Interrogating the Performance of Shariah Compliance Food and Beverages Industry in Malaysia

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ABSTRACT

Food and beverages industries are among Malaysia's most influenced and among the top industry ranks. Particularly for Shariah enforcement purposes, it is becoming the most essential issues to be discussed further. For better understanding, this study will focus on assessing the companies' performance for food and beverages that follow Shariah compliance as the demand for halal products is keep increasing day by day. To be more specific, the dependent variable of this study is return on asset (ROA) meanwhile the independent variables are total asset, quick ratio, inventory turnover, and debt ratio to complementing this study. Annual reports for selected companies have been collected from Osiris and Eikon Thomson Reuters for year 2013 to 2018. Findings from previous studies is expected to give direction to this investigation, for instance total asset, quick ratio and debt ratio will be significantly positive with return of assets. Meanwhile, the inventory turnover will be significantly negative with return of assets.

Key Words: Profitability, Food and Beverages Industry, Shariah Compliance.

1. INTRODUCTION

Malaysian food and beverages (F&B) industry is a fast-growing consumer product industry characterized by a large export market and the most promising industry in the world. It generates high percentage of profit for most countries including Malaysia. Food and beverages industry involve in processing raw food material, packaging and distributing them. This includes fresh, prepared food as well as packaged foods and non-alcoholic beverages. Based on Malaysian Investment Development Authority (MIDA), there are notable foreign and multinational companies (MNC's) producing process food products in Malaysia. It encompasses sector such as cocoa and chocolate products, fishery products, cereals products, processed fruits and vegetables, confectionery, foods ingredients, herbs and spices and beverages. Due to advancements in food technologies and distributions,

almost all products are exposed to various ingredients and manufactured foods as well as halal or non-halal categorization.

As with other religions in the world, Islam has introduced clear and definite concepts of halal and haram that its follower must adhere to. In a study done by Abdul Raufu and Ahmad Naqiyuddin (2013), with its acceptance as an alternative benchmark for health, hygiene, and quality control of what is eaten, the idea of halal products or food is gaining worldwide attention. Both Muslim and many non-Muslim customers embrace goods or foods manufactured according to halal prescriptions. Therefore, it is very important for Muslims to consume halal food and must be free from tainted elements (Zunirah, Suhaiza & Yusserie, 2010).

1.1 Problems Statement

A company's profitability indicates the ability of a company to produce profits at a rate of revenue, assets and other capital resources over a given duration. Knowing the determinants of profitability is crucial to helping managers build an effective cost-effectiveness strategy for their company (Farah & Nina, 2016). However, there are limited studies examining factors that influence profitability on Shariah compliance companies as well as industries. Furthermore, signifying that factors which affecting the Shariah profitability of food and beverage sectors has not yet been sufficiently investigated. Though taking this into consideration, the insufficiency of empirical investigation is a key problem in those Shariah food and beverages sectors, as it will difficult for management and key players to monitor and create sound and healthy financial conditions for better sales and production. For that matter, the researcher attempts to give some insight contribution and enhance new findings of this area of research for companies to fill the knowledge gaps in empirical evidence.

2. LITERATURE REVIEW

This study is aiming to measure the performance Shariah compliance food and beverages industry in Malaysia. Return on assets (ROA) will be used to represent the performance of those companies, while total assets, quick ratios, inventory turnover and debt ratios will be independent variables for this study. Analysis of the financial statements is undertaken to assess the financial results of a company. In financial analysis the strengths and weaknesses of a company are established by creating a clear relationship between the balance sheet products and the account of profit and loss (Muhammad, Humaira, Naila & Aneela, 2017). Different types of ratios are used to measure the choice between financial performance and capital structure. A ratio is used as a benchmark in financial analysis for determining a firm's financial situation and results. Muhammad et al. (2017) also mentioned that ratios help to analyze vast volumes of financial data and to draw qualitative conclusions about the financial results of the company. Hence, ROA is also known as return on investment, which means how businesses use their assets to produce income effectively if the ROA ratio is high then it is considered good for performance and growth.

In a study conducted by Omar, Abdul Aziz, Syed Ahsan and Nour Aldeen (2016) in examining the relationship between liquidity (quick) ratios and indicators of financial performance (profitability) found that a positive relationship between liquidity ratios with return on assets being measured. This is supported with the similar findings from Bolek and Wilinski (2012), Vayanos and Wang (2012), Priya and Nimalathasan (2013), and Ruziqa (2013). A significant impact of liquidity ratios on ROA but insignificant results for return on equity (ROE) and return on investment (ROI) has been derived from Saleem and Rehman (2011) and Khidmat and Rehman (2014). However, Khaldun (2014) noted that there is a weak significant relationship between current ratio, quick ratio, cash ratio, and gross profit margin, and those ratios together impact significantly on the growth of profit of industrial

companies in sector food and drink. While Akter and Mahmud, (2014) conclude that there is no significant relationship between current ratio and ROA.

Efficiency ratio measures on how effectively the company utilizes these assets, as well as how well it manages its liabilities to maintain its company's performance. According to Abdillah (2020), the higher level of inventory turnover causes the company to sell merchandise more quickly so that operating profit will increase, and ultimately net income will increase. Thus, the higher the inventory turnover, the higher the risk that can be minimized, and the greater a company's productivity. However, high profits for the company do not automatically mean high profitability, but high profitability may be ascertained to be substantial. From the findings by Abdillah (2020), the results of this study are inventory turnover does not have a positive effect on ROA. This is also similar with Farooq (2019) indicates that ROA does not affect by inventory turnover ratio but affects by sales growth ratio, net working capital, and size of the firm.

Previous studies have shown that there is positive relationship between leverage (debt ratio) with companies' performance food and beverages listed industry (Ramlan & Nordin, 2018; Maria & Udeh, 2019). However, by utilizing Generalized Method of Moments (GMM), Kebewar (2012) revealed that debt ratio has no effect on profitability, regardless of the size of company. In a nutshell, most of the research reveals that there is positive and significant relationship between leverage on company's performance but some of them proved that there is negative relationship between debt ratio and profitability. It shows that the companies increase in debts and will lead to reduction in the asset of utilization of the company.

3. METHODOLOGY

Data from year 2013 to 2018 was selected to investigate the performance of Shariah compliance food and beverages industry in Malaysia. The selection of the samples in this study initially considered 10 companies from 23 listed Shariah food and beverages companies in Bursa Malaysia. The companies chosen are as Apollo Food Holdings Berhad, Hwa Tai Industries Berhad, Hup Seng Industries Berhad, Oriental Food Industries Sdn Bhd, Kawan Food Berhad, Power Root (M) Sdn Bhd, Spritzer Sdn Bhd, Dutch Lady Milk Industries Berhad, Fraser and Neave (F&N) Ltd and Nestle (M) Berhad. Secondary data has been collected through Osiris, Eikon and financial report of each selected companies.

4. RESULTS DISCUSSION AND ANALYSIS

4.1. Descriptive statistics

Table 1 Descriptive statistics of study variables

	ROA	Quick ratio	Inventory turnover	Debt ratio	LgTotal Asset
Minimum	-4.81	0.36	2.5	0	5.07267
Maximum	49.8	15.99	10.4	0.74	15.02305
Mean	15.2525	2.757333	6.6545	0.1778333	11.48456
Std. Dev.	12.53315	3.503417	1.823438	0.1887613	3.221455

From the above table, it shows the readings for descriptive statistic consists of minimum value, maximum value, mean, and standard deviation for dependent and independent variables. The dependent variable is ROA while the independent variables are quick ratio, inventory ratio, debt ratio and total asset, with the contribution of 60 observations. For ROA, the minimum value is -4.8% while the maximum value is 49.8%. The mean is 15.2525% while standard deviation is 12.53315% respectively. Quick ratio recorded a minimum value of 0.36% and maximum value is 15.99%, inventory turnover has a minimum value of 2.5%

and maximum value of 10.4%. On the other hand, debt ratio as another other independent variable shows the minimum, maximum and mean value of 0%, 0.74% and 0.17783333% respectively. Lastly, the total asset indicates that the minimum value is 5.07267% and maximum value is 15.02305% while the mean and standard deviation is 11.48456% and 3.221455% respectively. The greater the standard deviation of each variable, the greater the variance between each of them, while low standard deviation means that low variability among those variables.

4.2. Pearson correlation analysis

Pearson's correlation coefficient is the test statistics that used to measures the strength of linear relationship between two continuous variables. It is known as the best method of measuring the association between variables of interest because it is based on the method of covariance.

Table 2 Pearson correlation of study variables

	ROA	Quick ratio	Inventory turnover	Debt ratio	LgTotal Asset
ROA	1.0000				
Quick ratio	-0.2582	1.0000			
Inventory turnover	-0.0319	0.4050	1.0000		
Debt ratio	-0.4255	-0.2293	0.1775	1.0000	
LgTotal Asset	0.3444	-0.0523	-0.3204	0.1982	1.0000

Referring to table 2, it represents the correlation between all the variables. To achieve the significant level the value must be below than 0.5. It shows that total asset has a positive significant relationship with the dependent variable. It indicates that total asset has parallel relationship where is when one variable increase or decreases, the other variable will increase or decrease in corresponding. Besides, for the quick ratio, inventory turnover and debt ratio have negative but significant relationship with the ROA which is not close with 1 or -1. Referring to the table, the value of quick ratio, inventory ratio and debt ratio are -0.2585, -0.0319 and -0.4255 respectively.

4.3. Regression model

The regression model shows the relationship between the dependent variable (ROA) and independent variables (TA, QR, ITO and DR).

ROA = -24.92792 + 2.55878 TA** − 2.308817QR**+ 4.01145 ITO** − 53.61283 DR** + Ɛ

Note: **5% indicate the significant level
(TA = Total asset, QR = Quick ratio, ITO = Inventroy turnover, DR = Debt ratio, Ɛ = Error terms)

The coefficient measures the extent to which two or more variables move together. The positive correlation shows the extent to which the variables are increased or decreased in parallel, the negative correlation indicates that the extent to which one variable increase when the other decline. For the result exists, if total asset increases by RM 1 million, it will increase the return on assets by RM 2.55878, and so on with the other variables.

As for overall analysis, this study wants to know the relationship between return on asset (ROA) with total asset, quick ratio, inventory turnover, and debt ratio. The study found that total asset was positively correlate and significantly affect the return on asset at 5% level of significant and the probability value is 0.000.This findings is in line with some empirical studies conducted by Muhammad et al. (2017) and Tian (2017) which allow that total asset has been positive and significant with ROA.

In contrast, these findings reveal that quick ratio indicates that there has a

significant but negative relationship with return on asset at level 5% and the probability value of this study is 0.000. This means that quick ratio has an inverse relationship with ROA where once the ROA increase, then the quick ratio will decrease. However, this finding is totally different and in contrast with the finding made by some of the previous researchers Bolek and Wilinski (2012), Vayanos and Wang (2012), Priya and Nimalathasan (2013), and Ruziqa (2013), but corresponding with studies done by Saleem and Rehman (2011) and Khidmat and Rehman (2014).

Inventory turnover also shows that there is a negative relationship but significantly correlated with ROA, similar with findings by Farooq (2019) and Abdillah (2020). While debt ratio is significantly negative with the return on asset as supported by Kebewar (2012) but differs with Ramlan and Nordin, (2018) and Maria and Udeh (2019. Negative means that the debt ratio and ROA have an inverse relationship, meaning to say that if the companies increase in debts, it will lead to a reduction of ROA or profitability value of the company.

5. RECOMMENDATION

From this study, there are a few recommendations to be suggested as there are several gaps in knowledge in these findings that would benefit future research. Since this study has only been able to be conducted in Malaysian Shariah compliance food and beverages industry, future researchers that have better resources and are able to obtain all data are highly advisable to conduct their studies in other countries as well differentiate between non-Shariah companies too with more independent variables (such as external factors) in order to improve the effectiveness of performance determination. Hence, it is more favourable if the analysis tests individually on more companies to indicate individual improvements on the companies' performances. On top of that, the researchers can obtain different perspectives from different countries when they find out more about regulations and new findings in those countries. Besides, the future researchers can also add more periods of years to get better results. This is one of the ways to obtain better outcomes and make the analysis of companies in different countries more interesting. Moreover, the data finding could also be contrasting with this study as the number of years are increased.

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