

# ASSESS THE RELATION BETWEEN COMPANY PERFORMANCES AND STOCK MARKET LIQUIDITY: EVIDENCE FROM CEMENT INDUSTRY OF PAKISTAN.

Saad Awan, Irfan Habib

**Abstract**— the relationship among liquidity and performance of listed cement companies on the Karachi Stock Exchange examined in this article. In nations where the investment market is one of the principle wellsprings of funding units their trade, a considerable measure of research is in this field, the fast development of the capital market in Pakistan, the need of such research is vibrant. The current review with inspected information from 23 organizations of cement industry documented in Karachi Stock Exchange was chosen over the period 2007-2016, the connection between liquidity and business performance has been examined. This research strengthens the theory of agency and feedback between Liquidity of stock and performance measures, Correlation matrix has been used to attest the relationship among independent variables (ROA, MBV, and Tobin Q) and dependent variables (Company performance). The outcomes of examination demonstrate that between the performance measures and liquidity a solid relationship was watched. By looking at the three measures of performance (ROA, MBV and Tobin Q) symbols that Tobin Q list is ideal to utilization of market values, because that more appropriate for concentrate the connection among the organization's liquidity and performance of company.

**Index Terms** — Liquidity, performance, PSE, ROA, MBV, Tobin's Q, Agency theory, Feedback Theory.

## 1. INTRODUCTION

There are numerous hypothetical explanations behind expecting that liquidity specifically influences the execution the organization is found. Stock is securities that notwithstanding giving liquidity, voting and practicing likewise be checked. These paper arrangements will assume a noteworthy part in observing, assessment and execution. Hypothetical examination proposes that liquidity permit to little shareholders to end up plainly significant shareholders, pay rates and advantages enhance their administration, and mindful financial specialists to make educated urge them to bargain. Hence, a positive connection amongst liquidity and execution would not be outlandish [11]. As a definition, we can state that liquidity is speculators' capacity to make money related advantages for money at a similar cost in last exchanged [5]. Then again the organization's execution is result from return of venture exercises in a given period. Business units are results of agreements between people, for example, proprietors, administrators, clients, providers and representatives will be made. In light of the theory of agency, people try to expand their own advantages, yet these interests may not be adjusted. So the agreements between the proprietor and the director were vital and Investors are continually searching for approaches to adjust these premiums. From multiple points of view, for example, investigate identified with the administration of this organization with the rights and advantages gave. Along these lines the execution change of the business and in this way increment firm esteem will crest the interests of both the proprietor and chief [1]. As an examination and execution checking components of office issues amongst supervisors and

shareholders, to the issue of pay [7]. Their utilized seven of the administrative instrument (institutional financial specialists, inward partners (administration), real shareholders, board individuals, getting arrangements, Labor showcase for chiefs and corporate control action) in the model. They found that the execution criteria for administrative components (interior partners (administration) board individuals, arrangement of borrowings and working control of the organization) have a critical relationship.

Interestingly the agency theory, another philosophy has been proposed as a theory of input in such manner. In looks into, for example, [6] [1] demonstrated that even without an irreconcilable circumstance amongst proprietors and administrators, the Liquidity can be a positive impact on firm execution. With the goal that prompts an enhanced execution and expanded request from shareholders in capital market exchanges, the esteem organization will be taken after move forward. Research as possession fixation, proprietorship and liquidity levels, said liquidity expressed that frequently institutional financial specialists and nearby partners (administration) is related with the organization [7]. He revealed in research the positive connection between liquidity to institutional financial specialists and the negative connection amongst liquidity and critical ventures and associates analyzed the connection between steady nesses of the organization with various levels of proprietorship [9]. They found that between the Constancy (Stability) of institutional possession and firm execution is a positive relationship.

In this article utilizing three execution criteria (ROA, MBV and

Tobin Q record) signs that in past criteria as imperative of firm execution utilized to research the connection amongst company performance and stock liquidity in light of theory of agency and the theory of feedback investigated.

## 2. REVIEW STAGE

Connection amongst liquidity and execution in monetary sciences consideration from various methodologies. In past reviews, most specialists perspective of the agency of theory, assessment liquidity execution operation, for instance, [10] concentrated the cost increments brought on by speculators screen on the exercises, presumed that organizations with liquidity offers have administration more grounded [12] with investigation of compensation and advantages of administration and stock costs arrived at the conclusion that if pay rates and advantages of administration be reliant of stock cost, organization esteem expanded with fitting choice of chiefs. So information exchanged can be inferred that the connection amongst liquidity and Stock execution accomplished by augmenting the idea of irreconcilable situation amongst proprietors and chiefs with respect to organization hypothesis specifics. Wang researched the connection amongst liquidity and working execution and estimation of organizations with organizations in Taiwan and Japan is examined in an under a similar title. He for his objective utilized from profit for resources and profit for value criteria for organization operation, and came about the organizations that utilized forcefully in liquidity administration, the capacity to enhance operation execution and lead in increment the organization esteem. Be that as it may, the money related framework and auxiliary qualities of the two nations were not the same as each other. Then again, can be said hypothetically in view of the input that the liquidity is reflects of exercises (execution) of the organization's shares exchanged. Many research affirmed this subject [13], established that liquidity is a facilitator for stock exchange by outside shareholders (speculators). Additionally by utilizing the input hypothesis detailed positive connection amongst liquidity and execution. They found that organizations with better revelation execution are attempting to draw in institutional speculators. The working causes that real shareholders in incommodity from organization's execution effortlessly offer their stock.

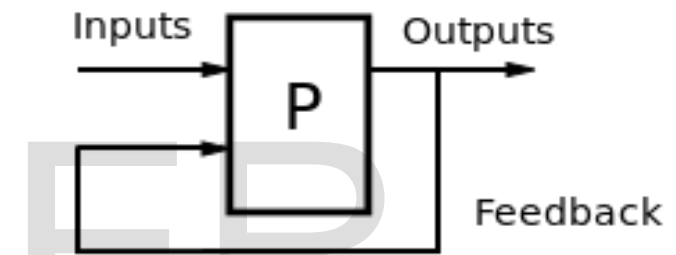
### 2.1 Theory of Agency:

The theory of agency today is hypothetical premise of book-keeping examination. This assumption come about because of the division of administration and possession interests in the cutting edge organizations considered, where the proprietors out of partake and not mediate in the organization's administration choices [20]. The fundamental preface of this hypothesis, is people act to expand their self-intrigue, the advantages that can at times strife with the amplify interests of shareholders and the organization. One of the presumptions of the theory of agency is that administration attempting to their riches through in any event offices distinctive expenses of the screen to the greatest. Obviously, this does not intend to state that the administration to the most extreme estimation of the

organization, yet the administration is attempting to boost their own particular prizes and this ought to be in type of increment the net benefit, quantifiable profit (execution) or other bookkeeping norms and such endeavors to make positive change in the cost of securities [16]. As such, administrators attempt to boost their benefit, organizations' execution to enhance, and this change from the educated financial specialists considers and to build the share exchanged.

### 2.2 Theory of Feedback:

The theory of feedback that depicts the position that yield of an occasion or wonder in the past will impact the event or events of a similar occasion. At the point when an occasion is a piece of a chain of circumstances and end results the shape is a circuit or circle. An input instrument is process or flag to the checking framework that back itself. Positive input cause the change from past occasions and, against negative criticism reason for debilitate past occasion. Input is uncovered that intellectual variables and the conduct; truth be told, we can said monetary use of this proposition to the field of behavioral fund.



**Figure 1. Feedback perfect model**

Feedback perfect model in Figure 1 is appeared. As can be seen, in this framework, notwithstanding the information, preparing and yield operations, there is an input procedure. Input process is intended to mirror the yield comes about. In this way, after that period of the operation preparing, the outcomes are broke down and after that a stage back [17]. At the end of the day, in the event that we know, the yield of the framework come about of organization execution, the educated speculators by increment or diminishing of their dealings, sending a positive and negative criticism to the organization. On this premise, and paying little heed to office hypothesis, we can presume that these organizations with a superior execution, drawing in an educated speculators and this element reason for making interest and expanded financial specialists' exchange [17].

### 2.3 Liquidity:

Liquidity is the capacity of an advantage or process purchasing or offering the property in less time and cost conceivable. In spite of the fact that this announcement appears to be enormously acknowledge and clear, yet in numerous liquidity and money related reports of an idea is called simple and slippery, which implies that the same effectively comprehended with regards to exchanging liquidity, its criteria and computation is perplexing. One of the principle elements of the capital market is to give liquidity. Indeed, the optional market notwithstanding gives liquidity, through value disclosure and

hazard exchange ability diminishes cost of capital. Fernandez from "Kinez" communicated, the liquidity are not supreme quantifiable criteria. In the money related writing some an opportunity to pass on idea, stead of the expression of liquidity from attractiveness term, or the capacity to purchase and offer utilized, on the grounds that the quantity of purchasers and potential merchants to be a greater amount of a benefit, that advantage liquidity is higher [7][11]. Liquidity has numerous criteria, that one of its not to have the capacity to criteria every one of the measurements [12]. Liquidity criteria can be separated into two gatherings:

A) Criteria in light of exchange: including exchanging volume, exchanging recurrence and exchange stock esteem.

B) Criteria on request based: including the proposed value contrast amongst free market activity, the distinctions of viable request and supply and market profundity.

#### 2.4 Company Performance:

Numerous choices depend on organizations' performance. Company performance is the elements that most loan bosses, speculators, supervisors and other monetary on-screen characters will be considered. At the point when execution criteria as opposed to crude numbers are measured as percent or more, the likelihood exists comes to execution, both expansive and little organizations in different enterprises over a timeframe, simpler to survey and analyze [4][8].

At the end of the day, the corporate performance is result of the exercises and rate of return in a given period. In the money related writing, distinctive criteria are utilized for measuring execution, for example, ROA, MBV, Tobin Q list, that each of these criteria there are points of interest and confinements. In this paper, three criteria for measuring the execution of Assets return, Market to Book Value and Tobin Q record utilized.

### 3. RESULT AND DISCUSSION

#### 3.1 Descriptive Statistics:

Distributional and focal parameters, in Table 1 are introduced. The distinction between the base and most extreme information is appeared of reasonable range for utilization of the factors. But of Variables institutional proprietorship, the rest of the factors are the base standard deviation that shows of the example information appropriate consistency is favored. Variable criteria the quantity of exchanges and estimation of exchanges will be no fractional, so their standard deviation is distinctive. In any case, the slimness proportion demonstrates that they are appropriate for information mix. Low space between of factors normal and center, showed that it's have typical dissemination, So that the standard mistake of the coefficient of skewness and kurtosis in the scope of - 2 to + 2 is affirmed.

#### 3.2 Correlation Matrix:

As appeared in table 2 can be seen, the connection coefficients between all information determined. The greater part of the free factors is exceedingly corresponded with the needy factors. It is detectable in Table 2 that review factors are exceptionally associated with each other. Investigation demonstrates that the main variable the gap amongst free market activity of the needy variable (execution) is not corresponded, as to profit for resource criteria not relevance, and to Q Tobin's has little connection as well,

coefficient related and the critical level of relationship (mistake of 1%) of different factors appeared to be dependable outcomes. The most noteworthy relationship between liquidity measures and execution criteria identified with the exchange esteem variable that the variable to return on resources and Q Tobin's 34 and 39% Correlated. Connection coefficients of the control factors (institutional proprietorship) with execution criteria and liquidity correspondence and propose that further research were in the writing. Relationship between's these factors in the hole amongst free market activity is not huge. Institutional possession has the most elevated relationship with the quantity of exchanges variable that mirror the nature and universally useful of the institutional speculators.

### 4 Acknowledgments

First of all, I bow before my creator, Almighty Allah, the most beneficent and the most merciful, whose benediction bestowed upon me talented teachers, provide me sufficient opportunity and blessed me with the urge to strive and reach even higher grounds by expending horizons continuously.

I am deeply graceful to my supervisor for his guidance, invaluable suggestions and continuous encouragement. Who has been and will remain a constant source of knowledge for me. I extent my deepest gratitude to Irfan Habib for his continuous support, kind comments and morale boosting attitude which made me to complete this land mark. I am highly indebted to my beloved family my father, mother, sisters and brother.

Last but not least, I am grateful to this university for providing me with an environment which has heled me learn and groom and I will always be a proud member of this scholarly family.

### 5 Conclusions

This review looked to assess the connection between organization's execution criteria and their stock liquidity. In view of the two hypotheses of organization and criticism expressed that better execution will prompt higher liquidity. The better execution of in view of organization hypothesis, due arrangement which utilized for line up possesses and oversees benefits. Then again, in view of input hypothesis without office issues, better execution cause creation request from educated speculators and expanded stock liquidity, that this element as positive criticism that will influence execution once more.

In this review, the connection between two execution criteria including return on resources and Q Tobin list, and liquidity as two theories was tried. Keeping in mind the end goal to 770 perception of organization year were dissected. Preparatory, aftereffects of the expressive insights and connection shows a solid connection between the factors. Utilizing different direct relapses, two theories were tried. After a test affirmed the speculation was found, there was a huge connection between firm execution and liquidity.

Along these lines the exploration writing and existing examinations, for example, Fang et al, or Wang investigate, and other research refered to prior on this string this review, this review demonstrated that in the Iran capital market in light of office hypothesis and critic (Dalvi, Reza,

& Baghi, 2014) ism, there are immediate and huge connection between the execution of recorded organizations on the Tehran Stock Exchange and liquidity.

At long last, by look at and investigation of two criteria of profit for resources and Q Tobin's file appeared, while the two execution criteria are comparable, however Q Tobin's record is better for execution measure in these reviews. The benefit of utilizing the market esteem (current) was in the estimation of coefficient. Appear the consequences of the exercises and the organization speculations returns ought to be looked for the present esteem. Along these lines, for future research is proposed for estimation of execution utilize, for example, list.

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