

A Study on relationship between market share and profitability of the companies of insurance sector in Sri Lanka

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Abstract:

This study examines the relationship between market share and profitability of listed companies in insurance sector in Sri Lanka. The relationship between market share and profitability has become the subject for many academic researches as there are many debates regarding the generalizations of early researches on relationship between market share and profitability. The research aimed to find whether there is any relationship between market share and profitability level of selected insurance companies in Sri Lanka. The market share was the independent variable and four profitability measures has used as dependent variables including ROI, ROE, ROA and NPM. The sample of the study consists with sixteen companies from insurance sector and secondary data has used in conducting the research. Data has collected for seven year time period from 2008 to 2014 from the published annual reports of the companies. Descriptive statistics and correlation analysis have used for analyze the data. The key results of the study show a positive relationship between market share and profitability levels of the companies.

Keywords

Market share, Return on investment, Return on equity, Return on assets, Net profit margin

1. Introduction

One of most important aim of the firms is expand its market share to achieve a high level of sales from operations and increase its profit. Therefore managers of the companies always attempt to expand the market share of the firms (Moghaddam & Foroughi, 2012). According to O'Regan (2002, as cited in Magoro, 2009) market share is company's sales in relation to total industry sales for a certain

period of time. It also states that increased market share can be equated with success when decreased market share equated with failure. Pearce and Robinson (2003, as cited in Magoro, 2009) define that market share is sales relative to other competitors in the market.

Profitability is a measure of efficiency and financial soundness of a commercial unit and it is considered as one of the most important meanings to the trade world. Market share is an important factor that many companies concerning in achieving a higher profitability level.

Profitability ratios can be used as an indicator of firms overall efficiency. It measures the earning capacity of a firm and reflects the growth and success of the firm. Usually these profitability ratios use to measure the earnings of a company during a period of time based on the level of sales, assets and capital employed of the company (Kabajeh, Nuaimat, & Dahmash, 2012).

In the modern and complex environment, globalization and privatization have brought deep competition on every field of activity. Within this competitiveness one of the major challenges facing managers is how to increase the business profits. Therefore it is important to identify the relation between market share and profitability with the purpose of investigating whether there is an ability to companies to increase their profits by gaining market share. To be succeeded companies should recognize the factors which affects to its profitability, and market share becomes more significant factor among them. And number of international researches has been conducted on this topic using different profitability measures. But very few researches have been conducted in Sri Lankan context. Therefore this research seeks to fill this knowledge gap that exists on the subject locally. In this context the research problem is identified as “**What is the relationship between market share and profitability of Insurance companies in Sri Lanka?**”

2. Objectives of the study

Based on the research problem and literature, objectives of this study are:

1. To find out the relationship between Market Share and Return on investment of insurance companies in Sri Lanka.
2. To find out the relationship between Market Share and Return on Assets of insurance companies in Sri Lanka.
3. To find out the relationship between Market Share and Return on Equity of insurance companies in Sri Lanka.
4. To find out the relationship between Market Share and Net Profit Margin of insurance companies in Sri Lanka.

3. The research model

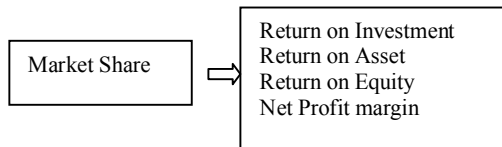


Figure 1: The research model

4. Methodology

The research study was focused on explaining the Relationship between market share and profitability of insurance sector in Sri Lanka and the study was geographically confined to the Sri Lankan's sixteen insurance companies for seven years. While data for this study was collected from annual reports published in the company's' web site of these companies, the unit of analysis was an individual insurance company in Sri Lanka for seven years. Figures on Total Assets, Total Equity, Net Sales, Gross Sales, Total Capital are extract from the 112 relevant annual reports to use in calculating all ratios such as Return on investment (ROI), Return on Asset (ROA), Return on equity (ROE), Net profit margin (NPM), Market Share (MS) are calculated by using the software excel 2010 for the research purpose.

4.1 Sampling

The size of sample select for this research was 112. The population of the survey includes all the insurance companies operated within the time period of 2008 to 2014 in Sri Lanka and sample includes 16 companies which are listed under Insurance Board of Sri Lanka with period of 2008 to 2014.

Method of Data Analysis and Evaluation

The quantitative research approach is employed to find out the findings of the research study.

Microsoft Excel 2010 and SPSS 19.0 were used to process the data for statistical proceedings and correlation and descriptive statistics (Mean, Standard Deviation) were used to analyze the data.

Table 1: measurement methods of variables

Variable	Dimension	Definition
Market share	Market Share	Company's sales
		Industry sales
Profitability	Return on investment	$\frac{\text{Profit after Tax} - (\text{Dividend} + \text{Interest})}{\text{Total Capital}}$
	Return on assets (ROA)	$\frac{\text{Profit after Tax}}{\text{Total Assets}}$
	Return on equity (ROE)	$\frac{\text{Profit after Tax}}{\text{Total equity}}$
	Net profit margin (NPM)	$\frac{\text{Profit after Tax}}{\text{Net sales}}$

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Table 2: The correlation scale

Value of correlation coefficient "r"	Nature of relationship
0.7 or higher	Very strong positive relationship
0.4 to 0.69	Strong positive relationship
0.30 to 0.39	Moderate positive relationship
0.20 to 0.29	Weak positive relationship
0.01 to 0.19	Negligible relationship
0	No relationship
-0.01 to -0.19	Negligible relationship

-0.20 to -0.29	Weak negative relationship
-0.30 to -0.39	Moderate negative relationship
-0.40 to -0.69	Strong negative relationship
-0.70 or higher	Very strong negative relationship

Table 4: Correlation Statistics analysis Market share and Return on Investment

Correlations		Return On Investment
Market share	Spearman's rho	0.748
	Sig. (2-tailed)	0.000
	N	112

5. Findings and Discussion

According to the descriptive statistics (Table 3) for the five variables of the study the lowest market share rate for seven years' time period of the selected companies is 0% while the maximum rate is 32.83%. The Return on Equity shows the minimum profitability level as per the mean value of each profitability measure's and the Net profit margin shows the maximum profitability level among four

	Minimum	Maximum	Mean	Std. Deviation
Market share	.00	32.83	6.4357	7.91333
Return On Investment	-.80	2.15	.2793	.51016
Return On Assets	-.89	.19	-.0074	.16100
Return On Equity	-2.33	.72	-.0279	.53756
Net Profit Margin	-.89	2.21	.0775	.35298

profitability measures of the study. It also reflect that the selected companies have maintained 6.43% average level of market share over the considered time period and the return on Investment has the highest average contribution to the companies' profitability level over the seven year period. And Return on Equity represents the minimum average contribution to the companies' profitability level over the seven year period.

Table 3: Descriptive Statistics

According to the findings of the profitability measures of the study, Return on Investment has obtained a positive value of 0.748 for the correlation coefficient (r) against the market share. It represents that there is a very strong positive relation between market share and profitability of the selected companies for the selected time period.

Table 5: Correlation Statistics analysis Market share and Return on Assets

Correlations		Return On Assets
Market share	Spearman's rho	0.216
	Sig. (2-tailed)	0.022
	N	112

According to the above finding we can obtained the relationship between market share and Return on assets has obtained 0.216 value for the correlation coefficient (r) against the market share. According to the table relationship between market share and ROA (Return on Assets) there is a weak positive relationship.

Table 6: Correlation Statistics analysis Market share and Return on Equity

Correlations		Return On Equity
Market share	Spearman's rho	0.465
	Sig. (2-tailed)	0.000
	N	112

According to the above finding we can obtained the relationship between market share and Return on equity has 0.465 value for the correlation coefficient (r) against the market share. According to the table relationship between market share and ROA (Return on Equity) there is a strong positive relationship.

Table 7: Correlation Statistics analysis Market share and Net Profit Margin

Correlations		Net Profit Margin
Market share	Spearman's rho	0.368
	Sig. (2-tailed)	0.000
	N	112

According to the above finding we can obtain the relationship between market share and net profit margin has 0.368 value for the correlation coefficient (r) against the market share

According to the table relationship between market share and NPM (Net Profit Margin) there is a Moderate positive relationship.

According to above results, all the findings of the correlation analysis support the view of that there is a positive relation between market share and all profitability measures. The relationship between MS and ROI, it has a Very strong positive relationship and relationship between MS and ROA has Weak positive relationship and relationship between MS and ROE it has a Strong positive relationship and the relationship between MS and NPM it has a Moderate positive relationship. So any result has not appeared to support for any Negative relationship between the variables. It reflects that majority of the results appears to support the alternative hypothesis of the study. That is there is a relationship between market share and profitability. According to that it can be concluded from overall results of the study that there is a positive relation between market share and profitability.

6. Recommendations

Following suggestions can be gained from the final results of the research study.

- Managers should consider the suitability of adopting market share strategy to the companies to be successful within the industry
- Companies should understand their position in the market and the factors that determine their profitability level to achieve their success

In addition to that following factors can be mentioned to consider for the future researchers in conducting the future studies on the same topic.

- Conduct more quantitative research studies that cover other sectors of the Sri Lankan economy
- Conduct studies by using more profitability measures to find the relationship with market share level
- Select a larger sample which consists with more companies in conducting the researches
- Collect the data for a larger time period than the seven years
- Conduct researches by considering other factors in addition to market share which

affect to the profitability level of the companies.

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