

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

Introduction

The last chapter of the dissertation is conclusion and recommendations of the study that has been designed for the topic of the impact of macroeconomic indicators on the financial performance of firms: evidence from automotive sector of Pakistan. The following chapter has been formulated for addressing the major findings that has been gained from the study and has also revealed the major points that has been investigated by the researcher. This particular study is associated with understanding how the macroeconomic factors such as exchange rate, inflation, political stability and other lead to having an impact on the performance of firms. The researcher has individually explained all the major variables of the study using the literature sources and has carried out the investigation for assessing the impact of macroeconomic indicators on the financial performance of firms using the context of automotive industry in Pakistan. The different sections of the chapter have provided with the major findings that has been gained by the research. It has highlighted the major findings using the results from the analysis in the previous chapters. As the study is based on the quantitative analysis using numeric data, the analysis has also been made using the arithmetic calculations providing the results for assessment.

Furthermore, the conclusion of the study has also been derived that has provided the discussions after analyzing the facts and figures gained from the study. It has highlighted the key points of the study and has evaluated it to be used by the future researchers. The next section of the chapter has provided recommendations that has been made by the researcher after conducting the investigation. The recommendations

are presented based on empirical tests that has been carried out in the previous chapters. Lastly, the section named future implications has been presented that has provided the gaps that are still present in the study and can be resolved by the future researchers who have planned to carry out the investigation on the similar topics. It is highly factorable section for the future researchers that has allowed them to find the gaps in the previous researches that can be filled and can be used for further investigation.

Summarized Findings

The following study was based on the topic of the impact of macroeconomic indicators on the financial performance of firms: evidence from automotive sector of Pakistan. The study has selected the major macroeconomic variables that are exchange rate, inflation, political stability and other lead to having an impact on the performance of firms. The major research objectives that has been designed to be achieved in the study were to assess what strategies can firm apply to mitigate the influence of external factors influencing the business, to understand that to what extent does the macroeconomic indicator influence the returns of equity (ROE) of the automotive firms in Pakistan and to find out the extent to which the macroeconomic factors affect the returns on assets (ROA) of the automotive firms in Pakistan. The researcher has selected the method of quantitative analysis and have utilized the positivist paradigm for answering the research questions. This is because of the purpose that this study aims in order to identify the relationship among two variables which are financial performance of the firm and macroeconomic indicators. Furthermore, the researcher has adopted the exploratory research. This is due to the purpose that the impact of macroeconomic

indicators on the financial performance of the firm in the context of automotive sector of Pakistan has never been explored in the previous studies. The method of analysis that has been used by the researcher is E-views. On the other hand, the correlation and regression analysis are used in order to assess the relationship between the two variables.

The researcher has carried out the arithmetic analysis using different methods. The data in terms of macroeconomic factors have been obtained from the government websites, World Bank reports and other relevant sites like Statista that has enabled the researcher to gain the accurate findings for answering research questions. Descriptive statistics has been performed including the graphical representation to analyses the characteristics of the data, and observe the patterns. Additionally, the correlation and regression analysis have been performed to address the primary research questions. Based on the findings of the arithmetic calculations it has been found that the minimum and maximum EPS was observed as -15.62 and 121.64 within the companies, and the mean ROA and ROE are 9.36% and 15.45% with standard deviation of 12.91% and 28.33%. It implies that the standard deviations of the ROA and ROE are higher implying higher fluctuations into the ROA and ROE of the selected companies. Moreover, the mean EBIT is 1466.06 million with standard deviation of 2040.70 which is also higher than mean value, and minimum EBIT was -1416.20 million and maximum EBIT was 8705 within the data. Based on the calculations of the descriptive analysis it has also been found that the political stability of the Pakistan has always been concern for the business community; where as per the World Bank's indicator of political stability Pakistan's mean score is at -2.577 which mean Pakistan has weak political stability. It

shows that the macroeconomic indicators have a huge impact on the business performance in different sectors of Pakistan.

Additionally, according to the correlation analysis of the variables in the following investigation, it has been observed that the relationship between return on asset and inflation is significant and negative. The sig value between these two variables is 0.00 which is less than 0.05 so it is significant. It shows that earnings per share has a major influence on the return on asset of Pakistani Automobile Companies. Furthermore, the coefficient value between them is -0.343 which shows that they both are negatively related to each other. The finding of the researcher has also been supported by the research conducted by Zulfiqar and Din, (2015). Assessing the table of correlation analysis, it has been investigated that the relationship between firm size and return on asset is insignificant as the sig value between them is 0.06 which is greater than 0.05. It shows that the firms in Pakistan automotive industry does not have an impact on the return on assets in the companies. However, as per inflation is concerned, it has been found that the relationship between ROA and inflation is significant and negative. It is due to the reason that the correlation is negative 0.343 which indicates that they are negatively related as higher inflation leads to reduction in return on asset of companies. Inflation affects the operating profit negatively as the correlation value is -0.363. The correlation value shows that the association between them is moderate.

On the other hand, according to the regression analysis it has been observed that the value of R square is 0.119 which shows that 11.9 percent ROE of Pakistani Automobile companies is explained by dependent variable and remaining 88.1 percent is explained by other factors. Furthermore, it has also been investigated that the coefficient value of

inflation is -1.390 that provides with the one-unit increment in inflation reduces the ROE by 1.39 units. However, the results have shown an insignificant relationship between the variables. The coefficient value is 0.007 which indicates that if exchange rate increases by 1 unit, the ROE increases by 0.007 units. They both are positively related as increment in one variable increases the other variable. As per analysis of the variables it has been assessed that the relationship between ROA and GDP growth is positive and insignificant. Whereas, money supply growth also seems insignificant and negatively related with ROA and the political instability seems to be negatively related with ROA.

Conclusion

The researcher has carried out the investigation and has discussed about the macroeconomic factors that has an impact on the firm's performance belonging to the automobile industry in Pakistan. Based on the investigation it has been observed that businesses operating in different industries and sectors face a set of varied circumstances and situations which they have to go through. Their operations and activities are affected by several different factors and these lead to positively or negatively impact the businesses and their output. Similarly, the overall performance of the automobile industry is also affected with different factors of external environment that can create a change in the firm's operations and its activities. Based on the assessment of the variables in the study, it has been concluded that profit maximization could be regarded as one of the major objectives of every organization and so all the related activities are associated with achieving the specific goal. In this regard, companies are highly concerned and keen regarding the factors and aspects that may lead to having an impact on their profitability and financials. Therefore, the firms are

assessing the ways that can be effective for improving their overall returns. Similarly, the factors that has been selected by the researcher for investigating the impact on firms' performance are earning per share, return on assets and equity and earnings before interest and taxation. Whereas other major factors that has also been observed are inflation, political stability, exchange rate and interest rates of the countries that may affect the firm's performance. One of the designed research question was to what extent do the macroeconomic factors affect the returns on assets (ROA) of the automotive firms in Pakistan? The researcher has successfully obtained the answer to this question by assessing the macroeconomic factors of the country that has its implications and impacts over the ROA. The factors has been identified and has been assessed using financial calculations.

The researcher has concluded that exchange rate has significant influence on return on asset of Pakistani's automobile companies. It has been assessed and analyzed after providing the calculations. It has also been addressed that the country Pakistan has been facing the issue of poor political stability that creates the issues for improving firm's economic conditions and also affects its performance in the long run. The rising uncertainties in the country's political conditions are also affecting the supply of raw material and also has directly and indirectly affected the sales and profitability of the firms. Moreover, the researcher has concluded that higher inflation in Pakistan reduces the return on equity of Automobile companies of Pakistan. It is also one of the major issue in the country that has been affecting the firm's performance and its profitability. These findings are also supported by Cheung and Sengupta (2013) and has also highlighted the need of managing the country's inflation rate for gaining higher returns in

the automobile industry. The relationship between ROE and GDP growth is negative and insignificant. Money supply growth also seems insignificant and negatively related with ROE. Additionally, it has been concluded that the relationship between ROA and GDP growth is positive and insignificant. Money supply growth also seems insignificant and negatively related with ROA. Lastly, it has been concluded that all dependent variables except firm size such as inflation, exchange rate, interest rate, GDP growth, money supply and political stability have insignificant relationship with operating profit of Pakistani automobiles companies.

Recommendations

Based on the assessment of the macroeconomic factors and its impact on the firm's performance, it has been observed that most of the factors have an indirect relationship with the operating profit of Pakistani automobiles companies. The performance of the firm covers the other sides related to the organization's operations such as legal activities, acquisition of resource and achievement of goals. Therefore, it is needed to be managed for gaining better returns and performance for gaining sustainability in the long run. It has been recommended that the companies shall plan and implement the strategies that can effectively manage the operations and can provide sustainability in the long run. The researcher has investigated and has provided the recommendations that the organizations need to monitor the macroeconomic indicators after some time. It is essential for them to carry out the regular assessments of the inflation, exchange rate, interest rate, GDP growth, money supply and political stability that can affect their overall performance and can create the limitations for growth. The analysis of the macroeconomic conditions is essential for the company after regular intervals and also

before implementing the new strategies in the firm's operations. Additionally, the insurance policy in case of political instability is a most important option that should not be overlooked by the company. It is because, during the political instability including terrorism, war, violence and other factors that could damage the firm's physical assets can be paid off by the insurance company if all assets of the company are insured with a suitable insurance policy.

Additionally, it has been recommended to the companies that it shall create the operations that has less operating cost and can deal with the unwanted situations of the improper political conditions of the country. Similarly, the issues of poor GDP growth also have a huge impact on the company's performance that is necessary to be controlled and managed for gaining better returns of the companies in the long run. With a set of different factors affecting the financial performance of firms, it further becomes imperative for the automotive industry in Pakistan to identify which particular elements are having a higher impact and which ones could be less prioritized. Based on the views of different authors, the automotive industry has been making a major change in developing the country's economic conditions that can create the better opportunities for them to grow and expand the operations in a better way. Therefore, it has been recommended for the automotive companies to carry out the use of such strategies that can be effective for them for maintaining the company's wealth and developing the options for growth in the future.

Future Implications

The following study is based on the investigation of the macroeconomic factors that has an impact on the automotive industry of Pakistan. The researcher in the following study

has carried out the investigation using the secondary data that has been collected from various sources that has been used for assessment. Additionally, the study has been focused on the secondary data that has provided with the investigation using the macroeconomic factors for assessing the firm's performance. The future researchers can also carry out the research using the particular automotive company of Pakistan that can be assessed using the primary data collected from various managers and other major stakeholders of the company to assess the firm's performance. Furthermore, the researchers can also select other factors of microeconomics that also has a huge impact on the firm's performance. Additionally, it has been observed that the following research is based on the economic conditions of Pakistan only and is not based on other countries. Whereas, the future researchers can also investigate the economic conditions on other countries while assessing its impact on the automotive industry of Pakistan. The researcher has provided with the secondary information and has assessed it using the arithmetic calculations. However, the macroeconomic factors have an impact on the companies while assessing their performance and implications of the operations. Therefore, the researchers can also collect the qualitative data by conducting the interviews from the strategic managers who deal with the changing external environment of the companies and its impact on the automotive companies.