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Abstract

The purpose of the study is to investigate the overall performance of Kossan Rubber Industries Bhd with internal factors and external factors on profitability performance. The data obtained from annual report of Kossan Rubber Industries Bhd during the years 2011 to 2015. The financial ratio used to measure the overall performance and risk of the company. The measurement of current ratio, return on assets (ROA), and inventory turnover are used to determine the overall performance and the efficiency of Kossan Rubber Industries from 2011 to 2015 years. Next, to see the impact of the right of abode as a profitability of internal and external factors, this article also uses the remuneration and exchange rate. This correlation analysis was showing that there is three internal factors variables which are current ratio, financial leverage, and remuneration followed by one external factors variable which are the GDP and the inflation are showing not significant relationships to profitability. However, exchange rate are significant relation to the profitability.

Keyword: Performance, Internal Factor, External Factor, Profitability

1.0 Introduction

1.1 Background of the Study

The Malaysian rubber industry has been developing for many years and has developed into a more integrated industry. The rapid development of the middle and lower reaches of the industry has made the industry a billions of dollars. In the past seventeen years (1990-2007), the total volume of rubber consumed in the sector increased by 209% from 187,592 tons to 579 248 tonnes, of which NR is the main material used. Malaysia is now the world's fifth largest consumer of the country. Export earnings of the rubber industry expanded by 438.1% from RM 1.87 billion in 1990 to RM10.09 billion in 2007.

Kossan Rubber Industries Bhd is a publicly traded company that has been engaged in glove manufacturing since its inception in 1979, followed by technical rubber and cleanroom manufacturing expertise. KOSSAN is also the largest manufacturer in Malaysia for a wide range of industrial applications, including infrastructure, shipbuilding, aerospace, railways and cars. KOSSAN from the strength to grow and become the world's second largest latex disposable glove manufacturers, with an annual capacity of more than 22 billion. Its footprints in the global market rooted in gloves, the products are sold to more than 160 countries.

Result of the company performances and risk as a signal to show the how well the company is performing and action should be taken by the company. Thus, the financial ratio is a useful way to assess firm performance in order to make decisions for business owners, managers, investors and shareholders. The financial situation of company can also be determined by the stakeholder's financial ratio tool. In addition, the tool can be used to compare companies within the industry, industry or within the company.

Risk is the effect of uncertainty on the ability of an organisation to meet its objectives. Risk also is a loss that can influence other conditions in firm such as profit. Generally, there are many types of financial risks. The most common include credit risk, liquidity risk, asset support risk, foreign investment risk, equity risk and currency risk. In addition, correlation analysis is being evaluated to determine whether the relationship between company variables, performance, and risk is positive or negative. It can be easily seen from the inside whether there is a significant correlation, and can be proposed to solve these problems. Thus, in this study, using financial ratios and correlation analysis to evaluate the performances and risk of Kossan Rubber Industries Bhd listed on the Bursa Malaysia.

The remainder of this paper classified into four sections. The next section (Section 2) is the literature review; Section 3 discusses the descriptive review; Section 4 is the discussion and recommendation and last section (Section 4) gives the conclusion of the paper.

2.0 Literature Review

In generally, most of the researchers figure out the financial ratios analysis is used to evaluate the company's performance. The financial ratio is a relationships between financial statements accounts help investors, creditors, and internal corporate executives understand business performance and areas where improvements are needed. The financial ratio is the most common and extensive tool for analysing the financial situation of an enterprise. The ratio is easy to understand and the calculation is simple. They can also be used to compare different companies in different industries. Since the ratio is based only on the proportion of mathematical comparisons, the size of the company can use the ratio to compare its financial information. The data will be presented in the financial statements, such as the balance sheet and the income statement. The financial ratios are traditionally divided into four categories, including the liquidity ratio, the financial leverage ratio, the asset management ratio, and the profitability ratio. All categories of financial ratios should be systematically and accurately analyzed.

Under the study of (Edward, L., 2005), the use of financial ratios is a time-tested method of analyzing a business. Wall Street investment, firms, bank loan officers and knowledgeable business owners all use financial ratio analysis to learn more about a company's current financial health as well as its potential. Financial ratio analysis can be used in two different but equally useful ways. You can use them to check the company's current performance, compared with the past period of time, from the previous quarter to a few years ago. Often, this can help you identify problems that need to be fixed such as what better is that it can guide you to the potential to avoid the problem. In addition, you can use these ratios to compare the performance of your company with competitors or other members of the industry.

Further study conducted to result of comparing the differences of the determinants of credit risk between Islamic banks and conventional banks from the perspective of banks specific factors and macroeconomic variables analysed by Waemustafa, W and Sukri (2015). This study shows that regression results of macroeconomics model indicate both Islamic banks and conventional banks show negative coefficient sign of Inflation, and M3 are negatively significant to credit risk for Islamic banks and conventional banks.

The significant impact of the Islamic Supervisory Commission (SSB) on the choice of Islamic banks' financing model is also a study by Waemustafa, W and Abdullah A. (2015). The study employed 18 Islamic banks as samples in Malaysia (2012-2013). Indicating that the effectiveness of the branch and the Islamic bank financing model is not relevant. However, the SSB's remuneration and the bank's financial growth are positively related to the financing approach.

Abuzar M.A. Eljelly, (2004), conducted study efficient management of the broader measure of liquidity, working capital, and its narrower measure, cash, are both important for a profitability of company and well being. However, as argued vividly by Nicholas (1991,) companies usually do not think about improving liquidity management before reaching crisis conditions or becoming on the verge of bankruptcy. Investors, lenders and managers are looking forward to the company's financial statements, using liquidity measurement ratios to assess liquidity risk. This is usually done by comparing current assets and short-term liabilities. Overly leveraged companies must take steps to reduce the gap between cash and debt. Market wide liquidity appears to be a state variable that is important for pricing common stocks by Lubos. P (2015).

Another study conducted to Systematic and Unsystematic Risk Determinants of Liquidity Risk between Islamic and Conventional Banks examined by Waemustafa, W and Sukri (2016). The comparing with the traditional banks, the principles of Islamic banking business is unique. Despite Islamic banks coexist with traditional banks, the unique nature of the mechanisms used requires a special risk management process to reduce risk and become competitive in the financial sector. For example, Islamic bank debt financing is considered to be very popular because it is very risky, especially those who prefer the debt financing of the risk of disgusting customers. Islamic banks manage their liquidity risks internally, and therefore, in addition to the Islamic capital markets, they can provide additional liquidity options to seek liquidity solutions.

3.0 Descriptive Analysis

3.1 Performance of Kossan Rubber Industries Bhd

From the financial report of Kossan Rubber Industries Bhd from 2011 to 2015, it Provide information on the financial situation, performance and financial status of the enterprise, making useful economic decisions for a wide range of users. Trend analysis can be determined by using financial ratios. The financial ratios are summarized as below:

Item	2011	2012	2013	2014	2015
Revenue (RM'000)	1,089,969	1,234,001	1,307,292	1,301,740	1,639,509
Total assets(RM'000)	812,446	989,937	1,106,018	1,289,665	1,476,295
Current ratio	1.52	1.65	1.80	1.67	2.14
Return on assets (ROA) %	11.15	10.58	12.66	11.54	13.96
Return on equity (ROE) %	17.99	16.97	19.40	17.98	21.13
Debt to equity ratio	0.57	0.60	0.53	0.56	0.51
Average Inventory(RM)	143,717,856	156,379,500	148,881,000	171,157,000	199,506,000
Inventory turnover	7.58	7.89	8.78	7.61	8.22

Table 1: Financial Ratios of Kossan Rubber Industries Bhd from 2011 to 2015

Item	2011	2012	2013	2014	2015
Gross Domestic Product, GDP (%)	5.3	5.5	4.7	6.0	5.0

Table 2: Gross Domestic Product in Malaysia from 2011 to 2015

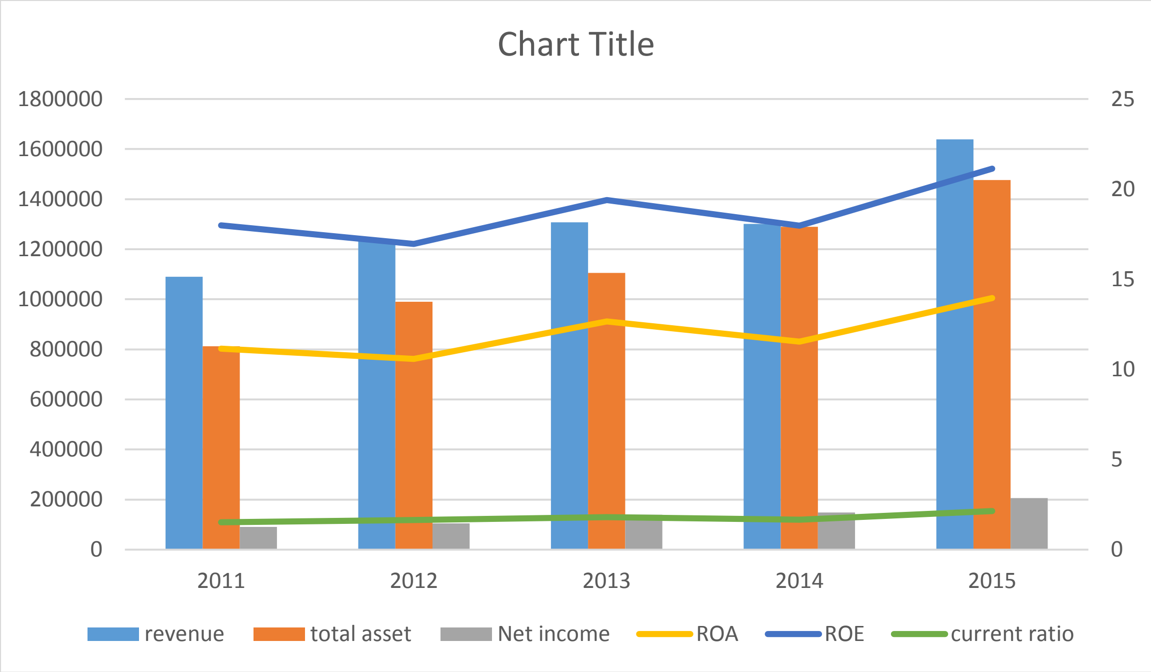

Figure 1: Financial Ratios (Revenue, Total Assets, Net income ROA, ROE and current ratio) of Kossan Rubber Industries Bhd from 2011 to 2015

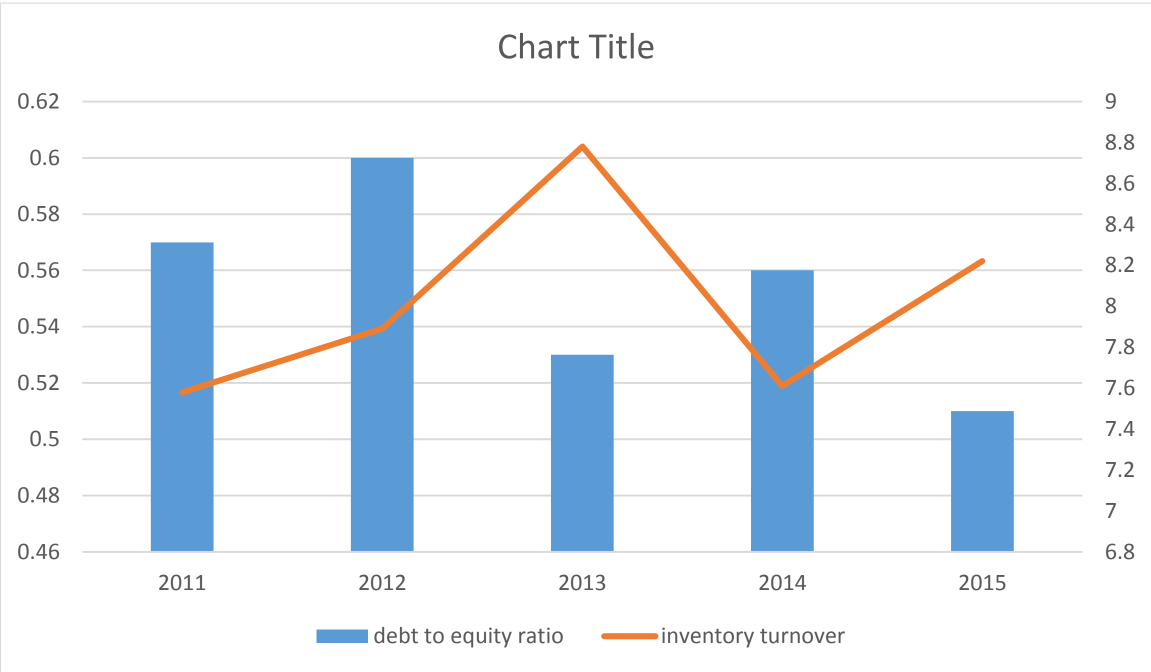

Figure 2: Financial Ratios (Dedt to equity ratio and Inventory Turnover) of Hartalega Holdings Berhad and GDP in Malaysia from 2011 to 2015

In Figure 1, current ratio is the measures liquidity ratios, current ratio is one of the best known and most widely used ratios. Looking at the current ratio of the company in five years (2011-2015), it is shown that the trend are upward trend, which are increasing from

2011 to 2015 but in year 2014 decreasing from 1.80 to 1.67. Even though the current ratio declined in 2014, but it is still in acceptable rate because the ratios is still above in 1 mean the current assets of the Kossan are still able to cover the current liabilities. The reason of liquidity ratios was affected by the significant drop in net working capital. In 2014, the increasing on current asset (RM59,559 or 11.9%) is less than the increasing on current liabilities (RM57,041 or 20.46%). Overall, Kossan does maintain good liquidity where it utilised the current assets, means the Kossan ability to pay back its liabilities (debt and accounts payable) with its assets. The lower liquidity risk (current ratio is less than 1), indicating that the company's financial situation is not good.

From profitability perspective, both of the ratios such as return on asset (ROA) and return on equity (ROE) are shows the fluctuated trend. For the return on asset (ROA) and return on equity (ROE), which are increasing in 2013and 2015 while 2012 and 2014 are keep decreasing. Although it is declined in 2012 and 2014, but it is still in acceptable rate because the ratios is still high. Thus, Kossan has more effective management in utilizing its asset base and higher the efficiency of management in the use of its equity, the better the return on investors.

Next leverage ratio, the performance of the Kossan shown a good performance as there was dropped in debt-to-equity from 0.57 times in 2011 to 0.51 times in 2015, which is 10.53%. This means that the company run a decreased risk of defaulting on their loans, which is credit risk. Distinctly, the credit risk in this company is lower, because the lower take debt where the probability of company bankruptcy is reduced as well.

For the asset efficiency of Hartalega Holdings Berhad, the inventory turnover shows the growth trend from 2011 to 2015 (7.58 times to 8.22 times) but declined in the 2014 years from 8.78 times decreasing to 7.61 times. Thus, the higher ratio on inventory turnover in 2013 (8.78 times) means that the company more efficiently in managing inventory and strong sales. Although inventory ratio declined in the 2014 but it will increasing back in 2015, this indicate Kossan bring the good or stable performance in that year. Overall, the asset efficiency of company is maintained good.

Next, gross domestic product (GDP) is one of the economic indicators that determine the economic health of a country and directly affect performance. As can be seen from Table 2 above, gross domestic product (GDP) of Malaysia declined during 2012, 2013 and 2015, but there was no significant change during this period. As a result, the decline in gross domestic product in Malaysia will directly slow the growth of Kossan Rubber Industries Bhd. This means that compared to other years, 2012, 2013 and 2015 the company's market risk is higher.

3.2 Correlation Analysis

Table 3: Descriptive Results

	Mean	Std. Deviation
ROA	.119825944883383	.013490383638093
Current Ratio	1.756716860306025	.236984856573299
Financial Leverage	.556397421439682	.036157478010069
Remuneration	19258975.40	8272607.928
GDP	5.300	.4950
Inflation	2.440	.6693
Exchange rate	3.4600	.49168

Table 4: Correlations Matrix of Internal Factors to Profitability

Pearson Correlation	ROA	Current ratio	Financial Leverage	Remuneration
ROA	1.000			
Current Ratio	.919	1.000		
Sig.	0.14	-		
Financial Leverage	-.969	-.816	1.000	
Sig.	.003	.046	-	
Remuneration	.832	.900	-.786	1000
Sig.	.040	.019	.058	-

Table 5: Correlations Matrix of External Factors to Profitability

Pearson Correlation	ROA	GDP	Inflation	Exchange rate
ROA	1.000			
GDP	-.597	1.000		

Sig.	.144	.-		
Inflation	-.221	.468	1.000	
Sig.	.360	.213	-	
Exchange rate	.872	-.198	-.090	1.000
Sig.	.027	.375	.443	-

Table 6: Coefficient Result of Internal Factors

Model		Beta	t	Sig.
	(Constant)		4.763	.132
	Current Ratio	.505	2.283	.263
	Financial Leverage	-.678	-4.351	.144
	Remuneration	-.155	-.750	.590

Table 7: Coefficient Result of External Factors

Model		Beta	t	Sig.
	(Constant)		2.628	.231
	GDP	-.476	-1.902	.308
	Inflation	.072	.295	.818
	Exchange rate	.785	3.538	.175

Table 3 shows two type of factors which is internal factors and external factors which those variables is being related to the performance of the Kossan Rubber Industries Bhd. The mean of profitability measured by ROA of the Kossan is 11.98% and there is also having a 1.34% of standard deviation for ROA of Kossan. The current ratio of the company (liquidity) with the mean of 1.76, financial leverage mean 0.56, remuneration mean 19258975.4, gross domestic product (GDP) mean 5.3, inflation mean 2.44, and exchange rate mean 3.46.

Tables 4 and 5 show the Pearson Correlation result of Kossan in internal and external factors variables. In tabale results 3, current ratio is showing the P value more than 0.1 mean the positive not significant to the return on assets (ROA) and remuneration also shows the positive but significant to ROA, while financial leverage shows negatif significance correlation to the ROA. Which means that the internal factors variables such as current ratio and remuneration are having the chance to influence the ROA of the company such as increasing in remuneration for the board would have significance correlation to the ROA increases. However, based on the external factors variables GDP and inflation both are negative not significance to ROA In contrast, inflation is negative not significance correlation with the ROA, it implies that the GDP and inflation would affect the ROA of Kossan to drop when the both are increasing. Next, exchange rate is indicating positive significance to ROA of Kossan.

Tables Results 6 and 7 shows that the coefficient result from the internal and external factors of Kossan. The coefficient for all the internal factors and external factors variables are not significantly because P value larger than 0.1. So, this study indicates that most of the factors have the positive relationship to ROA of Kossan but there are still do not have significant relationship which could affect the change of ROA of Kossan significantly.

3.2.1 Liquid to Profitability

Liquid computed by current ratio with P value > 0.10 means that liquidity have positive and insignificant relation to profitability in all variables of measurement. Next, the liquid have the positive relationship to profitability but it still do not have quite high impact compare to remuneration and financial leverage. This positive relationship implied that any profitability ratios will react by increasing in value, when liquidity represented by current ratio increasing. Another perspective of positive relation, the asset conversion is effectively converted to cash since receivable payment no delayed.

3.2.2 Inflation to Profitability

The inflation which is one of the external factors also call macroeconomic factor tested with P value > 0.10 indicates insignificant relation to profitability. It shows negative insignificant relation to the profitability of the company which is ROA. This implies that the sustained increment in the prices for goods and services will affects the return of the company deteriorates. This is probably happen that the increases of inflation would probably negatively influenced the economic growth and also profitability of company (Boyd & Champ, 2006). So, when the inflation increasing year by year, the profit for the company would facing a problem for earn more return.

4.0 Discussion and Recommendation

4.1 Discussion

Overall, performance of Kossan Rubber Industries Bhd from year 2011 to 2015 was showing favourable in the performance result for all measurements of movement in liquidity ratio, profitability ratio and asset efficiency ratio. In addition, the inflation and exchange rate are the risk variables more influence on profitability performances, where t value equals to 0.295 and 3.538 respectively. Since the performance of Kossan Rubber Industries Bhd from year 2011 to 2015 are good, so the company can try to increasing their sale to gain more return and maintain the good financing risk management.

4.2 Recommendation for Improvement

4.2.1 Improve Liquidity Management

A study of liquidity is of major importance to both the internal and the external analysts because of its close relationship with day-to-day operations of a business (Bhunia, 2010). Liquidity plays an important role in the successful operation of a commercial company. The company should ensure that there is no shortage or excess liquidity to fulfil its short-term coercion. The purpose of this study is to examine the liquidity management from the perspective of corporate credit policy, cash flow management and cash conversion cycle. The company can improve cash flow management such as minimum cash level assist management to maintain enough cash to meet its day-to-day operating expenses. Effectively monitor accounts receivable to ensure that you are properly billing your customers and that you are receiving payment in a timely manner. The company can use the trade- off theory to holds that firms position the optimal level of liquidity as the balance of interest and costs of holding cash. The cost of holding cash includes the low rate of return on these assets, as liquidity premiums and possible taxes are unfavourable. Then the company can saves the transaction costs to raise funds, do not need to liquidate the assets to pay. If other sources of funds are not available or extremely expensive, the company can use liquid assets to finance its activities and investments.

4.2.2 Improve Inventory Control for Liquidity

Another enhancement need to implemented is the improve inventory control where the company should clear up the stock of inventories in the warehouse. Control inventory through easy-to-use screens to update item inventory quantities and detailed information, inventory valuations and planning, and set up project policies such as delivery and replenishment plans.

Besides that, warehouse management also want to take care for company such as detailed areas provide the basis for advanced picking and put away techniques. Easy integration with automated warehouse systems is provided. Automatically convert customer quotations into orders for your products, receive orders for sales of almost any product or service from the order by invoice. Inventory physical counting is an important measure to improve inventory management control (Chron, 2016). Regardless of the inventory system used by the enterprise and how to save inventory records, actual stock losses due to theft, damage or waste are always possible and may not be reported and recorded in the inventory account in a timely manner. Inventory year-end or periodic physical inventory helps to identify potential differences between existing inventories and inventories recorded in inventory accounts. Without this information, inventory management controls may be misleading.

4.2.3 Good corporate governance to Improve Profitability

Corporate governance is on the top of agenda for international development as stated by James Wolfensohn that "the governance of the corporation is now as important in the world economy as the government of countries" (Wolfensohn, 1998). Good corporate governance enhances the company's image and reputation, making it more attractive to investors, suppliers, customers and other stakeholders. Good corporate governance needs to be done before production. In the production process, the company manager should give priority to control the production of gloves to ensure that all product quality and high quality. With the improvement of product quality, the transaction between the state and the country will also increase. This will bring high income and profits for the company, and improving profitability of company.

5.0 Conclusion

The purpose of this study is to examine the profitability, performances and risk of the Kossan Rubber Industries Bhd from 2011 to 2015 by using the financial ratios analysis and internal risk and external risk management. The financial ratios analysis is relationships between financial statements accounts help investors, creditors, and internal corporate executives understand business performance and areas where improvements are needed. Financial ratios are the most common and widespread tools used to analyze a business' financial standing. Liquidity ratio is the ability of the company to repay its current liabilities and its long-term liabilities at maturity such as current ratio. In other words, these ratios show the company's cash level and the ability to convert other assets into cash to repay liabilities and other existing obligations. Next, profitability ratios (ROA) compare income statement accounts and categories to show a company's ability to generate profits from its operations. Profitability ratios focus on a company's return on investment in inventory and other assets. These ratios basically show how well companies can achieve profits from their operations. The financial leverage ratio (sometimes referred to as equity or debt ratio) measures the company's share capital value by analyzing its overall debt situation. These ratios will compare the debt or equity with the assets as well as the outstanding shares to measure the true value of the firm's equity. Lastly is efficiency ratio, also known as the activity ratio, measures how firms use their assets to generate revenue. Management uses these ratios to help improve the company as well as external investors and creditors to understand the company's profitability.

On the other hand, internal risk and external risk management was used to examine the risk factor to profitability performance of the company. Internal risk factors are human factors, technical factors and physical factors. The risks posed by human factors include union strikes, employee dishonesty, mismanagement or poor leadership, as well as failure of external producers or suppliers. For example, remuneration and debt-to-equity were positive significance while size was negative significance to the profitability performance and both of them were positive coefficient sign. However external risk is come up due to economic events that arise from outside of a company's organization such as unemployment rate, exchange rate, Gross Domestic Product (GDP) and inflation. These factor will impact to profitability of company. Therefore, this company should more focus to control to financial risk management and to concern more to the corporate governance to reduce inefficiency that reducing the ability of company in generating more profit.

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