EARNINGS, SALES GROWTH AND SHAREHOLDERS VALUE OF LISTED INDUSTRIAL GOODS FIRMS IN NIGERIA

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ABSTRACT

Shareholders' expectation is to get a commensurate return on their investment after providing funds for businesses but often times, the returns they get does not measure up to what they have invested. One of the reasons for this is that managers of businesses employ various business strategies to create value for the owners of these businesses and are often faced with the selecting the best way of creating values. This study examined the effect of earnings per share and sales growth on shareholders' value of listed industrial goods firms in Nigeria for a period of ten years (2014–2023) using secondary data obtained from the annual audited reports of the sample firms. The population of the study consists of the thirteen listed industrial goods firms on Nigerian Exchange Group as at December 31, 2023 but 8 firms were evaluated due to availability of data. The data collected was analysed using panel data regression analysis. The result (coefficient -0.000463 and P-value 0.9888253) shows that earning per share does not significantly affect shareholders' value of Nigerian listed industrial goods firms while sales growth (coefficient -0.141912 and P-value 0.000890) has a significant effect on shareholders' value. The study concluded that sales growth has influence on shareholders' value of listed industrial goods firms in Nigeria. Hence, the study recommends that managers of listed industrial goods firms in Nigeria should maintain optimal sales growth in order to create values for their shareholders.

Keywords: earnings per share, sales growth, investment, returns, shareholders value

1.0 INTRODUCTION

Management's primary objective is to maximize shareholder profit, which supersedes the interests of other business stakeholders, such as the general public, suppliers, customers, and employees. Since shareholders are the company's ultimate owners, the principle states that managers and the board should place a high priority on safeguarding and expanding the company's assets for their benefit (O'Connell & Ward, 2020). According to Adam (2023), shareholder value is the amount of money that a company's stock owners receive as a result of management's ability to enhance sales, profitability, and free cash flow. This increases shareholder dividends and capital gains. A company's potential to increase value by paying dividends to its shareholders is determined by its ability to earn cash from operations and secure additional capital from other sources (Vazakidis & Adamopolous, 2019). Since stakeholders, including shareholders, are pushing management to greater levels of responsibility by insisting that the management produce value, the discussion of value creation among shareholders has become more and more relevant (CIMA, 2019).

Despite a large body of research, the factors impacting the construction of shareholders' value have been discussed for a number of years. Numerous researches that have been carried out worldwide provide evidence of this. The process of determining the financial factors that most significantly impact a company's capacity to generate wealth can facilitate the establishment of selection criteria for appropriate tactics in that direction (Marangu & Ambrose, 2019).

Since shareholders evaluate a company's success by its financial performance, common questions from shareholders center on how management is able to make profit sufficiently from the company's assets. What is the asset financing strategy of the company? Van and Wachowicz (2018) state that the profitability ratio is a commonly used measure of a company's performance and earnings for shareholders.

Determining and putting into practice strategies that add value for shareholders is one of the main challenges facing management in the Nigerian economy (Enekwe, Nweze & Agu, 2019). Determinants of shareholders' value are elements that set a corporation apart as an entity and can be either internal or external, financial or non-financial (Hassan & Ahmed 2020). The elements that affect an organization's overall effectiveness in attaining its goals have been discovered by academics such as Reber and Fong (2018) and Okpara (2019); nonetheless, there is a dearth of attention on this topic in academic study and practical implementations.

A corporation's failure can have serious, long-lasting consequences. Stakeholders and investors suffered greatly as a result of well-publicized corporate collapses like Worldcom and Enron (Darrat et al, 2020). Numerous nations have conducted studies to look at how shareholders' values react to its drivers. There has been variability in the outcomes. Mohd et al. (2021); Mbuvi, (2021); Sakthivel, (2021); Fitzsimmons, (2019); Ramezani et al., (2018) and Davidson et al., (2019); Marak & Chaipoopirutana, (2019); Keneth & Ambrose (2021); Ayuba et al., (2018); and others conducted research on sales growth and shareholders' value. The two factors are then combined in this study to form a dynamic factor that affects the shareholder value of Nigerian listed industrial goods firms.

The study examined the following questions:

i. How does Earnings per share affect shareholders value of listed industrial goods firms in Nigeria.
ii. To what extent does Sales growth affect shareholders value of listed industrial goods in Nigeria.

The aim of this study was to examine the determinants of shareholders’ value. The specific objectives were to:

i. determine the effect of Earnings per share on shareholders’ value of Listed industrial goods firms in Nigeria; and
ii. investigate the effect of Sales growth on Shareholders value of listed industrial goods firms in Nigeria.

Many studies have been conducted in different countries majorly of developed economy to investigate how shareholder's values react to financial performance, but little or no attention has been given to impact of sales growth on shareholder's value. The impact of earnings on shareholder's value is clear in the literature but it is not clear whether sale growth impacts shareholder's value. This gap in the literature is the focus of this study. Also, it concentrated on listed industrial goods companies in Nigeria, providing a comprehensive overview of the local industrial goods sector covering a specified period from 2014 to 2023. By examining data from this period, the study aimed to capture the trends and fluctuations in shareholder value driven by EPS and Sales Growth over more than a decade to provide more recent results.

EMPIRICAL AND THEORETICAL REVIEW

Theoretical Review

The shareholder value maximization theory was inspired by financial economics research that was released in the middle of the 20th century. The theory became well-known in the US in the 1970s and 1980s as a cornerstone of corporate management. According to Friedman et al. (2019), maximizing shareholder value ought to be a company's primary goal. Maximizing shareholder value was significantly impacted by this way of view. The theory was popularized and accepted in part by the efficient market hypothesis, which holds that in a competitive market, stock prices reflect all available information and, as a result, maximize shareholder value. The hypothesis is now considered a cornerstone of the commercial world. According to Jensen and Meckling (1976), the shareholder value maximization hypothesis posits that a company's primary goal ought to be to optimize the wealth of its owners via profitable operations and astute decision-making.

The idea holds that management's primary objective is to maximize shareholder value, and that this goal supersedes the interests of other company stakeholders, such as the general public, suppliers, customers, and employees. According to this view, management's main objective should be to safeguard shareholders' interests and increase the company's assets in a way that will maximize their value because shareholders are the ultimate owners of corporate assets. Understanding the idea of shareholders' value maximization makes it evident that management needs to be cognizant of and understand the factors influencing the shareholders' value of listed industrial products businesses in Nigeria in order to maximize shareholders' value. The premise of this argument is that companies value their assets based on two quantifiable factors: share price and dividends. According to O'connell and Ward (2020), management should make decisions that optimize the value of both dividends and share price growth. This theory served as the basis for this investigation because its main focus was on variables that affect shareholders' value. Therefore, the study hypothesizes that:

H_1: Earnings per share has no significant effect on shareholder's value of listed industrial goods firms in Nigeria.

H_2: sales growth does not have any significant effect on shareholder's value of listed industrial goods firms in Nigeria.

Empirical Review

The relationship between profitability and shareholders' value was studied after Ramezani, Soenen, and Jung (2018) examined the relationship between growth and profitability. They used Jensen's alpha to calculate the worth of shareholders and Economic worth Added (EVA) to analyze profitability. The study's findings demonstrated that, at a certain point, expansion has a detrimental impact on profitability and depletes shareholder value.

Sakthivel (2019) looked at the pharmaceutical industry's shareholder value in India from 1998 to 2007 a ten-year span. The study analyzes pharmaceutical companies' data using Economic Value Added (EVA) to determine their financial success. The study's findings showed that Indian pharmaceutical companies were successful in generating wealth for their shareholders through growth in sales. As a result, the study came to the conclusion that shareholder value and sales growth had a positive and significant link

Rajesh (2021) conducted a follow-up study on the variables influencing shareholder value. He made use of secondary data extracted from fifty listed firms' annual reports. He investigated the variables influencing shareholders' value generation in companies situated in the United Arab Emirates (UAE) using partial least squares structural equation modeling (PLS-SEM). The capacity of the companies to generate wealth for their owners and dividend payments were found to be strongly correlated by the study.

Muhammad et al. (2021) investigated the relationship between working capital management and value development for shareholders in Pakistan. The study used a sample of 92 textile companies during a nine-year period, from 2006 to 2014. The analysis showed that working capital management greatly lowers the value generated for owners in Pakistan's textile industries.

Nguyen, Tran, and Nguyen (2022) investigated how working capital management affected the value created for shareholders. Using sample data from 127 public enterprises during a nine-year period (2006–2014), the study found that working capital greatly increases shareholders' value generation.

Ahmed et al. (2022) did a study on the connection between working capital and shareholders' value in Pakistan's pharmaceutical businesses. The study examined a sample of seven companies based on their data from 2005 to 2012. The results showed that working capital and shareholders' value are negatively correlated.

MATERIALS AND METHODS

The ex-post facto research design was used in this study. All 13 listed industrial products companies on the Nigerian Exchange Group (NGX) as of December 31, 2023 make up the study's population. It is therefore, a census study. However, due to the unavailability of complete data from five (5) of the companies, only eight (8) companies were examined. Data were taken from the audited financial statements and annual reports of the chosen industrial companies for this study. The study project covered a ten-year period (2014-2023), the nature of the task required the utilization of panel data and secondary data.

The study used both inferential and descriptive statistical tools of analysis to analyze the data it obtained in a methodical manner. The mean, standard deviation, minimum, and maximum values were utilized as descriptive statistics. The Arellano-Bond Serial Correlation Test for autocorrelation, the Pesaran's test for cross-sectional independence, and the Breusch-Pagan test for heteroscedasticity were the preliminary analyses that were carried out. Panel regression analysis using the generalized method of moments (GMM) was the inferential statistic that was employed. The analysis was done using E views 9 statistical software.

Model specification

The model for this study was adapted from the study of Robert, Chikwendu and Asogwa (2019). The model stated as follows:

$$SHV_{it} = \alpha + \beta_1 DVPY_{it} + \beta_2 WKCT_{it} + \beta_4 PRTF_{it} + \beta_5 SLGT_{it} + \varepsilon_{it} \qquad (1)$$

SHV = Shareholders Value, SLGT = Sales growth, DVPY = Dividends payout, WKCT = Working capital Ratio, PRTF = Profitability

The model was then remodified by and stated as follows:

SHV = *f* (EPS, SGT) (2)

Econometric form for the model –

$SHV_{it} = \alpha + SHV_{it-1} + \beta_1 EPS_{it} + \beta_2 SGT_{it} + \varepsilon_{it}$ (3)

Where: SHV= Shareholders Value, EPS= Earnings per share, SGT= Sales Growth, α = Intercept, β = Parameter of explanatory variable, Ɛ = Error term, i = Industrial goods firms involved in the study, t = Time period involved.

RESULTS

Table 1: Arellano-Bond Serial Correlation Test (Autocorrelation)

Test order	m-Statistic	rho	SE (rho)	Prob.
AR (1)	-1.491493	-4.527995	3.035879	0.135831
AR (2)	-1.010152	-0.695477	0.688487	0.312422

Source: Author's computation, 2024

Table 1 shows the results of the autocorrelation test. The p-values of AR (1) 0.1358 and AR (2) 0.3124, both being greater than 0.05, suggest that neither first-order nor second-order autocorrelation is significant in the model. This generally supports the validity of the model.

Table 2: Cross-Section Dependence Test

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	33.770769	28	0.208522
Pesaran scaled LM	-0.297893		0.765784
Bias-corrected scaled LM	-0.869322		0.384671
Pesaran CD	1.7653073		0.077512

Source: Author's computation, 2024

Table 2 shows the cross-section dependence test results. The p-value (0.0775) shown by the Pesaran CD test is greater than the common significance level of 0.05 but less than 0.10. It indicates that there is weak evidence against the null hypothesis of cross-sectional independence which suggests marginal evidence of cross-sectional dependence. However, given that all the other three tests suggest no significant cross-sectional dependence (with p-values above 0.1), it provides consistent evidence that strengthens the validity of the model.

Table 3: Breusch Pagan Test for Heteroscedasticity

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SALES_GROWTH	0.037607	0.043436	0.865814	0.389930
EPS	0.089026	0.031073	2.865073	0.005684
R-squared	0.003486	Mean dependent var		0.169334
Adjusted R-squared	-0.012585	S.D. dependent var		0.469223
S.E. of regression	0.472167	Akaike info criterion		1.367784
Sum squared resid	13.822395	Schwarz criterion		1.435249
Log likelihood	-41.769091	Hannan-Quinn criter.		1.394362
Durbin-Watson stat	1.522030			
F-statistic	0.136923			
prob (f-statistic)	0.872533			

Source: Author's computation, 2024

The squared residuals of the dependent variable were regressed on the independent variables and the p-value (0.872533) exceeds the 5% significance level so we accept the null hypothesis, indicating a lack of compelling evidence for heteroscedasticity.

Table 5: Panel Regression Analysis – Generalized Method of Moments (GMM)

Dependent Variable: SHAREHOLDER_VALUE				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
SHAREHOLDER_VALUE(-1)	0.405166	0.047894	8.459606	7.147428
SALES_GROWTH	-0.141912	0.040609	-3.494595	0.000890
EPS	-0.000463	0.031351	-0.014782	0.988253
	Effects Specification			
Cross-section fixed (first differences)				
Mean dependent var	-0.050207	S.D. dependent var		0.348479
S.E. of regression	0.421500	Sum squared resid		10.837420
J-statistic	7.312067	Instrument rank		8
Prob(J-statistic)	0.198446			

Source: Author's computation, 2024

Table 5 shows the panel regression results from which the model is specified thus:

$SHV_{it} = 0.405166 + -0.000463EPS_{it} + -0.141912SGT_{it}$

The lagged shareholder value revealed a positive relationship with EPS and sales growth in the current period. In other words, one unit increase in shareholder value in the previous period is associated with about 41% increase in EPS and sales growth in the current period. However, this value is not statistically significant. Also, 1-unit increase in EPS will cause 0.000463-unit decrease in shareholder value and it is also not statistically significant. This shows a weak positive relationship between EPS and shareholder value. However, sales growth showed a negative relationship with shareholder value. This means that 1-unit increase in sales growth will result in about 14% decline in shareholder value. This result is also statistically significant.

In addition, the p-value of the J-statistic (0.198446) is greater than 0.05 which shows no statistical significance. A non-significant J-statistic supports the validity of the instruments, indicating that they are appropriate for the model. This indicates that there is not enough evidence to reject the null hypothesis, suggesting that the instruments are valid and uncorrelated with the error term.

DISCUSSION AND RECOMMENDATIONS

The shareholders' value, when lagged, reveal that it is associated with both EPS and sales growth. This is consistent with the findings of Largani et al. (2021) who found a significant relationship between EPS and shareholders' value. Also, Afza and Nazir (2021) found a negative correlation between aggressive working capital practices. Since working capital can be affected by sales, it can be inferred that there is a correlation between shareholders' value and sales growth.

On the other hand, EPS, revealed a weak positive relationship with shareholders' value. This aligns with the findings of Ramezani, Soenen, and Jung (2018) found a positive relationship between EPS and shareholders' value in their study. Livnat & Dan (2020) also established that EPS is a preferrable indicator of Price/earnings for market participants. This could infer its connection with shareholders' value since it determines their investment decisions. Robert, Chinkwendu and Asogwa (2019) also established some relationship between profitability and shareholder value. The neutral relationship observed between EPS and shareholder value could be as a result of the loss recorded by many of the company in during some of their financial periods.

Furthermore, sales growth appeared to negatively affect the value of shareholders. Sakthivel (2019) established a positive relationship in their study which is consistent with this current finding. Nguyen, Tran, and Nguyen (2022) and Muhammad et al. (2021) found a positive relationship and negative relationship respectively between working capital management and shareholders' value. Since, sales affect currents assets, a determinant of working capital, sales growth can affect the value of shareholders. These results however, contrast the expectations of the Shareholder Value Maximization Theory which posit that the company's engagements must improve the value of shareholders overtime. Based on the findings above, the study recommended that companies should evaluate their growth strategies to ensure they do not exceed their sustainable growth rate (SGR). Research indicates that growth beyond a certain point can lead to a decrease in shareholder value due to increased capital requirements and potential inefficiencies. They should prioritize quality over quantity and shift focus from aggressive sales growth to enhancing the quality of sales and profitability such as investing in high-return projects rather than simply increasing sales volume. It also recommended that since EPS has an insignificant positive relationship with shareholder value, it is crucial to analyze what factors influence EPS and why they do not translate into increased shareholder value. This could involve examining pricing strategies, cost structures, and market conditions and clearly communicate how changes in EPS will contribute to long-term shareholder value, focusing on sustainable practices rather than short-term gains.

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