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Corporate Performance and Balance Sheet Indicators: Evidence from Indian Manufacturing Companies

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Abstract : This study highlights the significance of Balance Sheet Indicators on the corporate performance in the case of Indian manufacturing companies. Balance sheet indicators show the actual financial health of the company and it helps to the external investors to choose the right company for their investment and it also help to external financing agency to give easy finance to the manufacturing companies. The period of study is 2000 to 2014 for 813 manufacturing companies for which the continuous data is available throughout the study period. The data is collected from PROWESS data base maintained by Centre for Monitoring Indian Economy Pvt. Ltd. Panel data methods like fixed effect and random effect methods are used for the analysis. The Likelihood Ratio test, Lagrange Multiplier test and Hausman test results proof the suitability of the fixed effect model for the estimation. Return on assets (ROA) is used as the proxy to measure corporate performance. ROA is the best proxy to measure corporate performance as it already used by the most of the authors who worked on the corporate performance. ROA shows return on long term investment projects of firms. Different ratios like Current Ratio, Debt-equity ratio, Receivable turnover ratio, solvency ratio have been used as the proxies for the Balance Sheet Indicators. Other firm specific variable like firm size, and sales as the control variables in the model. From the empirical analysis, it was found that all selected financial ratios have significant and positive impact on the corporate performance. Firm sales and firm size also found significant and positive impact on the corporate performance. To check the robustness of results, the sample was divided on the basis of different ratio like firm having high debt equity ratio and low debt equity ratio, firms having high current ratio and low current ratio, firms having high receivable turnover and low receivable ratio and solvency ratio in the form of firms having high solving ratio and low solvency ratio. We find that the results are robust to all types of companies having different form of selected balance sheet indicators ratio. The results for other variables are also in the same line as for the whole sample. These findings confirm that Balance sheet indicators play as significant role on the corporate performance in India. The findings of this study have the implications for the corporate managers to focus different ratio to maintain the minimum expected level of performance. Apart from that, they should also maintain adequate sales and total assets to improve corporate performance.

Keywords : balance sheet, corporate performance, current ratio, panel data method
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