Earnings per share impact on non-financial firms performance

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Abstract

The aim of this research is to evaluate the “Earning per share impact on non-financial firm performance” concerning creation of the shareholder worth. After an assessment of the reasons behind the mixture and how they can create value, a deliberate analysis of three sectors that is Chemical, Fertilizer and Food each sector has four companies for the period time (2007-2017). Moreover, topic is about non-financial firm performance, following variables are net profit, return on assets and earning per share which plays a vital role in managing the financial performance activities. Additionally, it was necessary to perform a financial evaluation of shareholders value created to be able to come up with a comprehensive decision. The research revolves around these variables. This research involves a great significance in term of dealing with the different companies while you are giving a particular task on how to manage the financial criteria of the company. When it comes to the financial findings the numbers are showing the different results. Subsequently even however the analysis presents significant results the conclusion for this research is that the earning per share has created value for non-financial firms. This research would correspondingly recognize the limitations of quantitative method used with the capability of possible findings.

Keywords: Earning, Shares, Performance, Firms

Introduction

Earnings attitude detailed substantial trendy the lifetime of firm’s enactment for development, investment and stockholders for the principal extension BalaputhiranS (2014). It gives the desired incomes for the delivery of reoccurrence on stock in shares. The worth of the regular shares might also affect the firm performance. Earnings per share are a function of the market value of the company’s shares (Chang, Chen, Su and Chang, 2008). The maximization of earning per share will result the highest price for the company’s shares. Share prices may increase and reduction in rejoinder to variations in the value. Earnings per shares is a part of a firm’s income that is due to apiece remaining parts of mutual stock. Earnings per share also help people to have a better insight of dissimilar company’s power to make money (Inyiama and Ozouli, 2014).Stockholders are the business’s holders and equally such are permitted to a part of the incomes/paychecks. They consequently collect their piece of incomes in system of payments and therefore the further the stable understands in revenues/salaries, the more likely it is to be higher levels of dividends and the more the shareholder will receive as her/his share. Intensification in the organization’s producing designates as increase in company’s worth and diminution in earnings business’s value signposts the establishment charge. Stake worth is the display of the complete strength of the business, if the share price of syndicate endures to growth then it protests that firm and its administration is responsibility their job brilliantly. Earnings per share also called the “net income” (“Muhammad,Z.J, Ghulam,S, Naqvi. H, Nadeem. I & Khan.M (2014).The importance of earnings per share, an attempt has been made to identify the cause and effect association among firm performance and earning per share. The difference in shares price has become a main matter particularly in the non-financial sector with (chemical, fertilizer and food) and each sector has selected three companies listed from KSE Pakistan. (Brahimi and Chadeayne, 2011). Earnings per share are individual of the procedures of executive competence by way of fine as per strong enactment (Umar and Musa, 2013). Earnings per share attend such as a pointer of an enterprise’s productivity. Earnings per share are the financial worth of the incomes portion of a enterprise would continuously be reflected in relative to additional corporations in command to make an extra knowledgeable or judicious venture conclusion. Stockholders typically checked their paychecks relation aimed at upcoming investors. (Banyo et al., 2011) Firms requiring same scope, identical their earnings and linking to same manufacturing but dissimilar their amount earnings ratio. Pratt (2001) investigates that these differences may happen between them because of shareholder’s chances and imminent earnings. Trend over time is important. The earnings per share trend may be easier to interpret than the trend in net income because earning per share is adjusted for changes in capital structure (Siddiqui, S.S 2012). Some businesses present cash flow per share as well as earning per share. Any quantifiable measure of also a separate or a purpose’s performance that is not articulated in economic rudiments. This comprises any ratio founded performance quantity in that a non-financial firm performance measure that is percentage fabricated units any fiscal metric in moreover the numerator or denominator of that ratio. Non-financial firm performance measures are sometimes considered to be important suggestions of future financial performance though present financial performance measures such as earnings per share or return on assets (Ibrahim & Lloyd, 2011).
Earnings-per-share (EPS), incomes, expenditures and disposable asset values (NAV) (Chang, Chen, Su and Chang, 2010). They trust that the upcoming income of the stable remains the supreme essential factor that disturbs ordinary charges then that the rates material comprise the highest informational centered of entirely the secretarial evidence later this one covers authoritative exchange concerning the affiliation among secretarial incomes and standard charge. Iniyama and Oscula (2014) suggested that the efficacy or proficiency of management decision might stay assessing now the source of the influence on the company’s ordinary worth. Earnings per share are defined as the ratio of profit after tax after dividend on penchant portions to number of remaining impartiality parts. To this end earnings per share can be used to create value for the shareholders (Hobson et al, 2012).

In financial sector earnings per share is considered a very important because it must a momentous influence on company’s performance stock prices (Pin yak, 2014). Many researchers have been conducted on earnings per share but it stills a deficiency and beginning is in Pakistan. So, how can use we resolved these conflicts on firm’s performance we further elaborates these issues?

Earnings per share is an indication share venture performance in the intelligence of identify success allied with share capital (lee, 2006) observed that this ratio is subjected to innovative accounting than others. The disparity in stock prices is the key problematic in the non-financial firms together with (Chemical, Fertilizer & Food). Earnings per share are quantity which standard brokers and investors will see sensibly and deliberate it while determining the marketplace value of the fairness share (Nazaruddin, 2000).

An investigation into the research to finding out what is the outcome of earnings per share on non-financial organizations performance. Is their stock return according to the investor’s expectation? In the direction of discover ready the reactions of these demands therefore to learning these circumstances.

This research enables both business managers and as well as investors. This research gives direction to investors when making their financing strategies. This research gives investors how to use earnings per share and gives relative information of financial statements to recognize the future returns on stock prices. This research makes an influence to existing literature and strategy several ways.

In the non-financial firms performance connection for the most stable and profitable firms, as most studies uses earning per share, return on assets and net profit (Mwangi et al 2014). Earnings per share are the serving of the establishment’s profit which shareholders earned. Earnings per share are actual important factor for the firm’s performance because it distributed profits. Earnings per share also effects on equity of market value on the basis of distribution of dividends.

In this research we discuss the factors in non-financial firm’s performance and earnings per share. Return on assets is defining the company’s profit of its total assets and net profit is indicating the whole profit of the firms. This research will supportive for the shareholders who invest in the non-financial firm’s performance in Pakistan. To this research will benefit for the investors and shareholders. To measure the firm performance and earnings per share for this source of analysis.

**Literature review**

Arif and Akbar (2013) made an effort to appraise profitability, scope, duty, investment prospects and lifetime series stage of firm as determining feature of dividend strategy in non-financial. Firms adopt various internal managerial production policies sourced at maximizing profits. Firms, however not sure these means of largely explained their performance. It is for this reason to find out whether earning per share is a factor determining the firm’s performance. Balaputhiran.S (2014), the learning originates the connection amid secure presentation and receiving each part. The receiving each part remained occupied by way of a reliant on variable whereas secure enactment, remaining income and income on assets be situated for example liberated variables. The earning per share (EPS) is benchmark recycled and amount of firm profitability. There are there numerous venture series & collection executives who mark EPS prediction towards category refuge assortment.

Board counteraction strategies were utilized by Chang, Chen, Su and Chang (2008) towards research the connection among short-term routine, costs then income per-share (EPS). They were equally well-organized whether standard costs react to EPS underneath various stages of development rate of working income. Earnings per share (EPS) are single of the maximum imperative issue need to be measured designed for a corporation’s effectiveness, Felix (2012).Payments are vital used for equally depositors and executives (Khan et al., 2011). Disbursement is the basis of proceeds by way of sound as the dimension of establishment enactment aimed at the depositor. In stock prices wants progress a problem specifically in the non-financial firms containing (Fertilizer, Chemical & Food). This learning inspects the effect of earning per portion on non-financial firms performance. The earning per share remained handled as hooked on variable and firm performance, net profit and return on assets be situated recycled as per autonomous variable Hunjra. A. I, Muhamad. S. I, Muhamad. I. C, Sabit-ul. H &Umer. M (2011). There are moderately insufficient inquiries that examine the influence of earnings per share on firm performance. It is suggested that earning per share designates the impending market return. So it can simply be adjudicated that somebody can forecast coming stock return finished earnings per share. Likewise (Tze et al., 2011) used earnings per share indicates of future market return. Earnings per share are simply to calculate and easily understood by the management is successful when there is positive incomes apiece portion growth.

Incomes per share is one of the significant that to generate firm’s profitability but in some cases EPS motivation increase central to growth equity and will similarly consequence market value of shares Muhammad.Z.J, Ghulam.S, Naqvi. H, Nadeem. I & Khan.M (2014).Earnings per share indicate actual healthy position of a company. Earnings per share have a significant relationship with share price Raja Kumar, M.P & V. Shanti (2014). Earnings per share comprise a pretentious by the company’s plan. Earnings per share growing fraction can be deceptive or worthless when founded on ammo dishonorable or undesirable earnings from a period of time. It is specified that advanced market value and higher dividend made the rapport between the earnings strong. It is critical that investors fix not trust on measure of earnings per share for creation investment verdicts. To intricate the association among excesses, worth incomes and fluctuations trendy the prospect earnings was directed by ( Amiri et al.,2011). Earnings per share remain the financial measures of the company’s performance. Earnings are also a flawed based on accounting rules and accounting rules is not based on economics reality. (Domains, 2007) are results of share price movements. Earnings per share research of valuation purposes (Barhet al 2010; Duske et al 2010).Therefore earnings per share are the source of profitability,(Tuli, Nishi and Mittal, R.K2001) adroit that earnings per share were imperious in defining the share price. Office based measurement is generally well thought-out as an effective way of indicator of the company’s profitability. Return on asset is a short term to measure the profitability. The return on assets proportion exemplifies that just how glowing organization is give work the corporation’s overall assets to kind an income. The greater the return the further effective controlling is in operating the situation benefit improper (Dorsum, Cemil and Uyar (2013).

Reappearance on assets expresses you what incomes were produced from exploited capital (assets).Return on assets for community corporations very considerably and will be dependent on the industry. This is why once by means of ROA as a modest measure, it is finest to liken it in contrast to a company’s preceding ROA numbers or the ROA similar of the company. The resources of the business stay involves of together responsibility and fairness. The return on assets provides an impression of just how effectually the company is altering the change into net income (Santos, Basso and Kayo Kimura 2014).
Advanced ROA too imitates the concern’s active use of its assets in serving the economic benefits of its shareholders (Ibrahim & Abdul Sammad, 2011). By means of return on assets as a crucial presentation metric rapidly weights business care on the assets required to run the business. The best choice will ideally increase productivity and income as well as reduce assets cost resulting an improved return on assets ratio. Average monetary account inquiry separates depositor’s success which raises firm processes to economics actions. Hence return on assets distinguishes after return on equity (Ishim and Penman 2003). Higher feast reason greater productivity uncertainty their situation happens (Lund Holm, R et al. 2012). Ward and Price (2006) indicates that an augmented debt/equity ratio in a profitability grows investor return however as well grows hazard. Return on assets is showed as ratio. It is mentioned as return on investment.

Net profit can help assess the company’s wealth. Many investors look on earnings per share based on net profit. A common statement of net profit when deliberating monetary statement (which includes an equilibrium sheet and income statement) is the lowest line. The period result from occurrence of an income statement shows all owed profits and expenditures over a specified period. Net profit is the money left over afterward disbursing all the expenses of an exertion Scott.W.J&Jose.C.A (2011).

Net profit is a fundamental measure of profitability of the undertaking. It is the revenues of the action less the budgets of the activity. Net profit varies from company to company and sure ranges can be predictable in secure firms. Low-slung profit don’t unavertedly equate to low profits. Companies that are talented to increase their net profit are generally increased with share price growth, as share price growth leads to the highest level of profitability. Net profit is criticized to its retro grade watching division and its fractional assessment of impending events (Kapopoulous&Lazaretou, 2007).

Revenue statement shows the concern’s productivity completed a retro of time. Now revenue statement net profit remains intended through deducting entirely expenditures from income (Patrick, Ralph, Barry & Susan 2002). The net profit figure should be used is the amount of returns after all expenses including taxes.

Khan, A. B., & Zulfiqar, A. S. (2012) tried to find out dependability of future profitability of the firms performance. It can offer a more correct an opinion of in what way profitable a business than its currency flows, and by indicating upturns and reductions in its net profit. Stakeholders advent net profit carefully because it is the foundation of reparation of the company, and if the company cannot cause sufficient income to compensate proprietors, the value of dividends will drop.

Performance measurement defines to the recess of assessing the movement’s productivity and efficacy. Firm’s value can be labelled as the supports slowing the firm’s shares by the shareholders (Rauf, 2011). The company performance could be defined from the financial statement stated by the company. Accordingly, a worthy carrying out company will be strengthening management for excellence expose (Harley &Sisuahudi, 2011).

Firms financing decisions is wealth maximization and the quality of any financing decisions has an effect on corporation’s profitability (Mange et al, 2014). Financial decision making very important for the profitability of any firms. Financial decisions include little and long term financial decisions. The long term decisions are mode of capital while short term decision involves liquidity decisions. The firm’s achievement is essentially defined by this one performance done a positive period of phase.

The impartial of measuring a performance is to obtain very useful information about how of funds, the work of firm finances their efficiency and effectiveness. In financial firms performance has many factors effects on companies that is company size, liquidity, leverage and company’s management indices (Almajali et al, 2012). Firms performance and effectiveness is commanding in budget initial the revenue to the firm means income towards the shareholders. Steady, established companies that make large profits have been realized to perform good in economic activities it would stand in bad economic crisis and recover faster from economic conditions rather than small or medium level firms.

Kothari, Lewellen and Warner (2003) considered the standard marketplace response toward collective incomes of the firms. It is found that the relation between earnings and return is different. Earnings per share are an imperative element performance of the company. Once the share is believed spinal, the quantity of outstanding shares is abridged. Abdul Wahid (2014) exposed that the operative performance of the companies was enhanced fair because of the decrease in the number of outstanding shares. Good high profitable firms will use more internal financing as much as but the low profitable firms do not have as abundant earnings (Mingle, 2014). Earnings per share is a benchmark of profitability. The majority of stockholders, investors give priority information to the movement of earnings of the company. Growing occasions consequently have a significance inspiration on a decision of shareholders.

Profitability is very crucial for enterprising firms. Investors are willing to buy the company’s shares and if the demand for shares price growths hence an increase in the firm’s value. Profitability also maximizes the utility for shareholders through payment and increased firm value. (Bhutan and Hassan, 2013).

Hemadiya and Devi (2013) sets that the greatest fundamental variables that impact cost of value portion remain request also resource components, inferring that if a large portion of the general population begin purchasing then costs climb and if individuals begin offering costs go down. Administration arrangements, association’s and manufacturing’s execution and possibilities have impacts on request conduct of financial specialists, both in the essential and auxiliary markets. They underscored that variables influencing the cost of a value share can be viewed from the economic prospective. Retained earnings refer to the portion that is reserved through an association slightly than scattered near investors as per bonuses (Chasan, 2012). The persistence is for the company to plow the incomes interested in corporate progress prospects that an association obligates it is an imperative interior supporting which an business acquires at least likely cost (Muhammad, 2010).

Firms may as well need to repurchase shares after they lack to provide for off purchase arising from too low a share value. Shareholders might stimulus the verdict to repurchase shares through firms (Doran et al. 2011). The ratio of earnings per share is rummage-sale as a measure of valuation. Leverage is customarily regarded by way of rising since supporting deeds. Firm’s pirate to increase currency in place of processes however control needs extra belongings on productivity. The situation is energies the effectiveness toward shareholders.

All the implicit literature mostly about earning per share impact on non-financial firms performance instability with their desired variables. We take as a measure of firm performance the following ratios; Reoccurrence on assets and Net profit (Dorsum, Cecil and Uyar 2013) After identifying the grading literature it is identified the issue in Karachi Stock Market. In this research our purpose is to report these issues.

<table>
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<tr>
<th>Independent Variable</th>
<th>Dependent Variable</th>
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<tr>
<td>FIRM PERFORMANCE</td>
<td>EARNING PER SHARE</td>
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<td>RETURN ON ASSETS</td>
<td>NET PROFIT</td>
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Fig.1. Conceptual framework
Methodology

This chapter presents a methodological approach to understanding financial performance. It describes the research design, statistical techniques, and the data collection process. The data was collected from a variety of sources, including financial reports, company websites, and published research.

The research variables remained organized into related and independent sets for analysis. The independent variables included firm performance, return on assets, and net profit margin. The dependent variables were earnings per share and various other financial metrics.

After the data description and analysis, the findings were summarized and presented in tables and figures. The results showed a strong correlation between the independent and dependent variables.

Results and Findings

This chapter discusses the findings of the research, which include a detailed analysis of the data. The results indicate a significant impact of firm performance on earnings per share. The analysis also revealed that return on assets and net profit margin are important factors in determining earnings per share.

The tables and figures in this chapter provide a clear and concise presentation of the findings. The statistical analysis was performed using SPSS software, and the results were interpreted using appropriate statistical tests.

The research findings highlight the importance of financial performance in determining earnings per share. The results have implications for both policymakers and investors.
The t-value for net profit is (3.063) which means that alternative hypothesis is accepted and null hypothesis is rejected because t-value is greater than 2.

The above table shows the model summary of chemical sector and according to this model summary the value of R is (.876) that shows the amount of relationship between all independent and dependent variables. The value of R square is (.768) which shows the degree of strength whereas the value of adjusted R square explains (.755) variation with the help of two predictors which are net profit margin and return on assets. The value of standard error of the estimate is (.328) which shows that how much composed data have been fluctuated in the sample.

The above table represents ANOVA assessment. It is applied to check out the model fitness. In this table the sum of squares shows the total variability around mean, the sum of squares regression means improvement whereas the sum of squares residual means errors in prediction. The value of F is 61.184 (df 2, 37) at 0.000 level of significant which shows that model is good fit. It shows model fitness between dependent variables and predictors. According to the result of this table the independent variables forecast the dependent variable.

The above table shows the table of coefficients. The value of standard error is important because through standard error value we find out how much data has been varied. When the size of sample increases the error will reduces. Standard error constant is (.418) which indicates that 41.8% data from the mean of the sample has been changed whereas the standard error of return on assets and net profit margin is (1.70) which indicates that the data has been wavered from the mean of sample.

Standardized Coefficients are the coefficients that would obtain if the predictors and the outcomes variables were standardized prior the analysis and comparing the size of the coefficient across variables and there is also a rule of t-value if the t-value is greater than 2 null hypotheses will be rejected and alternative will be accepted.

- The t-value for return on assets is (5.580) which means that alternative hypothesis is accepted and null hypothesis is rejected because t-value is greater than 2.

- The t-value for net profit margin is (-3.277) which means that alternative hypothesis is rejected and null hypothesis is accepted because t-value is less than 2.

The above table shows the table of model summary of food sector and according to this model summary the value of R is (.884) that shows the amount of relationship between all independent and dependent variables. The value of R square is (.782) which shows the degree of strength whereas the value adjusted R square explains (.770) variation with the help of two predictors which are net profit margin and return on assets. The value of standard error of the estimate is (1.66) which shows that how much composed data have been fluctuated in the sample.

The above table represents ANOVA assessment. It is applied to check out the model fitness. In this table the sum of squares shows the total variability around mean, the sum of squares regression means improvement whereas the sum of squares residual means errors in prediction. The value of F is 66.224 (df 2, 37) at 0.000 level of significant which shows that model is good fit. It shows model fitness between dependent variables and predictors. According to the result of this table the independent variables forecast the dependent variable.

The above table shows the table of coefficients. The value of standard error is important because through standard error value we find out how much data has been varied. When the size of sample increases the error will reduces. Standard error constant is (.284) which indicates that 28.4% data from the mean of the sample has been changed whereas the standard error of return on assets and net profit margin is (.606) and (.026) which indicates that the data has been wavered from the mean of sample.

Standardized Coefficients are the coefficients that would obtain if the predictors and the outcomes variables were standardized prior the analysis and comparing the size of the coefficient across variables and there is also a rule of t-value if the t-value is greater than 2 null hypotheses will be rejected and alternative will be accepted.

- The t-value for return on assets is (.026) which means that alternative hypothesis is accepted and null hypothesis is rejected because t-value is less than 2.
The t-value for return on assets is (5.496) which means that alternative hypothesis is accepted and null hypothesis is rejected because t-value is greater than 2.
The t-value for net profit margin is (-.279) which means that alternative hypothesis is rejected and null hypothesis is accepted because t-value is less than 2.

Conclusion

The major objectives of this research are to investigate the earning per share impact on non-financial firm performance. We examined this research of three sectors Chemical, Fertilizer and Food each sector has four companies and the samples were (2007-2017) for the time period. The earning per share measure can be used to draw conclusions on the basis of its trends over the period of time, comparison with the earning per share of other firms and comparison with industry average. One of the advantages of the earning per share is that it is easy and understandable. It is also solely dependent on the performance of the company and is not affected by market sentiments. A quantitative data used to facilitate this analysis. The descriptive results indicate that each sector has significant level of firm’s performance. The findings of this revision suggests that investor can spread over venture principles that operate earning per share.net profit and return on assets. The republic like Pakistan through unsecured depositor, the speculation in the stable has taken a large size of profit. Furthermore, Firms should also consider their strategies in direction to generate worth for the stockholders since affiliation in earning per share has significant effect preceding the marketplace worth which upsurges affluence for the owners.

The position of monetary arrangement is increasing day by day. It remains a quite an inspiring mission aimed at monetary and non-financial associations and complication in financing decisions is growing as well. The main outcomes of this exploration deliver an impression of non-financial firm performance has positively impact on each sectors.

Earnings per share are a vital constituent in stock value estimation. This basically provides you the net profit earned by apiece share. The best measure of a company is its profitability, for without it, it cannot grow and if it’s doesn’t grow then its stock with trend downward. The mutual effectiveness dealings relate incomes through auctions, resources and stocks: net profit, reoccurrence on assets and earning per share.

Net profit is to conclude the financial health of a firm’s performance. The future stock will also be determined by whether that profitability is increasing, decreasing or stagnant. The return on assets is one of the most widely used profitability ratios because it is related to profit margin and assets turnover, and shows the rate of return for creditors and investors of the company. ROA shows how well a company controls its costs and utilize its resources. In this research earning per share has and positively impact on non-financial firm’s performance which is measure net profit or return on assets will also provide results.

The limitations were kept in the paper which was implemented accurately because there are some circumstances. A limitation of this research is that all the possible variables that could influence the choice of non-financial firm’s performance. The scope of the research is focuses on chemical, fertilizer and food sector. The purpose of the paper is emphasizing the variables which are significant for the investors.

Recommendation

Future research can focus on earning per share whether it is financial firms or it is non-financial firm’s performance. This research includes earning per share as an explanatory variable for analysis. It is recommended to use some other dependent variable to measure non-financial firm performance. Moreover, time period of this research can also be increased. Different estimation can be utilized to quantify shareholder’s wealth and firm performance. Earnings per share is a good sign for particular company earning per share is grown even if the net profit remained flat or even goes down. It will generate very meaningful effects.

References


