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# **Corporate Governance, impact of company's performance and risk of Mitsubishi Electric Corporation**

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# **Corporate Governance, impact of company's performance and risk of Mitsubishi Electric Corporation**

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## **Abstract**

Corporate governance is a significant part in a company. It is essential for a company to manage the business and affairs of company. The study attempts to determine corporate governance, the impact of company performance and risk of Mitsubishi Electric Corporation. The study also attempts to determine impact of internal factors and external factors influencing company's performance. This review is to evaluate the value of profitability and operating margin. This research involved relationship between corporate governance, company's performance, and risk of Mitsubishi Electric Corporation within five years which is from 2014 to 2018. This companies were from electronic industry and data was collected from Mitsubishi Electric Corporation's annual report. This ratios calculated were the return on assets (ROA), quick ratio, current ratio, average-collection period, debt to income, operational ratio, operating margin, and external factors (gross domestic product (GDP), inflation rate, interest rate and exchange rate). Conclusion based on profitability and operating margin of company. This study advice that company should be manage own business effectively and more compliance with principles of corporate governance.

**Keywords: Corporate Governance, Company's Performance, Profitability, Operating Margin**

## **1.0 Introduction**

At beginning with an overview of the Mitsubishi Electric Corporation which located in Japan. Then, it followed with discussion of problem statement, research questions, research objectives, scope of the study, and organization of study.

### **1.1 Overview Mitsubishi Electric Corporation in Japan**

Mitsubishi Electric Corporation is headquartered in Tokyo, Japan. This company is a multinational manufacturer electronic and electrical equipment. It is based on help to create a vibrant and affluent society run corporate principles. This company is a production and sales of their electronic and electrical equipment. The company's electronic and electrical equipment are includes industrial automation, electronic devices, home appliances, information and communication systems, energy and electric systems.

In 1921, Mitsubishi Electric was established, when company Mitsubishi Shipbuilding Co. change to Mitsubishi Heavy Industries, Ltd, it branched forms a factory to made electric motors for ocean-going vessels. Now, the company was called Mitsubishi Electric Corporation, and its history is very close to development of modern Japan. The company is a global leading Green company, it had maintain respectful practice.

Mitsubishi Electric Corporation has a corporate mission. Mitsubishi Electric Group will continue to use all aspects of its business through their creativity to improve their technology and services. They also improve people's quality of life in our society. Then, all members of the Group will pursue the following Seven Guiding Principles. Seven guiding principles namely trust, quality, technology, citizenship, ethnics and compliance, environment and growth.

Mitsubishi Electric Group has a corporate statement, "Changes for the Better" It refers company's goal and attitude has always to pursue something to be better results as they can continue to improve and change. This is a statement of commitment "to create an ever better tomorrow" for their customers of each and every one of employees, who seek goal is to improve themselves by purpose for "the better" and daily aim to "improve technology, service and creativity," as a description of our corporate philosophy.

In June 2003, Mitsubishi Electric became the company with Three-committee System. Separation of supervisory and executive functions is a key to this structure. Board of directors (BOD) plays a supervisory decision making role and Executive Officers deal with the day-to-day operation in company.

The board of directors (BOD) currently composed of 12 members which is five of whom are Outside Directors, and one of whom is a woman, who objectively supervise and advice management to perform their duties in accordance with the objectives and competences of the Companies Act and also authorize the executive to decide on all business, except for those listed in paragraphs 1 and 4 of Article 416 of the Companies Act.

## **1.2 Problem Statement**

Some Japanese companies, including the “corporate ethics and compliance statement” in their reports such as Mitsubishi Electric Corporation, or short position in the compliance manual have many similarities, which companies in Europe or the United States (US) will mark this as a code of ethics. Compliance aspects are usually included in corporate governance section because it is risk management, sometimes in the same section. Companies in United States (US) and Europe provides information about their compliance functions and structure in different method. The company is the clearest about reasons it is sometimes been at spotlight of the public or NGO is concern for different reasons (Ans Kolk, 2006).

Issue and problem relating to Mitsubishi Electric Corporation’s corporate governance. In traditional, Japanese corporate governance is interconnected. According to Christina Ahmadjian (2015), the big issues is that who are board of directors (BOD); the relationships with shareholders; who does this corporation really belong to it. In United States (US), it is a shareholders’ corporation and based on the model, corporation’s goal is to maximize shareholders’ value. But in Japan, it’s completely different. Japan’s corporate governance has steadily improved, but it is slowly. There also resistance to outside directors and there is still an attitude in the company. They don’t care about their shareholders, and they care about company’s values.

### **1.3 Research Question**

- I. What the relationship between return on assets (ROA) and internal factors towards the company's performance?
- II. What the relationship between return on assets (ROA) and external factors towards the company's performance?
- III. What the relationship between return on assets (ROA) with internal factors and external factors towards the company's performance?

### **1.4 Research Objectives**

Overall, the study purpose to investigate Mitsubishi Electric Corporation's performance based on the influence of the relationship between return on assets (ROA) with its determinants. There are three objectives of study as follows:

- I. To determine the relationship between return on assets (ROA) and internal factors towards the company's performance.
- II. To investigate the relationship between return on assets (ROA) and external factors towards the company's performance.
- III. To determine the relationship between return on assets (ROA) with internal factors and external factors towards the company's performance.

### **1.5 Scope**

The sample of the study consists of Mitsubishi Electric Corporation in Japan. The analysis and financial ratios was based on company's annual report for five years period which is from 2014 until 2018.

### **1.6 Organization of the study**

The study is includes six main chapters. Chapter one is provide the background of study which are consist of an overview of study, problem statement, research question, research objectives, scope of the study, and organization of study. Chapter two is literature review means that review background of Mitsubishi Electric Corporation. Then, chapter three is gives the methodology were used. In this chapter are using the sampling technique, statistics analysis,

data analysis, and Statistical Package for Social Science (SPSS). Otherwise, chapter four is provide the findings and analysis which is include financial ratios and risks are used in line graph and table to show the trends. For chapter five is discussion and recommendation includes summary of the analysis and three recommendation. Lastly, chapter six is conclusion which it is to describe summary of study.

## 2.0 Literature Review

### 2.1 Introduction

Shinji Harada, Executive Officer (2019) said that Japan's corporate governance has received strong attention over years, strengthening and improving the efficiency of corporate governance. It's has become a priority issue for all companies in Japan.

Mitsubishi Electric Corporation has taken a Three-committee System, and the management of the supervision functions is one of the core principles of separation. Chairman, who is responsible for management supervisory functions, is separate from the President & CEO based on principles. Who is the head of all executive officers, and not include member of nomination or compensation committees. Division of supervisory and administrative functions is clear. It's enable the company to ensure that effective corporate governance.

#### a) Definition

According to James Chen (2019), corporate governance provides a framework to pursue company's goals, it covers almost all areas of management, it from the action plans and internal control to company's performance measurement and disclosure of corporate. Bairathi, V. (2009) suggest that corporate governance is not just corporate management. It can be broader to include transparent administration, fair, and efficient to pursue with certain of goals and well-defined objectives.

The performance means is assumed to be measured by operational measures or the current financial results. However, performance is assumed to be measured by share prices in economic condition (Marshall W. Meyer, 2002). Firm performance is defined it is has become a relevant concept in strategic management research and its often used as a dependent variable (Omar Taouab and Zineb Issor, 2019).

Steven Bragg (2018) suggest that credit risk is the risk of loss individuals or entities that will expanded credit to other people. If borrower don't have enough cash flow to pay creditor, or don't have enough assets to liquidate to repay creditors, credit risk is regard to be higher.

According to Ken Brown and Peter Moles (2016), credit risk is “contracting parties may be unable to fulfil its obligations, it cannot act in accordance with the agreed terms”. Credit risk is refers to various risks, such as performance risk, counterparty risk or default risk.

Market risk refers to the risk of financial assets, the price is determined by the outside of financial markets. If instrument is held to maturity and then it is not subject to market risk. There are various concerns and criticisms to measure market risk. These include the selection of appropriate holding periods, return to testing of questions, and the problems with association measures, reporting and controls, trade restrictions, and so on (Kasirga Yildirak, Cumhuri Ekinci, 2013).

According to Rodney Coleman (2011), operational risk is the commercial risk, it suffers loss because of inadequate or weak internal processes, people, systems or external events. Fraud, accounting errors, equipment failure or theft, unfair dismissal claims, and product defects. All of costs cannot be attributed to the strategic objectives of business.

Jose A. Lopez (2008) suggest that liquidity is often defined as the ability of financial company to fulfil its debt obligations without generating an unacceptable large of losses. For example, the company prefer to repay the outstanding for one-month commercial paper obligations by issue of the new commercial paper and it instead by selling assets. According to Stoica (2000) advice that liquidity risk is taken by probability and company should not be able to make payments to creditors. It's result of changes in the amount of long term and short term credits with structure of liabilities of the company.

#### b) Importance

According to Paul Tsoi (2017), corporate governance is to avoid unable management, good corporate governance is necessary to enable the company to operate more efficiently, to develop of access to capital, reduce risk and protect the interests of stakeholders. It also makes business more accountable and transparent investment and to reduce the expropriation and unfair to shareholders.

A company need to manage credit risk because of appropriate assessment and management can reduce the severity of the loss of credit risk. Interests in exchange for the borrower or lender credit risk assumed by the investor to pay the debt obligations. The importance of credit risk management framework cannot be emphasized enough. It needs to be discussed at the highest level of board of director (BOD) and implemented to credit officer (Steven Bragg, 2018).

Market risk is the investment perhaps face due to fluctuations in market. The risk is that value of investment will decline. Also known as systemic risk, this term is refers to a particular currency or commodity. Market risk includes of several circumstances over which we have no control. According to the Bank of England, that relevant variables are mainly interest rates, exchange rates, and the spreads between the yields of securities. It's issued by sovereigns and other types of issuer.

Troy Segal (2019) suggest that operational risk consists the uncertainty and hazard. When the company faces when it conducts with day-to-day business activities in a particular field or industry. A company need to manage operational risk because of safety, compliance, avoiding unplanned shutdowns, driving improved performance and reputation.

Liquidity risk has become the main element in enterprise-wide risk management framework. The liquidity framework should remain sufficient liquidity to withstand all kinds of stressful events that we will have to face with it. Liquidity risk management framework and liquidity status are essential oversight role in ensuring the normal functioning of banks (T. Vijay Kumar, 2008).

c) The impact of company performance and risk

Manufacturer of Mitsubishi Electric Corporation to supply of electrical appliances for Kang Yong Electric Company, the production of more strategic spare parts will be considered as part of its long-term plan to reduce business risk in the event of flooding. While Mitsubishi Electric factories on Bang Na-Trat Road and at Amata Nakorn Industrial Estate in Chon Buri province are not directly affected by floods, air conditioner components experienced a supply chain disruptions. The company ordered parts from other countries and other sources, but

transportation had to be rerouted, postpone delivery. This means that Kang Yong must bear the additional costs. (Pitsinee Jitpleecheep, 2012).

Financial position of group and performance of company may be influenced by variety of factors. Factors that may influence Mitsubishi Electric Group's financial statements and company's performance, but there are not limited to the following. The several factors such as important trends, foreign currency exchange rates, stock markets, supply or demand for products and procurement conditions, natural disasters and credit risks.

Mitsubishi Electric Group's operations may be influenced by global economy trends, social conditions, regulations, tax codes and laws. Fluctuations in foreign exchange markets may influence Mitsubishi Electric's sales of exported products and purchases of imported materials. It's have been denominate in United States (US) dollars or euros. Stock market's price is decline that may cause the company to record depreciation losses of securities, or result to increase in retirement benefit obligations in order with the decline in the fair value of the pension assets.

Changes in supply or demand in terms of price and shipment due to price and shipment as well as increased in costs because of worsening of material and component procurement conditions, may adversely influence performance of Mitsubishi Electric Corporation. Another that, this company may be influenced by the occurrence large-scale of disasters such as earthquakes, typhoons, tsunami, and fires. The company and subsidiaries are faces risk of credit-related losses in event of non-performance by counterparties to the foreign exchange contracts, foreign exchange and interest rate swaps.

## **3.0 Methodology**

### **3.1 Introduction**

A methodology is a method for research approach, and lens through which the analysis occurs. In other words, a methodology introduces the “general research strategy are listed in the way in which the research should be conducted (Howell, 2013). It used to pursue objectives of study and also to get comprehensive result of study. This study is to investigate company’s performance based on the influence of relationship between return on assets (ROA) with its determinants.

### **3.2 Sampling Technique**

Alicia Tuovila (2019) suggest that sampling technique is a method to use in the statistical analysis in which predetermined number of observations are taken from a population. The sample in this study is Mitsubishi Electric Corporation in Japan. The data obtained from company’s annual reports during 2014-2018. It utilize to investigate the dependent variable on return on assets (ROA) and independent variable on internal factors and external factors. This selected sample are data that were recorded and calculated from Mitsubishi Electric Corporation’s annual report.

### **3.3 Statistics Analysis**

Statistics analysis is a process of perform a variety of statistical operations. The statistics analysis is including quantitative analysis (QA), it is a technique that attempts to understand behaviour by using mathematics and statistics models, measures, and research (Will Kenton, 2019). The purpose of quantitative analysis is to represent a given reality with terms of numerical value. From annual report 2014-2018, I calculate the effect of internal factors, it includes variety of aspect such as profitability, liquidity and operational risk.

For non-financial information is corporate governance index score of Mitsubishi Electric Corporation. It is includes annual meeting, disclosure of information, nationality, gender diversity, audit committee, and corporate society responsibility (CSR). Otherwise, external factors is includes gross domestic product (GDP), inflation rate, interest rate and exchange

rate is collected from company's annual report to examine trends of economic condition from 2014-2018 in Japan.

### 3.4 Data Analysis

The concept framework of study, there are results one of dependent variable and two independent variables for Mitsubishi Electric Corporation. The figure shows the research framework:

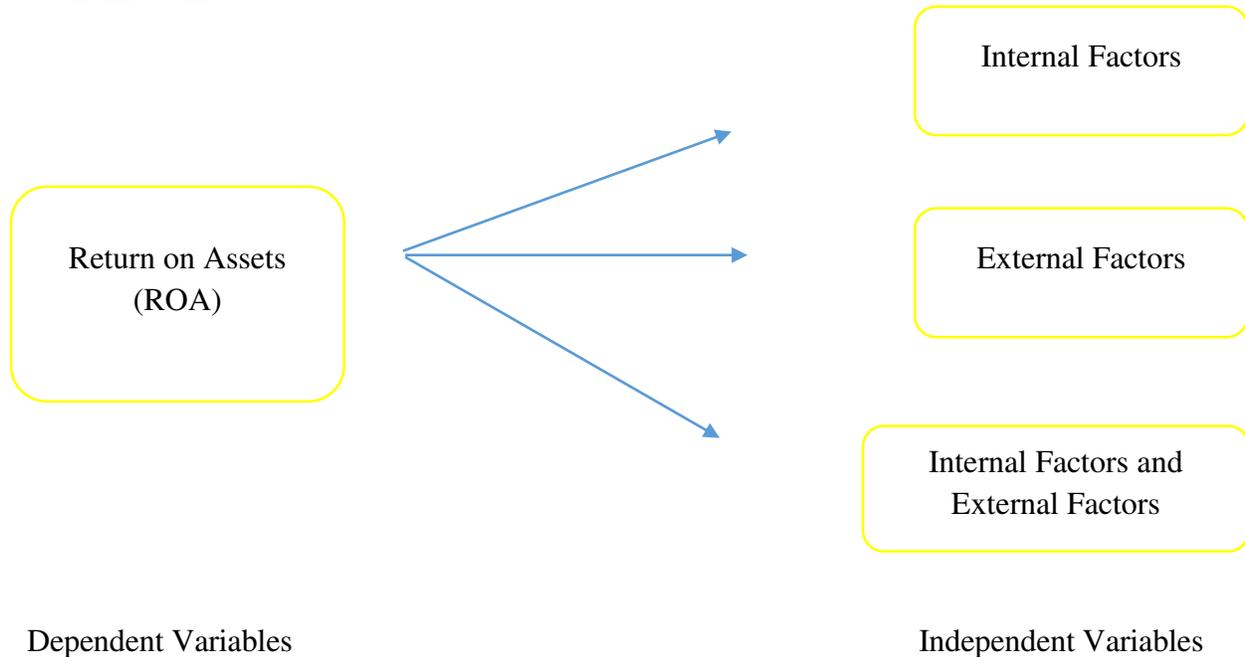


Figure 3.1: Research Framework

The study is to investigate relationship between the dependent variable and independent variables of company. The regression analysis is utilize to examine impact of dependent variable and independent variables. This figure views regression analysis of equation:

$$ROA = a_0 + a_1 CR + a_2 QR + a_3 OM + a_4 INDXS + e \dots \dots \dots \text{Equation 1}$$

$$ROA = a_0 + a_1 INFLA + a_2 BETA + e \dots \dots \dots \text{Equation 2}$$

$$ROA = a_0 + a_1 CR + a_2 QR + a_3 OM + a_4 INDXS + + a_5 INFLA + a_6 BETA + e \dots \dots \dots \text{Equation 3}$$

Table 3.1 Measurement of Variables

No.	Variables	Measurement
1.	Return on Assets	Net Income / Total Assets
2.	Current Ratio	Current Assets / Current Liabilities
3.	Quick Ratio	Current Assets-Inventory / Current Liabilities
4.	Operating Margin	Operating Profit / Net Sales
5.	Corporate Governance Index	Principles of Corporate Governance
6.	Inflation Rate	5 years of inflation rate
7.	Beta	5 years daily stock price

### 3.5 Statistical Packaged for the Social Scientist (SPSS software)

SPSS software referred as IBM SPSS Statistics is a tool used for analysis of statistics data. Through the Mitsubishi Electric Corporation's annual report, you can learn about data collection, data analysis, and also corporate governance. Data analysis process begins with collecting the data and using Statistical Packaged for the Social Scientist (SPSS software) to encode data generated and analysis.

## 4.0 Findings and Analysis

### 4.1 Introduction

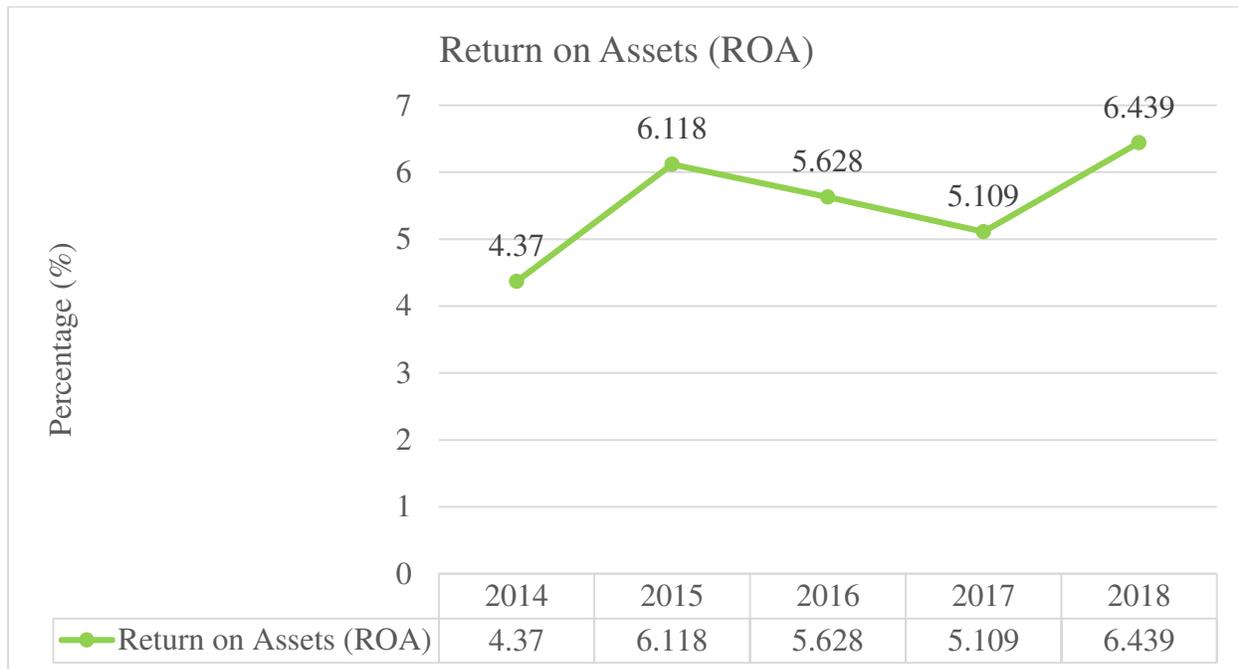
The quantitative analysis techniques is applied for this study. The data obtained from company's annual reports during year 2014-2018. These includes profitability, liquidity ratio operating margin, corporate governance index (CGI), inflation rate, beta, descriptive statistics correlation analysis, co-efficient analysis, model summary, and anova analysis. All of the profit or income and liquidity assets figures are listed for electronic industry are analyse and compared to see trends from 2014 to 2018.

By this way, it can give companies a general sense, especially when compared with competitors. Other industries are use return on assets (ROA) ratio to analysis and make decisions as to predict and measure the effectiveness of each company. According to Ben McClure (2014), return on assets (ROA) is a measure as how to effective companies extract profits from assets and regardless of size. Return on assets is high, it is a clear sign of solid financial and company's operational performance.

In addition, current ratio is liquidity ratio refers to a measure of the company's ability to pay short-term debts or those due within one of year. It told investors and analysts on how companies can maximize their balance sheet in order to fulfil its current liabilities and other payables (Will Kenton, 2019). This refers that a company is to raise funds to pay these debts in the limited of time. If company utilize the larger amount of current assets, it will more easily be able to pay off current liabilities. Liquidity are adequate will help electronic industry to minimize liquidity risk and financial crisis.

Another that, other industries are use quick ratio to analysis and make decisions as to predict and measure the effective of each company. According to Will Kenton (2019), quick ratio is indicates the company's short-term liquidity status and measures the company's ability to fulfil its short-term obligations or debt with the most liquid assets. This shows a company to use the cash assets, and company's ability to repay current liabilities. Therefore, it's also known as acid test ratio. Acid test is a rapid test and that design to produces immediate results.

## 4.2 Profitability



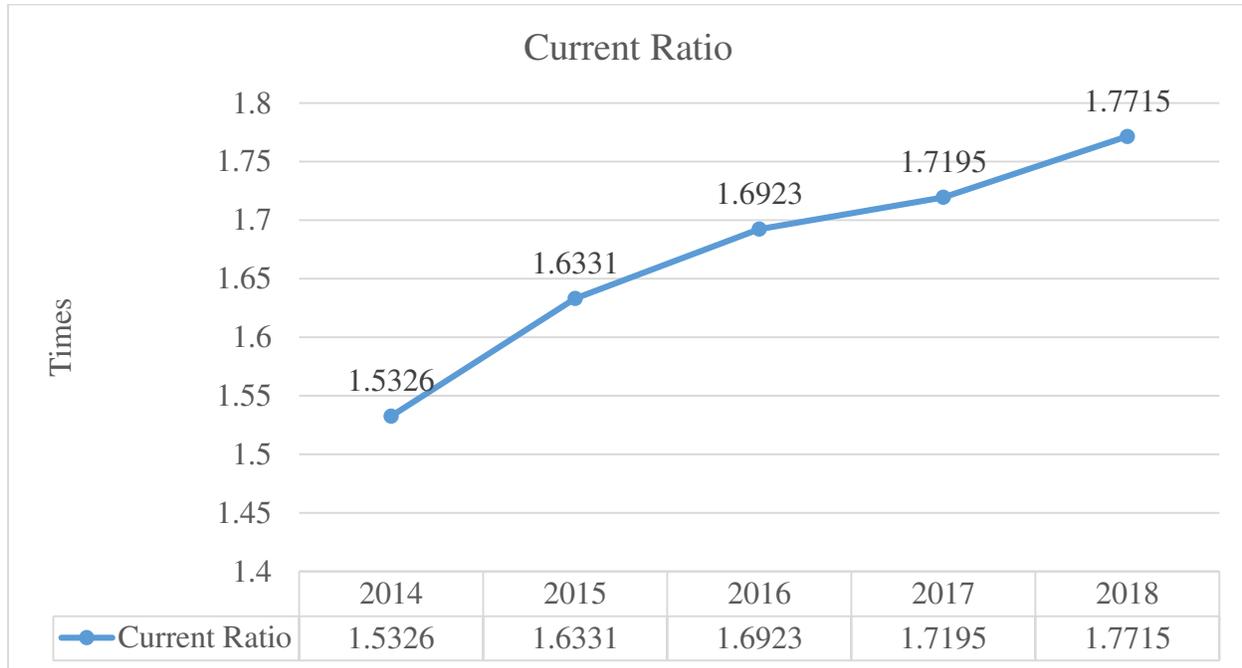
The return on assets (ROA) refers profitability ratio that measures how much profit a company can make from its assets. It is a measure of how efficient a management of company is in generating revenue from its economic resources or assets on its balance sheet.

Line graph 1 shows the trends of return on assets of Mitsubishi Electric Corporation is fluctuated from 2014 until 2018, which from 2014 increase the return on assets until 2015 but decreased in 2017 which from 4.37% decline to 5.109%. But in 2017 the return on assets raise significantly which from 5.109% to 6.439% in 2018 that increase 1.33%.

In 2014 had the lowest return on assets (ROA), which is 4.37% and 2018 had the highest return on assets, which is 6.439%. It results the higher of percentage, the more efficient a management of company is manage their balance sheet to generate profits. Return on assets in 2018 shows that the Mitsubishi Electric Corporation is more efficiency managing assets of company to make more of net income.

### 4.3 Liquidity Risk

#### a) Current Ratio

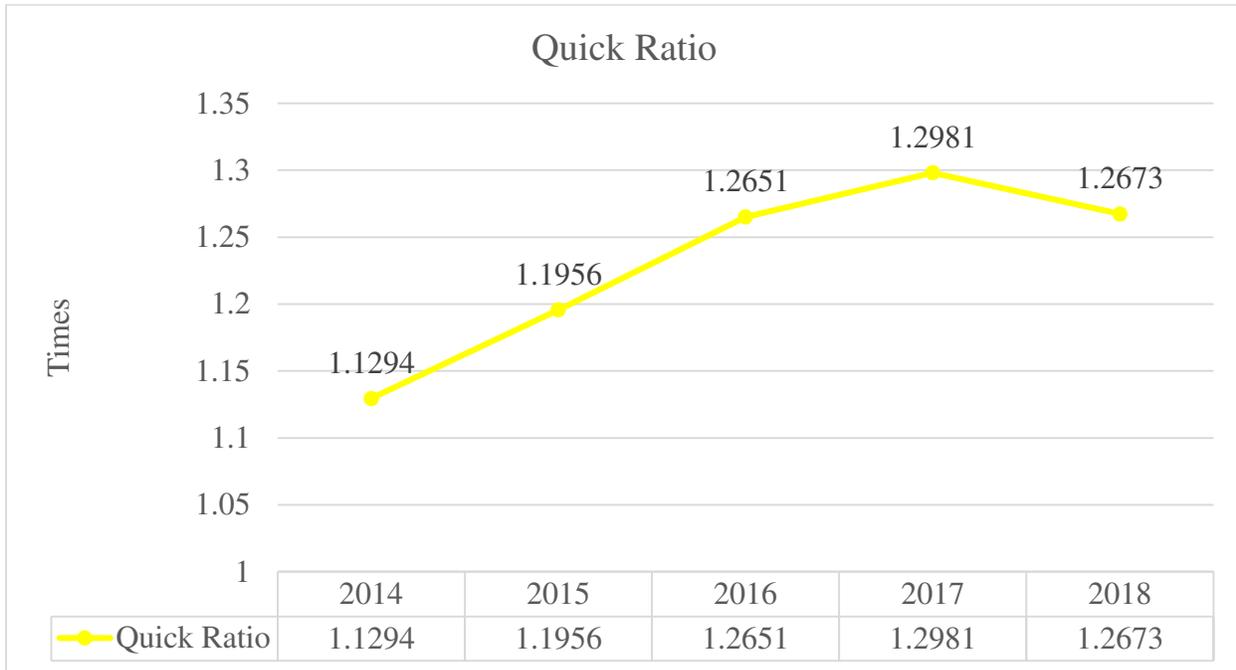


The current ratio is liquidity ratio refers measure of ability of company to pay short-term debts or those due within one year. It told investors and analysts on how a company can maximize their balance sheet to fulfil their current liabilities and other payables (Will Kenton, 2019).

Based on line graph 2, the trends of current ratio of Mitsubishi Electric Corporation is increased from 2014 until 2018. In 2014 had the lowest current ratio, which is 1.5326 times and 2018 had the highest current ratio, which is 1.7715 times. Current ratio influenced by the current assets and current liabilities.

It shows that current ratio of Mitsubishi Electric Corporation has been improved and it is able to pay enough cash. This company have larger amounts of current assets, it will more easily be able to pay its current liabilities. Liquidity are adequate will help electronic industry to minimize liquidity risk and financial crisis.

b) Quick Ratio

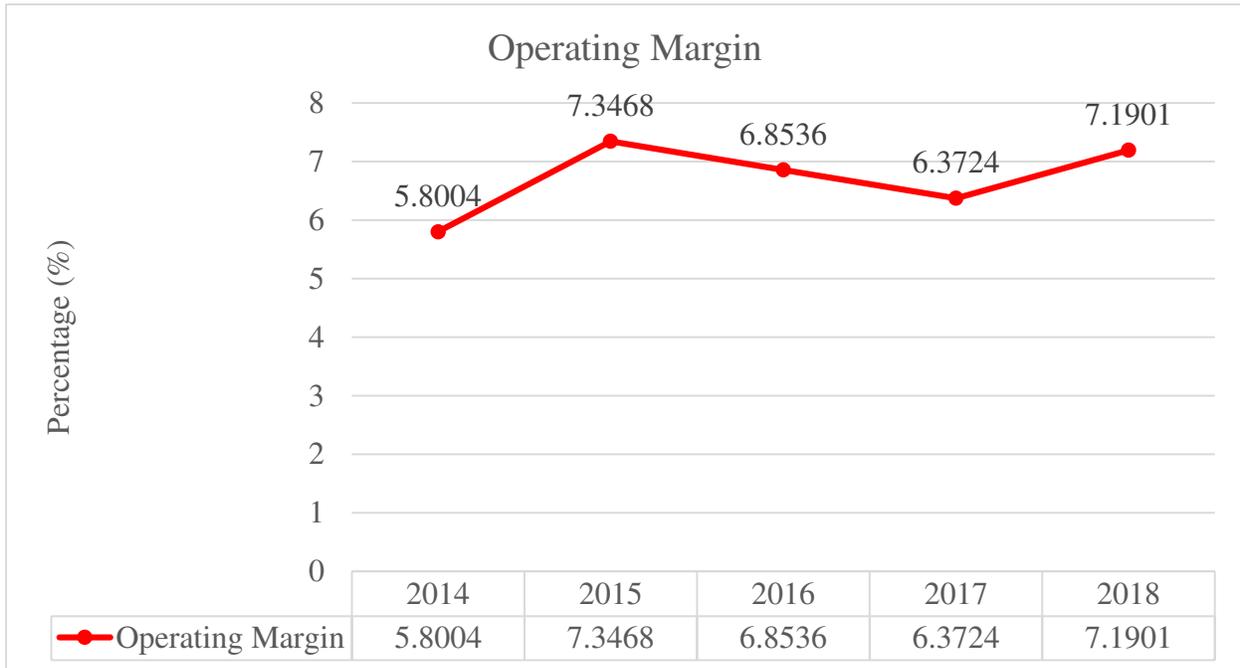


Quick ratio refers measures an ability of company to cover its current liabilities with its most liquid current assets. Quick ratio is computed by quick assets, which is current assets minus inventory and divide by current liabilities. Quick ratio is more conservative than current ratio because it excludes elements that are difficult to convert into cash such as inventory. Higher the quick ratio means that a company has the more liquid current position.

Line graph 3 shows the quick ratio of Mitsubishi Electric Corporation from 2014 until 2018. It indicates that the trends of quick ratio of Mitsubishi Electric Corporation has been fluctuated in 2014 to 2018. In 2014 had the lowest quick ratio, which is 1.1294 times and 2017 had the highest quick ratio, which is 1.2981 times.

The quick ratio in year 2014 was 1.1294 times and continued rose to 1.2981 times in year 2017. But in 2017 the quick ratio fall slightly which from 1.2981 times to 1.2673 times in 2018 that decrease 0.0314 times. When the quick ratio increases, it shows Mitsubishi Electric Corporation has the more liquid current position. The assets can convert into cash easily.

### 4.3 Operational Risk

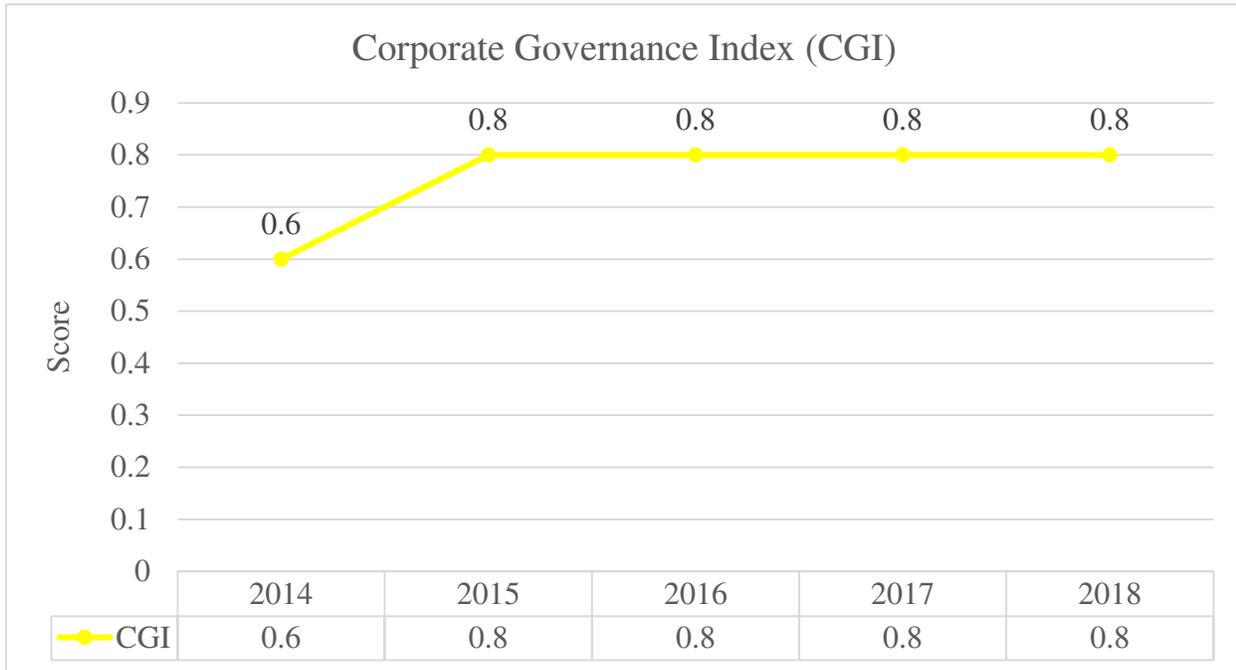


The operating margin is called return on sales, it is a good indicator that the company being run efficiently. It is a measure how much profit of the company to make on a dollar in sales and after pay the variable costs of production. It includes wages and raw materials but the income before pay interest or tax expense (Stuart Leung, 2015).

Line graph 4 shows the trends of operating margin of Mitsubishi Electric Corporation is fluctuated from 2014 until 2018, which from 2014 increase the operating margin until 2015 but decreased in 2017 which from 7.3468% decline to 6.3724%. But in 2017 the operating margin raise significantly which from 6.3724% to 7.1901% in 2018 that increase 0.8177%.

In 2014 had the lowest operating margin, which is 5.8004% and 2018 had the highest operating margin, which is 7.1901%. If higher the percentage of operating margin, company should find a way to spend less money to reduce operating expenses or to promote products to increase income. The trends of operating margin is same with trends of return on assets of Mitsubishi Electric Corporation is fluctuated from 2014 until 2018.

#### 4.4 Corporate Governance Index (CGI)



Line graph 5 shows the Corporate Governance Index (CGI) for Mitsubishi Electric Corporation from 2014 until 2018. Mitsubishi Electric Corporation require to examine the level of compliance towards the principles of corporate governance. Principles of corporate governance includes accountability, transparency, independence, fairness, and sustainability. Accountability is involves being answerable to all shareholders for all tasks and results.

Transparency is to ensure accurate disclosure and able make a meaningful analysis on all matters. The company have been established audit committee from 2015 until 2018. The Audit Committee of company is supported by dedicated independent staff. Mitsubishi Electric Corporation is willing to disclosure their company’s financial information and non-financial information. Fairness is to ensure all shareholders will receive equal of consideration, and also protect shareholder’s rights. Gender diversity is to examine company are compliance with fairness or not. Board of directors (BOD) consists of 12 members include five of whom are outside directors and one of whom is a woman. The company have been complied with sustainability, it involves corporate social responsibility (CSR) from 2014 to 2018.

Based on line graph 5, it results index score of company for five years from 2014 to 2018 which is 80%. In 2014, the index score is only 60%. The corporate governance index for

Mitsubishi Electric Corporation, the actual value as reference to examine optimal index score that company have been it (refer appendix table 1).

**4.5 Inflation Rate**



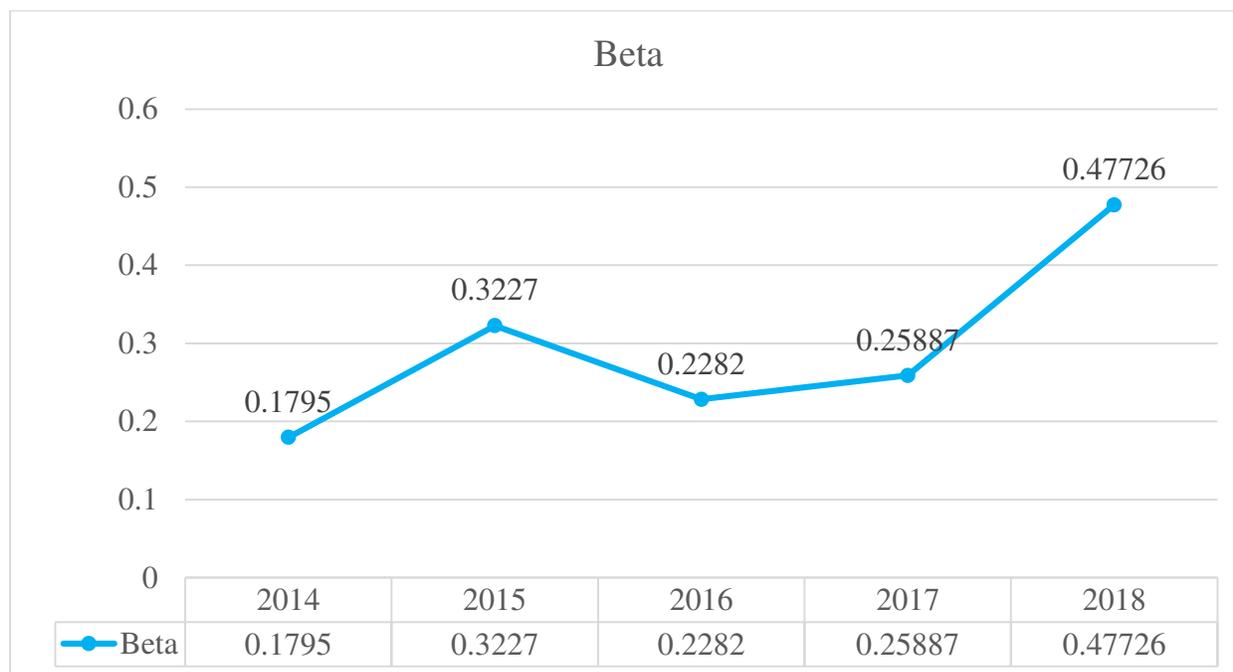
Inflation rate is a measures the consumer price index (CPI) is reflected by annual percentage change in the cost of goods and services to average consumer required it and that may be change or fixed at specific period generally yearly. The consumer price index is a measured by weighted average price level of goods and services for consumer pay.

Based on line graph 6 shows the inflation rate from 2014 until 2018 in Japan. It indicates that the trends of inflation rate has been fluctuated in 2014 to 2018. In 2014 had the highest inflation rate, which is 2.8% and 2016 had the lowest inflation rate, which is -0.1%. The inflation rate in year 2014 was 2.8% and continued fall to -0.1% in year 2016. But in 2016 the inflation rate rose slightly which from -0.1% to 1% in 2018 that increase 1.1%.

Since 2014 to 2018, the inflation rate has been persistently low in Japan compare to other counties and also short-term inflation rising interrupt a long-term deflation. In 2016, Bank of Japan (BOJ) is introduces the number of expansionary policy to increase inflation rate as

inflation expectations. But, after the policy, the inflation rate has reached a zero level and Bank of Japan (BOJ) turned to negative of inflation rates in 2016 (Christensen, J. H., & Spiegel, M. M., 2019).

#### 4.6 Beta



Beta is a measure of volatility of security or systematic risk for the company to compare with unsystematic risk of market. It also defined as slope of line of company through regression of data points for stock of company against the market. Line graph 7 shows beta of the company from 2014 until 2018. The beta of company is based on USD currency from 2014 to 2018. It indicates that the trends of beta has been fluctuated in 2014 to 2018. In 2014 increase the beta until 2015 but decreased in 2016 which from 0.3227 decline to 0.2282. But in 2017 the beta raise significantly which from 0.25887 to 0.47726 in 2018 that increase 0.21839. In 2014 had the lowest beta, which is 0.1795 and 2018 had the highest beta, which is 0.47726.

## 4.7 Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.0553295939	.0082215417	5
Current Ratio	1.669781021	.0915196412	5
Quick Ratio	1.231118735	.0680980416	5
Average-Collection Ratio	88.73082596	1.362771036	5
Debt to Income	.1766472600	.0297165327	5
Operational Ratio	.9328719871	.0063214411	5
Operating Margin	.0671280129	.0063214411	5
Index	.760	.0894	5
Beta	.2933060	.11519496	5
GDP	.980	.5933	5
Inflation Rate	1.000	1.0886	5
Interest Rate	.280	.9680	5
Exchange Rate	115.860	4.5682	5

Table 4.1: Descriptive Statistics Analysis for Mitsubishi Electric Corporation

Based on table 4.1 results the descriptive statistics analysis of Mitsubishi Electric Corporation. The mean score of return on assets (ROA) is 0.05532959 indicates that Mitsubishi Electric Company using assets effectively. The mean score of 1.66978102 for current ratio indicates that Mitsubishi Electric Corporation have more easily to paid short-term obligation or debt. The mean score of quick ratio is 1.23111874 indicates that the company have ability to cover current liabilities and more quickly convert into cash.

Furthermore, mean score of average collection period is 88.73082596 which is the company to make sure they have enough cash on hand to meet company's financial obligation. Mean score of 0.1766472600 for debt to income indicates that the company have ability to manage monthly payments and repay debts. The mean score of operational ratio is 0.9328719871 which is more coefficient the company is at generating revenue versus total expenses. Mean score of 0.0671280129 for operating margin indicates that Mitsubishi Electric Corporation

are more available to cover non-operating costs. Mean score of corporate governance index and beta is 0.760 and 0.2933060 respectively.

#### 4.8 Correlation

According to Steven Nickolas (2019), correlation coefficient ( $\rho$ ) is a measure to examine the degree of motion are associated between two variables. The most common correlation coefficient produced by pearson product correlation can be used to estimate linear relationship between two variables. It used to investigate relationship between dependent variable (return on assets) and independent variables (internal factors and external factors).

Table of Correlation benchmark

<i>Size of Correlation</i>	<i>Interpretation</i>
.90 to 1.00 (-.90 to -1.00)	Very high positive (negative) correlation
.70 to .90 (-.70 to -.90)	High positive (negative) correlation
.50 to .70 (-.50 to -.70)	Moderate positive (negative) correlation
.30 to .50 (-.30 to -.50)	Low positive (negative) correlation
.00 to .30 (.00 to -.30)	Little if any correlation

Source: Hinkle, Wiersma, & Jurs, 2003.

Pearson Correlation	ROA	CR	QR	ACP	DTI	OR	OM	Index	Beta
ROA	1.000	0.702	0.469	0.051	-0.501	-0.973	0.973	0.791	0.857
CR	0.702	1.000	0.924	0.097	-0.389	-0.591	0.591	0.838	0.713
QR	0.469	0.924	1.000	-0.060	0.090	-0.404	0.404	0.835	0.404
ACP	0.051	0.097	-0.060	1.000	-0.854	0.050	-0.050	-0.099	0.467
DTI	-0.501	-0.389	-0.090	-0.854	1.000	0.365	-0.365	-0.167	-0.844
OR	-0.973	-0.591	-0.404	0.050	0.365	1.000	0.144	-0.807	-0.731

OM	0.973	0.591	0.404	-0.050	-0.365	-0.144	1.000	0.807	0.731
Index	0.791	0.838	0.835	-0.099	-0.167	-0.807	0.807	1.000	0.552
Beta	0.857	0.713	0.404	0.467	-0.844	-0.731	0.731	0.552	1.000

Table 4.2: Pearson Correlation of internal factors for Mitsubishi Electric Corporation

The 4.2 table shows return on assets (ROA) is most significantly affected by operating margin only. Table 4.2 presents the outcomes of the regression analysis between the quick ratio, return on assets (ROA), current ratio, quick ratio, and other variables. The operating margin is 0.973, it is highest positive correlation and strong relationship between the return on assets correlated to company's performance. It results return on assets increase, then operating margin increase. The operating margin is directly reflect by income is related with company's core business and operations. Current ratio and quick ratio, it shows moderate positive correlation and positive relationship between the return on assets correlated to performance of company. Average-collection period is little positive correlation and positive relationship between the return on assets correlated to performance of company. Debt to income, and operational ratio views negative correlation and negative relationship between the return on assets correlated to company's performance.

Pearson Correlation	ROA	GDP	Inflation Rate	Interest Rate	Exchange Rate
ROA	1.000	0.110	-0.587	0.119	-0.400
GDP	0.110	1.000	-0.437	0.308	-0.318
Inflation Rate	-0.587	-0.437	1.000	-0.517	0.325
Interest Rate	0.119	0.308	-0.517	1.000	-0.840
Exchange Rate	-0.400	-0.318	0.325	-0.840	1.000

Table 4.3: Pearson Correlation of external factors for Mitsubishi Electric Corporation

Table 4.3 shows inflation and exchange rate is negative which is -0.587 and -0.400 respectively, it results negative correlation and negative relationship between the return on assets correlated to performance of company. Gross domestic product (GDP) and interest rate shows little positive correlation and positive relationship between the return on assets correlated to company's performance.

#### 4.9 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.973 <sup>a</sup>	.946	.928	.0021987107	1.079

a. Predictors: (Constant), Operating Margin

b. Dependent Variable: ROA

Table 4.5: Model Summary Analysis for Mitsubishi Electric Corporation

Based on table 4.5, the adjusted R square is equal to 0.928. The results that 92.8% of variance in return on assets of company is able to explain it. Otherwise, remaining 0.072 of adjusted R square is still unknown which is 7.2% of variance in return on assets of company is unable to explain it in the study. The durbin-watson statistic usually the value is between 0 and 4. The value is between 0 and less than 2 is refers to positive autocorrelation. The model summary of durbin-watson is 1.079. This indicate positive autocorrelation on this model.

## 4.10 Anova

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.017	1	.017	52.928	.005 <sup>b</sup>
	Residual	.000	3	.000		
	Total	.017	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), Operating Margin

Table 4.6: Anova Analysis for Mitsubishi Electric Corporation

Table 4.6 shows that anova regression analysis for this company. The table results p-value is 0.005. The results variable is statistically significant to describe model. The data of study are reasonable value, that the anova model result is stable and secure.

## 4.11 Coefficients

Coefficients <sup>a</sup>										
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)	-.030	.012		-2.527	.086	-.067	.008		
	Operating Margin	1.265	.174	.973	7.275	.005	.712	1.819	1.000	1.000

a. Dependent Variable: ROA

Table 4.4: Coefficients Analysis of Mitsubishi Electric Corporation

Based on table 4.4, coefficients refers to independent variables that has impact on return on assets (ROA) can be convinced by determining a significant level 5% with p-value. P-value<0.001 refers the statistically highly significant and independent variables has most impact on dependent variables. Besides that, p-value<0.05 refers statistically significant and medium impact of independent variable on dependent variable. While p-value<0.10 refers has least impact of independent variable. For table 4.4 reviews that coefficients regression analysis for Mitsubishi Electric Corporation. Operating margin is statistically significant and medium impact of dependent variable which is return on assets because of p-value is 0.005.

## **5.0 Discussion and Recommendation**

### **5.1 Introduction**

For chapter 5 is to investigate return on assets (ROA) with its determinants for Mitsubishi Electric Corporation in Japan. Internal factors includes company's performance, profitability, operational risk, and corporate governance and external factors also includes inflation rate to pursue the objectives of the study. Thus, the discussion is based on findings and analysis from the chapter 4. The recommendations is for research in the future for the company to proceed it.

### **5.2 Discussion of result**

In chapter 5, the purpose to investigate company's performance based on the influence of the relationship between return on assets (ROA) with its determinants for Mitsubishi Electric Corporation in Japan. The study is to pursue research objectives:

- I. To determine the relationship between return on assets (ROA) and internal factors towards the company's performance.
- II. To investigate the relationship between return on assets (ROA) and external factors towards the company's performance.
- III. To determine the relationship between return on assets (ROA) with internal factors and external factors towards the company's performance.

On table 4.2, it results return on assets (ROA) is most significantly affected by operating margin only. Operating margin is 0.973, it is highest positive correlation and strong relationship between return on assets correlated to company's performance compare to other variables. Current ratio and quick ratio, it shows moderate positive correlation and positive relationship between the return on assets correlated to performance of company. Mode summary result views the adjusted R square is equal to 0.928 which is 92.8% of variance in return on assets is able to explain it in the study. Besides that, remaining 0.072 of adjusted R

square is still unknown which is 7.2% of variance in return on assets of company is unable to explain it. Model summary of Durbin-Watson is 1.079. This indicates positive autocorrelation on this model. The ANOVA shows the p-value is 0.005 and also it indicates model is reliable. In this company, the resulted dependent variable is use return on assets and predictors in model (constant) is use operating margin. The coefficients model shows the operating margin is statistically significant and medium impact of dependent variable which is return on assets because of p-value is 0.005. The internal factors is more impact towards company's performance from this study. Last but not least, external factors had not more influence on Mitsubishi Electric Corporation.

### **5.3 Limitation**

The study is limited only for one of electronic company in Japan. The study is research only the five years period annual reports from 2014-2018 for Mitsubishi Electric Corporation. Hence, amount of financial and non-financial information was limit to be collected.

### **5.4 Recommendation**

Firstly, good corporate governance should be maximize shareholders' value in the company. Maximize shareholders' value is valid social objective for corporations, this is because it is equivalent to a company created to maximize the overall wealth. Maximize share value helps to discipline the managers. This is because it involves them accountable for single index and it is a forward looking. Other indicators can confuse things and to make it easier for managers to use their positions to enhance their interest more than the interest of shareholders.

Secondly, a good corporate governance should be focus on role of outside or independent directors. In Japan, the appointment of outside or independent directors in Japanese companies finally to follow the global corporate governance trend of the so-called "monitoring model" proposed by Professor Melvin Eisenberg in 1976. But, the Japanese reforms on outside or independent directors may seem differ from an international perspective such as discussions in many developed countries after the Financial Crisis of 2007-2008 have tended to emphasize the shortcomings due to lack of information and a lack of adequate incentives (Wolf-Georg Ringe, 2013).

Thirdly, the good corporate performance should have more efficient operations, that the results in the higher expected future cash flow stream. In addition, adequate of liquidity will helps the company to minimizing risks and financial problems. The company need to priori in risk management, it to enhance the effective of system for risk oversight and company's management. If risk management is effective, it leads to better decision making and also avoid costly financial distress. It also allows risk management to come up with business risk and environmental risk with clear understand of the risk creation process in the company (Volkov, M. 2015). Thus, Mitsubishi Electric Corporation should focus on the corporate governance to reduce information asymmetry and insufficient incentives. This company also can develop the productivity of operations, the implementation of liquidity management and control inventory of company. A corporate governance reduces the possibility of management, makes its self-interest and also takes actions that deviate from maximizing of company's value.

## 6.0 Conclusion

In conclusion, objective of study is to determine corporate governance and company's performance based on the influence of the relationship between return on assets (ROA) with its determinants for Mitsubishi Electric Corporation in Japan. There are good relationship between profitability and liquidity of Mitsubishi Electric Corporation. It is recorded that return on assets (ROA) have much impact on operating margin. The analysis shows that the effective of return on assets have significant bearing towards the operating margin.

Furthermore, to maintain the company performance in 2018 onwards, from the analysis, it is one of variable is significant return on assets (ROA) as a liquidity variable to operation with highest impact as compare to other variables. This study also provide evidence of the important relationship between return on assets (ROA) with internal factors and external factors towards the company's performance. The analysis are impacted on the company performance especially for return on assets (ROA) in conducting an investigation of financial positions of company.

The significance of this study is that the determination of the company performance provides a more comprehensive approach to the company's liquidity and profitability analysis and it also becomes a means of making better decisions based on data. This company can continue to provide them through information sharing and exchange with more timely and relevant information. To response to results of an annual review and to achieve better results at each time with respect to sharing timely and appropriate management information with Executive Officers. Executive officers is the member of board of directors (BOD) performing its business supervisory functions in the company.

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## Appendixes

### Variables Entered/Removed<sup>a</sup>

Model	Variables Entered	Variables Removed	Method
1	Operating Margin	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).

a. Dependent Variable: ROA

### Excluded Variables<sup>a</sup>

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics		
						Tolerance	VIF	Minimum Tolerance
1	Current Ratio	.195 <sup>b</sup>	1.313	.320	.680	.651	1.537	.651
	Quick Ratio	.091 <sup>b</sup>	.547	.639	.361	.837	1.195	.837
	Average-Collection Ratio	.100 <sup>b</sup>	.673	.570	.430	.998	1.003	.998
	Debt to Income	-.168 <sup>b</sup>	-1.296	.324	-.676	.867	1.154	.867
	Operational Ratio	. <sup>b</sup>	.	.	.	.000	.	.000
	Index	.016 <sup>b</sup>	.058	.959	.041	.349	2.865	.349
	Beta	.313 <sup>b</sup>	3.358	.078	.922	.466	2.148	.466
	GDP	-.031 <sup>b</sup>	-.190	.867	-.133	.979	1.021	.979
	Inflation Rate	.055 <sup>b</sup>	.261	.818	.182	.594	1.683	.594
	Interest Rate	.137 <sup>b</sup>	1.032	.410	.590	1.000	1.000	1.000
	Exchange Rate	-.206 <sup>b</sup>	-2.498	.130	-.870	.956	1.046	.956

a. Dependent Variable: ROA

b. Predictors in the Model: (Constant), Operating Margin

### Collinearity Diagnostics<sup>a</sup>

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions	
				(Constant)	Operating Margin
1	1	1.996	1.000	.00	.00
	2	.004	23.787	1.00	1.00

a. Dependent Variable: ROA

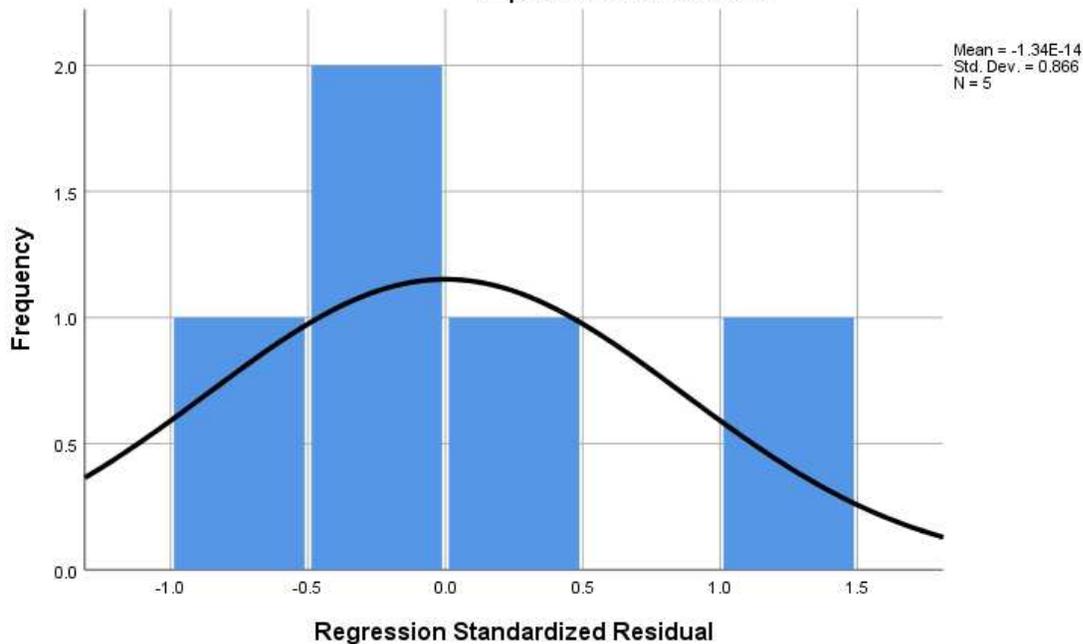
### Residuals Statistics<sup>a</sup>

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.0437866524	.0633507147	.0553295939	.0079979998	5
Residual	-.002172079	.0030147091	.0000000000	.0019041393	5
Std. Predicted Value	-1.443	1.003	.000	1.000	5
Std. Residual	-.988	1.371	.000	.866	5

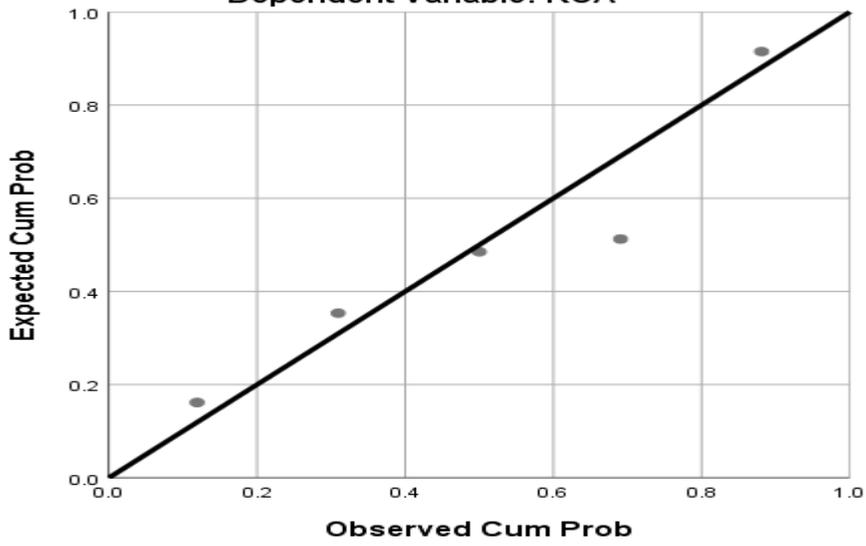
a. Dependent Variable: ROA

### Histogram

Dependent Variable: ROA



**Normal P-P Plot of Regression Standardized Residual**  
Dependent Variable: ROA



**Scatterplot**

Dependent Variable: ROA

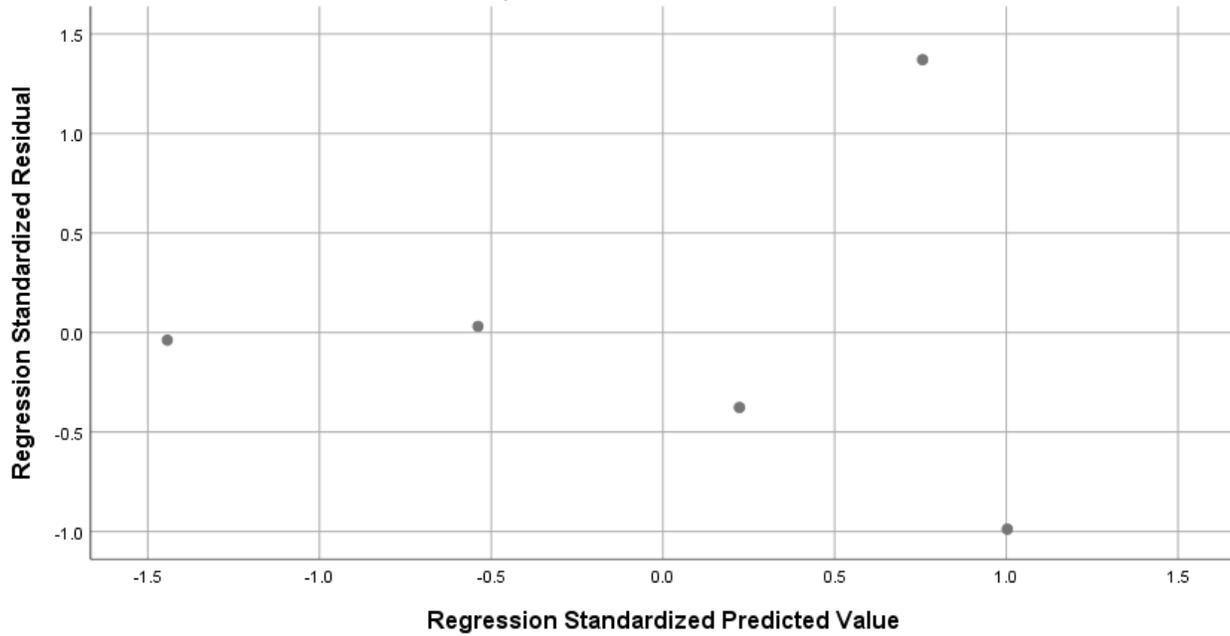


Table 1: Descriptive Analysis for Mitsubishi Electric Corporation

Years	2014 (Yen millions)	2015 (Yen millions)	2016 (Yen millions)	2017 (Yen millions)	2018 (Yen millions)
Net Sales	4,054,359	4,323,041	4,394,353	4,238,666	4,431,198
Net Income	153,473	234,694	228,494	210,493	271,880
Total Assets	3,612,966	4,059,451	4,059,941	4,180,024	4,264,559
Return on Assets (ROA)	0.04370	0.06118	0.05628	0.05109	0.06439
Inventory	602,341	705,420	644,127	643,040	741,782
Current Assets	2,290,007	2,633,445	2,551,863	2,623,596	2,606,493
Current Liabilities	1,494,243	1,612,582	1,507,943	1,525,761	1,471,367
Quick Ratio	1.12945	1.19561	1.26512	1.29808	1.26733
Current Ratio	1.53255	1.63306	1.69228	1.71953	1.77148
Accounts Receivable	988,281	1,054,205	1,039,829	1,040,016	1,089,558
Average-Collection Period	88.97154	89.00791	86.36939	89.55786	89.74744
Gross Income	2,914,589	3,032,161	3,071,435	2,950,729	3,030,902
Debt	211,426	217,592	287,507	227,756	189,055
Debt to Income	0.18550	0.16856	0.21733	0.17684	0.13501
Operating Expenses	3,819,187	4,005,437	4,093,181	3,968,562	4,112,561
Operating Profit	235,172	317,604	301,172	270,104	318,637
Operating Ratio	0.94200	0.92653	0.93146	0.93628	0.92809

Operational Margin	0.05800	0.07347	0.06854	0.06372	0.07191
CGI	0.60	0.80	0.80	0.80	0.80
Beta	0.1795	0.3227	0.2282	0.25887	0.47726
GDP	0.4	1.2	0.6	1.9	0.8
Inflation Rate	2.8	0.8	-0.1	0.5	1.0
Interest Rate	-0.5	-1.0	0.8	1.2	0.9
Exchange Rate	119.7	120.3	116.9	112.7	109.7