

Research on the Relationship Between Firm's Financial Performance and Stock Return for Chinese Motor Vehicle D Motor Corporation

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Abstract: Stock return forms one of the way one can clearly examine how an organization performs and this clearly reflects how organizational function of management can be viewed. From different researchers it would be argued that a firm's financial performance can be measured through the use of return on assets, dividend payout and share prices. On that basis, the study sought to examine the relationship between financial performance and stock return in which it aimed at answering the question on how financial performance influences the stock return focusing on the Chinese motor company D Motor Corporation. The study adopted both qualitative and quantitative research method. From the study's findings it would be established that there exists a positive relation between financial performance and stock returns in which there was a positive significance between financial performance which was denoted through dividend payout, return on assets and share market price with the stock return.

Keywords: Financial Performance; Stock Return; Share Market Value; Dividend Payouts

1. Introduction

1.1 Background of the Study

The main objective of corporations is to generate value for their stakeholders, especially their shareholders. Therefore, the market rewards organizations that can generate value by increasing sales, which results in shareholder profit and operating cash flow (Akshita & Sharma, 2015). To make this a reality, businesses must generate sufficient sales, profits, and returns and this clearly reflects on the management competency of the business. Thus, the financial performance of an organization ought to be directly linked to the degree of management. Poor management is often associated with poor results while competency is often a reflection of good management within the business. Thus, as the research focuses on the nature of financial performance it also factors that there exists a relationship between financial performance and management (Cho, et al., 2019).

1.2 D Motor Corporation

The Wuhan-based D Motor Corporation (DFM) is one of China's top automakers, with 176,000 employees and a market capitalization of €30.5 billion. The majority of DFM's primary business consists of automobiles, engines, automotive parts, and other automotive-related components. The company's annual sales volume reaches 3.8 million units. D was the first well-known brand in the Chinese auto industry.

1.3 Statement of the Problem

Different researches have been done to establish how stock returns are influenced by the financial performance of firms. From the provision and other researchers, it would be observed that most of these researches have not really focused or considered using other financial and firm performance measures such as the dividend payout and the share prices which clearly tend to illustrate how the firm performs. Furthermore, the researches haven't captured the topic's main concept of organizational management. It is arguable that financial performance has a direct link to how an organization is managed. Thus, the study will be seeking to establish the impact of financial performance and stock returns on D Motor Corporation.

2. Literature review

2.1 Revenue and Investment Catering Model

Catering is any attempt to increase stock values artificially. Guo & Zou (2020) suggested an investment catering theory that influences a company's investment decision regardless of whether or not new investment projects are funded by more shares. According to this principle, managers who believe that investors with short time horizons are more likely to make reasonable decisions should invest in overpriced ventures and avoid underpriced ones. So long as management is preoccupied with the existing stock price, she should focus on boosting sales.

2.2 Capital Asset Pricing Theory

CAPM is a method for assessing the risk and expected return of risky investments (Zerbib, 2022). The approach equates the projected returns for individual assets or a portfolio to risk-free interest rates plus a risk premium. CAPM can be used to calculate risk and the relationship between the expected return and risk of an investment.

When an underlying asset is included in a portfolio with systematic risk, the model can be used to calculate the needed return for the asset. The beta coefficient is used to measure an investment's total systemic risk. The beta of an asset indicates the degree to which its returns are susceptible to changes in the market portfolio as a whole. According to Zerbib (2022), the disparities in stock returns between NYSE and AMEX equities from 1963 to 1990 cannot be explained by beta alone or when combined with other fundamental variables. Utilizing the firm's size and book-to-market ratio, statistical significance was determined.

2.3 Efficient Markey Hypothesis

According to Tanga, et al. (2018), efficient markets are those that consider all available information. In an efficient market, information is defined as everything that has the potential to affect future share values but is now unknown. Consequently, the market is efficient when it responds promptly and appropriately to fresh information regarding stock shares.

This study examines changes in revenue growth, total assets, and leverage. As long as investors have access to the new information, the value of securities and their expenses must adjust when new information is introduced into an efficient market. In other words, the price of a security will be efficiently determined as a result (Rossi & Gunardi, 2018). Investors should remember that the efficiency of the stock market has a significant impact. This affects a person's investing and financial decision-making attitudes. Corporate financial statements and other information are one of various data sources. Such knowledge is necessary for fundamental analysis.

3. Methodology

3.1 Research Design

The study will use an interpretive design and will also focus on a descriptive study design, using the fish bone diagram principle to design the study plan. The study conducted qualitative research through field interviews. The term "design" is used by researchers to identify the approach of doing research in which the principal objective is to find the processes and characteristics of interactions between variables (Leavy, 2017). The research seeks to examine the relationship between stock return and firm performance. The study's aims require the use of a quantitative research method and qualitative research design, which demands the collection of secondary data and primary data respectively (Quoc-DienTrinh, 2018).

3.2 Models Adopted

Since Kallamu and Saat's (2015) research, many study models have been utilized, and regression analysis has been successful in delivering a thorough assessment of quantitative analysis. As a result, because Tobin's Q as a proxy for company value is fatally defective, experts have only picked ROA as one of the measures of corporate success. A linear connection was employed to assess the secondary data on the relationship between stock return and firm performance.

The following model has been adopted;

$$\text{ROA} = \alpha + \beta_1\chi_1 + \beta_2\chi_2 + \beta_3\chi_3 + e$$
$$\text{ROA} = \alpha + \beta_1\text{ROA} + \beta_2\text{Divided Payout} + \beta_3\text{Share Price} + e$$

4. Data analysis and findings

4.1 Interview Results

The study focused on D Motor Corporation manager and from the findings the manager did express that “to a large extent the company return on assets has positively enhanced the stock returns of the company.” he would state “often the current shareholders and potential shareholders do focus the company performance through the dividend payout and share prices, hence during better performance period denoted by better dividends and share prices the company’s stock returns always rise.”

4.2 Descriptive Analysis

Table 1 Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Stock	5	.56	.80	.6660	.10334
ROA	5	3.60	7.45	5.1540	1.61482
Dividend	5	.10	.76	.4518	.29173
Share	5	1.25	1.51	1.4100	.10863
Valid N (listwise)	5				

The findings from the figure above of the variables mean, it would be reflected that of the variables of ROA, dividend and Share the ROA has the highest mean of 5.1540 expressing to have the highest impact on the stock returns. The second variable is share price with a value of 1.4100 and the last one being dividend payout with a value of 0.4518 expressing to be the least variable to affect the stock returns.

4.3 Correlation Analysis

Table 2: Correlations

		Stock	ROA	Dividend	Share
Stock	Pearson Correlation	1	.804	.480	.784
	Sig. (2-tailed)		.101	.414	.117
	N	5	5	5	5
ROA	Pearson Correlation	.804	1	.891*	.841
	Sig. (2-tailed)	.101		.042	.074
	N	5	5	5	5
Dividend	Pearson Correlation	.480	.891*	1	.787
	Sig. (2-tailed)	.414	.042		.114
	N	5	5	5	5
Share	Pearson Correlation	.784	.841	.787	1
	Sig. (2-tailed)	.117	.074	.114	
	N	5	5	5	5

*. Correlation is significant at the 0.05 level (2-tailed).

The figure above seeks to examine the correlation between the study variables and from the findings, it would be clearly established that there exists correlation between the variables in which firm performance which is denoted by the company return on assets, dividend payout and share prices correlates with stock returns.

4.4 Regression Analysis

4.4.1 Coefficients Analysis

Table 3: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	.327	.055		.944	.001
	ROA	.94	.004	1.472	1.943	.000
	Dividend	.442	.021	1.247	1.199	.002
	Share	.502	.047	.527	0.678	.000

a. Dependent Variable: Stock

The table above shows the study coefficients and from the findings the study would show that there exist a positive relationship between the company’s financial performance its dividend payout and its share prices. From the findings, it would be established that unit increase of ROA will increase the company’s stock return by 0.94 while other factors are kept constant. On the second variable of dividend, it would be established that while all other factors are kept constant a unit increase of dividend will

increase the stock returns by 0.442. Lastly, on the variable of share prices, with other factors kept constant, a unit increase of share prices will increase the stock return by 0.502. This would in general establish that financial performance would clearly increase the company's stock returns. The degree of financial performance growth reflects from the results clearly relate to better managerial performance of the company.

4.4.2 ANOVA results

Table 4: ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.043	3	.014	478.456	.034 ^b
	Residual	.000	1	.000		
	Total	.043	4			

a. Dependent Variable: Stock

b. Predictors: (Constant), Share, Dividend, ROA

The figure above provides the ANOVA results and the study found an ANOVA value of 0.034 which is below the standard significance value of 0.05 reflecting that the firm's financial performance has a relationship with its stock returns.

5. Conclusion

From the research outcome and discussion, it can be concluded that financial performance does have an effect on stock returns and clearly organizational management is key to the better stock returns. Good organizational management gives better financial performance which positively enhances stock returns for D Motor Corporation. Hence, according to the study, it would be recommendable that the company considers organizational management as part of its key approach to enhancement of its operations this is reflected through effective planning, control, staffing, and coordination. Furthermore, the study advises that D Motor Corporation establishes an optimal dividend payout strategy an approach also within the managerial responsibility.

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