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Relationship of Company Ageand Industry Sector with Financial Performance–An Indian Evidence

Authors:DeeptiSehrawatVerma[1] Dr.AnandSharma[2]

1. Ph.D. Research Scholar, Central University of Haryana
2. Head, Department of Management Studies,Central University of Haryana

Abstract

Thepurposeof thispaper isto analyze therelationshipofthe ageofcompaniesandtheindustrysectoronfinancialperformancevariablesforNIFTY100Indexcompanies.TheminimumageofacompanyinNIFTY100indexwassevenyearsandthemaximumageis114 years.Further, these companies have been divided into nine industry sectors. To analyzetherelationship,sixteen financial performance variableshavebeentakenfor the financialyear2019.

It has been found that older companies have better performance in terms ofreturn ratios,stakeholders-relatedratios,leverage,replacementratios.Youngercompanieshavebetteroperationalefficiencyand marketvaluation.Ithasalsobeenobservedthatthereisasignificant difference in return ratios for Telecom and Utility, Financial, Industrial, Consumerstaples,IT,EnergyandConsumerDiscretionarySectors.Thefindingsofthispaperwillenable investors in making prudent investment decisions and will enable them to understandhow theageand industry of acompany impactthefinancialperformanceofcompaniesinIndia.

Keywords: Corporategovernance,Age,Industrysector,financialperformance

I. Introduction

Businessesprimaryfinancialgoalisachievinghigherprofitabilityaswellaswealthmaximizationthroughalltheiroperationalactivities.Apartfromthatsustainability,goodcorporategovernance practices, and fulfilling their socialresponsibility are crucialto successforanybusinessinpresenttimes.Readinesstochange,innovation,andtechnologicalsoundness alsocontributetothelong-termsurvivalofacompany.Further,inthecontextof

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financial performance,thegoing concern concept of accounting reflects that age and long lifeofbusinessentities areimportant forsustainability.

Basti et al. (2011) analysed Turkish companies and found that age significantly impacts firmperformance.Ithasgenerallybeenobservedthatoldercompaniesperformbetterthanyounger companies because of thelearning curve effect.Ghafoorifard et al.,2014,confirmsthatoldercompanieshavemoreexperience,whichmakesthemoutperformnewerfirms.However,anothersetoffinanceliteraturesuggeststhatyoungerfirmsaremoreinnovativeand flexible, so they perform better (Lwango et al., 2017). Legesse's (2018). Prajogo, (2006)addsthatprocessandproductinnovationsarecrucialtoimprovementinfinancialperformance.

However, literature also indicates that the performance of companies also varies based onindustrialsectors,assomeindustriesmayperformbetterthanothers.Esteve-Pérezetal.(2018) hold that age has a relationship with the industry (sector) life cycle and impacts firms'survival. MacKay and Phillips (2005) found a significant relationship between the industrysectorandfinancialdecisionmaking.Hande(2017)suggestsnostrongassociationbetweenthe industry sector and financialperformance.Inthisstudy,an attempthasbeenmadetoanalyzeandexaminethelinkbetweenage,industrysectorandfirmperformance.

This paper analyzes the relationship of age and industry with different financial performancevariables for NIFTY 100 Index companies. For the purpose of the study, Nifty 100 samplecompanies were categorizedinto4 agegroups,wherethe minimum ageof a companyinNIFTY 100indexwas 7 years and the maximum age114 years.Further, companies aredivided into 9 industry sectors. Sixteen financial variables have been studied for the financialyear2019.

II. LiteratureReview

Since firms' performance is dependent on the operating efficiency as well as various otherdemographic characteristics like age, industry sector, ownership, business house association,stake of government, board characteristics, and other such variables, this study has analysedonlytwovariablesi.e.theageofthecompanyandtheindustrysector.

Theliteraturereviewhereunderhighlightsstudiesthatfocusonageandindustrysectorimpact on firm performance in emerging economies. Legesse's (2018) study of the Ethiopianeconomyestablishednocorrelationbetweenfirmageandfinancialperformance(sales).Akben-Selcuk(2016)examinedtheimpactofageonthefinancialperformanceof302firms

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and captured the convex relationship between age and firm performance.Capasso et al. (2015)justify thesamebystudying theItalianwineindustryandrevealedthat theolderwinerieshave better financial performance than the younger wineries. It also supports that financialperformanceis asignificantdeterminant ofthe firm's going-concern assumption.Osunsan etal. (2015) found age to be a significant variable. Ghafoorifard et al. (2014) revealed that olderfirms have better performance by analysing 96 companies of Tehran. Bianco et al. (2013)analysed the impact of age and size on family-owned businesses' financial decisions. It wasfound that a business's financial performance declines with age, but in specific sectors, oldercompaniesperformbetterthanyoungercompanies.Kipesha(2013)analysedTanzaniaandfound a positive relationship between age and firm performance of microfinance institutions.Dogan(2013) revealed that age had a negatively significant resulton firm performance.Coadet al. (2013) investigated the Spanish manufacturing sector and supported the argument thatoldercompanieshavebetterproductivity,sales,andprofits.Bastietal.(2011)analysedTurkish companies and found that age significantly impacts firm performance. Gurbuz et al.(2010) could not find any significant relationship between age and firm performance. Lodererand Waelchli (2010) conclude that firm performance declines with age because of rigidity inoperationsinoldercompaniesandthehighcostofcorporategovernanceandtopmanagement compensation. . Majumdar (1997) established that older Indian firms are lessproductivebuthavebetterprofitability,andfirmperformanceimproveswithageandleveragedecreases.

Specificresearchershaveestablishedstatisticallysignificantdifferencesinperformancebasedonthefirmsector.Al-Slehat(2019)analysedtheindustrialsectorandsuggestedthatfor long term survival companies must have an optimal mix of debt and equity. Zaborek andMazur's(2019)analysedpolishcompaniesandrevealedsignificantdifferencesintheservices and manufacturing sector, and the service sector doing better thanthemanufacturing.Lietal.(2018)analysedage,businesssector,ownershipandleverageandfoundthatmanufacturing and services firmsoperatedifferently,so their performancealso varies.Duttaet al.(2018) analyzed 6 industry sector companies of NSE and proved that there is an inverserelationshipbetweenfinancialleverage andthe valueofthe firm.LahiriandPurkayastha(2017)alsorevealedthattheservicesectorperformsbetterthanthemanufacturingsectorinthe Indian context. Likewise, Seo et al. (2016) investigated Korean firms and found differentpatternsbetweenserviceandmanufacturingcompanies.ReedandStorrud-

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Barnes(2009)revealedthatmanufacturingandservicesectorcompaniesdifferinfinancialperformance.

III. ResearchMethodology

Themain objective of thisstudy is to analyzetherelationshipbetween age,industry sectorand financial performance of companies. For this analysis, a sample ofNifty 100companieswascategorizedinto4agegroupsand9industrysectors.Dataforfinancialvariableshave been taken for sixteen variables for the year 2019, which has been compiled for NIFTY 100Indexcompanies fromtheCMIEProwessdatabase.

Foranalysisoffinancialperformancesixteenvariablesincludebeta-measureofvolatility,closing price,marketcapitalization,enterprisevalue,earningsper share(EPS),pricetoearnings ratio, tobin's Q, return on equity, earnings before interest and tax (EBIT), return oncapital employed,return on assets ratio, return on sales, dividend yield, CSR spend, price tobookratioandtotaldebtratio

Agewisecompanieshavebeenclassifiedas0-25years,25-50years,50-75yearsandabove75years.Industrysectoraffiliationofthesecompaniescompriseshealthcare,information technology(IT),financials,consumerstaples,energy,materials,consumerdiscretionary,industrialsand utilities,andtelecoms.

Foranalysisofdata,thevariousstatisticaltoolsappliedincludedescriptivestatistics,ANOVA andDuncan'sPost-HocTest

HypothesesFramed

Thefollowingnullhypotheseshavebeentested.

H_{01}:Thereisnosignificantdifferenceintheageofcompaniesandtheirfinancialperformancevariables

H_{02}:Thereisnosignificantdifferenceintheindustrysectorcompaniesandtheirfinancialperformance variables

IV. AnalysisofData

Theanalysisoffinancialvariablesbasedonageandindustrysectorhasbeencarriedoutin Table1and2below.

i) RelationshipofCompanies'AgewithFinancialPerformance

Theageofcompanieshasbeencategorizedintofourgroups,i.e.0-25years,25-50years,50-75 years and above 75 years and mean values of financial variables are given against eachcategory.

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Table1-Age-wiseDescriptiveStatisticsofFinancialPerformanceVariablesofF.Y. 2019

FinancialPerformanceVariables	MeanStatistic			
	AgeofCompanyCategory			
	0-25Years	25-50Years	50-75Years	Above75Years
Beta-Measureofvolatility	.9336	.8993	1.2465	.7945
ClosingPrice	1487.8743	1494.0383	4825.7390	1170.0545
MarketCapitalization	664835.7929	1472559.4890	519529.2880	1412629.2255
EnterpriseValue	788213.8786	1731281.5081	481274.1480	1311694.5800
EarningsPershare	30.4757	67.1069	180.0215	33.7755
PricetoEarningsratio	62.8800	34.9083	61.1775	37.5573
Pricebybookratio	8.9121	5.4636	5.2870	12.1391
TotalDebtratio	36517.4071	152212.3476	127714.8200	45686.8000
Tobin'sQ	5.3367	2.9374	2.3765	5.6672
ReturnonEquityratio	0.1256	0.1552	0.1433	0.2646
Earningsbeforeinterest andtax	25320.621	79938.052	45708.760	70716.082
ReturnonCapital Employed	0.1180	0.1754	0.1642	0.2880
ReturnonAssetsratio	0.0787	0.1074	0.0710	0.1397
ReturnonSalesratio	0.2649	0.2254	0.1578	0.1909
DividendYieldratio	20.5164	63.7995	109.4843	30.6520
CSRSpend	0.0181	0.0216	0.0300	0.0278

Table 1 depicts age-wise descriptive of financial performance variable for the financial year2019.Beta, which is considered a measure of volatility, the value is the highest for companiesunder the agegroup of 50-75 years,reflecting that this agegroup has a high risk and highreturn.Companiesabove75yearshavemorewealth thanother agegroupcompanies,asmarketcapitalizationmeanisthehighest.Theenterprisevaluereflectingthecostofpurchasingacompanyisthehighestfor25-50 years.50-75yearsofcompanieshavethehighestEPS mean, thus, these companies are relatively profitable based on per-share price.Price to earnings ratioshowsthat investors want to investmore in companies with ahighpricetoearningsratioasitleadstohigherfuturegrowthorfuturereturn.Companiesabove75 years are relatively more confident about their growth aspects as price to book is highest.However, atoo high priceto book ratiocan reflect that the company is overvalued.25-50years of companies are at risk as their borrowing capacity reduces with a high total debt ratio,leading tofinancialinflexibility. High tobin's Q ratio reflects that the company'smarket valueisgreaterthanthevalueofcompanyrecordedassets.Thecompaniesfallinginagegroupfor

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above 75 years has the highest Tobin's Q ratio.Above 75 years of companies has the highestreturnonequityratio,andthesecompaniesefficientlyutilizedequitycapitaltogenerateprofits. For EBIT companies with the age of 25-50 years reflect that companies under agegroup25-50years havemoreearning ability thatgenerateshighrevenuesthanotheragegroups.Return on capitalemployed values revealthatcompanies undertheage group above75 years have generated the highestreturn for theirinvestors.Return on assetsratios meanscoreforabove75yearsofcompaniesisthehighestandthesecompaniesgeneratethehighest returnsbyutilizingtheirassets.Lookingatreturnonsalesratios,0-25yearsofcompanieshavethehighestaveragescore.Highreturnonsalesratios reflects thatthecompaniesareefficientlyconverting their salesintoprofit. Similarly, if we lookatthedividend yield ratio,the averagescore of50-75 years ofcompanies isrelatively high. ForCSR spending, as per the Companies Act, companies must spend 2 per cent of their averageprofit for the preceding three years. The companies under 50-75 years of age group spendrelativelyhigherascomparedtoother agegroupcompanies.

ii) RelationshipofIndustrySectorwithFinancialPerformance

This section analyses the relationship of the industry sector with financial performance. Theindustry has been classified under nine heads: healthcare, information technology, financials,consumerstaples,energy,materials,consumerdiscretionary,industrialsandutilities,andtelecoms. Mean values of 16 financial performance variables of nine industries are analysedhere.

Table2-Industry-wiseDescriptiveStatisticsofFinancialPerformanceVariablesofF.Y. 2019

FinancialPerformanceVariables	MeanValues								
	IndustryClassification								
	HealthCare	InformationTechnology	Financials	ConsumerStaples	Energy	Materials	ConsumerDiscretionary	Industrials	Utilities&Telecom
Beta-Measureof volatility	.6650	.3717	1.0881	.5450	1.0370	1.2479	.9938	1.3556	.8233
Closing Price	914.2200	1284.6217	1497.2225	2064.7700	333.7170	2123.8236	7257.8362	789.1556	214.6500
Market	4006	24695	15507	11965	17635	67864	657130	58306	71977
Capitalization	04.7967	50.8400	40.4750	28.1330	94.2610	8.3079	.5038	8.3444	1.1867

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EnterpriseValue	394493.1133	2342613.7900	2251551.6188	1171823.5830	1972537.1810	681518.6079	543670.8192	523238.0667	864580.7533
Earnings Pershare	27.7067	59.8450	41.1863	27.6250	26.1480	47.7521	362.1415	12.2300	2.8833
Priceto Earningratio	43.2983	21.5017	55.2681	64.6980	12.5900	51.8121	64.5400	37.8922	10.5867
Priceby book ratio	3.6600	6.0550	5.8244	22.4110	2.6500	4.7671	5.5554	5.1856	1.9300
Total Debt ratio	15467.4333	9365.8333	104333.5063	3964.0100	482397.7200	121365.4500	9422.7462	47683.4000	342765.9667
Tobin'sQ	2.3322	4.1778	3.1320	10.7871	1.4126	2.5075	3.0531	2.0184	1.2748
ReturnonEquityratio	0.1146	0.2635	0.0289	0.3654	0.2084	0.1303	0.1849	0.1228	0.0828
Earnings before interest andtax	18081.867	146410.867	63459.488	37000.120	166874.340	47067.364	36157.092	24497.233	4475.267
ReturnonCapital Employed	0.1332	0.3446	0.0323	0.3774	0.1784	0.1353	0.2458	0.1327	0.0815
Return onAssetsratio	0.0822	0.2062	0.0222	0.1944	0.1142	0.0760	0.1251	0.0584	0.0620
Return onSalesratio	0.1884	0.3092	0.2754	0.1946	0.1998	0.1868	0.1906	0.1529	0.2097
Dividend Yieldratio	3.8768	50.2391	23.5902	31.2457	241.6015	80.0243	14.3137	19.1985	194.6181
CSR Spend	0.0235	0.0191	0.0185	0.0205	0.0290	0.0347	0.0193	0.0276	0.0112

Table 2 presentsindustry-wisemeanvaluesoffinancialperformancevariablesforthefinancial year 2019.Beta indicates that the industrials sector is riskier as compared to otherindustries,and the information technology industry has theleastrisk. For the closing price,meanvalueshowsthat the highestvalue isof consumer discretionary,andthe leastisofutilities and telecom. The market capitalization, which is a proxy of the company's size, theinformationtechnologyoutstandingsharesmarketvalueisthe highestandtheleastisfor

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industrials.Lookingatenterprisevalue,againinformationtechnologysectoroverallvalueisthehighest .For earningper share,consumer discretionary has the highestmean,reflectingthat this sector makes more money from its shares as compared to the rest of the sectors. Theconsumer staples book ratio, reveals that this sector market valuation is the highest. The totaldebtratioofenergyindicatesthatitusesthehighestleverage. Tobin's Q highestaveragescore is ofconsumer staples, thus have the the highest replacement cost. From a return onequity ratio,it canbeseenthat thehighest mean score is ofconsumer staplesandthe leastmean score is of utilities and telecom. Earnings before interest in tax average scores indicatesthat the highest meanscore is of energy. The average scoreof information technology (IT) isthe highest for return on capital employed, return on assets and return on sales ratio. Thedividend yield ratio highest mean score is of the energy sector.And looking at CSR averagescores,thethehighestspendingisbymaterialsandthelowestscoreisutilitiesandtelecom.

iii) DifferencesinFinancialPerformanceasperAgeandIndustrySector

Table4showsANOVAresultsofdemographic-wisedifferencesin financialperformancevariables.

Table4-ANOVAResultsofDifferencesinFinancialPerformance

FinancialVariables	Age		IndustrySector	
	F	Sign	F	Sign
Beta-Measureofvolatility	6.220	**.001**	6.255	**.000**
ClosingPrice	1.574	.201	1.277	.265
MarketCapitalization	2.335	**.079**	1.946	**.062**
EnterpriseValue	3.369	**.022**	1.942	**.063**
EarningPershare	1.200	.314	1.959	**.061**
PricetoEarningratio	.820	.486	.820	.587
Tobin'sQ	1.532	.212	4.119	**.000**
ReturnonEquity	1.688	.175	10.334	**.000**
Earningsbeforeinterestandtax	1.240	.300	4.943	**.000**
ReturnonCapitalEmployed	1.895	.136	10.946	**.000**
ReturnonAssetsratio	1.263	.292	8.133	**.000**
ReturnonSales	1.134	.340	.885	.533
DividendYield	1.684	.176	4.715	**.000**
CSRSpend	1.820	.150	1.537	.158
PricetoBookRatio	1.255	.294	9.228	**.000**
TotalDebtRatio	1.099	.354	4.033	**.000**

For age-wise classification of beta, F value (6.220) is significant at 0.01 level of significance,market capitalization and age; the F value is 2.335, which is significant at a 0.079 level ofsignificance.TheFvalueforenterprisevalueis3.369,whichissignificantata5percent

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level of significance (0.022).This indicates that beta,market capitalization andenterprisevalue significantly differ age-wise. Thus, *null hypothesis* $H_{01}$is partially supported for beta,enterprise value and market capitalization. These results suggest that out of four age groupcategories, category 50-75 years is significantly different from the rest of the age groups.Forenterprise value, companies which belong to the age group of 25-50 years are significantlydifferent from the rest of the groups. Based on the age-wise classification, other financialvariablesdonotshowasignificantdifferenceintheircharacteristics.

For theindustry sector, thebetaF valueis 6.255, which is significant at a0.00 level ofsignificance.Similarly,formarketcapitalization,theFvalueis1.946,whichissignificantata 0.062 level of significance. Considering enterprise value, results show F value 1.942 assignificant at0.063 levelof significance,For earnings per share, theF valueis 1.959,whichis alsosignificantat a0.061 level ofsignificance.ANOVA resultsfor tobin's Q shows thattheFvalue is4.119,which is significant at 0.000level.Similarly,thereturn onequityFvalueis10.334.For EBIT,theF valueis4.943,return on capital employed Fvalueis10.946, return on assets Fvalueis 8.133, dividend yieldFvalueis 4.715, priceto book ratioF value 9.228 and the total debt ratio of value 4.033. This shows that these F values aresignificant at 0.000 level of significance. Thus,*null hypothesis* $H_{02,}$is partially supported forthebeta,marketcapitalization,enterprisevalue,earningspershare, Tobin's Q,returnonequity, Earnings before interest in tax, return on capital employed, return on assets, dividendyield,pricetobookratioandtotaldebtratio.

iv) DifferencesinFinancialPerformanceVariables

Table5showstheDuncanpost-hoctestresultsfordemographicdifferencesinfinancialperformancevariables.

Table 5- Duncan Post Hoc Test Results of Demographic wise Differences in FinancialPerformanceVariables

Financialvariables	Age	IndustrySector
Beta-Measureofvolatility	50-75 years	IT,financial,utility,consumer discretionary,materials,industrial
ClosingPrice		
MarketCapitalization		
EnterpriseValue	25-50 years	
EarningsPerShare		
PricetoEarningsratio		
Tobin’sQ		ConsumerStaples

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ReturnonEquity		Utility,Financial,Industrial,Consumer staples,ITEnergy
Earningsbeforeinterestandtax		EnergyandUtility
ReturnonCapitalEmployed		Consumerstaples,financials,energy
ReturnonAssetsratio		Financials,Energy,IT,consumer staples.
ReturnonSales		
DividendYield		Energy,HealthcareandUtilities
CSRSpend		
PricetoBookRatio		EnergyandUtilities
TotalDebtRatio		ConsumerStaples

Fordifferentindustrysectors,betaisstatisticallysignificantlydifferentforInformationtechnology,financecompanies,utilityandtelecomcompanies,consumerdiscretionary,materials, and industrial sector companies. Tobin's Q is found to be significantly different forconsumerstaples.Returnonequityisstatisticallysignificantlydifferentwithan Fvalueof 10.334,whichisstatisticallysignificantlydifferentatthe0.05percentlevelofsignificanceforutilityand telecom,financials,industrialsector,consumerstaples,theinformation technology sector, and energy sectors.Earningsbeforeinterest tax was found tobestatisticallysignificantlydifferentfortheenergyandutilitysector.Returnoncapitalemployedissignificantlydifferentforconsumerstaples,financialandenergysectorcompanies. A return on assets is statistically significantly different for the financial and sectorand consumer staple sectors. The dividend yield for companies was found to be statisticallydifferentforenergy,healthcare,utilityandtelecomcompanies.Returnonassetsisstatistically significantlydifferentforthefinancial,IT,andconsumerstaplesectors.Thedividend yield for companies was found to be different for energy, healthcare and utility andtelecomsectors.Thepricetobookratioisdifferentfortheenergyandutilityandtelecom sectors. Total debt ratio was found to be statistically significantly different for theconsumer staple sector. This implies that the *null hypothesis*(H_{02}) that there is no significantdifferencebetween theindustry sector-wise classification of financial performancevariablesis,rejected.Andformostofthevariables,thecompanieswhichbelongtodifferentindustrial sectors usually do have different levels of financial performance. This indicates thattheindustrial sectorcanbeanimportantvariable,whichinfluencetheperformanceofcompanies.

V. Conclusion

Beta, closing price, earning per share, dividend yield, and CSR spending are the highest forcompaniesaged50-75years.Pricetobookratio,tobin'sQ,returnonequity,totaldebtratio,

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return on capitalemployed,return on assetsis thehighest for companies above75 years ofage. This indicates that older companies have better return ratios, stakeholders related ratios,leverage, replacement ratios like price to book ratio and tobin's Q. Younger companies havebetter market capitalization,enterprise value, price to earnings ratio, earnings before interestand tax and return on sales ratio. This reveals that younger companies have better operationalefficiencyandmarketvaluation.Thus*nullhypothesis*H_{01}ispartiallysupportedforbeta,enterprisevalueand marketcapitalization.

Theindustry sectorhas emergedas asignificant variableforthefinancialperformanceoffirms.Utility,Financial,Industrial,Consumerstaples,IT,Energy,consumerdiscretionarysectorsaresignificantlydifferent forreturnratios.

Overall itcan beconcluded that*nullhypothesis*$H_{02,}$that thereisno significant difference inthedemographic characteristics of companies and their financial performancevariables, ispartiallysupported.

The study has implications for the corporate sector to formulate strategies for the long termsurvivalstrategies. Investors can decide about investing in older companies that have higherperformanceandinvestinginindustries that arehighincompanies' financialperformance.Ageandindustrysectordoimpactfinancialperformanceofcorporateentitiesin Indiancontext.

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