Liquidity Risk Affect The Internal And External Factors

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"LIQUIDITY RISK AFFECT THE INTERNAL AND EXTERNAL FACTORS"

(ESTEE LAUDER INC.)

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ABSTRACT

Aim towards this study is to analyzed does liquidity risk effect the internal and external factor in Estee Lauder Company. The internal factor consists a liquidity risk, credit risk, market risk and operational risk. While, the external factor consists a Gross Domestic Product (GDP), inflation, interest rate, exchange rate, standard deviation and index score. The data obtained from annual report Estee Lauder Company for five years starting from 2012 until 2016. The both factors used to see the overall performance in five year and macroeconomic factor also required to know that influence the company performance. Data was analyzed by utilizing descriptive statistic, correlation, coefficient, ANOVA, and model of summary. The data calculated is on average. This study suggests the company need to apply efficiency 5 principle of corporate governance, which is transparency, accountability, fairness, sustainability and independence.

Keywords: *Liquidity Risk, Credit Risk, Corporate Governance.*

1.0 INTRODUCTION

1.1 Introduction

Estee Lauder Company background, history and company timeline is the beginning overview of this chapter. It is followed by the company timeline, research objective and research question, and problem statement.

1.2 Estee Lauder Companies History and Background

The Estee Lauder Companies is one of the world's in create, construct, synthesize and wholesaler of elements skin care, cosmetics, aroma or fragrance and, as of late, hair treatment items , located at Midtown Manhattan, New York City. The Company's items are sold in more than 150 nations and regions under well-perceived brand names, including Estee Lauder, Aramis, Clinique, Prescriptive, Origins, MAC, La Mer, Bobbi Brown, Tommy Hilfiger, jane, Donna Karan, Aveda, Stila, Jo Malone, Lab Series, Origins, Darphin, Tom Ford Beauty, Smash Box, Aerin , Le Labo, Glam Glow, Killian , Becca, Too Faced, Edition De Parfums Frederic Malle and Bumble and blunder . Its healthy skin items include lotions, serums, cleansers, toners, body care, exfoliators, skin break out (acne) and oil correctors, facial veils or facial masks, cleansing product and sun care items. The company likewise are the worldwide licensee for aromas and additionally beautifying agents (cosmetic experts) sold under different designer brand names. The company owns an assorted arrangement of brands, conveyed universally through both advanced trade (digital commerce) and retail channels.

1.3 Company Chronology

The Estee Lauder company was established in 1946 by Mrs. Estee Lauder and her husband, Joseph Lauder. Although the chief brand started with Estee Lauder the company advanced to significantly.

- The four items were propelled by Estee Lauder: Super Rich All Purpose Creme, Creme Pack, Cleansing Oil, and Skin Lotion.
- Followed by dispatch was Aramis, a high glory line scent and prepping items for men, in 1964.
- The main hypersensitivity tried is Clinique, dermatologist-guided, scent free beautifying agents' brand, 1968.
- Prescriptive, a shading authority with a propelled assortment of profoundly personally items, established in 1979.

•Healthy skin in a line of origins natural resources, cosmetics, shower/body and Sensory Therapy items that utilization age-old cures from nature, was presented in 1990.

- Two significant cosmetics craftsman brands were obtained in the company (1990s): Bobbi Brown and MAC. The firm procured a greater part value enthusiasm in 1994 for MAC, finishing to obtaining in 1998. In 1995 Bobbi Brown was obtained.
- Sassaby was invented in 1997, Inc., proprietor by shading beautifying agents Aveda Organization and Jane item of brands, an innovator in the United States fame hair care industry.
- The firm (1999) at that point created Stila Cosmetics, Inc., a Los Angeles based esteemed beauty care products organization, and Jo Malone, the London-based advertiser of renown healthy skin and aroma items.

•The firm (2000) obtained a greater part value interest for New York-based Bumble and blunder, a chief hair salon, and Bumble and bumble items, a developer, wholesale (marketer) and wholesaler of value hair care items.

• The Estee Lauder Companies is also the worldwide licensee for scents and beautifying agents for the Tommy Hilfiger, Donna Karan New York, DKNY and Kate Spade brands.

1.4 Problem Statement

The lack in company's capability in measuring liquidity to meet short-term obligations by the most liquid assets and to know if the company is able or unable to pay its responsibility towards companies through the credit performances. Thus, it indicates that the companies could pay off its current liabilities without selling any long-term assets. Estee Lauder Inc must conduct efficient risk in liquidity to avoid from the insolvency happen. This happened because of other financial risk in particular credit risk and operation risk effect the liquidity risk for an increment.

1.5 Research Objective

In general, the aims towards this study is to determine the company determinants and liquidity risk towards the firm in Cosmetic Industries in Unites States. The objectives in this study specifically are:

I. To determine internal factors towards liquidity risk.

II. To determine external factor towards liquidity risk.

III. To determine between both factor internal and external towards liquidity risk.

1.6 Research Question

I. What determine internal factors towards liquidity risk?

II. What determine external factor towards liquidity risk?

III. What determine between both factor internal and external towards liquidity risk?

1.7 Scope

The pattern in this study comprise Estee Lauder Inc. The calculation in accounting and the financial ratios of company was based on annual report for five years from 2014 until 2018.

1.8 Organization of The Study

In this section study consists five main point from chapter one until chapter five. For chapter one in comprise the background of the company. For instance, problem statement, research question, research objectives, scope of study and organization of study. Chapter two imply the literature review about Corporate Governance includes four common risk such as liquidity risk, market risk, operational risk and credit risk. Then, chapter three detail about methodology research and framework in used dependent and independent variables. In this chapter need to describe about sampling technique, statistical analysis and etc. For the chapter four is about the findings and analysis which include five important components to review using SPSS data, Descriptive Statistic, Correlation, Coefficient ,ANOVA, and Model Summary and it trend analysis data. For the last chapter which is chapter five it consist the conclusion and recommendation where in this chapter we can summarize all of findings in chapter four that related the research question or research problem.

2.0 LITERATURE REVIEW

2.1 Introduction

There have a few different opinions and terms used from variety of authors about the definition, the important of corporate governance in ways they express about the risk such as credit risk, operation risk, liquidity risks and market risk and also performance on how each risk is related to company performance and its corporate governance.

2.2 Corporate Governance

The firm or corporate governance is implied where the companies are driven, controlled and regulated. The sector in corporate governance also addresses a relation among various inner and outer partners of stakeholders just as the procedures of corporate governance that are intended to assist the companies with achieving their goals. The focal point of intrigue is such systems and arrangements that are intended to diminish or dispose of the issue of irreconcilable situation which conflict of interest. (Anderson, 2010)

Corporate governance makes firm increasingly transparent and accountable to speculators or investor and gives them the devices to react to authentic partner concerns, for example, sustainable environmental and social advancement. It adds to advancement and expanded access to capital empowers new ventures or investment, supports financial development, and give employment opportunities. (Tsoi, 2017)

Board of Director in Estee Lauder Inc. has created corporate governance practices to assist by satisfying a duty towards investors such as stockholders by giving generic direction and overview of the managerial process. These practices are gone ahead in our Corporate Governance Guidelines. They likewise have a Code of Conduct ("Code") relevant to whole workers, include the executive and officials in the company, particularly the Chief Financial Officer, Chief Executive Officers and the other financial senior officers.

2.3 Corporate Governance Performances

Stakeholder theory indicates the core friction is that great execution of company relies upon the commitments of a wide range of gatherings or different parties. These stakeholders – investors (shareholder) just as different gatherings or other parties - all have a stake in the company and can choose how to organize their stakes dependent on the data they have about the companies. It is the duty of the management to adjust every one of these interests. Simultaneously the stakeholders will attempt to impact the board to meet their inclinations, objectives and desires. (Netherlands, 2016)

Good governance improves corporate execution, as it produces six governance factors with a scholastically demonstrated positive effect on execution. These recognized 'great' governance factors are board autonomy, board assorted variety, compensation, attributes of the CEO, oversight and possession structure. Indisputable proof is discovered that every one of these factors can improve corporate execution, however there is nobody size fits all way to deal with applying them by and by. (Netherlands, 2016)

For the company performances we ascertain depend on Return on Asset which it is a indicator of how well an organization uses its advantages, by deciding how gainful an organization is comparative with its absolute resources. Higher ROA shows more resource productivity. For the Estee Lauder Company ROA appear changed which it increment from 2014 and start decline in 2015, 2016, 2017 and ascended at 2018 .The Company reported fiscal year 2018 weakened net profit for every basic portion of $2.95 contrasted and $3.35 revealed in the earlier year. Barring rebuilding and different charges and changes, balanced weakened net income per regular offer expanded 30% to $4.51, and in consistent cash rose 24%. For the three months ended June 30, 2018, the Company announced net offers of $3.30 billion, a 14% expansion contrasted and $2.89 billion in the earlier year time frame. The Company posted net sales growth in most brands and no matter how you look at it gains in every single geographic district and item classes. Net sales expanded in a few created and developing markets, reflecting particularly strong growth from the movement retail, on the web and strength multi channels. Barring the effect of money interpretation, net sales expanded 12.

2.4 Credit Risk

Credit risk or default risk includes inability or reluctance of a client or counterparty to meet responsibilities in connection to loaning, exchanging, hedging, settlement and other monetary exchanges. (Erika Spuchlakova, 2015)

Credit chance management is to decrease income misfortunes. Observing your credit risk permits your official supervisory group or executive management team to comprehend which potential customers may come at too high a risk or more your pre-recognized risk resilience. Effective credit risk the manage your business can incredibly improve in general execution and secure a competitive advantage. (MarisIT, 2019)

2.5 Market Risk

Market risk emerges by temperance of our income statement or balance sheet changing in an incentive because of changes in the values of traded securities, these normally, for example, values, foreign currency, interest rate(s), products, credit spreads, and changes in volatilities on the above instruments or related connections. (Maré, 2015)

Market risk alludes to the risk that an investment may look because of variances in the market. The significant segments of market chance include interest rate risk, foreign exchange, commodity, equity risk.

•Equity risk

- It's the potential misfortune because of an unfavorable change in the stock cost

•Foreign exchange risk

- It's the potential misfortune because of progress in estimation of the bank's assets or liabilities result about because of conversion scale changes.

•Commodity hazard

- It's the potential misfortune because of an unfriendly change in item costs.

•Interest rate risk

- It's the potential misfortune because of interest rate fees

Market risk is estimated by different strategies, for example, value at risk (VAR) and affectability analysis. Value at risk is the maximum loss not surpassed with a given probability over a given time frame. Affectability analysis on how different values of an independent value will affect a specific dependent variable. (Perez, 2014)

To measure market risk, commonly we use price change and other macroeconomic pointers. We use price change every one of the years start from 2014 until 2018 and it show the standard deviation and the mean. As the outcome, the price changes of the year ascended every one of the years which bring diverse worth and it increment until 2018.

2.6 Liquidity Risk

Liquidity risk or called indebtedness, happens when a firm is totally unequipped for paying the cash it owes and should document some type of bankruptcy, offer its working advantages for make the installments it owes, or essentially leave business. (Taillard, 2012)

The significant of Liquidity risk is to survey its capacity to meet its income or cash flow and security needs (under both typical and focused on conditions) without negatively affecting everyday tasks or its general financial position. In addition, mitigate that risk by creating systems and taking suitable activities intended to guarantee that vital assets and collateral are accessible when required. (Hronec, 2019)

2.7 Operational Risk

Based on research operational risk is the chance or risk of loss because of insufficient or failed inner procedures, people and structure plan or another possibility or external events. They incorporate extortion or fraud, security failure, lawful breaks, physical (e.g. infrastructure failure) or environmental risks. (Neary, 2014)

Categorizing "operational" risks makes a difference. It understands the potential mischief and aides making the model structure and analytical framework important to help tending to the risks and – significantly organize the executives time. Operational risk is a broad discipline. Key risk alleviation incorporates good governance and high moral principles, viable detailing, strategic planning and quality management techniques. (Amy Johnson Way, 2019)

For Estee Lauder company operational risk, we use two methods which is operating ratio and operating margins. Operating income to net sales is the operating margin to ratio, while percentage of revenue in a company’s operating expenses is the operating ratio of the company.

3.0 METHODOLOGY

3.1 Introduction

Methodology or philosophy comprise in precise, systematic, hypothetical investigation towards strategies applied to a field of study. It consists the hypothetical analysis of the group of techniques and standards related with a part of information. Regularly, it includes ideas, for instances, worldview, hypothetical model, stages and quantitative or subjective (qualitative) systems.

3.2 Population/ Sampling Technique

The form of analysis is based on the actual element that is being scrutinize in a study. Individual, groups, organization or an artifact can be an entity of analysis. In this sector, the firm will be the unit of analysis of the study. Basically, all companies of the cosmetics industry located in United States which indicate as the sample of population in this study. To conduct the study, only one company will be chosen from this population as a sample, for example, Estee Lauder Companies in New York, United States. In order to compute in detail. The analysis of data from the five years annual report are taken to measure the internal and external which is dependent variable (liquidity risk of Quick Ratio) and the independent variables (internal and external factors) starting from year 2014 to 2018.

3.3 Statistical Analysis

Based on this assignment I used two approach to indicate my data to analyze my research about Estee Lauder Company. The methods used is quantitative and qualitative which basically indicate as internal and external factors about the company. The quantitative methods are to measure, categorizing, identifying and generalizing for data which I use to predict the data for 5 years of measurement in the company annual report. Moreover, by collecting and analyses data I used IBM Statistical Package for the Social Sciences SSPS version 25. The sample is studied in term of Estee Lauder company performances from the annual reports from the year 2014 to 2018. Furthermore, the second methods is qualitative methods which I used to interpret my analysis in the form of describing the company profile ,background and history and for non-financial performance, the disclosure of information about board of director comprise of origin, adequacy, fairness, committee of audit, committee of remuneration, the size of board, meeting conduct by the board , finding index score trough the experience. To regulate the external factors, I attain the data of GDP, unemployment rate, inflation rate and exchange rate starting from year 2014 to 2018 to make assumption trough the current trend of the economic condition.

3.4 VARIABLES

3.4.1 Independent Variables

An independent variable is a variable that shows a quantity that is being manipulated in the studies. (khan) . Independent variables that been used in this study is external and internal factors which will imply into the research to be significant towards the dependent variables.

3.4.2 Dependent Variables

In this study a dependent variable indicates that a value of quantity depends on how the independent variable is utilize. (khan) For dependent variables I used a liquidity in term of Quick Ratio to see the performances of the firm imply with the independent variables .

3.5 Framework

Act in accordance with the conceptual framework of research in the future, there are comprise of one dependent variable and three independent variables in this study. The research framework is as shown below:

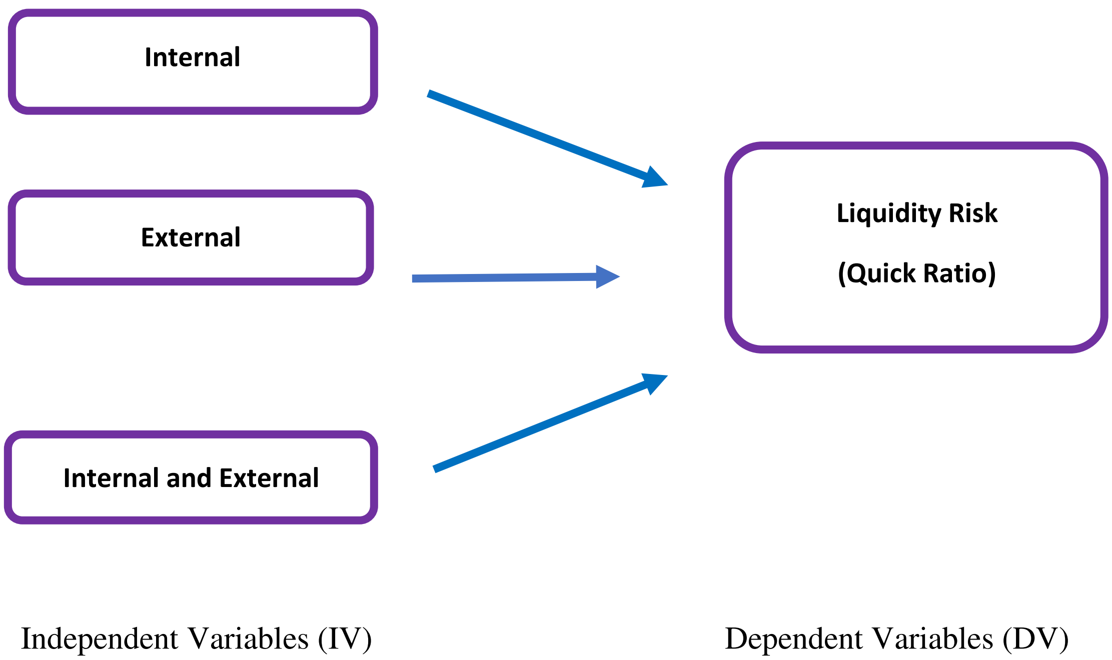


Figure 3.5 Research Framework

3.6 Model

In this study multiple regression analysis is used to regulate the effect of independent variables on the dependent variable. The indications of the affection of independent variables towards dependent variable is manipulated by regression technique. The multiple different variables regression can be shown in the equation below:

ROA = λ0 + λ1ROE + λ2DTE + λ3DR + λ4CR + λ5SZ + λ6INDXS +

λ7RMNRTN + e.............................. Equation 1

ROA = λ0 + λ1EXCGR + λ2INFLA + λ3GDP + λ4UR + λ5BETA +

e.. Equation 2

ROA = λ0 + λ0 + λ1ROE + λ2DTE + λ3DR + λ4CR + λ5SZ + λ6INDXS +

λ7RMNRTN λ8EXCGR + λ9INFLA + λ10GDP + λ11UR + λ12BETA

+ e... Equation 3

TABLE 3.6 MEASUREMENT OF VARIABLES

NO	VARIABLES	NOTATION	MEASUREMENT
1	Operational Ratio	OR	Operating expense/ Net sales
2	Operating Margin	OM	EBIT/Revenue
3	Current Ratio	CR	Current Asset/Current Liability
4	Quick Ratio	QR	(Current assets-inventory-prepaid expenses) /Current liabilities
5	Return On Asset	ROA	Net income/Total assets
6	Index Score	INDXS	Corporate governance elements
7	Exchange Rate	EXCGR	5-years exchange rate
8	Inflation	INFLA	5-years exchange rate
9	Standard Deviation	STDV	5-years standard deviation
10	Average Collection Period	ACP	5-years average collection period
11	Gross Domestic Product	GDP	5-years gross domestic product
12	Interest Rate	IR	5-years interest rate

4.0 FINDINGS AND ANALYSIS

4.0 Introduction

In this chapter will introduce the decode of finding from regression analysis and the impact of study investigation determinants liquidity risk towards credit and operational risk for Estee Lauder Company. This research required financial statement starting from 2014 until 2018 which includes off cash flow, income statement and balance sheet.

4.1 Descriptive Statistics

Descriptive Statistics

	Mean	Std. Deviation	N
QUICK RATIO	1.077520	.2456109	5
AVERAGE-COLLECTION PERIOD	41.261913523893540	2.613967669890535	5
DEBT TO INCOME	1.217942235352603	1.769088898529066	5
OPERATIONAL RATIO	.649837498272650	.010706457287697	5
OPERATING MARGIN	.453651694503439	.682201152228232	5
GDP	2.420	.5450	5
INFLATION	1.500	.8916	5

INTEREST RATE	2.0300	.43243	5
EXCHANGE RATE	.878960	.0540100	5
STDV	1.05482499560	.535498565923	5
INDXS	.800	.1414	5
ROA	.118600	.0261337	5

Table 4.2

Refer to the table 4.2 above, it shows that the descriptive statistics of dependent Quick Ratio (QR) and independent variable. The quick ratio implies as company's short-term liquidity position and measures a company's ability to meet its short-term obligations with its most liquid assets and to know if the company is able or unable to pay its responsibility towards companies. The Quick Ratio mean for five years starting with 2014 until 2018 is 1.08 and it indicates that the companies could pay off its current liabilities without selling any long-term assets. While, the standard deviation for Quick Ratio is 0.25 which is less volatile and predictable. Moreover, mean for ROA in five year start from 2014 until 2018 is 11.86 % it shows that the return on asset for the company is better to generate profit in the company. Standard deviation of return on asset is 2.61% and it concluded that within five years the income generate is less fluctuated because the mean is increase more than standard deviation.

Furthermore, Operating Margin for five years is 45.3%. Which show that company profit after paying other variables cost of production such as raw materials, billable staff wages, piece rate labor, production supplies and etc. Next is operational which shows how efficient a company's management is at keeping costs low while generating revenue or sales. Table above show that operational ratio is 0.6498 or 64.98%. The operating ratio for Estee Lauder Companies means that

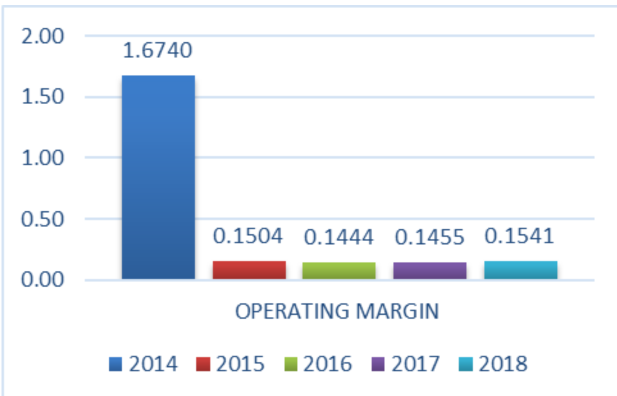
64.98% of the company's net sales are operating expenses. Average collection period is 41.2 days or 41 days for five years starting from 2014 till 2018. Debt to Income within five years for Estee Lauder Companies is 1.22.

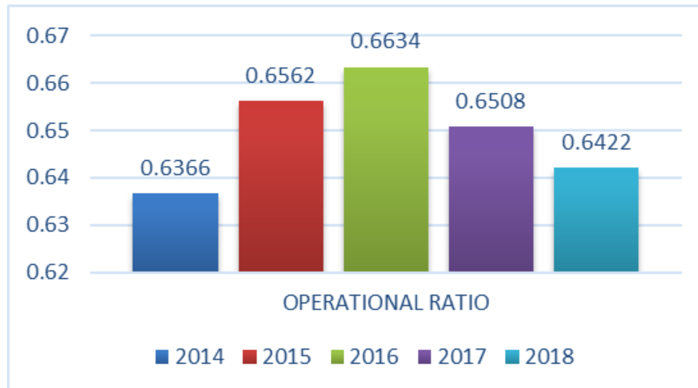
Percentage of mean of inflation rate is 1.500 while its standard deviation is 0.8916. The mean for gross domestic product (GDP) is 2.420 and the standard deviation is 0.5450. Finally, for the interest rate the average mean is 2.0300 and its standard deviation is 0.04324. In generally, it can be shows that overall of these external variables that have being used in the analysis have small differences distances between the mean and volatility.

4.2 TREND ANALYSIS

4.2.1 INTERNAL FACTOR

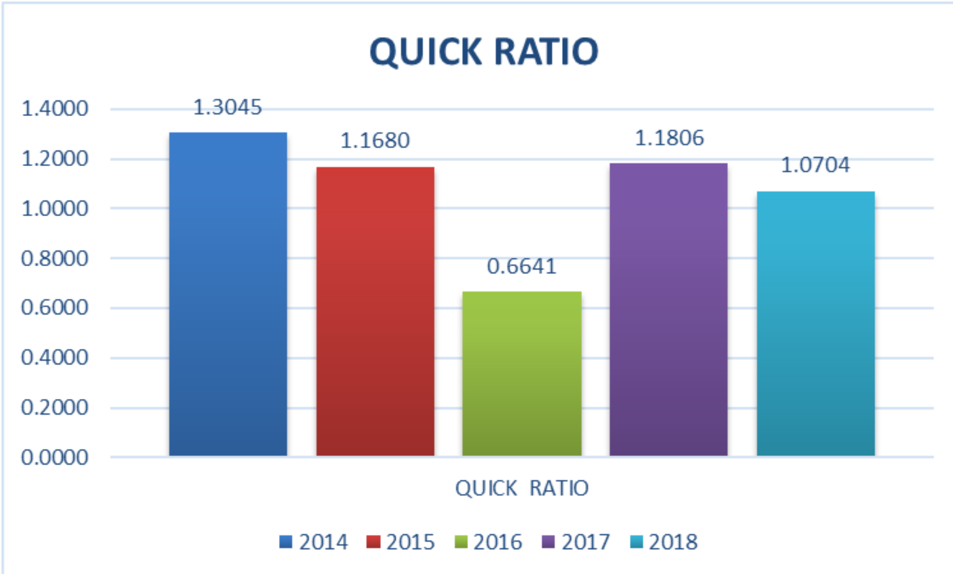
4.2.1.1 Operational Risk





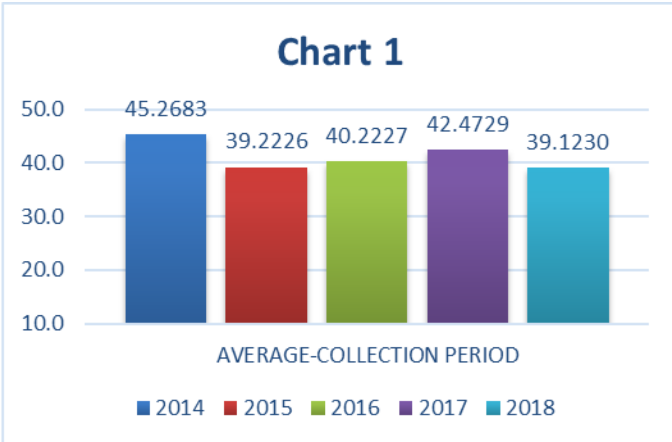
Refer to the first chart above, it shows that operating ratio for Estee Lauder Company is higher for 2016 and start to decrease from 2017 to 2018. A low operating ratio means a high net profit ratio. For the second chart it shows the operating margins of Estee Lauder company higher ratio was on the first year for 2014 and start to decrease and maintain from 2015 till 2018. It shows that Estee Lauder have better operating margins in 2014 but still earn goods quality of operational efficiency because the ratio is always positive.

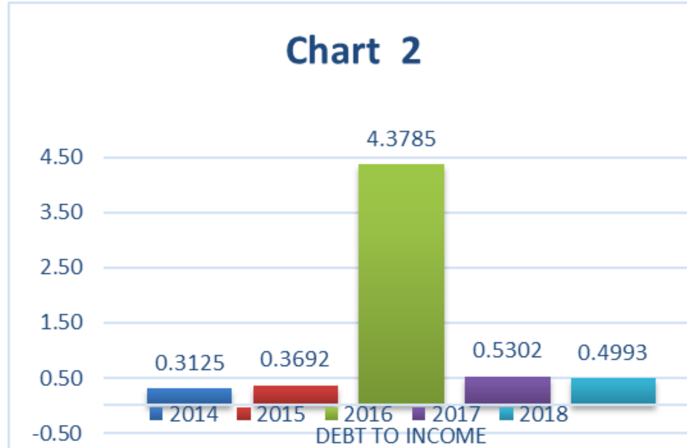
4.2.1.2 Liquidity Risk



For measure a liquidity risk we use two methods which is current ratio and quick ratio in this study. Current ratio refers to measures a company's ability to pay short-term obligations or those due within one year. While, quick ratio is an indicator of a company's short-term liquidity position and measures a company's ability to meet its short-term obligations with its most liquid assets. Since it indicates the company's ability to instantly use its near-cash assets. The chart above, show Quick Ratio of Estee Lauder company for five years. Seems that the bar of chart fluctuating. It starts to decrease from year 2015 to 2016 from 1.3045 to 1.1680 and increase in 2017 at 1.1806 and last it drop to 1.0704. As the result is 1 it considers as normal quick ratio and it show that the company the company have sufficient assets to be liquidated to pay off the current liabilities.

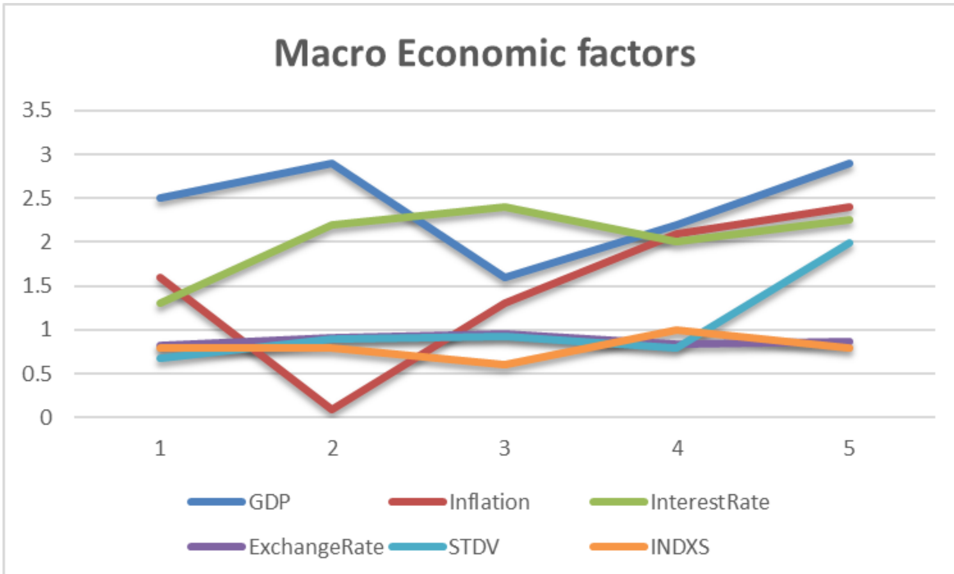
4.2.1.3 Credit Risk





For Estee Lauder it based on their average collection period and debt to income. The average collection period is also referred to as the days' sales in accounts receivable. An increase in the average collection period due to looser credit policy and worsening economy while decreasing indicate tighter credit policy and reduced terms. The charts above show that Estee Lauder have different value of average collection period and debt to income and seem to be fluctuated each of the year. Chart 1 show the average collection period is higher on the first year of 2014 and start to fluctuate and the lowest number of days sales in accounts receivable is on 2018. While, in chart 2 above show for debt to income ratio which measures the percentage of Company total debt payments to total income. The second chart above show the higher ratio of debt was on the third year which in 2016 and consequent more risk than other year and fortunately it starts to decrease in 2017 and 2018 which indicate that the company does not spend much income paying debts.

4.2.2 EXTERNAL FACTORS



Based on the chart above, it show the macro economics factors which consist of Gross Domestic Product (GDP), Inflation (INFLA), Interest Rate (IR), Exchange Rate (EXCNGE), Standard Deviation (STDV), and Index Score (INDXS) for five years starting from year 201 to 2018. As we can see at the chart above, the fluctuation of ratio is happened each year due to specific economic reason. This will give influenced to company in term of manage their liquidity management to increase the value of profit for each year. Above chart shows that exchange rate retains same and not much different each of the year. For GDP it seems to be increase starting from 2016 to 2018 and it indicate the country is producing more production due to higher income increasing and also increase demand in purchasing power. For inflation it starts to increase from 2015 till 2018.

4.3 CORRELATION ANALYSIS

Correlations

		QUICK RATIO	AVERAGE-COLLECTION PERIOD	DEBT TO INCOME	OPERATIONAL RATIO	OPERATING MARGIN	GDP	Inflation	InterestRate	ExchangeRate	STDV	INDXS	ROA
Pearson Correlation	QUICK RATIO	1.000	.504	-.952	-.748	.519	.699	.039	-.725	-.825	-.150	.743	.524
	AVERAGE-COLLECTION PERIOD	.504	1.000	-.242	-.559	.855	-.193	.243	-.921	-.742	-.608	.304	.108
	DEBT TO INCOME	-.952	-.242	1.000	.716	-.290	-.847	-.094	.506	.736	-.117	-.769	-.513
	OPERATIONAL RATIO	-.748	-.559	.716	1.000	-.694	-.556	-.505	.758	.837	-.229	-.416	-.570
	OPERATING MARGIN	.519	.855	-.290	-.694	1.000	.087	.063	-.944	-.587	-.395	.001	.569
	GDP	.699	-.193	-.847	-.556	.087	1.000	-.103	-.178	-.324	.441	.389	.728
	Inflation	.039	.243	-.094	-.505	.063	-.103	1.000	-.133	-.527	.471	.317	-.324
	InterestRate	-.725	-.921	.506	.758	-.944	-.178	-.133	1.000	.794	.450	-.327	-.468
	ExchangeRate	-.825	-.742	.736	.837	-.587	-.324	-.527	.794	1.000	.120	-.765	-.170
	STDV	-.150	-.608	-.117	-.229	-.395	.441	.471	.450	.120	1.000	-.086	.143
	INDXS	.743	.304	-.769	-.416	.001	.389	.317	-.327	-.765	-.086	1.000	-.143
	ROA	.524	.108	-.513	-.570	.569	.728	-.324	-.468	-.170	.143	-.143	1.000
Sig. (1-tailed)	QUICK RATIO	.	.193	.006	.073	.185	.094	.475	.083	.043	.405	.075	.182
	AVERAGE-COLLECTION PERIOD	.193	.	.347	.164	.033	.378	.347	.013	.076	.138	.309	.432
	DEBT TO INCOME	.006	.347	.	.087	.318	.035	.440	.192	.078	.426	.064	.188
	OPERATIONAL RATIO	.073	.164	.087	.	.097	.165	.193	.069	.039	.355	.243	.158
	OPERATING MARGIN	.185	.033	.318	.097	.	.445	.460	.008	.149	.255	.500	.159
	GDP	.094	.378	.035	.165	.445	.	.435	.387	.297	.228	.259	.082
	Inflation	.475	.347	.440	.193	.460	.435	.	.416	.181	.212	.301	.297
	InterestRate	.083	.013	.192	.069	.008	.387	.416	.	.055	.223	.296	.213
	ExchangeRate	.043	.076	.078	.039	.149	.297	.181	.055	.	.423	.066	.392
	STDV	.405	.138	.426	.355	.255	.228	.212	.223	.423	.	.446	.409
	INDXS	.075	.309	.064	.243	.500	.259	.301	.296	.066	.446	.	.409
	ROA	.182	.432	.188	.158	.159	.082	.297	.213	.392	.409	.409	.

4.3.1 Internal Factor

Based on the table above, to determine relationship liquidity risk Pearson correlation is used in this research which is Quick Ratio (QR) with Debt to Income (DTI), Return on Asset (ROA), Index Score (INDXS), Average Collection Period (ACP), Gross Domestic Product (GDP),

Operating Margin (OM), Operational Ratio (OR), Exchange Rate (EXCGR), Standard Deviation (STDV), Inflation (INFLA), and Interest Rate (IR) . This term assumed that positive value will signify a positive relationship while negative value will signify negative relationship. A strong positive relationship indicates value of 0.5 and above.

Quick Ratio shows strongly positive relationship with Average collection period 0.504 on average, it shows that Estee Lauder Inc. has rose up in sale in the same time slightly increase in their cash

flow. If average collection period increase, then the profit also will increase. When we provided credit sales to company automatically the profit will increase volume on time.

Debt to Income has a negative relationship with Quick Ratio -0.952 on average. Debt to Income represent credit risk, which low DTI indicates good quality balances between debt and income towards financial performances. It shows that when liquidity increase debt to income decrease. To have low debt to income while in the same time increase in liquidity is good for companies' financial performances. This interpret that good quality of management in debt and income to finance its profit.

For Operational Ratio to Quick Ratio have negative relationship -0.748 which indicates that when liquidity increase the operating expenses and net sale will be decrease.

Another variable is Operating Margin has positive relationship with Quick Ratio 0.519 on average. It shows that when liquidity increase the operation in term of earnings before interest and tax and revenue also increase and percentage of sales and then shows the efficiency of a company controlling the costs and expenses associated with business operations.

Moreover, Quick Ratio illustrates positive relationship with ROA 0.524 on average. It indicates that in cosmetic industries of Estee Lauder had increase in Quick Ratio in the same way rise up the ROA and Quick Ratio. This means that when liquidity increase the profitability will also increase. This means the company is efficient in using its asset to manage the credit sales.

4.3.2 External Factor

By referring to the table above, the external includes Index Score (INDXS), Exchange Rate (EXCGR), Inflation (INFLA), Gross Domestic Product (GDP), Standard Deviation (STDV), and Interest Rate (IR) to examine the relationship with liquidity.

For index score is positively relationship to liquidity. It shows that, when the corporate governance index scores decrease, the liquidity increases. Thus, in assumed that when the company adhere to high on corporate governance it will increases the liquidity for the company.

Interest rate, Exchange rate and standard deviation has negatively relationship with liquidity of Quick Ratio with -0.725, -0.825, and -0.150 respectively.

Furthermore, GDP and Inflation have positive relationship with Liquidity of Quick Ratio which is 0.699 and 0.039 on average. Which GDP has strong positive relationship with Quick Ratio. The increasing in GDP growth rate will straightly influence the Quick Ratio to rise. It can be explained that increment in demand for services and goods produced by Estee Lauder will rose up the production of goods. Hence, the financial aspects of the nation will improve that in an indirectly way give positive effect to execution of the organization.

Besides, Inflation rate has weak positive relationship with Quick Ratio but not significant correlation to Quick Ratio. It shows that if the Inflation increase it will directly increase Quick Ratio too. The increase in prices of goods and services in time indicates Inflation Rate. For Estee Lauder the prices of goods increase do not influenced the purchasing power of the customers. But the loyalty of the customer is the main factor that can affect demand of the customers. Good management create a great board in relieving financial chance is basic to ensure firm is prepared in whatever issue in future. This finding aligns with similar firm preparation in external findings issue from the selected work of Yap Joo Er paper research from Northern University Malaysia. (Er, 2017)

4.4 Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.952[a]	.906	.875	.0867509	1.348

a. Predictors: (Constant), DEBT TO INCOME

b. Dependent Variable: QUICK RATIO

Table 4.4

Refer to the table 4.4, it can be summarized that Adjusted R2 is equal to 87.5%. It term of using all the internal and external variables in Equation 3 which known as Return on Asset (ROA), Quick

Ratio (QR), Debt To Income (DTI), Index Score (INDXS), Average Collection Period (ACP), Gross Domestic Product (GDP), Operating Margin (OM), Inflation (INFLA), Operational Ratio (OR), Standard Deviation (STDV), Exchange Rate (EXCGR), and Interest Rate (IR) assumed that, the used of variables in the model capable to explains 87.5% of the variance in the credit risk for Estee Lauder Companies. While the remaining balances 12.5% of the adjusted R2 remain anonymous. This indicates that, the remaining balances of 12.5% of the adjusted R2 explains the deviation in the credit risk of Estee Lauder Companies is incapable to define by both internal and external variables. This will offer a chance to other researchers to lead a upcoming future studies with the obscure factor.

4.5 ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.219	1	.219	29.063	.013[b]
	Residual	.023	3	.008		
	Total	.241	4			

a. Dependent Variable: QUICK RATIO

b. Predictors: (Constant), DEBT TO INCOME

The ANOVA table above at the margin of statistical significance P-value less 0.1 and implies below the alpha value ($p<0.05$) which 0.013 is for Debt to Income. It indicates that the variable is significant to represent the model relationship between Quick Ratio and Debt to Income.

4.6 COEFFICIENT

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	1.239	.049		25.297	.000	1.083	1.394		
	DEBT TO INCOME	-.132	.025	-.952	-5.391	.013	-.210	-.054	1.000	1.000

a. Dependent Variable: QUICK RATIO

According table of coefficient above, Debt To Income variable has more influence which the tvalue is negative -5.391 to the credit risk compared to the average-collection period ,Operational ratio, Operating margin, GDP, Interest rate, Exchange rate, Standard Deviation, Inflation, Index Score, and Return On Asset . The t-value of Quick Ratio have a big influence on the company. It indicates that coefficient Estee Lauder for a period of year starting from 2014 to 2018. A beta coefficient below 1 means that the stock has a systematic risk lower than the market. Typically, the smaller of t-value, the biggest number of significant. While in the findings, the beta of Quick Ratio is – 0.952 which show that it is negatively influence to the company.

5.0 DISCUSSION AND CONCLUSION

5.1 Discussion

Based on model summary table, index score is the most factual variable which is 87.5% R^2. Debt to Income in the company of Board of Directors has strong negative relationship with Quick Ratio which is - 0.952 and significant related to Quick Ratio as the p value is 0.006 lesser than 0.1.From ANOVA table, the most influenced variable is Debt to Income with p value of 0.013. Thus, any conversion in structure of board will give impact to liquidity. Estee Lauder one on the largest company in cosmetic industries which stand by the top corporate governance standards to meet its requirement of corporate objective. Estee Lauder accepts that top notch corporate governance is basic to respectability and execution of the business. The Board is resolved to fortify the governance practices of the organization to shield the eventual benefits of its investors which include shareholder and stakeholder of the company.

5.2 Recommendations

Based on the finding, to prevent the company from less of liquidity ratio which the company is liable in term of credit pressure such as Debt to Income ,it must be enhancement to develop a good liquidity performance with term of measurement using quick ratio , current ratio and liquid ratio to show the asset capability .It is significant for Estee Lauder Inc to retain a great and efficient liquidity management to imply the company in having enough liquidity in their finance asset.

Adequately liquid indicates the company is having enough cash to buy with better pricing in term of buying process. Thus, the company may improve its profitability. The company will not have obligation from the problem of excess liquidity to meet its short-term obligation in enhancing the liquidity management.

5.3 Conclusions

In conclusion, it proves that liquidity risk, operation risk, credit risk and market risk is the basic risk that mostly of the companies will confronted particularly in the research of the company in Beauty and Cosmetics Industries. Estee Lauder Company could pledge with the liquidity risk, operation risk and credit risk adequately and accurately with the fraction is related and below the standard of benchmark. From this, it demonstrates that the company not having argument to settle the obligation and oversee proficiently to create more benefit and profit. Estee Lauder Inc. has a high degree of liquidity. Its quick ratio points to adequate liquidity even after excluding inventories. To summarize, Estee Lauder Inc. has a comfortable liquidity position. Henceforth, this company should rehearse high corporate governance standard to diminish any wastefulness that may bring down the capacity of company in producing more benefit in term of profitability. Moreover, to maintain a good performance in the upcoming future, one of variable is significant from the findings, Quick Ratio (QR) as a liquidity variable to the operation with the highest impact compared to all of variables Additionally, to keep up and improve progressive profit of this company, the execution of influence the board and better practices of corporate governance should place into thought as a key purpose of execution of the firm by practicing a good principle of corporate governance in conduct the accountability, transparency, independence, fairness and sustainability.

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