IMPACT OF ORGANIZATIONAL FACTORS ON FINANCIAL PERFORMANCE

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ABSTRACT

The corporate sectors are facing many challenges and cut throat competition in the era of globalization. So, in order to sustain in the long run financial performance is the appropriate yard stick through which sustainability can be measured. Financial performance is a comprehensive term and cannot be convincingly encapsulated in a few lines without compromising with its vastness. But it is an important phenomenon that conveys the financial health of a company. Hence, financial performance is the barometer of the operation of business organization. Our study is an attempt to study the important organizational factors to examine the extent of impact of independent variables on dependent variables. For the purpose of study a sample of 192 companies are selected which are studied for the period of ten years by applying multiple regression model. The outcome of the study is that organizational factors are significantly contributing towards financial performance of corporate.

***Keywords**: Cut throat competition, Globalization, Financial Performance*

INTRODUCTION

The financial performance of any organisation plays an important role in maintaining the company's survival and growth. This financial performance is influenced by many factors which are known to be the organizational factors. Some factors are positively influencing the performance while, some are negative. So, examining these factors has immense value for the corporate. The corporate should pay attention towards the factors in order to minimize the negative influence and maximize the positive influence on firm's performance.

Popularly, profitability is the major indicator of financial performance. This profitability is measured by many parameters, i.e. Return on Asset, Return on Capital Employed, Net profit margin etc. The objective of the organization is no more earning profits but to to increase the value of the shareholders which in turn increases the market price of the share of the company. Now a day's investor's perception towards a company performance is good if, it has good market value. So market value is also an important indicator of financial performance of a company. Hence, the financial experts, research scholars and students have been giving more emphasis on the financial analysis to examine the financial position and financial performance.

REVIEW OF LITERATURE

Ali Abbas et.al. (2013) made a study to determine the financial performance factors influencing the textile sector of Pakistan, with a sample of 139 companies from textile sector for the period of 2005-2010. By using regression analysis of Panel data and hausman test, they found that the firm's performance (ROI) in textile sector is significantly affected by Short term leverage, Size, risk, tax and non-debt tax shield. The above factors of textile sector significantly influence the firm's financial performance. Hence, the sector should take those factors into account while measuring the performance.

Sidra Ali Mirza and Attiya Javed (2013) has made an empirical analysis about the association between financial performance of the firm and economic indicators, corporate governance, ownership structure, capital structure, and risk management. The study is made for the period of study is 2007 to 2011with 60 Pakistani corporate firms listed in Karachi stock exchange. By using Regression & Correlation analysis, Haussmann test, and chi- square test , the results reveal that there is a potential relationship between firm's financial performance and economic indicators, corporate governance, ownership structure and capital structure. But the intensity of relationship varies across different measures of performance. The study finds the evidence in support of the hypotheses that a positive association exists between corporate governance, and risk management and performance while mixed results are found for other variables.

Theiri Saliha, Ati Abdessatar(2011) examined the determinants of financial performance and association among performance, form of control and debt by taking 40 Tunisian listed and unlisted companies for a period of 1998-2006. Performance is measured by the ratio operating income / equity, Added value / sales. The study has analysed several determinants such as Growth opportunities, size, risk, The profitability, Tax savings not related to debt, structure of total assets, Industry Sector, Consumer goods sector, Services sector, Technology sector. The result shows that debt and the form of control are related with the level of performance.

Priyanka Aggarwal (2015) empirically determined the factors of corporate growth in India in the post liberalization period, from 2004-05 to 2013-14 by taking a sample of 250 private sector companies given in the PROWESS database developed by (CMIE) .Multiple regression analysis has been used for the study. Compounded annual growth rate of net sales (CAGRNS) and market capitalization (CAGRMC) taken as measure of growth. The results states that, size of a company, advertising intensity, age, profitability, and research and development intensity, solvency, leverage, efficiency, diversification and nature of industry are significant in determining the growth of Indian firms.

Mowery (1948) examined the impact of firm size and research expenditure on firm's growth for a period of 1921-46 by taking 200 American manufacturing firms. The study used Stepwise regression & correlation and took average annual increase in firm sales as a dependent variable while firm size, value of assets, research activity and scientific personnel employed as independent variables. The study reveals that larger firms 'are not research intensive. Research activity is linked with the firm survival and its growth.

Radice (1971) studied the effects of control Systems on the growth of large firms. The period of the study is from 1957-67 and the size of sample is 89 firms from three industries. Simple regression & correlation has been used and the result reveals that Management control firms are better in growth and profit.

STATEMENT OF THE PROBLEM

The review of the literature reveals that a large number of studies have been carried out all over the globe on analyzing the organizational factors, but still there is a dearth of literature on this subject in the Indian context. Only a few studies i.e. Kakaniet.al.(2001),kaur (1997), Kalirajan&Bhide (2003), Sanjay J Bhayane (2010) and have been carried out to analyze the organizational factors that contributes towards firm's financial performance in India. Along with that in the Indian context, most of the period of the studies are up to the year 2004 except the study of , Sanjay J Bhayane (2010).

Thus, the foregoing discussion reveals that no comprehensive study has been conducted in India during the last ten years, and the number of studies in the earlier period is also limited. Keeping into consideration of these facts, there is a sharp demarcation of research gap in the Indian context, which is the main motivation to conduct this study. Hence the present study is undertaken to explore more on such area and enrich the literature of this context.

OBJECTIVES OF THE STUDY:

- To study the relationship between the organizational factors and the profitability of the company.

RESEARCH METHODOLOGY:

Data Collection:

The study is based on secondary data only. All the dependent and independent variables are taken from PROWESS database. The different reputed journals, magazines and newspapers have been referred.

Sample Design:

The study is based on Nifty 500 companies on the basis of their market capitalization. Out of nifty 500 companies the following filters were applied to select the sample:

- Many companies with inadequate data are eliminated.
- The companies belonging to the financial service sector (i.e- banks and financial institutions) are eliminated.

Because of the specific nature of their activities, companies related to banking and financial sectors were excluded from the sample added to that, firms with missing data were also removed from the sample. Thus, as a result of these filters, a resultant sample of 192 companies was selected.

Time Period of the study:

The study covers a time span of ten years from 2005- 2006 to 2014-2015.

Scope of the Study:

The present study is confined to examining the seven factors, such as – brand value, employee productivity, marketing expenses, working capital ratio, company size, leverage and dividend payout ratio on financial performance. Shareholder value creation and profitability are taken as an indicator of financial performance. NSE nifty 500 companies on the basis of market capitalization are the population of the study. A sample of 192 companies is constituted on the basis of filtering criteria explained above and studied for the period of ten years (i.e. 2005-06 to 2014-15).

Tools & Techniques:

In order to analyze the data collected, multiple regression analysis has been done using MS excel and multi-co-linearity has been tested through NCSS 11 software.

Variables:

The study examines the determinants of financial performance from two dimensions i.e., shareholder value creation and profitability of sample companies. Different proxies are taken as the dependent and independent variables after reviewing the existing literature. For a better understanding of these variables, these are explained below.

DEPENDENT VARAIBLES:

- PBV
- ROA
- ROCE
- NPM

INDEPENDENT VARIABLES

- Brand value
- Employee productivity
- Marketing Exp

- WC Ratio
- Company Size
- Leverage
- Dividend payout ratio

Regression Model:

In order to study the impact of various organizational factors, multiple regression analysis has been done. The following models have been developed:

$PBV = â_0 + â_1BV + â_2EP + â_3ME + â_4WC + â_5LNTA + â_6LVRG + â_7DP + å$……..Model- 1

$ROA = â_0 + â_1BV + â_2EP + â_3ME + â_4WC + â_5LNTA + â_6LVRG + â_7DP + å$…......Model- 2

$ROCE = â_0 + â_1BV + â_2EP + â_3ME + â_4WC + â_5LNTA + â_6LVRG + â_7DP + å$…..Model- 3

$NPM = â_0 + â_1BV + â_2EP + â_3ME + â_4WC + â_5LNTA + â_6LVRG + â_7DP + å$…....Model - 4

Where:

PBV= price to book value

ROA =Return on Asset

ROCE = Return on capital Employed

NPM= Net Profit Margin

$\mathbf{â_0} =$ constant or the value of dependent variable when all values of independent variables are zero

$\mathbf{â_1}, \mathbf{â_2}, \mathbf{â_3}$............ $\mathbf{â_7} =$ Slope of the independent variables

BV = Brand value

EP = Employee Productivity

ME = Marketing Exp

WC = WC Ratio

LNTA = Company Size

LVRG = Leverage

DP = Dividend Payout Ratio

Å= The error term

The analysis is based on the linear regression model at 5% level of significance.

EMPIRICAL ANALYSIS

a. Examining the impact of selected organizational factors on the share holder value creation

From the regression statistics as given above it is found that there is a positive relationship between value creation (p/b ratio) and all independent variables (BV, EP, ME, WC, LNTA, LVRG, DP) as evident from adjusted R^2 i.e. 0.066709. This indicates around 7 % (approx.) of value creation is contributed by independent variables (BV, EP, ME, WC, LNTA, LVRG, DP).

Table no 2 shows the level of significance between p/b ratio (value creation) and all independent variable. Here p value is 7.59E-27 ($p<0.05$) which is less than 0.05. It implies that there is significant relationship between p/b ratio (value creation) and all independent variable (BV, EP, ME, WC, LNTA, LVRG, DP) collectively. However independent variable under sample contributes to the extent of 7% given in regression statistics table.

Examining the impact of selected organizational factors on ROA:

From the regression statistics as given above it is found that there is a positive relationship between ROA and all independent variable (BV, EP, ME, WC, LNTA, LVRG, DP) as evident from adjusted R^2 i.e. 0.154 . This indicates around 15% (approx) of ROA is contributed by independent variables (BV, EP, ME, WC, LNTA, LVRG, DP).

Table no 4 shows the level of significance between Return On Asset (ROA) and all independent variable. Here p value is 4.52103E-67 ($p<0.05$) which is less than 0.05 . It implies that there is significant relationship between Return On Asset (ROA) and all independent variable (BV, EP, ME, WC, LNTA, LVRG, DP) collectively. However, independent variable under sample contributes to the extent of 15% given in regression statistics table.

b. Examining the impact of selected organizational factors on ROCE:.

From the regression statistics as given above it is found that there is a positive relationship between ROCE and all independent variable (BV, EP, ME, WC, LNTA, LVRG, DP) as evident from adjusted R^2 i.e. 0.009828 . This indicates only 1% (approx) of ROCE is contributed by independent variables (BV, EP, ME, WC, LNTA, LVRG, DP).

Table no 6 shows the level of significance between return on capital employed (ROCE) and all independent variable. Here p value is 0.000524 ($p<0.05$) which is less than 0.05. It implies that there is significant relationship between Return on Capital Employed (ROCE) and all independent variable (BV, EP, ME, WC, LNTA, LVRG, DP) collectively. However, independent variable independent variable under sample contributes to the extent of 1% given in regression statistics table.

c. Examining the impact of selected organizational factors on Net Profit Margin(NPM):

From the regression statistics as given above it is found that there is a positive relationship between NPM and all independent variable (BV, EP, ME, WC, LNTA, LVRG, DP) as evident from adjusted R^2 i.e. 0.488924. This indicates around 49% of Net profit Margin (NPM) is contributed by independent variables (BV, EP, ME, WC, LNTA, LVRG, DP).

Table no 8 shows the level of significance between net profit margin (NPM) and all independent variable. Here p value is 9E-275 ($p<0.05$) which is less than 0.05. It implies that there is significant relationship between net profit margin (NPM) and all independent variable (BV, EP, ME, WC, LNTA, LVRG, DP) collectively. However independent variable under sample contributes to the extent of 49% as given in regression statistics table.

Table no 1: Regression Statistics of Value creation

Statistics	Values
Multiple R	0.26479
R Square	0.070114
Adjusted R Square	0.066709
Standard Error	4.286954
Observations	1920

Source: self-compiled

Table no- 2: Statement Showing Level of Significance of Relationship

ANOVA					
	Df	***SS***	***MS***	***F***	***Significance F (p value)***
Regression	7	2649.474	378.4963	20.5951	7.59E-27
Residual	1912	35138.69	18.37797		
Total	1919	37788.16			

Source: self-compiled

Table no 3 :Regression Statistics of ROA

Statistics	Value
Multiple R	0.397174747
R Square	0.157747779
Adjusted R Square	0.15466422
Standard Error	0.059671654
Observations	1920

Source: self-compiled

Table no 4: Statement Showing Level of Significance of Relationship

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F (P value)*
Regression	7	1.275102614	0.182158	51.15769	4.52103E-67
Residual	1912	6.808070529	0.003561		
Total	1919	8.083173142			

Table No 5:Regression Statistics of ROCE	
Statistics	**Values**
Multiple R	0.115929
R Square	0.013439
Adjusted R Square	0.009828
Standard Error	0.384707
Observations	1920

Table no 6: Statement Showing Level of Significance of Relationship

ANOVA					
	Df	*SS*	*MS*	*F*	*Significance F(p value)*
Regression	7	3.854846	0.550692	3.72091	0.000524
Residual	1912	282.9748	0.147999		
Total	1919	286.8296			

Source: self-compiled

Table no 7 : Regression Statistics of NPM

Statistics	**Values**
Multiple R	0.700563
R Square	0.490789
Adjusted R Square	0.488924
Standard Error	152.6379
Observations	1920

Source: self-compiled

Table no 8: Statement Showing Level of Significance of Relationship

ANOVA					
	Df	*SS*	*MS*	*F*	*Significance F (p value)*
Regression	7	42934762	6133537	263.2607	9E-275
Residual	1912	44546426	23298.34		
Total	1919	87481188			

Source: self-compiled

FINDINGS:

After the empirical analysis the following findings are derived**.**

- Brand value has a significant positive relation with p/b ratio (value creation)
- Brand value has positive relationship with all parameters of profitability (CFM, ROA, ROCE). But it is significantly related with CFM &ROA and insignificantly related with ROCE with a p vale of 0.053, very close to 0.05. So, if the size of sample will be more it may significantly affect ROCE.
- Size of the firm positively affects sales growth.
- Use of more leverage and spending more money on marketing increases variation in CFM and ROA.

SUGGESTIONS:

- It is suggested that the company should focus more on building brand value, spending money on marketing activities and payment of dividend in order to maximize the share holder value.

- In order to maintain profitability the firm has to maintain balance between working capital and profitability.
- Company should try to use less debt in order to maintain profitability.

CONCLUSION:

This study examines the organizational factors of Indian firms

with a sample o f 192 companies for a period of 10 years . As per the objectives it examines the relationship between dependent and independent variables and found that brand value, marketing expenses and dividend payout ratio are positively related with value creation, profitability and its components and sales growth while leverage is negatively. So, the company should make strategic plan in order to manage the negative influence of profit ability and exploit positive influence in order to maximize performance.

SCOPE FOR FURTHER RESEARCH:

Financial performance and organizational factors have always been emerging issues. Though this study adds certain vales to the growing body of knowledge on the firms performance but it ignores industry wise analysis which is open for further research.

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