
Financial Performance and Earnings Per Share of Consumer Goods Manufacturing Companies Quoted in Nigeria

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Abstract: Positive and continuous growth in Earnings per Share (EPS) has always been the desire of every investor, especially equity investors, and in measuring it, Financial Performance (FP) has been viewed to have a great impact on EPS, thus the aim is to examine the impact if any and to what extent that financial performance has on EPS. The adopted research design for this study was Ex-post facto with the objective of examining the effect of FP on EPS of Consumer Goods Manufacturing Companies (CGMC) Quoted in Nigeria. The population used for this study comprises 12 CGMC quoted on the Nigeria Exchange Group (NGX) as of April 30, 2021, while the size of the sample was purposely selected. The audited annual reports provided the data used for the companies that were sampled for the given period of 11 years (2009 – 2019). The data relied on the fact that the financial statements statutory audit in the annual report has been audited, guaranteeing its validity and reliability. The data were analyzed using descriptive and inferential statistical tools. The outcome of the test showed that the effect of ROA on EPS is positive and significant but ROE, on the other hand, has an insignificantly negative effect on the EPS of CGMC Quoted in Nigeria with a probability outcome of 0.0015 and 0.9487 respectively. The results of the test attest to these and are as follows: $R^2 = 0.077411$, $Adj.R^2 = 0.063107$ and $F\text{-Statistics} = 5.411958$, and $P\text{-value} = 0.005534$. The Study concluded that FP has both positively significant and negatively insignificant effects on the EPS of CGMC Quoted in Nigeria. The recommendation of this study is that equity investors and financial analysts should look beyond FP in taking their investment decisions.

Keywords: Earnings Per Share (EPS), Financial Analysts, Financial Performance (FP), Return on Assets (ROA), Return on Equity (ROE)

1. Introduction

1.1. Background

One of the major objectives of entities in business is mainly for the shareholders' wealth to be maximized the wealth of its shareholders through the instrumentality of profitability and good Financial Performance (FP). A healthy FP will help to ensure that the wealth of the business owners is maintained and enhanced as well. Fatoki and Olweny [21] stated that FP can be seen as the level to which the financial objective of an enterprise is set to be or has actually been achieved. It entails procedures to be followed when measuring the outcomes of an entity's operations and policies in monetary terms as well as the general financial health and

well-being of a firm over a specific time period. Also, Pernamasari, et al [36] opined that apart from the influence of the law of demand and supply, the FP of an entity also helps to determine how high or low, the prices of shares in the capital market can be. Some financial analysts and critics of financial statements as well as users have presented Earnings per Share (EPS) to be among the best tools to measure the interest of shareholders in the financial performance of a firm for quite a long time now Wet [45].

Thus, over the years, scholars and accounting professionals have presented the EPS as a veritable tool in measuring the FP of business entities and have also used the same in measuring the shareholders' share of the FP. Elsayed, [20] stated that EPS is seen as an important FP variable in financial statements that is useful for investment decision-making because it represents

the returns that the firm delivers to each of its outstanding equity stocks. Firm managers are often pressurized to present positive EPS growth that is constant and unbroken and this often leads to undertaking projects with short-term benefits other than those that will maximize shareholder. Wet [45] stated that to determine value, the timing, magnitude, and risk are attached to the future free cash flows of the firm. Mauboussin [26] opines that the underlying issue with EPS is that the decisions taken by firms tend to increase EPS, but still destroy shareholders' value. EPS is seen as the calculation that helps to allocate a firm's profits to its equity holders and also serves as an indication of how profitable the operations of a business are as it affects return on capital or assets employed Robbetez, et al [39]. This study, therefore, is aimed at seeking out how a firm's profits are apportioned to shareholders using EPS by confirming FP's impact on EPS and to what extent of it is on the CGMC in Nigeria.

1.2. Statement of the Problem

Over the years, scholars, researchers and accounting professionals have presented the EPS as a veritable tool in measuring the FP of business entities and has been seen as the calculation that helps to allocate a firm's profits to its equity holders and also serves as an indication of how profitable the operations of a business are as it affects return on capital or assets employed and has also used the same in measuring the shareholders' share of the FP thus the aim of this study is to examine the impact if any and to what extent that financial performance has on EPS in consumer goods manufacturing firms in Nigeria.

1.3. Objective of the Study

This study's objective was, therefore, to examine the effect of Financial Performance on the Earnings per Share of CGMC Quoted in Nigeria.

1.4. Research Questions

How does Financial Performance impact the Earnings per Share of CGMC Quoted in Nigeria?

1.5. Research Hypothesis

H₀₁: There is no significant effect of Financial Performance on Earnings per Share of CGMC Quoted in Nigeria.

2. Literature

2.1. Conceptual Review

2.1.1. Earnings Per Share

EPS is a well-known and handy ratio used in measuring the FP of a company in a summarized form and shows how much each equity share earns in terms of profit (or loss) after the necessary adjustments for potential dilution from other likely securities which are factored in DELTACPE [18]. EPS is among the popular financial ratios for investors globally,

and it is often used in making decisions on investments often, it is seen as a very important financial ratio that affects investors' decisions as to when, where and how much to invest in a given situation. Islam, et al [23] stated that EPS stands for that part of an entity's income that is reserved exclusively for the equity shareholders after taxes and preferred stock dividends must have been deducted. As an after-tax income ratio, EPS can guide investors in assessing a given entity's income potential. EPS is mostly used when attempting to measure the proportion of the owner's earnings for the period that is attributable to each qualifying piece of equity Share held by the shareholders of a firm.

Information about EPS can be useful in the hands of leaders of entities to enable them to be able to determine the development of the entity and the more profit increases in total, the more the increased EPS as well Rosikah, et al [40]. EPS is used as an indicator to show the success or failure in managing a company and it is a way to access the successes attained in achieving profits for the owners of a company Badruzaman [11]. Thus, EPS as a variable is quite reliable as long as it is calculated by applying the same principles to enable the results to be comparable from one reporting period to another. International Accounting Standards (IAS) 33 very importantly requires the calculation, as well as the presentation of two types of EPS in financial statements and they, are basic and diluted EPS Prewysz-Kwinto & Voss [37]. For this study, basic EPS will be used and it is thus defined according to IAS 33:

$$\text{EPS} = \frac{\text{Earnings after tax} - \text{dividends on Preference Shares}}{\text{Weighted Average Number of Equity Shares}}$$

2.1.2. Firm Performance

Generally, it is agreed in theoretical terms that shareholders' wealth maximization is the financial goal of firms which is shown in the market value of the entity's equity shares Balaputhiran [12]. A firm's FP is among the variables often used by investors (existing and prospective) to make decisions on investments and also shows a firm's ability to maintain an improved financial performance which is indeed desirable Rosikah, et al [40]. An entity gets affected by several factors that impact its general market and FP happens to be one of such factors having the potential to be used by investors to determine equity investments making FP a very important variable to the firms (Almagtome & Abbas, Al-Natsheha & Al-Okdeha and Pascareno & Siringoringo) [4, 6 and 34]. Okoro, et al [33] defined FP as "the financial position that exists in an enterprise at a specific time or period for a specific aspect of the enterprise's performance or its performance as a whole." Adegbe, et al [1] stated that FP suggests an overall financially healthy entity at a particular period and that it is analyzed for direction towards deciding the workings and financial characteristics of the entity using its financial statements. Looking at the existing accounting literature, many variables of FP such as ROA, ROE, EPS, stock return, and others are being used. But for the sake of this study, FP will be measured using ROA and ROE.

2.1.3. Return on Assets

ROA is a variable used in the measurement of an entity's ability to make profits using the total assets owned by the firm in the future. Atidhira and Yustina [9] stated ROA is an indicator of an entity's profitability and it is a ratio that shows how an entity through its ability can generate profits from the total assets that it owned efficiently. Thus, a higher ROA indicates a higher performance ability which will lead to a more effective company. Idawati and Wahyudi [22] stated that ROA can be described as how effective an entity utilizes its assets for profit purposes and that the higher the ROA that a firm possesses, the higher the firm's ability to generate more profits for its owners, all other things being equal. The ROA is often mostly used in accounting as a performance measure in financial research [32]. Akintoye, et al [3] stated that ROA has over the period shown to be a good representation of an entity's FP as well as its ability to use the firm's assets to generate profit for its owners and other stakeholders and it is:

$$\text{ROA} = \frac{\text{Profit Before Tax}}{\text{Total Assets}}$$

2.1.4. Return on Equity

ROE is a primary measure of profitability and returns, and it's a ratio that shows the resources that can be available for use in generating profits by an entity [11]. ROE is a variable in measuring the income available to the owners of an entity of their invested capital therein. ROE is the financial ratio that shows the return on equity capital employed and it is used to examine the extent to which an entity uses its resources in ensuring returns for its equity capital providers [8]. Nainggolan and Widajatun [29] ROE help to examine how well an entity makes use of its resources to make a profit for the equity owners as well as the efficiency of using self-capital. A company's intrinsic value can be directly affected by ROE and thus, it has become an important ratio to be considered by investors when analyzing the company's stock price [17]. It is expected that a higher ROE will lead to better positioning of the firm's owners.

$$\text{It is formulated} = \frac{\text{Net profit after taxes}}{\text{Shareholders' equity fund}}$$

2.2. Theoretical Review

2.2.1. Signaling Theory

Sulistyanie, and Sumantri [43] Signaling theory was initially put forward by Akerlof in 1970 and was further transformed in 1973 by Spence. The theory lays emphasis on how cogent the information disseminated by companies on investment decisions is to outsiders of the company. Signaling theory broadly viewed relates more to the availability of generated information from a firm's audited annual financial reports that can be utilized in investment decision-making later. The theory attempts to reduce information asymmetry existing between the managers and owners of the entity as well as other stakeholders who are not part of the internal members of the firm [16]. This theory further attempts to offer an extra and significant step by

being specific on how senders and observers of the signal can discern between high-quality from low-quality players according to the observable signal [13]. Information made available to entities is of great importance since it impacts on investment decisions made by parties, not within the entity [15]. Sayari, et al, [41] maintained that the value of information derivable from annual reports of entities is well enriched. But note that such value could be decreased by managers in order to manipulate or deceive investors.

2.2.2. Shareholder Theory

The proponent of this theory is Friedman in 1970, and it postulates that an entity mainly exists to make profits mainly for its owners who are the shareholders and also to maximize the entity's value. The theory assumes that since shareholders are the owners of the entity, the entity's main responsibility is to the shareholders only. Since profits are the most important thing, businesses are therefore to be responsible only for the maximizing of shareholders' wealth. Bistrova and Lace [14] supported this theory with their findings that showed that the majority of researchers adhere to it and considered that the maximization of shareholder value is the ultimate corporate goal. While Letza, [24] found out through their studies that it is not only the shareholders that are important to the entity but that both the Shareholders and Stakeholders are equally important and their needs should both be considered in pursuing the entity's goals.

2.2.3. Theoretical Framework

The theoretical framework of this work is the shareholder theory. This is because the theory mainly focused on making a profit and maximizing the value of the firm mainly for the shareholders and thus is well situated for this study.

2.3. Empirical Review

Rosikah, et al [40] carried out a study on the effects that ROA, ROE, and EPS have on the value of firms and the outcome showed that ROA has a significantly positive effect while ROE showed an insignificant but positive effect on firm value and EPS produced an insignificant but negative effect on firm value as well. While ROA, ROE, and EPS all showed a significant effect on firm value simultaneously. Badruzaman [11] researched to ascertain the effect of EPS and ROE on Stock Prices and the result revealed that EPS has a partial positive and ROE hurts the prices of Stock respectively. Furthermore, the result further revealed that EPS was most significant with its influence on the prices of stock. Atidhira and Yustina's [9] study showed a result that Debt to Equity Ratio (DER) and EPS both have a positive as well as a significant influence on share return. Also, ROA and firm size all have a negative and insignificant influence on share return.

Asikin, et al [8] found from the research work that ROA, ROE, and EPS all have a significant and positive effect on the prices of stock with a contribution of 88.2% influence. The study that was carried out by Nainggolan and Widajatun [29] where FP was measured by EPS, ROE, and DER, revealed that ROE was significantly affected by the return on

shares. Although EPS and DER were partly insignificant, FP projected through EPS, ROE and DER showed a significant effect as well. Daniswara and Daryanto [17] revealed through their study that Earning Yield (EY), Price Book Value (PBV), ROA together with Market Return all had a significantly positive effect on share returns while individually, the result happened not to be the same as all the variables have a positive and significant effect on share returns while ROA has a negative and an insignificant effect on share returns.

Balaputhiran [12] undertook and studied the relationship existing between FP and EPS employing correlation and simple linear regression methods in analyzing the variables. The outcome showed an insignificantly positive effect of EPS on FP while the other variables outside the model appear to have a better impact thereon. While Idawati and Wahyudi [22] on the other hand, studied the effect of EPS and ROA against the price of Shares and showed that EPS and ROA have a positive and significant relationship with the Share price and thus do significantly affect share price as well.

3. Methodology

3.1. Population and Sample Size

In carrying out the study, 12 consumer goods from the Nigerian manufacturing sector make up the study's population and these are quoted on the NGX as of April 30, 2021, but the sample size was purposely selected. The data used were extracted from the audited annual financial reports of various sampled firms for the period of 11 years starting from 2009 to 2019 thus indicating the reliability and validity of the given data used. A purposive sampling method was employed to obtain the sample size of this study. For the prediction of the value of the variables, Multiple Regression Model was employed as the statistical tool using E-views 9. Adjusted R² was used as the measure of the explanatory power of the various variables. Adjusted R² was also employed to measure the proportion of all variations observed in the dependent variable that was explained by independent variables. Panel data were used. The multiple regression formula used was:

$$EPS = \beta_0 + \beta_1 ROA_{it} + \beta_2 ROE_{it} + u_{it}$$

3.2. Mathematical Model

To evaluate

$$Y = f(X)$$

Y = Dependent variable (EPS)

X = Independent variable (FP)

X and Y are as follows:

$$Y = (y_1)$$

$$X = (x_1, x_2)$$

Where y₁ = EPS

and

$$x_1 = ROA$$

$$x_2 = ROE$$

Thus the expanded functional model is as follows:

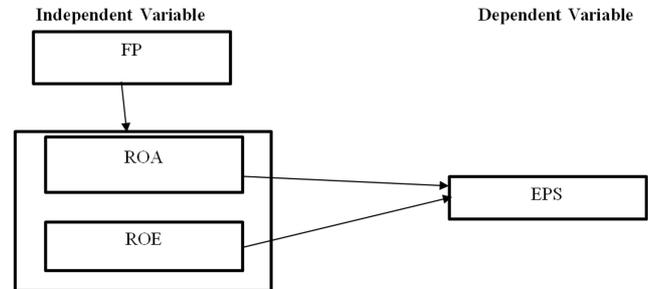
Function 1:

$$EPS = f(ROA, ROE)$$

Which is expressed as:

$$EPS_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 ROE_{it} + u_{it}$$

3.3. Researcher's Conceptual Model



Source: Candidate's Concept (2021)

Figure 1. Conceptual Model Summary.

4. Results and Discussion of Findings

4.1. Descriptive Analysis

From this section, an overview of the descriptive analysis of the set of data used in this study as well as the description of the main attributes of this same set of data. Numerical representation as shown in Table 1, is used for descriptive analysis of panel data and it reveals the mean, maximum, minimum, and standard deviation of EPS, ROA, and ROE.

Table 1. Descriptive statistics.

	EPS	ROA	ROE
Mean	4.739318	0.149697	25.23538
Median	1.405000	0.125000	0.220000
Maximum	57.63000	2.260000	3296.370
Minimum	-103.0000	-0.310000	-3.720000
Std. Dev.	13.83320	0.262178	286.8895
Skewness	-2.394365	4.480199	11.35810
Kurtosis	32.13484	35.71281	130.0069
Jarque-Bera	4794.738	6327.292	91557.29
Probability	0.000000	0.000000	0.000000
Sum	625.5900	19.76000	3331.070
Sum Sq. Dev.	25067.82	9.004588	10782034
Observations	132	132	132

Source: Researcher's Study, 2021.

4.2. Interpretation

Table 1 by way of summary shows statistically all the variables retrieved from the sample for the study. The maximum value of EPS is 57.63000 is the maximum value that EPS has and it also shows a positive foreseeable future. Figures 4.739318 and 13.83320 are the mean and standard deviation (SD) values of the sampled data respectively. SD is to measure to what extent there is dispersion from the mean and indicates how volatile the series is and from the result, it will be seen that their EPS is quite volatile to the tune of

13.83320. To further confirm the outcomes above, the difference and distance existing between the minimum values (-103.0000) and maximum values (57.63000) of the sample data are shown. This shows that for sampled companies and periods, EPS changed over the reviewed period having some companies with negative earnings having a lower than 0 minimum value while others had positive earnings with a maximum value higher than 1.

ROA and ROE produced 0.149697 and 25.23538 mean values respectively, and SD values of 0.262178 and 286.8895 respectively. This showing that there is a lower dispersion of ROA which by implication has a low volatility and a high dispersion of ROE indicating a high level of volatility as measures of FP from their mean values. The existing distance and difference between ROA and ROE's minimum values (-

0.310000, -3.720000) and maximum values (2.260000, 3296.370) respectively as shown in Table 1 further confirmed the result. Thus depicting that ROA and ROE amongst themselves within sampled companies and periods. But then, the extent of the relationship and direction existing between these variables cannot be determined from numerical representations in Table 1 above, and thus, regression analysis, which is presented in the next section will be able to show the extent as well as the direction of the relationship according to the stipulated objectives of the study.

4.3. Testing of Hypothesis

H₀₁: There is no significant effect of FP on the EPS of CGMC Quoted in Nigeria.

Table 2. Regression Analysis for Model One.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.555431	1.358874	1.880551	0.0623
ROA	14.63358	4.513078	3.242483	0.0015
ROE	-0.000266	0.004124	-0.064518	0.9487
R-squared	0.077411	Mean dependent var		4.739318
Adjusted R-squared	0.063107	S.D. dependent var		13.83320
S.E. of regression	13.38960	Akaike info criterion		8.049298
Sum squared resid	23127.29	Schwarz criterion		8.114817
Log-likelihood	-528.2537	Hannan-Quinn criteria.		8.075922
F-statistic	5.411958	Durbin-Watson stat		1.232784
Prob(F-statistic)	0.005534			

Variable Coefficient Std Error t-Stat. Prob.

Dependent Variable: EPS = Earnings Per Share; Obs.: 132. C = Constant, ROA= Return on Asset, ROE= Return on Equity. *significant at 5%. Source: Researcher's Study, 2021.

Model 1

$$\text{EPS} = f(\text{ROA}, \text{ROE})$$

$$\text{EPS}_{it} = \beta_0 + \beta_1 \text{ROA}_{it} + \beta_2 \text{ROE}_{it} + u_{it}$$

$$\text{EPS}_{it} = 2.555431 + 14.63358\text{ROA}_{it} - 0.000266\text{ROE}_{it} + u_{it}$$

4.4. Interpretation

Table 2 showcases the regression result of FP measured by ROA showing a significantly positive effect on EPS while ROE, on the other hand, hurts EPS slightly. The signs by each of the coefficients attest to that: $\beta_1 = 14.63358 > 0$; $\beta_2 = -0.000266 < 0$. Furthermore, the coefficients' size revealed that a percentage (1%) increase in ROA will produce 14.63358% (increase) in EPS and a 1% increase in ROE will also produce a decrease to the tune of -0.000266%. ROA agrees with *a priori* expectation while ROE, on the other hand, does not align with *a priori* expectation of this study, since the expectation is that the measures of FP that are, ROA and ROE will respectively have both a positive and significant effect on EPS. Again, the individual t-statistics and probability figures stood at 3.242483 and -0.064518 respectively. This indicates that FP has a minor effect on EPS at a 5% level of significance acceptable in this study.

The overall coefficient of determination of Adjusted R² is 0.063107. R² is the explanatory power of this model and shows

that FP is responsible for a small portion (6%) of variations that occurred in EPS while the remaining 94% of variations in EPS are explained by other factors outside this model. The above result is further highlighted by the probability result of the F-statistic which is 0.005534 which revealed that the result of regression is statistically significant as it is less than the 5% level of significance acceptable for this study. To this end, it is accepted that there is no significant effect of FP on the EPS of CGMC Quoted in Nigeria.

4.5. Discussion the of Findings

Financial Performance measured by ROA and ROE as observed from the output of statistical analysis showed that ROA has a significantly positive effect on EPS while ROE on the other hand revealed a negatively insignificant effect on EPS. This revealed that FP only impacts EPS by only 6%. This indicates that even though a company could be profitable or performing well financially, such performance may not be in the interest of the owners of the entity. This could be a result of earnings management according to Man & Wong [25] and Okoro, *et al* [33], investment in projects that has no long-term profitability which is not favourable to shareholders. The findings of the study thus support the outcome of the studies by Balaputhiran [12], Rosikah, *et al* [40] and Daniswara & Daryanto [17] of Gras-gil, *et al*, Badruzaman and Nainggolan & Widajatun [9, 11] and [29]

were not supported.

5. Conclusion and Recommendation

5.1. Conclusion

The study examined to see if Financial Performance affects the EPS of selected CGMCs in Nigeria. The estimated regression outcome revealed that ROA has a positive effect on EPS while ROE hurts EPS. Indicating that ROA has a better effect on EPS than ROE. Thus this research concluded that FP has both significant positive and insignificant negative effects on the EPS of selected CGMC in Nigeria within the period studied.

5.2. Recommendation

The following are the recommendations made in accordance with the findings and conclusion of this study:

Investors and Financial Analysts: implication of these for investors is that they should consider ROA more than ROE as a measure of financial performance making an investment decision in an entity as this will guide them into making a better-informed decision while Financial Analysts are to give deeper consideration to ROA as a financial performance measure. Furthermore, it will be necessary to consider other factors that could impact the maximization of their investment such as management's myopic and short-term objectives that are not meant to be for the good of equity investors. Researchers are to further look into other variables that affect EPS significantly and positively as the examined variables only contribute about 6%. The other 94% of unexplained variables need to be studied and brought to the limelight.

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