



IGNITED MINDS
Journals

*International Journal of
Information Technology
and Management*

*Vol. IX, Issue No. XIV,
November-2015, ISSN
2249-4510*

**AN ANALYSIS UPON VARIOUS RELATIONSHIP
AMONG MARKET CAPITALIZATION AND FIRM
PERFORMANCE: A CASE STUDY OF INDIAN IT
SECTORS**

AN
INTERNATIONALLY
INDEXED PEER
REVIEWED &
REFEREED JOURNAL

An Analysis upon Various Relationship among Market Capitalization and Firm Performance: A Case Study of Indian It Sectors

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Abstract – Capital arrangement is a vital piece of monetary development and advancement and it plays a critical part in the financial hypothesis of generation and conveyance. It is accepted that capital collection can encourage quicker rate of monetary development. The development of stock market is measured by its aggregate market capitalization. The span of the market capitalization and its development rate represent a noteworthy impact on the development and advancement of the economy (Odogunde et al. 2006). Market capitalization has ended up an all-around acknowledged marker of business valuation. It speaks to the total value of a company on the other hand stock. Market capitalization by considering the present market price, which mirrors the current value and the aggregate number of shares which mirrors the size, gives a reasonable photo of the market value of a company. The achievement or disappointment of basic choices like mergers, acquisitions what's more, takeovers has awesome effect on the value of a company. So also acknowledgment of new tasks moreover has a direction on its value.

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INTRODUCTION

Presently a-days market capitalization has turned into an all-around acknowledged pointer of business valuation. It speaks to the total value of a company or stock (Jaya and Sundar 2012). Market capitalization by considering the present market price, which mirrors the present value and the aggregate number of shares which mirrors the size, gives an unmistakable photo of the market value of a company. The achievement on the other hand disappointment of basic choices like mergers, acquisitions and takeovers has incredible effect on the value of a company. So also acknowledgment of new activities likewise has a course on its value. Consequently, management takes any choice on the venture's reasonability as well as on the progressions it is anticipated that would get the value of a company. The productive performance of a company as reflected by its proceeded with profit brings about better valuation of market capitalization.

Capital arrangement is an indispensable piece of monetary development and improvement and it plays an imperative part in the financial hypothesis of generation and appropriation. It is accepted that capital aggregation can encourage quicker rate of monetary development. Generally financial development rate relies on development of IT and administration area however stock market has likewise gotten to be one of significant commitment for capital arrangement and straight effect on the economy over the world. Stock market in creating economies, for

example, India is likewise becoming quick and it is evaluated that stock market is a trillion dollar industry. As of late the Indian stock market is seeing elevated exercises and is progressively picking up significance.

Market capitalization makes an exceptional commitment to commitment to company's management, record computation, grouping of companies, an aim for the speculation procedures for financial specialist what's more, measuring and general development of the stock market. Many studies have been attempted and different models have been planned and put into impact. A brief account on the accessible writing relevant to the present study is realistic in this study. The audit of related writing is made to consider the relationship between financial performance and market capitalization. Furthermore connect the hole left by the before scientists.

The performance of a business is express by the general benefits and misfortunes over a predefined period amid that time. Breaking down the financial performance of a business assists leaders with judging the aftereffects of business techniques and exercises in goal financial terms.

OBJECTIVES OF THE STUDY

- To review the various studies on relationship between financial performance and market capitalization.
- To identify the major financial indicators on market capitalization.

EXPERIMENTAL STUDIES WHICH ANALYZE THE RELATIONSHIP BETWEEN FINANCIAL PERFORMANCE AND MARKET CAPITALIZATION

Numerous analysts have been done diverse studies which concentrated on the relationship of financial performance and market capitalization in everywhere throughout the world. The present study expounds the relationship of financial performance and market capitalization on two parameters. They are:

- I. Studies focused on financial performance.
- II. Studies focused on financial performance and market capitalization.

STUDIES FOCUSED ON FINANCIAL PERFORMANCE

Charles (2013) stressed the requirement for a lawful system to authorize arrangement with CMA Rules to protect individuals from people in general from losing their reserve funds furthermore guarantee steadiness of the financial area to empower the nation accomplish focused on monetary development at 10 percent for every annum.

The reason for the Capital Markets Authority's (CMA) Guidelines on great corporate administration was to enhance administration rehearses in the corporate division, and in addition pull in and hold financial specialists for supported monetary development. A widespread pattern of business banks set under receivership somewhere around 1990 and 2005 enlivened this study. As at the season of the study, the Guidelines had been operational for around eight years. The outcomes demonstrate that recorded and unlisted business banks were altogether extraordinary as far as board size, extent of official and non-official executives, sexual orientation arrangement, cost of board support, sythesis of review panels, recurrence of financial revelations and all the more significantly, financial performance.

Sarkar and Goswami (2012) toss some light on the financial performance of Indian Aviation division method for a similar study between Air India and Kingfisher Airlines, the two key companies in foundation part. The financial performance has been broke down with the assistance of some key measures identifying with the productivity in working capital management on the general financial performance of

the chose companies amid the period from 2000-01 to 2006-07. At long last the study closes with some substantial proposals which merit the consideration of the management of both the concerned companies under study and Government.

Pachori and Totala (2012) investigated the impact of financial influence on shareholders' arrival and market capitalization of car group companies of Pithampur (M.P.), India. The seven noteworthy car open companies were attempted for representation of the bunch. Basic straight relapse examination was completed to judge the effect of financial influence on shareholders' arrival also, market capitalization separately to discover the condition of impact of the influence. The study talked about the likely explanations of the discoveries opening the new roads of research. They proposed that brokers and obligation suppliers ought to help the business out by charging lower cost of obligation.

Choudhary (2011) distinguishes the determinants of association's financial performance (both capital market based and accounting based) in Indian setting. In his study the information of an example of 233 companies is utilized to assess the financial performance measured regarding shareholders' value, development and benefit utilizing an arrangement of free factors amid the period running from 1996 to 2008.

Bhattacharyya and Saxena (2009) broke down the assembling firms' information from the steel and Electrical and Electronics (EE) parts for the period from 2004-05 to 2006-07. The outcome demonstrated that the company's estimate influenced current gainfulness: decidedly in steel area and contrarily in the other. Bank credit was discovered adversely noteworthy in both the businesses. Market share of firms and industry focus proportion were the other noteworthy determinants of firms' performance. Firms' market value was found emphatically noteworthy for different businesses. This meant high market value of firms mirrored their goodwill, information stock and planned venture openings which emphatically affected the firms' performance. Strangely, the effect of size was influenced by firms' market value: firm size emphatically influenced gainfulness both in steel and EE.

A study by Prasetyantoko and Rachmadi (2008) recognized the elements deciding corporate performance of recorded companies in Indonesia particularly in the outcome of the 1997 financial emergency. The study presumes that a company's size was emphatically identified with firms Profitability, however it was identified with market capitalization. It inferred that the span of a firm mattered on the crucial value of the organizations in any case, it couldn't be an imperative assortment for market value of the organizations. By utilizing board information of 238 recorded companies in Jakarta

Stock Exchange (JSX) in the period 1994-2004 as the example the study set up the full scale components are more critical factors prompting firm performance than the firm-specific elements. Result likewise demonstrated that proprietorship firm mattered altogether on the a firm by exhibiting that firm with lion's share remote proprietorship enrolled a higher performance on firm measure viz., return on resource (ROA) and market capitalization development than locally possessed firms.

Singhania (2008) who concentrated on the different determinants value share prices in substance industry with reference to Indian stock Market amid the period 2000 to 2007 closed on the premise of connection relapse examination that acquiring per share, price income proportion, book value, profit yield were the factors which assumed a vital part in deciding share prices took after by profit cover and profit per share.

Chander and Aggarwal (2007) realized the determinants of development of chose 50 companies in medications and pharmaceutical industry for a period of ten years from 1995-96 to 2004-05. The development of firms was measured as far as development in normal aggregate resources and normal aggregate deals. With a specific end goal to contemplate the determinates of development, ten informative factors estimate, gainfulness (ROCE, RONW, OPR, NPR), age, promoting use, maintenance proportion, liquidity, productivity, proportions, long haul fund, market share and innovative work use were decided for experimental examination.

Different relapse investigation was utilized to build up a model to distinguish determinants of development of firms in the business. The outcome uncovered that size, promoting use, age, productivity proportion, benefit what's more, innovative work were factually noteworthy in deciding the development of firms.

Kakani et al. (2001) endeavored to consider the determinants of Indian company's financial performance over different measurements like shareholder value, accounting benefit and its parts, development and danger of test firms. The study utilized financial explanations and capital market information of 566 vast Indian firms over a time span of eight years isolated into two sub-periods (viz., 1992-96, and 1996-2000). It uncovered that even on similar information, the determinants of market based performance measures and accounting-based performance measures vary because of impact of Capital Market Conditions. It found that size, marketing use, and worldwide broadening had a positive connection with a company's market valuation. To the extent the determinants of shareholder value in Indian firms were concerned, the think about recognized age, influence, market use and universal expansion as

critical determinants of firm value contemplated crosswise over shareholder value measurement.

STUDIES FOCUSED ON FINANCIAL PERFORMANCE AND MARKET CAPITALIZATION

The investigation of Jaya and Sundar (2012) embraced a period arrangement approach in the examination and the quarterly information have been utilized for the period 2003 to 2011. The specimen Information Technology firms were browsed BSE500 Index. The aftereffects of the various relapse examination of the market capitalization demonstrates that 91 for each penny of the variety in the market capitalization for the study period has been clarified by the factors incorporated into the condition viz., Equity and Liquidity. The variable "value" has more impact on the expansion in the market capitalization than the variable liquidity. The aftereffects of the granger causality test set up that there is just a unidirectional relationship between value and market capitalization while there is a bidirectional relationship amongst liquidity and market capitalization.

Shobhana and Karpagavalli (2011) concentrate on the crucial factors affecting value prices of "A" Gathering and "B" Group shares of the keeping money companies recorded at BSE. Connection and different relapse investigation were utilized in the examination of information. The discoveries uncover that company particular elements, for example, market capitalization and profit yield have noteworthy impact on the value prices of "A" gathering shares and on account of gathering "B" shares book value per share developed noteworthy. The consider covers a period of ten financial years i.e. from 2000-2001 to 2009-2010.

Kenneth (2009) utilized different relapse examination to figure out which of a few critical variables yielded the best model for market capitalization. The variable included brand value, profit, price to deals proportion and forward price profit proportion. He established that brand value had the high relationship with the market capitalization and the brand value of little companies and had a more grounded association with the market capitalization than greater companies.

Kumar and Shah (2009) built up a structure to connection custom value (CE) (as dictated by the client lifetime value metric) to market capitalization (MC) (as controlled by the stock price of the firm). The consequently tried the structure in an exact field try different things with two Fortune five hundred firms in the business –to-business and business-to-buyer substance individually. The discoveries demonstrated that (1) a client value based system can dependably

anticipate the Market Capitalization of a firm and (2) market systems coordinated at expanding the Customer Equity not just builds stock price of the firm additionally beat market desires.

Maurice et al. (2009) analyzed the relationship between the liquidation values of a company's altered resources furthermore, the company's market capitalization. Book value had served as a sensible indicator of market capitalization in various accounting and financial studies and this study offered an option indicator which showed an upgraded relationship. The hugeness of this relationship was exhibited by making an examination between the book value of an association's settled resources and the company's market capitalization.

Matthew and Odularu (2009) concentrated on the effect of company shares on their performance utilizing one of the biggest confectionary companies in Nigeria. The study investigated the impact of the company's performances as far as turnover, benefit after expense and other such factors and the effect of these factors on the market capitalization. Utilizing customary minimum square expository strategy for 20 year information, the study discovered a positive relationship between the value of the company's shares on the performance of the company and its value as far as market capitalization likewise has been approved.

Prasetyantoko and Rachmadi (2008) broke down recorded companies in Jakarta stock trade for the period 1994-2004 under board information. The primary discoveries of the study were that size was position related to the association's benefit yet it was not identified with market capitalization. The outcome likewise demonstrated that the possession consider weighted intensely firm performance by demonstrating that organizations with prevalent outside staked much higher performance in both estimations to be specific Return on Asset (ROA) and Market Capitalization Growth than locally claimed firms.

Yasnim and Yusuf (2008) expressed that in spite of the fact that market capitalization was imperative as a financial improvement pointer, it remained generally less examined in speculation choice. The creator talked about what market capitalization does mean and highlighted the strategies that were being used in deciding market capitalization. It additionally showed how market capitalization (known as market top) was measured in the Dhaka Stock Exchange. A recipe is produced for figuring market top of a stock market under full market capitalization strategy. This paper demonstrated that the quantity of shares issued and price change were the two primary components in charge of changes in market capitalization. The significance in measuring file, taking crosscountry venture choice and its significance for institutional financial specialist had likewise been investigated in paper.

Ming-Chin et al. (2005) observationally explored the connection between the value creation proficiency and firms' market valuation and financial performance. The outcome bolstered the speculation that organizations' scholarly capital positively affected market value and financial performance, and may be an marker for future financial performance. Next to, the creator had recommended that speculator may put distinctive values on the three diverse part value creation effectiveness (physical capital, human capital, and structure capital). The study has demonstrated that R and D use may catch including data on auxiliary capital and positively affects company's value gainfulness.

Gopinath (2005) considered the example of share price vacillation and conduct of 10 companies based on market capitalization. The concentrate facilitate assessed the performance of accompany and share price development. The observational investigation uncovered that the performance of similar companies were recurrent and demonstrated a noteworthy relationship between share price and price profit proportion, market capitalization and turnover proportion book value and market return. The financial performance and share conduct are superbly connected.

Another explanatory study made by Poshakwale and Theobald (2004) isolated the companies into expansive top and little top on market capitalization. The study tried to dissect the lead/slack relationship between the two classifications of companies. They touched base at the finding that top records were found to lead the little top lists and the vast companies had a tendency to modify themselves more quickly towards its file values than the littler ones.

Reinganum (1999) set forward that market capitalization a standout amongst the most vital determinant of portfolios returns. Financial specialist could effectively deal with their market capitalization presentation would acknowledge huge rewards over financial specialist who either disregarded their presentation or were not able change it. The creator contended that present propensity to bind an administrator to a restricted capitalization range may be a misstep. Over a period, more noteworthy adaptability in moving market capitalization would upgrade returns. He was of view that oversees ought to be given more noteworthy adaptability to adjust the capitalization exposures, on the other hand financial specialist or their experts ought to progressively modify allotment to various capitalization classes. In either case, the creator fought that enhancing performance in short – run skylines would improve long - run performance.

Tobin's q proportion, expectedly utilized as a part of deciding market value, is essentially defective in that substitution cost based valuation of market is experiencing inclination in parts of accountant. In this

manner the present pattern is to stage market capitalization for deciding the value of the companies.

Chauvin and Hirschey (1993) looked to analyze the view of speculator on figuring the market value in light of promoting and R& D use emphatically impacted market value. The relationship between total profit installment and market capitalization was tended to by Leithner and Zimmermann (1993). The study took companies from four distinct nations like West Germany, France, the UK, and Switzerland. It finished up by applying incorporation investigation that the profit payout had a long run association with market capitalization for European firms aside from U.K firms.

LIMITATIONS OF RESEARCHES

On the basis on the review study, most of the researchers have focused only on financial performance of the firm. Some of the studies are based on profitability while some of the studies are done on other financial indicators like working capital, liquidity and other ratios, financial leverage etc. In India still there is huge scope to study the relationship and effects of financial performance on market capitalization and more studies can be done on model development on prediction of market capitalization on the basis of financial performance of various industries, since this research area is in still grey in India, whoever some models are developed on macro-economic factors and market capitalization.

FINDINGS AND CONCLUSION

The reviews relevant to financial performance and market capitalization have focused that some studies have established a positive relationship between value and market capitalization. While few analytical studies have highlighted the close connect between firm performance and market capitalization. That the firm size is closely linked to market capitalization has been unearthed by a striking of studies. The influence of variables like advertisement, research and development, dividend and intellectual capital on market capitalization has been conclusively proved by many researchers.

Customers equity based strategy could reliably predict the market capitalization. It is clear from the aforesaid pieces of literature relating to market capitalization and firm performance that the influence of various variables such as return on equity (ROE), P/E ratio, return on asset (ROA), profitability etc. over market capitalization has been undertaking independently. However, the overall impact of the individual variables over market capitalization is still an unexplored area warranting research. The present research seeks precisely to find the gap and to suggest for further studies have been done in India by developing a suitable model on financial performance and market

capitalization. Present study finds that literature pertaining measuring the linkage between market capitalization and firm's performance variable is very limited in India. Therefore, the researcher has consulted writings relating to corporate firm performance to spot out the variables can be incorporated into the study. There is absolutely no study conducted in the Indian context investigating the influence and difference performance variables on market capitalization. So there is a wide scope of further study on relationship between financial performance and market capitalization in Indian market.

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