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EFFECT OF FINANCIAL RISK MANAGEMENT ON PERFORMANCE OF PETROL RETAIL INDUSTRY

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EFFECT OF FINANCIAL RISK MANAGEMENT ON PERFORMANCE OF PETROL RETAIL INDUSTRY

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ABSTRACT

This study examines the financial risk management practices on performance in terms of financial measure at petrol retail companies in Myanmar. It includes examining the risk identification practices in Petroleum Retail Industry and to analyze the effect of financial risks management on performance of Petrol Retail companies, in Yangon. For the collection of data, samples are Max Energy, PT Power, and Denko, which are 3 out of total 6 major petroleum fuel importers in Myanmar .Top management, finance director, CFO and financial controller who are 54 out of total 90 are interviewed. In the analysis on the risk management practices in terms of credit risk management practices, liquidity risk management practices, market risk management practices and foreign exchange risk management, retail petrol companies are highest financial risk management by liquidity risk management practices, and followed by credit risk management and market risk management. They are weak in foreign exchange risk management practices for its uncontrollable effect. The second part is the detail analysis by mean of regression analysis. By the result, it shows that factor which has significant related value and the main determination of financial risk management practices is the credit risk management practice for its positive and significant relationship to financial measure of retail petrol companies in Myanmar, and thus retail petrol companies are strongly recommended to continue this activities at financial risk management and strongly suggested to make daily market prices to adopt to their daily pricing so that they would eliminate the risk of loss from the sales at their retail petrol stations.

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LIST OF ABBERVIATIONS (ACRONYM)

MPTA	Myanmar Petroleum Trade Association
CFO	Chief Financial Officer
IAS	International Accounting Standard
UMFCCI	Union of Myanmar Federation of Chambers of Commerce and Industry
CEC	Central Executive Committee
EC	Executive Committee
MPE	Myanmar Petrochemical Enterprise
SPC	Singapore Petroleum Company
CNPC	China National Petroleum Corporation
SBU	Strategic Business Unit
B2B	Business to Business
BOC	Best Oil Company
FOB Price	Freight on Board (or) Free on Board Price
CIF Value	Cost, Insurance and Freight Value
BBL	Barrel (unit)
SGT	Special Good Tax
CT	Commercial Tax
ACCA	Association of Chartered Certified Accountants
CPA	Certified Public Accountants
KYC	Know Your Customers
AR Days	Accounts Receivable Days
SOPs	Standard Operation Procedures
JIT	Just in Time
EBIDTA	Earnings before Interest, Depreciation and Tax
ERM	Enterprise Risk Management
PSC	Petroleum Supply Chain

CHAPTER 1
INTRODUCTION

Firms play an important role in the economic growth of country. So, firms are established with the ultimate reason to produce revenue over long period. Therefore, firms are always caring inside and outside of their risk for long run. Firms face different kind of risk in its daily operation and they deal with them greatly influences their performance. Risk define a probability that the actual return may differ from the expected return. In the financial system, there are at least three broad categories of risks, financial risk, business risk and operational risk. Risk management becomes an important discipline in business especially the retail trade business to mitigate against risk in such businesses. Recently, business emphasis on risk management for determining their survival and business performance.

Industry performance is very important for all the investors and thus, it is important to understand the factors affecting performance of their firms. It is the measure of the financial health of the business institution and also shows the performance of the executive leadership of the company. Greater performance of a firm more effective and efficient the firm in using the resources and, eventually contributes at the macro level in countries economy.

Risk means anything that can create hindrances in the way of achievement of certain objectives. It can be either internal factors or external factors, depending upon the type of risk that exists within a particular situation. Managing risk is the basic tasks to be done, once it has been identified and known. The risk and return are directly related to each other, that is increasing one will subsequently increase the other and vice versa. Effective risk management leads to balanced trade-off between risk and reward, to realize a better position in the future. Globalization has increased the risk of firms in the developing countries because of competition from within and outside the countries by either directly from other or indirectly through access to International trade. Management of financial risks is a big concern for investors, analysts, managers and shareholders around the world.

Petroleum industry is the one of the largest corporations in the world. In Myanmar, Myanmar Petroleum Trade Association (MPTA) is a national level organization which is overseeing private petroleum distributes market. It is founded in 2010.In 2017; it has 400 members in MPTA. Government make a decision to open the fuel market to foreign investor in 2017.Petroleum retail services is a big market because of motor car, generator, and so on. Most of environmentalist said that petroleum make pollution.

1.1 Rationale of the Study

Government allowed foreign oil and gas companies to cooperate with local retail petroleum operators to set up shop in the country since 2017.Until 2010, Local businesses have monopolized the market and don’t have regulation over price and quality. It has not market-pricing mechanism, which is the price of crude oil falls in the global markets, they don’t lower the price at the pump with the excuse that they bought at a higher price. In 2010, the government allowed foreign companies participation in retail petroleum operations. Nowadays, petroleum retail industry is very competitive situation in market share.

Therefore, Oil retail companies have several special characters which make hedging for market participants. Firms are characterized by great price volatilities that expose oil companies to a massive commodity price risk. In addition, the oil supply chain faces a lot of challenges due to globalization, long lead times and nature of oil. So, petroleum industry needs there’s well-developed financial markets and wide variety of instruments available. In oil industry swaps, futures, options, and forwards are used extensively to hedge oil companies’ exposures to commodity price risk and exchange rate risk exposures.

The firms do relevant risks which are able to add value such as financial, market, credit, and operational risks. According to Oil firms report, market risk and interest-rate risk is not only led to financial losses but also tarnished reputations in the past few years. It is becoming increasingly important to monitor and manage financial risks in oil companies and financial risk management and risk management tools and instruments have developed to a great extent to mitigate and improve financial performance. Financial Risk management framework is important for oil companies in Myanmar. The frameworks of the basic risk management process that is generally accepted is the practice of identifying, analyzing, measuring, and defining the desired risk level through risk control and risk transfer.

A change in the financial environment is stimulating a search by firms for innovations that are likely to be profitable. Companies are finding that many of the old ways of doing business were no longer profitable. To survive in the new economic environment, oil companies have to research and develop new products and services that would mitigate financial risks and improve profitable. In linking the risk management practices and performance for Oil companies, the mean scores of each risk management practices is correlated with the balance scorecard for firm growth. Risk management practices is explained by risk management environment, policies and procedures, risk measurement practices, risk mitigation practices, risk monitoring practices and internal control practices.

1.2 The Objectives of the Study

The objectives of the study are:

(a) Identification of risks in Petroleum Retail Industry

(b) To analyze the effect of financial risks management on performance of Petrol Retail companies, in Yangon.

1.3 Scope and Method of the Study

The study focuses on the effect of financial risks management on performance faced by petrol retail industry. The data collect from the petroleum fuel importers in Myanmar by used of data collection form. Max Energy, PT Power, and Denko, which are 3 out of total 6 major petroleum fuel importers in Myanmar, are selected as samples in the study. The qualitative research method is conducted by interviewing with the top management, finance director, CFO and financial controller who are 54 out of total 90. The study find out the effects of the factors on performance of petrol retail companies by the in-depth interviewing these key personal.

The secondary data are derived from MPTA Trade Association official websites. The other secondary data is based textbook on principle of risk and insurance, previously prepared published and unpublished research papers, journal issues, from local and abroad. Data collection is aimed at December 2019.

1.4 Organization of the Study

This paper contains five chapters. Chapter 1 are introduction, rationale of the study, objectives of the study, scope and method of study and organization of the study. In chapter 2, the theoretical background of financial risk and performance. In chapter 3, the description of background of MPTA association, its organization structure and identification of risk in Petrol Retail Industry. In chapter 4, the analysis of the effect of financial risks on performance, is presented .Lastly, conclusion on findings, recommendations and suggestions, needs for future study is show in chapter five.

CHAPTER 2

THEORETICAL BACKGROUND

In this chapter, it describes about risk management and examines different types of business risks. It is followed by studying credit risk management, liquidity risk management, market risk management and foreign exchange risk management, as follows.

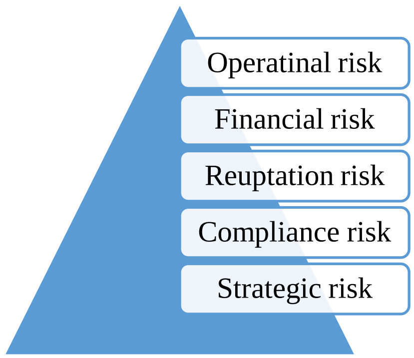
2.1 Risk

Risk is an exposure to hazards. It's a probability of failure or injury. To be more accurate, risk is the possibility of losing something of interest. Knight (2006) explains that "risk" is the term used to describe cases of known probability, for example, a store may measure the likelihood that the treasurer would wrongly check the order for every number of customers, and therefore the store account might lose any balance. Risk management is a process of understanding and managing the risks which the entity is inevitably subject to in attempting to achieve its corporate objectives. Risks are usually divided into categories such as operational, financial, legal compliance, information and personnel for management purposes. (CIMA Official Terminology, 2005)

Firms face the risk of unexpected, harmful events that can cost the company money or cause it to permanently close. Risk management allows organizations to attempt for the unexpected by minimizing risks and extra costs before they happen. This ability to understand and control risk allow organizations to feel more confident about their business decisions. Therefore, strong corporate governance principles that focus specifically on risk management can help a company reach their goals.

Risks can be classified into three types: Business Risk, Non-Business Risk, and Financial Risk. Risk implies the extends to which any chosen action or an inaction that may lead to a loss or some unwanted outcome. Different types of financial risks can be categorized under two main groups: systematic risk, which cannot be controllable by an organization and macro in nature, and, unsystematic risk, which can be controllable by an organization and micro in nature.

Figure (2.1) The Main Types of Business Risk



Source: Andrew Blackman (2014)

Businesses face all kinds of risks, some of which can lead to serious loss of profits or even to bankruptcy. Yet, while all large companies have broad "risk management" teams, smaller firms tend not to look at the problem in such a systematic way. The main types of business risk include strategic risk, compliance risk, operational risk, financial risk, and reputational risk. As business is growing periodically, relevant risks also grow at the same rate which entails a sound risk culture among the small business operators from owners to the workers as well as the external advisors and suppliers (Harner, 2011).

2.2 Financial Risk

According to the CIMA Official Terminology (2005) definition, financial risk is defined as the risk relating to the financial operation of an entity. Financial risks include credit risk, liquidity risk, market risk, and foreign exchange risk.

In more detail, it explained that - credit risk: possibility that a loss may occur from the failure of another party to perform according to the terms of a contract, foreign exchange risk: risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates (IAS 32), market risk: losses in positions arising from movements in market prices, and liquidity risk: risk that an entity will encounter difficulty in realizing assets or otherwise raising funds to meet commitments associated with financial instruments – this is also known as funding risk.

2.2.1 Credit Rick

Credit chance is most basically characterized as the potential that a bank borrower or counterparty will fall flat to meet its commitments in understanding with concurred terms. The objective of credit hazard administration is to expand a bank's risk-adjusted rate of return by keeping up credit chance presentation inside worthy parameters (Basel Committee, 2000). Firms need to manage the credit risk inherent in the entire portfolio as well as a risk in individual credits or transactions. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any business organization.

The sound of credit risk practices set out in this document specifically address the following areas: (i) establishing an appropriate credit risk environment; (ii) operating under a sound credit-granting process; (iii) maintaining an appropriate credit administration, measurement and monitoring process; and (iv) ensuring adequate controls over credit risk. These practices is also be applied in conjunction with sound practices related to the assessment of asset quality, the adequacy of provisions and reserves. The disclosure of credit risk, it has been addressed in other recent Basel Committee documents (Basel Committee, 2000)

A distinct example of credit risk relates to settling financial transactions. If a transaction is not settled, a loss will be occurred to the principal amount of the transaction. Settlement risk will occur when settlement of a financial transaction will absent to take place as expected, and thus includes elements of liquidity, market, operational and reputational risk as well as credit risk. The level of credit risk is determined by the particular arrangements for settlement. Factors in such arrangements that have a bearing on credit risk include: the timing of the exchange of value; payment/settlement finality; and the role of intermediaries and clearing houses.

2.2.2 Liquidity Rick

Liquidity risk is a business will have insufficient funds to meet its financial commitments in a timely manner. It has short-term cash flow risk and long-term funding risk. The long-term funding risk is a loans may not be available when the business requires them or that such funds will not be available for the required term or at acceptable cost. (Managing Liquidity Risk, CPA Australia)

Firms need to manage liquidity risk to ensure that they remain solvent. Liquidity risk can arise from a number of areas within the business, including (i) seasonal fluctuations (ii) unplanned reduction in revenue (iii) business disruption (iv) sustained reduction in profitability (v) unplanned capital expenditure (vi) increase in operational costs (vii) inadequate management of working capital (viii) future debt repayments (viiii) breach of loan covenants (vv) not matching the maturity profile of debts to the assets (vvi) which they are funding in adequate or non-existent financing facilities (vvii) in adequate cash flow management.

Liquidity risk is a dynamic that can change according to both business conditions and market conditions. This conditions can be occurred both expected and unexpected that will give rise to the need to ensure adequate liquidity to cover all events. In the event that a business faces a cash flow crisis, then the consequences can be wide-ranging. If firms has adequate liquidity, there is also the possibility of improved profitability through reduced interest expense or increased interest income that together with greater financial flexibility to negotiate enhanced terms with suppliers and financiers or participate in new business opportunities.

Liquidity risk can be mitigated by careful cash flow management including optimising working capital and by maintaining unused, committed financing facilities or a liquidity buffer. These allow the firms to easily meet its future requirements or contingencies. The main methods are (1) Cash Flow Forecasting; The annual operating budget forms the basis of the cash flow forecast and the person responsible for monitoring and managing cash must be closely involved in its preparation. For regular cash flow forecasts, firms compare with annual and budget. These compare show a highlight variances from what was anticipated and prompt corrective action to offset unfavorable trends in availability of cash. Planning should take into account transaction and other associated costs including the effect of tax payments on available funds (2) Optimizing Working Capital; management of cash flow can be facilitated. If a clear policy statement on the importance of cash flow, it is communicated throughout the business and a cash consciousness is promoted among all staff who collect or spend cash (3) Financing Facilities; Various forms of financing available to the business will have different conditions and costs that must be considered in determining the most appropriate mix of external funding and equity. The purpose and costs should reflect short-term needs, such as working capital, as well as long-term needs for capital expenditures and investments (4) Liquidity Buffer; firms has experience regular or large cash flow fluctuations, consider a policy of maintaining a liquidity buffer.

2.2.3 Market Rick

Market risk is a risk that is institution resulting from movements in market prices, in particular, changes in interest rates, foreign exchange rates, credit spreads, and equity and commodity prices. Market risk is occurring from other forms of financial risk such as credit and market liquidity risks. The institution's consideration of market risk should capture all risk factors that it is exposed to, and it must manage these risks soundly.

Guidelines on risk management practices (Monetary Authority of Singapore, n.d.) Suggested to the institution, it should develop a sound and well-informed strategy to manage market risk. The strategy should be approved by the institution's Board of Directors (Board). The Board, based on the recommendation of senior management, should first determine the level of market risk the institution is prepared to assume and the possible losses it is willing to bear. This level should be set with consideration given to, among other factors, the amount of market risk capital set aside by the institution against unexpected losses. Market risk tolerance is determined, the institution should develop a strategy that balances its business goals with its market risk appetite.

2.2.4 Foreign Exchange Rick or Currency Risk

Foreign exchange risk management strategy or FX hedging strategy define all the measures devised by businesses or investors to protect the value of their cash flows, assets or liabilities from adverse fluctuations of the exchange rate (Kantox).

A reviewed by Akhilesh Ganti (April, 2019), foreign exchange risk occur to the losses that an international financial transaction may incur due to currency fluctuations. Also known as currency risk, FX risk and exchange-rate risk, it describes the possibility that an investment's value may decrease due to changes in the relative value of the involved currencies. Investors may experience jurisdiction risk in the form of foreign exchange risk (Akhilesh Ganti, 2019).

It can be seen that when a company does in financial transactions denominated in a currency other than the currency where that company is based. The appreciation / depreciation of the base currency or the depreciation / appreciation of the denominated currency can affect the cash flows emanating from that transaction. Foreign exchange risk can also affect investors and businesses engaged in the import / export of products or services to multiple countries.

The import / export business exposes itself to foreign exchange risk by having account payables and receivables affected by currency exchange rates. When a contract between two parties specifies exact prices for goods or services, as well as delivery dates, the exchange risk is occurring.

There are three types of foreign exchange risk: transaction risk (risk that a company faces when it's buying a product from a company located in another country), translation risk (losses when the subsidiary's financial statements, which will be denominated in that country's currency, have to be translated back to the parent company's currency), and economic risk (when a company's market value is continuously impacted by an unavoidable exposure to currency fluctuations). This usually involves future contracts, options, and other exotic financial products and it can protect the company from unwanted foreign exchange moves.

2.3 Performance Measurement

Performance measurement define the process of assessing the proficiency with which a reporting entity succeeds, by the economic acquisition of resources and their efficient and effective deployment, in achieving its objectives. Performance measurement is based on non-financial as well as on financial information. (CIMA Official Terminology, 2005). Effective performance measurement is key because organization's strategy is successfully implemented. It is about monitoring an organization's effectiveness in fulfilling its own predetermined goals or stakeholder requirements. Firms must perform well in terms of cost, quality, flexibility, value and other dimensions.

A performance measurement system which enables a company to meet these demands successfully is essential. It helps better informed and more effective decision making at both strategic and operational levels. The best known performance measurement tool is the Balanced Scorecard, which is based on four distinct perspectives (financial, internal process, customer and learning & growth) (CIMA Official Terminology, 2005)

There are four basic viewpoints or viewpoints to take with the KPI balanced scorecard: Money related viewpoint – following budgetary execution. The balanced scorecard requires specific measures of what customers get—in terms of time, quality, performance and service, and cost, Internal business perspective.

The concept of a balanced scorecard was developed in the mid-90s by Robert Kaplan and David Norton as a response to the over-dependence on financial measures to guide organizational action. It explains strategy into measures that could inform action by balancing financial measures with measures around the perspectives of customers, internal business processes and innovation/ learning.

2.3.1 Internal Process

Customer-based measures are important because it is translated into measures of what the company must do internally to meet its customers' expectations. Excellent customer performance is deriving from processes, decisions, and actions occurring throughout an organization. Firms need to focus on those critical internal operations that enable them to satisfy customer needs. The second part of the balanced scorecard is a managers because of internal perspective.

The internal measures for the balanced scorecard should stem from the firm processes that have the greatest impact on customer satisfaction which are affect cycle time, quality, employee skills, and productivity. Firms attempt to identify and measure their company's core competencies, the critical technologies needed to ensure continued market leadership. Firms decide that processes and competencies are specify measures for each.

For achieving goals on cycle time, quality, and productivity, and cost, managers devise measures that are influenced by employees' actions. Therefore, managers need to decompose overall cycle time, quality, product, and cost measures to local levels.So, the top management's judgment about key internal processes and competencies to the actions taken by individuals which is affect overall corporate objectives. This linkage that employees at lower levels in the organization have clear targets for actions, decisions, and improvement activities that will contribute to the company's overall mission.

2.3.2 Customer & Supplier Relationship

Firms have a corporate mission that focuses on the customer. Firms is performing from its customers' perspective has become a priority for top management. The balanced scorecard show that managers translate their general mission statement on customer service into specific measures .It reflect the factors that really matter to customers.

Customers' emphasize the four categories: time, quality, performance and service, and cost. Therefore, lead time is one of the important .It is measuring time required for the company to meet its customers' needs. For existing products, lead time measure a time the company receives an order to the time it actually delivers the product or service to the customer. For a new products, lead time represents the time to market, or how long it takes to bring a new product from the product definition stage to the start of shipments. Then, quality measured by a level of incoming products and measured by the customer. Quality c measure on-time delivery and the accuracy of the company's delivery forecasts. The combination of performance and service measures the company's products or services contribute to creating value for its customers.

2.3.3 Learning & Growth Culture

Global competition requires that firms make continual improvements to their existing products and processes and have the ability to introduce entirely new products with expanded capabilities. A firm's ability to innovate, improve, and learn is directly to the company's value. The ability to launch new products create more value for customers and improve operating efficiencies continually. It can a company penetrate new markets and increase revenues and margins—in short, grow and thereby increase shareholder value.

In addition, Firms have a specific improvement goals for their existing process to measures on product and process innovation. Firms' estimates specific rates of improvement for on-time delivery, cycle time, defect rate, and yield.

2.3.4 Financial Perspective

Financial performance measures the company's strategy, implementation, and execution are contributing to bottom-line improvement. The financial goals have to do with profitability, growth, and shareholder value. Typically financial goals are simply: (1) to survive, (2) to succeed, and (3) to prosper. Survival measured by cash flow, successes by quarterly sales growth and operating income by division, and prosperity by increased market share by segment and return on equity.

Competitions have changed and that traditional financial measures do not improve customer satisfaction, quality, cycle time, and employee motivation. The financial performance is the result of operational actions, and financial success. It should be the logical consequence of doing the fundamentals well. In other hands, firms should stop navigating by financial measures. Firms are making fundamental improvements in their operations, the financial numbers will take care of themselves.

By combining the financial, customer, internal process and innovation, and organizational learning perspectives, the balanced scorecard helps managers understand, at least implicitly, many interrelationships. This understanding can help managers transcend traditional notions about functional barriers and ultimately lead to improved decision making and problem solving. The balanced scorecard keeps companies looking—and moving—forward instead of backward.

2.4 Literature Review

Among the many academic articles, there is still a notable gap in this research study that has been undertaken to date in the context of financial risk management which will help firm to improve on performance. This study therefore aims at investigating and widening their scope on the effect of financial risk management to the financial performance of oil companies. The study will provide scholars with useful information on how to avert the exposure in their research. It will also be of use to financial managers/CFO/financial controller who have the responsibility of managing the risk associated with credit risks, liquidity risk, market risk and foreign exchange risks. To this end most research on the effect of financial risk management practices on performance has focused on the exposure of multinational companies and most of the focus has been financial institutions. This body of research has found mixed results regarding significant effect of risk management on performance of organizations. This will study seek to fill the existing research gap by determining the effect of financial risk management on performance of petrol retail companies in Yangon.

Karunarutne K. (2018) studied on the Effect of Enterprise Risk Management (ERM) on Firm Performance: Evidence from the Diversified Industry of Sri Lank. ERM supportive internal environment. It help risk-aligned objective setting, event identifications, and risk response have a positive impact on firm performance. However, none of those impacts were statistically significant. Surprisingly, empirical evidence reveals that risk assessment and control activities have a negative impact on the firm performance. Information, communication and monitoring functions indicate a significant impact on firm performance. Monitoring function shows a negative impact on the firm performance. The researcher & business developer believe that this negative impact is attributable to the increased cost of monitoring activities that is crucial for a diversified business setup. This empirical evidence induces the researcher & business developer to conclude that, except for communication and monitoring, the adoption of ERM has significant impact on the firm performance. These findings are contradictory with the findings of prior researchers.

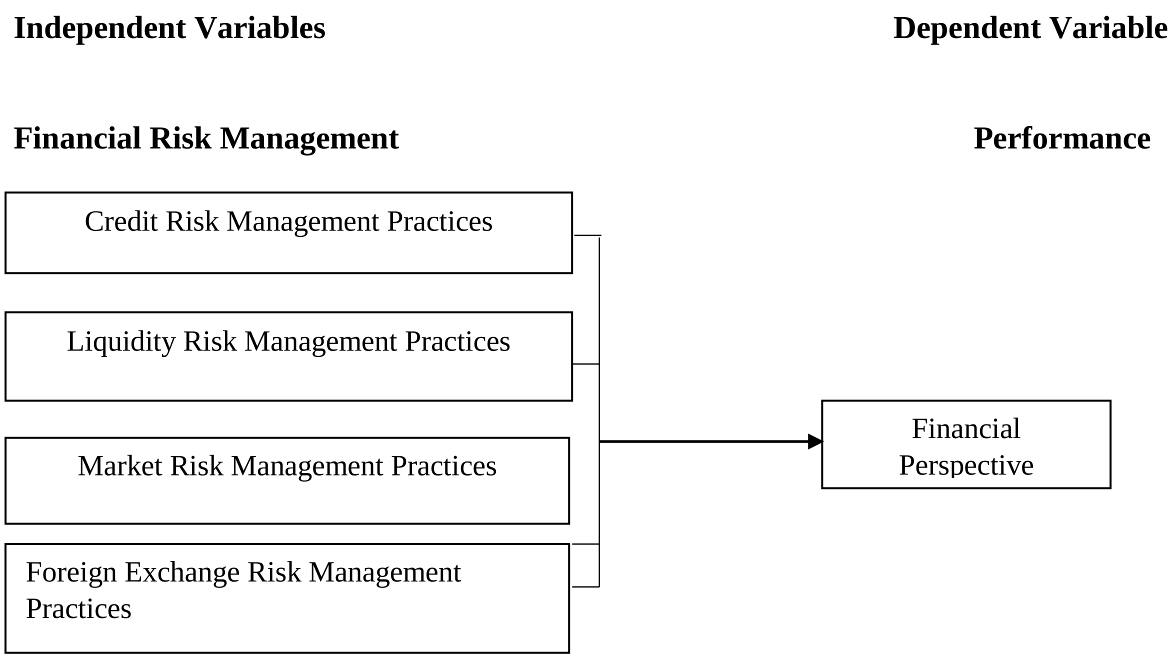
Nurulhasanah Abdul Rahman (2016) Determinants of Effective Financial Risk Management in Small Business. Her study aims to develop a theoretical model of potential determinants of effective financial risk management. In achieving these objectives, the methodology used includes library search and analyzing previous literature review on the subject of financial risk management and small business. The significant variables are namely the leadership, communication and business culture. This paper also hopes to strengthen the body of knowledge on how financial risk management helps small business through effective financial risk management besides to act as reference for empirical research. It showed that it is a limited pool of resources on this issue and needs more research to be done. Besides, financial risk management is still new for Malaysian studies especially in terms of small business.

Torben G. Andersen, Tim Bollerslev, Peter F. Christoffersen, Francis X. (2012) studied Diebold Financial Risk Measurement for Financial Risk Management. They approached to market risk measurement, such as historical simulation or Risk Metrics. In financial institutions, real-time risk tracking in very high-dimensional situations which impose strict limits on model complexity. They emphasized the need for deeper understanding of the links between market risk and macroeconomic fundamentals, focusing primarily on links among equity return volatilities, real growth, and real growth volatilities.

2.4 Conceptual Framework of the Study

A conceptual framework is a research tool which assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate it. It has independent variable which is credit risk, liquidity risk, market risk and foreign exchange risk. The dependent variable is a measurement of performance which is using a balance scorecard. The interrelationship between variables discussed above was presented in the conceptual framework model. A conceptual framework is a potential usefulness as a tool to assist a researcher to make meaning of subsequent findings. It forms part of the agenda for negotiation to be scrutinized, tested, reviewed and reformed as a result of investigation and it explains the possible connections between the variables adopts by (Smith, 2004).

Figure (2.2) Conceptual Framework of the Study



Source: Adopted by Jamal A. Mohamed Noor, Ali I. (2014)

CHAPTER 3

PROFILE OF MYANMAR PETROLEUM TRADE ASSOCIATION (MPTA), YANGON

The aim of this chapter is to present the profile and management structure of Myanmar Petroleum Trade Association (MPTA) and the past, present and future of the petrol retail industry.

3.1 History of Myanmar Petroleum Trade Association (MPTA)

In 2007 under the rule of State Peace and Development Council, the fuel subsidy was removed together with liberalization of petroleum products trading and the privatization of retail petrol shops all over the country. At the same time, the government relaxed the rule on import of motor vehicles. As a result, local requirement of petroleum products was drastically increased and the state-owned oil storage facility can no longer accommodate the increasing quantity of import of petroleum product. In 2010, The Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) and Myanmar Petroleum Trade Association (MPTA) have suggested that Myanmar directly import fuel oil from oil exporting countries in Asia. The imports are mainly from Singapore. If importer cannot buy form Singapore, importer buy from India, China, South Korea and Japan, according to the MPTA. For reducing the price of fuel for the locals, industry leaders of Myanmar should bypass Singapore and buy fuel oil directly from the oil exporting countries, which would save the country $20 per ton of fuel (Thiha, Myanmar considers direct imports, new infrastructure to lower domestic fuel costs, March 5 , 2018).

In 2012, Myanmar Investment Commission approved and granted the license to companies fully owned by Myanmar nationals to construct and operate the oil storage facilities at Thilawah Industrial Zone in Kyauk Tan Township. MPTA criticize the government's decision to open the fuel market to foreign investors (Wikipedia, n.d.)

3.1.1 Profile of Myanmar Petroleum Trade Association (MPTA)

Myanmar Petroleum Trade Association (MPTA) was founded in 2010 which is non-profit national level organization. It is run by the local companies that dominate the market. In 2017, it has about 400 members. The objective of the MPTA is extend a facilities and capabilities to an international standard, and exercise quality control over the domestic market in a competitive market.

MPTA's member are importing and selling petroleum such as Ron -95, Ron -92, High Speed Diesel (HSD) and Diesel. Most of members strived to be the leader in petroleum supply chain by integrating storage, transport, wholesale and retail. According to MPTA handbook, it has definitely stipulated a memorandum of article, responsibilities and benefit of members.

MPTA's member is divided by 3 main categories. There is ordinary member who paid subscription fees and annual fees, life member who is over 5 year of ordinary member and honorary member who is doing improve petrol industry. All member must be citizen of Myanmar and minimum 18 years old who is working in petroleum industry. The benefit of the membership is getting lasted information, attending a related workshop, and so on.

3.1.2 Organization of MPTA

Organization structure is the typically hierarchical arrangement of lines of authority and communication and duties of the organization. Organization structure determines how the roles, power and responsibilities of coordination.

The organization structure of MPTA are chairman members, advisory members, Central Executive Committee (CEC), Executive Committee (EC) and Management Team who are responsibilities for achieving organization objective. Chairman members are minister of Electricity and Energy, minister of Transportation, minister of planning, finance and industry, chairman of Union of Myanmar Federation of Chambers of Commerce and Industry, and retirement of minister and deputy minister of Electricity and Energy. The rest committee members are elected person in MPTA members.

The main duty of committee member is arranging a workshop, control of financial position, doing development of industry, arrange the general meeting and so on. The committee have to closely monitor the development of petrol industry and direct control of day to day operations of the organization.

3.2 Profile of Sample Companies

In this section, it introduces of sample companies which are Max Energy, PT Power and Denko Trading. These companies are popular retail shop companies in market because most of customer are well known of this petrol shop.

3.2.1 Max Energy

Max Energy Co., Ltd.is started in 2010 as one of the strategic business units (SBU) of Max Myanmar Group of Companies. Max Energy has hundred percent ownership of 31 Filling Stations through the length and breadth of Myanmar, operating with more than 800 employees. Filling Station locations cover major divisions of the country including Nay Pyi Taw (Capital City), Yangon (Commercial City), Mandalay, Ayeyarwady, Bago, Mon State, and we are expanding more strategic locations across the country. The Products available in filling Stations are Octane 92 RON, Octane 95 RON, Diesel and Premium Diesel. It provides high quality products in precise quantity to our customers. All of products are directly imported from overseas such as Singapore, Malaysia, Thailand. Petrol filling Stations are operating with advanced technology dispenser machines with state-of-the-art software and thus we can promise our precise quantity to our customers. It always focusses on offering convenience of every customer. Service is motto and committed to the continual improvement in the Quality of our Services (Energy, n.d.)

3.2.2 PT Power

PT Power imports Gas Oil (Diesel) and Mo Gas (Octane) from direct refineries and distribute wholesale throughout Myanmar. Its clients are B2B Customers that include: Retail Petrol Stations, Industrial users, Commercial users, and Mining applicants. It has company service stations but 85% of our sales are in wholesale segment. Retail Shops operated under both

Best Oil Company (BOC) in upper Myanmar and PT Power in lower Myanmar .PT Power is 20 station in lower Myanmar. BOC has 16 station in upper Myanmar. (Power, n.d.)

3.2.3 DENKO

Eden Group are stared DENKO trading the liberalization of the auto and fuel industries in 2010.After involving in petrol retail industry, it quickly became one the most recognizable brands in the market. In 2014, the number of registered cars in Myanmar had nearly 643,719, and DENKO had established itself as Myanmar's leading diesel, HSD and octane fuel dealer. It sell the highest international standards of quality, consistency and environmental protection. DENKO uses no additives or colorants for its products, instead ensuring quality on the front end through close relationships with each supplier. Denko's Principle Operations Include (1) Trading and importing high-quality fuel products from Singapore, Thailand and regional refineries (2) Transportation, logistics, marketing and sale to commercial and industrial customers (3) Wholesaling and retailing fuel to merchants and end-users.

It has twenty-nine operational and eleven planned international-quality petroleum stations strategically located in urban areas and along major highways throughout Myanmar. Each station has equipped with advanced pay-at-pump POS systems and integrated convenience stores. Its future plan to equip its stations with car-wash and vehicle maintenance services, making DENKO stations Myanmar's one-stop-shop for drivers as more cars enter the road. (Eden Group, n.d.)

3.2.4 Price Calculation Guide Line

MPTA is define a standardize calculation of minimum profit margin per liter and cost per liter. In the calculation formula, FOB Price and Exchange Rate is depend on the market situation. Custom Duty, Special Goods Tax and Commercial Tax is following by Internal Revenue Department (IRD).All of cost per liter are descripted minimum standard price by MPTA which are Storage Charges , Document Charges , Transportation Charges , Staff Salary , Electricity and Water Meter Charges , Rental of Land Charges , Depreciation , Investment Cost (or) Opportunity Cost ,and Shortage Charges.

Table 3.1 Minimum Standard Cost per Liter

Sr. No.	Cost Description	Kyats per Liter
1	Storage Charges	8
2	Document Charges	2.20
3	Transportation Charges	7
4	Staff Salary	8
5	Electricity and Water Meter Charges	2
6	Rental of Land Charges	13
7	Depreciation	5
8	Investment Cost (or) Opportunity Cost	5
9	Shortage Charges	5.63

Source: MPTA Website – Price Formula (2019)

3.3 Risk Management Practices at Myanmar Retail Petrol Industry

Retail petrol industry is the Capital-Intensive Industry chart shows the range of capital requirements and asset life time frames for the upstream, processing, and marketing and transportation segments of the industry. Historically, integrated oil and gas companies invested in several different business segments to stabilize their financial results, because each segment often experienced a different commodity cycle in price and margins. For examples of Max Entergy, it has extended to banking sector, hotel, construction, insurance, petroleum storage facilities, and many others. Danko Trading as well, extended their business to banking sector, petroleum storage facilities, petroleum shipping, construction business, and many others.

In the balancing investment options, the low petroleum prices equal low returns for upstream oil and gas profits but good returns for a chemical plant because gas is used as the plant feedstock. Gas price variations would offset each other. In reality, there is not a one-to-one correspondence in investment profiles which makes it difficult to stabilize financial results with this simplified strategy.

The Petroleum Supply Chain (PSC) is a sequence of activities that generate, transform and deliver petroleum products to end-users. Thanks to extensive investment and its strategic nature, PSCs in general and risk management in particular offer a high potential for efficiency and increased coordination with related activities. Supply chain risk management (SCRM) is strategic or long-term above-year planning, tactical or mid-term up to a year planning, and operational or short-term day-to-day planning.

Risk sources feature uncertainties in demand, price, supply yields, lead times, supply capacity, supply cost, new technologies, and breakdown of production capacity, uncertain information, terrorism, disaster and financial risks. Such risk factors pose management issues requiring effective mitigation strategies.

Management issues include demand shift across time, markets and products which supplier network design, relationships, selection process, order allocation, and contracts; product differentiation, postponement and process sequencing, logistics, environment health & safety, information, disruption and financial management.

3.4 Financial Risk Exposure

Retail Petroleum Trading Companies' activities are inherently exposed to financial risk. This includes exposure to market risk, including commodity price risk, interest rate risk and foreign currency risk, as well as liquidity risk, and credit risk. Petroleum Company's primary source of exposure to financial risk is the volatility in commodity prices. Petroleum Companies does not hedge its strategic exposure to the commodity risk associated with its plans to find and develop oil and gas reserves, volume of gas purchased under its long-term gas purchase contracts, which are not covered by contracted sales, its refining margins and other activities.

Petroleum Companies 's risk management objectives in addressing commodity risk are to optimize the risk profile of its commercial activities by effectively managing economic margins and safeguarding the value of assets' engages in risk management activities seeking both to hedge Group's exposures and to profit from short-term market opportunities and trading.

Petroleum Companies is engaged in substantial trading and commercial activities in the physical markets. Petroleum Companies are also uses financial instruments such as futures, options, Over-The-Counter (OTC) forward contracts, market swaps and contracts for differences related to crude oil, petroleum products, natural gas and electricity in order to manage the commodity risk exposure. Petroleum Companies also uses financial instruments to manage foreign exchange and interest rate risk.

Risk management's approach includes identifying, evaluating and managing the financial risk using a top-down approach who CEO and their management teams are responsible for establishing the risk management strategy and setting the maximum tolerable amounts of risk exposure. The Chief Executive Officer is responsible for implementing the Group risk management strategy, while the Group's Chief Financial Officer is in charge of defining policies and tools to manage the Group's exposure to financial risk, as well as monitoring and reporting activities.

Various Group committees are in charge of defining internal criteria, guidelines and targets of risk management activities consistent with the strategy and limits defined at Retail Petroleum Companies' top level, to be used by the Group's business units, including monitoring and controlling activities. Although petroleum companies believe it has established sound risk management procedures, trading activities involve elements of forecasting and petroleum companies is exposed to the risks of market movements, of incurring significant losses if prices develop contrary to management expectations and of default of counterparties.

3.4.1 Exchange Rate Risk

Movements in the exchange rate of the kyats against the U.S. dollar can have a material impact operation.

Prices of oil, natural gas and refined products generally are denominated in, or linked to, U.S. Accordingly, a depreciation of the U.S. dollar against the euro generally has an adverse impact on Eni's results of operations and liquidity because it reduces booked revenues by an amount greater than the decrease in U.S. dollar-denominated expenses and may also result in significant translation adjustments that impact MPTA members' equity.

The Exploration & Production segment is particularly affected by movements in the U.S. dollar versus the euro exchange rates as the U.S. dollar is the functional currency of a large part of its foreign subsidiaries and therefore movements in the U.S. dollar versus the euro exchange rate affect year-on-year comparability of results of operations.

The Group's risk management objectives in addressing commodity risk are to optimize the risk profile of its commercial activities by effectively managing economic margins and safeguarding the value of Eni assets.

3.4.2 Susceptibility to variations in sovereign rating risk

MPTA's credit ratings are potentially exposed to risk in reductions of sovereign credit rating of Italy. On the basis of the methodologies used by Standard & Poor's and Moody's, a potential downgrade of Italy's credit rating may have a potential knock-on effect on the credit rating of Italian issuers such as Eni and make it more likely that the credit rating of the Notes or other debt instruments issued by the Company could be downgraded.

3.4.3 Interest Rate Risk

Interest on Myanmar Petroleum Retail Companies' debt is primarily related to trade financing activities, some are relating to bank interest rate, which rates can have a material impact on petroleum companies' finance expenses in respect to its debt. Additionally, spreads to the Company may rise in connection with variations in sovereign rating risks or company rating risks, as well as the general conditions of retail petrol markets.

3.4.4 Liquidity Risk

Liquidity risk is the risk that suitable sources of funding for the Myanmar Petroleum Retail Companies may not be available, or the Group is unable to sell its assets on the marketplace in order to meet short-term financial requirements and to settle obligations. Such a situation would negatively affect the Myanmar Petroleum Retail Companies' results of operations and cash flows as it would result in their incurring higher borrowing expenses to meet its obligations or, under the worst conditions, the inability of Myanmar Petroleum Retail Companies to continue as a going concern.

Singapore financial markets that currently Myanmar Petroleum Retail Companies are importing petroleum products, which is subject to volatility amid uncertainties relating to a weak macroeconomic outlook, particularly in the US Dollar Zone, and the financial stress of economies whose financial conditions depends upon the proceeds of the sale of petroleum resources following a prolonged slump in commodity prices. In the event of extended periods of constraints in the financial markets, or if Myanmar Petroleum Retail Companies are unable to access the financial markets at a time when cash flows from their business operations may be under pressure. The oil and gas industry is capital intensive. Retail petrol companies make and expect to continue to make substantial capital expenditures in its business for the exploration, development, exploitation and production of oil and natural gas reserves.

3.4.5 Credit risk

Credit risk is the potential exposure of the retail petroleum Companies to losses in case counterparties fail to perform or pay due amounts. Credit risks arise from both commercial partners and financial ones. In the latest years, the retail petroleum Companies are experiencing a level of counterparty default higher than in previous years due to the severity of the economic and financial downturn in Myanmar, and the amount of trade receivables overdue at the balance sheet date has increased significantly. Furthermore, a instability in world oil prices has stressed the financial condition of many entities not only in Myanmar but also around the world. To control credit risk, retail petrol companies scrutinize on KYC or customer background information check and set credit limit normally not more than 14 days.

CHAPTER 4
EFFECT OF FINANCIAL RISKS ON PERFORMANCE OF PETROL RETAIL COMPANIES IN YANGON

In this section, it is the analysis part of the financial risk management and performance management at retail petrol companies. The first part is the demographic profiles of respondents. And then, the respondents' option towards the financial risk management practice and balance scorecard is analyzed. The survey design is stated as follows.

4.1 Research Design

To construct an appropriate framework of a study, proper research design process is developed for significant decision. Is the choice to be made regarding research approach since it determines how relevant information for a study will be obtained; however, the research design process involves many interrelated decisions.

This study is to examine the effect of financial risks management on performance faced by petrol retail industry. To receive required information, it employed a survey collection method. A series of well-structured questionnaires (for the top management, finance director, CFO, and financial controller at retail petrol industry) in participating organizations. In their interviews at key persons to know how they are practicing about financial risk management at their industry and face-to-face interviewing or field observation at the selected industrial sites was undertaken.

For implementing that, this study employs descriptive research design to agree on the effects of financial risk management on organizational performance in terms of financial perspective. This design offers to the researchers a profile of described relevant aspects of performance management. Therefore, this research design enabled the researchers to gather data from key personal respondents for their organizations' financial risk management practices impact on performance. Survey findings are as follows.

4.2 Demographic Profile of Respondents

The first analysis is made on demographic profiles of sample respondents. In this demographic profiles' analysis, gender of respondents, age level, and their education level, which all are analyzed. Table (4.1) shows the demographic profiles of key persons from retail petrol companies, in Yangon, as follows.

Total (4.1) Demographic Profile of Respondents

Sr. No.		No. of Respondents	Percent
		54	100
Gender of Respondents			
1	Male	34	63
2	Female	20	37
Age of respondents			
1	20 to 30 years	0	0
2	10 to 40 years	5	9
3	41 to 50 years	28	52
4	Above 50 years	21	39
Education level of Respondents			
1	University graduate	0	0
2	Post graduate	5	9
3	Professional (ACCA/CPA)	43	80
4	Master degree	6	11

Source: Survey data, 2019

By the Table (4.1), 34 out of 54 respondents are males and 20 are females. In terms of percent, female composition is the most percent with 63% for its most of males are CFO position at financial sector. The ages of respondents surveyed revealed that that all respondents almost 91% are already over 40 years old with 50 percent of respondents respectively. Respondents' education level is analyzed. Survey finds that all have are post graduate diploma and almost all have completed ACCA or CPA courses, respectively.

4.3 Financial Risk Management Practices

In the financial risk analysis, credit risk management, liquidity risk management, market risk management, and foreign exchange risk management practices. Respondents are asked to answer their agreeable on each statement measured by Five-Point Likert scale ranging from 1 to 5 (). Based on 5-point Likert scale, the middle of the mean score is 3, as follows. 1 = strongly disagree, 2 = disagree, 3 = acceptable, 4 = agree, 5 = strongly agree.

4.3.1 Credit Risk Management Practices

Table (4.2) shows the result of the credit risk management practices at retail petrol industries, as follows.

Table (4.2) Credit Risk Management Practices

Sr. No.	Statements	Mean	St. Dev.
1	Retail petrol companies have standardization on credit risk rating based on KYC (Customer due diligence)	4.04	0.64
2	Retail petrol companies have specific defining in a Credit Policies for credit measurement practices	4.89	0.42
3	Retail petrol companies set credit policies for mitigation of losses	2.98	0.60
4	There are improved selection criteria for clients based in accordance to risk profile	3.02	0.74
5	Retail petrol companies set credit monitoring on business to business (B2B) customers in terms of account receivable days and due amount	3.96	0.47
6	Payment Terms are documented on every invoice	2.41	0.96

7	The capabilities of employees are viewed as an important source of competitive advantage	3.15	0.86
8	There are regular monthly reports to identify when payments are due (aged debtors report)	3.98	0.79
9	There is a policy to stop supplying a customer until all debts are cleared.	4.00	0.95
10	There are adequate controls to ensure that all employees (particularly sales staff) adhere to the agreed terms when completing a sale	3.00	0.85
	Credit Risk Management Practices	**3.54**	

Source: Survey data, 2019

By the Table (4.2), the overall mean score is 3.54. The higher the overall mean score is indicating that credit risk management practices are important for petrol retail industry in its financial risk management at this industry. The highest mean value 4.04 of standardization on credit risk rating based on KYC (know-your-customers or customer due diligence) and it would cause highest important factor in credit risk management. The lowest mean value 2.41 of payment terms are documented on every invoice. It is the lower mean value and thus, it would be weak credit risk management at retail petrol industry. In the retail petrol industry, they are using coupon for credit sales and issue slip printer voucher, as for sales invoice. But for the vehicles and cycles, who do not ask for sales slips, there are a lot of missing document for recording every sales of petrol.

4.3.2 Liquidity Risk Management Practices

To understand the financial risk practices at retail petrol industry, respondents are asked to response their agreeable in extent of important level to do it.

Table (4.3) Liquidity Risk Management Practices

Sr. No.	Statements	Mean	St. Dev.
1	Liquidity risk management uses a mix of financial ratio analysis and cashflow forecasting to provide the best information on liquidity and cashflow	4.00	0.73
2	There are effective systems for collection and processing cashflow information	3.98	0.92
3	Monitoring of the working capital cycle regularly is aiming to identify potential cashflow issues	4.48	0.57
4	For maximizing company savings, it is potential by exploring	3.96	0.73

	the viability of any available early payment discounts, volume rebates or trade spend initiatives		
5	When purchasing a new or riskier product, we negotiate longer payment terms to increase working capital or ask to add the product to consignment stock rather than inventory as a way to maximize liquidity and reduce risk	4.00	0.85
6	EBIDTA (Earnings Before Interest, Tax and Depreciation) has been enjoyed by steady increasing for the past few years.	4.50	0.57
7	Companies have good prospects to earn income and sustain growth in both the short- and long-term.	3.93	0.72
8	Companies have adequate understanding of what moves quickly, what contributes the highest gross margin, what is aged or excess, and what's seasonal	4.00	0.67
9	Companies systems are effective in helping to determine how much of each line of stock to keep on hand and when a re-order is required	4.04	0.67
10	All staff are following an internal SOPs	4.00	0.61
	Liquidity Risk Management Practices	**4.09**	

Source: Survey data, 2019

Table (4.3) shows the analysis on the liquidity risk Management practices of retail petrol industry in Yangon. By the Table (4.3), the overall mean score is 4.09. The higher the overall mean score is indicating that liquidity risk management practices are important for petrol retail industry in its financial risk management at this industry.

The highest mean value 4.50 of EBIDTA (Earnings before Interest, Tax and Depreciation) which has been enjoyed steady increasing for the past few years. This means that, management is looking at the dramatically growing rate of EBITA as performance measure in retail petrol industry.

The lowest mean value 3.93 is found at having good prospects to earn income and sustain growth in both the short- and long-term. It is also indicating the important of liquidity risk management at this industry.

It is the lower mean value and thus, it would be weak credit risk management at retail petrol industry. In the retail petrol industry, they are using coupon for credit sales and issue slip printer voucher, as for sales invoice. But for the vehicles and cycles, who do not ask for sales slips, there are a lot of missing document for recording every sales of petrol.

Liquidity-risk management is aimed at prospectively assess the need for funds to meet obligations and make ensuring the availability of cash or collateral to fulfil those needs at the appropriate time by coordinating the various sources of funds available to the retail petrol institution. By the above information,

4.3.3 Market Risk Management Practices

In the financial risk management, market risk is an import issue of a risk. Market risk is the risk arising from changes in the markets to which an organization has exposed. As for the retail petrol market, there is high competitions among retail petrol stations. To understand how retail petrol industry is identifying and measuring risk and ensuring that the risks being taken are consistent with the desired risks, survey is made. Table (4.4) shows the market risk management practices at retail petrol industry. Respondents are asked to reply all total 10 statements, as follows.

Table (4.4) Market Risk Management Practices

Sr. No.	Statements	Mean	St. Dev.
1	There is regular survey of market situation	3.06	0.63
2	Business case document is created as a result of market demand	2.07	0.72
3	Portfolio investment at retail petrol companies are aiming to reduce their market risk	3.06	0.66
4	To be convenience to customers, retail petrol station locations are important	3.06	0.63
5	Revenue Growth rate is also depending on market share at retail petrol industry.	4.00	0.70
6	Customers are also looking at brand name which is like a goodwill and trust in the mind of customers	3.07	0.64
7	Hedging is important when Government policy can effect of market	3.09	0.68
8	Just in Time (JIT) distribution is important for mobile sale	3.02	0.63
9	Competitor advantages is one of the effects of market share	4.00	0.67
10	Value added can make a good customer relationship	3.02	0.74

	Market Risk Management Practices	**3.14**

Source: Survey data, 2019

By the Table (4.4), the overall mean score is 3.14. The just higher the overall mean score is indicating that market risk management practices are in common issues for petrol retail industry.

The highest mean value 4.00 of Revenue Growth rate is depending on market share. This means that, managements are trying to improve market share for improving revenue growth.

The lowest mean value 2.07 is found at business case document is created as a result of market demand. The lowest mean is indicating the retail petrol companies are less aware to prepare business case, according to market demand, document to be created. In the retail petrol market, there is changing in pricing in daily onwards.

4.3.4 Foreign Exchange Risk

Foreign exchange risk involves risk management at transaction, translation, and economic risk. Table (4.5) is the foreign exchange risk management practices, as follows.

Table (4.5) Foreign Exchange Risk Management Practices

Sr. No.	Statements	Mean	St. Dev.
1	Foreign Exchange rate is always investigating in daily market rate	3.11	0.66
2	Central Bank regulation is one the effect of currency exchange rate	3.04	0.58
3	Gold market and foreign exchange rate is interrelationship	3.00	0.70
4	Global economic news is affecting a currency exchange rate	2.04	0.64
5	Insurance of currency loss which is one of hedging method	3.00	0.64
6	In a contract, specific defined currency rate when buying/selling goods	2.00	0.58
7	Inflation can effect of currency exchange rate	3.50	0.69

8	Foreign exchange market brokers manipulate market price	2.00	0.58
9	There is records of daily currency rate (Both Central Bank & Market Rate)	2.00	0.64
10	Market value is continuously impacted by an unavoidable exposure to currency fluctuations	3.00	0.58
	Foreign Exchange Risk Management Practices	**2.67**	

Source: Survey data, 2019

By the Table (4.5), the overall mean score is 2.67. The lower the overall mean score is indicating that lower risk management practices for petrol retail industry.

The highest mean value 3.50 is found as Inflation can effect of currency exchange rate. This means that, management is looking at the dramatically growing currency exchange rate which is strongly risk factor as for the performance measure in retail petrol industry.

The lowest mean value 2.00 are found at brokers manipulate market prices and having record of daily currency rate. This means that all the retail petrol companies are less important to manage daily foreign exchange rate because they cannot manage on that changing rate.

4.3.5 Summary Analysis Risk Management Practices

Table (4.6) shows the summary analysis on risk management practices, as follows.

Table (4.6) Summary Analysis Risk Management Practices

Sr. No.	Statements	Mean
1	Credit Risk Management Practices	3.54
2	Liquidity Risk Management Practices	4.09
3	Market Risk Management Practices	3.14
4	Foreign Exchange Risk Management Practices	2.67
	Financial Risk management	**3.36**

Source: Survey data, 2019

By the summary table the highest mean value is 4.09. It is liquidity risk Management practices. This is indicating that Liquidity Risk Management Practices is the highest risk management in financial risk management practices in retail petrol companies in Myanmar. It is followed by Credit Risk Management Practices 3.54, which is as the second most financial risk management in retail petrol companies.

However, the lower mean scores of 3.14 and 2.67 of Market Risk Management Practices, and Foreign Exchange Risk Management Practices, which are indicating the weaker risk management practices in financial risk management at retail petrol companies, in Myanmar.

The overall mean value is 3.36, which is indicating financial risk management is somewhat important for retail petrol companies.

4.4 Performance Measurement in terms of Financial Perspectives

The second part is the performance measures at petrol companies in terms of balance scored card performance measurement. In this analysis, it is focuses on the achieving business goals in terms of financial strength, customer & Supplier relationship, internal process smoothness, and learning & growth culture in the organization. By the descriptive statistics, typical Likert scale with 5-point ordinal scale used by respondents to rate the degree to which they agree or disagree with a statement.

The financial perspective seeks to answer the question: to succeed financially, how should company appear to their shareholders? To understand the financial performance measurement practices at retail petrol companies, survey is made on the selected key person to response their agreeable in the extent ranging from 1= very poorly, 2= poor, 3=neutral, 4=good, 5=very good. Table (4.7) is the firms' performance measurement in terms of financial perspective, as follows.

Table (4.7) Financial Perspective

Sr. No.	Statements	Mean	St. Dev

1	Petrol Retail Shop are increasing a margin after hedging of financial risk	4.48	0.64
2	Petrol Retail Shop are achieving of standard EBIDTA	4.50	0.61
3	Petrol Retail Shop always monitor a standard cost per petrol station operation hours	4.52	0.67
4	Petrol Retail Shop can control of their cash cycle	4.00	0.64
	Financial Perspective	**4.38**	

Source: Survey data, 2019

By the Table (4.7), the overall mean is 4.38. The higher the overall mean is the important of the measurement in term of financial perspective is the important measure for petrol retail companies' performance measurement.

The highest mean is 4.52. It is the monitoring standard cost per petrol station operation hours, which is measured as the highest financial performance management at retail petrol companies.

The lowest mean value is 4.00. It is the controlling cash inflow and out flow (Cash cycle). It is also the higher mean value and thus controlling cash inflow and out flow for smooth cash flow management is the important financial performance at retail petrol companies.

4.5 Effect of Financial Risk Management Practices on Performance Measurement

To find out the effect of Risk Management on Retail Petrol Companies Performance Outcome, linear regression is applied to test the relationship between independent variable (Financial Risk Management) and dependent variables (Performance outcome in terms of financial measurement). Result from shown in the following Table (4.8)

Table (4.8) Effect of Financial Risk Management Practices on Performance Measurement

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.754	.519		3.382	.001		
Credit Risk	.566**	.154	.605	3.677	.001	.394	2.540

Management							
Liquidity Risk Management'	.051	.163	.050	.312	.757	.408	2.448
Market Risk Management	.055	.209	.043	.261	.795	.402	2.487
Foreign Exchange Rate Risk Management'	.046	.151	.040	.304	.763	.624	1.602
R	.691[a]						
R Square	0.477						
Adjusted R Square	0.434						
Durbin-Watson	1.749						
F (p<0.01)	11.175**						

a. Dependent Variable: Financial Perspective

Note_** = Significant at 1% level

Source: Survey data, 2019

The data analysis for regression coefficient value it is indicated the individual contribution of each predicator, factors to find the effect of variable on performance measurement.

The value of F test, the overall significance of the model is highly significant at 1% level (p<0.01) and thus, this specified model can be said valid. The value of (VIF) are less than 10 therefor the serial correlation and multi-collinearity problems were not detected in this analysis.

The R Square value is 0.477 which is indicating 47.7% of variation is due to independent variables these are four factors of credit risk management, liquidity risk management, market risk management, and foreign exchange risk management on performance measurement. Adjusted R Square is 0.434 and all other independent variable are constant. If there is an increase financial risk management by 1 unit, this will also raise the performance management by 43.4% when the variance explained by other variables is controlled for.

The indicator of Credit Risk Management has positive sign and significant relationship with firm financial performance because the significant value is more than 0.01 (99% confidence interval). This positive relationship means that the increase in Credit Risk Management leads to increase in financial performance to the retail petrol Companies. If there is an increase Credit Risk Management by 1 unit, this will also raise the organization by 56.6% when the variance explained by other variables is controlled for.

The indicator of Liquidity Risk Management has positive sign but is not significant relationship with financial performance because the significant value is more than 0.10 (90% confidence interval).

The indicator of Market Risk Management has positive sign but is not significant relationship with financial performance because the significant value is more than 0.10 (90% confidence interval).

The indicator of foreign exchange Risk Management has positive sign but is not significant relationship with financial performance because the significant value is more than 0.10 (90% confidence interval).

In summary, the result shows that factor has significant related value and the main determination of financial risk management practices is found to be Credit Risk Management Practices, Liquidity Risk Management Practices, Market Risk Management Practices, Foreign Exchange Risk Management Practices, which all are not associated with performance measurement. Among them only the credit risk management practice is the positive and significant relationship to financial measure of retail petrol companies in Myanmar.

CHAPTER 5
CONCLUSIONS

In this section, it states the findings and discussion of the study of the effect of financial risk management on performance of petrol retail industry, along with the recommendation, and the needs for further studies at for that financial risk and performance management, as follows.

5.1 Findings and Discussions

There are three broad categories of risks in the financial system, financial risk, business risk, and operational risk. Risk management becomes an essential discipline in business to mitigate against risk in such businesses, particularly in retail trade. Industry performance is very important for all investors and it is therefore important to understand the factors affecting performance of their firms. It is the measure of the financial health of the business institution. In this study, it analyzes the effect of financial risks management on performance of Petrol Retail companies, in Yangon. In depth interviewing with the top management, finance director, CFO, and financial controller from top petrol retail companies, for their organizations' financial risk management practices in terms of credit risk, liquidity risk, market risk, and foreign exchange risk management practices are examined. Further, study continues to find out their performance measure in terms of financial perspective, customer perspectives, process perspective, and learning & growth perspective, respectively. The findings are as follows.

Regarding to the demographic profiles of respondents, male is more composition than female. Most of their age level are also found as over 40 years. Their education levels are also found as at least post graduate diploma especially they have graduated ACCA/CPA professional schools.

Regarding to the financial risk management at petrol retail companies, credit risk management, liquidity risk management, market risk management, and foreign exchange risk management practices, which are analyzed. In the credit risk management practices, the higher the overall mean score is indicating that credit risk management practices are important for petrol retail industry in its financial risk management at this industry. The highest mean value of standardization on credit risk rating based on KYC (know-your-customers or customer due diligence) is taken as the highest important factor in credit risk management at that industry.

Regarding to the analysis on the liquidity risk Management practices, the higher the overall mean score is indicating that liquidity risk management practices are also important for petrol retail industry in its financial risk management at this industry. The highest mean value of EBIDTA (Earnings Before Interest, Tax and Depreciation) watching for steady increasing, that is, looking at the dramatically growing rate of EBITA is taking as highest liquidity risk management at performance measure in retail petrol industry.

Regarding to the analysis on market risk is the risk arising from changes in the markets to which an organization has exposed, the average overall mean score is indicating that market risk management practices are taking as in common issues for petrol retail industry. They see only at the revenue growth rate is depending on market share. This means that, market risk management is only focusing to improve market share for improving revenue growth.

Regarding to the foreign exchange risk involving risk management at transaction, translation, and economic risk, the lower the overall mean score is indicating that this factor is very difficult management practices for petrol retail industry. The highest mean is inflation effecting currency exchange rate. This means that, management is looking at these inflation rate and adjust their daily prices based on that exchange rate.

By the summary analysis, Liquidity Risk Management Practices is found as the highest risk management in financial risk management practices in retail petrol companies in Myanmar.

It is followed by Credit Risk Management Practices, and market risk management, and difficult risk management is found in Foreign Exchange Risk Management Practices.

The second part is the performance measures at petrol companies in terms of balance scored card performance measurement. Regarding the financial perspective, financial perspective is the important measure for retail petrol companies' performance measurement. In that measure, the monitoring standard cost per petrol station operation hours, which is measured as the highest financial performance management at retail petrol companies.

The important of the performance management in terms of customer relationship is also found as the important measure for retail petrol companies. Full range of products offered to customers at petrol station, in order-lead time, quality which all are important for customer satisfaction management at petrol retail companies.

Regarding the process perspective, the higher mean value is showing the process in retail petroleum companies are important for performance measure among this industry. The highest mean values of total supply chain cycle time, total Inventory Cost, and Capacity utilization, which are the most important for smooth retail petrol station operation management.

Regarding the learning and growth, the higher the mean is indicating learning and growth practices is the important performance at retail petrol companies in Myanmar. The highest mean value is indicating that high importance of the level of information sharing among others is important for learning and growth at their organizations.

Summary table of financial performance measurement is stating that important organizational performance is credit risk performance measurement, and thus, retail petrol companies are suggested to perform more credit risk management practices to promote their organizational financial performance, than the other variables in the financial risk management of retail petrol companies in Myanmar.

5.2 Recommendations and Suggestions

Regarding to the credit risk management practices, it is recommended to the petrol retain companies to continue their credit risk management practices that can protect the loss of credit customers and which are important for petrol retail industry in its financial risk management at this industry. Company rating based on KYC (know-your-customers or customer due diligence) is also strongly recommended so that it can mitigate the credit risk than without trying to know the customers at petrol retail companies.

Regarding to the liquidity risk Management practices, it is recommended to the petrol retain companies to continue their liquidity risk management practices. In the petrol retail industry, the cost of goods sold is the nearly 90 percent of revenues and thus it is very important to have healthy working capital cycle which is important liquidity risk management practices at petrol retail companies. Regarding to the analysis on market risk is the risk arising from changes in the markets to which an organization has exposed, it could be suggested that petrol retail companies are needed to improve their recording of business case as as a result of market demand, Just in Time (JIT) distribution is important for mobile sales, Value added can make a good customer relationship, in such ways to improve their market efficiency and to mitigate the market risk. Regarding to the foreign exchange risk involving risk management at transaction, translation, and economic risk, it is also recommended to response this uncontrollable situation, whereas, petrol retail companies are suggested to follow or adopt their changes so that risk of losses would be in under control. That is to be careful on inflation rate, currency exchange rate, foreign mob prices, and so on, to monitor at every day.

The second part is the performance measures at petrol companies in terms of credit risk financial performance measurement. Summary table of financial performance measurement is stating that important of financial organizational performance measure in its credit risk management, and thus it could be strongly recommended to continue this activity. As for the liquidity, it is huge capital investment in petrol purchase cost and high bargaining powers of oil gas suppliers as well as also difficulties on managing foreign exchange risk management for its uncontrollable factors. Petrol retail companies are strongly suggested to make daily market prices to adopt to their daily pricing so that they would eliminate the risk of loss from the sales at their retail petrol stations.

5.3 Needs for Further Studies

This study only focuses on petrol retail companies' performance management in selected petrol companies in Yangon. Samples respondents are also selected key person who are at key position around financial related department. Further studies should be extended to other key person from various key positions of operation, logistics, sales & marketing, human resources department, and so on. This study is only related to petrol retail companies. It does not account for other businesses.

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APPENDIXES

RESEARCH QUATIONNARIES

Section (A) Profile of Respondents

Sr.No.	Particular	
	Gender of Respondents	
1	Male	☐
2	Female	☐
	Age of respondents	
1	20 to 30 years	☐
2	10 to 40 years	☐
3	41 to 50 years	☐
4	Above 50 years	☐
	Education level of Respondents	
1	University graduate	☐
2	Post graduate	☐
3	Professional (ACCA/CPA)	☐
4	Master degree	☐

Section (B) Financial Risk Management Practice

For each of the statements below, please rate your answer and mark with (√) the appropriate box as follows:

Strongly disagree (1); Disagree (2); Agree moderately (3); Agree (4); and strongly agree (5).

(There are no "right or wrong" answers to these questions; so please be as honest and thoughtful as possible in your responses. All responses will be kept strictly confidential)

Sr. No.	Credit Risk Management Practices	1	2	3	4	5
1	Retail petrol companies have standardization on credit risk rating based on KYC (Customer due diligence)	1	2	3	4	5
2	Retail petrol companies have specific defining in a Credit Policies for credit measurement practices	1	2	3	4	5
3	Retail petrol companies set credit policies for mitigation of losses	1	2	3	4	5
4	There are improved selection criteria for clients based in accordance to risk profile	1	2	3	4	5
5	Retail petrol companies set credit monitoring on business to business (B2B) customers in terms of account receivable days and due amount	1	2	3	4	5
6	Payment Terms are documented on every invoice	1	2	3	4	5
7	The capabilities of employees are viewed as an important source of competitive advantage	1	2	3	4	5
8	There are regular monthly reports to identify when payments are due (aged debtors report)	1	2	3	4	5
9	There is a policy to stop supplying a customer until all debts are cleared.	1	2	3	4	5
10	There are adequate controls to ensure that all employees (particularly sales staff) adhere to the agreed terms when completing a sale	1	2	3	4	5

Sr. No.	**Liquidity Risk Management Practices**	**1**	**2**	**3**	**4**	**5**
1	Liquidity risk management uses a mix of financial ratio analysis and cashflow forecasting to provide the best information on liquidity and cashflow	1	2	3	4	5
2	There are effective systems for collection and processing cashflow information	1	2	3	4	5
3	Monitoring of the working capital cycle regularly is aiming to identify potential cashflow issues	1	2	3	4	5
4	For maximizing company savings, it is potential by exploring the viability of any available early payment discounts, volume rebates or trade spend initiatives	1	2	3	4	5
5	When purchasing a new or riskier product, we negotiate longer payment terms to increase working capital or ask to add the product to consignment stock rather than inventory as a way to maximize liquidity and reduce risk	1	2	3	4	5
6	EBIDTA (Earnings Before Interest, Tax and Depreciation) has been enjoyed by steady increasing for the past few years.	1	2	3	4	5
7	Companies have good prospects to earn income and sustain growth in both the short- and long-term.	1	2	3	4	5
8	Companies have adequate understanding of what moves quickly, what contributes the highest gross margin, what is aged or excess, and what's seasonal	1	2	3	4	5
9	Companies systems are effective in helping to determine how much of each line of stock to keep on hand and when a re-order is required	1	2	3	4	5
10	All staff are following an internal SOPs	1	2	3	4	5

Sr. No.	**Market Risk Management Practices**	**1**	**2**	**3**	**4**	**5**
1	There is regular survey of market situation	1	2	3	4	5
2	Business case document is created as a result of market demand	1	2	3	4	5
3	Portfolio investment at retail petrol companies are aiming to reduce their market risk	1	2	3	4	5
4	To be convenience to customers, retail petrol station locations are important	1	2	3	4	5
5	Revenue Growth rate is also depending on market share at retail petrol industry.	1	2	3	4	5
6	Customers are also looking at brand name which is like a goodwill and trust in the mind of customers	1	2	3	4	5
7	Hedging is important when Government policy can effect of market	1	2	3	4	5
8	Just in Time (JIT) distribution is important for mobile sale	1	2	3	4	5
9	Competitor advantages is one of the effects of	1	2	3	4	5

	market share					
10	Value added can make a good customer relationship	1	2	3	4	5

Sr. No.	Foreign Exchange Risk Management Practices	1	2	3	4	5
1	Foreign Exchange rate is always investigating in daily market rate	1	2	3	4	5
2	Central Bank regulation is one the effect of currency exchange rate	1	2	3	4	5
3	Gold market and foreign exchange rate is interrelationship	1	2	3	4	5
4	Global economic news is affecting a currency exchange rate	1	2	3	4	5
5	Insurance of currency loss which is one of hedging method	1	2	3	4	5
6	In a contract, specific defined currency rate when buying/selling goods	1	2	3	4	5
7	Inflation can effect of currency exchange rate	1	2	3	4	5
8	Foreign exchange market brokers manipulate market price	1	2	3	4	5
9	There is records of daily currency rate (Both Central Bank & Market Rate)	1	2	3	4	5
10	Market value is continuously impacted by an unavoidable exposure to currency fluctuations	1	2	3	4	5

Section (C) Performance Measurement (Balance Scorecard)

For each of the statements below, please rate your answer and mark with (√) the appropriate box as follows:

1= very poorly , 2= poor, 3=neutral, 4=good, 5=very good

(There are no "right or wrong" answers to these questions; so please be as honest and thoughtful as possible in your responses. All responses will be kept strictly confidential)

Sr. No.	**Financial Perspective**	1	2	3	4	5
1	Petrol Retail Shop are increasing a margin after hedging of financial risk	1	2	3	4	5
2	Petrol Retail Shop are achieving of standard EBIDTA	1	2	3	4	5
3	Petrol Retail Shop always monitor a standard cost per petrol station operation hours	1	2	3	4	5
4	Petrol Retail Shop can control of their cash cycle	1	2	3	4	5

APPENDIX 2

SPSS OUTPUT

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.691[a]	.477	.434	.4374	1.749

a. Predictors: (Constant), Meam_FERM, Mean_LRM, Mean_MRM, Mean_CRM

b. Dependent Variable: Financial_Perspecitive

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.551	4	2.138	11.175	.000[b]
	Residual	9.373	49	.191		
	Total	17.924	53			

a. Dependent Variable: Financial_Perspecitive

b. Predictors: (Constant), Meam_FERM, Mean_LRM, Mean_MRM, Mean_CRM

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
	(Constant)	1.754	.519		3.382	.001		
	Mean_CRM	.566	.154	.605	3.677	.001	.394	2.540
	Mean_LRM	.051	.163	.050	.312	.757	.408	2.448
	Mean_MRM	.055	.209	.043	.261	.795	.402	2.487
1	Meam_FERM	.046	.151	.040	.304	.763	.624	1.602

a. Dependent Variable: Financial_Perspecitive