IMPACT OF OPERATING EFFICIENCY ON VALUATION OF FIRM

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Abstract

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Supervisor:  
Dr. Dyal Bhatnagar  
Assistant Professor  
University School of Business Studies  
Punjabi University Guru Kashi Campus  
Talwandi Sabo

Submitted By:  
Pritpal Singh

SCHOOL OF MANAGEMENT STUDIES  
PUNJABI UNIVERSITY, PATIALA  
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ABSTRACT

Valuation of firm has become an issue of concern in recent corporate scenario. Valuation is the critical aspects in financial analysis that gives a realistic idea of worth of company. Value of firm represents the past, present and future performance of firm as well as the long term interest of investors. Operating efficiency of firms have been considered as a significant factor while valuations, as operating activities are considered as the core source of cash generation. Operational efficiency refers to the profitable, efficient and judicious use of resources (financial) available to an organization in perfect consonance with clearly laid-down financial policies relating to the operation. A few researchers spent their time on analyzing the relationship between operational efficiency of firm and value of firm. Most of their research has been confined to banking sector. Other sectors have been ignored to analyze the effect of operational efficiency on firm value. To cater this need, an attempt has been made through this research work to analyze the effect of operating efficiency on firm value across various sectors. To keep the changing business scenario and interest of shareholders in mind, an attempt has been made in which stock price has been replaced by Enterprise Value as proxy for firm value. Six independent variables (EV/EBITDA, ROCE, EV/Sales, Quality of Earnings, FATO, NPM) have been studied from year 2005-2012. Regression analysis has been used to analyse Panel Data of the sample companies. Through this research study, the importance of operating efficiency in valuation has been highlighted in six economic sectors. It has been exemplified practically in the research work that operating efficiency variables are significantly related to the Value of the firm in all the sectors under study including the banking sector. Therefore, this research work will act as a new light for the researcher in the area of valuation.