


Chapter 13

Determining the Importance of Domestic Firms on Stock Market Performance in Terms of Financial Marketing: An Application on OECD Countries

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ABSTRACT

This chapter examines the relationship between stock market value of domestic firms traded in stock markets in OECD countries and stock index for 1990-2018 period. As a result of Pedroni Panel Cointegration and Dumitrescu-Hurlin Panel Causality Analysis, there is a relationship between the market values of domestic firms traded on the stock exchange and the stock index. In addition, a two-way causality relationship was found. This situation indicates that this relationship is very powerful. It can be understood that adding domestic companies to the stock market has a significant effect on the stock prices and this will attract foreign investors to enter the market.

INTRODUCTION

One of the most important indicators in determining the investors' decisions within the stock market is undoubtedly the stock prices. The development, liberalization of financial markets and the increasing degree of interaction in the sub-markets made stock prices extremely sensitive to economic and political developments (Basher and Sadorsky, 2016; Raza et al., 2016). The development of this market and ensuring a stable course follow the decisions of investors; the health of the decisions depends on the correct and meaningful determination of the factors affecting stock prices (Reboredo et al., 2016; Albeni and Demir, 2005). In the economy, whether it is individual investors or institutional investors, it is

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very important to evaluate surplus funds in their hands on the basis of low risk and high return. In this sense, it is of paramount importance that financial market investors are sensitive to stock investments and invest in high yielding stocks (Dessaint et al., 2018; Ege and Bayrakdaroglu, 2012; Dinçer, 2015; Ewing and Malik, 2016).

The entity may obtain equity financing through the sale of shares or the release of net profit to the company. The most important contribution of the financing through equity capital to the related company is that there is no fixed interest or obligation that the company must pay to the capital provided in this way (Neaime, 2016; Phua et al., 2017). Today, all countries strive to attract international capital to their countries through stock. Many developing countries provide foreign currency inflows to their countries by billions of dollars each year by stabilizing their capital markets. Indeed, the strength of the stock market in the country is an important factor for foreign investors (Kotabe and Kothari, 2016; Dinçer et al., 2016). The internal variable is the mobility of the domestic firms in the stock market which will determine the power of the stock market. Domestic companies listed on the exchange will contribute to the stock market (Edirisuriya et al., 2015; Yerdelen Kaygın, 2013).

The stock market is very important from an economic point of view. The stock market has a direct relationship with the real economy. As a matter of fact, the development of the stock market causes an increase in investments and this contributes to the economic growth (Smales, 2017; Bouri et al., 2017). The most important contribution of the stock to the economy functionally can be expressed as the evaluation of the savings of the people directly in the investments without incurring the credit costs (Kang et al., 2016; Arkan, 2016; Eti et al., 2019). This causes the burden of interest on the economy to disappear. In this respect, real economic development is an important event in the stock market. Ultimately, the development of a country depends on the development of the economy, and the development of the economy depends on the development of enterprises within the financial system (Beyer, 2015; Karan, 2011; Dinçer and Yüksel, 2018).

Determining the factors that affect stock prices will enable the investor to make the right investment decisions. If the factors that affect stock prices are determined correctly, the success of the investments will be higher. Factors affecting stock prices are classified as macroeconomic, enterprise-specific and other factors (Dizdarlar and Derindere, 2008; Salmanov et al., 2016). These factors include dividend income, capital gains and pre-emptive income for stock returns. From a microeconomic perspective, liquidity ratios, operating ratios, leverage ratios, profitability ratios and stock market performance ratios are important in terms of affecting stock prices (Feng et al., 2016; Bekiros et al., 2016; Emir et al., 2016). Macroeconomically, it can be expressed as exchange rate, inflation rate, money supply, interest rate, GDP, gold prices, oil prices and foreign trade balance (Huang et al., 2017; Acaravci, 2016; Peiró, 2016). When these factors are taken into consideration, it is seen that stock market performance is a variable. As a matter of fact, the effect of local firms on the stock market performance is one of the subjects that researchers aim to understand (Malandri et al., 2018).

It is one of the subjects that the domestic companies traded on the stock exchange are interested in whether they affect the stock market (Choudhry et al., 2016; Chien et al., 2015). The presence of local companies in the stock market gives us information about the structure of domestic investments. In addition, the strength, management quality and transparency of domestic firms in the stock exchange are important in attracting foreign investors (Siganos et al., 2017; Cetorelli and Peristiani, 2015). As a matter of fact, the quality of management of domestic firms will affect stock prices and influencing stock prices will have an impact on foreign direct investments. Affecting FDI will also contribute to the country's

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