THE EFFECTS OF INTERNAL FACTORS AND EXTERNAL FACTORS ON YUM! BRANDS, INC PERFORMANCE

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ABSTRACT

Profitability is a critical viewpoint that in the investigation of the organization specifically Yum! Brands, Inc. The primary objective of this investigation is to decide the effects of internal factor and external factor towards gainfulness or profit for resources of Yum! Brands, Inc. from 2014 to 2018. Subsequently, the investigation shows that current ratio as operational ratio that impacts the productivity of Yum! Brands, Inc. the most along the period 2014 to 2018. This study additionally called attention to the reasonable answers for Yum! Brands, Inc., which are expand ventures by utilizing more money and increment the offer cost by checking organization execution in producing higher benefits.

Keywords: *ROA, internal factor, external factor, operating ratio, Corporate Governance, company performance*

1.0 INTRODUCTION

1.1 INTRODUCTION OF YUM! BRANDS, INC

United States of America has many fast food companies, one of the world's largest fast food restaurant company is Yum! Brands, Inc and formerly Tricon Global Restaurants, Inc., is which also operates the brands KFC, Taco Bell and Pizza Hut. Yum! Brands, Inc. has 43617 restaurants around the world in over 135 countries and territories.

1.2 OVERVIEW OF YUM! BRANDS, INC

There are seven concepts of sound corporate governance taken into practice by a company. These seven concepts are reputation, independence, accountability, fairness, openness, honesty, and transparency, responsibility and social responsibility. First of all Yum! Brands, Inc has the concept of openness, honesty and transparency. Openness means a willingness to give information to everyone about the company. Honesty is defined as the company might seem as obvious quality for companies and make shareholders and investors believe all the company's statement to be a true statement by he board of directors. Definition of transparency is refer to everyone are able to make their own analysis of a company and take their actions easily. For example, Yum ! Brands, Inc. disclose all the information in its annual report such as financial report, stock ownership information, Q&A about voting and meeting, governance of the company, audit committee report annually. In addition, in the annual meeting, Yum! Brands representatives will answer every shareholder's questions of general interest. This means that the company always don't want to hide any secrets to their shareholders or stakeholders whatever they disclose their annual report or answer all shareholder's questions.

Secondly, definition of independence is a procedures and structures which can to minimise, or avoid potential conflicts of interest that could arise completely such as the domination of a company by an all-powerful chairman-cum-CEO or a major shareholder. Based on the annual report of Yum! Brands,Inc, Yum! Brands has 1 president, 1 Chief Executive Officer, 1 secretary, 1 Chief Transformation and people officer, senior vice president and 1 vice president. David W.Gibbs is the president, chief financial officer and chief operating officer as well. Thus there will be a possibility of potential conflict of interest arise among the board of directors.

Next, the third concept of sound corporate governance is accountability. Accountability is the fact or condition of being accountable for the decisions they make and the actions they take. The company must make sure that management is accountable to the Board and the Board is accountable to shareholders. Based on Yum! Brands annual report, presidents of the company are responsible when he making every decision to maintain and maximise the shareholders' right and wealth.

After that, the fourth concept is responsibility. Responsibility is a key issue in corporate governance to decide who should have in charge, whether directors should take responsibility for their performance to the stakeholders easily, and especially for their shareholders. Normally, executive managers are for the operations of the business, and the ultimate responsibility rests with the CEO. In Yum! Brands, Inc annual report, Mr. Cornell in charge of supporting the CEO along the leadership development on the company strategy Mr. Cornell also set the agenda and schedule of the Lead Director for his CEO. In addition, as CEO, Mr. Creed is responsible for leading and guiding the company's strategies, organization design, people development and culture, and providing the leadership over operations day by day.

Then, the fifth concept is fairness. Fairness means equal consideration should be received by the all shareholders to protect shareholder rights and make sure all the shareholders are treated equitably. Based on the annual report of Yum! Brands, Inc, every shareholders of Yum! Brands, Inc have a chance to vote on any proposal of Yum Brands, Inc. Representatives of the Yum! Brands allow all the shareholders to ask questions to them to ensure the fairness to the shareholders.

Next, the sixth concept is reputation. A company will be known widely by its good reputation. Corporate social responsibility (CSR), fair treatment of staff, a codes of ethics, attitudes to customers, community involvement and willingness can influence a good reputation of a company. Based on the annual report of Yum! Brands, Yum! Brands branch company KFC will reveal different menu of KFC according different countries. Moreover, KFC and another branch company of Yum! Brands will develop online ordering and payment systems such as e-wallet and debit card to improvise the service provided to the customers.

Lastly, the seventh concept is social responsibility. The definition of social responsibility is an ethical framework and whether an organization or an individual, they have an obligation to do for large benefit of society. Social responsibility is a duty which every individual has to perform so can balances the economy and the ecosystems. In the CSR report of Yum! Brands, Yum! Brands, Inc put a lot of effort to improve social responsibility of environmental matters. The KFC restaurant is designed to use 25% less energy and water than a conventional KFC restaurant. Since 2006, a conservation efforts have prevented the greenhouse gas release from more than 118,500 passenger cars to reached an energy reduction goal. They also use paper-based packaging with fiber from responsibly managed forest and recycled sources to reduce plastic bag which can pollute our environment.

The main risk associated with this company is operational risk. Operational risk occurs when lower production, higher overall costs but generate lower revenues. Based on the annual report, net sales of Yum! Brands maintained five years in a row from year 2014-2018 and rise and fall of the cash and but the operating expenses of Yum! Brands increases year by year. So, the worst is Yum! Brands, Inc revenues cannot cover expenses and facing a big crisis in managing their company's expenses to generate lesser revenues. Consequently, if the operational risk not managed well, the risk become more serious.

1.3 PROBLEM STATEMENT

A large portion of the organizations are confronting closed down emergency as these organizations neglected to solve indebtedness issues happened. Any organization likewise need an entirety of money close by to keep up its operating activities just generating profit by sales. Operational risk occurs when lower production, higher overall costs but generate lower revenues. However, we believe that operational risk can be affect by other risk. Liquidity to a great extent impacts the operational activities that a bank is occupied with and consequently impacts operational risk (Fiedler et al., 2002). Besides we also believe that internal factors can affect Yum! Brands performance. the businessman ought to be increasingly cautious with inside components since results from this exploration reveal to us that improvement internal factors increased more firm's performance than other factors that are available in the modern condition. (Xhavit Islami; Naim Mustafa; Enis Mulolli, 2018) Besides, corporate governance is also a possible internal factor to control all the risk. Moreover, external factor such as GDP, inflation rate, interest rate and exchange rate is a suggested factor to control all risk as well.

1.4 RESEARCH OBJECTIVES

This study has an expect to accomplish, which is to decide the effects of determinants or independent factors towards the profitability or return on assets of Yum! Brands, Inc from 2014 to 2018. There are three research targets stated below:

1. To study the correlation and influence of internal factors towards profitability.
2. To study the correlation and influence of external factors towards profitability.
3. To study the correlation and influence of internal and external factors towards profitability.

1.5 RESEARCH QUESTIONS

1. What is the internal factor which has the highest correlation and significance on the profitability of Yum! Brands, Inc?
2. What is the external factor which has the highest correlation and significance on the profitability of Yum! Brands, Inc?
3. What is the internal and external factors combined which has the highest correlation and significance on the profitability of Yum! Brands, Inc?

2.0 LITERATURE REVIEW

2.1 CORPORATE GOVERNANCE

Culture is an element of the company in encouraging integrity and openness, and balances leadership, system, structure, alignment with reasonable levels of risk taking. Culture of the company should maintain a humble, caring, and encouraging aspects for the purpose of maintaining the lifetime of company operation. (Stephen A. Drew; Patricia C. Kelly; Terry Kendrick, 2006). External support for the organization can be influenced by charismatic leadership and improve company performance and reach the benchmark which is set by the company easily. Especially, the company will attract more outside investors because of enhanced stock prices. (Stephen A Drew; Patricia C. Kelly; Terry Kendrick, 2006) Alignment is a key element that manage association between external and internal audit, regulatory acquiescence, and risk management functions. (Stephen A Drew; Patricia C. Kelly; Terry Kendrick, 2006) A wide range of business and strategic risks can be identified, analyzed, predicted and managed by system to improve the management of risk. (Stephen A Drew; Patricia C. Kelly; Terry Kendrick, 2006) Structure affects culture by strengthen individual organizational roles. A company align structure appropriately with cultural norms, leadership and systems strengthens a firm"s risk management abilities. (Stephen A Drew; Patricia C. Kelly; Terry Kendrick, 2006) For example, Yum! Brands, Inc branches company, Pizza Hut U.S franchisees that will improve brand marketing alignment, accelerate enhancements in operations and technology and that includes a permanent franchisee commitment to incremental advertising as well. (will enhance brand marketing strategy, increases the efficiency in operations and technology and includes franchisee commit to incremental advertising permanently as well.

The model included six key components, coordination, communication, conversation, connection, collaboration and co-creation. Coordination means the process which link together with the shareholders, business divisions or business units and stakeholders. (Joseph McCahery; Erik Vermeulen, 2014). Furthermore, well communication between the company and investors not only can be a competitive advantage for companies, in consequence of that increasing the economic moat. (Joseph McCahery; Erik Vermeulen, 2014) Conversation supports to both networks of investors. The group (subsidiary) level coordination While the other components such as connection, collaboration and co-creation support the group level coordination. This means connection will be beneficial in leading to the development of new products while the operating costs and cost of capital of a company can be lower by collaboration and co-creation. (Joseph McCahery; Erik Vermeulen, 2014) The six components which have owned by a company is usually is a wealthier, healthier and more competitive company. (Joseph McCahery; Erik Vermeulen, 2014). For example, Yum! Brands, Inc increased collaboration and a new mindset are clearly fueling improved results.

The OECD (2011) identifies the follow key elements of good corporate governance. First, the right & obligations of the shareholders must protected by a corporate governance framework for example one vote for one share, shareholders able to get dividends and shareholders can get sufficient and relevant information by the company. (Selected Issues in corporate governance, 2003) For example, Yum! Brands Inc always protects shareholder rights by holding annual election of directors, majority voting of candidates will become directors, help shareholders to communicate with board and holding active shareholder engagement programme. Next, equitable treatment of shareholders such as same voting rights and all shareholders should be treated equally. (Selected Issues in corporate governance,2003) For example, every shareholders of Yum! Brands have a chance to vote at the annual election of directors. Third, the role of stakeholders in corporate governance must be focused by the company. Such as protect the stakeholders' rights by law, provide sufficient and relevant information to stakeholders, and encourage the stakeholders to suppose a role in the company. (Selected Issues in corporate governance, 2003) For example, Yum! Brands, Inc always uses the transformation strategy to be a more focused, more franchised, more efficient and the company performance will be improved. Next, transparency, means the company is willing to discloses the company's information and audit including the company's performance, financial situation, ownership structure and corporate governance can make sure all the shareholders and stakeholders will know all the thing about the company. (Selected Issues in corporate governance, 2003) For example, representatives of the Yum! Brands allow all the shareholders to ask questions to them to ensure the fairness to the shareholders. The board of directors must have strategic leadership of the corporation and the efficient monitoring of management. (Selected Issues in corporate governance, 2003) Executive members of the board should be independent from non executive members of the board and no business relationship with the company or not involve in commercial activity. (Selected Issues in corporate governance,2003) Lastly, executive management, compensation and performance are related with each other. The corporation's general level of profitability and overall performance should be tied to management compensation to reach the benchmark which set by the corporation more easily. (Selected Issues in corporate governance, 2003)

2.2 COMPANY PERFORMANCE

Effects on firm performance and economic growth after corporate governance is cotrollinh to be a better performance of the company and causes a higher ownership concentration. (Maria Maher; Thomas Anderson, 1999) In addition, after corporate governance, stock market liquidity will increase and increase diversification possibilities for investors. This is because this is on the grounds that larger part of investors can't utilize the firm for their very own private advantages and can't seizing rents to the detriment of minority investors and different partners. All the benefit of the company can be divided equally to all the shareholders. So it can encourage all the shareholders invest in the corporation. (Maria Maher; Thomas Andersson,1999) For example, after corporate governance, Yum! Brands,Inc will decrease cost and increase revenues because all budgets are in the control.

Corporate governance advocates and reformers claim that good governance policies are important for high performance. (M.Alix Valenti; Rebecca Luce; Clifton Mayfield, 2011) To begin with, great execution makes authoritative leeway and builds CEO control, both of these lead to terrible administration outcomes, for example, entrenchment and shrewd practices; second, in times of good execution there is no compelling reason to make administrative proficiency through duality; at long last, the load up is less inclined to evacuate a CEO after times of good execution, with the expanded potential for CEO entrenchment. (M.Alix Valenti;

Rebecca Luce; Clifton Mayfield, 2011) For example, presidents of Yum! Brands,Inc are responsible when he making every decision to maintain and maximise the shareholders' right and wealth.

Next, in subsequent period of firm's good corporate governance mechanism, board size of firm increases and absence of duality. (Zahid Irshad Younas; Haider Mahmmod; Asif Saeed, 2013) For example, Yum CHINA boarrd Expands with more China market and operation insights.

2.3 CREDIT RISK

Credit risk is the danger of a counterparty neglecting to play out its commitments. (Bank Negara Malaysia, 2018) While the board and senior administration assume a key job in credit hazard oversight, the obligation regarding credit chance administration is spread all through a money related organization. (Bank Negara Malaysia, 2018) For example, in Yum! Brands, Inc, credit risk is when the risk exposed to other people failure to comply with credit.

Credit risk is the likelihood that an advance won't be reimbursed by the provisions of the agreement. (Edgar R. Fiedler, 1971) Credit risk also is a forward-looking concept, this is focusing on the possible incidence of credit difficulties in the future. (Edgar R. Fiedler, 1971) For example, credit risk may appear when Yum! Brands,Inc is collaborate with other companies. This is because the other companies will cheat them.

Credit risk can be characterized as 'the potential that an authoritative gathering will neglect to meet its commitments as per concurred terms.' (Ken Brown; Peter Moles; 2008) Credit chance likewise can be named as default chance, execution chance or counterparty chance. (Ken Brown; Peter Moles; 2008) The significance of credit hazard can set a cut-off point that adjusts the clashing requests of the association with respect to credit introduction. (Ken Brown; Peter Moles; 2008) Credit hazard the board can be viewed as a choice issue. (Ken Brown; Peter Moles; 2008) This administration can decide the advantage of hazard assuming with the potential misfortune. (Ken Brown; Peter Moles; 2008) The count of the credit hazard is introduction x likelihood of default x (1-recuperation rate). (Ken Brown; Peter Moles; 2008) For instance, to diminish the counterparty credit chance, Yum! Brands, Inc just go into contracts with painstakingly chosen major monetary establishments dependent on their FICO assessments and different elements, and persistently evaluate the financial soundness of counterparties. Operational risk can be characterized as the business danger of misfortune coming about because of deficient or bombed inward prosses, individuals, frameworks or from outside occasions. For models extortion, bookkeeping mistakes, gear disappointment or robbery, mis-selling, item imperfections, etc. (Coleman Rodney, 2011) The goal must be to help the executives in getting an affectability to information, and in its understanding for use uncertainty making. In Yum! Brands, Inc, the organization consistently examinations the danger of their business exercises so they can generally mindful of their present conditions and improve it.

2.4 OPERATIONAL RISK

Operational risk also can be called it as business risk. Operational risk identifies with exercises did inside an element, emerging from structure, frameworks, individuals, items or procedures. (CIMA Official Terminology, 2005) For example, Yum! Brands always allign their sturcutre, systems, people, products or processes together.

Operational risk is a learnable risk, which implies that better information and experience can take into consideration better the board, and higher institutional returns. This information and experience, be that as it may, should be acknowledged and fused into worker conduct. (Reaping the Benefits of Operational Risk Management, 2015) The importance of operational risk management is freeing up capital, the more you manage the risk, more capital it can allocate to income-earning activities. After operational risk managed, better decision making can do by providing new insights. In addition, more effective you can manage the risk, lower cost of funds will be spend and lower operating costs will be spend. (Reaping the Benefits of Operational Risk Management, 2015) For Yum! Brands, Inc, as the one of the largest of the company, they must always aware of the risk and focus to prevent crisis and huge losses in the future.

According to The Chartered Insititute of Management Accountants (2008), operational risk are frequently less noticeable than different dangers and are regularly hard to bind exactly on the grounds that this risk is by and large inside the control of the association through risk evaluation and risk management practice on, including internal control and protection. The wellsprings of operational risk might be interior or outside to the business and are generally produced by individuals, procedures and innovation. Operational risk are normally founded on strategies and procedures because of the utilization of review for hazard ID purposes. Operational risk can be overseen by tolerating the risk, sharing or moving danger, chance decrease and hazard evasion. In Yum Brand’s Inc, this organization will utilize risk decrease strategy to conquer this risk since clients and investors are their needs as opposed to making benefits. Hence, this organization diminish this risk as low as conceivable to keep up their reputation.

2.5 MARKET RISK

The market risk is a significant segment of the Board's administrative capital.framework that teaches banks to require banking associations to quantify and hold money to cover their presentation to showcase chance. (Central Bank, 2016) As indicated by Pierre-Yves Moix (2001), Market risk is characterized as the risk coming about because of changes in the costs of money related resources. Introduction to chance elements, for example, product costs and case value, just as outside trade rates and financing costs can likewise isolate advertise chance. Yum! Brands utilizes franchising system which empowers the organization to add to the organization's arrangements by subsidizing at reasonable interest rates.

Market risk can be characterized as the hazard to an establishment's money related condition coming about because of unfriendly developments in the level or instability of market costs. (John Frain; Conor Meegan, 1996) The count of market hazard is esteem in danger has become the business standard as a proportion of market chance. Market hazard can be estimated by utilizing connection strategy in which this technique is basically a parametric methodology where a gauge of VAR is gotten from the fundamental changes and covariances of the constituents of a portfolio. In contrast to Yum! Brands, Inc, the VAR strategy won't be utilized as the approach on the grounds that there are presence of trading in the company, making this technique unseemly to evaluate market risk.

Market risk can be estimated by situation examination (for sure 'if' investigation), in which we set out various situations and research what we remain to pick up or lose under them. To do situation investigation, we select a lot of situations – or ways depicting how significant factors, stock prices, interest rates, trade rates, and so on., might advance over a skyline period. We at that point hypothesize the money flows as well as bookkeeping estimations of benefits and liabilities as they would create under every situation and utilize the outcomes to go to a view about our presentation. Situation investigations can be pretty much advanced, and early situation examinations were unavoidably rough given the restricted registering power accessible. Be that as it may, they did at any rate give some thought of what firms remained to lose under specific conditions. For instance, Yum! Brands,Inc. utilizes diversifying framework which empowers the organization to add to the organization's arrangements by subsidizing at sensible loan fees.

2.6 LIQUIDITY RISK

Liquidity risk is the hazard relate the likelihood of not being fluid, The higher the likelihood, the higher the liquidity chance. (Kleopatra Nikalaou, 2009) Liquidity hazard can generally be available and hence ought to be obviously thought about (estimated) in arrangement applicable factors expected to reach determinations on financial approach methodology. (Kleopatra Nikalaou, 2009) For Yum! Brand's Inc, the company's current liabilities always flacutated year by year as mentioned in the annual report so it may effect the ROA of the company.

Liquidity risk is characterized as the danger of being not able exchange a situation in an opportune way at a sensible cost. (Jun Muranaga; Makoto Ohsawa, 1997) Normally, liquidity chance in the sense can be separated into the changeability of execution cost and opportunity cost. (Jun Muranaga; Makoto Ohsawa, 1997) Liquidity hazard estimates reflecting intraday to the Japanese value showcase. (Jun Muranaga; Makoto Ohsawa, 1997) For Yum! Brands Inc., this organization will worry on financial elements and just as market price of the stock to decide if they need to complete more money exercises or not excessively will carry impacts to current resources and current liabilities.

Liquidity risk is the likelihood that over a particular skyline the bank will get incapable to settle commitments with instantaneousness. (Mathias Drehmann; Kleopatra Nikolaou, 2010) For instance, Yum! Brands utilizes liquidity proportion to quantify the liquidity chance by separating the information from asset report of the organization. For Yum! Brands Inc, liquidity ratio are used to measure the liquidity risk by extracting the information from monetary record of the organization. In this manner, the organization will deal with their money related commitments which include current assets and current liabilities simpler.

3.0 METHODOLOGY

3.1 INTRODUCTION

This part will give an appropriate diagram of procedure on doing research on Yum! Brands, Inc. by utilizing two principle kinds of information's in particular essential information and optional information.

3.2 POPULATION OR SAMPLING TECHNIQUE

The unit of examination is the real component to be investigated and talked about in the investigation of certain subject. Relatively, individual, gatherings, and even association likewise can be a unit of investigation also. The association will be the unit of examination of the investigation that I led. All organizations in the nourishment and refreshments part in United States of America are taken as the populace in this investigation. To lead the investigation well, one organization were picked as test in Yum! Brands, Inc. Information are removed from the yearly reports 2014 until 2018 to quantify the reliant variable of the organization in particular. Return on assets and the free factors which comprises of interior components and outside elements from 2014 to 2018.

3.3 STATISTICAL ANALYSIS

The statistical analysis is brought out on Yum! Brands, Inc. through primary data and secondary data.

Primary data otherwise called essential sources, which characterized as sources that contain direct data, which likewise imply that the thoughts proposed are by creator's own record or information on a particular point or occasion that the person took an interest in. A portion of the instances of essential assets are academic look into articles, books, and journals. Essential sources, for example, explore articles fundamentally won't clarify about wording and hypothetical standards of a subject in subtleties. The essential assets are utilized generally to acquire a direct record to a real occasion and distinguish unique research done in a field.

For the investigation directed on Yum! Brands, Inc., essential information that is being utilized are academic research articles. Those articles are composed by the writers whom are specialists in their related fields including bookkeeping, fund and financial matters. 18 articles are abridged and identified with the organization execution along the time from 2014 to 2018 in writing survey of the exploration led. In those articles, they do make reference to about the meaning of corporate administration and its components, organization execution and four dangers related with the organization in particular credit chance, operational hazard, showcase hazard and liquidity chance. All the thought's contributed by creators are firmly identified with Yum! Brands, Inc. current circumstance.

Secondary data which otherwise called the sources utilized in depicting, abridging, or examining data or subtleties initially displayed in another source. This additionally implies the creator, by and large, didn't take part in the occasion at all or just marginally take part in the occasion. Secondary source is composed for a wide group of spectators and will incorporate meanings of explicit terms of the occasion, history identifying with the subject, noteworthy hypotheses and standards, and outlines of significant studies or occasions which are firmly identified with the theme talked about or concentrated on.

For look into led on Yum! Brands, Inc., secondary data that is being utilized are in numerical structures. Essentially, the information's required are acquired from the yearly reports and utilize explicit equations to figure the proportions related with the four main risk as referenced before. Right off the bat, authentic information of Yum! Brands, Inc. from 1 January 2014 until 31 December 2018 is acquired through Yahoo Finance site so as to figure the mean of value change, standard deviation or market risk, maximum value change and minimum value change of the subordinate stocks in the market yearly. Furthermore, the monetary and non-money related data of Yum! Brands, Inc. are gotten through yearly reports from 2014 to 2018 and further investigated to get proportion for estimations of organization execution and the Corporate Governance Index score by looking on the 5 primary standards of corporate administration in particular responsibility, straightforwardness, autonomy, reasonableness and maintainability. For the proportions, the proportions are determined by embeddings the information into Excel spreadsheet and develop charts for the proportions that critical to organization execution of Yum! Brands, Inc. to see the development of the proportions along the period. In addition, the outer factors to be specific GDP, swelling, loan fee, conversion scale, and standard deviation or market hazard information are acquired through site, for example, World Bank site and Yahoo Finance to see the development of the financial states of United States of America from 2014 to 2018. The Corporate Governance Index score additionally determined so as to see the connection of this record score with the exhibition of Yum! Brands, Inc..

3.4 DATA ANALYSIS

In this study, there is conceptual framework which is used to describe the relationship or correlation between one dependent variable with the other independent variables. The study framework is internal factors and external factors correlate to profitability (return on assets). The example of internal factors which is current ratio, quick ratio, average-collection period, debt to income, operational ratio, operating margin, and Corporate Governance Index. While the example of external factors is GDP, inflation, interest rate, exchange rate, and standard deviation.

Multiple regression analysis was utilized to make sense of the impact of dependent factors which is operating risk to free factors which are firm explicit factor and macroeconomic factor. It is a regression technique which will layout the impact of the free factors towards subordinate variable. The different relapse can be introduced in the condition structure as demonstrated as follows:

$$ROA = \beta 0 + \beta 1CR + \beta 2QR + \beta 3ACP + \beta 4DTI + \beta 5OR + \beta 6OM + \beta 7CGIDXS + e \text{.............................. Equation 1}$$

$$ROA = \beta 0 + \beta 1GDP + \beta 2INFLA + \beta 3i + \beta 4EXCGR + \beta 5STDV + e \text{... Equation 2}$$

$$ROA = \beta 0 + \beta 0 + \beta 1CR + \beta 2QR + \beta 3ACP + \beta 4DTI + \beta 5OR + \beta 6OM + \beta 7CGIDXS + \beta 8GDP + \beta 9INFLA + \beta 10i + \beta 11EXCGR + \beta 12STDV + e \text{.. Equation 3}$$

Table 3.4 Measurement of Variables

No	Variables	Notation	Measurement
1	Return on Assets	ROA	Net Income / Total Assets
2	Current Ratio	CR	Current Assets / Current Liabilities
3	Quick Ratio	QR	Inventory / Prepaid Expenses
4	Average-Collection Period	ACP	Accounts Receivable / (Revenue / 360 Days)
5	Debt to income	DTI	Total liabilities / Total income
6	Operational ratio	OR	Operating expenses / Net sales
7	Operating margin	OM	EBIT / Revenue
8	Corporate Governance Index	CGIDXS	Corporate Governance elements

9	Gross Domestic Product	GDP	5 years gross domestic product rate
10	Inflation	INFLA	5 years inflation rate
11	Interest rate	*i*	5 years interest rate
12	Exchange rate	EXCGR	5 years exchange rate
13	Standard deviation	STDV	5 years variation of stock price derivative

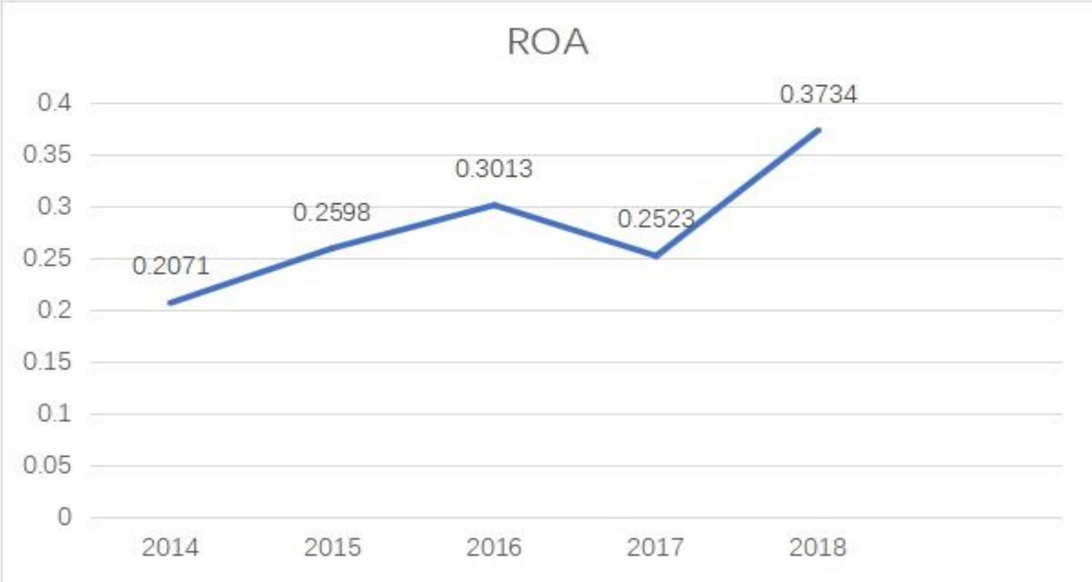
3.5 STATISTICAL PACKAGES FOR SOCIAL SCIENCES (SPSS)

In this examination, IBM SPSS version 25 was utilized to register the information to get the conclusive outcomes. This product is prominent in information mining, look into on showcase and furthermore for promoting. This is on the grounds that IBM SPSS Statistics software is skilled in directing elucidating insights, bivariate measurements, numeral result forecast and furthermore expectation for distinguishing gatherings (Techopedia, n.d). Be that as it may, just the direct relapse and relationship investigation done between the factors got from the quantitative information will be figure by utilizing this IBM SPSS Statistics. Quantitative information is an information about the numerical factors and in this examination, information were acquired from the yearly report of Yum! Brands, Inc. from 2014 to 2018.

4.0 DESCRIPTIVE ANALYSIS

4.1 TREND ANALYSIS

This study shows a model specification to measure Yum! Brands Inc. performance, we are using profitability measured by ROA (Return of assets) with other independent variables. Before we show the ROA graph and result based on Yum! Brands Inc annual report, the ROA can be obtained by using the formula below:

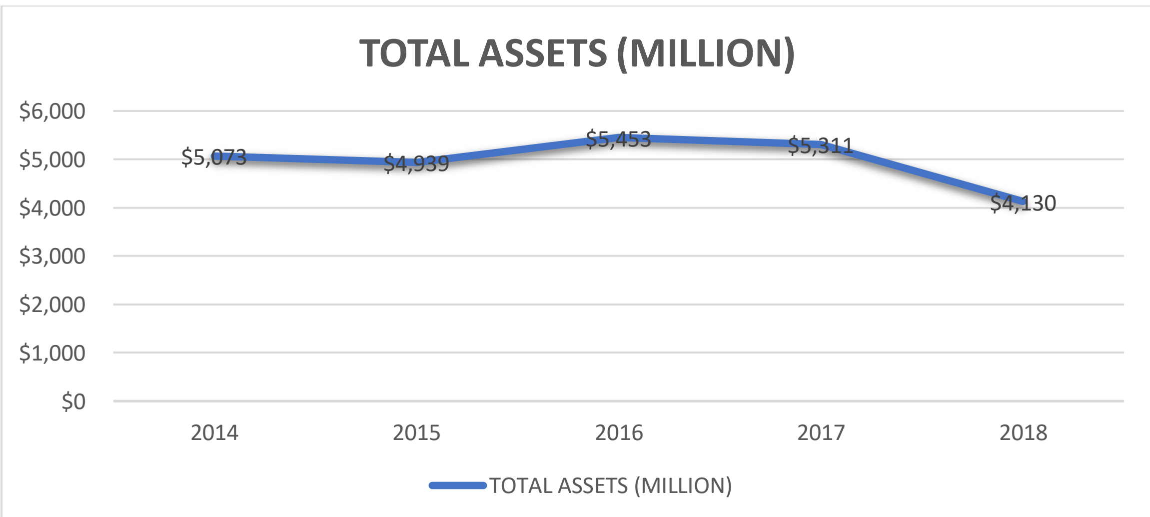


ROA=Net profit after taxes/Total average asset

Graph 1: Return on assets of Yum! Brands Inc of year 2014-2018

Based on the graph, the return of assets is fluctuated from year 2014-2018. The graph shows an increase of ROA in year 2014-2016 which is from 0.2071 to 0.3013. This is because the net income of Yum! Brands Inc. went up steadily from $1051 million dollars to $1643 million dollars which is based on Yum! Brands annual report. While the total assets also increased slightly, but the increasing rate of net income is higher than the increasing rate of average total asset. In year 2017, the ROA of Yum! Brands Inc. drop to 0.2523 because the net income declined steeply from $1643 million to $1340 million or 18%. But, the ROA in 2018 rose dramatically from 0.2523 to 0.3734. This is because the net income increased 15% and from $1340 million to $1542 million and average total assets decreased about 12% from $5382 million to $4720 million in year 2018.

Size of company



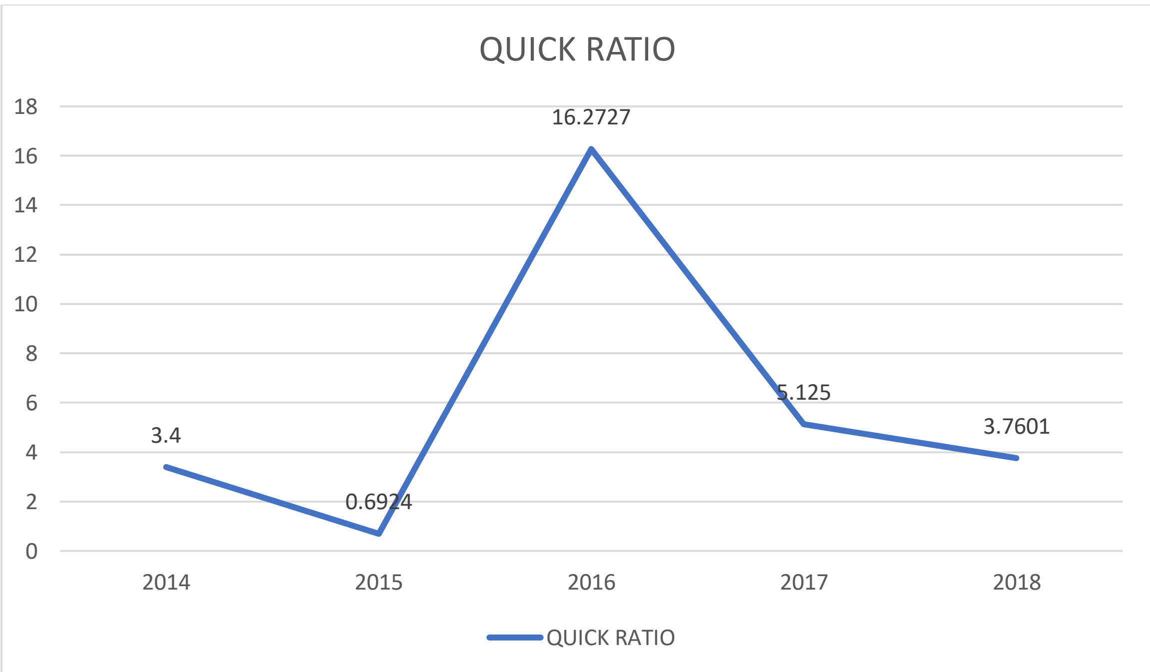
Graph 2: Total Assets of Yum! Brands Inc. from the year 2011-2015

The graph shows total assets of Yum! Brands Inc. from year 2011 to 2015. Total assets in first four years flucuated but always not influenced the ROA because the change of the total assets not exceed 10% from the lowest which reached at US$4939 million and the highest which reached at US$5453 miliion. But, in year 2018 total asset of the company drop dramatically from US$5311 million to $4130 million or drop about 22%. This is because the current assets also drop significantly from US$2507million to US$1207 million in year 2018 and show a drop about 52%.

Liquidity risk

Current ratio has been chosen to evaluate the liquidity risk of the company because liquidity ratio is measuring the company's ability to meet day to day operating expenses and satisfy short term obligations.

Current Ratio=Current assets/Current liabilities



Graph 3: Quick ratio of Yum! Brands Inc. from year 2014-2018

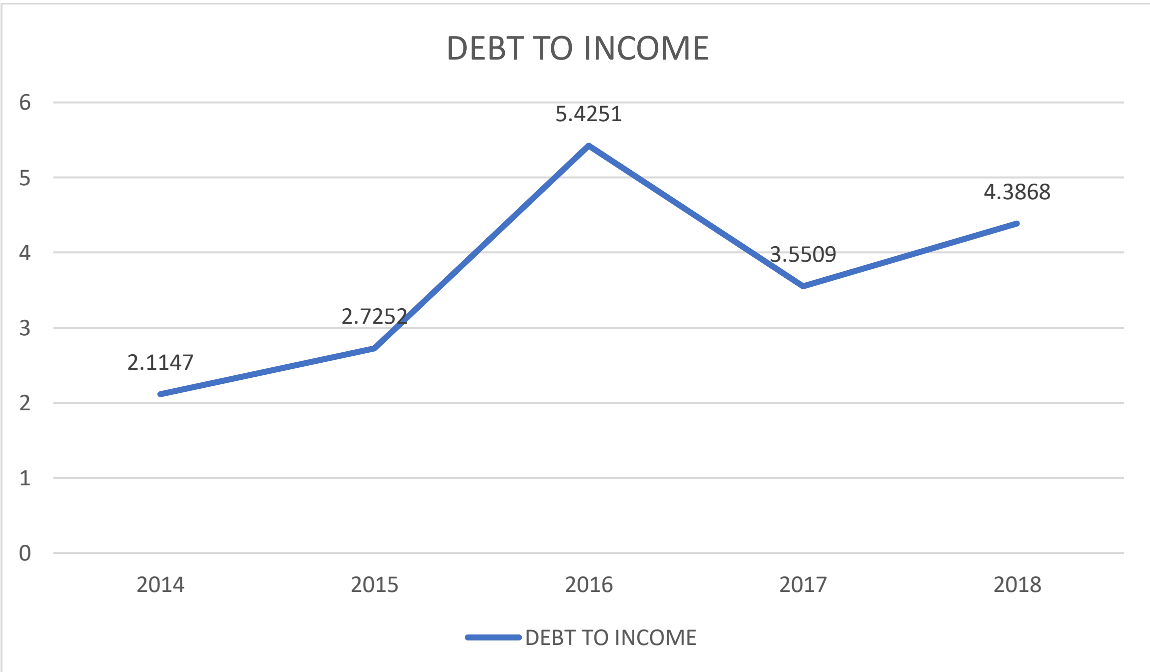
Based on the graph above, there is an irregular rising and falling from the year 2014 to 2018. This is because current ratio is depend on current assets and current liabilities. Although current ratio always more than 1 except year 2015 from the year 2014 to 2018 but first two years show a big drop from 3.4 to 0.6924 because of current liabilities increases from US$265 million to US$920 million. But in year 2016, current ratio increases about 12 times to 16.2727.

This is because Yum! Brands current liabilities is US$66 million only compare by US$920 million in year 2015, so current liabilities also show a drop about 14 times lesser than previous years. In the last two years, the quick ratio showed a continuous drop to 5.125 and 2.6573 respectively. This is because current liabilities rise back to US$375million and US$321million in last two years respectively.

Credit risk

Credit risk is a risk of default on a debt because of a borrower failing to make required payments. So, debt to income ratio are used to evaluate the credit risk of the company.

Debt to Income Ratio=Monthly debt payment/Gross Monthly Income

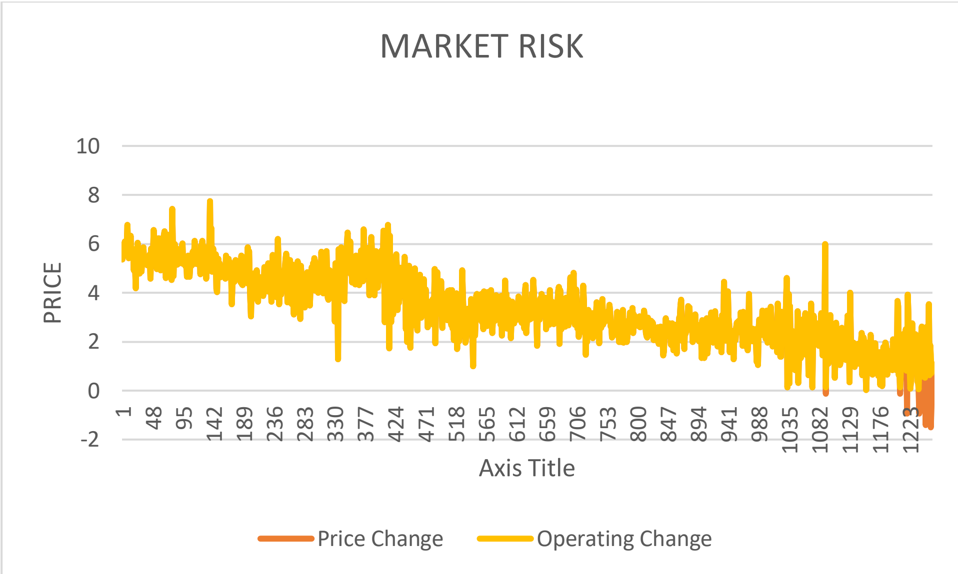


Graph 4: Debt to income ratio of Yum! Brands Inc.

Based on the graph, we found that debt to income ratio always greater than 1, this means that Yum! Brands Inc. was spending more money on debt repayments than what they actually earn. So, it's time to take grater control to their debt and income. Debt to income ratio increased continuously in first 3 years from 2.1147 to 5.4251. Although in debt to income ratio in year 2017 drop to 3.5509, but in year 2018, debt to income ratio rise again to 4.3868. So, Yum! Brands was facing a high debt to income ratio and high credit risk and indirectly reduce the ROA of the company.

Market risk

Market risk is the risk of investvor experiencing losses due to factors that affect the overall performance of the financial markets. Market risk also called as systematic risk which is cannot be eliminated through through diversification. Market risk can be measured by using the changing on the share prices and the mean which can determine the degree of the risk.



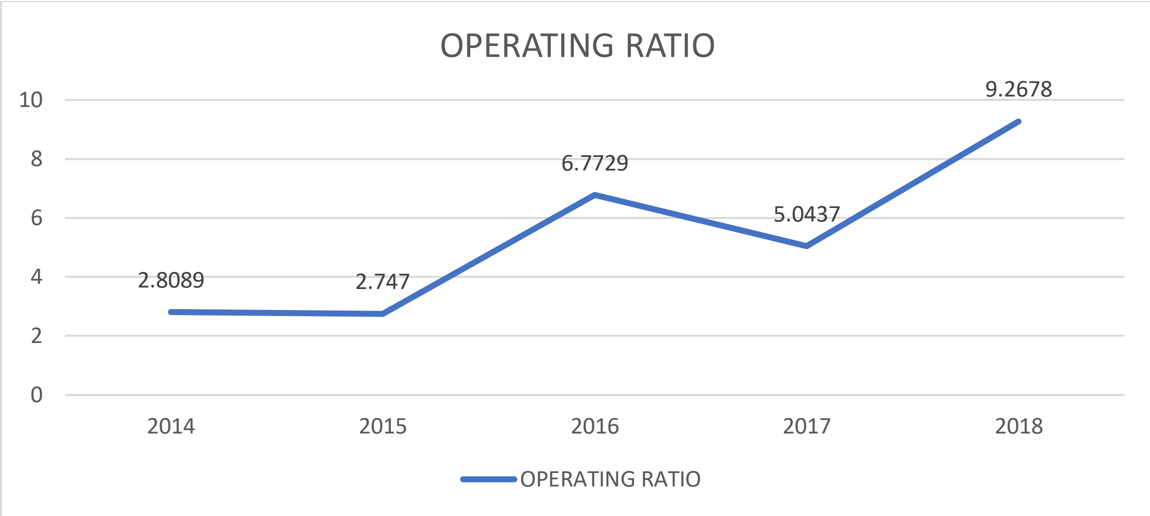
Graph 5: The price movement of the market price of Yum! Brands Inc. from the year 2014-2018.

According to the graph above, the price is more volatile at the beginning of first 4 years until then end of year 2017. The price is started to fluctuate dramatically due to the unstable local currency and interest rate risk. While the mean of the price changes is 3.38283 and the standard deviation is 0.73083. It means the range of price movements a big huge and implied the unstability of the share price but the graph also shown Yum! Brands Inc. always improve the stability of the share price year by year. For the further investigation, standard deviation has been chosen to measure the volatility of Yum! Brand's Inc. share prices year by year, which affected by market risk during the year of 2014 to 2018. It's a good message for all because of the share price become stable and increase the confidence of investors toward Yum! Stock.

Operating Ratio

Operating ratio is a company expenses as a percentage of revenue. Operating ratio is used to evaluate the performance of the company The smaller the ratio, the greater the company's ability to generate profit.

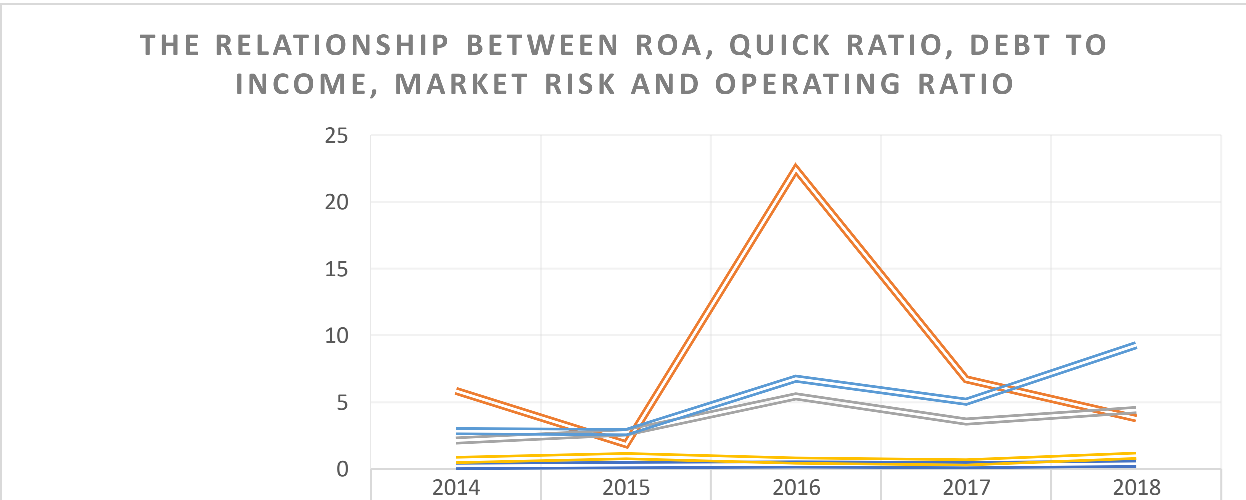
Operating ratio=Operating expenses/Net Sales



Graph 6: Operating ratio of Yum! Brands Inc. from year 2014-2018

Based on the graph, we found that the operating ratio always increases from year 2014 to 2018 although year 2015 and year 2017 decreases. But we also found that operating ratio always higher than 1, this means the operating expenses always higher than the sales. And the worst thing is in year 2018, the operating expenses is about 9 times more than the net sales of Yum! Brands. It also directly reduce the ROA of the company and the performance of the company.

The relationship between the ROA, and Financial Risk

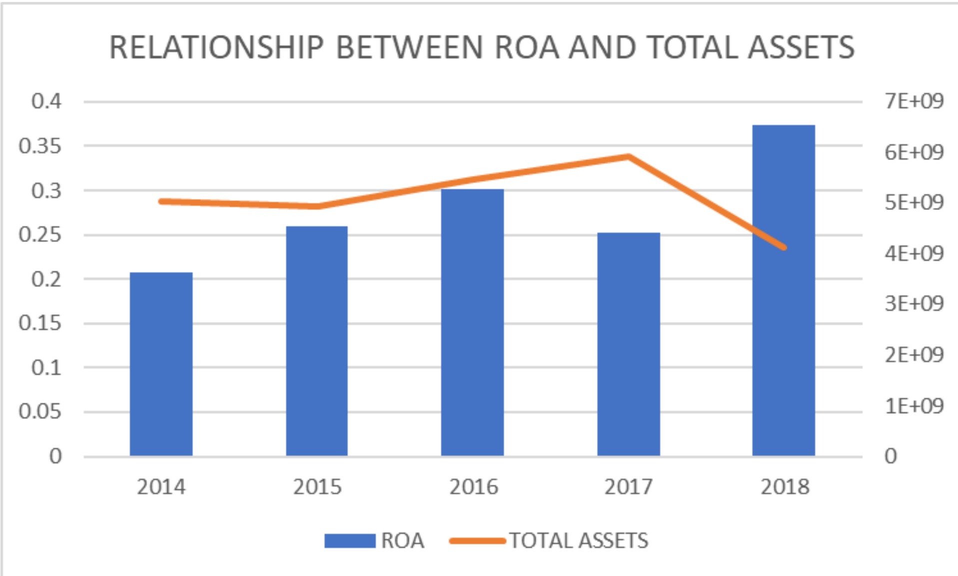


	2014	2015	2016	2017	2018
ROA	0.2071	0.2598	0.3013	0.2523	0.3734
CURRENT RATIO	5.8604	1.8337	22.4545	6.6853	3.7601
DEBT TO INCOME	2.1147	2.7252	5.4251	3.5509	4.3868
MARKET RISK (STANDARD DEVIATION)	0.6667	0.938	0.5963	0.4773	0.9758
OPERATING RATIO	2.8089	2.747	6.7729	5.0437	9.2678

Graph 7: The relationship between the ROA, and the financial risk from year 2014-2018

From the graph, Yum! Brands Inc. experienced increase in return on assets in the first 3 years then decrease in year 2017 but ROA was increased again in year 2018. Moreover, the current ratio fluctuated because it reached a peak in year 2016 but drop again from year 2017 continuously. While the market risk measured by standard deviation, its also fluctuated and finally reached the highest point in year 2018. In addition, the operating ratio and debt to income ratio are having a negative relationship with ROA but operating ratio is the worst at all. However the current ratio doesn’t have a significant impact with ROA.

The relationship between the ROA, and the total assets



Graph 7: Relationship between ROA and the Total Assets from year 2014 to 2018

The graph shows the relationship between return on assets and the total assets from year 2014 to 2018. The ROA and the total assets have irregular downward and upward trend. The change of the assets for the first four years is not exceed 10% but in the total assets in year 2018 drop 22% in one year. This is because the current assets also drop significantly from US$2507million to US$1207 million in year 2018 and show a drop about 52%. This trends indicate the performance of a company will be influenced by the company size but not very significant. This is because in year 2018, ROA increases not only because of average total assets decreases, but also because of the net income of the company increases in year 2018. So, many factors will indicate the ROA of a company.

4.2 SPSS ANALYSIS

4.2.1 STATISICAL ANALYSIS

Based on appendix 1, it shows the average of the ROA (return of assets) is 27.88% during the year 2014-2018. While the standard deviation of ROA is 6.26% in year 2014-2018 which is less than the average of the ROA so much during these 5 years. The CG index is 4. While the operating ratio which is most significant influence to ROA is having a average of 5.3280 during year 2014-2018 and the standard deviation of operating ratio is 2.7703. Higher the standard deviation, greater the variables vary from the average.

4.2.2 CORRELATION

Based on appendix 2, it shows the correlations between the ROA and the internal factors or external factors to evaluate Yum! Brands Inc. performance. Before we evaluate Yum! Brands Inc performance, we show the example of internal factors which are current ratio, quick ratio, average collection period, debt to income, operating ratio, operating margin, and Corporate Governance Index. While the examples of external factors are GDP. Inflation, Interest Rate, Exchange Rate, and standard deviation. We use ROA (return of assets) as the dependent variable for the performance of Yum! Brands and use internal factors and external factors to evaluate Yum! Brands Inc. results.

4.2.2.1 INTERNAL FACTORS

Based on appendix 2, the operating ratio from the board of the company is 0.927 which is the highest Pearson correlation coefficient among the internal factors. This means that operating ratio has the closest relationship with ROA. This is because the rate of decrease of gross sales higher than the rate of decrease of cost of gross sales and operating expense, so the operating ratio becomes higher year by year and reduces the ROA of the company from the results of appendix 1 and 2. But it remains a positive relationship between operating ratio and the ROA of the company. While the significant of 0.012 in operating ratio means that the change of operating ratio is significant relate to the ROA.

For the current ratio and the quick ratio from the board of the company which is 0.111 and 0.146 respectively. This means that current ratio and quick ratio of Yum! Brands. Inc didn’t have a close relationship with ROA and affect the ROA of the company too much. Based on appendix 1, the current ratio and quick ratio always higher than 1 except for year 2014 only. Consequently, current ratio and quick ratio of the company always remains a positive relationship with ROA of the company. While the significant of 0.429 by current ratio and 0.407 by quick ratio means that there is no statistically significant correlation whatever is current ratio or quick ratio with ROA because the significant value is higher than 0.05.

For the average collection period, which has positively a strong relationship and significant related to ROA as the Pearson correlation is 0.861 and sig is 0.03. The longer the average collection period, indicates the company collects payments become slower. The Pearson Correlation of debt to income is 0.729 and the sig is 0.081, this means that increase of debt to income ratio becomes the ROA lower due to the payment in interest rate, accounts payable, and notes payable.

For the operating margin, the Pearson correlation is 0.381 and sig is 0.263. Increase of the operating margin is good for the ROA because the increase of operating margin will directly improve the performance of the company.

4.2.2.2 EXTERNAL FACTORS

Based on appendix 2, for the external factors, interest rate shows that 0.796 which is the highest Pearson correlation among the external factors while the sig of the interest rate is 0.053. This means that the increase of interest rate of United States of America has a few impacts which will increase Yum! Brands Inc. performance. The second higher of Pearson correlation among the the external factor which is standard deviation of Yum! Brands but not significant related to Yum! Brands. The Pearson Correlation of standard deviation is 0.505 and the sig is 0.193. Higher the standard deviation, greater the variables vary from the average. The correlation of inflation with the ROA is 0.374 but also not significant related. When a higher inflation rate of United States of America, the return of assets also increases because the inflation increases, the net income also increases because of the company increase their products' price. After that, the exchange rate is having 0.295 positive relationship with the company performance and not significant relationship because of 0.315 which is greater than 0.05. This is because a slightly increase in the exchange rate from 105.3% to 112.7% overall although the highest exchange rate in year 2016 which is 120.3%. But it didn't affect the performance and the net profit of the company.

4.2.3 MODEL SUMMARY

Based on the appendix 3, the R Square of operational risk is 92.7%. This is because operating ratio is the most reliable and most significant which is the predictors to influence the ROA of the company which ROA is the dependent variable.

4.2.4 ANOVA

Operational risk is the best model to evaluate the company's performance as lowest p value. 0.024 in ANOVA Table, based on the appendix 3.

4.2.5 COEFFICIENTS

Based on the coefficient's table which is on appendix 3, standardized coefficients beta value is 0.927, t value is 4.266 and sig value is 0.024. Standardized coefficients which is in the coefficient table is used to determine the relative importance of the significant predictors. Operating ratio is the best model to contributes the most to the model because it has the largest absolute standardized coefficient.

5.0 DISCUSSIONS, RECOMMENDATIONS , AND CONCLUSIONS

5.1 DISCUSSIONS

The most significant variable is operational risk due to the lowest p value which is 0.024 in Anova Table. While the R square of operational risk is 92.7% in model table. Consequently, the performance of Yum! Brands Inc. is depend on internal factor which is operating ratio. Operating ratio measure the efficiency of your company's operations while generating revenue or sales. Consequently, Yum! Brands have to pay more attention to lower the operating ratio.

5.2 RECOMMENDATIONS

First of all, Yum! Brands Inc. must strengthen independence of the board. For example, at least half of the board must including of directors, especially for Yum! Brands Inc., one of the largest companies in the world must be a majority of independent directors. (MCCG, 2017) This is because based on the annual report, David W. Gibbs is the president, chief financial officer and chief operating officer of Yum! Brands Inc. as well. Thus there will be a possibility of potential conflict of interest arise among the board of directors.

Yum! Brands is also be recommended to cost down their expenses which is cost of goods sold and administrative expenses to lower the operating ratio. A lower operating ratio is a good indicator of operational efficiency and improve the company performance.

In addition, the efficiency in collecting the account receivables have to be improved by Yum! Brands. This is because the average collection period of Yum! Brands increased dramatically and many of current assets such as account receivables, deposits and prepayments which can decrease the net profit of the company indirectly. Yum! Brands is suggested to decrease the short term and long term borrowing before the liquidity risk become serious in the company.

5.3 CONCLUSION

In conclusion, Yum! Brands Inc. is one of the largest fast food company in the world. From the study, based on the annual report of Yum! Brands Inc, the operating ratio is the main reason which affect Return on Assets during year 2014-2018. It means the situation of the company's performance also have a decline in these 5 years. In addition, although liquidity risk is not the main reason of causing a decline of Return on Assets but Yum! Brands,Inc liquidity performance not stable and facing a big crisis in managing their company's cash flows as well because of the average collection period of Yum! Brands, Inc. increases year by year. So, Yum! Brands Inc. have to improve the efficiency in collecting the account receivables, cost down their expenses and strengthen independence of the board.

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APPENDIX

Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.278780	.0625691	5
CURRENT RATIO	8.118800	8.2335948	5
QUICK RATIO	5.629480	6.1585677	5
AVERAGE COLLECTION PERIOD	45.194840	31.6981484	5
DEBT TO INCOME	3.640536051905197	1.314862271660113	5
OPERATING RATIO	5.328034276505508	2.770277528984571	5
OPERATING MARGIN	.315557715374980	.113812100491944	5
CG INDEX	4.000000	.0000000	5
GDP	2.4600	.53198	5
Inflation	1.5140	.90221	5
InterestRate	.8000	.95851	5
ExchangeRate	114.9800	6.18805	5
Standard Deviation	.730820	.2176110	5

Appendix 1

Correlations

		ROA	CURRENT RATIO	QUICK RATIO	AVERAGE COLLECTION PERIOD	DEBT TO INCOME	OPERATING RATIO	OPERATING MARGIN	CG INDEX	GDP	Inflation	InterestRate	ExchangeRate	Standard Deviation
earson Correlation	ROA	1.000	.111	.146	.861	.729	.927	.381	.	.095	.374	.796	.295	.505
	CURRENT RATIO	.111	1.000	.997	-.258	.731	.283	-.176	.	-.971	-.001	-.140	.371	-.529
	QUICK RATIO	.146	.997	1.000	-.221	.764	.325	-.110	.	-.969	.040	-.085	.398	-.543
	AVERAGE COLLECTION PERIOD	.861	-.258	-.221	1.000	.385	.847	.581	.	.408	.660	.927	-.138	.513
	DEBT TO INCOME	.729	.731	.764	.385	1.000	.806	.274	.	-.595	.273	.488	.555	-.110
	OPERATING RATIO	.927	.283	.325	.847	.806	1.000	.541	.	-.124	.644	.869	.151	.195
	OPERATING MARGIN	.381	-.176	-.110	.581	.274	.541	1.000	.	.144	.774	.827	.051	-.243
	CG INDEX	.	.	.	.	.	.	.	1.000	.	.	.	.	.
	GDP	.095	-.971	-.969	.408	-.595	-.124	.144	.	1.000	-.011	.238	-.304	.707
	Inflation	.374	-.001	.040	.660	.273	.644	.774	.	-.011	1.000	.788	-.443	-.243
	InterestRate	.796	-.140	-.085	.927	.488	.869	.827	.	.238	.788	1.000	-.003	.200
	ExchangeRate	.295	.371	.398	-.138	.555	.151	.051	.	-.304	-.443	-.003	1.000	-.030
	Standard Deviation	.505	-.529	-.543	.513	-.110	.195	-.243	.	.707	-.243	.200	-.030	1.000
ig. (1-tailed)	ROA	.	.429	.407	.030	.081	.012	.263	.000	.440	.268	.053	.315	.193
	CURRENT RATIO	.429	.	.000	.337	.080	.322	.388	.000	.003	.499	.411	.269	.180
	QUICK RATIO	.407	.000	.	.360	.066	.297	.430	.000	.003	.475	.446	.253	.172
	AVERAGE COLLECTION PERIOD	.030	.337	.360	.	.261	.035	.152	.000	.247	.113	.012	.412	.189
	DEBT TO INCOME	.081	.080	.066	.261	.	.050	.328	.000	.145	.328	.202	.166	.430
	OPERATING RATIO	.012	.322	.297	.035	.050	.	.173	.000	.422	.121	.028	.404	.377
	OPERATING MARGIN	.263	.388	.430	.152	.328	.173	.	.000	.409	.062	.042	.468	.347
	CG INDEX	.000	.000	.000	.000	.000	.000	.000	.	.000	.000	.000	.000	.000
	GDP	.440	.003	.003	.247	.145	.422	.409	.000	.	.493	.350	.309	.091
	Inflation	.268	.499	.475	.113	.328	.121	.062	.000	.493	.	.057	.228	.347
	InterestRate	.053	.411	.446	.012	.202	.028	.042	.000	.350	.057	.	.498	.373
	ExchangeRate	.315	.269	.253	.412	.166	.404	.468	.000	.309	.228	.498	.	.481
	Standard Deviation	.193	.180	.172	.189	.430	.377	.347	.000	.091	.347	.373	.481	.

Appendix 2

N	ROA	5	5	5	5	5	5	5	5	5	5	5	5	5
	CURRENT RATIO	5	5	5	5	5	5	5	5	5	5	5	5	5
	QUICK RATIO	5	5	5	5	5	5	5	5	5	5	5	5	5
	AVERAGE COLLECTION PERIOD	5	5	5	5	5	5	5	5	5	5	5	5	5
	DEBT TO INCOME	5	5	5	5	5	5	5	5	5	5	5	5	5
	OPERATING RATIO	5	5	5	5	5	5	5	5	5	5	5	5	5
	OPERATING MARGIN	5	5	5	5	5	5	5	5	5	5	5	5	5
	CG INDEX	5	5	5	5	5	5	5	5	5	5	5	5	5
	GDP	5	5	5	5	5	5	5	5	5	5	5	5	5
	Inflation	5	5	5	5	5	5	5	5	5	5	5	5	5
	InterestRate	5	5	5	5	5	5	5	5	5	5	5	5	5
	ExchangeRate	5	5	5	5	5	5	5	5	5	5	5	5	5
	Standard Deviation	5	5	5	5	5	5	5	5	5	5	5	5	5

Appendix 2

Appendix 3

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.927[a]	.858	.811	.0271787	2.697

a. Predictors: (Constant), OPERATING RATIO

b. Dependent Variable: ROA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.013	1	.013	18.199	.024[b]
	Residual	.002	3	.001		
	Total	.016	4			

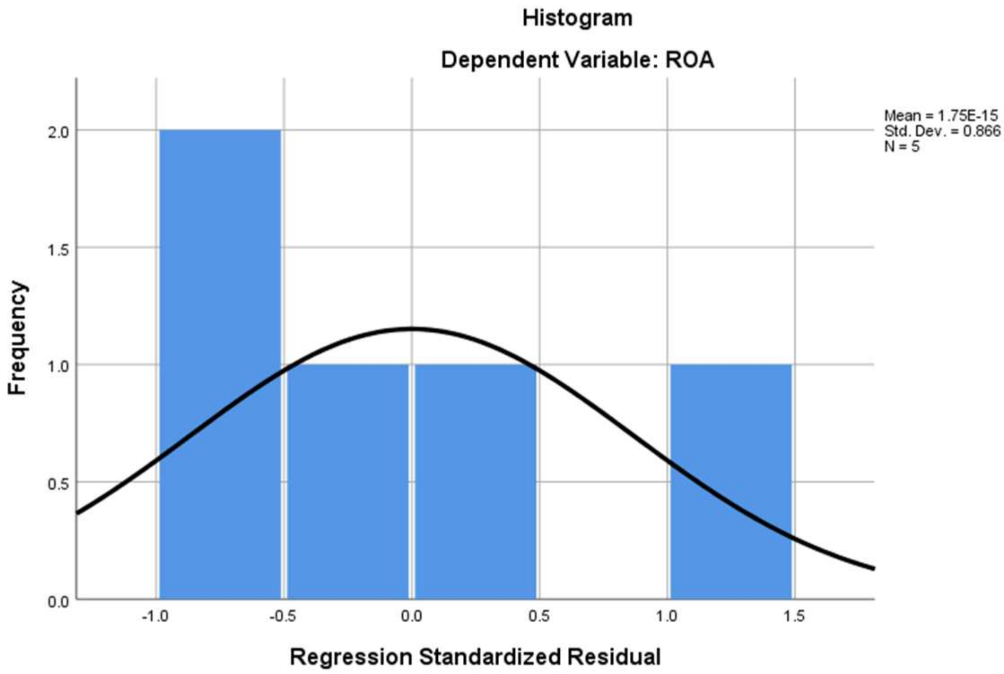
a. Dependent Variable: ROA

b. Predictors: (Constant), OPERATING RATIO

Coefficients[a]

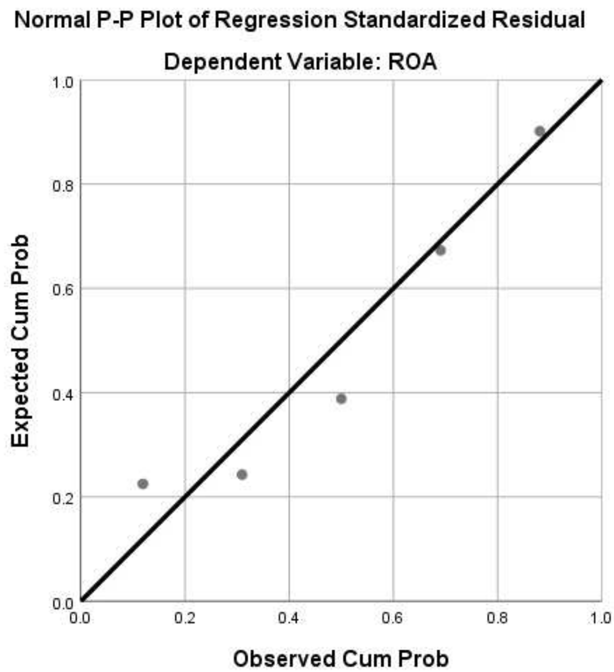
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	.167	.029		5.803	.010	.076	.259		
	OPERATING RATIO	.021	.005	.927	4.266	.024	.005	.037	1.000	1.000

a. Dependent Variable: ROA



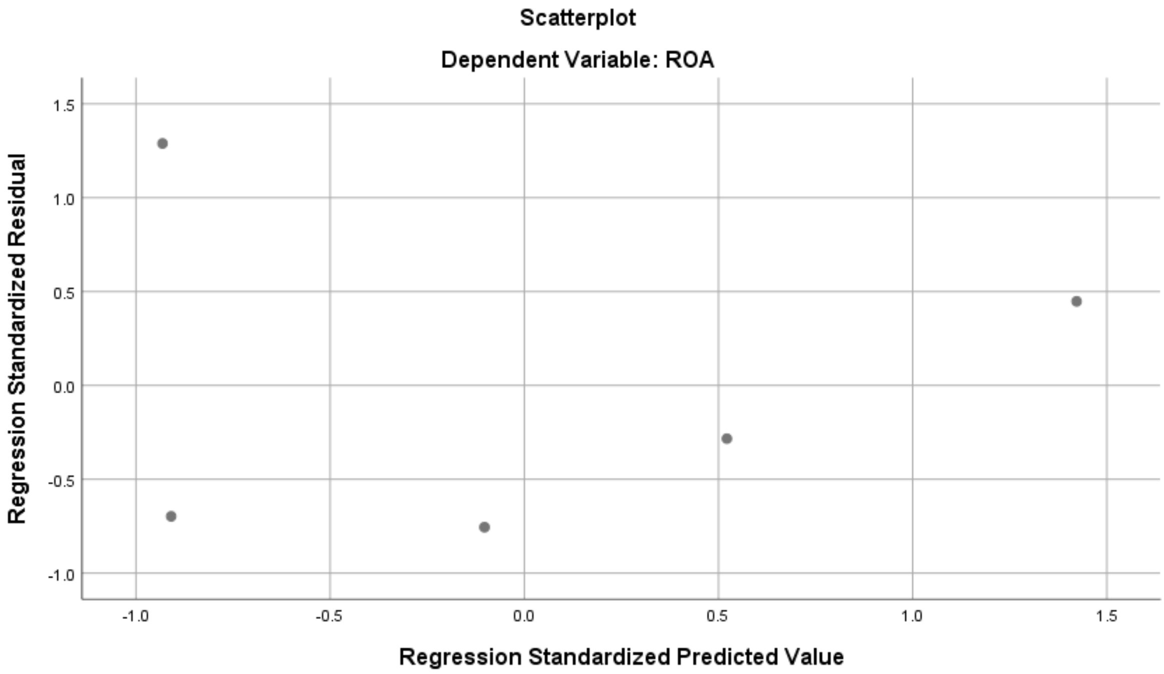
Appendix 4

Regression Standardized Residual for internal factor for Yum! Brands, Inc.



Appendix 5

Normal P-P Plot Of Regression Standardized Residual For External Factors of Yum! Brands, Inc.



Appendix 6

Scatterplot for External Factors of Yum! Brands, Inc.