Stock Return Determinants Impact on Organizational Performance

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Abstract

There are many variables/factors that have direct collision on stock return and organizational performance. This research work focus to investigate the association/relationship between stock return and its determinants relating to nonfinancial organizations (covering the period of 2010-15) which are listed with the Pakistan Stock Exchange (PSE) formerly known as Karachi Stock Exchange (KSE). In order to work better in today's globalized era of antagonism and secure day to day business operations with maximizations of return, the observance of existing factors is crucial. Hence it is very necessary to know the factors that have impacts on stock return and performance of the organization. The current study is accomplished with the aim to observe the impacts of factors/determinants which have impacts on return and organizational performance. For this, the determinants are divided into four groups i.e. Market Performance of the organizations, Liquidity level of the organizations, Debt Management Systems and Activity level of the nonfinancial organizations by using secondary data. In this research a sample of 250 organizations was observed for the purpose of analysis. The outcomes indicates that (Tobin's Q, Sales Growth, ROA, Leverage, Quick Ratio, EA, has significant relationship with dependent variable. However, cash ratio, sales to net fixed assets and sales over total assets has insignificant relationship with dependent variable. Moreover, supplementary studies may observed external factors/variables i.e. rate of inflations, taxation system of the economy, organizational size, etc as well as due attention to the services sector of the economy.

Introduction

In present vibrant and swiftly changing workplace and globalised economy, development of organizational performance is associated with the development of financial performance, skills, knowledge and experience etc (Samuel & Covey, 2008). However, the ability to achieve and maintain high performance and productivity in organizations is a key challenge facing management today. According to finance terminology the return refers to profit on investment. It includes some alteration in worth of dividends or interest which an investor gain from investment. Normally the market takes a lapse of period to repayment shareholders with a return on stock. For the country, who having economic in transaction, it is very difficult to overstate the importance of stock market. There are many fundamental benefits of a fit functioning stock market i.e. hastening of economic growth, efficient allocation of funds/resources and mobilization of savings etc (Iryna, 2003).

The economic development and performance of an organization depends on the level of investment. The investment and economic development are interconnected as there is more investment there will be more economic development. Investment in infrastructure for developing countries like Pakistan is of vital importance. However, one of the available avenues for investors is to invest in stocks. Investment in stock market helps in transfer of funds to the corporate sector which in return has a direct effect on the economic development of the country. Investment in equity shares not only gives considerable returns but also fulfills the capital requirements of the companies. Moreover, investment in stock markets provides investors a chance to have a diversified portfolio by investing in different sectors at the same

time and minimizing his risk. The management of stock means planning, organizing, directing and controlling the financial activities like procurement and utilization of funds of the firm.

In every organization the management tries to ensure to increase the financial health of the organization by investing in stock markets. The management can use short-term or long-term investment financing strategies. The well professional, sound and top level management have many key points to execute the financial plans for the company i.e. to conduct the data analysis, forecasting and provide the creative ideas to senior managers for maximization of return by investing in stocks (Elmira, 2012). In today's environment one of main controversial issue in management is the issue of stock return and its valuation (Titman & Wassels (2006). The main issue with stock return has been acknowledgement as an important reason for business development or failure. It is very essential for firms to be able to finance their daily operations and growth over time if they are ever to remain and play an increasing and principal role in creating value added, providing employment as well as income in terms of profits expending the size of the direct productive sector in the economy, generating tax revenue for the government and facilitating poverty reduction through fiscal transfers and income poverty reduction through fiscal transfers and income from employment and firm possession (Hovakimian, et al. 2005). However, in order to develop an economic model for stock evaluation, the management should have a cored understanding with the organizations resources, which itself a major factor in an organizations success in stock evaluation because organizational resources are the key for evaluation/success. Therefore, the question has been arising first; what type of relationship is there between stock valuation and organizational performance? Is this relationship influenced by the existing resources? However in this research work only the specific determinants i.e. market performance, liquidity ratio, debt management ratio, and activity ratio, which have direct impacts on stock return as well as on organizational performance with the support of theory and financial statements of non - financial firms have been used for analysis. Currently management of every organization giving keen importance for investment in infrastructure i.e. Investment in education, technology, skilled labor, agriculture, human capital etc. stimulated economic development. The use of modern technology, innovation ways of production increase output and it is possible only due to investment in these sectors. One of the available avenues for investors is to invest in stocks. Investment in stock market helps in transfer of funds to the corporate sector which in return has a direct effect on the firms' growth. Investment in equity shares not only gives considerable return but also fulfills the capital requirements of the companies. Investment in stock markets provides investors a chance to have a diversified portfolio by investing in different sectors at the same time and minimizing his risk. It is also thought of as one of the liquid form of investment (Abdula &Parvez, 2015).The management also does tasks which are very specific to their organizations. It's a primary duty of organizational performance to have expert team on government appropriations according to economic condition of country and budgeting processes (Zaheer, 2010).Moreover, management of the organization must be conscious about the tax rules and regulations which can affect the company returns. Investment in stock market is transfer ofmoney towards the corporate sector which obviously becomes helpful for the development ofthe economy. Evidently, it was found in developing country like Pakistan that funding inlabor capital, technological, educational, agricultural and other sectors have a direct impact for the growth/development of economy (Economic Survey Report 2013 issued by SBP).

Literature Review

It has been observed that the developed countries were focused by the scholars for empirical research pertaining to the data on account of determinants of stock return (Mazur, 2007; Elsas and Florysiak, 2008; Serrasqueiro and Ragao, 2009). The area of organizational

determinants of stock return and their impacts towards the organizational performance has not got much attention of the scholars in the developing countries (Chen, 2004; Delcoure, 2007 ; Teker et al., 2009 ; Chakraborty, 2010). Hence this study would be a contribution in the field of corporate finance as well as organizational management for the developing nations. In today's dynamic environment, it is clear that the modifications that took place in the universal economy over the last many years have not conceded without consequences in our country particularly in the organizations. These must be capable to manage with a growing number of challenges occurring from the industry atmosphere, accordingly increasing their capability to acclimatize. Some Pakistani businessmen are conscious of the reality that their management performance represents the construct or smash factor in retreating or even abolishing the adverse impacts of the calamity (Verboncu & Purcaru, 2009). The generally stock market is considering the reflector of financial and economic conditions of an economy and business sector. There are lots of factors which are potentially responsible to affect the stock returns of the organization (Zaheer, 2010).

The People who invest in the stock just for sake of return which is based on various variables/factors. There is no precise definition/identification of these factors available so far. A long historical story about the factors/determinants of stock returns is available in the literature. The literature proposed that various variables/factors are very imperative in amplification of difference in stock returns beside a single factor. However, two prominent theories are very frequent in forecasting the relationship between stock return and economic factors, one is known as Capital Asset Pricing Model (CAPM) and the other is called as Arbitrage Pricing Theory (ATP). Besides the customary equilibrium based Economic Forces and Stock Market Returns - 2 - Capital Asset Pricing Model, a number of multi factor asset pricing models have been constructed e.g., arbitrage-based model under Arbitrage Pricing Theory. According to Opfer and Bessler (2004) these models have been developed on the basis that the stock returns are caused by a specific number of variables. In recent years, the capital asset pricing model (CAPM) has increasingly been criticized due to its incapability to explain the pricing of risky assets.

Every investor needs to have precise and expert/qualified information before investing in projects. On the basis of available information the investor conduct the analysis of stock in the market and the common available source is financial reports/statements. Returns on investment are the profit or losses from a stock in a particular time period and are frequently quoted as a percentage. The management role is a very multifarious one and which require complete understanding of organizational functions at all and skilled professional knowledge (D.Hill, 2012).The setup of every organization varies but the management is accountable for the all universal things across the board. The management is responsible to prepare the budget and financial plans for the expenses. All these activities called allocation of money for various investments and segments so that organization can execute its operational activities. The management of the organization refers to the efficient and effective management of founds in a planned manner to accomplish the goals/objectives of the organization (Nuryman, 2013). In other word we can say it is a focused function and straightly linked towards the higher level of management.

It was notices that from several years the behavior of stock returns managed to keep the finance researchers engaged in order to explore the underlying factors affecting the returns. This topic is also one of the unsolved mysteries of finance. Many researchers have developed different theories and given different factors affecting stock returns. Different researchers from the entire world used different techniques and formulas to explore this underlying relationship. However, despite the presence of extensive literature on the topic of stock returns the relationship between stock returns and firms specific factors remains ambiguous.

So there still a gap and a potential for research. As discussed earlier about the presence of abundance of literature we will look at some of the studies one by one. However, there are many theories and viewpoints of researchers which explore the association among different variables pertaining to the stock return as well as economic factors. From last many years the attitude of stock returns leads to keep busy to the finance mangers to explore the causes, factors and variables that have direct impact on the investment and its return. The researcher has arranged many diverse methods, techniques and formulas to explain the relationship between stock returns and particular variables of organization. However after lot of deliberation and availability of literature on this topic the under subjected issue still remained vague. The researcher argued that the literature about the association between sock return and organizational determinants/factors got lot of attention more specifically in developing economies (Fama, 1970). However a lot off research work has also been found which presented that there is significance relationship between organizations particular determinants of stock returns (Fama, 1981, Harvey, 1995, Kliny, 2005, McCue, 2007 and Zaheer, 2010). Hence, there is still an ultimate space/lapse which required some impending study work.

In this research work an attempt has been made to know the micro determinants pertaining to the stock return to examine the possibility of impacts of these determinants on organizational performance. The literature on account of following studies will be discussed by taking them as independent variables.

i. Variables of Market Performances.
ii. Variables of Liquidity Ratios.
iii. Variables of Debt Management.
iv. Variables of Activity Ratio.

Market Performance: Gruber, &Rentzler, 1983 carried out the research with a motive to investigate the possible relationship between dividend yield and stock return in the USA markets. To carry out the research monthly data of stock returns, dividends, and prices were taken. The period of study was comprised of 1927 to 1976. The results of the statistical technique revealed that there is a persistent relationship between excess return and dividend yield. Similarly a study work was also carried out by Funda in 2010 with the aim to explain the relationship between price earnings ratio, yield dividend and stock returns and results showed that a negative relationship has been found between stock returns and price earnings.

Liquidity Ratio: A study conducted by Siqueira et al in 2012 on account of particular determinants of organizations by covering the period of 2006-2010 and he presented that quick ratio, current ratio and N.P margin has ability to explicate the relationship with the stock return. Safaina and Bagherzadeh has also contributed in this regard during 2013 by covering the period of 2009-2012 and they presented in their outcome that R-square showed the direct association between stock return and current ratio which holds that .001 percent variable in independent shows variation in dependent.

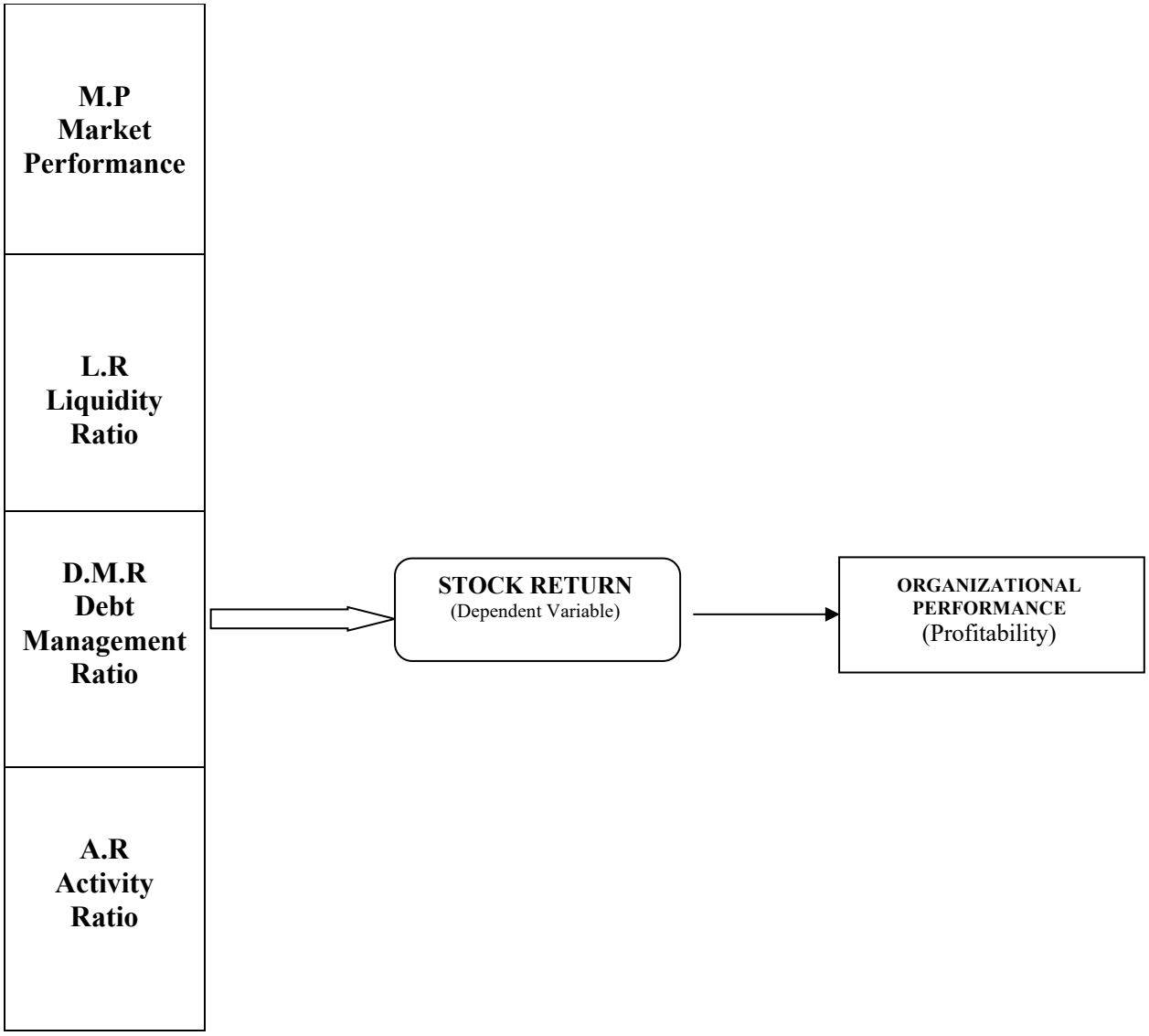
Debt Management Ratio: Tripathi, 2008 carried out the research to explore the relationship between company specific factors and stock returns. The results of this study revealed that there is a significant relationship between leverage and stock returns of the 455 companies listed on the S&P CNX 500 index. In case of Indian market Nirmala, Sanju and Ramachandran, (2011) found a significant relationship between leverage and stock returns. The statistical technique used in their study was modified OLS technique.

Activity Ratio: A study was carried out in Thailand during, 2014 with the aim to know the association and to explore the links between turnovers of inventory of organizations registered with the stock exchange on the stock return. This study accomplished by the (Romprasert) through ordinary least square regression model and concluded that entities specific determinants/variables have poor noteworthy association between turnover ratios of inventory towards stock returns. Similarly, a study was also carried out by the Rashki recently and he divided ratios into various groups i.e. leverage, liquidity, and activity ratios. The aim of this study was to examine the association between stock returns as well as financial ratio. He concluded this study that the ratios of activity have not association with the entities stock return.

Data and Methodology

The research methodology adopted in the current research is panel data research and secondary sources have been used to collect data. The research methodology and procedure is clear from the below depicted portrait. At first applying panel penal data regression analysis we have tested a unit root test to know the issues pertaining to stationery of data. In this study different four groups pertaining to the organizations specific determinants/variables and there impacts on organizational performance have been discussed and each cluster of group has sub-group and holds certain variables having link with each others. From moving initial stage of the descriptive analysis on data will be conducted. After that the regression analysis with the help of fixed and fixed effect technique will be executed on these factors/variables to find out the ultimate results. Moreover, at last but not least the Houseman test will also be applied on the organizational determinants/variables, which are causing variability in the stock return alongwith ultimate impacts on the performance of the organization. The last step of this study work will be the interpretation of ultimate results.

Framework of study



Results of the Analysis

Below given exhibit prescribed the statistics ascertained through ADF , carried out to know the stationary conditions of hypothesis. However in our outcomes we found that data examined is non stationery I(1). Moreover, upon very first conversion it comes to I(0) stationer.

Unit Root Test

Variables	Level		First difference	
	Constant	Trend	Constant	Trend
Stock return	-2.30	-2.61	-17.77**	-17.49**
TQ	-1.44	-3.11	-15.42**	-21.48**
BMV	-.92	-1.28	-11.24**	-15.47**
PE	-1.79	-1.76	-21.41**	-12.67**
DY	-1.25	-1.48	-19.87**	-16.97**

SG	-1.90	-1.71	-11.74**	-17.84**
MC	-1.89	-1.37	-22.17**	-15.88**
CTR	-1.70	-1.87	-20.17**	-16.04**
QR	-1.20	-1.69	-15.47**	-21.18**
CR	-0.85	-1.37	-11.48**	-11.19**
LEA	-0.99	-1.59	-23.19**	-21.79**
EA	-2.87	-1.76	-19.79**	-15.31**
TDE	-1.79	1.82	-15.19**	-17.88**
SDA	0.79	-2.79	-11.79**	-15.71**

Level 5% and 1% is donated by * and ** (own elaboration).

The Hausman test was also run to decide either the most appropriate model for data for final outcome. For statistical significance the asterisk sign (*) has been used for variable, significant at (5%) and *** at (1%). The value of adjusted R-square is incorporated at the end of model. The outcomes are summarized here as under:-

Fixed effect

Stock Return	Coef.	Std. err	t value	sig	P value
TQ	.0393274	0.014698	-1.41	0.015**	0.000
BMV	.0068002	0.0283944	21.07	0.000***	0.252
PE	.2605721	0.0461791	-0.06	0.845	0.000
DY	.9174554	0.0014538	-1.00	0.076**	0.000
SG	0.0978618	0.0197493	-0.74	0.419	0.035
MC	.0359482	0.0164879	-0.84	0.248	0.319
CTR	.1325481	0.0072084	-6.11	0.000***	0.354
QR	.03548792	0.001689	-3.64	0.000***	0.265
CR	.0468757	0.0382841	8.45	0.000***	0.372
LEA	.1564872	0.0681493	2.15	0.032**	0.185
EA	.0056487	0.0013648	-1.65	0.098*	0.03
TDE	.1974648	0.0140576	1.68	0.092*	0.324
SDA	.6872648	0.0213641	0.01	0.991	0.328
EFA	.9874284	0.0062183	-15.7	0.000***	0.346
CGSI	.3548974	0.0113158	-8.81	0.000***	0.000
SNFA	.2456987	0.0426134	21.01	0.000***	0.138
STA	.0017853	0.0153970	0.05	0.000***	0.312
SE	.0247825	0.0282441	-3.01	0.681	0.154
Time Dummy	YES				
R Square	0.5563				
Adj. R Squar	0.5493				
P value overall	0.000				

Random effect

Stock Return	Coef.	Std. err	t value	sig	P value
TQ	.0491273	0.011678	-1.11	0.017**	0.000
BMV	.0053001	0.0143444	12.07	-0.051	0.351

PE	.1204711	0.0161411	-0.05	0.941	0.214
DY	.6144653	0.0024431	-2.00	0.054**	0.000
SG	.1678172	0.0167441	-0.44	0.219	0.182
MC	.0245481	0.0144773	-0.44	0.000***	0.119
CTR	.2324412	0.0172044	-4.11	0.034	0.241
QR	.01543771	0.041671	-2.14	0.014	0.364
CR	.0418721	0.073274	6.41	0.000***	0.102
LEA	.0345281	0.015793	1.12	0.012**	0.162
EA	.0076417	0.0013541	-1.45	0.097*	0.000
TDE	.1934141	0.0120671	1.78	0.042*	0.221
SDA	.8172241	0.0213461	0.03	0.941	0.308
EFA	.3648792	0.0052125	-12.7	0.000***	0.241
CGSI	.0236749	0.0153148	-3.80	0.025	0.104
SNFA	.0654821	0.0328132	17.01	0.000***	0.119
STA	.0018354	0.0173671	-0.04	0.000***	0.510
SE	.0217521	0.0292401	-4.01	0.611	0.174
Time Dummy	YES				
R Square	0.5816				
Adj. R Squar	0.5749				
P value overall	0.000				

Hausman Test

Stock Return	Coef.b	Coef.B	b-B
TQ	.0693224	0.0186982	0.050624
BMV	.0058001	0.0293945	-0.02359
PE	.2604722	0.0481792	0.212293
DY	.7194564	0.0014736	0.717983
SG	.3642941	0.0193491	0.344945
MC	.0329462	0.0154871	0.017459
CTR	.3324481	0.0092044	0.323244
QR	.0754692	0.008684	0.066785
CR	.0468651	0.0392842	0.007581
LEA	.1574675	0.0671497	0.090318
EA	.0061481	0.0017641	0.004384
TDE	.1977642	0.0150570	0.182707
SDA	.5862641	0.0263644	0.5599
EFA	.9824280	0.0072184	0.97521
CGSI	.3146944	0.0163157	0.298379
SNFA	.1456786	0.0427131	0.102966
STA	.0014854	0.0163971	-0.01491
SE	.0347123	0.0262421	0.00847
Time Dummy	YES		
P value	0.000		

The P value of hausman tests is 0.000 which means it is significant at 5% however we will consider the results of fixed affect. The fixed affect shows that adjusted R square is .5493 which means that our model explains 55% variation in the stock return. The variables are able to explicate about 55% of variation in the all independent variables. The rest 45% variation in independent variable is caused by other factors. These other factors may be external, micro as well as macro. Hence the selected organizations particular variables/factors are able to explain the variation in the independent variable is up to .5493. The Tobins Q has significant impact on the stock return as the p-value is 0.000 which is less then alpha so we reject null hypothesis. These results are in accordance with Scrimgeour and Muhammad, 2013 in which they have found Tobin's Q with having significant affect on the stock return of the organizations. The sales growth has also significant impact on the stock return because from the results it is evident that sales growth has a significant P-value which is 0.035 less than value of alpha i.e. 5%. This is because of the fact that due to increase in the sale of a company its revenue increase and consequently it has a positive impact on its returns. So the sale growth has a significant impact with the stock return of the organizations listed with PSE. So we reject null hypothesis and accept the H1. The cash ratio has a P-value of 0.372 which is greater than the value of alpha (0.05). Hence cash ratio does not have a significant impact on the stock return of the nonfinancial listed organizations in Pakistan stock exchange. The return on assets also has significant impact on the dependent variable stock return. The P-value is 0.000 which is less then alpha and shows that CGSI has a significant impact on the stock return. So we accept hypothesis (H1) and reject the null hypothesis. These results are in accordance with the (Uwuigbe, and Ghasempour et al, 2013).

The result of fixed affect shows that there is a significant relationship between leverage and stock return. The value of current ratio is .323 which is higher than the alpha value i.e. 0.05 which means insignificant relationship with dependent variables. The P-value of the leverage is 0.185 which is greater than the value of alpha i.e 5%. The possible reasons behind this significant relationship is that an organization having high leverage will have less availability of amount to pay its shareholders because it has to meet its obligations. So we accept the H1 hypothesis and reject the null. The value of sales to net fixed assets has negative impact because the results shows the higher P-value from alpha i.e. 0.1029 >.05.The ratio sale over total asset shows insignificant relationship with the stock return. The P-value of this ratio is 0.312. The alpha value is 0.05 which means that sale/total assets ratio have P-value on the higher side. So there is insignificant relationship between the stock return and sale over total assets. This is similar/in accordance of research work conducted by Khawar, & Moeen, 2011) on account of determinants of capital structure in developing countries. So we reject the null hypothesis and accept H1. The value of quick ratio is 0.0667 which is less than from the value of alpha i.e. 0.05 which means the independent variable has significant impact on stock return. The results of market capitalization show the higher value towards the alpha i.e. .319 >.05 which shows the negative impact over the stock return. The value of independent variable equity to asset has value i.e. .0043 and has significant impact over dependent variable. The P-value of this ratio is 0.03 which is less then alpha. So in this case we accept the null hypothesis and reject the H1.

Conclusion

This study holds the stock return as dependent variable over its determinants as independent variables by covering the period of 2010-15 of non financial listed organizations with Pakistan Stock Exchange. At very first stage unit root analysis is applied on data to testify the pertaining to stationery. The regression, fixed and random effect has been applied on the data for final analysis. On the recommendations of Hausemen test the results of fixed effect is considered. The results of the analysis expose that adjusted R-square is 0.5493 which

means that the variables explain the 55% variation in the stock return of the organizations listed in the Pakistan Stock Exchange. The outcome revealed that there is significant relationship between Tobin's Q, Sales Growth, Return on Assets, Leverage, Quick Ration and Equity to Assets with the stock returns. The sale to total and fixed assets does not show the significant association with the dependent variable. Similarly the cash ratio and market capitalization also has insignificant relationship with the stock returns. The organizations having maximum volume of sales can minimize the proportion of debt because by capturing markets and increase in sales will be a leading edge for the profitability as it is evidently found in this study that sales growth has significant impact with stock return. The statistical results of this study shows the significant relationship of leverage with the stock return because non financial organizations listed in Pakistan Stock Exchange have less amount of collateral assets with less borrowing and its is also supported by the Tradeoff theory. It is pertinent to mentioned here that the financial manager must focus on the short term goals/targets and give much more attention to observe the performance of the organizations through achievement like measure of sales, quick conversion level of inventories , amount of returns over investment, budgeting, costing and always tries to take failing operations back into track. However every business man always try to give the due attention to the sales growth, market share, liquidity, management of assets, management of debt of the organizations and profitability because all these indicators provides emphasis to make correct decision by avoiding the associated risk and get maximum return. The Higher Tobins Q value will persuade organizations to spend more in capital because it has worth extra than the cost they paid for them. However on other side if Tobins Q is less than one the value of market will also be less than the recorded amount of the assets which recommended that the market may be under-valuing the organization. Moreover, the results of this study also submitted that if the ratio of Tobins Q is (between 0 & 1) it will costs maximum to replace an organizations assets than the firms worth and ration of Tobins Q more than one means that the organizations has more worth than its assets cost. It is also recommended that if the organization has less sales as compare to its previous month or year than market, sales and revenue department must be vigilant. Sales Growth Ratio/Rate is a measure of the percentage increase in sales between the two time periods. The Quick Ratio, also known as Acid Test Ratio, shows the ratio of cash and other liquid resources of an organization and it is recommended in after this study to the financial managers to maintain this ratio approximately near to 0.5% to resolve partially of its current liability. The results of this study also recommended about the cash ratio, which must be of 1.00 and above. Because business will be able to pay all its current liabilities in instantly short term and that will be positive effect on the organization performance. Leverage ratio is intended to assess an organizations debt levels and in this study it is recommend for the financial experts to maintain it lower (must be lower than 1) as it as possible. The debt to equity ratio is a financial ratio representing the relation of organizations equity used to finance an organizations asset. In this study it is recommended to maintain this ratio less than 1.5-2. For fixed-assets-to-equity ratio measures the involvement of shareholders and portion of debt in the fixed assets of the organizations and supported in this study about to maintain it (60% to 70%). In this study it also recommended for the financial managers to maintain maximum level of inventory turnover ratio because it represents a good performance of organization and vice versa. It is suggested for fixed-asset-turnover ratio to be a maximum and is all the time more encouraging. Higher turnover ratio mean the organization is using its assets more efficiently and lower ratio mean the organization does not performing efficiently and questions has been arise from the management. It is recommended for asset-turnover-ratio to be maintained 1. Sales to Equity must be in growing total of equity is normally a encouraging symbol with showing the organization is extra talented to use of its equity for generation of sales. However, above are

the factors who determine the stock return and its impact towards the organizational performance because it is a crucial part to assess the organizations managerial activities besides profitability. So it is statically approved that the determinants of stock return has direct impact on the organizational performance which can be supervised through management of market performance, debt management, liquidity , activity level of the organizations because it is evidently found in this study that management of these factors can leads the organization toward maximum return.

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