

ANALYSIS OF FORD COMPANY FINANCIAL RATIO PERFORMANCE BEFORE AND AFTER GLOBAL FINANCIAL CRISIS 2008

by:
Chandra Aditya Astina

Faculty of Economics and Business,
International Business Administration (IBA) Program
University of Sam Ratulangi Manado
e mail: chan_cizu@yahoo.com

ABSTRACT

Most countries around the globe were hit by economic crisis and caused many companies turned to bankruptcy in 2008. Many way the company try giving the best performance for not get the fail result, they shown the best in the bets result on the public, but not all company they are show the report financial, cause they no want the information will be know by other company, they think it is a rivalry in every company. The purpose of this research is to examine financial ratio performance of Ford is better, before and after global financial crisis 2008. Theories supporting research are financial management, financial statement, and financial ratio. Population is the annual report from 2002 to 2011 with sample of three years before and three years after 2008 and data will be analyzed using paired sample t-test. Result and conclusion is there is significant of Ford's financial ratio performance before and after global financial crisis 2008.

Key words: financial management, financial ratio

INTRODUCTION

Research Background

Most countries around the globe were hit by economic crisis and caused many companies turned to bankruptcy in 2008. The economic crisis has directly affected the economic stability in most countries. The financial crisis in 2008 is of such epic proportions that even astronomical amounts spent to address the problem have so far been insufficient to resolve. Report financial of company is important when looking the position company on condition stable, increased or decreased. Many way the company try giving the best performance for not get the fail result, they shown the best in the bets result on the public, but not all company they are show the report financial, cause they no want the information will be know by other company, they think it is a rivalry in every company. The company manufacture or industry machine many growth in area Asia, like Japan; Honda, Toyota, Isuzu, Daihatsu and Yamaha, India; TATA Motors, South Korea; Hyundai, and then not just Asia has a produce the manufacture machine like In Europe, Italy, German, England and France have the famous brands, like Volkswagen, Ferrari, Lamborghini, Mercedes-Benz, and Peugeot.

United States have three powerful automotive manufacturers. They are Ford, General Motor, and Chrysler. They are industry because more competitive, they need to show their advantages to the market. They need to show all the positive trends to the world to get the larger market. Having a good publicity, will help the company to gain more customer. Ford is one of 3 biggest Vehicle manufacturers in United States. In 2009, they are listed as number 2 of US vehicle manufacturer, below General Motor and above Chrysler. They also listed below the Europe Company's Volkswagen that dominate the market share at Europe. Ford has almost half of their sales in their country and only 5.3% sales in Asia-Pacific. By looking at the data, it can be assumed that Japanese automotive company has bigger market share than US companies. But in every business has its own problem Internal and External problem. The example of internal problem Ford introduces their Ford Escape in 2009 with a new model car, they showed a car hybrid and they got the positive acceptance by the world market. But in their production, they had a problem in cup flag as the part of cooling system. They explain that the glycol on the cooling system can cause a fire in the engine room and for that reasons, they recall their product from their customer.

There is a fact like a problem about Global Economy in 2008. The fact was about global crisis and is followed by company's trouble like a bankruptcy. These phenomenon were enough disturbing national economy. It cause, it should have affected to national financial stability. That was involved economy sector such as banking and also companies that is already going public. The financial crisis in 2008 is of such epic proportions that even astronomical amounts spent to address the problem have so far been insufficient to resolve (Mirphy, 2009). It was triggered by a liquidity shortfall in the United States banking system and has resulted in the collapse of large financial institutions, the bailout of banks by national governments, and downturns in stock markets around the world. In many areas, the housing market has also suffered, resulting in numerous evictions, foreclosures and prolonged vacancies. It contributed to the failure of key businesses, declines in consumer wealth estimated in the trillions of U.S. dollars, and a significant decline in economic activity, leading to a severe global economic recession in 2008. Not ending declined substantially during the financial crisis across all types of loans, some of this decline could reflect a drop in demand as firms scale back expansion plans during a recession (Ivashina, 2009). This economic recession has an impact to the automotive industry. They lost their market in United States and all around the world, without sales company is facing a bankruptcy, means the company tries to figure out next step planning for the problem itself. Tactical planning conducted at the highest level of management, dealing with products, capital, research and the long short-term goals of a company (Cateora and Mary, 2009: 686). And all investor in stock market will not stay to hold the company's stock. There are two big way of automotive manufacturer to gain their revenue: Total sales and Income from stock market.

The research, there is having a good publicity might help the company to gain more customer. And it being stronger after an event like Global Crisis that infected that company. They need to show the good report to the world and to the market. Because the potential customer won't buy a car from a company that going to dead or collapse. But the company should report the real occurrence on their report. But there are only few people that basing their choice by viewing the annual report of the company that possible to be their car provider. This thing is very important in choosing a car. First, if the company collapses; all of the spare parts vendor might be lower their production and it possible for them to turn off their production. Second, the price of their car in after used sales might drop off.

The company's health could be measured by looking on its financial report. And by looking on its ratio, market can easily choosing the product that they want to pick. Restating the accounting data relative term to identify some of financial strengths and weakness of company (Keown, 2005: 72). In simple words, "Ratio" is the numerical relationship between two variables which are connected with each other in some way or the other. Also there are several question that could be answered by looking at the financial ratio; How liquid the company? Is management generating adequate operating profit on the company's assets? How is the firm financing its assets? Are the owners receiving an adequate return on their investment?

Research Objective

The purpose of this research is to examine the condition Financial Ratio Performance of Ford is better, before and after the Global Financial Crisis 2008.

THEORETICAL REVIEW

Theoretical Framework

Financial Statements

The four key financial statements required by the SEC for reporting to shareholders are; the income statement, the balance sheet, the statement of stockholders' equity, and statements of cash flow (Gtman, 2006: 46).

Financial Ratio

Gtman (2006: 54) stated that ratio analysis involves methods of calculating and interpreting financial ratios to analyze and monitor the firm's performance where the basic inputs of ratio analysis are the firm's income statement and balance sheet. In general, financial ratio consists of several categories: liquidity ratio, activity ratio, debt ratio, profitability ratio, and market ratio (Gtman, 2006: 58-69).

Previous Research

Ingelheim (2010: 15) did ratio analysis of manufacturer company (Cadbury) and found that Cadbury is a relatively healthy, steady company which has great prospects due to its geographically diversified sales, but in some problems to financial complications. Humphrey (2003) found that developing countries need to consider strategies for the auto industry within the context of trends in global markets. Avgouleas (2009) suggested a set of far reaching reforms for the overhaul of the regulatory framework governing the licensing and supervision of banking institutions. And also Philip (2000) argue an analysis was conducted to evaluate the cross-sectional variations of financial ratios among different size private companies.

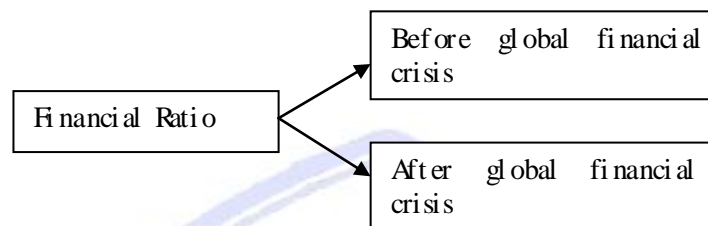


Figure 1 Conceptual Framework

Research Hypotheses

The hypotheses of this research are:

H_0 = There is no significant differences of Ford's Financial Ratio Performance before and after global financial crisis 2008.

H_1 = There is a significant of differences Ford's Financial Ratio Performance before and after global financial crisis 2008.

RESEARCH METHOD

Source of Data

Data of a research can be obtained from two sources; they are: primary data and secondary data. Primary data refer to information obtained first-hand by the researcher on the variables of interest to the specific purpose of the study. While secondary refer to information gathered from sources that already exist (Sekaran and Bougie, 2009: 263). In this research there will be no primary data. It causes by the requirement of this research is only a financial report of company. The objects of this research are provided the financial report on their annual report. And because of the data needed is available, this research will not does an interview or questionnaires collection. The sources of data are available on company's website, journal published, and text books.

Population and Sample

Population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. It is the group of people, events, or things of interest for which the researcher wants to make inferences (Sekaran and Bougie, 2009: 264). Population in this research is the annual report each year which Ford has their annual report from 2005 to 2011 on their websites.

Sample is a subset of the population. It comprises some members selected from population. In other words, some (but not all) elements of population is the sample (Sekaran and Bougie, 2009: 265). Because of this research is going to concern on Financial Crisis 2008, the research will use three years before and three years after 2008. So, the sample of this research will be compare 2005, 2006, and 2007 (before or pre event) with 2009, 2010, 2011 (after or post event). Those data have been taken from the official website of Ford.

Operational Definition of Research Variables

1. Current ratio is the ratio of total current assets to total current liabilities.

Current

2. The quick ratio is similar to the current ratio except that it excludes inventory, which is generally the least liquid current asset.

Quick

3. Inventory turnover commonly measures the activity, or liquidity, of a firm's inventory.

Inventory

4. The average collection period, or average age of accounts receivable, is useful in evaluating credit and collection policies.

Average

5. The average payment period, or average age of accounts payable, is calculated in the same manner as the average collection period.

Average

6. The total asset turnover indicates the efficiency with which the firm uses its assets to generate sales.

Total

7. The debt ratio measures the proportion of total assets financed by the firm's creditors.

Debt

8. Times Interest Earned Ratio is a ratio used to determine how easily a company can pay interest on outstanding debt.

Times

9. The gross profit margin measures the percentage of each sales dollar remaining after the firm has paid for its goods:

Gross

10. The operating profit margin measures the percentage of each sales dollar remaining after all costs and expenses other than interest, taxes, and preferred stock dividends are deducted.

Operating

11. The net profit margin measures the percentage of each sales dollar remaining after all costs and expenses, including interest, taxes, and preferred stock dividends, have been deducted.

Net

12. The firm's earnings per share (EPS) are generally of interest to present or prospective stockholders and management.

Earnings

13. The return on total assets (ROA), often called the return on investment, measures the overall effectiveness of management in generating profits with its available assets.

ROA

14. The return on common equity (ROE) measures the return earned on the common stockholders' investment in the firm.

ROE=

15. The price/earnings (P/E) ratio is commonly used to assess the owners' appraisal of share value. The P/E ratio measures the amount that investors are willing to pay for each dollar of a firm's earnings.

P E r a t i o

16. The market/book ratio provides an assessment of how investors view the firm's performance.

M B r a t i o

Data Analysis Method

Paired sample t-test is a statistical technique that is used to compare two population means in the case of two samples that are correlated. Paired sample t-test is used in 'before-after' studies, or when the samples are the matched pairs, or the case is a control study.

RESULT AND DISCUSSION

Result

Liquidity Ratio

The company current ratio on the year's 2005 up to 2007 the current ratio showed it increased (before the event), the event in year 2008 showed the current ratio was decreased. But after the event from 2009 until 2011 the current ratio showed it went up. In 2009 to 2010 was decreased and then in 2010 to 2011 the current ratio increased. Ford showed the current ratio after 2009, 2010 and 2011 are better with before 2005, 2006 and 2007. The quick ratio in 2005 to 2007 shows it changed up and down. In the 2007 Ford was happening decreasing, showed in 2005 to 2007 Ford was fluctuated and then after the event in 2009 happened decreased, the condition showed the negative movement for Ford company because of the event. After that in 2010 to 2011 Ford showed a good movement, but it changed it is the condition is happened in 2011, to show in 2010 that a small increment.

Activity Ratio

The year 2005 to 2007 showed it increased and decreased not so far still stable on the condition turnover of the product. However in the impact the event given alteration on condition in 2009 to 2011 is so little fast with increment the turnover product. In the 2005 to 2006 the activity daily of sales was increasing around 25 points and increasing in 2007. After the event in 2008 however there showed the trend 2005 to 2007 showed condition fluctuated or relative evaluated and 2009 to 2011 exhibited every years showed reduction or alleviation was to be relevant. In 2005 to 2006 is increased that means it is not good for Ford Company, although in 2006 to 2007 showed it decreased that means show good for them and 2007 and 2009 is better, in 2009 showing increased average payment and also followed to 2010 and 2011 was increased too, that display with happening around the year start means it is not good for them Ford try to except in every activity showing a good performance, otherwise the report in 2005 to 2006 it fell and 2006 to 2007 ascension and comparing in 2009 to 2010 it advanced, and 2010 to 2011 is descended, looked the comparing is show fluctuated in every years.

Debt Ratio

Ford had better trend before and after the event in debt ratio, the except in 2005 to 2006 increased and 2009 to 2010 decreased. From 2006 to 2007 decreased 0,1 point and 2010 to 2011 decreased too, but in 2005 to 2007 showed fluctuated is better with in 2009 to 2011 showed lowering the debt ratio. From 2005 to 2007 showed the negative ratio, it is because the negative amount of EBIT (Earning before Interests and Taxes) of the company. But Ford showed it increased or positive after the event, from 2009 to 2011 display the comparison in 2005 to 2007, after the event the amount of EBIT (Earning before Interests and Taxes) there had increased not decreased.

Profitability Ratio

Ford for the ratio was negative, because the cost of goods sold was bigger than its sales in year 2005 to 2006. But from 2006 to 2007 and 2009 to 2011 Ford showed a positive trend, because the sales were bigger than its cost of goods sold. It showed Ford try to higher the profit money of sales although in event 2008 there have sufficient time occur the lowest money of sales. Before in 2005, 2006, 2007, and after global crisis 2008 in 2009 showed the trend negative that means this company was suffer a financial loss or lose out. Yet in 2010 and 2011 Ford put a changed in movement. Ford recorded the negative net profit in 2006, 2009 and 2010. Ford have increased from 2006 to 2007 and 2010 to 2011. The condition by the calculation in 2005 to 2006 was decreased because by earning available for common stockholder was on annual report company signify minus, and also after the the event global financial crisis 2008 in 2009 and 2010 Earnings per Share or EPS the condition was same within a year 2006. In 2007 the condition Earnings Per Share from 2006 to 2007 was increased and 2011 increased too, because the condition was changed cause the earning available for common stockholder signify minus go on to positive or changed good for company. Return on Total Assets in 2005 to 2006 was decreased and 2006 to 2007 was increased means in years 2005, 2006 and 2007 the condition was fluctuated. Also in 2009 and 2010 the result was decreased and 2011 it is showed increased. The condition be good it happen in 2011 and in 2007 be same condition but comparison in 2011 and in 2007, in 2011 the changed will happen is more than in 2007. Ford has same model with ROE 'Return on Equity', where in 2005 result has good performance, however in 2006 the result on position minus condition. But in a changed in 2007 on plus result but comparing in 2005 is more than with 2007. After that discern after event year 2008, in 2009 to 2010 showed decreased but is not means showed condition poor in quality but slightly good condition but is still minus. After that in 2010 moved to 2011 it will be exalation minus become positive.

Market Ratio

Year 2007 is the worst year in both companies P/ Etimeline. Both companies might lose the confidence of their investors. It had a major relationship with the crisis that done in 2008. However in 2009 was increased is better with another year, but after that in 2009 condition 2010 to 2011 was decreased, looked on the table 5.15, 2009 to 2010 and 2010 to 2011 are decreased means nasty in every year with before 2005 to 2006 and then to 2007 are same it was decreased. Ford had a wide margin for M Bratio. Also the trend of each year showed the different movement, Ford has the increased trend each year. From 2005 to 2006 it increased and 2009 to 2010 it increased, and from 2006 to 2007 and also 2010 to 2011 Ford's M Bis decreased, from the table 5.16 in every years of Market per Book to show fluctuated of before and after crisis.

Paired Sample t-Test

The research of Paired Sample t-Test is aiming to give the differences before and after global financial crisis 2008 at Ford company paired year by year with an event that in direct average three years before and three years after.

Table 1. Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 Before 050607 - After 091011	-1.69842E1	30.98514	7.74629	-33.49497	-.47333	-2.193	15	.045

Source: Data Processed, 2013

Table 1 above, shows the result of mean is -1.69842E1, it means that Ford in '2005 - 2007' was smaller than in '2009 - 2011'. Also the test result the t-value at -2.193 and 15 as degree of freedom. For looking the significance, the p-value must lower than 0.05 to make it significant, and the result of p-value is .045 that means Ford Before '2005 - 2007' and Ford After '2009 - 2011' has significant with global financial crisis 2008.

Discussion

Ford is the company is focussed in motor machine. Even though the Financial Crisis 2008 was start from United States that is a base house of Ford, the impact is felt by whole world included a few company motor machine. Start from the liquidity measurement, to measure the liquidity ratio of a company, there are current ratio and quick ratio that could showed how liquid the company.

Current ratio is the result of Current Asset to Current Liability, while Quick ratio is the dividend result of Current Asset minus Inventory with hits current liability. Result of Ford's 2005, 2006 and 2007 are lower than its 2009, 2010 and 2011. It shows that some current assets were increased or current liabilities were decreased. And also for looking the Quick Ratio or Acid Ratio Result of Ford's showed some different three years before and after event, when 2005, 2006, and 2007 their was fluctuated is better than with after the even Ford Company was increased from the year 2009, 2010, and 2011. William "Bill" Clay Ford, Executive Chairman of the Board for Ford Motor Corporation said in the message in 2009 there is a financial strategy implemented by Ford. The strategy is with sustainable growth through continuous forward-looking investments, improving profit and capital efficiency, and maintaining a solid financial base; and it will result the sustainable growth for Ford Company. In other way Ford showed the slope liabilities year by year it is start from \$51,6 in 2005 to \$51,3 in 2006 and still decreased to \$50,4k, and then decreased rapidly to \$35,9k in 2009 then \$34,5k in 2010 and then \$32,8k Millions in 2011. It shows that during crisis, Ford do their best to reducing the cost of their production. Also to relate Ford ratio in 2009 with external factors, United States Government had the big part to rescue this company, as world already knows.

Looking at Ford company with activity ratio, their inside are inventory turnover, average collection period, average payment period and total asset turnover. Result of inventory turnover of Ford their inventory, in 2005, 2006 and 2007 they turned their inventory 14 times in following year. And it will better after crisis, the official report record the 19 times turnover in 2009 and 2011 and then 17 times in 2010. This situation Ford product focusing implemented by Ford, they create the new model for their product and maximize the market demand. In late of 2007, Ford by their CEO Alan Mulally states that Ford is going to bet to produce the small or city car. In Average Collection Period result calculation of Ford, it shows the wide different report Ford has the lowest point at 210 in 2011, is because of the market company. Ford focuses in their home-based that is United States. There is a basic different of Asia and US, in US the people is easy to use the credit while in Asia only few people that brave enough to crediting to get a car. Average Payment Period result of Ford in this case before the global crisis 2008 Ford was decreased from 2005 was 47,08765233 until 2007 recorded at 44,09080634 and then increased from 2009 was 45,02493492 until 2011 recorded at 47,47592908, that is why after the event Average Payment Period showed the changing report, it is because better between total of their sales. In Total Asset Turnover, Ford try to except in every activity showing a good performance, other wise the report from 2005 until 2007 is stable condition at 0,5 performance but after global crisis in 2009 until 2011 increased performance was 0,5 up to 0,6, it is because the annual report of Ford, sales of product and total asset in before that event is more higher than after the event crisis global.

Annual report of Ford survived from the crisis because of the good debt management. The calculation result, Ford has more slightly higher rate Debt ratio, the result Ford that has the bigger Total Liabilities than Total Asset in 2006, 2009 and 2010. If the debt ratio bigger than 1.0, means $TL > TA$. The company have a different interest payment, Ford has interest payment before crisis around 8k - 10k millions and then after crisis interest payment was decreased until around 4k millions. But the negative ratio in Ford's Times Interest Earned is because of the negative achievement of Earnings before Interest and Taxes (EBIT) of the company. Other wise Ford records the increasing from -\$3k to \$3k from 2007 to 2009.

In Profitability Ratios Ford have many negative result bases on report annual report company. For Gross Profit Margin in 2005 to 2006 the result records 0,05 to become -0,03. This situation because of the Cost of Goods Sold is bigger than the Total Sales. The situation was same with Operating Profit Margin, it also has a negative result in 2005 until 2007, the negative result it was cause the annual report operating income has minus result, it is was same in 2009, thus in 2010 until 2011 condition was change to be good performance. Calculation on annual report of Ford, Net Profit Margin also has the negative mark in 2006, 2009 and 2010. It is also because the negative result in earnings available for common stockholders. It is the same for EPS, ROA and ROE, year 2006, 2009 and 2010 has the negative result because of the condition negative result in Total

Shareholder's Equity. In Market Ratio, by Price per Earnings before that event the condition annual report in the year 2006 and 2007 record has the negative as much as -1,4107 to -6,8623, its because of the net income per share was negative is means 2007 is the worst year in both companies P/ Eteline. Both companies might lose the confidence of their investors. But however Ford try do their best, after crisis in 2009 until 2011 their has positive but trend at Ford in 2009 they had higher record, its because the net income per share was positive. Market per Book once of section Market Ratio, the better higher show the like that distinct that have bigger differ, three years after crisis had higher record rather than three years before that event, it is cause the stock price in 2009 until 2011 is bigger than in 2005 until 2007, and also in 2010 their has taller than other. Financial crisis, it is possible to estimate the costs of resolving that crisis utilizing current policies of bailing out investors who made poor investment decisions (Murphy, 2009). All of increasing trends and decreasing trends of Ford Company had gotten the result the significant influence before and after crisis global, with comparing three years before and three years after Crisis Global in 2008.

CONCLUSION AND RECOMMENDATION

Conclusion

There are several important findings that can be concluded from the overall result in this research:

1. Ford is automotive manufacture, they must anticipation for the Global Financial Crisis in 2008 or the next crisis financial.
2. By the company try the best with reduce all cost and restructured their market positioning and sustainably developed their products.
3. There is always the market of automotive manufacturer, even when on a Crisis.

Recommendation

The external factor it can be happen anytime without looking warning in every place, if the company will has more production their must really to look the situation of market in outside where it was to preventing a less market.

REFERENCES

- Avgouleas, E. 2009. Financial Regulation, Behavioural Finance, and the Global Financial Crisis: In Search of New Regulatory Model, *Journal of Corporate Law Studies*, pp. 23-59.
- Cateora, P. R., and Mry, CG. 2009. *International Marketing* 14th ed. McGraw Hill.
- Gitman, L. J. 2006. *Principles of Managerial Finance*, 11th ed. Pearson Education: New Jersey.
- Humphery, J. 2003. The Global Automotive Industry Value Chain: What Prospects for Upgrading by Developing Countries. Institute of Development Studies Brighton, UK. pp. 29.
- Ivashina, V. 2009. *Bank Lending During the Financial Crisis of 2008*. EFA 2009 Bergen Meetings Paper. Retrieved from SSRN <http://ssrn.com/abstract=1297337>, pp. 25.
- Keown, A. J., Martin, J. D. and Petty, J. W. And Scott, Jr, D. F. 2005. *Financial Management: Principles and Applications*, Tenth Edition. New Jersey, Pearson Prentice Hall.
- Murphy, A. 2009. An Analysis of the Financial Crisis of 2008: Causes and Solution. Rochester: Oakland University, pp. 2-22.
- Philips, M. D., Volker, J. X. and Anderson, S. J. 2002. A Behavioral Comparison of Financial Ratios for Different Size Privately-Held Retail and Service Business. *Journal of Behavior Studies in Business*, pp. 1.
- Sekaran, U. and Bougie, R. 2009. *Research Methods for Business: A Skill Building Approach*. Chicester: John Wiley & Sons Ltd.
- Ingelheim M., and Jia, L. 2010. Financial Accounting: Ratio Analysis of Cadbury. *Working Paper*. University of Saint Andrews - School of Management.