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# **Analysis of Internal Factor (Operating Margin) affect the Coty Incorporated performance**

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## **ABSTRACT**

This paper aim to elaborate some most importance information regarding Coty Incorporation's performance and its determinant. This study been research from the company's annual report and other trusted resources that relate to the company for year 2014- 2018. The purpose is to know what internal and external factor that affect the company performance or more specific dependable variable. The internal factor consist of current ratio, quick ratio, average collection period, debt to income, operational ratio, operating margin and corporate governance index. Meanwhile for the external factor include the GDP, inflation, interest change, exchange rate and standard deviation. The method that been used to collect data is Statistical Package for the Social Science (SPSS) version 25. Every company been running to increase sale and profit, same goes to Coty Incorporation. Hence, this study using Return of Ratio (ROA) method as its dependable variable to identify how well the company can convert its investment in asset into profit. This method the most efficiency to the management of company and the investor in that company to see it. The higher this ratio, the higher company will earn the profit. After been analysis and interpret the data in SPSS, the study found the internal factor which is Operating Margin give a strong influence to asset of Coty's Incorporated. As already know, the operating margin is amount revenue that left over after using all operating cost. Its mean the higher amount been left over, the higher cover for non-operating costs such as interest expenses.

**Keyword** : Corporate Governance, Return of Asset (ROA), Operating Margin (OM), Average Collection Period (ACP), Standard deviation

## **1.0 INTRODUCTION**

### **1.1 Overview**

Coty Incorporated is one of the world's largest beauty companies in global level. It's involvement of a rich entrepreneurial tradition and iconic portfolio of brands. This company been founded since 1904 and grown up into beauty company with multi-segment. Their leading market position already reach at North America and Europe through offering new product, sales channel been diversified, acquisitions and make strategies for global growth. Coty Incorporated well known as world leading beauty company making cosmetics, skincare, fragrances, hair colour and any style that been of consumer's demand. Beside that, Coty Inc. have been global leader in fragrance, a strong number two in professional salon hair color & styling, and number three in colour cosmetics.

Beside that, Coty Inc. organized into three division. These three are home to iconic global brands and much loved regional brands. That Is Consumer Beauty, Luxury and Professional Beauty. Each division has end-to-end responsibility to optimize the consumers' beauty experiences in their relevant categories and channels and to translate this into profitable growth. Consumer Beauty is primarily focused on color cosmetics, retail hair coloring and styling products, body care and mass fragrances. Luxury is primarily focused on prestige fragrances, premium skincare and premium cosmetics. Professional Beauty is primarily focused on hair and nail care products for salon professionals.

Based on this company, I would explain more this company related to Corporate Governance term. Generally, corporate governance is large known at the wider range consist processes, customs, policies, laws and institutions that directs the organizations and corporations with how they should act and control their operation. In corporate governance, each companies or industry must have this element to fulfill what corporate governance mean. There is five main but in this companies I will just explain several of the element. First element is transparency. Coty Inc. been mention that their company have been strengthen and diversified because of transformational acquisition and strategic transaction the last three years. This being tough competition to Coty Incorporated since it across the countries along with their product categories and channel. They involve in acquisition of the Proctor & Gamble Company 's beauty Business which called P&G

Beauty Business, the acquisition of ghd, a premium brand in high-end hair styling appliances, the acquisition of the Brazilian personal care and beauty business of Hypermarchas S.A. known as Hypermarchas Brands. After that, Coty Inc. having joint venture with Younique LCC, leading online peer to peer social selling platform in beauty. Additional, Burberry Beauty luxury fragrances get acquiring the long-term global license.

Next element will be sustainability. Coty Inc. have been plan for 5 main their future planning. First, they developing their strategies which is consist three main framework. That is Building an inclusive and open culture, reflected in the way their brands communicate as well as in their internal practices and values. After that, they exploring the potential of circular innovation, both in ingredients and packaging, given the significant potential for innovation, partnership and collaboration. Then, their goal still in process which their brand will be in science based. Purpose of this goal is to support United Nations Sustainable Development Goals to handle challenges in social, environment and economic. Secondly, they want create a culture in which everyone can bring their whole self to work. In this world, they have various kind of culture, unique background, strengths, experiences and perspectives. They believe that embracing these differences and furthering diversity throughout their organization makes it all of us richer and better serves their diverse consumers. Thirdly, at the workplace they want the best for their employees committed to respecting and promoting fundamental human rights throughout their own operations and extended supply chain. Committed to ensuring that all their employees work in a safe environment based on equal opportunity such as free from discrimination or harassment. Their employee Code of Conduct sets out what their employees must do to ensure these high standards as well as outlining the reporting process and protocol if they have any concern. To detect and prevent the violation of the law and promote culture of ethical business practices, they have planned to exist global compliance program, 'Behave Beautifully'. They also cast strengthen the ethics and abidance of hotline, run by an independence company. This open to employees and also third parties. Fourth, in term of environment, they more focus to climate change and along with other US businesses, local government and academic leaders, they have signed the 'We are Still In' open letter pledging their continued support for climate action to meet the Paris Agreement. The achievement they been received is in 2018, they ran scenario-planning models to help identify actions and opportunities to explore the potential of developing Science Based Targets. For the environment part, they more focus into to do on their

own operation, they been reducing using energy and carbon, They have a zero waste to landfill target for all theirour owned manufacturing sites by the end of December 2018, the water use at Coty remains relatively consistent year on year when comparing FY17 and FY18 then they cover their supply chain with their own operation. Fifth, they are actively working in partnership within and outside the Beauty industry to address the UN Global Compact principles collaboratively, and have joined it. That is United Nations Global Compact, AIM-Progress and SEDEX, Responsible Mica Initiative (RMI) and another alternative.

Each company will face with risk, same goes to Coty Inc. Coty Inc have been face with credit risk. That is they try to minimize exposure the credit more to public with join derivative contracts with counterparties that have an “A” (or equivalent) credit rating. This contract of counterparties usually by financial institutions. The counterparties is bounded in the fair value of contract in net asset position can cause the exposure to credit risk. The total amount contract which \$44.6 at June 2018. After that, they been face a market risk which focus to inflation risk. To date, they do not believe inflation will give affect much to their business, financial and the result of operates. However if term inflation do have affect their business in the future, they might cannot handle fully the higher cost. Their action that lead to failure handling that risk will harm their business, financial condition, results of operations, cash flows, as well as the trading price of their securities.

## **1.2 Problem Statement**

Corporate Governance been well known long time ago and very important for each companies to apply it. This element have been tighten since big company such as Worldcam, Enron, and Lehman Brothers was fall. This companies had fallen due to lacking implying mechanism of corporate governance. According to Cadbury (2002) mention that corporate governance is a system which the companies being directed and controlled. There are many advantages to the companies to the companies that apply corporate governance but most importantly is the company’s reputation have been improve more. Beside that, corporate governance also help the companies protecting their shareholder interest especially to minority shareholder right. (Lemmon and Lins, 2003). In addition, there are six pillars of corporate governance that the companies must follow to lead their business more better which are independent, accountability, fairness, transparency, and sustainability. If the company waste away this good corporate

governance element will lead the company failure or bankruptcy. Thus, it is important to complete a research to discover how significant is the internal factor and external (macroeconomic) factor impact the Coty Incorporated 's corporate governance index.

### **1.3 Research Objective**

The purpose of this study to make research the impact of Coty Incorporated 's corporate governance index in relation to its determinant.

1. To investigate the internal factor towards corporate governance index of Coty Incorporated.
2. To investigate the external factor (macroeconomic) toward corporate governance index of Coty Incorporated.
3. To investigate the internal factor and external factor (macroeconomic) influence the corporate governance index of Coty Incorporated.

### **1.4 Research Question**

1. What is the affect of internal factor to the corporate governance index of Coty Incorporated ?
2. What is the affect of external factor (macroeconomic) to the corporate governance index of Coty Incorporated ?
3. What is the affect of in internal and external (macroeconomic factor) to the corporates governance of Coty Incorporated ?

### **1.5 scope of Study**

The sample of this study focus to cosmetic industry at United Stated that is Coty Incorporated. The financial and accounting based on Coty Incorporated annual report from year 2014-2018.

### **1.6 Organization of this study**

This study consists of 5 main chapters. First chapter is the introduction of this study, includes overview, statement problem, research objectives, research questions, scope of study and organization of the study. In second chapter, we discuss about the literature review of the independent and dependent variables, which is internal and external factors that influence the

company's return of asset. Chapter three tells that the measurement of variables, research methodology and data analysis. In chapter four, we discuss the findings and results of this study. In final chapter is discussion and conclusion of this study.

## **2.0 LITERATURE REVIEW**

### **2.1 Corporate Governance**

Corporate governance is the system by which companies are directed and controlled. It consists of Boards of directors and shareholder. Boards of directors are responsible for the governance of their companies. Meanwhile, the shareholder's role in governance is to choose the directors and the auditors meet the satisfaction either applicable or not the governance structure been planned. The responsibilities or main of the board include are aim the company's strategy, play role as leader to guide them, monitoring the management of the business and reporting to shareholders the framework on their stewardship. There are five main elements in Corporate Governance. That is accountability, fairness, and transparency, independence and responsibility. Implying this good corporate governance can operate the company smoothly. The firm or company that been practices of good corporate governance show the level performance more better than company that weak or fail to follow (Khatab et al, 2011). After that, according to Mazen Alomari , Mo'taz Kamel Al Zobi , Nahed Habis Alrawashdeh state that involving the management of the company, board of director , shareholder and other stakeholder in the organization can be defined as exist the concept of corporate governance. It showing the general framework that is to complete the organization's objective including monitoring the performance the company. It is also the suitable way to practice the power and responsibilities to the board of directors and higher management to achieve the objectives of the company and its shareholders, to find effective control and to use well and efficiency the company's resources, and the most company want is to support business growth (Organization of Economic Cooperation and Development: (OECD, 2004). The combination of executives of management and board of director in one hand and also shareholders and other stakeholders on the other hand (Matar and 2018 43(4 ) 63 Noor, 2007). Therefore, committed to good practices to limit corruption and conflict of interest and commitment of the management to shareholder interests, guaranteeing their rights and being accountable have seen by the investors. With this practices, there is exist of corporate governance. Represented by banks which is financial organization are among the most

vulnerable organizations to liquidity because of the nature of their credit-based transactions, loans and other activities that are likely to achieve future losses.

## 2.2 Company Performance

### 2.2.1 Ratio of Asset

The asset turnover ratio is the most efficiency method to find accurate asset value. This measurement asset value to see the company ability's to generate sales from its asset. In other words, this ratio shows how efficiently a company can use its assets to generate sales. This can decide based comparing net sales or revenues with average total asset. The percentage from this calculation show how many sales are generated from each dollar of company's asset. Net sales can be found on the income statement of the company. The ratio that been calculated is ratio return and refund which value must break from total asset to find how the company asset capable to generate sale. Meanwhile, for average total asset been calculated by adding the beginning and ending total asset together and divide by two. The higher ratio of asset, higher of the efficiency that company manage their asset to generate asset. The formula been showed like the under table

Asset Turnover Ratio	
Asset Turnover Ratio =	$\frac{\text{Net Sales}}{\text{AverageTotal Assets}}$

Example for 2018 of Coty Incorporated is

$$-64.20/6592.5$$

$$= -0.0097 @ -0.0097$$

### 2.2.2 Ratio of Equity

Ratio of equity indicates how much the company's asset been paid or funded by equity shares. If the company get a lower ratio in their result showing the increase of debt that company used to pay its asset. This happen also affect to the shareholder of that company and it getting worst if the company involved a wide liquidation. The ratio, expressed as a percentage, is calculated by dividing total shareholders' equity by total assets of the firm, and it represents the amount of assets on which shareholders have a residual claim. The figures used to calculate the ratio are taken from the company balance sheet.

Equity Ratio	
Equity Ratio =	$\frac{\text{Total Equity}}{\text{Total Assets}}$

Ratio of equity for 2018 od Coty Incorporated

8,855.2/22,630.2

=0.3913 @ 39.23%

### **2.2.3 Credit risk**

Credit Risk also known as default risk. Credit risk happen to the borrower who fails to meet their obligation in time and regarding the agree term. In simply way, the borrower who failed to make a payment of the debt automatically been declared by lender that the borrower won't get their money back. Other than default risk, there are also migration risk, spread risk or concentration risk. Each of that have its own function. Migration risk mean probability mostly creditor that face unfortunately case will affect their contract. Meanwhile spread risk is market perception of increase risk on either macro or micro basis. After that concentration risk is when concentrate to investment in a particular geographical area or economic or industry sector will increase the exposure of losses. According to Stephen Zamos, Kwame Ohene Djan, Ilan Alon & Bersant Hobdari (2018), Credit Risk defines as happen when the borrower in a debt contract delay in repaying the debt either full or part of the payment.

One of the simplest way to calculating credit risk loss is the formula for expected loss which is computed as the product of the probability of default (PD), exposure at default (EAD) and one minus loss given default (LGD). In term of mathematically, it is represented as,

$$\text{Expected loss} = \text{PD} * \text{EAD} * (1 - \text{LGD})$$

There several important and benefit impact to the company. The major benefit of integrated, quantitative credit risk management is to reduce revenue losses. Monitoring well the credit risk let's the executive management detect which the potential client at the high risk. It will be their strategy opportunity if the credit risk being managed well. If the company manages well the credit risk, it will improve the company's performance and secure the competitive advantages

### **2.2.4 Operational Risk**

Operational risk is the second largest contributor to risk-weighted assets (RWA) after credit risk for the typical commercial bank. In general, operational risk is the risk of business operations failing due to mismanagement or human error. It is not relate to financial systematic or market

wide risk but it is remaining after determining financing and systematic risk also resulting from breakdown in internal procedures people and system if changes from industry to industry so the investor must careful to grab that chance. Industries with lower human interaction are likely to have lower operational risk.

In calculate operational risk, there are three main approaches from calculating operational risk capital requirement. First it called the basic indicator approach. In this approach, operational risk is based on 15% of the bank's annual gross income over the period of 3 years . it also includes both interest and non interest income. Secondly, use standardized approach. In this approach, bank uses eight business lines with the annual gross income of the business line over the period of 3 years. The result are then added to arrive at total operational risk capital charge. Thirdly, use The Advanced measurement approach (AMA). Large banks are encouraged to move from standardized approach to AMA because with AMA, banks can reduce their capital requirement by investing in risk management infrastructure.

In financial industry, usually the occurrence of financial problem give more focus to operational risk. Even though the main reason it occur because of fraud and external events have been exist at the beginning, advance in technology also the reason possibility of operational risk increase. The important of operating risk is owing to its ability to impact a firm's reputation and the relationship between shareholder, customer, and regulators. After that, Operational risk losses are increasing in frequency and magnitude. Other than that, how the treatment of the customer and interaction with customer. Operational risk will get more higher problem if Consumer lending and consumer brokerage show some of the highest operational risk levels and operational risk is greatest in Client, Products, and Business Practices. This the company can directly impact customers and lead to increased reputational harm and regulatory check. Hence, easy to say, preventing and reducing operational risk directly improves a firms footing with reputational and regulatory risks. The e financial services industry relies on automation, digitization, and product innovation for growth and cost savings. Servicing of customers and the interaction with them on digital systems. Risk, New Focus of Regulators on the Treatment of Customers as Victims, and Cyber Risk. All of this signals that the management of operational risk in the end is tied to avoiding reputational and regulatory harm and now assumes a greater position in then enterprise risk management of firms.

### **2.2.5 Liquidity Risk**

As for the Liquidity risk, it will be more understanding if explain the meaning of this risk first. It is the risk that company unable to meet short term financial demands. That's mean short term refer to the business / individual that want to convert the money immediately, hold a valuable asset which not trade or sell at affordable current economy's price and market price due to lack of buyers or inadequate market. Simply way, it happen cause of inability to convert a security /tangible asset to cash with losing a capital or income in the process. According to Mazen Alomari , Mo'taz Kamel Al Zobi , Nahed Habis Alrawashdeh state that Liquidity risk is the method that the ability of the bank to convert assets to a cash value and without losses to meet the obligations and credit requests. Its is important to pointed the Bank Strength and its ability to make sure cash or its equivalent and exchanging asset to convert into cash in short term period. Beside that, this risk main objectice is to get customer's confidence and able to face the bankruptcy. Liquidity is considered inconsistent with the profitability target. That's why there must be either risk or return that can lead bank to achieve their goal.

Mostly investor comparing their investment using liquidity method. This is because this method is easy to market in manage their asset either sell it or convert it to cash. To be in less risky, the investment need to sold quickly rather than cannot be sold at as quickly at the fair market. For the any item that difficult to sell, the investor must expect a higher return because unable turn that item to cash easily. Comparing two similar investment which one is liquid and another is illiquid are the simple way to calculate the liquidity risk. For example, you could compare two corporate bonds offered by similar companies with similar coupons and maturities, but one bond is publicly traded and the other is not. The bond that is publicly traded would be considered liquid, while the non-traded bond would be illiquid. The illiquid bond will have a lower price and higher yield to compensate investors for its higher liquidity risk. The liquidity premium would be the difference between the yields of these two bonds. Another more general method for estimating the liquidity premium is to compare historic Treasury yields with current Treasury yields of similar duration. The difference in yields for the current Treasury and the average past Treasury yield for the duration of your investment is a good indicator of the liquidity premium in the market today.

After that, liquidity do bring a lots of advantage or important especially to who face that risk. First, a common model which is Approaches to Liquidity Modeling. It include Sources/Uses” approach, where management identifies all sources of incoming cash and offsets it by all cash outflows. Another approach, “Structure of Funds,” often augments or supports the Sources/Uses method; this measures the change in the liquidity profile of marketable assets currently held on the balance sheet relative to assets likely to become illiquid under adverse conditions. Secondly, Contingency Funding Plan. This funding plan is which stress testing an institution’s liquidity position. Other than that, it defines the conditions and relative severity of market downturns, as well as the impact on sources and uses of liquidity. Thirdly, Basic Stress-Testing Principles. This principles is another way to recognize liquidity profile of the owner or company. The main key in this principles is the risk manager must maintain the data of their core depositors to detect if market rate changes. After that, the variety of period such as daily, monthly, and annual forecast. Each of it give different technique measurements. Then, assure that stress scenarios are comprehensive.

### **2.2.6 Market Risk**

Market risk more relate to investment term. Market Risk always been faced by the investors due to fluctuation in the market. The investor experiencing a losses which happen cause by the performance in the financial market. Market risk happen when value in investment decrease because of overall performance in financial market. Market Risk can be in different situation. For example, civil unrest or political upheavals, economic sanction and natural disasters and extreme weather events. Consequently, overall performance in the financial market had been given impact by these several factor. The factors are equity risk which mean the risk that share price will change either go up or down. Secondly, commodity risk is the more to grain and metal change value dramatically. Thirdly, currency risk. This risk that possibility exchange rates going to change either will go up or down. Fourth, the interest rate risk mean risk happen from the decreasing or increasing in interest rate. Fifth, the inflation risk. High possibility that the inflation to increase the price of all good and services will undermine the value of money and probably adversely impact the value of investments.

It’s the common and easy to calculate is Market Risk. Market risk premium is to differentiate between the expected return from shareholder and the risk free rate. Market risk premium is the

additional rate of return over and above the risk-free rate, which the investors expect when they hold on to the risky investment. This concept is based on the CAPM model, which quantifies the relationship between risk and required return in a well-functioning market.

Cost of Equity CAPM formula = Risk-Free Rate of Return + Beta \* (Market Rate of Return – Risk-free Rate of Return) here, Market Risk Premium Formula = Market Rate of Return – Risk Free Rate of Return.

The risk free rate is minimum rate investor that investor don't involved in their investment. Then, this risk free rate also known as theoretical interest rate which an investment paid at zero risk, and long-term yields on U.S. Treasuries have traditionally been used as a proxy for the risk-free rate because of the low default risk. The market risk premium consist of three concept which is required market risk premium, historical market risk and expected market risk return.

There are several important of Market risk. That is Setting the risk appetite and deriving the limit structure for individual task. This is highly method process that seeks to align top-down management targets with bottom-up business initiatives. After that, the risk group limit monitoring of control function. meanwhile Limit breaches are typically addressed directly or brought to joint

decision-making bodies bodies (for example, teams from risk and trading). Other than that, risk group or front office or associated operation unit manage the market data. Then, the Pricing models and valuations will be stronger and more reflective of the business's activities also the calculation will be faster. Not to forget that Simulations, risk aggregation, and risk decomposition mostly owned by risk. Hence, sensitivities can be calculated by the front office. The risk reporting being managed by independence risk group.

## **3.0 METHODOLOGY**

### **3.1 Introduction**

Research methodology known as the way or method how we obtained the knowledge or material. For example in teaching or for carrying out research. Research methodology also defined as the approach used in the research to collect the data (Cohen and Manion, 1996). Other than that, It is also defined by Leedy and Ormrod (2001) as the general approach the researcher takes in carrying out the research project. By the end of this study, we will receive the perfect result from data of the company we been research for and can fulfill our main objective of this research. This study been conduct to know the influences of Coty Incorporation company performance and operational risk in cosmetic industry. The method that we used to collect data is Statistical Package for the Social Science (SPSS) version 25

### **3.2 Population/ Sampling**

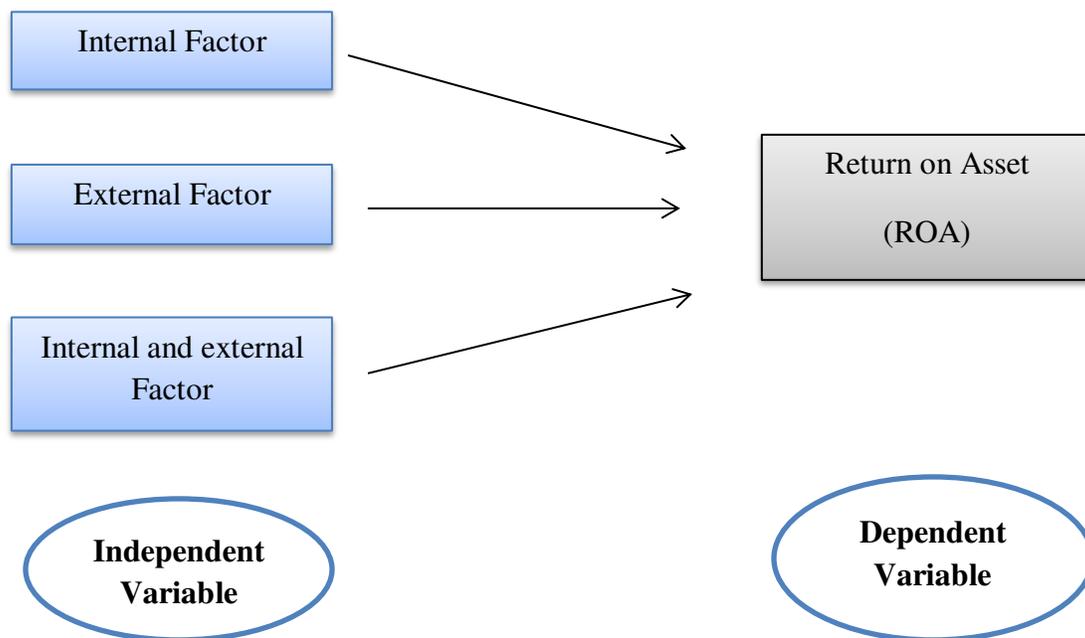
The unit of analysis is the major entity that is being analyzed in a study. For example, individuals, groups, and artifacts could be a unit of analysis in a study. In this study, organizations will be the unit of analysis. The population in this study is the company in the cosmetic industry sector in United State (US). From this population, one company where chosen as sample which is Coty Incorporation. In order to research this company's performance., data from the annual reports company is from the year 2014 until 2018 is used to measure the dependent variables (operational risk) and the independent variables (firm performance factors and macroeconomic factors).

### **3.3 Statistical Technique**

I choose United State to conduct this study and more focus to their cosmetic industry. I have chosen one company from cosmetic industry sector which is Coty Incorporation. I collect the annual reports from 2014 until 2018 for the company and use the details in income statement and balance sheet from these annual report to calculate the influence of Coty Incorporation firm performance from various aspect such as liquidity, credit and market. For non-financial performance, the disclosure of information regarding board of director in terms

### 3.4 Data Analysis

SPSS is the acronym of Statistical Package for the Social Science. SPSS is software package used in statistical analysis of data. It was developed by SPSS Inc. and acquired by IBM in 2009. SPSS is one of the most popular statistical packages which can perform highly complex data manipulation and analysis with simple instructions. According to Landau & Everitt,(2004) It is designed for both interactive and non-interactive (batch) uses. SPSS is a comprehensive system that help researcher in conducting a statistical for analyzing data. In 2014, SPSS was renamed and known as IBM SPSS Statistic after being acquired by IBM in 2009. I use to collect the data of this company in name of IBM SPSS Statistic version 25. The data framework consist of :



## 4.0 FINDING AND ANALYSIS

### 4.1 Introduction

In this chapter, table 4.1 show the correlation benchmark use as refer to which present the data that determine for correlation between dependent variable which is ROA and independence variable consist of current ratio, quick ratio, average collection period (ACP), Debt to income, operational ratio, operation margin, GDP, inflation, interest rate, exchange rate, STDV and Corporate Governance Index (CGI). The table below show to determine between the relationship variables.

#### *Correlation benchmark*

Size of correlation	Interpretation
0.90 to 1.00 (-0.90 to -1.00)	Very high positive (negative) correlation
0.70 to 0.90 (-0.70 to -0.90)	High positive (negative) correlation
0.50 to 0.70 (-0.50 to -0.70)	Moderate positive (negative) correlation
0.30 to 0.50 (-0.30 to -0.50)	Low positive (negative) correlation
0.00 to 0.30 (-0.00 to -0.30)	Negligible correlation

Table 4.0: Correlation Benchmark

## 4.2 Descriptive Statistic

<b>Descriptive Statistics</b>			
	Mean	Std. Deviation	N
ROA	.0093144065	.0249983738	5
CURRENT RATIO	1.169814052	.3428542915	5
QUICK RATIO	.7182111533	.3024582465	5
AVERAGE COLLECTION PERIOD	58.55978291	6.350043016	5
DEBT TO INCOME	-33.1829524	62.20214015	5
OPERATIONAL RATIO	.5606406002	.0695665170	5
OPERATING MARGIN	.0227829665	.0559078810	5
GDP	2.394819364	.5407623170	5
Inflation	1.520000000	.9093954036	5
Interest Rate	1.856578368	.5134891606	5
Exchange Rate	.879020	.0540597	5
STDV	.4562456545	.1387847772	5
CGI	.720	.1095	5

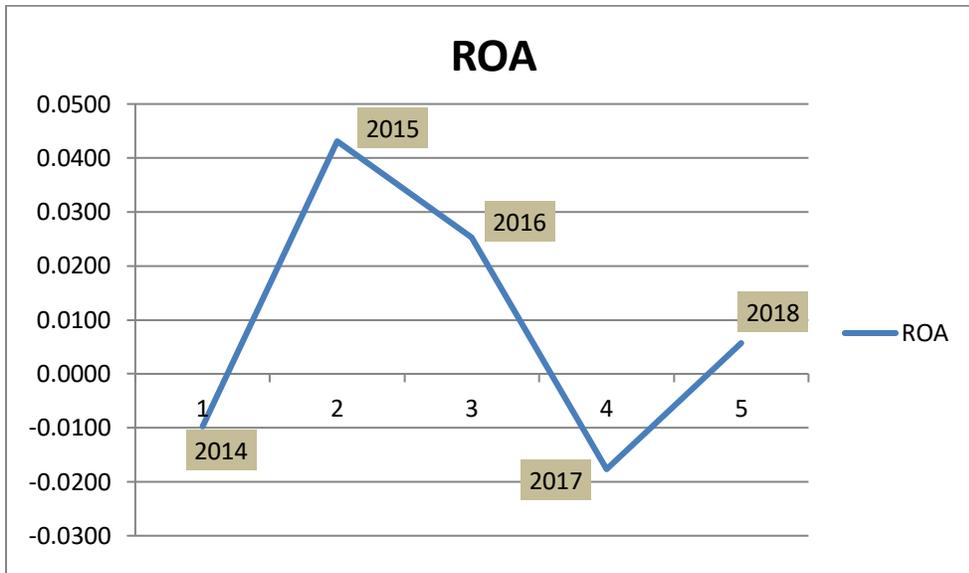
Table 4.1

Descriptive Statistic

Table 4.1 show us the relationship between mean and standard deviation. It show mean and standard deviation for the dependent variable which internal control ROA, Corporate Governance Index (CGI), current ratio, quick ratio, average collection period, debt to income, operational ratio, operating margin), meanwhile external control that is GDP, inflation, interest rate exchange rate and standard deviation. From the table, as can see ROA is on average is 0.0093 with low standard variation is 0.2499. This indicate that the company's income and asset can be easily predicted because can expected what the outcome value for the upcoming. Besides that, same apply to another internal which is operational margin with average 0.0227 and the standard deviation is 0.5590 showing their value can be expected from 2014-2018. After that, for Corporate Governance Index (CGI) on average is 0.720 with low standard deviation is 0.1095. This company have a good CGI within year 2014 until 2018. Meanwhile, for external control, GDP show that the standard deviation higher that is 0.5407 with the average is 2.394. This indicate that the value within these five years is unpredictable same to be apply to upcoming year because the value get spread in a wider range.

### 4.3 Trend Analysis

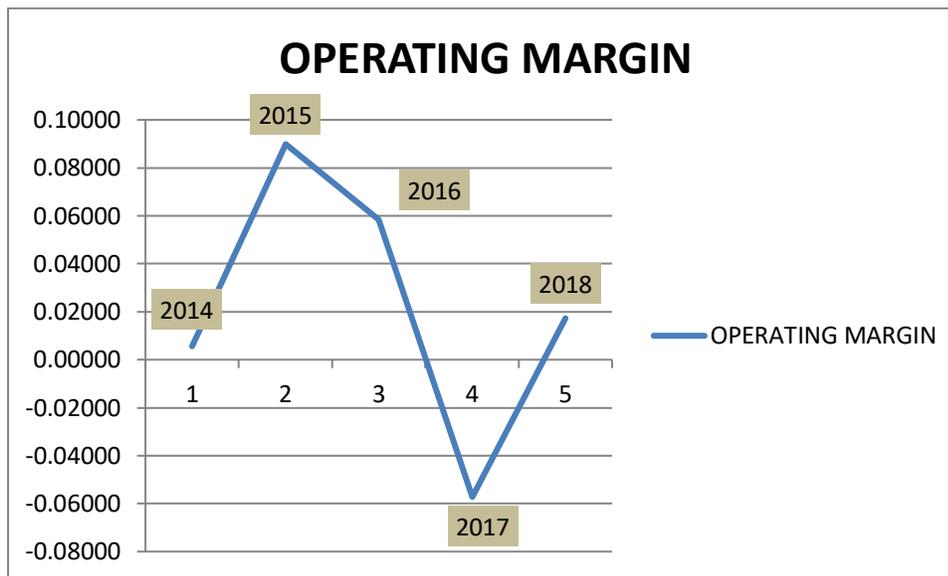
#### 4.3.1 Return on Asset of Coty Incorporated from year 2014-2018



Graph 1.0 : Return of Ratio

Graph 1.0 indicate the performance of Coty Inc during year from 2014 until 2018. Return of asset showing this company apply or using their asset well. The performance can relate with their corporate governance Index (CGI) which give a good result during these 5 years. It's mean this company apply well the corporate governance mechanism. Year 2014 until 2015 showing this company return of asset increase rapidly which -0.97% to 4.31%. It give a good performance to Coty Inc because the drastically changes form negative to positive. Positive at net income will give this company earn more money on their less investment or spending. It showing how efficiency Coty Inc using their asset to generate company business. Even so, this company did experience a drastically negative on their return on asset in year 2017 which is -1.77%. This might due because the company not too productive because still using the old one and not try to make innovation to create new one. Other than that, this company might experience wastage of either their product, raw material and labor hour.

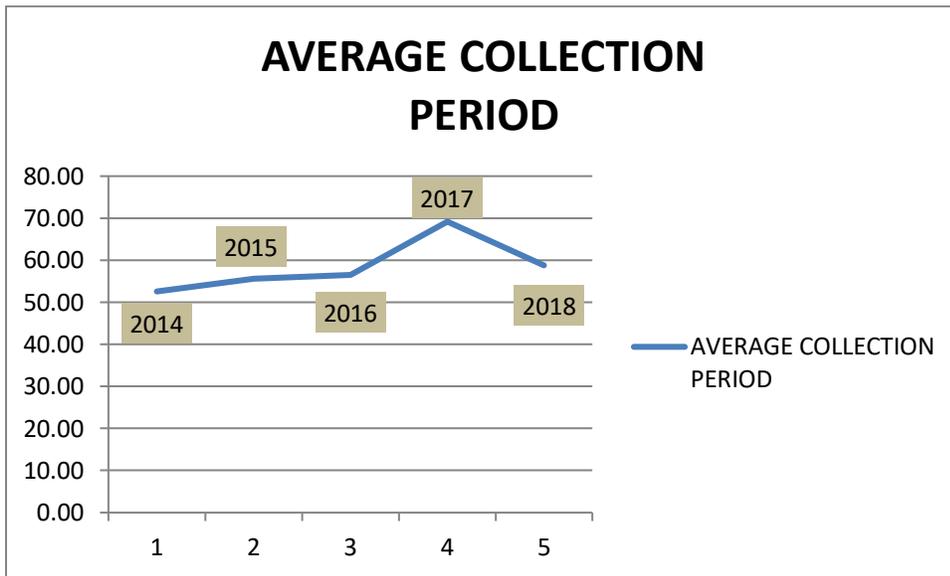
### 4.3.2 Operating Margin of Coty Incorporated from year 2014-2018



Graph 2.0 : Operating Margin

Based on graph above, the operating margin of Coty Inc have been arise during year 2014 which is 0.56% and 2015 is 8.99%. This profit percentage have been arised by 8.42 %. This showing this company able to make profitable from their operations. Unfortunately the performance ratio of the operation profitable have been declined in year 2016 which is 5.84% and then the rapidly declined of profit keep continue by 11.57% until 2018 which is -5.72%. Generally, this usually happen when the sale been declined and the profit increase. However, in this case this company showing the increase of sales but they suffer a higher profit decrease. The company might want more focus to additional expenses as well unexpected increase their expenses cost with the demand of customer and prices increase. This cannot deny that can give the higher risk to the company. After that, the company have been maintain their operating margin again in 2018 with increase to 1.72%. It mean this indicate that the company business turns a higher profit margin on its revenues.

### 4.3.3 Average Collection Period of Coty Incorporated from year 2014-2018



Graph 3.0 : Average Collection Period

Based on graph above, the average collection period of Coty Inc showing how much longer or shorter they collect their its receivable. Start from 2014 until 2016 showing the duration of collect its receivable nearest the same which 52.58, 55.66, and 56.53 respectively. It imply that their period to collect the receivable not quite bad and its reasonable for the company to pay the debt fully. However, in year 2017 this company showing rapidly increase of the period collection which is take 69.19 days. It is not surprising since their ROA which the net income give sign of negative impact. This might due because the company might spend more expenses rather than its revenue. To make it simply, the average for this company collect its receivable among 5 years is volatile which can easily predictable for incoming year.

## 4.4 Correlation

		Correlations												
		ROA	CURRENT RATIO	QUICK RATIO	AVERAGE COLLECTION PERIOD	DEBT TO INCOME	OPERATIONAL RATIO	OPERATING MARGIN	GDP	Inflation	Interest Rate	Exchange Rate	STDV	CGI
Pearson Correlation	ROA	1.000	-.123	-.170	-.479	.931	-.482	.955	.097	-.820	-.107	.865	.929	-.269
	CURRENT RATIO	-.123	1.000	.997	-.667	-.260	-.783	.112	.102	-.307	-.755	-.379	-.462	-.826
	QUICK RATIO	-.170	.997	1.000	-.638	-.287	-.755	.066	.038	-.266	-.717	-.393	-.497	-.785
	AVERAGE COLLECTION PERIOD	-.479	-.667	-.638	1.000	-.447	.957	-.716	-.133	.500	.404	-.288	-.217	.638
	DEBT TO INCOME	.931	-.260	-.287	-.447	1.000	-.381	.898	-.171	-.619	.221	.977	.955	.017
	OPERATIONAL RATIO	-.482	-.783	-.755	.957	-.381	1.000	-.696	-.115	.657	.598	-.230	-.166	.797
	OPERATING MARGIN	.955	.112	.066	-.716	.898	-.696	1.000	.114	-.806	-.198	.794	.818	-.408
	GDP	.097	.102	.038	-.133	-.171	-.115	.114	1.000	-.111	-.535	-.333	-.050	-.459
	Inflation	-.820	-.307	-.266	.500	-.619	.657	-.806	-.111	1.000	.574	-.541	-.595	.673
	Interest Rate	-.107	-.755	-.717	.404	.221	.598	-.198	-.535	.574	1.000	.361	.244	.960
	Exchange Rate	.865	-.379	-.393	-.288	.977	-.230	.794	-.333	-.541	.361	1.000	.949	.176
	STDV	.929	-.462	-.497	-.217	.955	-.166	.818	-.050	-.595	.244	.949	1.000	.104
	CGI	-.269	-.826	-.785	.638	.017	.797	-.408	-.459	.673	.960	.176	.104	1.000
Sig. (1-tailed)	ROA	.	.422	.392	.207	.011	.206	.006	.438	.045	.432	.029	.011	.331
	CURRENT RATIO	.422	.	.000	.109	.336	.059	.429	.435	.308	.070	.265	.217	.043
	QUICK RATIO	.392	.000	.	.123	.320	.070	.458	.476	.333	.086	.256	.197	.058
	AVERAGE COLLECTION PERIOD	.207	.109	.123	.	.225	.005	.087	.416	.195	.250	.319	.363	.123
	DEBT TO INCOME	.011	.336	.320	.225	.	.264	.019	.392	.133	.360	.002	.006	.489
	OPERATIONAL RATIO	.206	.059	.070	.005	.264	.	.096	.427	.114	.143	.355	.395	.053
	OPERATING MARGIN	.006	.429	.458	.087	.019	.096	.	.428	.050	.375	.054	.045	.248
	GDP	.438	.435	.476	.416	.392	.427	.428	.	.430	.177	.292	.468	.219
	Inflation	.045	.308	.333	.195	.133	.114	.050	.430	.	.156	.173	.145	.107
	Interest Rate	.432	.070	.086	.250	.360	.143	.375	.177	.156	.	.276	.346	.005
	Exchange Rate	.029	.265	.256	.319	.002	.355	.054	.292	.173	.276	.	.007	.389
	STDV	.011	.217	.197	.363	.006	.395	.045	.468	.145	.346	.007	.	.434
	CGI	.331	.043	.058	.123	.489	.053	.248	.219	.107	.005	.389	.434	.

Table 4.4 : Correlation

On this internal and external model which refer to the table 4.4, it stated the movement of the significant. It refer from year 2014-2018 of Coty Incorporated. It show Coty Incorporated's independent variable which is Operating Margin (OM) significant correlated to ROA. There is positive significant correlated between ROA and OM that is p value <0.005. This shows that when operating margin or expenses before interest and tax (EBIT) or revenue as a result it increase profit of the company. The remaining of independent variable which are current ratio, quick ratio debt to income, operational ratio, GDP, inflation, interest rate, exchange rate, standard deviation and Corporate Governance Index (CGI) are not significant correlated to ROA.

## 4.5 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.955 <sup>a</sup>	.913	.884	.0085163298	
2	.999 <sup>b</sup>	.999	.998	.0011426659	2.257

a. Predictors: (Constant), OPERATING MARGIN

b. Predictors: (Constant), OPERATING MARGIN, AVERAGE COLLECTION PERIOD

c. Dependent Variable: ROA

Table 4.5 Model Summary

According to model summary above, the adjusted R-Square is equal to 99.8%. this implies that Coty Inc Independent variable which is Operating margin and Average Collection Period able to explain the 99.8 performance of corporate governance performance of the company. Meanwhile the remaining 0.2 of the adjusted remain unknown. Others internal factor such as current ratio, quick ratio, operational ratio, also the external factor like GDP, inflation, interest rate, exchange rate, standard deviation and Corporate Governance Index (CGI) are unable to explain it. After that, Durbin Watson is to measure autocorrelation of the data. If the percentage more than 3 mean there is autocorrelation in data. In this study, the Durbin Watson for this company data is not autocorrelation.

## 4.6 Anova

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	1	.002	31.465	.011 <sup>b</sup>
	Residual	.000	3	.000		
	Total	.002	4			
2	Regression	.002	2	.001	956.227	.001 <sup>c</sup>
	Residual	.000	2	.000		
	Total	.002	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), OPERATING MARGIN

c. Predictors: (Constant), OPERATING MARGIN, AVERAGE COLLECTION PERIOD

Table 4.6 Anova

The ANOVA model is used to explain either is the model of this study is reliable and acceptable or not. Other than that, the significant value in the ANOVA model will show the reliability of this study. If the p value is >10 percent (0.001) significant mean there is no significant at the model same apply to the rest variable such as correlation, model summary and so on.

## 4.7 Coefficient

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)	.000	.004		-.100	.927	-.014	.013		
	OPERATING MARGIN	.427	.076	.955	5.609	.011	.185	.670	1.000	1.000
2	(Constant)	-.100	.008		-12.852	.006	-.134	-.067		
	OPERATING MARGIN	.562	.015	1.256	38.383	.001	.499	.625	.488	2.050
	AVERAGE COLLECTION PERIOD	.002	.000	.420	12.831	.006	.001	.002	.488	2.050

a. Dependent Variable: ROA

Table 4.7.1: Coefficient

Analysis on the coefficient table shows how does the independent variable (Operating Margin and Average Collection Period) has influence on the Return on Asset (ROA) the dependent variable. The study shows that when the independent variable has p value  $<0.001$ , it indicate that the independent variable has most affect or influence the dependent variable. Then if the p value  $<0.05$ , it show that the independent variable has only moderate influence on the dependent variable. Next independent variable will totally loss influence or become insignificant to the dependent variables when p value  $<0.10$ .

On this internal and external model which refer to the table 4.6, it stated the influence of the significant. Based on the table 4.6, Coty Incorporated's independent variable which is Operating Margin has a strong influence to dependent variable with  $t = -38.383$  and p value  $< 0.001$ . That mean that any changes in the Operating Margin and Average Collection period (ACP) will affect the Return of Asset (ROA). This study Coty Incorporated independent variable which Operating Margin (OM) and Average Collection Period (ACP) significant coefficient to ROA. There is positive significant coefficient between ROA and OM. For this study it shows that if the company want increase the profit, the company need to increase the earning before interest and tax (EBIT) by increasing the revenue. Meanwhile for independent variable average collection period (ACP), the company also need to reduce the number of collection period to increase more profit

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)	-.067	.018		-3.680	.035	-.125	-.009		
	STDV	.167	.039	.929	4.344	.023	.045	.290	1.000	1.000

a. Dependent Variable: ROA

Table 4.7.2 : Coefficient

For external factor or model 2, the significant of coefficient is different from internal model. The independent variable that significant to ROA is standard deviation. Based on the table, standard variation has medium influence on the dependent variable with p value is <0.05 and t= 4.344. this study show that when increase the standard deviation will increase the profit as well. When profit increase, the share price in this case show volatility.

#### 4.8 Equation

Model (1) known as internal factor

$$ROA = \beta_0 + \beta_1 CR + \beta_2 QR + \beta_3 ACP + \beta_4 DTI + \beta_5 OR + \beta_6 OM + e$$

Model (2) known as external factor

$$ROA = \beta_0 + \beta_1 GDP + \beta_2 INFLA + \beta_3 i + \beta_4 EXCGR + \beta_5 STDV + \beta_6 CGI + e$$

Model (3) = combine of internal and external factor

$$ROA = \beta_0 + \beta_1 CR + \beta_2 QR + \beta_3 ACP + \beta_4 DTI + \beta_5 OR + \beta_6 OM + \beta_7 CGIDXS + \beta_8 GDP + \beta_9 INFLA + \beta_{10} i + \beta_{11} EXCGR + \beta_{12} STDV + e$$

## **5.0 CONCLUSION**

### **5.1 Introduction**

The purpose of this study been conduct is to determinant relation of Coty Incorporated relationship with its determinants. To accomplish the objective of this study, the internal factor consist of current ratio, quick ratio, average collection period (ACP), debt to income, operating margin, corporate governance index (CGI) meanwhile the external which macroeconomic factor consist of GDP, inflation, interest rate, exchange rate, and standard deviation been used to run in this company's business. This chapter will elaborates regarding findings from previous chapter, limitation that been through and what can conclude from this study,

### **5.2 Discussion**

The study purpose to determine the impact of corporate governance index of Coty Incorporated in relation to its determinant. A study has been conducted to accomplish the objectives below:

1. To investigate the internal factors toward corporate governance index of Coty incorporated.
2. To investigate the external factors toward corporate governance index of Coty incorporated.
3. To investigate the internal and external (macroeconomic) factors influence the corporate governance index of Coty Incorporated.

For this study, table 4.3 shows us the proof that return of asset (ROA) is influenced by the Operating Margin (one of the internal factors). From the table also we can identify that Operating Margin positively significant correlated to the CGI with p value  $<0.005$  (0.006). This study also shows that the operating margin or revenue increase, the return of asset (ROA) also increase. After that, from the table 4.6 we can see that the Return of Asset (ROA) of Coty Incorporated are also influenced by the Operating Margin with p value  $<0.001$  ( 0.001) and  $t = 38.383$ . Beside Operating Margin, there is additional internal factor which is Average Collection Period (ACP) also influence the return on asset (ROA) with p value  $<0.001$  (0.006) and  $t = 12.831$ .

Moreover, external factor also give medium influence the Return of Asset (ROA) which is Standard Deviation with p value  $<0.05$  (0.023) and  $t = 4.344$ . Meanwhile the remaining external

factor such as GDP. Inflation, interest rate, exchange rate, standard deviation was found was insignificant or just play a small role in influence and give impact to Coty Incorporated. For overall this study, we can conclude that these three independent variable play a main role to make Coty Incorporated's performance more better.

### **5.3 Limitation**

The limitation that clearly identify when conduct this study only focus to one company only within five years. Hence, the data and information only limit for only specific these five years.

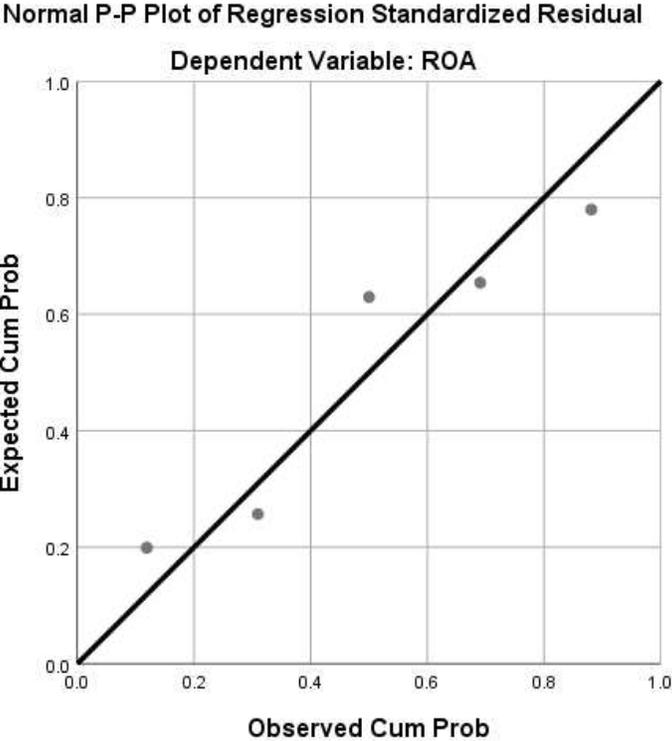
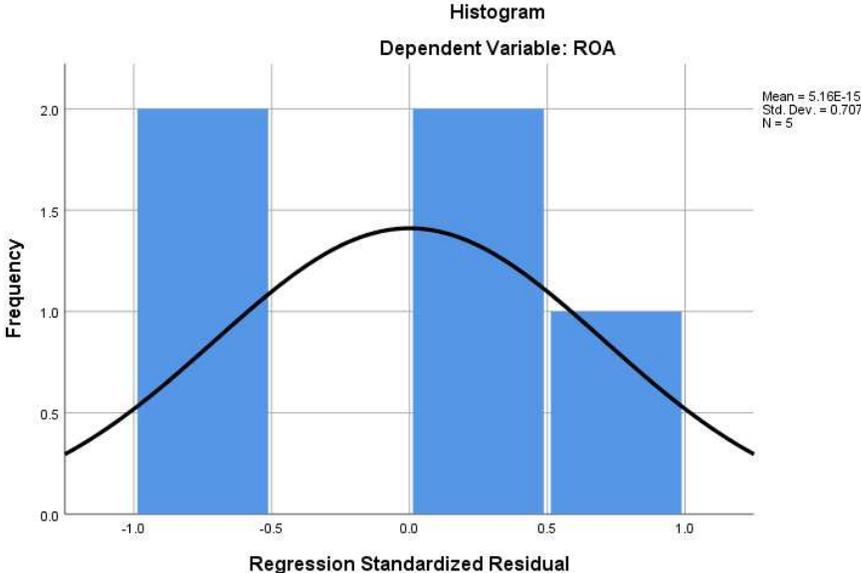
### **5.4 Conclusion**

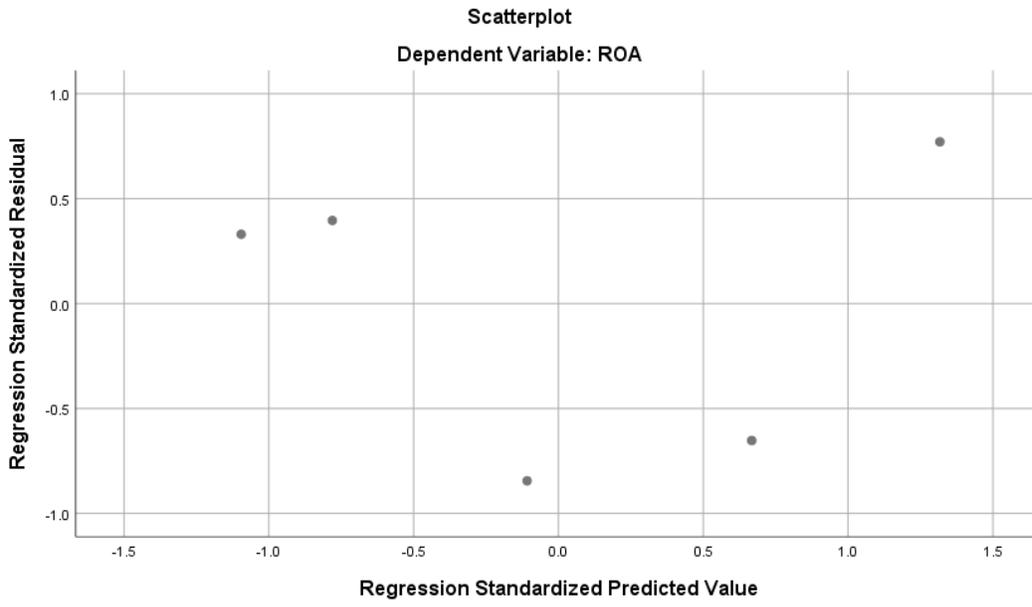
Based on the finding of this study, Operating margin, Average Collection period and standard deviation from external factor has a positively significant relationship with Return of Asset (ROA) of Coty Incorporated. These three independent variable give a positively significant to Return of Asset but we would find the most significant between these three which have most influence to the dependent variable that is Return of Asset (ROA). Operating Margin significantly to ROA with p value  $<0.001$  (0.001) meanwhile Average Standard Period (ACP) 's p value is  $<0.001$  (0.006) and standard deviation's p value is  $<0.05$  (0.023). From this research, Operating Margin give the most significant among these three independent variable and have strong influence to Return of Asset which p value accurate  $<0.001$  (0.001). Every changes in Return on Asset will influence Operating Margin. Moreover, the increasing profit of this company will lead to increase the earning before interest and tax by increasing of the revenue. When Coty Incorporated have achieved a stable Operating Margin, it will help the company gain trust of their shareholders, protect the shareholder rights and at the same time can attract more new shareholders to invest in the company.

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**APPENDIX**





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