Performance and Risk: Empirical Evidence of IJM Corporations Sdn Bhd

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ABSTRACT

This study has been conducted to investigate the risk and profit of a construction industry. This study employs time series regression analysis of IJM Corporations Sdn Bhd from 2011 to 2015. Hence, these studies were using SPSS and ratio analysis to measure the relationship between risk and profit of the companies. This study found that the profit and risk in the construction companies are high regarding on the factors of macroeconomic which is inflation and other factors which is credit risk, operational risk and liquidity risk.

Keywords: Credit risk, liquidity, profitability and macroeconomics

1.0 INTRODUCTION

IJM is one of Malaysia's leading conglomerates business structure and listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"). The core business activities consist of manufacturing and quarrying, construction, plantations, property development and infrastructure concessions. The main office are located in Selangor and IJM's regional has been growing in the existence in developing markets with operations around 10 countries and main focus in Malaysia, United Arab Emirates, Indonesia, China and India. IJM's had create a phenomenal growth over the past three decades and result of firmly focus on its core competencies, diversification into selective expansion into new markets and strategically related businesses.

IJM was formed in 1983 to compete more efficiently against bigger foreign competitors thru mergers alongside with three medium-sized local construction companies which is IGB Construction Sdn Bhd, Mudajaya Sdn Bhd and Jurutama Sdn Bhd. Later, the company began speedily set up itself as a professionally managed construction group and rapidly enter into market acceptance. Throughout the years, the company aggressively
construct its delivery capabilities, financial capacity and competitive skill to strengthen its base as a leading local contractor.

Other than that, IJM Construction Sdn. Bhd. also had civil and building construction activities. It involves in the construction of commercial complexes and also involved in investment activities. The company was establishing in 1990 and located in Petaling Jaya, Malaysia. IJM Construction Sdn. Bhd. acts as a subsidiary company under IJM Corporation Berhad. In April 2007, IJM obtain the Road Builder Group ("RBH"), the close competitor to increase its position as one of the country's biggest construction. In addition to empowering its infrastructure portfolio, property land bank and construction order book, the Group allow IJM to accomplish considerable synergistic performance, greater local renowned as well as attain a more profitable balance sheet to offer for larger jobs and expansion the companies into overseas markets.

In 1986, IJM enter into a public and the companies start with a market capitalisation of RM66 million and total assets of RM172 million. As of 30 June 2014 The Group's market capitalisation amount at RM9.83 billion and total assets amount at RM18.4 billion as of 31 March 2014.

All business ventures are sets their primary goal on earning the profitability. The business need to earn profitability for the business to survive in the long run which consider all current and past profitability and also on future profitability is very essential. Profitability means the capability of a business to utilize its resources to earn revenues in excess of its expenses. In other meaning, where a company’s capability in generating profits from its own operations. The profitability is one of the structure for analyzing financial statements and company performance as a whole and the other three are efficiency, solvency, and market prospects. These key concepts is being used by the investors, managers and creditors to analyze how well the business is doing and what are the future potential the business could have if operations were managed appropriately.

Revenues and expenses are the two key aspects of profitability of the business. As we know, revenues are the business income where comes from the operations which is the amount of money are earned from customers by providing services or selling products. Generating income isn’t free, however. Businesses should use their resources in command to produce the products and provide their services to customer. For example, resources like cash
are used to pay for expenses like employee utilities, rent, payroll, and other necessities in the production process. The revenues and expenses are relate to each other’s which will determine the profitability one of the business or company in terms of the company is perform well and the potential growth of a company in the future.

Company or business are not only will experience on gaining profitability but they will also reflect to the risk. All business operation are expose to variety type of risk in their operation depends on the type of the business which will effect on the profit or earning of the company and may concluded to the condition where the company may lead to the bankrupt. The risk expose are comes from a firm's operations whether of external or internal factors that can affect a firm's profitability. For example, factors such as changes in customer taste and preference which cause changes in customer demand that will affect a firm's stock price to fluctuate as more demand cause less risk while less demand cause more risk to be bear by the by the investor.

2.0 LITERATURE REVIEW

Increasing in non-performing loans will result to credit risk and cause the collapses of banking industry that emerged. A study conduct by Waemustafa and Sukri (2013) suggest that there need to know how credit risk is created in Islamic banks and conventional banks together considering the internal and external factors. The bank’s assets mostly consist of loan and liabilities consist of deposit payable where if there is any inequality in asset and liability could result to credit risk and liquidity risk. Islamic banks are exposed to experience credit risk from financing exposure to the economic sectors such as property, real estate and residential which are deemed very risky cause to their strong correlation with the speculative elements and economic downturn leading to property price bubbles. Nevertheless, RSF does not come out as a determinant of credit risk for conventional banks.

According by Waemustafa and Abdullah (2015), the options to choose the mode of financing by Islamic banks should be allure by this board as to evade any injustices as proposed in Shariah Law. In other meanings, the Shariah Supervisory Board should locate highly apprehensive to any mode of financing provided by the Islamic bank which is not associated with the principle of profit-sharing. An effective Shariah Supervisory Board has significant support towards their remuneration but does not the choice of Islamic mode of financing in Malaysia. Basically, this might give some understanding regarding the response
of ‘cosmetic reason’ which is for the one policy maker, regulator and another researcher on the effectiveness of Shariah Supervisory Board in Malaysia specially when incorporating Shariah Supervisory Boards is a part of the corporate governance.

Regarding to Waemustafa and Sukri (2016), Islamic banks has their own unique nature of the mechanism used that needs a special risk management process to be implement in order to eliminate the risks and to turn into more competitive in the financial industry. The nature of Islamic banks’ were combination of assets and liabilities form a new type of risks specially liquidity risk which is a very familiar risk in Islamic banking. These are due to the mismatch of its assets and liabilities and thus result in a serious bank run to demand depositors quickly. But, under the Two-Windows model, an Islamic bank is virtually bankruptcy evidence that allows it to run more efficiently based on real economic activities. The activities are referring to the principle of Mudarabah and Musharakah on assets rather than depending on the principle of Mudarabah financing. Thus, understanding the sources of liquidity risk of each mode is essential. This allows the Islamic banks to control their liquidity risks specifically, hence, able to seek for liquidity solution.

Moreover findings by Patel and Pitroda (2016), Construction industry is always considered as a risky business looking up to its strategic nature, complexity and the nature of its business environment, activities, organization and processes. Risk in construction has been the biggest of attention due to time and cost overruns linked with construction projects. One of the risks exist in construction projects is when pick the wrong contractors, which will give impact on bad financial resources of the project.

Risk management is a system that been conduct to identify and reduce or mitigate all risks that the companies or project is exposed to so that a brave step can be taken on how to handle the risks. In construction projects managing risk has been known as a very vital management process in order to attain the project objectives in the time, quality, safety, cost and environmental sustainability. The process of risk management is been classified into the risk management system in the order to handle with risk. The first steps is risk identification which is consists of a throughout review of every aspect in the project to identify, find out and expose risks. Next is the risk analysis that deals with the causes and impact of events which expose to risk. After that is risk response that include both preventive actions to eliminate the risk from happen as well as a suitable response in case the risk actually happen.
Lastly is risk retention, it is the ways of reducing and controlling risks through the internal management. Patel and Pitroda (2016).

Profitability is the term which ability of a business entity to earn profits in the business. The profitability also defined as the ability of an investment to earn a return or income. Regardless of being closely related to and commonly interdependent, profit and profitability are two different things. In other words, regards on their common nature, each one of them has a difference function in business. As a term, companies profit has no significance to contrast with the efficiency of a business institution. A sound organizational efficiency does not always represent that the companies own a high profit and low profitability is not always a shows that the organizational had a bad performance. Thus, it can be conclude that the profit is not the main factors on the basis of which the organizational efficiency and efficiency can be compared. Profitability analysis is one of the best technique to measure the efficiency and efficient of the companies. Tulsian (2014).

3.0 DESCRIPTIVE FINDINGS

Return on assets (ROA) shows of how profitable one company based on their own total assets. ROA also shows the efficient management of the company to generate return by using the assets. It is calculated by dividing a company's annual incomes by the total assets. From the calculation, when the return is high it shows that the company are more efficient management in using its asset.
Based on figure, the ROA of IJM Corporations on 2011 was 0.03816 and in 2012 was increasing to 0.03963. For 2013 it was decreasing by point to 0.03718 and upward to 0.058464 in 2014 lastly it keep drop to 0.036139 in 2015. From overall of the five years, years 2014 are more efficient for the company in using their asset to generate income or return by 0.058464. This helps investors and management see how efficient the company can convert its investments in assets into profits. ROA classified as a return for investment for the company since capital assets are the biggest investment for most of companies. In this case, the company invests money into capital assets and the return is measured in profits.

Based on the bar chart above, its shows that the total size of the company which is IJM Corporation was rapidly increasing from 2011 up till to 2015. Total size also known as the amount of total asset in the company. The amount of total size is going up from 12,579,858 in 2011 to 19,730,689 in 2015. The total assets are all the assets that the company owns. Some of the assets that become the capital sources are funded through retained earnings of the company and shareholders paid in capital. While others capital sources are funded through some of the borrowed money. Thus, if company build its assets more than its sales, than the asset turnover will decline. This will conclude a warning sign for the company.

Companies that have bigger total size are more contribute disproportionately to a country’s economic performance than the companies that have smaller size of asset.
Companies that own bigger total size are more productive because they may pay higher in terms of profits, wages, and more booming in international markets. In conclusion, a economic performance of a country can be related to the total of size in companies itself. Refer to the bar chart, in the year of 2015 showed that it was the highest performance of the companies regarding on the total size.

Return on equity (ROE) refers to amount of income returned as a percentage of shareholders equity. Return on equity indicate profitability of a company thru how much profit company can generate with the money shareholders invested. The graph represents the trend for return on equity (ROE) for IJM Corporation. In year 2011, the graph show the return of equity is 0.073558. It had been increasing a little bit to 0.079119 in years 2012. In the year 2013 the return of equity was 0.076986. After that, at year 2014, it rapidly increase to 0.120181 in year 2014, at this stage the company shows an efficiency in management of using the equity to generate return to investor. Lastly, it decreases back in 2015 which are 0.074465. At year 2015 and 2011 the graph shows that IJM Corporation is in low efficiently in use their money to generate the return for the company.
Based on the bar chart above, it shows the market risk analysis for the year 2011 up till to 2015. The company’s performance or level can be affected also by the inflation and the Gross Domestic Product also effected from the inflation in a country. As at 2011, the GDP was 5.3% while the inflation rate was the highest in 2011 by 3.2% among the five years. The GDP was reflected by the inflation of economic factors which is first, global growth force impact due to enlarged of uncertainty about fiscal issues in superior economies, natural disasters and geopolitical tensions. In situations, the earthquake and tsunami in Japan effect problem in the global manufacturing supply chain. Second, commodity prices are increasing due to bad weather and supply problem in order to fulfil demand. Third, increasing volatility in the international financial markets, meanwhile the grow in global risk aversion apply upward pressures on safe-haven currencies. Fourth, the establishment monetary policy in some countries switch of efforts to restore basic or tightening direction accommodation to support growth and an increasingly challenging economic environment and the lastly, inflation stay determined by demand and supply, mostly in the increasing on commodity prices.
Even the Malaysia growth nowadays are decrease but it still been contribute by the business spending and household spending in the effort of keep support the economic growth. Furthermore, because of the rise in the employment in the market it’s made the earnings growth remains strong in the market.

In 2012, the gross domestic product increased by 0.2% which is 5.5% compared to 2011 which reflect from the inflation rate in the years which is 1.7% only. Malaysian economy facing a higher growth due to demand and eliminate the negative consequences of weak external environment. One of the factors people keep demand maybe cause of the low inflation rate that affect the prices on that years. Domestic demand showed a high rate that is including of investment spending and utilization. On contrast of that, in 2011 the unemployment rate decreased by 3.0% which is 3.1% of the overall increase in gross domestic product in 2012 which is the impact of little rise in GDP.

In 2013, gross domestic product falling to 4.7% as the inflation rate is going increase again by 2.1% contrasts to 2012. This is due to some sectors such as construction, mining and quarrying, services and manufacturing facing a decline compared to 2012 that affected to the inflation rate which may cause increase in the market price. It also because of the unemployment rates that cause deterioration in gross domestic product. But beside that, the agriculture sector rising by 2.0% compared to 2012.

Next, in 2014 gross domestic product keep increase rapidly by 6.0% compared to 2013 which is 4.7%. The inflation rate for this year’s is 3.1% meaning it is increasing but the economy growth still in booming. This happen due to many factors which had driven by and a boost in foreign trade and increase in private domestic demand. The export industry also increased through the export of goods and services which contribute to the economy growth rather than import the goods and services. Other than that, the unemployment rate in 2014 also proof that it contribute to the growth due to decrease of 2.9% compared to 3.1% in 2013.

Lastly, refer to year 2015 the gross domestic product were decreased by 5.0% compared to 2014 and the inflation rate was decrease to 2.1%. This is affected to a several sectors that face a decline such as construction, agriculture manufacturing, services and construction. For example, the construction sector falls in 8.2%. The most contribute the falling of the growth are construction sector. In addition, the unemployment rate increased by 3.2% compared to the year 2014, by 2.9% and it impact the economy.
Based on the graph above, it shows the risk analysis for the IJM Corporations Sdn Bhd which consist of credit risk, liquidity risk and operational risk from the year 2011 until 2015 in the industry.

In 2011, the credit risk was 0.915125841 and rapidly increasing thru the year 2012 at 1.483958631. In 2013, the credit risk falling to 1.0608566 and keep constant during the year 2014 and 2015. It is calculated using the debt equity ratio to measure a company's financial leverage, calculated by dividing a company's total liabilities by its stockholders' equity. With the good management of credit risk can result in increase the profitability of construction businesses. Refer to credit risks means that IJM Corporations challenges in evaluating the credit worthiness of their customers. So IJM Corporations only had a high credit risk in 2012 that means bad for the companies.

For the liquidity risk its means that the ability whether the IJM Corporations can meet the short term financial demands which are turn out the assets into the cash immediately. Based on the graph, 2011 was the years that IJM Corporations are mostly expose to the liquidity risk which unable to meet up with the short term financial demands which are 1.457325. Following by the next year 2012 at 0.575386, 2013 at 0.490112, 2014 at 0.440843 and lastly on 2015 which is 0.422933. The higher liquidity risk shows that company unable to convert asset into cash. This been calculated by using the acid test ratio to measure the ability of a companies to settle its liabilities in due with only quick assets.
Lastly is the operational risk calculated using operational ratio by total operating revenue divide with operating expenses. It is the failure that occurs when the companies are having a problem with the system, process or people and misconduct to business failure. The higher the risk shows that the IJM Corporations are not efficient in handling their operation. Based on the graph, 2011 was the high risk in operational by 0.145414446 and it decreasing in 2012 which is 0.09820623. In 2013 it increasingly to 0.10058721 follows by 2014 and 2015 which is at 0.129496622 and 0.119965156.

4.0 DISCUSSION AND SUGGESTION

Refer to the table above, the maximum mean of all variables is between 0.11873393280 for the operational ratio and the minimum mean is 0.04194020 for the ROA. Based on the ROA, IJM Corporations on the average in generating their profit. In 2014 the companies is in the efficient level on earning the profit for the companies which is RM 6,006,481,000. This has been proof that the companies are in good condition as the
companies are efficiency in generating return for the company’s performance. For the standard deviation, the data showed that current ratio is the maximum amount which is 1.570356656622 and the minimum amount for standard deviation is ROA which is 0.009426496. It’s showed that the company’s are in the condition of ability to pay short-term and long-term obligations.

For the market economy outlook, the inflation and GDP are being used to measure the performance of the companies. For the GDP, the mean are 2.440 and the standard deviation are 0.6693 meanwhile for the inflation the mean are 5.300 and the volatility is 0.4950. From that, it is show that there are huge gap between the amount of mean and the standard deviation.

Table 2

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.994$^a$</td>
<td>.988</td>
<td>.984</td>
<td>.001197431</td>
<td>1.250</td>
</tr>
</tbody>
</table>

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

According to the table above, it shows that the adjusted R square is equal to 0.988. The result shows that the credit risk, operational risk, liquidity risk, inflation rate and Gross Domestic Product explain 0.988 of the variance in IJM Corporation Sdn Bhd.

5.0 CONCLUSION

IJM Corporations is one of the leading conglomerate business structure and been listed in the Bursa Malaysia. The business activities of IJM Corporations also include manufacturing and quarrying, construction, plantations, property development and infrastructure concessions. All of this industry in the IJM Corporations had their own exposure to risk and their own nature. So each of the companies need to establish risk management to eliminate the entire risk expose.

An efficient risk management enable the construction company to identify risks and to consider risk that will happen in future. Construction companies that success to manage the
risk effectively and efficiently will impact on the better financial savings, and better productivity, better decision making and enhanced success chance of new projects. It is more comprehensive and systematic way of determined, analyzing and resolved to risks to accomplish the goals in the risk management based on the construction companies. The construction companies need to consider the risk in their daily activities as risk are unexpected exposure that can be happen during anytime. The construction companies need to understand risk preference, risk responsibilities, risk management capabilities and risk event conditions for the companies to be more efficient.

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