PROPOSAL: DOWNFALL OF ROLLS-ROYCE STOCK PRICE DUE TO CORONAVIRUS PANDEMIC

Downfall of Rolls-Royce Stock Price due to Coronavirus Pandemic

Context

The study will investigate the Downfall of Rolls-Royce stock price due to coronavirus pandemic. Stock price and market are critical to any firm because they determine the business's growth and sustainability. However, the emergence of coronavirus has resulted in several challenges to all kinds of business. Companies across the world have been affected by strict restrictions such as social distancing, flight ban and lockdowns (Nicola et al., 2020). Unlike previous pandemics, coronavirus has brought unprecedented challenge within a short time, causing businesses and investors to suffer a significant loss due to the fall in the stock market. The International Monetary Fund predicted that the global economy would fall by 3% in 2020, while the World Trade Organization predicted that the GDP would drop by 32% in 2020 due to coronavirus pandemic (He et al., 2020).

Rolls-Royce is a British automobile company that was established in 1884 by Henry Royce (Rolls-Royce, 2021). The company deals with a variety of products and services, including civil aerospace, defence and power system, nuclear and digital academy (Rolls-Royce, 2021). According to Reuters (2020), Rolls-Royce has been affected by the coronavirus pandemic and is expecting to raise about $6.5 billion to rebuild its balance sheet, out of which about $3 billion is expected to be collected from shareholders. The company has been forced to close some of its syndicates due to travel bans imposed by different countries across the world (Rolls-Royce, 2021).

*Research Purpose*

To investigate the impact of the coronavirus pandemic on the downfall of Rolls-Royce stock price.

*Scope*

The study will investigate the downfall of Rolls-Royce stock price due to coronavirus pandemic. The study will particularly examine whether there is a statistically significant relationship between coronavirus and the downfall of Rolls-Royce stock price. To achieve this, the study will compare the market price of Rolls-Royce during the pandemic and previous performances. The research will also identify appropriate theories than can be used to explain the effect of coronavirus pandemic on the stock market. Further, the study will investigate appropriate techniques that can be used to measure changes in stock price and the rationale for their use.

*Research* *Question*

Is there a statistically significant relationship between coronavirus and the downfall of Rolls-Royce stock price?

*Hypotheses*

Null hypothesis (H0): There is a statistically significant relationship between coronavirus and the downfall of Rolls-Royce stock price.

Alternative hypothesis (H1): There is no statistically significant relationship between coronavirus and the downfall of Rolls-Royce stock price.

*Significance of the Study*

The study will be a valuable addition to the body of literature on the research topic given that there are limited studies. The research will also be useful in identifying appropriate models to measure the impact of coronavirus on the firm. Further, conducting the study will enable Rolls-Royce company to convince its shareholders to provide financial support to revive the business and justify any financial strategies taken by the board.

***Overview of Project Sections***

Chapter one will be the introduction section where the background information, research questions, and significance of the project will be discussed. Chapter 2 will be the literature review where previous studies will be synthesized, and the research gaps identified. Chapter 3 will be the methodology section where the research approach, research design, study population and sample size, data collection, data analysis, and ethical considerations will be addressed. Chapter 4 will cover the findings and discussion of the research results. Chapter 5 will detail the study conclusion, recommendation, and implications for future research based on the findings.

Literature Review

According to Backer et al. (2020), the coronavirus pandemic has affected the stock market more than any previous pandemic, including the Spanish Flu. Previous pandemics only left mild traces on stock markets; however, coronavirus pandemic uncertainty has created more concern on the stock market. Backer et al. (2020) further argued that government restrictions imposed by different countries have affected the service-oriented economy leading to a greater impact on the stock market. On the same note, Gormsen and Koijen (2020) argued that the unprecedented nature of coronavirus makes it harder for economists and managers to predict the pandemic's real impact on businesses using the available models. For instance, Gormsen and Koijen (2020) argued that the stock market in European Union and the U.S. dropped by 30%; however, it is impossible to use the same figure to predict future outcome.

In their study, He et al. (2020) established that the global economy has been significantly affected by the coronavirus pandemic. The authors further argued that investors have suffered economic loss due to the fall in the stock market. In support, Nicola et al. (2020) argued that restrictions that governments have put in place have greatly affected the stoke markets. All sectors of the economy have been affected, and it is still not known when the situation will normalize due to the nature of coronavirus.

Multiple studies that have been conducted have focused on the global economy as opposed to a country-specific economy. Currently, there are no studies that have examined the impact of the pandemic on the Rolls-Royce stock market. Therefore, there is a need for filling this *gap by examining the impact of coronavirus on Rolls-Royce.*

*Research Gap*

Despite various reports indicating negative economic performance on stock price and businesses in general, no research has been conducted to determine the effect of coronavirus pandemic on Rolls-Royce. Considering the diverse nature of this company, there is a need to conduct a study to determine the relationship between coronavirus and the downfall of Rolls-Royce stock price. Additionally, the unprecedented nature of the coronavirus pandemic makes it harder for economists and managers to predict the pandemic's real impact on businesses using the available models.

Theoretical Framework

*The Modigliani-Miller Theory*

According to the 1958 Modigliani-Miller theory, a business has certain sets of expected cash flow (Ahmeti and Prenaj, 2015). The theory asserts that when the firm decides to choose a certain proportion of debt and equity to finance its operations, the action is considered dividing the cash flows among the investors. According to the theory, both investors and firms have equal rights and access to financial markets; for instance, the investors have the power to get rid of any leverage that the firm takes, yet it was not wanted. The Modigliani-Miller Theory has failed in different circumstances, which explains the reasons why alternative theories have been proposed over time (Ahmeti and Prenaj, 2015). For instance, the theory has been criticised for its failure to separate the firm's financing and operations. Despite criticisms, the Modigliani-Miller theory can be used to justify plans by Rolls-Royce to collect money from shareholders to finance the company's recovery because the theory explains why financing matters (Ahmeti and Prenaj, 2015).

*The Tradeoff Theory*

The theory assumes that firms should ensure interior solutions to balance marginal cost and marginal benefits (Murray and Vidhan, 2007). Further, the theory supposes that firms should always evaluate costs and benefits to determine their performance and develop alternative plans where appropriate. The theory supported the need for taking a specific form when analysing transaction costs. For instance, it suggests that adjustments should be gradual and not abrupt (Murray and Vidhan, 2007).

*The Pecking Order Theory*

Murray and Vidhan (2007) note that the theory provides empirical facts of firms using their internal finances rather than considering capital structure as a starting point. According to the theory, the firm must have enough internal finance to fund its investment opportunities; otherwise, it would lose external financing. The firm might also be forced to look for alternative sources of finance when the internal capital is not enough. Looking for external financiers may discount the firm’s stock price when equity is issued to them rather than riskless debt (Murray and Vidhan, 2007).

*The Market Timing Theory*

The theory supposes that firms need to time their equity issues by issuing new stocks when the stock price is high and repurchasing them when shares are undervalued. However, fluctuations in market price can affect how the firm issue and buy stocks. This theory's limitation is that it considers economic agents to be rational while not considering external factors that may affect the market price. By using this theory, the business may issue stocks based on positive reports and end up suffering losses in case of external shocks, as in the case of coronavirus pandemic. The theory will be used to explain the way Roll-Royce makes decisions in terms of its shares and how such decisions affect the business during the pandemic error.

Methods

*Research Approach*

The project will utilise a quantitative research approach. The approach is appropriate for this study because it concerns the testing of hypotheses based on numerical data (Adams, and Lawrence, 2018). The secondary quantitative data for analysis will be retrieved from the downfall of the Rolls-Royce company's stocks statistics from 2018 to 2021.

*Data Analysis*

After the data is obtained, it will be audited for missing values and organised in an excel file for panel data analysis. According to Adams, and Lawrence (2018), data analysis involves the systematic application of statistical and logical techniques to audit, analyse, interpret and evaluate the collected data. Panel data analysis is appropriate for this study, given that it involves two-dimensional panel data (Dermofal, 2015). Further, the data has been collected over time, from 2018 to 2021, over the same variables, stock prices (Dermofal, 2015). Panel data analysis is more appropriate for this study because it can measure and detect statistical effects that cross-sectional data or pure time series cannot (Dermofal, 2015). The data will be analysed through SPSS v.25, at a 95% confidence interval and p<0.05 significance levels.

*Ethical Consideration*

Ethical considerations are critical in any research, and according to McKenna and Gray (2018), they involve transparency, anonymity, and safety of the participants and obtain informed consent. In research, ethics are intended to ensure that the research process is suitable for the purpose of the research without any prejudicial to the participants (McKenna and Gray, 2018). The study will utilise secondary data from the Downfall of Rolls-Royce company’s stocks statistics; hence will not require informed consent from the participants. However, the researcher will ensure that valid and appropriate data is retrieved for analysis, and the data will remain confidential.

*Anticipated Problems*

One of the major anticipated problems is that since secondary data will be obtained for analysis from the company, it will be difficult to access a dataset that answers the research question explicitly. This is mainly because the data will have been collected not specifically to answer the current research question. However, after retrieval, the data will be audited to obtain the specific variables required for analysis.

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