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18 November 2019

Online at https://mpra.ub.uni-muenchen.de/97270/
MPRA Paper No. 97270, posted 29 Nov 2019 20:15 UTC

Market Risk and Operational Risk Towards Company's Profitability

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ABSTRACT

The objective of a business is to earn profit and it should be acclaimed that profitability alone is not very helpful in determining the efficiency and performance of the business firm unless it is related to other factors such as risk. In the context of business proliferation, we are witnessing an unprecedented variegation of risk situations and uncertainty in the business world where the entire existence of an organization are being akin to risk. Each profit earns are associated to numerous of risk and every company consist different types of risks. Nevertheless, market risk and operational risk are very impactful to every business, as it directly influence business profitability and if it doesn't manage well, the business will come into a drastic problem. This study was presented to examine the outcomes of market risk and operational risk on profitability of Skechers from year 20014-2018. This study in the end halt that effective risk management is very fundamental for business insight and growth.

Keywords: Market Risk, Operational Risk, Profitability

INTRODUCTION

This chapter introduces the establishment of Skechers (SKX), a sportswear industry first manufactured in the United States. The latter part is continued with discussion of problem statement, research objectives, research questions and the scope of study.

1.1 Establishment of Skechers

Skechers was founded in 1992 by Robert Greenberg after he left LA Gear. During the days, there were no industry giants controlling both men's and women's streetwear, so Greenberg decided to focus on designing and manufacture unisex shoes. It eventually became successful and this reflected the increasing popularity in the early 90's. Skechers are well-known for being a brand of changing trends among young buyers and that they provided satisfaction on what the customers look for. It was then expanded to the worldwide market and it started producing shoes and children clothing. The company became successful enough to be compensated with its own brand space and released a high fashion line in the global market. It maintains a voguish brand image by focusing on high profile celebrity driven advertising, thus making it one of the fastest growing footwear company in the United States. Skechers focus in three segments, the domestic wholesale sales, international wholesale sales as well as retail sales. The objective is to profitably grow operations in the worldwide market while leverage its brand through manifold product lines and distribution channel across market globe and having innovative advertising for their brand.

1.2 Skecher's governance

Skechers sourcing relates to good governance that helps them to achieve their objectives and giving proficient commercial to guarantee and empower itself to support in a long term. They are prepared to preserve the quality and notoriety of the items, guaranteeing that wrapped up products and all merchandise bearing Skechers trademarks meet the standard of quality. They perform array of inspection procedures in the production process to the final products prior to shipment. It also governed accountability in their product distribution channels serving as a fundamental work in the worldwide conveyance of its product. In the retail stores and online business, the stores are reviewed for impairment annually as required. The summary of cash flows for the retail stores are important to the directors as it helps directors to evaluate and gauge any impairment of the assets

and to make improvements. Skechers hold on to strive its success by governing equal and ethical mean to maintain reputation for fair dealing among their competitors although the success of Skechers depends on their ability to outperform competitors. Skechers forbid employees from engaging in any unethical or illicit business practices. Rather, employees are trained to cling to good judgment and common sense as their pillar of working attitudes. In the concept of openness, all employees are expected and required to keep confidentiality of any information received unless the disclosure is authorized or legally mandated. On the other hand, Skechers has advance their social responsible agenda by innovating the BOBS shoe line for customers. This shoe line concerned of the people they are selling their products to, every profit count as donation, and awareness of eco-friendlier to the planet. They sustain the company by donating their shoe line to people who in need. In addition, Skechers Foundation was built to support the general public in terms of education and job training, fitness, and health and dietary guidance.

1.3 Problem Statement

The main risk Skechers is facing is the market risk compared to other risks such as credit risk, operational risk and liquidity risk. The market risk faced must be considered by Skechers is the rate of foreign currency exchange fluctuations which may impose an inauspicious effect on Skechers business and the results of operations. Foreign currency fluctuations affect Skechers revenue and profitability because Skechers are largely segmented by international wholesale markets. The changes in currency exchange rates may influence the financial result positively or negatively in a period and it will be difficult to compare Skechers operating results from different periods. The third parties manufacturing Skechers product will also be influenced due to cost of raw materials or production cost which are more expensive due to the fluctuations of the currency exchange.

1.4 Research Objectives

In general, this study purpose is to determine the market risk and operation risk towards profitability for Skecher. Objectives studies included:

1. To analyze the market risk towards profitability.
2. To analyze the operation risk towards profitability.
3. To analyze the market risk and operation risk towards profitability.

1.5 Research Questions

1. Is there any dependency between market risk and profitability?
2. Is there any dependency between operation risk and profitability?
3. Is there any dependence between market risk and operation risk towards profitability?

1.6 Scope of Study

The resources of the study were taken from Skechers, calculations and figures obtained from the financial report were based on Skechers company's 5 years annual report from year 2014 to 2018.

1.7 Organization of the Study

This study consists of five main chapters. Chapter one provides introduction consisting an overview of how company was established, company's governance, the problem statement, research objectives and questions, scope of the study and organisation of the study. Chapter two includes the literature review, highlighting four risks towards company. Chapter three details the theoretical framework, measurement of variables, research methodology and data analysis. Chapter four discusses the results and findings of the study, includes the descriptive statistical analysis, trend analysis, and diagnostic tests from SPSS result. Lastly, chapter five include the conclusion of the study and further explained with recommendations.

LITERATURE REVIEW

Corporate Governance is defined as a set of process and structure controlling and directing an organization. It constitutes a set of rules, which governs the relationship between management, shareholders and stakeholders (Ching et al, 2006). Every decision made carries weight to bear consequences and decisions made in a business must be implemented and executed through corporate governance. Corporate governance works as risk mitigation is a company. It emphasize on controlling and improving management effectively so company can achieve its objective and goals. Good corporate governance therefore embodies both enterprise (performance) and accountability (conformance)." (Fin, 2004, pp 13-14).

Credit risk is the potential of a contractual party failing to meet its obligations in accordance with the agreed terms and it has linkage with the influence of credit effects on firm's transactions. Credit risk management study provides a an understanding the organization's true nature of credit risk. Credit risk management aims at helping the CEO to develop a quantifiable sense about operational cash flow. The analysis of credit risk can be determined by referring to the comparison of year current ratio and debt to equity ratio with the industry average. The lower current ratio and lower debt to equity ratio compared to industry average is more stable and the risk is lower. The credit risk faced by Skechers is when customers are failed to pay their debts. Skechers sells their products to the international market and there will be wholesale customers who are likely fail to pay debts or meet contractual payments. This adversely affect Skechers ability to collect receivables, thus the business and financial condition results will be materially be affected and experience losses.

Operation risk is the business risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events. This definition includes legal risk but excludes strategic and reputational risk. Financial institutions use four data elements includes internal loss data, external loss data, scenario analysis and business environmental and internal control factors to calculate and analyze operation risk. Operation risk plays a key role in developing overarching risk management programs that includes planning for business continuity and recovery of disasters, information security and compliance measures. The first step in developing operation risk management strategy is to make a plan that identifies, assesses, communicates and mitigates

the risk. In Skechers, the operational risk summarizes the uncertainties and hazards Skechers faces when it attempts to do its day-to-day business activities. Skechers face disruption in delivering the products to the market if they have logistic problem and this stops their goods to be delivered plus they might have to spend on expenses to cover the damage goods which had not sent to seller.

Liquidity risk is the risk of a business having insufficient funds and poor credit to meet its financial obligations in a timely manner. Short-term cash flow risk and long-term funding risk are the two key elements of liquidity risk. The long-term financing risk includes the risk that if the business needs funding, loans may not be available, or such funds will not be available for the required term or at acceptable cost. So, company should ensure that they remain solvent, and manage liquidity well so there will be less risk of being uncapable to meet any financial obligations in the daily business. Where a company has enough liquidity, there is also the likelihood of increasing profitability through lower interest cost or higher interest profit, together with greater financial flexibility to bargain better terms with suppliers and funders or engage in new business opportunities. Moreover, the development and establishment of a system for liquidity risks management is extremely important from the viewpoint of ensuring the soundness and acceptability of a financial institution's business, the establishment and implementation of a framework for liquidity risk management is extremely important. The liquidity risk faced by Skechers is their inability to respond to changing consumer preferences in the market. There is changing of consumer preferences and market trends undergoing periods of both rapid growth and sales decline. If Skechers fail to respond to the changes of consumer preferences and market trends with their development to achieve market acceptance, Skechers may experience excess inventories, order cancellations, returns, and becoming an inefficient market where it is hard to bring buyers and sellers together. This will affect Skechers to achieve its goals.

Market risk is defined as the risk of losses in the balance-sheet positions arising from movements in market prices. These movement such as changes in price levels in different markets, interest rates, foreign exchange rate, inflation, share and commodities prices brings the impact to company. Skechers results of operations are widely influenced by changes in interest rate and foreign exchange rate. Firstly, the interest rate charged on secured line of credit facility is based on the prime rate of interest, and changes in the prime rate of interest will leave effects on the

interest charged on outstanding balances. Meanwhile, foreign currency exchange rates affect currency foreign subsidiaries' revenues, expenses, assets and liabilities in general. The fluctuation of foreign currency might increase or decrease the value, hence poses problem like inventory commitments and local currencies of the contract manufacturers. This will likely increase the cost of goods sold in the future. Skechers manage these risks by primarily denominating these purchases and undertakings in USD and not engaging in hedging activities in relation to such market risks.

METHODOLOGY

3.1 Introduction

Data collection are essential in a company analysis and this part gives a proper methodology outline of the research and analysis on Skechers Company. This chapter will present research framework in the data collection. It also covers the sampling technique, statistical analysis, data analysis and statistical package for social science (SPSS).

3.2 Sampling/ Population Technique

The unit of analysis is the real entity that is being analysed in a study. For instance, individual, society, organisation and many more can be a unit of analysis. The organisation will be the unit of analysis. All sportswear companies in the United States are the population in this study and one of the company was picked among the entire industry will be the sample and Skechers are chosen as to be the sample in this study. Data are taken from the annual report to investigate the dependent variable (profitability) and the independent variables (market risk and operation risk) from year 2014 until 2018. The annual report also gives many benefits for the research, where finding its return on assets (ROA), operating margin (OM), standard deviation (SD) are important data to be discussed using SPSS software to measure Skechers' performance.

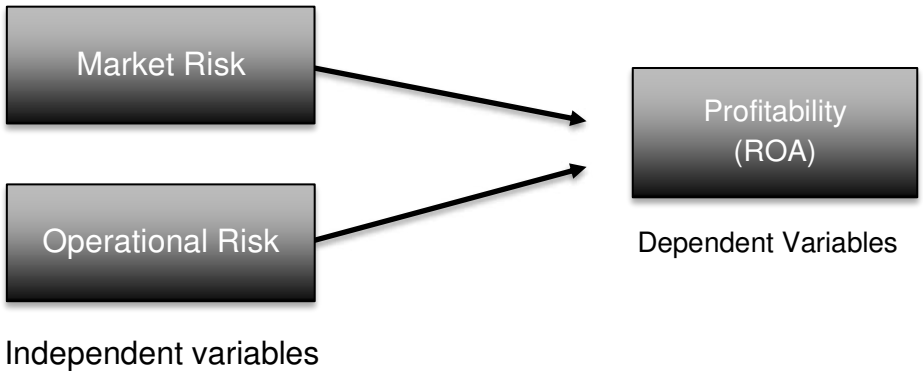
3.3 Statistical Analysis

There are numerous of collection methods that can be divided into primary and secondary data. In this study, the research conducted for Skechers Company to collect the primary data were through several scholar articles. These articles were written by various background of authors from different countries and were published as a reference for users to read and refer. The secondary data are collected from the annual reports for 5 years (from 2014 to 2018), the regulatory findings and investor presentations provide insights into both the individual company's performance and that of the industry at large.

3.4 Data Analysis

In conforming to conceptual framework of research in the future, there are dependent variable and independent variables in this study. This two dependent variable are market risk and

operational risk, that influences the dependent variable, profitability of Skechers Company. The research framework are shown below:



Multiple regression analysis was used to figure out the effect of dependent variables to independent and this eventually gives an outline of the independent variables towards dependent variable. This can be presented in the model equation as shown below:

$$ROA = \beta_0 + \beta_1 CR + \beta_2 QR + \beta_3 ACP + \beta_4 DTI + \beta_5 OR + \beta_6 OM + \beta_7 GCI + e$$ ..... Model 1

$$ROA = \beta_0 + \beta_1 EXCGR + \beta_2 INFLA + \beta_3 GDP + \beta_4 UR + \beta_5 BETA + e$$ ..... Model 2

$$ROA = \beta_0 + \beta_0 + \beta_1 ROE + \beta_2 DTE + \beta_3 DR + \beta_4 CR + \beta_5 SZ + \beta_6 INDXS + \beta_7 RMNRTN\ \beta_8 EXCGR + \beta_9 INFLA + \beta_{10} GDP + \beta_{11} UR + \beta_{12} BETA + e$$ ..... Model 3

No	Variables	Notation	Measurement
1	Return on Asset	ROA	Net income / Total assets
2	Current Ratio	CR	Current Asset / Current liabilities
3	Quick Ratio	QR	Current Asset/ Current liabilities
4	Average- Collection Period	ACP	Accounts Receivable/ Net Sales
5	Debt to income	DTI	Debt/Gross Income
6	Operating Ratio	OR	Operating Expenses/Net Sales
7	Operating Margin	OM	Operating Income/Net Sales
8	Corporate Governance Index	CGI	Corporate governance elements
9	Exchange Rate	EXCGR	5-years exchange rate
10	Inflation Rate	INFL	5-years inflation rate
11	Gross Domestic Product	GDP	5-years gross domestic product rate
12	Unemployment Rate	UR	5-years unemployment rate

13	Beta	BETA	5-years stock price

Table 3.1 Measure of variables

FINDINGS AND ANALYSIS

4.1 Descriptive Analysis

Table 4.1 Descriptive statistic of dependent variables and company's independent variables

Variables	Mean	Std. Deviation	N
ROA	.10449756400	.023084011158	5
CURRENT RATIO	2.92	.376	5
QUICKRATIO	1.70177700240	.188171207699	5
AVERAGE-COLLECTION PERIOD	40.16	3.816	5
DEBT TO INCOME	.209999954613247	.016328318578797	5
OPERATIONAL RATIO	.367381623585023	.017101622983538	5
OPERATING MARGIN	.094531217811342	.009687364910410	5
GDP	2.420	.5450	5
INFLATION	1.500	.8916	5
INTEREST RATE	2.0300	.43243	5
EXCHANGE RATE	.878960	.0540100	5
UNEMPLOYMENT RATE	4.940	.8792	5
STDV	.553314970088740	.141150123255177	5

The interpretation of finding from regression analysis depicts the analysis of market risk and operational risk towards profitability that will be testified in this section. This study are based on annual reports from 2014 until 2018 which consists of income statement, balance sheet and cash flow.

As can be seen in the table 4.1, it shows that the descriptive statistics of dependent (ROA) and independent variables. The return on asset is the internal variable in this study for Skechers Company. The mean calculated for return on asset is 10.45% within the five years and it can be assumed that return on asset for the company is good to make income in the company because the value is high. The standard deviation of return on asset is 2.30%. Based on that, the percentage of standard deviation is lower than the mean by 8.15%. Moreover, the operating margin is 9.45% and 0.969% respectively. In comparison, it can be concluded that the percentage mean of operating margin is lower than the return of assets (ROA). It means that the sales revenue left over after all expenses paid are lower than return on assets itself. This shows that Skechers company has operational risk to be considered. However, there are also external element contribute to market

risk that include GDP, inflation, interest rate, exchange rate and unemployment rate. The highest mean among all the external elements is the unemployment rate which is 4.94 with a standard deviation of 0.88.

4.1.1 Return on Asset

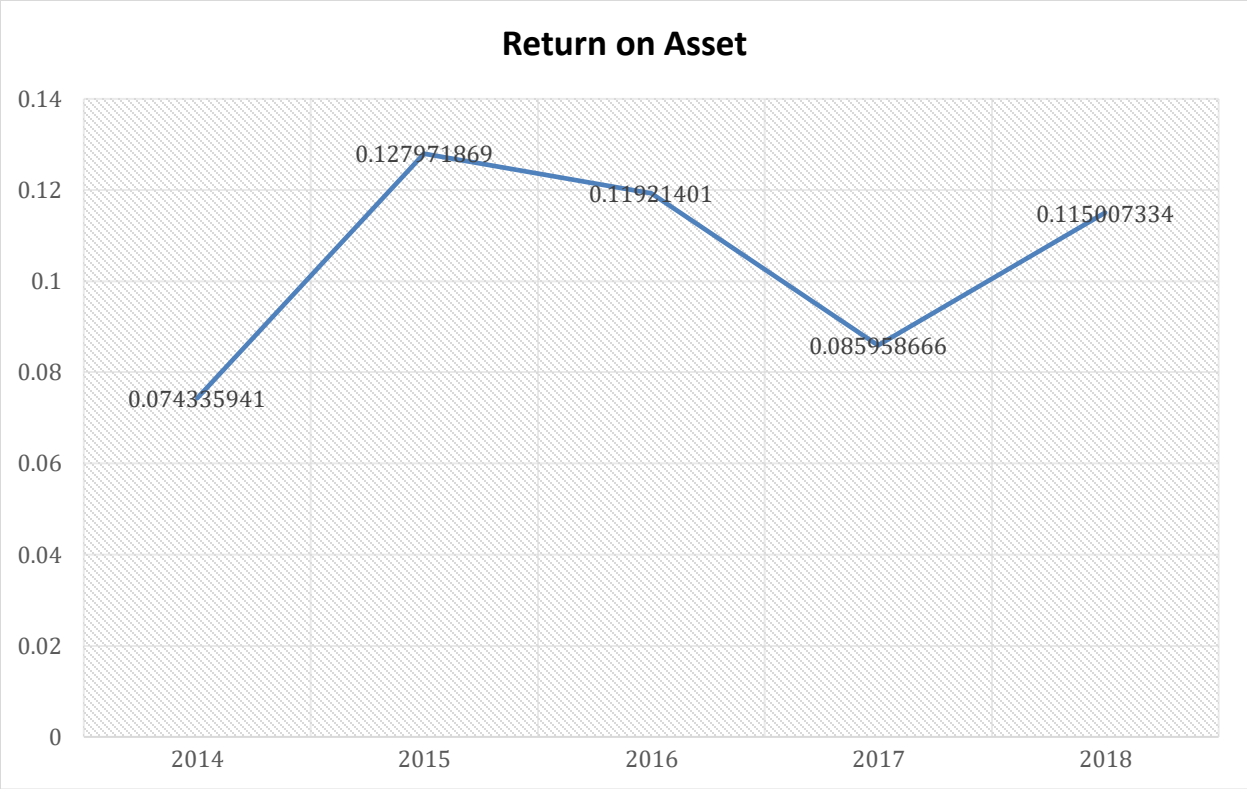


Figure 4.1.1 Skechers Return on Asset from year 2014- 2018

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. It gives analyst an idea of how efficient company's management is in using assets to generate earnings. The higher the return of assets, the more asset efficiency is the company. In the graph above, the ROA of Skechers in 2014 increased from 7.43% to 12.8% and it's performance are the best within the five years. This indicates Skechers are efficiently managing their assets to generate a good profit. However, in year 2016, it fluctuates to 11.9% and falls distinctly to 8.60% in year 2016. It then rises up to 11.5%, the third highest. Based on this trend, the biggest variation was a drop at 3.3%, in the year between 2016 and 2017. The ROA behaved affectedly from certain risk related that affects the company to fluctuate between that year.

4.1.2 Standard Deviation

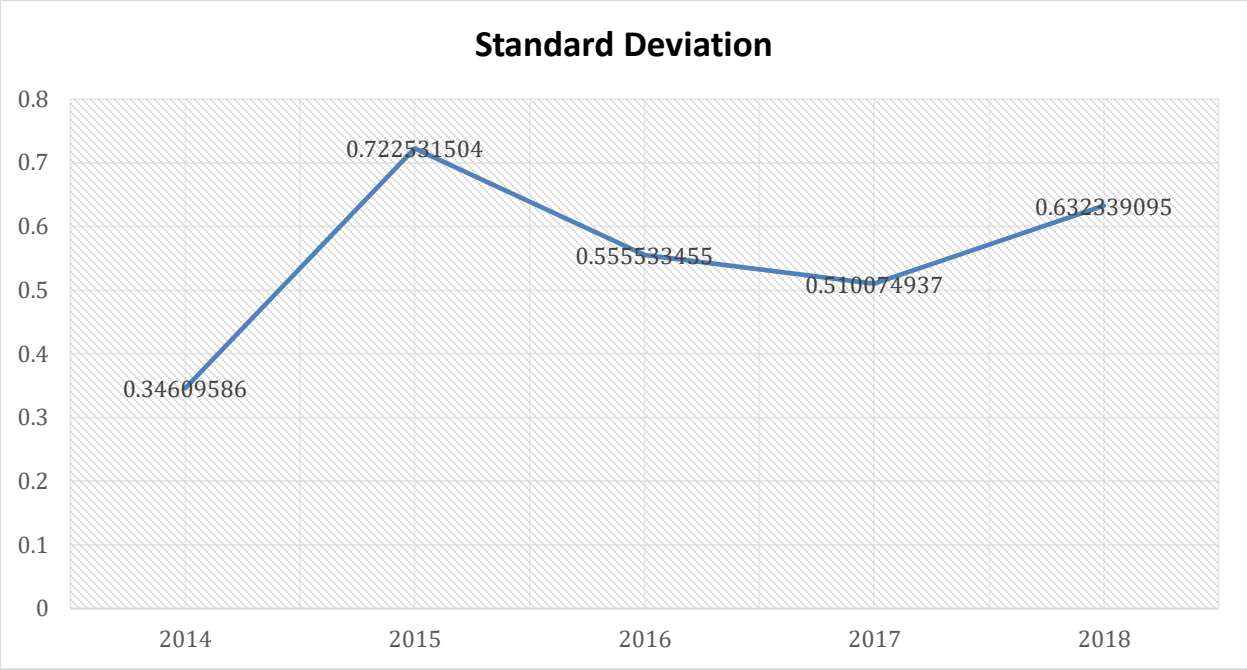


Figure 4.1.2 Skechers Standard Deviations from year 2014- 2018

Standard deviation is used as a metric for analysts to ingress the volatility and relative risk potential to a company. It is known as beta and simply to put, standard deviation helps to determine the spread of asset prices from average price. The more unpredictable the price action, the greater the risk poses to the company. In the graph above, Skechers had a big spread of standard deviation in the beginning two years, 0.35 in year 2014 and 0.722 in year 2015. The variation became smaller in year 2016, 2017 and 2018 indicating 0.55, 0.51 and 0.63 respectively. The least standard deviation in Skechers is 0.51, in the year of 2017 and it is less volatile compared to others.

4.1.3 Operating Margin

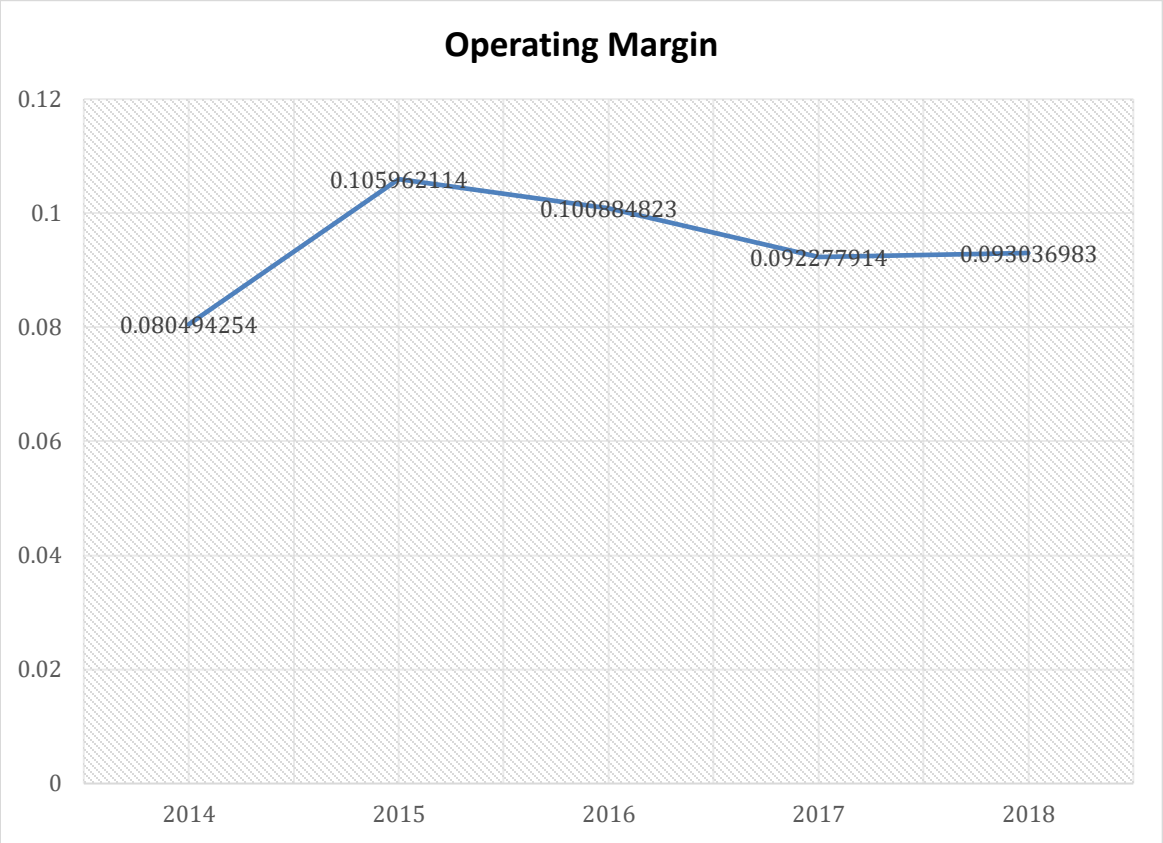


Figure 4.1.3 Skechers Operating Margin from year 2014- 2018

Operating margin computes profitability, it is the revenue left over after paying variable cost or operating expenses in a company. It is widely considered to be one of the most important accounting measurements of operational efficiency. The operating margin for Skechers gradually rise from 0.081 in year 2014 to 0.11 in year 2015. It then drops directly to 0.10 in year 2016 and 0.092 in the next year but rise to 0.093 in year 2018. The operating margin stated highest is 0.11, performs better than lower operating margins.

4.2 SPSS Data Analysis

4.2.1 Correlations

Variables (Constant)		ROA	CR	QR	ACP	DTI	OR	OM	CGI	STDV
Pearson Correlation	ROA	1.000	-0.149	-0.169	-0.197	-0.088	-0.382	0.907		0.912
	CR	-0.149	1.000	0.934	-0.600	-0.813	0.443	0.096		0.054
	QR	-0.169	0.934	1.000	-0.456	-0.597	0.711	-0.063		-0.005
	ACP	-0.197	-0.600	-0.456	1.000	0.890	0.201	-0.448		-0.075
	DTI	-0.088	-0.813	-0.597	0.890	1.000	0.133	-0.440		-0.159
	OR	-0.382	0.443	0.711	0.201	0.133	1.000	-0.545		-0.253
	OM	0.907	0.096	-0.063	-0.448	-0.440	-0.545	1.000		0.884
	CGI								1.000	
	STDV	0.912	0.054	-0.005	-0.075	-0.159	-0.253	-0.051		0.640
Sig. (1-tailed)	ROA		0.406	0.393	0.375	0.444	0.263	-0.619		1.000
	CR	0.406		0.010	0.142	0.047	0.228	0.852		0.015
	QR	0.393	0.010		0.220	0.144	0.089	0.844		0.466
	ACP	0.375	0.142	0.220		0.022	0.373	-0.324		0.497
	DTI	0.444	0.047	0.144	0.022		0.416	0.884		0.452
	OR	0.263	0.228	0.089	0.373	0.416		0.017	0.000	0.399
	OM	0.017	0.439	0.460	0.225	0.229	0.171	0.439	0.000	0.340
	CGI	0.000	0.000	0.000	0.000	0.000	0.000	0.460	0.000	0.023
	STDV	0.015	0.466	0.497	0.452	0.399	0.340	0.225	0.000	0.000
N	ROA	5	5	5	5	5	5	0.229	0.000	5
	CR	5	5	5	5	5	5	0.171	0.000	5
	QR	5	5	5	5	5	5		0.000	5
	ACP	5	5	5	5	5	5	0.000		5
	DTI	5	5	5	5	5	5	5	5	5
	OR	5	5	5	5	5	5	5	5	5
	OM	5	5	5	5	5	5	5	5	5
	CGI	5	5	5	5	5	5	5	5	5
	STDV	5	5	5	5	5	5	5	5	5

Table 4.2.1 Table of Correlations of Skechers

Correlations explains the movement and relationship between the dependent and independent variables. However, a correlation between the variables does not bring the means of the changing in one variable is able to affect the values of the other variables. (Australian Bureau of Statistics, 2013) In this study, the result from Pearson Correlation summarised that ROA is positively significant correlated to operating margin with a P-value (0.017) < 0.05. The graph of operating margin in graph 4.13 shows that all figures are positive throughout the five years. This implies that when the operating margin increases, any profitability will react in a rise. Velnampy and Nimalthasan (2007) pointed out that sales are positively associated with profitability ratios. Nugroho, Adi Samuel. 2014 states that total debt and total asset significantly and positively influence net profit margin (profitability). The high operating margin gauge the more revenue left after paying other cost and expenses are contributed to company's profitability. Apart from that, the operating margin are important for profitability study because most investors use indicators based on margins and returns from financial statements to assess the profitability, performance and attractiveness of a firm as an investment (Robinson, van Greuning, Henry, and Broihahn, 2012).

As a part of external factor, this study also conclude that ROA is positively significant corresponded to standard deviation with P-value (0.015) < 0.05. The standard deviation frequently used as a measure of volatility, a computation of market risk. Hence if the standard deviation are large, it is more volatile and riskier for a company and this greatly puts risk into profitability. Based on the standard deviation graph of 4.1.2, the standard deviation in 2015 is at the peak 7.22, and the return on assets are the highest 12.8% in the same year. It abridge that the high standard deviation is more volatile and thence riskier and the return is more. Abu & M. Khokan (2015) found that the risk had significant positive relationship with return. Syndey (2005) also indicated that there was a strongly statistically significant or positive conditional correlation between risk and return. The standard deviation plays a role for measuring volatility and profitability. However, according to Li, (2003) he found out an economic surrounding that an organization carries out its day to day activities, is highly volatile and unpredictable. Cornelia, E. T. (2012) also explained that price fluctuations or volatility increases and decreases in the day-to-day market. The standard deviation may varies from time to time and market risk are prone to the changes.

4.2.2 Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.907[a]	.823	.763	.011226761794	2.573
2	.912[a]	.832	.776	.010930109134	3.027
3	.912[a]	.832	.776	.010930109134	3.027

Table 4.2.2 Modal summary on Model 1,2, 3

The table shows the result of model summary. In model 1, the adjusted R_2 is 0.763, means the predictors which composed of operating margin explains only 76.3% completeness of the result. The Durbin- Watson value is 2.573, between 2.5 to 3.0. Meanwhile in model 2 and model 3, both the adjusted R_2 is 0.776, means the predictors which composed of standard deviation (STDV) are able to explain 77.6% total of the result. The Durbin- Watson value is 3.027, which indicated that it has a negative autocorrelation.

4.2.3 Anova

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	1	.002	14.842	.031[b]
	Residual	.000	3	.000		
	Total	.002	4			
2	Regression	.002	1	.002	14.842	.031[b]
	Residual	.000	3	.000		
	Total	.002	4			
3	Regression	.002	1	.002	14.842	.031[b]
	Residual	.000	3	.000		
	Total	.002	4			

Table 4.2.3 Anova on model 1, model 2, model 3

According to Model 1, Model 2, and Model 3 in the ANOVA table above, all the F- statistics shows 14.842 and the significant value shows 0.031 is lesser than the P-value of 0.05. So, it can sum up that the independent variables (operating margin) from internal factors and that the independent variables (standard deviation) from the external factors are both statistically significant to the dependent variable (ROA)

4.2.4 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	95.0% Confidence Interval for B	Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Upper Bound	Lower Bound	Tolerance	VIF
1	(Constant)	-.100	.055		-1.814	.167		.075		
	OPERATING MARGIN	2.161	.579	.907	3.730	.034	.317	4.005	1.000	1.000
2	(Constant)	.022	.022		1.000	.391	-.048	.092		
	STDV	.149	.039	.912	3.852	.031	.026	.272	1.000	1.000
3	(Constant)	.022	.022		1.000	.391	-.048	.092		
	STDV	.149	.039	.912	3.852	.031	.026	.272	1.000	1.000

Table 4.2.4 Coefficients for Model 1, Model 2, Model 3

The coefficient result shows that operating margin has significant value of 0.034. Due to its P-value below 0.05, it is positively significant to the return on assets (ROA) and it influences Skechers profitability. When the operating margin increase, the company's profitability will consequently increase. Moreover, the result also illustrates standard deviation has significance value of 0.031 < than P-value (0.05). This wraps up standard deviation is below 0.05, so it is statistically significant to the return on assets (ROA). It affects the profitability of the company hence, the higher the standard deviation, the more the return (profit) will receive.

CONCLUSION

During the successive year in 2014- 2018, the overall performance in Skechers was acceptable and appreciative in the measurement of market and operation condition within the 5 years. The revenue left over after all expenses paid for the company evince the profitability of Skechers is sustainable upon how they manage their finances and considering the operation risk possess on its profit. The operating margin was it's highest at 2015 with 10.60% and the profitability was highest despite all other years. On top of that, having same amount of profit may vary in terms of profitability. The standard deviation gives a meticulous measurement for Skechers' profit in terms of return in its daily activities. The market risk that might associated with the profitability included investment risk, whether it's a bad investment or other factors. R. S. Kulshrestha rightly stated, "Profit in two separate business concern may be identical, yet, many a times, it usually happens that their profitability varies when measured in terms of size of investment".

5.1 Recommendations for Improvement

Every company should have strong emphasis on effective corporate governance to drive profitability. Drobetz et al (2003) document is an evidence that good corporate governance practices lead to higher firm valuation. An effective corporate governance certainly ensures long term profitability when organization are governed and controlled according to the corporate governance codes. The codes define the relationship between company management, their boards and their shareholders as well as require that management and directors who carry out their duties within a framework of accountability and transparency (Adeola, 2003). Accountability worked as a pillar of corporate governance and it ensures that management is always accountable to the board and the boards are accountable to the shareholders. Any decisions that made in a company and actions to be taken on behalf of the organization must be accountable hence fore decision are made wisely to help contribute to the profitability of the company. A good transparency of the company will ensure an accurate disclosure on financial situation, performance, ownership, and its corporate governance. All financial situation e.g financial reports are very crucial in decision making and to predict what is benefit for the company to earn profit. Therefore, the accurate disclosure matters a lot for the company to drive profitability. Many studies use accounting measures to predict bankruptcy (Altman, 1968; Takahashi et al., 1984) or financial distress (Hoshi et al., 1991)

Moreover, the lack of good corporate governance is a major cause of many well-performing companies ' failure. A nation's economic well-being reflects the performance of its businesses.

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APPENDIX

MODEL 1

Excluded Variables[a]

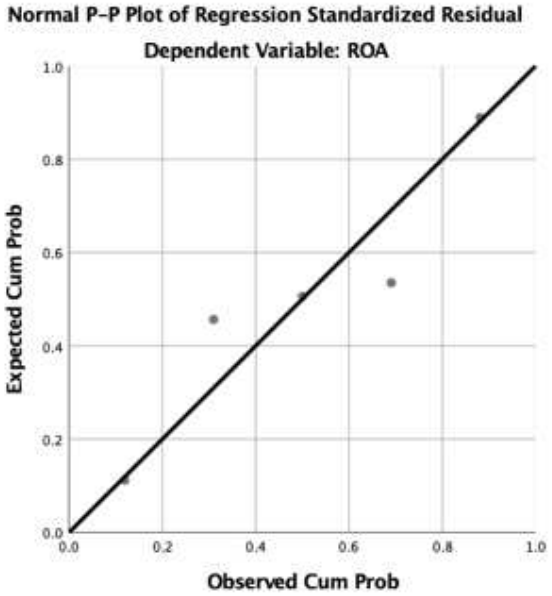
Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics Tolerance	VIF
1	CURRENT RATIO	-.238[b]	-.961	.438	-.562	.991	1.009
	QUICKRATIO	-.112[b]	-.390	.734	-.266	.996	1.004
	AVERAGE-COLLECTION PERIOD	.261[b]	.941	.446	.554	.800	1.251
	DEBT TO INCOME	.385[b]	2.033	.179	.821	.807	1.240
	OPERATIONAL RATIO	.160[b]	.475	.682	.318	.703	1.423

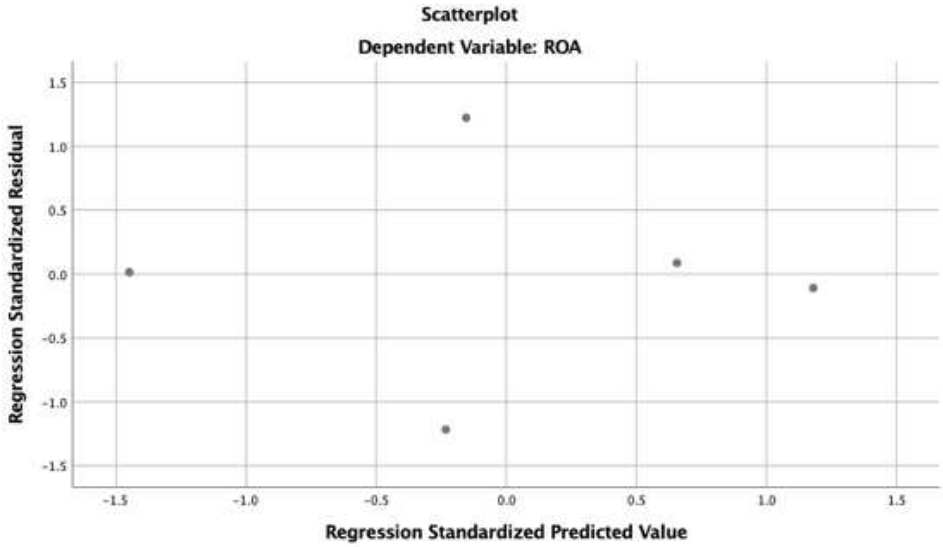
Excluded Variables[a]

Model		Collinearity Statistics Minimum Tolerance
1	CURRENT RATIO	.991
	QUICKRATIO	.996
	AVERAGE-COLLECTION PERIOD	.800
	DEBT TO INCOME	.807
	OPERATIONAL RATIO	.703

a. Dependent Variable: ROA

b. Predictors in the Model: (Constant), OPERATING MARGIN





MODEL 2

Excluded Variables[a]

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics: Tolerance	Collinearity Statistics: VIF	Collinearity Statistics: Minimum Tolerance
1	GDP	-.240[b]	-.924	.453	-.547	.872	1.147	.872
	Inflation	-.129[b]	-.421	.715	-.285	.821	1.218	.821
	Interest Rate	.344[b]	.780	.517	.483	.332	3.011	.332
	Exchange Rate	.502[b]	3.924	.059	.941	.590	1.695	.590
	Unemployment Rate	.128[b]	.392	.733	.267	.728	1.374	.728

a.Dependent Variable: ROA

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

Collinearity Diagnostics[a]

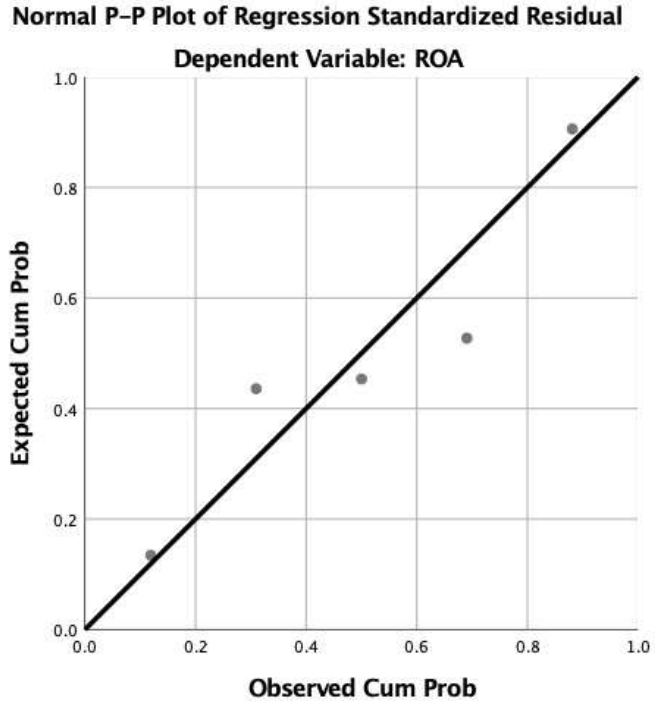
Model	Dimension	Eigenvalue	Condition Index	Variance Proportions (Constant)	Variance Proportions STDV
1	1	1.975	1.000	.01	.01
	2	.025	8.878	.99	.99

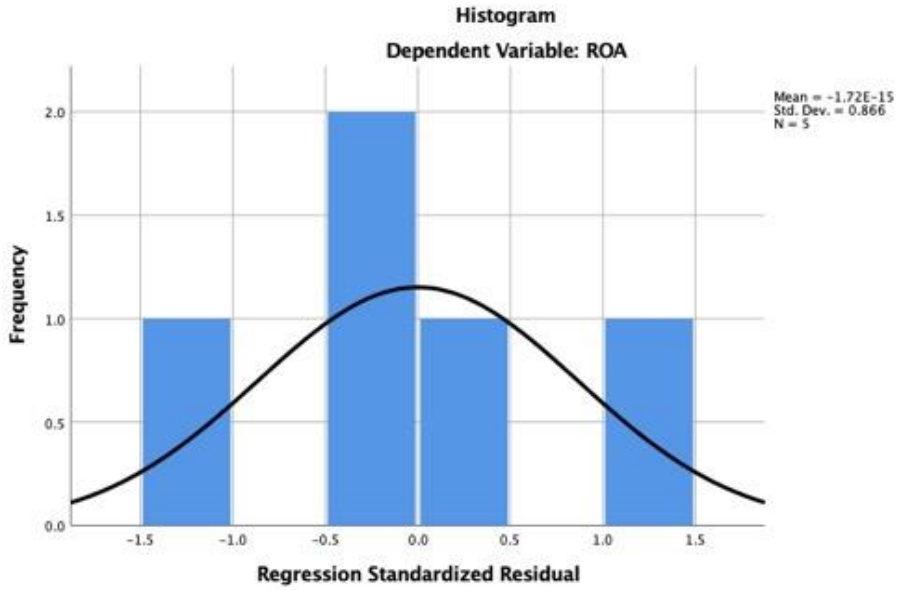
a. Dependent Variable: ROA

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.07358868420	.12973795831	.10449756400	.021054004533	5
Residual	-.012089198455	.014385536313	.000000000000	.009465752177	5
Std. Predicted Value	-1.468	1.199	.000	1.000	5
Std. Residual	-1.106	1.316	.000	.866	5

a. Dependent Variable: ROA





MODEL 3

Excluded Variables[a]

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics	
						Tolerance	VIF
1	CURRENT RATIO	-.198[b]	-.780	.517	-.483	.997	1.003
	QUICKRATIO	-.164[b]	-.618	.599	-.401	1.000	1.000
	AVERAGE-COLLECTION PERIOD	-.130[b]	-.470	.684	-.316	.994	1.006
	DEBT TO INCOME	.058[b]	.201	.859	.141	.975	1.026
	OPERATIONAL RATIO	-.161[b]	-.582	.620	-.380	.936	1.069
	OPERATING MARGIN	.461[b]	.872	.475	.525	.218	4.586
	GDP	-.240[b]	-.924	.453	-.547	.872	1.147
	Inflation	-.129[b]	-.421	.715	-.285	.821	1.218
	InterestRate	.344[b]	.780	.517	.483	.332	3.011
	ExchangeRate	.502[b]	3.924	.059	.941	.590	1.695
	UnemploymentRate	.128[b]	.392	.733	.267	.728	1.374

Excluded Variables[a]

Model		Collinearity Statistics
		Minimum Tolerance
1	CURRENT RATIO	.997
	QUICKRATIO	1.000
	AVERAGE-COLLECTION PERIOD	.994
	DEBT TO INCOME	.975
	OPERATIONAL RATIO	.936
	OPERATING MARGIN	.218
	GDP	.872
	Inflation	.821

	InterestRate	.332
	ExchangeRate	.590
	UnemploymentRate	.728

a. Dependent Variable: ROA

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

Collinearity Diagnostics[a]

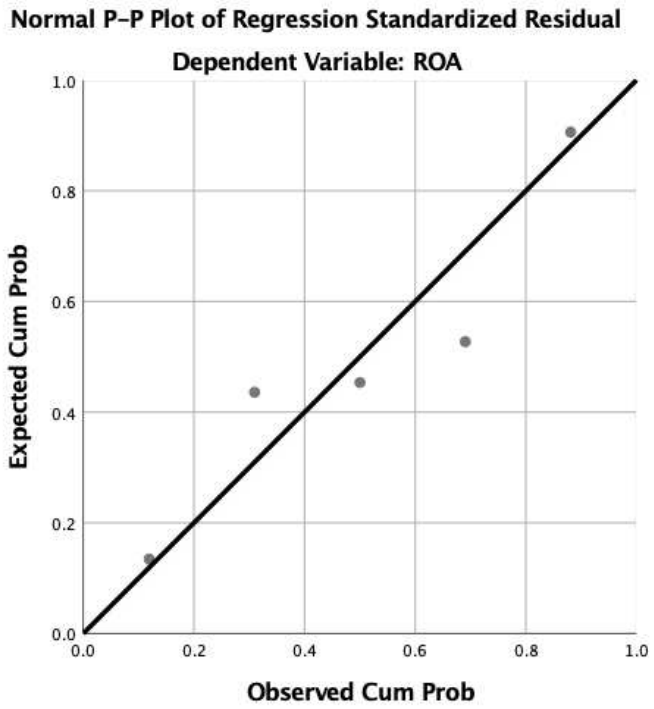
Model	Dimension	Eigenvalue	Condition Index	Variance Proportions (Constant)	Variance Proportions STDV
1	1	1.975	1.000	.01	.01
	2	.025	8.878	.99	.99

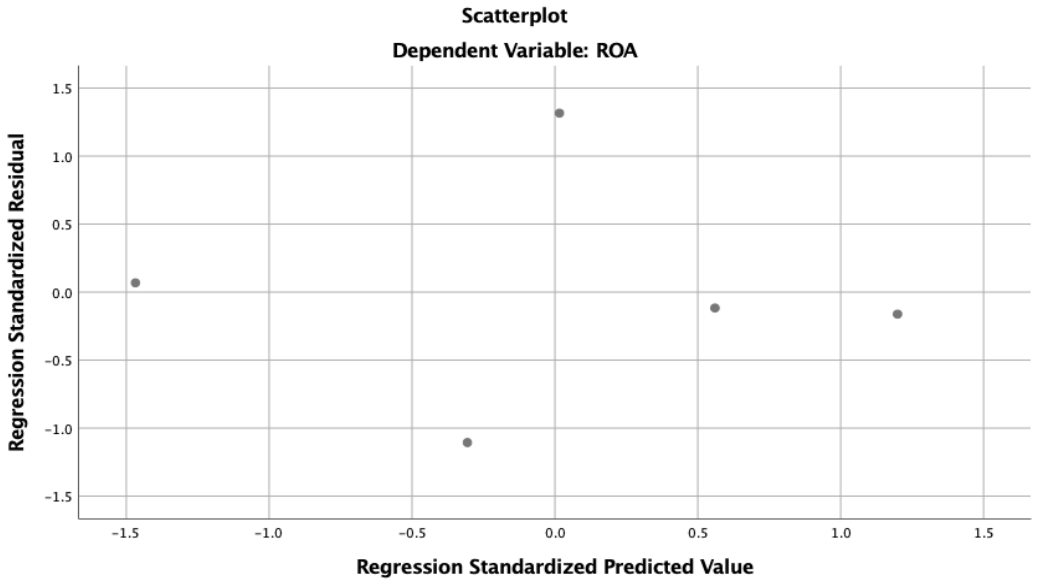
a. Dependent Variable: ROA

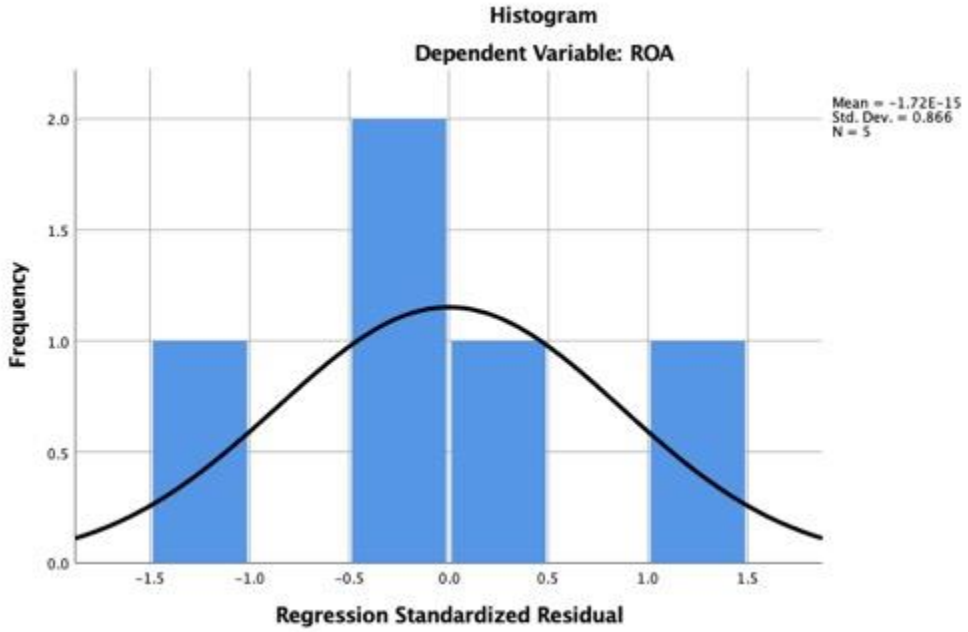
Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.07358868420	.12973795831	.10449756400	.021054004533	5
Residual	-.012089198455	.014385536313	.000000000000	.009465752177	5
Std. Predicted Value	-1.468	1.199	.000	1.000	5
Std. Residual	-1.106	1.316	.000	.866	5

a. Dependent Variable: ROA


Normal P-P Plot of Regression Standardized Residual
Dependent Variable: ROA
Expected Cum Prob
Observed Cum Prob
0.0
0.2
0.4
0.6
0.8
1.0


Scatterplot
Dependent Variable: ROA
Regression Standardized Residual
Regression Standardized Predicted Value
-1.5
-1.0
-0.5
0.0
0.5
1.0
1.5


Histogram
Dependent Variable: ROA
Mean = -1.72E-15
Std. Dev. = 0.866
N = 5
Frequency
Regression Standardized Residual
0.0
0.5
1.0
1.5
2.0
-1.5
-1.0
-0.5
0.0
0.5
1.0
1.5