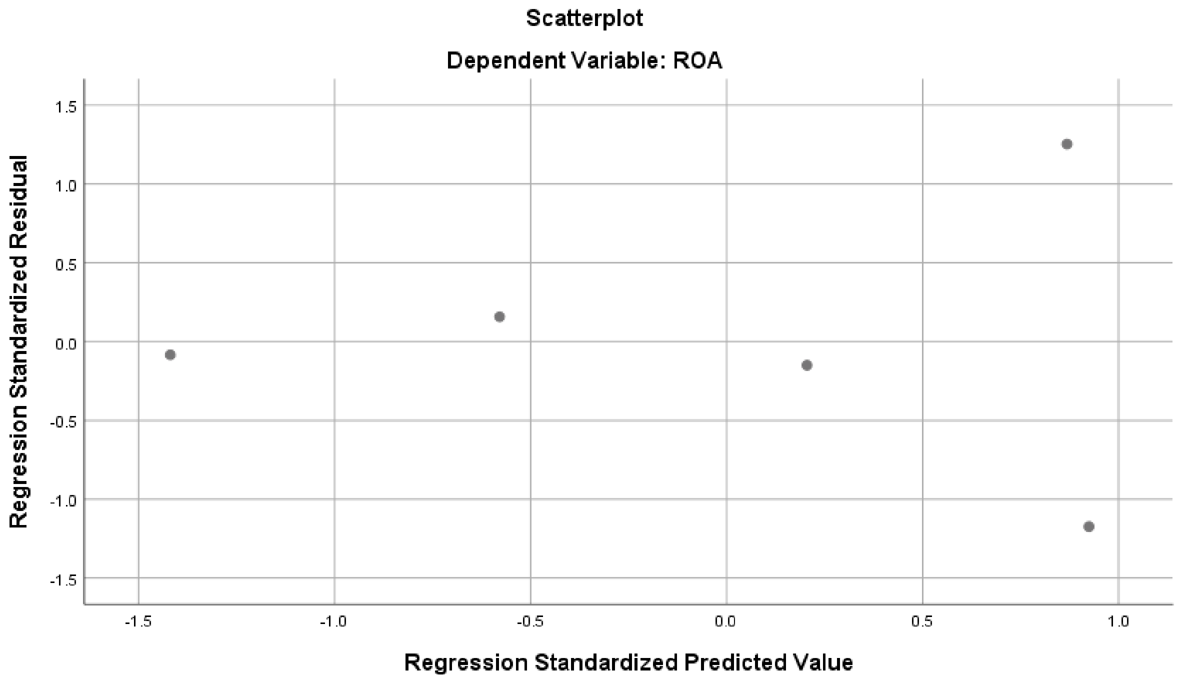
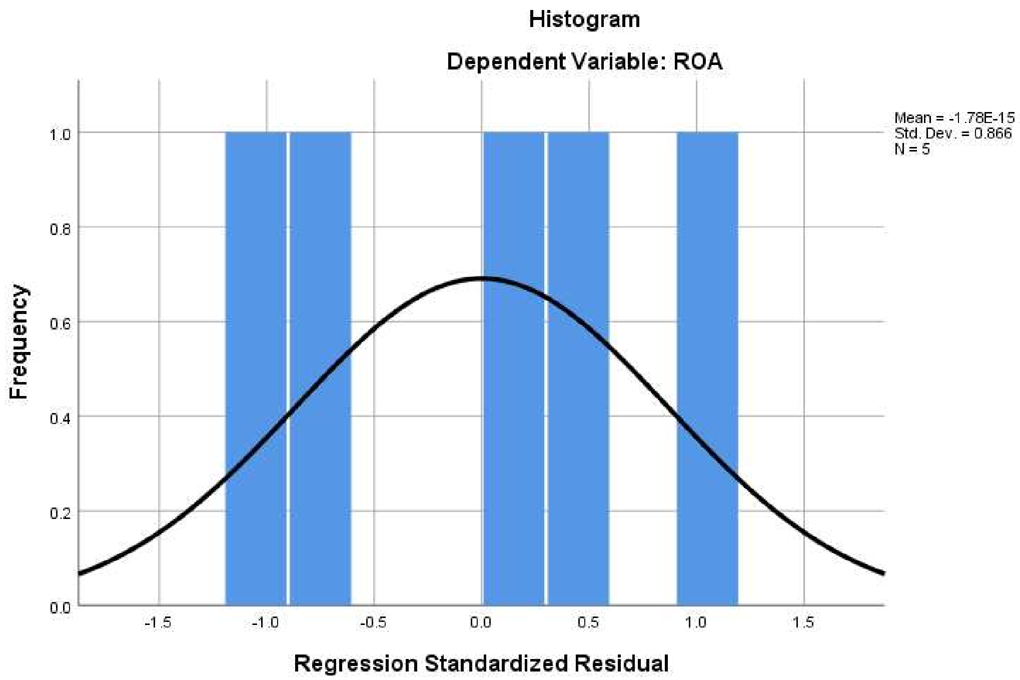
**APPENDICES**



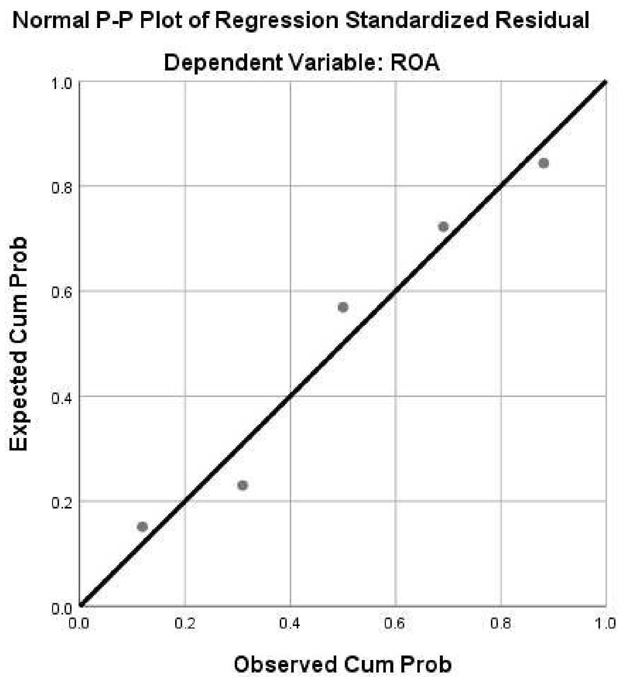

Appendix 1: Regression Standardized Residual for internal factors of McDonald's Corporation



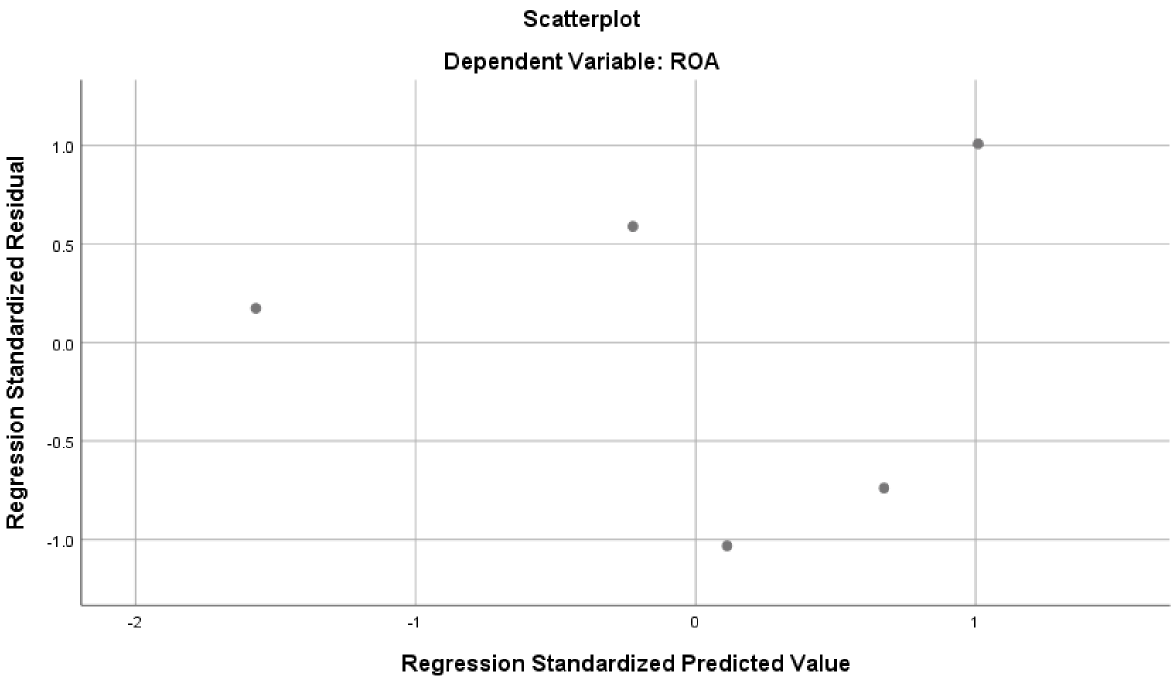

Appendix 2: Scatterplot for internal factors of McDonald's Corporation




Appendix 3: Regression Standardized Residual for external factors of McDonald's Corporation




Appendix 4: Normal P-P Plot of Regression Standardized Residual for external factors of McDonald's Corporation



Appendix 5: Scatterplot for external factors of McDonald’s Corporation