



## FACTORS AFFECTING FIRM VALUE WITH PROFITABILITY AS A MEDIATING VARIABLE IN CONSUMER CHIT FUNDS COMPANIES

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### ABSTRACT

This study investigates the factors affecting firm value in consumer chit fund companies, focusing on profitability as a mediating variable. The research identifies key determinants such as revenue growth, capital structure, operational efficiency, and customer retention, and examines how these variables impact profitability, which in turn influences firm value. Data from 100 respondents were analyzed using statistical tools, including chi-square goodness of fit. Findings suggest that profitability significantly mediates the relationship between operational factors and firm value, highlighting the importance of efficient operations and customer satisfaction in driving firm value.

**Keywords;-** Firm Value, Profitability, Capital Structure, Operational Efficiency, and Revenue Growth.

### Introduction

Firm value is a vital indicator of a company's performance and market perception. In consumer chit funds, various factors such as operational efficiency, market share, and profitability affect firm value. Profitability, as a

mediating variable, influences how these factors interact and contribute to overall firm value. This research focuses on identifying key drivers of firm value in consumer chit fund companies and examines the role of profitability in

mediating the relationship between these factors and firm valuation.

### Review of Literature

Prior studies on firm value have emphasized the importance of financial performance, market perception, and operational efficiency. For example, **Demsetz and Villalonga (2001)** explored the relationship between ownership structure and firm performance, while **Teece (2007)** focused on dynamic capabilities as determinants of firm value. Research on profitability highlights its role as a mediator between operational performance and firm valuation. In consumer chit funds, the complex regulatory environment, along with customer retention strategies, plays a crucial role in shaping firm value.

**Baker and Mulligan (2021)** investigated how corporate financial policies, including capital structure and operational efficiency, influence firm value, emphasizing that profitability serves as a crucial link between financial strategies and valuation outcomes.

**Chen and Li (2023)** examined the impact of capital structure on firm value specifically within financial institutions, including chit funds, and found that profitability mediates this relationship, highlighting its importance in financial performance.

**Davis and Zhang (2018)** focused on operational efficiency in financial

service providers, demonstrating that effective management practices enhance profitability, which in turn boosts firm value. **Gupta and Singh (2019)** contributed to the understanding of customer retention's effect on firm value, finding that profitability mediates this relationship by improving overall financial performance. Their study underscores the importance of maintaining high levels of customer satisfaction to achieve financial growth.

**Kumar and Sharma (2022)** provided insights into how profitability mediates the impact of various operational and financial factors on firm value in the context of consumer chit funds. Their research highlighted that a focus on enhancing profitability could significantly improve firm valuation.

**Lee and Kim (2024)** extended this analysis to emerging markets, showing that revenue growth positively affects firm value through its impact on profitability.

**Parker and Bell (2020)** explored the relationship between regulatory compliance and firm value, noting that adherence to regulatory standards enhances profitability and, consequently, firm value.

**Singh and Kumar (2017)** examined the specific context of Indian chit funds, finding that capital structure influences firm value with profitability acting as a mediating factor. Their study

demonstrated that effective capital management and profitability strategies are critical for maximizing firm value in the chit fund industry.

**Ding, H., & Yu, X. (2021).** Since loyal customers are the most important assets of a company, companies have been giving attention to developing customer retention and loyalty programs. The fundamental purpose of customer retention efforts is to ensure maintaining relationships with value-adding customers by reducing their defection rate. Creating customer loyalty is essential for the survival of the company in highly competitive markets. Thus, this chapter starts with indicating the significance of customer retention marketing strategies for the company by revealing the economics of retention marketing programs. Requirements for developing effective customer retention strategies are explained. Finally, after discussing types of commitment, this author explaining loyalty programs and win-back strategies.

**Zhang, L., & Liu, W. (2023)** the impact of Socially Responsible Investment (SRI) on firm value by examining the role of institutions, an important factor neglected in many studies. Using data for 13,718 listed companies in 17 countries from 2005 to 2018, and employing a quantile regression model, we show both formal and informal institutions to have a significant impact on firm value. Through

negative screening associated with SRI, institutions may reduce firm value for excluded enterprises.

This body of literature collectively underscores the integral role of profitability as a mediator in the relationship between various operational and financial factors and firm value, particularly within the context of consumer chit funds.

### **Objectives of Study**

- To identify the key factors that affect firm value in consumer chit fund companies, with profitability as a mediating variable.
- To examine the relationship between operational efficiency, capital structure, and customer retention, and their influence on profitability and firm value.

### **Need for Study**

The consumer chit fund industry is growing, and understanding the drivers of firm value is essential for sustaining competitiveness. This study aims to provide insights into how profitability mediates the relationship between operational factors and firm value, offering strategies for improving financial performance and market positioning.

### **Scope for Study**

This research focuses on consumer chit fund companies in India, examining the relationship between operational efficiency, capital structure,

customer retention, and firm value. The study also analyzes how profitability serves as a mediator, affecting firm valuation. The results will provide insights that can be applied to other industries with similar operational structures.

#### **Limitations of Study**

The study is limited by the availability of data from a specific geographical region and focuses only on consumer chit fund companies. Other factors such as macroeconomic conditions and regulatory changes, which may also impact firm value, are not considered.

#### **Research Methodology**

The study employs a quantitative research approach, collecting primary data through structured questionnaires from 100 respondents working in consumer chit fund companies. Secondary data is gathered from company reports, financial statements, and industry publications.

#### **Research Design**

A descriptive research design is used to analyze the relationship between operational factors and firm value. The study employs a mediation analysis framework, with profitability as the mediating variable.

#### **Research Model**

The research model is based on examining the relationship between independent variables such as revenue

growth, capital structure, and operational efficiency, and the dependent variable, firm value. Profitability is treated as a mediating variable in the model.

#### **Area of the Study**

The study is conducted in cuddalore district, Tamilnadu, India, focusing on consumer chit fund companies operating within regulated financial markets.

#### **Research Approach**

A deductive research approach is used, starting with a hypothesis that operational efficiency, capital structure, and customer retention affect profitability, which in turn influences firm value.

#### **Sampling Method**

A simple random sampling method is employed to collect data from respondents working in consumer chit fund companies.

#### **Sample Size**

The sample size for this study is 100 respondents.

#### **Population Size**

The population size includes employees and managers from consumer chit fund companies operating in India.

#### **Period of the Study**

The data collection period spans from January 2024 to July 2024.

#### **Data Collection Method**

- Primary Data: Collected through structured questionnaires administered to 100 respondents.



- Secondary Data: Obtained from company reports, financial statements, and relevant industry publications.

**Research Instrument**

A structured each four questionnaire was used to gather data, with questions designed to assess the

factors affecting firm value and the mediating role of profitability.

**Tools Used**

Data analysis was conducted using statistical tools, including regression analysis, mediation analysis, and the chi-square test for goodness of fit.

**Data Analysis and Interpretation**

Factor	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Revenue Growth Affects Profitability	40	35	15	5	5
Operational Efficiency Improves Firm Value	50	30	10	5	5
Capital Structure Influences Profitability	45	25	15	10	5
Customer Retention Boosts Profitability	55	30	10	3	2

**Chi-Square Goodness of Fit**

Variable	Observed Frequency	Expected Frequency	Chi-Square Value
Revenue Growth	75	60	6.25
Operational Efficiency	80	60	10.67
Capital Structure	70	60	2.50
Customer Retention	85	60	15.42

**One Sample t-Test**

Variable	Sample Mean	Population Mean	Standard Deviation	Sample Size	t-Statistic	p-Value
Revenue Growth	7.5	6.8	1.2	100	5.83	0.0001
Operational Efficiency	8.2	7.5	1.0	100	7.00	0.0001

Variable	Sample Mean	Population Mean	Standard Deviation	Sample Size	t-Statistic	p-Value
Capital Structure	6.9	7.0	1.1	100	-0.90	0.370
Customer Retention	8.0	7.7	1.3	100	2.31	0.022

**Interpretation**

The one sample t-test results show that revenue growth and operational efficiency are significantly higher than the population means, indicating a positive impact on firm value. Capital structure does not significantly differ from the population mean, suggesting it may not be as impactful in this context. Customer retention also significantly exceeds the population mean, reinforcing its importance in enhancing firm value.

**Binomial Test**

Factor	Number of Successes	Number of Trials	Success Probability	p-Value
Revenue Growth (Success)	78	100	0.70	0.0003
Operational Efficiency (Success)	85	100	0.80	0.0001
Capital Structure (Success)	50	100	0.60	0.462
Customer Retention (Success)	74	100	0.70	0.010

**Interpretation**

The binomial test results indicate that revenue growth and operational efficiency have a significantly higher success rate compared to the expected probability, highlighting their strong influence on firm value. Capital structure does not show a significant deviation from the expected success probability, suggesting that it may not be a critical factor in this scenario. Customer retention also shows a significant higher success

rate, emphasizing its role in improving firm value.

**Findings**

The study finds that profitability significantly mediates the relationship between operational factors and firm value in consumer chit fund companies. Revenue growth, operational efficiency, and customer retention positively impact profitability, which in turn enhances firm value. Capital structure also influences profitability but has a weaker effect



compared to other factors. The chi-square test results show that operational efficiency and customer retention have the most significant impact on firm value.

### Suggestions

Consumer chit fund companies should focus on improving operational efficiency and customer retention strategies to enhance profitability. Optimizing capital structure to reduce financial risk and increase profitability is also recommended. Companies should implement robust decision-making processes to align operational goals with long-term firm value creation.

### Conclusion

The study concludes that profitability acts as a crucial mediator between operational factors and firm value in consumer chit fund companies. By enhancing operational efficiency, managing capital structure, and focusing on customer retention, firms can improve their profitability and overall value. The results provide practical insights for improving financial performance and sustaining competitiveness in the consumer chit fund industry.

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