

## **Corporate Performance: Financial and Market Performance towards Company Profit**

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### **ABSTRACT**

This paper studied the financial and market performance, and the contributing factor towards company profit. The list of corporations from Fortune 500 was selected as a sample as it showed the complete figures and value that are important in this study. The financial-based value is a group of revenue and assets, while market-based value is a formation of stockholder equity, market value, and earning per share. The data were then analysed by using SPSS 20 to understand the correlation between predictors and outcome. ANOVA and coefficients of variance were also used to determine the significance in predicting the outcomes. The result confirms that there is a moderate relationship between financial-based value and profit earned but statistically significant and there is a large correlation between the variables which is above 0.5. The next finding is the relationship between market-based value and profit earned where there is a quite strong relationship between market-based value and profit earned and statistically significant with a large correlation between both variables. The result found that the stronger predictor which contributes to the profit is the market value; therefore the listed corporation has to increase their market value in order to stay profitable.

**Keywords:** Profit, revenue, assets, stockholder equity, market value and earnings per share.

### **INTRODUCTION**

Financial performance analysis can be considered as the process of determining the operating and financial conditions of a corporation from accounting and financial statements. The goal of such analysis is to determine the efficiency and performance of firms' management, as reflected in the financial records and reports (Bhunia et.al, 2011). A firm's value is positively created through a well-designed and an implemented of financial management (Padachi, 2006). Business corporations have an important share in employment and gross domestic product (GDP) all around the world, especially in developing countries, taking into account the informal sector (Daniel & Alina, 2012). Performance of corporations is affected mainly by structural difficulties such as lack of skills and labour market rigidities, which affects matching of demand and supply of labour, market failures in research, training, and innovation, as well as a general lack of entrepreneurial spirit (Lopriore, 2009). Business corporations are the major source of foreign exchange earnings which will contribute to the GDP and ability to create jobs in a country by maintaining poverty alleviation activities through creating employment, fostering entrepreneurial

culture, boost up strength and flexibility in the economy, resource allocation and will much depend on employees as an important resources and corporations pioneer in the new product development and services including the quality of the products and service that they are provided (Shah et.al, 2012). They will also be able to reduce the unemployment which is the most vital economic and social problem (Hassani et.al, 2012).

Managing conflict effectively and efficiently in the process of succession is crucial in order to preserve the impact on corporations (Wu & Lu, 2012). The factors such as revenues, equity, and assets are considered as large contributors that will support and lead to the corporate performance in the business field. These financial factors are the major resources to the corporate that lacks financial resources in the form of financial strength could contribute a problem to the firm itself especially when it plans to expand and diversify the business in the new market. This study will also identify whether the revenues, assets, and equity are strongly significant to the corporate performance accordingly. The performance of corporations from different industrial backgrounds taken from Fortune 500 as the data and information might be able to explain the phenomenon that happened to the corporations.

This paper attempts to investigate the significant factors that support the corporate performance in the form of profit earned. As the business corporations are important to the economy because of their large contribution to the gross national income (GNI) and GDP in a country, the performance of the corporate is more or less important to be studied in acquiring more knowledge and information.

Organisations may use multiple strategies as their corporate level strategies for many reasons (Hanson et.al, 2005). As an organisation is susceptible for diversification, it exploits the dynamic capabilities in using existing internal and external organisation-specific competences in addressing the changing environment. The organisation's specific capabilities when combined with competences and resources, developed, deployed, and protected, might become a source of advantage for the organisation (Teece et.al, 1997).

The business corporations which implement the good practice of business strategy are able to increase the company's revenue. It is also will stimulate the growth of the company's performance. However, the question is whether the higher return on revenue, assets, stockholder equity, market value, and the earnings per share are able to increase the profit earned by the company. Logically, when the revenue increases, it will also affect and eventually increase the profit. A similar situation also happens to the assets owned by the company, stockholder equity, market value, and earnings per share, where the increment of these elements logically will increase the profit margin earned by the company. From all these elements, the major or the most contribution to the increment of the firms listed in Fortune 500 will be investigated. Thus, this study will identify which of the elements contributed most to the firm profit.

The concept of success in business is often used to refer to the firm financial performance (Chittithaworn et.al, 2010). As the firm strategy leads to the performance (Chandler, 1962), it is

predicted that the performance of the corporations such as revenue, assets, and equity will have a positive relationship with the profit earned. Previous research by scholars suggested that the firm size has a positive effect on performance (Johnson & Greening, 1999; Muller & Kolk, 2010). However, there are questions on how strong the firm performance such as revenue, assets, stockholder equity, market value and earnings per share can influence the firm profit, and whether there is any significant relationship between revenue, assets, stockholder equity, market value and earnings per share and the profit earned by the corporations. The objectives of the study are to investigate the relationship between profit and financial-based value (revenue and asset), and market-based value (stockholder equity, market value and earning per share) of the firms in the Fortune 500 list.

## LITERATURE REVIEW

Most of the existing studies have focused on the direction in which socially responsible corporate behaviour affects financial performance, and not the other way around (Luethge & Han, 2012). The ability of an organisation to analyse its financial position is essential for improving its competitive position in the marketplace. Through a careful analysis of its financial performance, the organisation can identify opportunities to improve the performance of the department and unit or organisational level (Bhunia et al., 2011). Improving environmental performance would induce cost savings and increase sales and, thus, improve firms' financial performance (Schaltegger & Synnestvedt, 2002).

Finance has always been disregarded in financial decision-making since it involves investment and financing in a short-term period (Bhunia et al., 2011). Enterprise is considered as the earliest form of business organisation and has done dramatic changes in the economic environment system of a country (Wu & Lu, 2012). A business corporation is an important part of the economic in boosting the synergy to the GDP of the country and supports the growth of the economic sector entirely (Shah et al., 2012; Daniel & Alina, 2012). Some firms are not only involved in a single business but also produce a variety of products or diversification of services. The corporate strategy will be able to enhance the strategic competitiveness that will definitely increase the total value of the organisation (Hanson et al., 2005). In addition, many business companies are exploiting their capabilities through the diversification strategy in order to achieve higher performance by exploiting their resources (Wernerfelt, 1984).

Financing, as well as capital integrating, especially on human capital is an important issue in enterprises (Wu & Lu, 2012). The evolution of the key variables such as the cost of employees and materials, fixed assets variation, current, liquidity, and solvency ratio, returns on equity and asset, and gearing reflect the firms' strategies in response to the business during economic crisis (Li et.al, 2011).

Wisner and Eakins (1994) studied the performance of the company under the US Baldrige Quality Award winners and calculated the profitability and stock market-based ratio such as

annual sales, the average five-year sales growth, return on sales, assets, and net worth, price earnings ratio, earning per share, and five-year average earnings per share growth in order to access the financial performance of the firms. They found that the financial performance of the firms was mixed, and the firms enjoyed significant sales growth during the economic recession when all the firms are suffering profit decline. A study by Najjar (2013) of the impact of financial ratios on the financial performance showed that the financial performance was strongly and positively influenced by the operational efficiency, asset management, and size.

Based on a study of the financial performance of few selected companies, it can be concluded that the liquidity position was strong in some companies while very poor in some others, thereby reflecting the ability of the companies to pay short-term obligations on due dates (Bhunia et al., 2011). According to a study by Campbell et.al (2008), a multivariate prediction model that estimates the probability of bankruptcy and reorganisation for closely held firms has been constructed. Six variables were used in developing the hypotheses and five were significant in distinguishing the closely held firms reorganised from those that liquidate. The five factors were firm size, asset profitability, and the number of secured creditors, presence of free assets, and number of under-secured creditors.

Luethge and Han, (2012) in their study used two financial indicators; return on equity (ROE) and return on assets (ROA) to reflect the company financial performance. Based on the linear regressions, they failed to find the predicted significant correlations between ROE and corporate disclosure. ROA is not significantly correlated to corporate disclosure. They also did not find any significant relationship between any industry types with corporate social disclosure or financial indicators.

Chittithaworn et al. (2010) found that the resources and finances are significant to enterprise success. The capital itself is able to derive the enterprise towards achieving performance in terms of profit and growth (Wernerfelt, 1984). There are many studies on the strategic management aspects and relation of strategic management to the profitability of the organisation, corporate strategy, organisation growth, economics scale, strategic management theory and linkage with the competitive advantage, importance of the business as well as corporate strategy. The top management in the firms absolutely will affect their profitability (Bowman & Helfat, 2001), whereas the profitability of the firms is a part of the firms' performance which is closely related to the financial condition.

The capital in the form of intellectual is able to influence the performance of the firm (St-Pierre & Audet, 2011). The financial performance, cost reductions, and use of technology are positively significant to the performance as well as profit and growth (Guzman et.al, 2012), while the credits of firms are also one of the important factors that will affect the performance and success of the enterprises indicating the significance of the variable (Hassani et. al, (2012). The efficiency of the cost in the form of distributed innovation channel which is part of the firms' resources (Wernerfelt, 1984) conforms to the firms' performance (Kuswantoro et al., 2012). Poor financial

management of the firms in the form of ethical issues in financial management and other constraints of behaviour will totally reduce the performance of business corporations (Daniel & Alina, 2012).

The importance of business enterprises is considered in terms of contribution to the economy and society, economic growth, stimulus entrepreneurship, innovation, employment or state budget revenues. The enterprises may be facing many challenges and constraints such as financial and organisational constraints which were suggested by various studies to have higher effect on smaller and medium business than larger corporation (Danied & Alina, 2012). Based on a research done by Cravo (2010), human capital seems to influence growth positively but not the size of the corporation. The factors that influence business success are business characteristics, management and know-how, products and services, customer and market, way of doing business and cooperation, resources and finance, strategy, and external environment (Chittithaworn et al., 2010).

### RESEARCH FRAMEWORK

Poor financial management and other constraints of behaviour will totally reduce firms' performance (Daniel & Alina, 2012). Poor financial management can be in many forms; revenue, assets, stockholder equity, market value and earnings per share. However, the specific elements that contribute to the performance of corporate profit of the corporations in the Fortune 500 list were not clearly defined. Probably the firms with lower revenue can perform well compared to those with higher revenue, or probably the firms that maintain smaller assets and equity are well-performed compared to those that maintain higher assets and equity. From the other points of view, it is possible that the firms with lower market value, stockholder equity, and earnings per share will be able to perform well compared to those with higher market value, stockholder equity, and earnings per share. Thus, this study proposed the framework to be tested as shown in Figure 1. This framework shows the relationship between the firm profits and its financial and market performance.

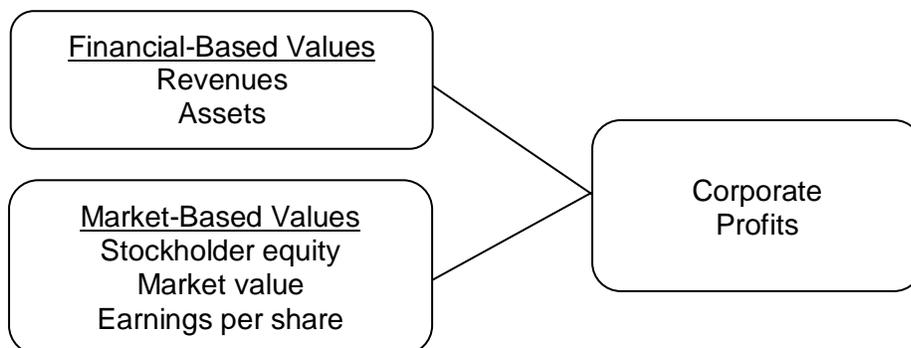


Figure 1: The framework indicating the relationship between financial performance and market performance towards profit

### HYPOTHESIS

Luethge and Han (2012) in their study used two financial indicators; ROE and ROA to reflect the company's financial performance. There are some different opinions regarding the selection of the indicators for measuring financial performance and the most common reflective indicators chosen for measuring the financial performance factor in accounting research have been identified (Capon et.al, 1997) as ROA, ROE, and profit margin which are relative magnitudes, while cash-flow and operating profits are absolute magnitudes.

It is reasonable to assume that a firm's corporate environmental performance should be subjected to a deeper review of its management mechanisms, considering its strategic management and commitment to sustainable development (Moneva & Ortas, 2010). Revenue, market value, and earnings per share can be increased through the management or a corporate strategy. These elements will directly contribute to the corporate performance in the form of profit. Li et al. (2011) found that enterprises with strong financial resources are more stable in confronting the economic recession. They analysed the liquidity ratio of the enterprises which are able to explain the financial performance of the business.

The development of the first research question that contributes to the hypotheses is as follows:

H<sub>0</sub>1a: There is NO significant relationship in the corporate profit according to the two financial-based values.

H<sub>1</sub>1a: There is a significant relationship in the corporation profit according to the two financial-based values.

The literature above will also lead to the development of the second research question on whether there is any relationship between corporation profit and the three market-based values. Thus, the hypotheses developed are as follows:

H<sub>0</sub>2a: There is NO significant relationship in the corporate profit according to the three market-based values.

H<sub>1</sub>2a: There is a significant relationship in the corporate profit according to the three market-based values.

## **RESEARCH METHODOLOGY**

This study is a quantitative research. The researcher generates the secondary data in the form of a number and the data will be analysed by using SPSS 20. 500 U.S. corporations were generated as the secondary data through Fortune 500 as it gives an accurate data and information regarding the financial and market performances of the larger U.S. corporations. The unit of analysis in this study were the different types of industries and businesses of the U.S. corporations. These

corporations were involved in retailing, manufacturing, automobile, oil and gas, and servicing such as insurance, mortgage, and leasing, financing. The U.S. corporations listed in the Fortune 500 were considered as a population in this study. All of the U.S. corporations in this magazine were selected as a sample as the data were able to explain the whole U.S corporations in the form of financial performance and market performance ideally.

The data accumulated were analysed by using SPSS 20 to determine the correlation between the financial performance and profit of the firms. The correlations between profit and revenue, asset, stockholder equity, market value, and the earnings per share were tested using correlation analysis to determine any significant relationship. If there was any significant relationship among the data, the Multi Regression Analysis were run in order to determine the most common factor that contributes to the corporate profit.

## FINDINGS

### Mean score for independent variable.

Table 1: Mean score for the independent variables

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Revenues	500	3.00	10.00	3.1820	.65859
Assets	500	2.00	8.00	2.4800	1.20020
Stockholder Equity	500	.00	9.00	2.6020	1.63369
Market value	468	2.0	6.0	2.274	.8081
Earnings per share	469	1.00	9.00	2.9446	1.10994
Valid N (list wise)	464				

Table 1 shows the mean score for revenues, assets, stockholder equity, market value and earnings per share. It shows the revenue mean score is 0.65859, followed by assets 1.20020, stockholder equity 1.63369, market value 0.8081 and earnings per share at 1.10994.

The researchers used the correlation analysis to analyse the significant relationship between corporate profit and the two financial-based values as it will provide the result for the relationship between variables. The findings are explained in the following paragraph respectively. The findings also will help to answer the research question of the relationship between the corporate profit and the two financial-based values.

Table 2: Correlation between profits earned and the two financial-based values

### Correlations

		Profits	Financial-Based Value
Profits	Pearson Correlation	1	.644**
	Sig. (2-tailed)		.000
	N	500	500
Financial-Based Value	Pearson Correlation	.644**	1
	Sig. (2-tailed)	.000	
	N	500	500

\*\* . Correlation is significant at the 0.01 level (2-tailed)

Based on Table 2, the relationship between financial-based values and profit earned is moderate but statistically significant at the level of 0.644 with P value at 0.000. The table also shows that the r value is 0.644 which indicates that there is a statistically significant relationship or a large correlation between the two variables (above 0.5), suggesting a quite strong relationship between financial-based values and the corporate profit. The finding will reject null hypotheses as it has at least one significant relationship. This finding did not show the level of the relationship. Thus, by using the Multiple Regression Analysis it will indicate the level of relationship between the compared groups.

Table 3: Model summary for the correlation of profits earned and financial-based value

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.644 <sup>a</sup>	.415	.413	1.31023

a. Predictors: (Constant), Financial-Based Value

Based on Table 3 above, the correlation coefficient R=0.644 and the R Square=0.415 which shows that the financial-based value contributes 41.5% towards the corporate profit. Another 58.5% is an unexplained variance. As the gap between R square value and Adjusted R Square value is not much different, the R Square represents the population. In combination, the predictors explained 41.5% of the variation in the outcome. 58.5% is regarded to be the unexplained variance, meaning that it is being explained by other variables that are not included in this study.

Table 4: Analysis of variance of corporate profit according to financial-based value

**ANOVA<sup>a</sup>**

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	605.269	1	605.269	352.578	.000 <sup>b</sup>
Residual	854.913	498	1.717		
Total	1460.182	499			

a. Dependent Variable: Profits

b. Predictors: (Constant), Financial-Based Value

Table 4 shows that the P value is 0.000 which is smaller than 0.05, and will explain that the predictor is statistically significant towards the outcome.

Table 5: Coefficients of variance of corporate profit according to financial-based value

Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.079	.215		-9.667	.000
	Financial-Based Value	1.372	.073	.644	18.777	.000

a. Dependent Variable: Profits

Based on Table 5, the P value is less than 0.05, thus all the predictors are statistically significant in predicting the outcome. Consequently, the null hypothesis is rejected. The equation of the model of prediction on corporate profit based on score on financial-based value can be developed as:

$$CP = -2.079 + 1.372 * FBV$$

Above equation indicates that if the financial-based value increases by 1 point, corporate profit will increase by 1.372 points.

CP=Corporate profit

FBV=Financial-Based Value

Correlation Analysis was to analyse the significant relationship of corporate profit and the three markets valued based, as it will provide the result for the relationship between variables. The findings are explained in the following paragraph respectively. The findings also will answer the research question of the relationship between corporation profit and the three market based values.

Table 6: Correlation between profits earned and the three markets valued based

		Profits	Market-Based Value
Profits	Pearson Correlation	1	.822**
	Sig. (2-tailed)		.000
	N	500	464
Market-Based Value	Pearson Correlation	.822**	1
	Sig. (2-tailed)	.000	
	N	464	464

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Based on Table 6 above, the relationship between market-based value and profit earned is quite strong and statistically significant at level 0.822 and the P value is at 0.000. The table also shows that the r value is at 0.822 which indicates that there is a statistically significant relationship or there is a large correlation between the two variables (above 0.5), thus suggesting a quite strong relationship between market-based value and the corporate profit. The findings will reject null hypotheses as it has at least one significant relationship. This finding did not show the level of the relationship. Therefore, by using the Multiple Regression Analysis it will indicate the level of relationship between the compared groups.

Table 7: Model summary for the correlation of profits earned and market-based value

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.822 <sup>a</sup>	.676	.675	.99890

a. Predictors: (Constant), Market-Based Value

Based on Table 7, the correlation coefficient R=0.822 and the R Square=0.676 shows that the market-based value contributes 67.6% towards corporate profit. Another 32.4% is an unexplained variance. As the gap between R square value and Adjusted R Square value is not much different, thus R Square represents the whole population. In combination, the predictors explained 67.6% of the variation in the outcome. 32.4% is regarded to be the unexplained variance, meaning that it is being explained by other variables that are not included in this study.

Table 8: Analysis of variance of corporate profit according to a market-based value

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	961.845	1	961.845	963.968	.000 <sup>b</sup>
	Residual	460.982	462	.998		
	Total	1422.828	463			

a. Dependent Variable: Profits

b. Predictors: (Constant), Market-Based Value

Table 8 shows that the P value is 0.000 which is smaller than 0.05, and will explain that the predictor is statistically significant towards the outcome.

Table 9: Coefficients of variance of corporate profit according to market-based value

**Coefficients<sup>a</sup>**

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-2.148	.137		-15.713	.000
Market-Based Value	1.529	.049	.822	31.048	.000

a. Dependent Variable: Profits

Based on Table 9, the P value is less than 0.05, thus all the predictors are statistically significant in predicting the outcome. Hence, the null hypothesis was rejected. The equation of the model of prediction on corporate profit based on score on financial-based value can be developed as follows:

$$CP = -2.148 + 1.529 * MBV$$

Above equation indicates that if the financial-based value increases by 1 point, corporate profit will increase by 1.529 points.

CP=Corporate profit

MBV=Market-Based Value

To identify the extent of the three market-based values significantly predict corporate profit, the researchers use the multiple regression analysis as it is able to analyse one dependent variable while the predictor is more than one.

Table 10: A model summary of corporate profit according to three-market-based values

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.840 <sup>a</sup>	.705	.703	.95476

a. Predictors: (Constant), Earnings per share, Stockholder Equity, Market value

Based on Table 10 above, the correlation coefficient R=0.840 and the R Square=0.705 which indicates that the overall market-based values contribute 70.5% towards corporate profit. Another 29.5% is unexplained variance. As the gap between R square value and Adjusted R Square value is not much different, R Square would represent the population. Thus, the model is significant in predicting the outcome. In combination, the predictors explained 70.5% of the variation in the outcome. 29.5% is regarded to be the unexplained variance, meaning that it is being explained by other variables that are not included in this study.

Table 11: Analysis of variance of corporate profit according to three market-based values

**ANOVA<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
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1	Regression	1003.505	3	334.502	366.951	.000 <sup>b</sup>
	Residual	419.323	460	.912		
	Total	1422.828	463			

a. Dependent Variable: Profits

b. Predictors: (Constant), Earnings per share, Stockholder Equity, Market value

Table 11 shows that the P value is 0.000 which is smaller than 0.05, and explains that the model is statistically significant in predicting the outcome.

Table 12: Coefficient of variance of corporate profit according to three market-based values  
Coefficients<sup>a</sup>

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-2.440	.163		-14.949	.000
Stockholder Equity	.347	.041	.326	8.514	.000
Market Value	1.023	.084	.471	12.216	.000
Earnings per share	.357	.042	.227	8.611	.000

a. Dependent Variable: Profits

Based on Table 12, the P value is lesser than 0.05, thus all the predictors are statistically significant in predicting the outcome. The stronger predictor contributing to the corporate profit is market value by 1.023, followed by earnings per share 0.357, and stockholder equity by 0.347. The equation of the model of prediction on corporate profit based on the score on market-based value can be developed as:

$$CP = -0.2440 + 1.023 * \text{Market Value} + 0.357 * \text{Earnings per Share} + 0.347 * \text{Stockholder Equity}$$

Above equation indicates that if the market value increases by 1 point it will result in an increase of 1.023 points in the corporate profit holding other variables as constant.

## DISCUSSION

Table 13 shows that the stronger contribution between the predictor and output is the market value with 0.776, followed by stockholder equity 0.734, revenues 0.565, assets 0.551, and earnings per share 0.435. Market value contributes the highest score compared to other variables and is placed under one group with the stockholder equity and earnings per share. This result shows that two variables such as market value and stockholder equity were very significant towards corporate profit. In other words, the profit of the corporation will increase through the increment of the market value of the corporation and the stockholder equity, accordingly. The variables of market value, stockholder equity and earnings per share are also out of corporation

control and depend on the overall market and other factors. These findings answer the second research objectives.

While assets and revenues are determined in a money form value, these variables are under the corporation management and control. However, surprisingly, both variables did not contribute much in corporate profit. In other words, a bigger part of corporate profit was contributed by the corporation market value and stockholder equity. These findings answer the first research question. As a result, it is important for the public listed and huge corporations to increase the market value and stockholder equity from time to time to stay profitable.

Table 13: Overall result correlations between predictor and output

		<b>Correlations</b>					
		Profits	Assets	Stockholder Equity	Revenues	Market value	Earnings per share
Profits	Pearson Correlation	1	.551**	.734**	.565**	.776**	.435**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	500	500	500	500	468	469
Assets	Pearson Correlation	.551**	1	.722**	.444**	.477**	.109*
	Sig. (2-tailed)	.000		.000	.000	.000	.018
	N	500	500	500	500	468	469
Stockholder Equity	Pearson Correlation	.734**	.722**	1	.576**	.746**	.247**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	500	500	500	500	468	469
Revenues	Pearson Correlation	.565**	.444**	.576**	1	.584**	.191**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	500	500	500	500	468	469
Market value	Pearson Correlation	.776**	.477**	.746**	.584**	1	.274**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	468	468	468	468	468	464
Earnings per share	Pearson Correlation	.435**	.109*	.247**	.191**	.274**	1
	Sig. (2-tailed)	.000	.018	.000	.000	.000	
	N	469	469	469	469	464	469

\*\* . Correlation is significant at the 0.01 level (2-tailed).

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

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