THE ROLES OF CORPORATE GOVERNANCE AND ITS INFLUENCES ON RISK AND PERFORMANCE: WZ SATU BERHAD

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THE ROLES OF CORPORATE GOVERNANCE AND ITS INFLUENCES ON RISK AND PERFORMANCE: WZ SATU BERHAD

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Abstract

The motivation behind this review looked to inspect the general performance of WZ Satu Berhad with particular risk elements and macroeconomic component on profit performance. The information acquired from yearly report of WZ Satu Berhad beginning from 2012-2016. The estimation of liquidity ratio and operating ratio used to see the general performance of WZ Satu Berhad in 5 years which purportedly past benchmark. The additional estimation is the asset size, this variable has a negative and no huge liaison with liquidity risk. To see the relationship of risks circumstances to the productivity, this paper is using liquidity (current ratio), GDP and operating ratio. Information was analyzed by using regression and bivariate correlation. The regression scrutiny and bivariate relationship indicates just a single variable of productivity is huge to operating proportion which is ROA with the most elevated effect to the benefit. Notwithstanding, the liquidity and GDP is not huge to profitability with low effect to the profitability.

Keywords: Credit Risk, Liquidity, Profitability and Macroeconomic.

1.0 INTRODUCTION

The organization was joined under the name of Weng Zheng Resources Berhad and it was recorded on 2 January 2008 on Bursa Malaysia Securities Berhad. On 22 October 2008, it changed its name to WZ Steel Berhad and just expected the present name on 30 October 2013.

In October 2013, under the authority and administration of Yang Mulia Tengku Dato' Sri Uzir Bin Tengku Dato' Ubaidillah, the Group changed itself into a differentiated group with various income streams and decreased reliance on steel business.
The Group is currently assorted into Oil and Gas Industry, Civil Engineering and Construction and Mining. Each of the business areas are overseen by industry specialists whom have broad experience. The chief working units of the Group are WZS KenKeong Sdn Bhd, Misi Setia Oil and Gas Sdn Bhd, SE Satu Sdn Bhd and WZS Industries Sdn Bhd.

WZ Satu Berhad is a investment holding company occupied with the arrangement of management services to its auxiliaries. The Company's sectors incorporate civil engineering and construction, oil and gas, mining, manufacturing, trading, investment and others. Securing and carrying out construction contracts are matters that is been engaged by the civil engineering and construction segment.

Its oil and gas fragment is occupied with the matter of manufacture and assembly, and testing works, commerce and after service of products for oil and gas industries. Besides that, for its mining segment would be engaged in all related mining operations and activities. While for steel production will be taken by manufacturing segment of the company, thus, trading activities of steel are liable to its trading segments. Its investment segment is engaged in investment holding. The others sections comprises of mineral resources business and power generation business.

Looking towards the company financial matters, for the budgetary year finished 31 August 2016, the Group created RM465.9 million in turnover as contrasted and RM351.4 million for the former monetary year.
The escalation in turnover is basically contributed by the increment in commitment from WZS KenKeong Sdn Bhd (WZS KenKeong), the civil engineering and construction auxiliary of RM257.6 million as contrasted and its former year's turnover of just RM155.0 million. The oil and gas backup, Misi Setia Oil and Gas Sdn Bhd (Misi) contributed a turnover of RM113.9 million and the adjust turnover was contributed by the assembling and different businesses.

The Group's sales did exclude any commitment from the mining division as the consequences of the related organizations were just equity accounted.

The major inputs to the Group’s primary concern were bauxite mining and civil engineering and development with a commitment of RM9.7 million and RM8.7 million, separately. While the oil and gas division contributed RM3.3 million, the manufacturing and other businesses on the whole pivoted and posted net benefits of RM1.6 million when contrasted with lost RM6.1 million in the previous year. The Group's order book remains at RM931.8 million as at 31 August 2016.

2.0 LITERATURE REVIEW

Additionally research had been done by (Waemustafa, W., 2016) to show the liquidity risk amongst Islamic and Conventional banks in Malaysia. The outcome demonstrated that Islamic bank overwhelms the liquidity performance result contrasted with Conventional bank which described with the mean rate. The computation of fluid variable measured with cash plus short term market securities to aggregate bank asset. The cause of this control is because of the absence of moneylender final resort and interbank money market along with the structural of liability and asset in Islamic bank. Islamic bank need to maintain a sufficient liquidity provision to conform it expected loss from Islamic bank’s financing activities when they face a situation of limited alternative to acquire external financing which sourced from interbank money market and lender of last resort.

Asset and liability structure of profit and loss sharing-based venture account can be consider as an addition to the uniqueness of Islamic bank which permits both risk and profit shared

Another review directed to see the particular determinants of credit risk which utilized a specimen of 15 Conventional and 13 Islamic banks in Malaysia figured out by Waemustafa,
W and Sukri (2015) in view of financial information data obtained from annual report. One of determinant defined by liquidity demonstrates negative significant connection to credit risk for conventional bank concurrently the Islamic bank indicates positive esteem, however this review opined that there is no compelling relation even positive value to credit risk of Islamic banks. The negative connection credit risk and liquidity for the conventional banks acquire from risk taking conduct which said that the higher liquidity the lower credit risk exposure.

Other study examined whether there is any huge impact between Shariah supervisory sheets and their compensation towards Islamic banks decisions in financing mode. The review utilized 18 Islamic banks from the year 2012 to 2013 which worked in Malaysia and broke down by Waemustafa, W and Abdullah, A. (2015). The review uncover that the Shariah supervisory board may decide the mode inclination of financing toward BBA and Murabahah, however the SSB viability does not have significant relationship into the financing mode but rather the compensation has huge connection to the decision of Islamic financing mode where the thought prompt "cosmetic reason ".

Multiple number of studies had been conducted to analyze the link between corporate governance and firm’s performance that show how great governance method have escalate the economic incentive to firms, higher profitability and lower chance of systematic risk (see, Shleifer and Vishny, 1997; John and Senbet, 1998 and Hermelin and Weisbach, 2003). The exact review of Mitton (2001) which taken example of 398 firms incorporate Korean, Malaysian, Indonesian, Philippines, Thailand have found that the firm-level contrasts in factors are identified with corporate governance has solid effect on firm performance amid East Asian Crisis in 1997 and 1998. The outcomes propose that better value achievement is related with firms that have markers of higher revelation quality, higher outside possession fixation and they are centered as opposed to diversified.

Besides that, collecting from other analysis been made by Rouf, Dr, and Md Abdur (2011) the relationship between four corporate governance mechanisms (board size, board independent director, chief executive officer duality and board audit committee) and value of the firm (performance) measures (return on assets, ROA and return on equity, ROE) had been carrying few results based on a sample of 93 listed non-financial companies in Dhaka Stock Exchanges (DSE) 2006. One of it is it could not provide a significant relationship between the value of the firm measures (ROA and ROE) and board size and board audit committee. However, WZ Satu Berhad financial report from 2012-2016 had shown that positive
relationship of ROA with the board size and number of committee established in the company.

3.0 DESCRIPTIVE ANALYSIS

3.1 Net Profit after Tax

Based on the bar graph in figure 3.1 which represented the net profit after tax of the company, it shows the company's performance basically. This bar graph consists of five year net profit after tax of the company from 2012 until 2016. In the first of five year chosen which is 2012, net income of the company was RM88,932 but declined in the following year to become loss of RM28,677. In 2014, net income had been improve and increase to be profit of RM51,595. It is probably of expanding number of board directors from seven to thirteen. Even from 2013, Shariah Supervisory Committee was formed.

However, for the last two years, net profit after tax of the company had ascend multiple times compared to previous years. In 2015, WZ Satu received a total of RM3,646,632 due to certain factors while for 2016, it escalate to become RM5,187,000 by recording the highest net income they attained in these five years. In 2015, BOD had formed Investment Committee to assist and help for better investment made to improve company performance.

Figure 3.1
Based on figure 3.2, total assets for the past five years of WZ Satu could be seen rising from year to year. In the first year (2012), a total assets of RM54,119,040 had been recorded while in the second year (2013), it increase to RM60,375,510 which is only small margin of increment. Moving to the third year (2014), increased in total assets reached almost 100% to become RM112,762,849. It might be because of broadening the size of board of director from seven to thirteen people. In addition, formed of Shariah Advisory Committee may influenced the increase of total assets amount in this year. Eventually in the year of 2015, total assets increased in high margin to become RM200,400,290 in total.

Maintaining the trend of increasing total assets, in final year (2016) the total assets becoming RM239,000,000. Based on corporate governance perspective, continuation of this trend may result from the forming of investment committee in that particular year.
3.3 Return on Assets (ROA)

Generally, ROA is an indicator of how beneficial an organization is with respect to its aggregate assets. ROA gives a thought with reference to how effective the company is at utilizing its assets for produce profit. ROA discloses to you what incomes were produced from contributed capital (assets). Based on figure 3.3, the ROA of WZ Satu decreased from year 2012 to 2013 but later on, its ROA increase in small margin from year 2013 to 2014.

Nevertheless, in the year 2015, company’s ROA increased significantly from 0.046% to 1.82%. It may due to changes happened in board of directors structure. In year 2016, ROA progressively increased that might happened because of investment committee that been formed.

![Figure 3.3](image-url)
3.4 Leverage

A leverage ratio is one of measurement to look at how much capital comes as obligation such as loans, or surveys the capacity of an organization to meet budgetary commitments. Based on figure 3.4, leverage ratio of the company shows a fluctuation trend. 2.819% had been recorded as the leverage ratio for the year 2012 but then it increased greatly in the year 2013 to 14.784%.

This can result in volatile earnings as a result of the additional interest expense, and if it is very high, it may increase the chances of a default or bankruptcy. The following year (2014), leverage ratio decreased to 1.92% when the company increased amount of it total equity and reduced the amount of its total liabilities. It continues to decreasing in year 2015 but eventually increased from 0.996% to 4.279% in the year of 2016.

Market risks exist because of price changes in stocks. For WZ Satu Berhad stock price, it experienced average changes of 0.003215 from the year of 2012 until 2016. Therefore, variance measure for the stock prices is 0.00091 far from the mean that can help determine the risk an investor might take on when purchasing a specific security. Standard deviation acquired is 0.03015 which describe the volatility of stocks that been indicates from the historical data of the stock prices changes.
Based on the figure 3.5, current ratio of the company does not have any certain trends. Current ratio is used to measure the liquidity of the company by inferring the extent of current assets accessible to cover current liabilities. In the first year (2012), current ratio been calculated is 7.26 but then decrease to 2.19. However, for the next two year which is 2013 and 2014, its current ratio increased to 10.41 and 36.50 respectively. It might relate to the expanding number of board of directors, thus, frequency of meeting being held in a year. Yet, for the year of 2016, current ratio dropped to 10.55.
Inventory turnover is a proportion demonstrating how often a company's stock is sold and supplanted over a period of time. The days in the period can then be isolated by the stock turnover formula to compute the days it takes to offer the stock. It is calculated as sales divided by average inventory. As been seen in figure 3.6, the graph shown from year 2012 until 2016, inventory turnover ratio of WZ Satu increased continuously. Start from 1.61 times in 2012, the number increased to 1.89 times in 2013, later becoming 3.16 times in year of 2014.

Whereas in 2015 the number of inventory turnover ratio had increase significantly to 9.51 which is almost three times than the previous year. In the final year (2016), the ratio extends to become 12.74. In these last two year results may happened due to certain factors relating to corporate governance which is changes in number of meeting of BOD or forming others committee that influence the decision or operation of the company.

4.0 DISCUSSION AND RECOMMENDATION

Based on the literature review have been made with descriptive analysis and statistical data obtained, discussion can be carry out to relate data received and made recommendation upon the company performance for five years.
Discussion

Table 4.1:

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
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<tbody>
<tr>
<td>ROA</td>
<td>.0084940</td>
<td>.01054173</td>
<td>5</td>
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<tr>
<td>Net Profit after tax</td>
<td>1800567.20</td>
<td>2449697.739</td>
<td>5</td>
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<tr>
<td>Total Assets</td>
<td>133331537.8</td>
<td>83193019.81</td>
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<tr>
<td>Leverage</td>
<td>0.0496000</td>
<td>.05623641</td>
<td>5</td>
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<tr>
<td>Current Ratio</td>
<td>13.3840940</td>
<td>13.36043125</td>
<td>5</td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>5.782837365</td>
<td>5.042003126</td>
<td>5</td>
</tr>
<tr>
<td>Ratio</td>
<td>023680</td>
<td>553498</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>5.080</td>
<td>.6979</td>
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</tr>
<tr>
<td>Inflation</td>
<td>2.700</td>
<td>1.1314</td>
<td>5</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>3.1660</td>
<td>.23512</td>
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</tr>
<tr>
<td>Exchange Rate</td>
<td>3.7240</td>
<td>.63153</td>
<td>5</td>
</tr>
<tr>
<td>Index score</td>
<td>.6341880341</td>
<td>.0584080326</td>
<td>5</td>
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<tr>
<td>Remuneration</td>
<td>2940093.200</td>
<td>1497310.914</td>
<td>5</td>
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</table>

The descriptive statistics are calculated and analysis mean and standard deviation of all the variables have been presented. The results of descriptive for the variables are in table 4.1. For average five years, WZ Satu makes return on asset (ROA) of 0.85% averagely in five years from 2012 to 2016. This means that assets of the company able to generate 0.85% income, meanwhile it standard deviation is disperse by 0.01 from it mean. Lower standard deviation give a meaning of every year income been generate is not so far from average amount, thus, it show lower risk and positive impact for the company because it is not volatile that is suitable with risk and profitability of the company that does not want volatility.

In addition, looking towards inventory turnover ratio for the company, in 5 years it obtained an average of 5.78 turnovers which is company's efficiency in turning its inventory into sales. Its purpose is to measure the liquidity of the inventory. Standard deviation of inventory turnover ratio calculated is 5.04. Moreover, in macroeconomics perspective, mean for GDP, inflation, unemployment rate and exchange rate attained are 5.08, 2.70, 3.166 and 3.724 respectively.
Table 4.2:

Based on the table 4.2 we can see the relationship using Pearson Correlation between the variables that consists of internal and external factors and ROA. This analysis used SPSS to see the relationship in correlation of ROA as dependant variable with other variable. First relationship can be seen is between ROA and Net Profit after Tax that shown strong positive linear correlation of 0.994 indicate the lesser the variation around the line of best fit.

Next is correlation relationship between ROA and total assets that have positive linear correlation same as ROA and Net Profit after Tax relationship. Positive linear correlations of 0.952 shows that total assets also have small number of variation with ROA line of best fit plus showing good signal to the company if ROA increase will result in increase in profit. At the point when the estimation of the correlation coefficient lies around +1, then it is said to be almost perfect level of relationship between the two variables.

Moving towards the next ratio which is leverage, it has negative relationship with the dependent variable, ROA. Based on the table in Pearson Correlation segment, it shows for every increase of 1.00 in ROA will decrease the leverage of 0.368. Moreover, positive relationship between ROA and current ratio can be state as every 1.00 increase in ROA will affect the current ratio to increase by 0.608 while for the last internal factor that have relationship with ROA is inventory turnover ratio which is +0.983.

Furthermore, external factors also have a correlation linear with ROA neither positive nor negative relationship. These variables categorized as market risk that can be conclude as uncertainty inherent to the entire market or entire market segment. Correlation between ROA and GDP showing a negative linear relationship with variation of -0.667 for every +1 ROA. This might due to WZ Satu still able to generate profit even though GDP is decreasing and can be related to its export activities that played major role in this context and not affected by local market situation.

Inflation also is one of independent variables that have positive linear correlation with ROA. From the data obtained, it shows that even inflation increased by 0.553, ROA also will increase by 1.00. For unemployment rate and exchange rate, both of it have strong correlation linear with ROA which are 0.989 and 0.958 respectively. All in all, from external factors correlation linear figure received, WZ Satu practically is not really affected by local market yet more to trading.
**Recommendation**

In my perspective, one of the most suitable recommendations in order to improve the company performance or retain it high standard is better practice corporate governance to improve profitability.

The exposure of operation called as operational exposure which created losses coming from the general population, forms, system failure and from outside circumstances Li, L. and Moosa, I. (2015). Looking towards Panasonic as a production company segments, the people deterioration may be the brought on wastefulness with expanding working costs since the wrongdoings of a person lead this wastefulness. Along these lines, the operation ought to be controlled and coordinated in legitimate way with the corporate administration.

CG itself alludes to the instrument, procedures and relations by which partnerships are controlled and coordinated. For the 2014 onwards, this company ought to focus to the corporate governance since there are changing in the CG index that brought positive impact on the company’s performance. Thus, the high profitability implies that the company might get adequate income to give reasonable return to investor since the organization are receiving well income as it can be seen on the significant relationship of operation to profitability with the highest impact.

To explain the issue of individuals failure in this organization particularly on top administration, the contribution of directorate with the impetus character "more proactive" BOD is required with playing the main part in constituting and changing the mission, targets, methodology and approaches to diminish any disappointment of top administration technique which prompts inefficiency and incapability operation.

**5.0 CONCLUSION**

All in all, unmistakably three types of risk that been estimate and applied for the study of WZ Satu Berhad which is liquidity, operational and market risk is confronted to every businesses particularly in the study of the manufacturing firm. Based on the review been made on liquidity ratio, it shows that from 2013 onwards, WZ Satu Berhad could manage its liquidity risk effectively and efficiently that shown the promising increase in ratio but eventually it dropped on 2016 due to certain factors. Besides, solvency risk been estimated to be on a good track by lower its risk that give a meaning this company less dependent on borrowing for its operations. Inventory turnover ratio which increase also
show the efficiency of the company improve from year to year. Furthermore, for the company to keep maintain good retain profit from 2014 onwards, investment activities have to take place and plan as well as possible to have higher ratio in ROA. Along these lines, this organization ought to concern more to the corporate governance to decrease any inefficiency that diminishing the capacity of the company in creating more profit. Moreover, to adequate with the market changes thus to cope with globalization happened, corporate governance structure need to be look upon as it might help to improve the company performance comprehensively.

REFERENCES


### Appendix

#### Table 4.2 (Correlations)

<table>
<thead>
<tr>
<th>Pearson Correlation</th>
<th>ROA</th>
</tr>
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<tbody>
<tr>
<td>ROA</td>
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<tr>
<td>Net Profit after tax</td>
<td>0.994</td>
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<tr>
<td>Total Assets</td>
<td>0.952</td>
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<tr>
<td>Leverage</td>
<td>-0.368</td>
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<tr>
<td>Current Ratio</td>
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<tr>
<td>Inventory Turnover Ratio</td>
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<td>GDP</td>
<td>-0.667</td>
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<td>Unemployment Rate</td>
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