



The Journal of **ARSYM**

A Publication of Students' Research of the
Annual Research Symposium in Management

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The Journal of ARSYM

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The Journal of ARSYM (JARSYM) is a refereed journal published bi-annually by the Faculty of Business Studies & Finance, Wayamba University of Sri Lanka. The aim of the JARSYM is to disseminate high-quality research findings on a variety of timely topics generated by the undergraduate and postgraduate researchers in the Wayamba University of Sri Lanka. Furthermore, it opens up avenues for the undergraduates involved in the industry to share their inventions, state-of-the-art discoveries and novel ideas. The main philosophy behind the JARSYM is to enhance the research culture within the faculty, thereby within the Wayamba University. All research articles submitted are double blind reviewed prior to publishing. Views expressed in the research articles are not the views of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka or the Editorial Board.

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The Journal of ARSYM (JARSYM) is a refereed bi-annual journal committed to publish undergraduate research papers of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka. The JARSYM publishes theoretical and empirical papers spanning all the major research fields in business studies and finance. The aim of the JARSYM is to facilitate and encourage undergraduates by providing a platform to impart and share knowledge in the form of high quality and unique research papers.

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Table of Contents

IMPACT OF MOBILE BANKING SERVICE QUALITY OF COMMERCIAL BANKS ON CUSTOMER SATISFACTION (WITH SPECIAL REFERENCE TO GAMPAHA DISTRICT, SRI LANKA)	3
<i>Jayamali, M.A.C., Gunaratna, A.G.D.L.K.</i>	
FINANCIAL WELL-BEING OF MARINE FISHERMEN: A STUDY IN MAHAWEWA FISHING ZONAL	16
<i>Fernando, W.M.S., Kuruppuarachchi, Y.D.R.</i>	
THE IMPACT OF HUMAN RESOURCE ACCOUNTING ON THE FIRM PERFORMANCE; EVIDENCE FROM LISTED COMPANIES IN SRI LANKA	28
<i>Herath, H.M.D.K.K., Priyadarshani, W.A.N.</i>	
DETERMINANTS OF CUSTOMERS' ATTITUDES TOWARDS CREDIT CARD USAGE: SPECIAL REFERENCE TO MIDDLE LEVEL EMPLOYEES IN SRI LANKA	40
<i>Prabuddhima, H.A.N., Tharanga, B.B.</i>	
EFFECTS OF OWNERSHIP CONCENTRATION ON CORPORATE PERFORMANCE: SRI LANKAN EVIDENCE.....	54
<i>Tennakoon, T.M.S.B., Karunananda, U.G.A.C.</i>	
INVESTIGATING THE IMPACT OF BRAND EQUITY ON PURCHASING DECISIONS OF LAPTOP COMPUTERS AMONG UNDERGRADUATES OF STATE UNIVERSITIES IN SRI LANKA	69
<i>Perera, K.A.W.S., Amarathunga, P.A.B.H.</i>	
FACTORS AFFECTING THE ONLINE PURCHASING INTENTION OF MOBILE PHONE ACCESSORIES OF MILLENNIALS IN KURUNEGALA DISTRICT	83
<i>Nandasena, D.H.M.H.M., Dissanayake, D.M.T.D.</i>	
THE IMPACT OF FINANCIAL PERFORMANCE AND CONDITION ON THE SHARE PRICE: EVIDENCE FROM FOOD, BEVERAGE & TOBACCO COMPANIES LISTED IN SRI LANKA	97
<i>Dissanayake, D.M.S.N.B., Wanigasekara, W.A.D.K.J.</i>	
IMPACT ON INTERNAL CORPORATE GOVERNANCE ATTRIBUTES ON FIRM'S VALUE RELEVANCE.....	113
<i>Charuni Jayathilaka, Emil Uduwalage, Oshani Mendis</i>	

**THE IMPACT OF GLASS CEILING ON EMPLOYEE PERFORMANCE OF
DIVISIONAL SECRETARIAT WOMEN EMPLOYEES IN KURUNEGALA
DISTRICT130**

Kusumsiri, H.W.U.L., Wijethunga, W.M.N.M.

**IMPACT OF ENVIRONMENTAL MANAGEMENT ACCOUNTING (EMA)
PRACTICES ON FINANCIAL PERFORMANCE OF DOMESTIC LICENSED
COMMERCIAL BANKS IN SRI LANKA147**

Erandi, J.A.D.A., Jayasinghe, J.A.G.P.

**THE IMPACT OF PERCEIVED ORGANIZATIONAL SUPPORT ON WOMEN
CAREER DEVELOPMENT WITH REFERENCE TO DIVISIONAL
SECRETARIATS IN KANDY DISTRICT164**

Kumari, P.B.N.D., Wijethunga, W.M.N.M.

**IMPACT OF MICROFINANCE ON FINANCIAL PERFORMANCE SMES:
WITH SPECIAL REFERENCE TO KURUNEGALA DISTRICT IN SRI LANKA
.....181**

Sewwandhi, G.D.C.K., Kuruppuarachchi, Y.D.R.

The impact of financial performance and condition on the share price: Evidence from Food, Beverage & Tobacco companies listed in Sri Lanka

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ABSTRACT

To make accurate investment decisions, investors need more relevant information. The share price is one of the major indicators that every investor looks in. It can find out many studies performed to examine the factors as well as some approaches to analyze the behavior of share prices. Fundamental analysis is one approach that is developed with the assumption that the financial performance of the company can be used to measure the value of a stock. Therefore, this study has been carried out with the purpose to determine the impact of financial performance and condition on the share price. The financial performance and condition of a company are expressed in the form of ratios including profitability, activity, liquidity, and leverage. The sample was selected using the simple random sampling technique and this study comprises 15 Food, Beverage, and Tobacco companies listed in the Colombo Stock Exchange throughout 2015/16 to 2019/20. The independent variables are return on equity, return on assets, total assets turnover, inventory turnover, current ratio, quick ratio, debt ratio, debt-equity ratio where the dependent variable is share price. Furthermore, data has been analyzed using descriptive analysis, correlation analysis, and regression analysis. Both profitability ratios and activity ratios significantly correlated with the share price at a 0.99 level of confidence indicating that there is a significant relationship between financial performance and share price. At 0.05 level of significance, the results showed that only activity ratios significantly affect the share price. Since the model explains 52.7% variations in share price, investors can rely on this financial performance and condition indicators when making their investment decisions on the Food, Beverage, and Tobacco sector of the Colombo Stock Exchange.

Keywords: Activity Ratios, Leverage Ratios, Liquidity Ratios, Profitability Ratios, Share Price

1. INTRODUCTION

Shares are the units of equity where publicly traded companies used to finance themselves. The initial share price that is determined through the Initial Public Offering (IPO) by a book-runner has fluctuated and this can be notified by observing the performance of share prices at the end of the trading day. Further investors favor clarifying the reasons for these price fluctuations as they seek to obtain a higher rate of return for their stock investments. But there is no perfect formula or system to detect the movements of stock prices. Therefore, this creates a necessity to examine the factors that affect the share price. There

are many empirical studies conducted to identify the factors affecting the share price. Subing et al. (2017) categorized these factors broadly into external and internal. External factors are macro-economic factors such as inflation, interest rates, economic growth, government rules, market conditions, technological factors, environmental circumstances, and these factors are abbreviated as PESTLE. Internal factors include the performance of the company, change in the board of directors, dividends, creation of new assets, the appointment of new management, etc. Many empirical studies proved that the price of share rise with better company performance and decreases when the company is unable to achieve their expectations. Financial performance is a general measure of a firm's overall financial health over a specified period where the financial condition is in the sensing ability of an organization to timely meet its financial obligations. Financial ratios are the simple and oldest that indicate firm performance and condition (Puspitaningtyas, 2017).

When making decisions on investing in the stock market, the price of shares is crucial because investors' decisions change due to the changes in share price. For initial stock analysis, it can be used either fundamental analysis or technical analysis. The firm's financial performance and condition are indicated through four major ratios including, profitability, activity, liquidity, and leverage ratios (Pandey, 2015) and this material information disclose through the publication of annual reports. Although it could found many studies conducted in other countries they did not consider all the four types of ratios and most of them focused on Return on Assets (ROA), Earnings per Share (EPS), dividend payout ratio, Price Earning (PE), Return on Equity (ROE), dividend policy concerning many sectors like banking (Bansal, 2014), service firms (Ferrer & Tang, 2016) and pharmaceutical companies (Asmirantho & Somantri, 2017). As well as in Sri Lankan context is tested factors effect on share price by considering some ratios on some sectors for examples EPS, net assets per share, ROE, and PE ratio on the share price of manufacturing companies (Vijitha & Nimalathanan, 2014), effect of debt-equity ratio on the performance of share price of food, beverage & tobacco companies (Subramaniam & Anandasayanan, 2018). With the identification of these contextual and methodological gaps, the researcher will address the problem of the effect of financial performance and condition on share price concerning the selected food, beverage, and tobacco companies listed in the Colombo Stock Exchange (CSE).

The general objective of the study is to examine whether there is a significant impact of financial performance and condition on the share price of the companies which is listed in CSE under the Food, Beverage & Tobacco sector. Further, the specific objectives of the study are presented below;

1. To identify whether there is an impact of profitability ratios on the share price of the listed Food, Beverage & Tobacco companies.
2. To explore whether there is an impact of activity ratios on the share price of the listed Food, Beverage & Tobacco companies.
3. To recognize whether there is an impact of liquidity ratios on the share price of the listed Food, Beverage & Tobacco companies.

4. To identify whether there is an impact of leverage ratios on the share price of the listed Food, Beverage & Tobacco companies.

The main research question of the study is, what is the impact of financial performance and condition on the share price of Food, Beverage & Tobacco companies in Sri Lanka? Following are the other research questions, which are addressed by the study;

1. Is there any impact of profitability ratios on share prices of listed Food, Beverage & Tobacco companies?
2. What is the impact of activity ratios on share prices of listed Food, Beverage & Tobacco companies?
3. Is there any impact of liquidity ratios on share prices of listed Food, Beverage & Tobacco companies?
4. What is the impact of leverage ratios on share prices of listed Food, Beverage & Tobacco companies?

2. LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Signaling Theory

Ross in 1977 redeveloped this theory to explain voluntary disclosures made in corporate reporting. The main way that organizations used to release their information is an annual report and this is a signal especially for the investors and they rely on this information like firms' financial position, share price to find out better companies to make their investments. Investors need relevant and reliable information as an analytical tool in making investment decisions. If published reports contain positive details, then the trend of the market will affect positively.

2.1.2 Agency Theory

Stephen Ross & Barry Mitnick introduced this theory in 1973 which stated that management of a firm who considered as agents of the investors are required to act in the best interest of the investors who are treated as principals. Therefore, management should make efforts, as well as shareholders, should promote management to improve the company's financial performance and condition which can be presented in financial ratios.

2.1.3 Efficient Market Hypotheses

This theory was declared by Eugene Fama in 1970 and he stated efficient capital market as a market in which price always fully reflects available information and competition will cause the full effects of new information on intrinsic values to be reflected instantaneously in actual prices. Market efficiency is defined at three levels,

Weak form: This asserts that the price of financial assets reflects all information contained in the past price and technical analysis is the most relevant method.

Semi strong form: Stock prices reflect all publicly available information; fundamental analysis is the most relevant method.

Strong form: Stock prices reflect in addition to information on past prices and publicly available information, inside information.

Some researchers found that CSE no in the form of weak (Fernando & Gunasekara, 2018).

2.2 Empirical Review in the International Context

Al Qaisi *et al.* (2016) did an examination to find out what were the factors that affect for stock prices of listed insurance companies in the Amman stock exchange. They used ROA, ROE, debt ratio, company's size, and company's age on insurance companies' stock price. The results proved that other than ROE all other four independent variables affected the share price.

Ferrer and Tang (2016) did an investigation to study the impact of financial ratios and business combinations on stock prices of the service firms in the Philippines. The study covered mergers and acquisitions, liquidity, activity, profitability, and market performance ratios. . The results of the study indicated that ROA, asset turnover, PER, and dividend payout ratio made a significant impact on the share price. As well as the results proved that business combinations did not have a significant impact on the share price. That means strategies developed for mergers and acquisitions can be used for any other purpose other than improving the stock prices of the companies.

The study which was aimed at finding the effect of financial ratios on price to book value has done by Lebo and Tasik (2017). As independent variables, they had used ROA, CR, and debt to asset ratio on share price to book value. Although the study found a positive relationship among independent and dependent variables, ROA showed a significant impact on the price to book value and the other two variables were not make any significant effect on the price to book value.

Ahsan (2020) did an investigation to study the influence of corporate internal and external factors on BUMN share price. This study was carried out during the period of Covid and it showed a huge negative impact on the economy. This study focused on the sectors of steel and cement, construction, mining and food, and health. During the pandemic period, the stock prices of all the selected sectors showed rapid decline whereas the construction sector showed a 128% of declined which was recorded as the highest impact. The conclusions were made using the results generated by SPSS and it showed foreign exchange rates, economic growth, and Covid made a huge external impact while ROA and debt to equity made a significant internal impact on the share price.

2.3 Empirical Review in the Local Context

Menike and Prabath (2014) conducted a study to investigate the impact of EPS, DPS, and BVPS on stock prices. For that, they chose a sample of 100 companies listed in CSE. The study concludes that there was a positive impact of these ratios on stock prices. Hence this study stated that DPS and BVPS showed a significant impact while EPS showed a less impact, therefore they recommended investors to use DPS as the first variable to be considered in the process of decision making.

A study was conducted by Sarifudeen (2016) to test the effect of DPS, EPS, and NAVPS on the share price of the sample of 65 companies listed in the CSE. The results of this study proved that independent variables have a significant impact on the stock price. As well as this study suggested that firms to disclose relevant accounting information without any misstatements since those financial information affects the investor's decision-making.

The aim of the investigation which was conducted by Dissanayake and Biyiri (2017) to examine the impact of internal factors such as EPS, DPS, and ROE on share price, concerning the hotel industry in CSE. The results of the study proved that there was a significant positive relationship among all three independent variables and the share price. With those findings, they can accept all the hypotheses. Therefore, this study recommended that investors focus on those factors when making investment decisions.

3. METHODOLOGY

3.1 Conceptual Framework

With the help of reviewing existing studies and theories, the following model was developed to carry out the research. This study only considers financial performance and condition which is depicted through financial ratios.

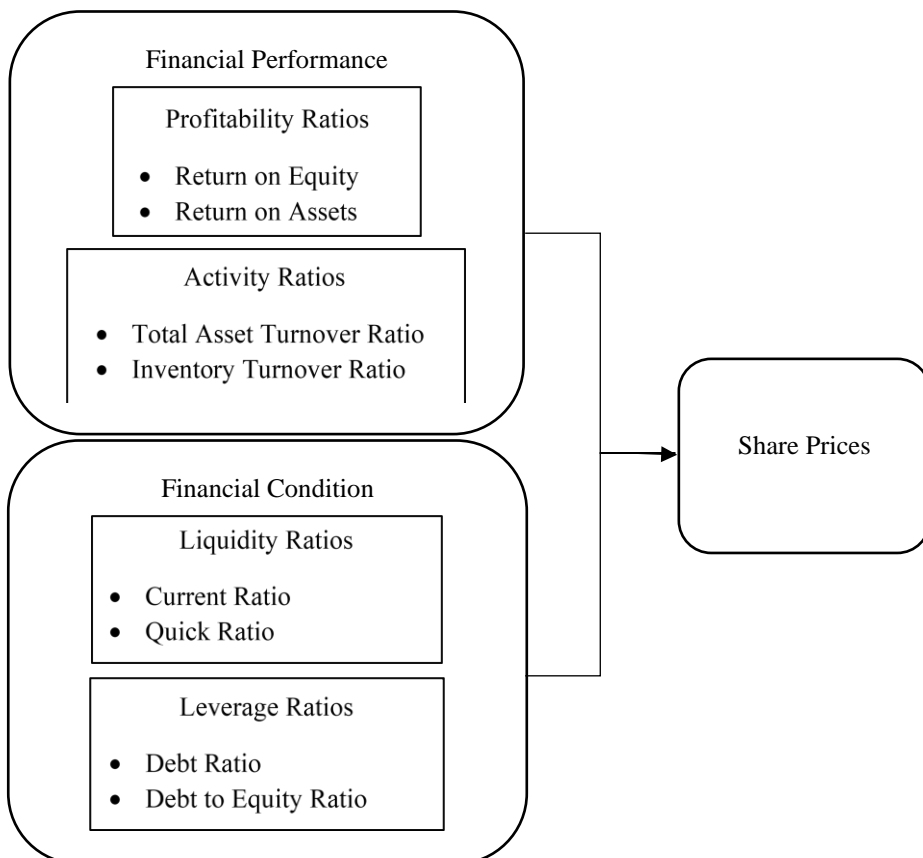


Figure 1: Conceptual Framework

Source: Compiled by Authors, 2021

3.2 Population and Sample

The Population comprises 21 listed companies in the Food Beverage & Tobacco sector of CSE as of 21 May 2021 and researchers consider this sector since it is one of the major sectors in the Sri Lankan economy and also to fill identified gaps. Then researchers selected 15 companies as a sample, using a simple random sampling technique. Data was collected for the recent 5 years from 2015/16 to 2019/20. The study focuses on secondary data collected through the published annual reports of the sample while share price data is obtained through the Colombo Stock Exchange data library.

3.3 Hypotheses

This study was performed to test the validity of the following hypotheses,

H₁: Return on equity has a significant impact on the share price of listed Food, Beverage & Tobacco companies.

H₂: Return on assets has a significant impact on the share price of listed Food, Beverage & Tobacco companies.

H₃: Total assets turnover ratio has a significant impact on the share price of listed Food, Beverage & Tobacco companies

H₄: Inventory turnover ratio has a significant impact on the share price of listed Food, Beverage & Tobacco companies.

H₅: Current ratio has a significant impact on the share price of listed Food, Beverage & Tobacco companies.

H₆: Quick ratio has a significant impact on the share price of listed Food, Beverage & Tobacco companies.

H₇: Debt ratio has a significant impact on the share price of listed Food, Beverage & Tobacco companies.

H₈: Debt to equity ratio has a significant impact on the share price of listed Food, Beverage & Tobacco companies.

H₉: Financial performance has a significant impact on the share price of listed Food, Beverage & Tobacco companies.

H₁₀: Financial condition has a significant impact on the share price of listed Food, Beverage & Tobacco companies.

3.4 Model of the Study

This study employed descriptive statistics, correlation analysis, and multiple regression to analyze the data. To test the hypotheses the following multiple linear regression model is developed.

$$SP = \beta_0 + \beta_1 ROE_{it} + \beta_2 ROA_{it} + \beta_3 TAT_{it} + \beta_4 IT_{it} + \beta_5 CR_{it} + \beta_6 QR_{it} + \beta_7 DR_{it} + \beta_8 DER_{it} + \varepsilon_{it}$$

Where,

SP = Share Price

ROE = Return on Equity

ROA = Return on Assets

TAT = Total Asset Turnover Ratio
 IT = Inventory Turnover Ratio
 CR = Current Ratio
 QR = Quick Ratio
 DR = Debt Ratio
 DER = Debt to Equity Ratio
 ε = Error Term
 it = Companies, years

4. RESULTS AND DISCUSSION

4.1 Descriptive statistics

Table 1: Descriptive statistics

	Minimum	Maximum	Mean	Median	Mode	Std.Dev
MPS	0.000	2799.900	433.292	124.800	1.900	664.435
ROE	-6.081	3.7334	0.314	0.120	-6.081	1.177
ROA	-0.343	0.717	0.125	0.087	-0.016	0.165
TAT	0.393	6.084	1.766	1.463	0.393	1.371
IT	2.542	23.832	8.317	7.369	2.542	4.311
CR	0.510	8.620	2.289	1.550	0.630	1.758
QR	0.180	7.297	1.686	1.005	1.860	1.630
DR	0.000	0.987	0.199	0.085	0.000	0.250
DER	-12.959	14.293	0.343	0.091	0.000	2.308

Source: Compiled by Authors, 2021

Descriptive statistics describe the basic features of the data set and the results showed 75 amounts of data that consists of a cross-section of 15 Food, Beverage & Tobacco companies and a time series of 5 years. The share price stood on average of 433.292 which highly fluctuated from a minimum of 0 to a maximum of 2799.900. ROE fluctuated around an average of 0.314 during the sample period and the standard deviation of ROE showed as 1.177 illustrated that ROE could be dispersed by -1.177 or + 1.177 from its mean value of 0.314. ROA fluctuated around a mean of 0.125 which could be deviated by its standard deviation of - 0.165 or + 0.165. The TAT stood an average of 1.766 which fluctuated from a minimum of 0.393 and a maximum of 6.084. The minimum IT for the sample showed as 2.542 by Ceylon Tobacco Company PLC whereas a maximum showed as 23.832 by Three Acre Farms PLC. CR stood at an average of 2.289 and the dispersion around the mean was 1.758 which indicated share price could deviate by -1.758 and + 1.758. The QR for the sample fluctuated around a mean of 1.686 where the standard deviation for the QR was 1.630. The range for the DR was 0.987 which could be obtained by taking the difference between the maximum of 0.987 and the minimum was 0. The minimum value for the DER was - 12.959 where the maximum value was 14.293 and the average value stood at 0.343.

4.2 Testing for normality

To decide what statistics to be used for analyzing the collected data initially the normality of the data set was tested. To test the normality of the sample data, Skewness and Kurtosis were used and Z values for both were calculated.

Moreover, Kolmogorov-Simonov, Shapiro-Wilk tests and histogram were used. All the results showed that the data set is not normally distributed and contains outliers.

Table 2: Test of Normality

	MPS	ROE	ROA	TAT	IT	CR	QR	DR	DER
Skewness	1.900	-0.980	1.596	1.613	1.622	1.354	1.629	1.480	0.447
Z value	6.859	-3.538	5.762	5.823	5.856	4.888	5.881	5.343	1.614
Kurtosis	3.073	13.593	4.620	2.009	3.250	1.499	1.954	1.577	32.634
Z value	5.608	24.805	8.431	3.666	5.931	2.735	3.566	2.878	59.551
Kolmogorov-Smirnov	0.300	0.355	0.194	0.210	0.125	0.179	0.244	0.223	0.428
Probability	0.000	0.000	0.000	0.000	0.005	0.000	0.000	0.000	0.000
Shapiro-Wilk	0.691	0.547	0.795	0.804	0.860	0.845	0.777	0.785	0.344
Probability	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Observations	75	75	75	75	75	75	75	75	75

Source: Compiled by Authors, 2021

Since all calculated Z values were not in the range of +1.96 to -1.96 except for the Z value for DER, these showed that data were not normally distributed. And also, skewness should be closer to zero but in this study, it is not met. Furthermore, kurtosis should be closer to 3 to consider that the data set is normally distributed. As well as to consider that data are normally distributed, for both Kolmogorov-Smirnov test and Shapiro-Wilk test's P value should be greater than 0.05 ($P > 0.05$). But according to the results, all P values were zero. And also, according to the graph generated for the overall model which is shown in below figure 2, it can see there are more outliers in this study since it exceeds the range +3.29 where standardized residuals should not exceed. By these all requirements, the researcher can conclude that variables are not normally distributed.

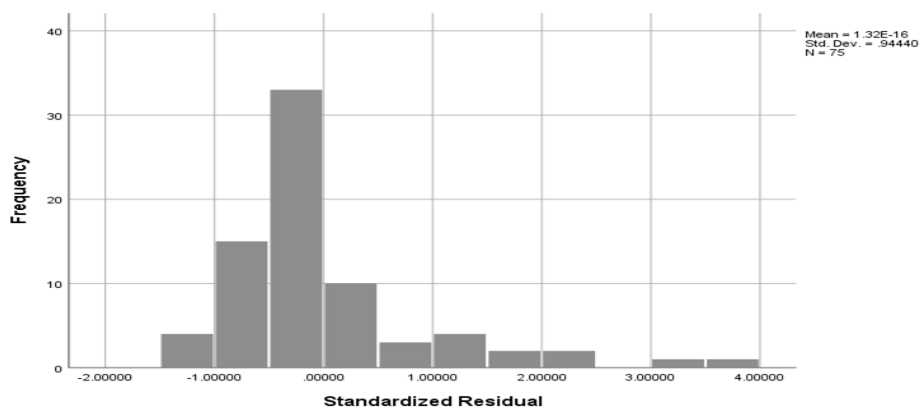


Figure 2: Normality test for the overall model

Source: Output SPSS 26

Then researchers converted the overall model into a logarithm due to the non-normality of the data set and converted the model as follows.

$$\text{Log}(SP_{it}) = \beta_0 + \beta_1 \text{Log}(ROE_{it}) + \beta_2 \text{Log}(ROA_{it}) + \beta_3 \text{Log}(CR_{it}) + \beta_4 \text{Log}(QR_{it}) + \beta_5 \text{Log}(TAT_{it}) + \beta_6 \text{Log}(IT_{it}) + \beta_7 \text{Log}(DR_{it}) + \beta_8 \text{Log}(DER_{it}) + \varepsilon_{it}$$

The normality for the converted model was tested and it showed that the data has been normally distributed after converting the model into log values.

**Table 3: Test of normality
 Standardized Residuals**

Skewness	0.226
Z value	0.66470
Kurtosis	-0.393
Z value	-0.5883
Kolmogorov-Smirnov	0.072
Probability	0.2
Shapiro-Wilk	0.987
Probability	0.860

Source: Compiled by Authors, 2021

By the results, it shows that the skewness is 0.226 which is closer to zero and the Z value for skewness is 0.66470 which is in the range of +1.96 to -1.96. The Kolmogorov –Smirnov test shows a probability of 0.2 which is greater than the required probability value of 0.05. Furthermore, the Shapiro-Wilk test shows a significance of 0.860 also greater than 0.05.

As well as researcher used a histogram which is shown in the following figure 3, to show the graphical picture of the distribution pattern of the overall model. And the graph clearly showed that the model has a normal distribution, since standardized residual within the range of -3.29 to +3.29, with less number of outliers.

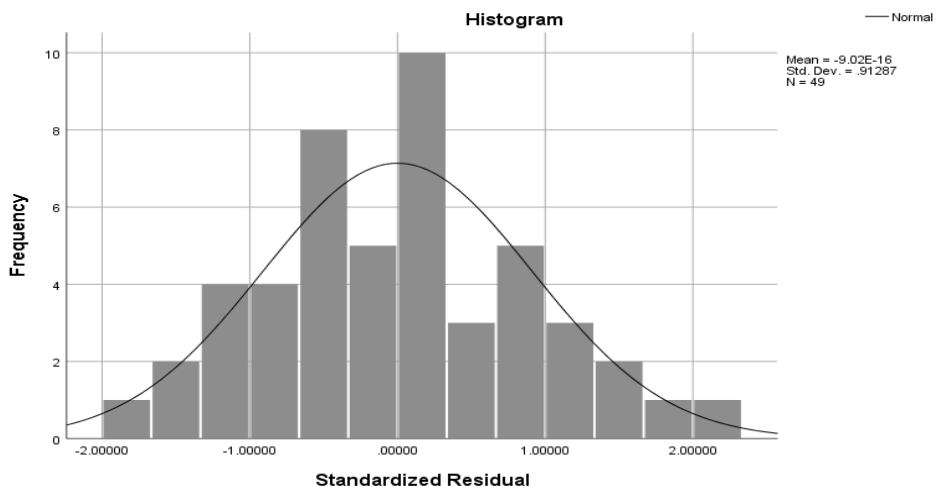


Figure 3: Normality test for the overall model (after converting in to log values)

4.3 Correlation Analysis

Correlation analysis examines the strength of the relationship between two variables. According to Care *et al.* (2018), they interpreted the type of relationship between the dependent and independent variable using the value of correlation coefficient as, if the correlation coefficient lies between 0.00 to 0.199, they interpreted the relationship as very weak, where the value of correlation coefficient in between 0.2 to 0.399 it is a weak relationship. They

said there is a moderate relationship if the value of the correlation coefficient is in the range of 0.4 to 0.599. If the value of the correlation coefficient is between 0.6 to 0.799 there is a strong relationship and if the coefficient's value is between 0.8 to 1.00 there is a very strong relationship between dependent and independent variables.

Table 4: Correlation analysis

Variable	MPS	ROE	ROA	TAT	IT	CR	QR	DR	DER
MPS	1								
ROE	0.482**	1							
ROA	0.387**	0.888**	1						
TAT	0.600**	0.749**	0.641**	1					
IT	0.326**	-0.029	0.098	0.076	1				
CR	-0.188	-0.392**	-0.105	-0.400**	0.264*	1			
QR	-0.169	-0.270*	0.003	-0.345**	0.279*	0.962**	1		
DR	-0.086	0.282	0.036	0.101	-0.112	-0.708**	-0.583**	1	
DER	-0.095	0.300**	0.026	0.124	-0.112	-0.681**	-0.550**	0.891**	1

** Correlation significant at the 0.01 level

* Correlation significant at the 0.05 level

The above 4 table shows the results of Pearson's correlation for the converted data. Results showed that both ROE and TAT presented a positive, moderate relationship with share price, and the two variables significantly correlated with the share price at a 1% significant level. The CR, QR, DR, and DER showed a very weak and negative relationship with the share price while IT and ROA showed a weak positive relationship with share price, and both variables significantly correlated with the share price at a 1% significant level.

4.4 Regression Analysis

Before running the regression analysis, four basic assumptions have tested using the converted model.

- 1) Residuals are normally distributed.

The normality of data and the results shown in table 2 and figure 3 proved that data has been normally distributed after the conversion of the model.

- 2) Absence of multicollinearity.

It is tested using Correlation and according to Wulandari (2020) if independent variables are correlating 0.85 ($r > 0.85$) that is treated as multicollinearity between two independent variables. According to the above table 4, it can be found that there is a very strong and positive linear relationship among the variables ROA-ROE, QR-CR, and DER-DR where r values showed as 0.888, 0.962, and 0.891 respectively. The main reason for that is denominators of those independent variables' formulas are the same. That means both ROA and ROE used profit after tax, where QR and CR used current liabilities and DR and DER used company debt and equity figures. Except those the researcher can conclude that variables are agreed

with the assumption of absence of multicollinearity to run the regression analysis.

3) Absence of autocorrelation.

This measures the relationship between a variable's present value and its past values. The concept of autocorrelation is highly used in time series data. Here it used the Durbin Watson test and it produces statistics that range between 0 to 4 and values which are in the middle range or closer to 2, indicate that less correlation where values closer to 0 or closer to 4 indicate positive (Durbin Watson value < 2) or negative (Durbin Watson value > 2) autocorrelation respectively(www.investopedia.com).

Table 5: Test of autocorrelation

Model Summary	Durbin-Watson
1	1.231

Source: Compiled by Authors, 2021

Durbin Watson value is placed in the middle range but it is not much closer to the 2. Therefore, researcher can conclude that there is less autocorrelation in this model but it does not have much effect on the model since the researcher does not consider purely time series data. Therefore, it can conclude that there is no effect for the regression analysis from the autocorrelation.

4) Absence of heteroskedasticity.

The scatterplot graph was derived using the predictive value of the independent variable (ZPRED) with the residue (SRESID). If it shows a particular pattern in the graph, it can be concluded that there is the problem of heteroskedasticity (www.statisticsbyjim.com). The below figure 4 does not contain any regular pattern therefore it can be concluded that this model does not contain the problem of heteroskedasticity.

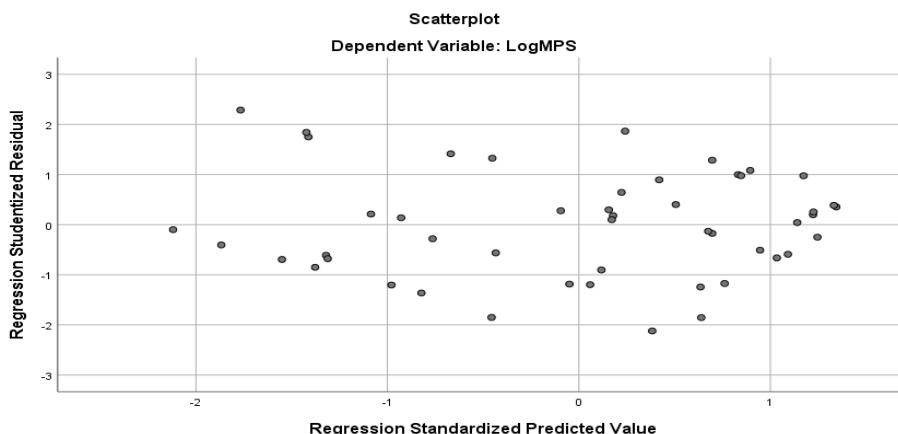


Figure 4: Test of heteroskedasticity

Source: Output SPSS 26

The study met all four assumptions of regression, and the model summary and regression results are shown in Table 6 and Table 7 respectively.

Table 6: Model summary of regression

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	Significance
1	0.726	0.527	0.432	0.75849	0.000

Source: Compiled by Authors, 2021

R shows the multiple correlation coefficient which is a linear correlation between the observed and model-predicted values of the dependent variable. Since the value is 0.726 it indicates a strong relationship. The R Squared statistics, which is 0.527 with a statistical significance of $P < 0.05$. This suggests that 52.7% of the variants in the share prices of Food, Beverage & Tobacco companies was predicted from the independent variables (ROE, ROA, TAT, IT, CR, QR, DR, DER) and the rest of 47.3 % would be explained by other variables not included in the study. Since the Standard Error of the Estimate is 0.75849, it can be concluded that observed values are closer to the regression line as well as it can be made more accurate predictions with the regression line.

Table 7: Regression results

Variable	Coefficient	Std. Error	t statistic	Significance
C	-1.093	2.281	-0.479	0.635
ROE	0.208	0.592	0.351	0.727
ROA	-0.326	0.706	-0.462	0.647
TAT	1.397	0.65	2.15	0.038
IT	2.171	0.674	3.218	0.003
CR	-2.069	2.62	-0.79	0.434
QR	0.964	1.816	0.531	0.599
DR	-0.079	0.392	-0.202	0.841
DER	-0.219	0.337	-0.65	0.519

Source: Compiled by Authors, 2021

The results indicate that TAT and IT have a significant positive impact while other variables are insignificant at a 95% confidence level. Since the regression model is log converted, coefficients depict the percentage change in the dependent variable due to a 1% change in the independent variable. 1% increase in ROE cause 0.208% increase in share price, 1% increase in ROA cause 0.326% decrease in share price, 1% increase in CR, QR, TAT, IT, DR, and DER cause 2.069% decrease, 0.964% increase, 1.397% increase, 2.171% increase, 0.079% decrease and 0.219% decrease of share price respectively and vice versa.

4.5 Hypotheses Testing

The hypotheses testing for this study can be done by using the p-value of each variable derived from the multiple regression model. If the p-value is less than 0.05 then accept the hypotheses, if the p-value is greater than 0.05 it should have to reject the hypotheses. Table 8 shows that the results of the hypotheses.

Table 8: Summary of the hypotheses testing

	Hypothesis	Results
Hypotheses 1	Return on equity has a significant impact on the share price of listed Food, Beverage & Tobacco companies.	Rejected
Hypotheses 2	Return on assets has a significant impact on the share price of listed Food, Beverage & Tobacco companies.	Rejected
Hypotheses 3	Total assets turnover ratio has a significant impact on the share price of listed Food, Beverage & Tobacco companies.	Accepted
Hypotheses 4	Inventory turnover ratio has a significant impact on the share price of listed Food, Beverage & Tobacco companies.	Accepted
Hypotheses 5	Current ratio has a significant impact on the share price of listed Food, Beverage & Tobacco companies.	Rejected
Hypotheses 6	Quick ratio has a significant impact on the share price of listed Food, Beverage & Tobacco companies.	Rejected
Hypotheses 7	Debt ratio has a significant impact on the share price of listed Food, Beverage & Tobacco companies.	Rejected
Hypotheses 8	Debt to equity ratio has a significant impact on the share price of listed Food, Beverage & Tobacco companies.	Rejected
Hypotheses 9	Financial performance has a significant impact on the share price of listed Food, Beverage & Tobacco companies.	Partially accepted
Hypotheses 10	Financial condition has a significant impact on the share price of listed Food, Beverage & Tobacco companies.	Rejected

Source: Compiled by Authors, 2021

4.6 Discussion

The results of the study revealed that ROE has a positive relationship with share price and also it is an insignificant variable. These results are proved by the findings of Vijitha and Nimalathasan (2014), Al Qaisi, *et al.* (2016). Dissanayake and Biyiri (2017) showed ROE has a positive but significant impact which is not consistent with the results of this study. It can be said that the influence might be different based on the sector since they used the hotel industry in CSE.

The results showed TAT has a positive relationship with share price as well as it is a significant variable. These results are proved by Ferrer and Tang (2016). CR has a negative relationship with share prices further the study revealed that CR is an insignificant variable. These results are proved by Asmirantho and Somantri (2017), Lebo and Tasik (2017). DR showed a negative relationship and also it is shown as an insignificant variable. Al Qaisi *et al.* (2016) also examined DR on share prices but they found that it was a significant variable. It can be said that the sector could affect the results since they used insurance companies for their study. And also, DER is not a significant variable that shows a negative relationship with share prices. This also does not consistent with the results of the studies because scholars obtained

different results for their researchers for example Subramaniam and Anandasayanan (2018) stated that a positive relationship as well as it is significant.

5. CONCLUSION

This study was conducted with the general objective of “to examine whether there is any significant impact of financial performance and condition on share price”. To see the impact researchers have selected only one sector of CSE and that is Food, Beverage & Tobacco. By reviewing the theories and empirical studies share price has been selected as a dependent variable and profitability ratio and activity ratios were selected as indicators of financial performance, while liquidity ratios and leverage ratios were selected as indicators of financial condition and these were the independent variables of the study.

The empirical findings indicated both positive and negative relationships between independent and dependent variables. Most of the empirical findings of the correlation analysis were consistent with the results of the study while few variables were not. Regression results showed activity ratios (total assets turnover, inventory turnover) made a significant impact on share price while others made an insignificant impact. Some of these regression results are proved by a few previous studies, while some results are not proved, this might be due to the use of different sectors, periods, and different macro-economic factors. Further, this study is supported by the theories of fundamental analysis and efficient market hypothesis.

Therefore, accordance with the results, ultimately it can be concluded that financial performance affects the share price of the Food, Beverage & Tobacco companies while financial condition has an insignificant effect.

5.1 Recommendations

Potential investors should consider financial performance when making investment decisions regarding this sector. Food, Beverage & Tobacco companies should try to improve especially activity ratios which are total assets turnover and inventory turnover that indicate the financial performance to increase share price. The following estimated model can be used in their decision-making purposes.

$$\text{Log}(SP_{it}) = 1.397 \text{Log}(TAT_{it}) + 2.171 \text{Log}(IT_{it}) + \varepsilon_{it}$$

5.2 Suggestions for Future Research

The present study is limited to only one sector which is listed in CSE. Therefore, future researchers can consider more than one sector which is more helpful to users to make accurate decisions. This study considers 15 companies as a sample. Then future researchers can select more firms as a sample to perform their investigation.

In this study researchers only consider the influence of financial performance and condition over the share price. But there are more other factors that could affect share price therefore researchers can consider other factors to conduct research. And also, this study was limited to 5 years. Future researchers can consider longer periods to make more reliable conclusions. This study considers

the linear relationships between the variables, so future researchers can include nonlinear relationships to extend the study and to verify the results further.

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