ABSTRACT

The aim of this paper is to determine the factors that affect firm performance. All sample firms have major businesses operating in China, but they have been listed on the U.S. stock market from 1998-2012. The dependent variables which are return on equity (ROE) and stock return are examined. The independent variables which are sales growth rate, financial leverage, dividend payout, firm size, operating cash flow, business risk, and industry dummies were proposed. The data portfolio consists of 40 firms.

Using a panel data analysis, results from this study indicated that only sales growth rate has a positive relationship with stock return, a proxy of market-based firm performance. An increase in sales growth rate enhances the confidence of investors, leading to higher stock returns. However, in the case of accounting-based performance, it was found out that all independent variables which are sales growth rate, financial leverage, dividend payout, firm size, operating cash flow, business risk, and industry dummies are not significantly related to return on equity, a proxy of firm performance based on accounting perspective. Note that the operating cash flow variable was removed from the analysis due to the multicollinearity problem.

This paper is beneficial to investors who are interested in Chinese firms. It may help them in making a wise decision. Moreover, the findings may help the fund manager to develop a better stock portfolio model to diversify more risk. Finally, this paper can provide the additional empirical evidences in terms of international context.