Effect of Corporate Reserve on the Financial Performance of Listed Industrial Good Companies in Nigeria

Okeke, Clement Ejiofor and Oyewobi, Ifeoluwapo A.

Bingham University

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*Ifeoluwapo A. Oyewobi, PhD[1, a], Clement E. Okeke FCA[2, b, *],*
[1]Bingham University Karu, Nasarawa State, Nigeria
Department of Accounting, Faculty of Administration

[2] Bingham University Karu, Nasarawa State, Nigeria
Department of Accounting, Faculty of Administration

a- ifeoyewobi@gmail.com, b- clemokeke@gmail.com
*Corresponding author

Abstract
The Nigerian Industrial sector contributed 19.02% of the country's GDP by the end of Q4 of 2022 according to the National Bureau of Statistics. The sector has the potential to do more in terms of lifting the nation's economy to a greater height and its financing structure is key in revolutionizing the profitability of firms in that sector, especially the Industrial Goods Firms. This study's goal is to review the effect of cooperate reserve on the financial performance of firms in the industrial goods sector as measured by their Earnings Per Share (EPS) with firm size added as a control variable. For a period of ten (10) years, from 2013 to 2022, the study used eight (8) listed industrial goods companies in Nigeria. The study used an ex-post facto research approach and secondary data were gathered from the companies' annual reports for the period under review. E-views version 10 was used to do correlation and regression analysis. The findings show that retained earnings have a negative and insignificant effect on financial performance while capital reserves have a positive and significant effect on the financial performance of listed industrial goods firms in Nigeria. The study suggests that the firms should desist from keeping large sums as retained earnings.

Keywords: Retained Earnings, Capital Reserve, Earnings Per Share, Financial performance, Industrial Goods

1. INTRODUCTION

Corporate bodies retain part of their net income as a form of a plan for the rainy days to avoid surprises that may present adverse effects on the life of the entity. To this end, wise and capable organizations create reserves as a means of keeping funds that could be used to reinforce the company's goal search in the face of lean or dry liquidity. A reserve is a form of saved cash that the organization intends to deploy in case of any future need that may not be sufficiently taken care of by normal annual profits. According to Eneh et al (2019), many organizations are now more aware of the need of financial management and emphasis is being placed on the tools for effective business management. To do this, the management team of any organization is expected to take the lead and provide the necessary strategies and policies, and procedures.

Reserves help organizations to deal with risks linked to potential cash flow issues. Such reserves help companies deal with short-term funding needs such as delayed payments from customers, and new and unplanned expenditures. A firm's pending needs such as payment of dividends are top reasons why reserves are kept in some organizations. A new activity considered profitable could be funded through reserves. For example, taking a new production line or going into a newly identified technological infrastructure. As cited in Eneh et al (2019), Mikkelson and Megan (2003), agree that managers of cash-rich firms consider cash reserves as being very beneficial in funding large capital-intensive ventures which takes off pressure on the internal spending of the company. According to Shayne (2013), one of the major reasons for the accumulation of reserves includes the fulfillment of investors' expectations.

According to Orwel (2010), retained earnings (RE) could be represented as a ratio, termed as retention ratio. Determination of the ratio to be used for retained earnings is usually engrossed in a conflict of interest between the company's managers and the owners (the shareholders). While the managers would prefer a higher retention rate, the shareholders would be aiming for a higher dividend on their shares. According to Chasan (2012), the shareholders' position is premised on the fact that a high retention also means a foregone dividend which subjects them to high opportunity cost. Meanwhile, it should be noted that a complete payout of profit as dividends leaves the company in a position it would be unable to reinvest back into its business and future earnings growth may not be guaranteed. Also as opined by Aloys et al 2022, a company that is not making use of retained earnings stands a chance of taking more debts or issuing an additional call for new equity shares to finance its growth.

Chanchal (2024) defined capital reserve as a fund derived from non-operational activities, such as the sale of fixed assets, issuance of shares above par value, or revaluation surpluses. Such funds according to Chanchal (2020) are preserved for financing business expansions, issuing bonus shares, or covering capital losses.

The industrial goods sector in Nigeria is one of the pillars of innovation and technical change since many research innovations are transformed into practical outputs at the commercial level in the sector. Olusegun (2021) maintains that developing countries such as Nigeria need sufficient resources to promote the production and exportation of goods by industries to achieve the desired economic growth and development. Where the industrial goods sector thrives, jobs are created, and the teaming population will have a means of livelihood. The GDP is also impacted positively, and the export of goods will help balance the foreign exchange needs of the country.

For every firm, the decision on financing structure is vital since it has a direct impact on return and risk which determine the firm's value and market share. The managers of the firms in the industrial goods sector will do well to critically analyze every source of financing to guarantee a healthy life of the firm. This is on the backdrop of the high hopes of the masses in the sector to lift Nigeria out of the current unemployment of the teaming population and the need to deal with the perennial imbalance in foreign exchange.

1.2 Statement of the Problem

There has been a debate as to whether corporate reserves provide an opportunity to enhance the financial performance of organizations. Some of the previous researchers have continued to review what corporate reserve brings to bear on a company's financial performance. There are some whose views are that keeping reserves after the payment of dividends makes funds available for other uses. Some also argue that keeping reserves does not affect the financial performance of the company. Again, another group of scholars argues that keeping reserves is counterproductive as such does not allow for payments of needed dividends. This set of scholars is also of the view that when reserves are kept, and supposed dividends and not paid, such actions turn around to hunt the reputation of the affected organization.

Amidst the ongoing arguments for and against the essence of keeping corporate reserves, it should be noted that every form of resource mobilization comes with a cost. For example: loans from banks require collateral and interest payments while hire purchase or lease of useful assets comes with the burden of interest and sometimes repossession as in the case of default in the payments of outstanding principal. Meanwhile, companies have great opportunities to utilize corporate reserves set aside mainly as resources for internal funding of relevant activities, Observations have been made around little attention being paid to retained earnings which are key items in shareholders' equity.

Past studies on the effect of reserves on companies' performance have found divergent results leading to divergent conclusions on the same topic. For example, Omollo et al (2018) concluded that the retention ratio has a significant and positive effect on Return on Assets (ROA) and Okeke and Okeke (2018) looked at the case of Nigeria quoted firms and concluded that retained earnings

had a positive and significant effect on corporate performance. But Thuranira (2014) found that retained earnings had a weak, negative insignificant relationship with corporate performance. The study adopted the Perking order Theory as it supports corporate managers' desire to raise finances internally to grow the company (Donalton 1981).

Based on the above arguments and submissions, this paper reviews the effect of corporate reserves on the financial performance of companies in Nigeria using listed companies in the Industrial Goods sector.

1.3 Objectives of the Study

The main objective of this study is centered on a review of the effect of corporate reserves on the financial performance of listed Industrial Goods companies in Nigeria.
The specific objectives of the study are as follows:

i. Assess the effect of retained earnings on Earnings Per Share (EPS) of listed Industrial Goods companies in Nigeria.
ii. Analyse the effect of capital reserve on Earnings Per Share (EPS) of listed Industrial Goods companies in Nigeria.

1.4 Research Questions

i. How do retained earnings affect the Earnings Per share (EPS) of Nigeria's Industrial Goods industry?
ii. What is the effect of capital reserve on earnings per share (EPS) of Nigeria's Industrial Goods industry?

1.5 Statement of Hypothesis

Ho1: There is no significant relationship between retained earnings and Earnings Per Share (EPS) of listed Industrial Goods companies in Nigeria.
Ho2: There is no significant relationship between capital reserve and Earnings Per Share (EPS) of listed Industrial Goods companies in Nigeria.

1.6 Scope of the Study

The study covers a period of ten years (2013-2022) and eight (8) firms in Nigeria's Industrial goods industry listed on the Nigeria Exchange Group as of January 1, 2013, and still have their shares active on the floor of the exchange as of December 31, 2022, were reviewed. The companies include Beta Glass Plc, Dangote Cement Plc, Tripple Gee & Company Plc, Berger Panits Plc, Premier Paints Plc, Meryer Plc, BUA Cement and Austine Laz & Company, within the Nigeria Industrial Goods Industry. The period selected and the companies used were based on the availability of data.

2. LITERATURE REVIEW
2.1 Conceptual Framework
2.1.1 Corporate Reserves
Corporate reserves are forms of appropriated funds from a company's diverse income sources to help the company stay financially stable. Such funds are reserved for future uses in line with the organization's strategic plans. The reserves are reported under the statement of financial positions of the relevant firms. There are different types of corporate reserves with the major ones known as retained earnings and capital reserves.

2.1.2 Retained Earnings
A major source of working capital for industrial goods companies in Nigeria is Retained Earnings. John et al (2013) defined retained earnings as part of a company's profit which is not paid out in taxes, or dividends but is plowed back into the business. Companies retain earnings as a way of strengthening their financial position, paying off debts and credits, purchasing fixed assets, engaging in business expansion, as a response to legal requirements, and for other investment decisions. Profit earned by a company usually has two direct lines to follow; such profit is either declared as a dividend or kept as a reserve. Many authors have conceptualized corporate reserves which also stand for retained earnings. Akparhuere et al (2015) in their paper defined retained earnings as a "retention ratio" or "retained surplus" which stands for "the percentage of net earnings not paid out as dividends but retained by the company to be reinvested in its core business or to pay the debt. This is recorded under shareholders' equity on the statement of financial position". The following formula is presented: Retained Earnings (RE) = Beginning RE + Net Income – Dividends. Retained earnings as the most vital sources of financing growth of a firm, (Thirumalaisarry 2013). Retained earnings serve as a financial cushioning effect in the life of the organization. For instance, it forms a vital part of the working capital and liquid resources of the organization; its absence would lead to such adverse conditions as accumulated losses which could raise a negative impact on profits for the year after income tax payments and other returns to shareholders. As observed by Clark, 2020) 'in the event of a net loss, the loss is carried over into retained earnings as a negative number and is deducted from any balance in retained earnings from prior periods.

2.1.3   Capital Reserves

Capital reserves are funds derived from non-operational activities such as the sale of fixed assets, issuance of shares above par value, or revaluation surpluses (Chanchal 2024). It is different from revenue reserve and other retained earnings as it is not available for distribution as a dividend. The reserves help companies and businesses to strengthen their business position and to offset losses (if any). In terms of the stability of the business, the capital reserve serves as a safety net for the company to ensure that required resources are available in times of need. Keeping reserves is just more than a business financial management; it entails a strategic design to guarantee the long-term stability of the concerned firm.

2.1.4 Financial Performance

According to Mutende, et al (2017), financial performance refers to a firm's ability to achieve planned financial results as measured against its intended outputs. This can also mean a measure of a firm's efficiency in using its assets to generate revenue through its operational activities. In line with the thoughts of Dsunday and Ejabu (2020), financial performance is said to be a term that is used to measure the financial health and growth of a firm over a period. For this study, financial performance is measured using Earnings Per Share (EPS).

2.1.5 Earnings Per Share (EPS)

Earnings Per Share is the measure of a firm's profitability per outstanding ordinary share capital. It is calculated by dividing the firm's net income by the total outstanding ordinary share capital. A review of a firm's EPS over a period assists investors in decision-making. According to Mohammad et al (2013), earnings per share is used to determine shareholders' profitability by indicating how much profit a share generates with money the shareholders have invested and is calculated as follows:

$$\text{Earnings per Share} = \frac{\text{Net Earnings}}{\text{Number of Shares}}$$

2.1.6 Firm Size

In the present world's trend, due to economies of scale, the size of a firm plays a very important role in measuring with competitors through cost reduction and taking and holding more opportunities. Further based on this concept the firm's size is a factor in determining the firm's profitability and past studies reveal a positive association between size and a firm's profitability. Akinyomi and Olagunju (2013) in their submission posited that firm size has been recognized as an essential variable in explaining organizational profitability and several studies have tried to explore the effect of firm size on profitability. Jasch (2013) also submitted that big firms can have more profit since they have a bigger market share. So, based on these situations, the big-sized firms work in more profitable ways with less competition. In corporate finance, empirical researchers also consider firm size a fundamental firm characteristic and observe the "size effect" - firm size matters in determining the dependent variables in many situations. In line with the above thoughts, firm size is adopted as a control variable for this study.

2.2 Empirical Review

One of the studies in the past considered very close to the current was carried out by Aloys et al (2022) on the analysis of retained earnings financing on the financial performance of listed manufacturing and allied firms: A dynamic approach. The study applied Dynamic Unbalanced analysis techniques using secondary data for 10 years (2010-2019) with the study population of 9 listed firms. It focused on retained earnings which was proxied by Tobin's Q. The study was underpinned by the Pecking order theory and a longitudinal research design was used. The study concluded that retained earnings improve performance and should be applied. The study

recommended a further study using static panel analysis. As recommended by the researcher, a fixed panel analysis was employed in the current study which the previous study failed to do.

Elvira et al (2020) reviewed the accounting and legal issues of the capital reserve with particular emphasis on capital increases by share premium. The study confirmed the significance of the use of capital reserves to maintain the solvency of a firm by using descriptive statistical analysis. The study reviewed the capital structure of 316,605 companies based on data from the financial statement for 2018. Using interpretation of legal regulations, accounting analysis, and legal practice, the study found that the Hungarian accounting and legal regulation on capital reserve in force does not ensure sufficient protection and transparency, which weakens social and business trust in business associations. The study further concluded that institution of capital reserve, and its use is important in terms of maintaining a firm's liquidity. The study recommended that capital reserve and unpaid called-up capital should be disclosed in a separate line in the statement of financial position with a separate supplementary note. According to the study, such supplementary notes should contain an obligation clause to provide needed information. The work was done in Hungary while the current study has looked at a different geographical location Nigeria.

Anh et al (2021) studied the effects of dividend policies on corporate financial performance. The paper used ROA, ROE, and Tobin's Q as dependent variables while dividend rate and decision of dividend payments were used as independent variables. The study used secondary data from the financial statements of 450 listed firms in the Vietnam stock market covering the period from 2008 to 2019. The study found and concluded that firms in Vietnam offer low dividend rates which has a positive impact on financial performance but a negative effect on market expectations. The study recommended a more appropriate model of dividend policies, a lower rate, and a clear decision of dividend payment. The current study has applied retained earnings and capital reserves. This work is therefore different in that it looked at a different market in Africa, and Nigeria precisely and investigated the impact of retained earnings on financial performance. Another difference between the current work and that of Anh et al (2021) is the use of Earnings Per Share as a proxy for measuring firm performance.

Omollo et al (2018) reviewed the effect of equity financing options on the financial performance of non-financial firms listed in the Nairobi Securities Exchange, Kenya. The study applied panel econometric techniques and a sample of 40 non-financial firms between 2009 and 2015. Variables utilized included common stock, retained earnings, and total equity as ratios of total assets on the performance proxied by Return on Assets (ROA) and Return on Equity (ROE) while firm size was used as the control variable. The study found that the retention ratio has a statistically significant and positive effect on ROA and recommended that corporate finance managers should consider focusing on more use of retained earnings and less common stock to boost performance. It also found that ROE was not significantly affected by the retention ratio. What was lacking in the study was the non-use of a panel data stationary test to ensure the regression was not spurious. The

current study has looked at a Nigerian environment using data encompassing very recent years 2023-2022. The proxy for performance used is Earnings Per Share to deviate a little from the regular use of ROA, ROE, etc. such as the ones used in Muturi and Wanjare (2018)

Thuranira (2014) conducted another close study on the effect of retained earnings on the performance of listed companies using secondary data for 5 years 2009-2013. The study applied variables such as retained earnings, net asset value per share, price-to-book values dividend yield, and stock returns. The study used regression analysis and found a very weak negative insignificant relationship between retained earnings and stock return returns. The study recommended that firms should not retain huge amounts of earnings. This study had an opposing view to those of Yemi and Serki (2018) and Aloys et al (2022), hence the current study investigated further using recent data of from listed firms in the industrial goods sector in Nigeria to bring additional insight into the debate.

Ugwu et al (2021) examined the effect of retained earnings on the performance of firms in the oil and gas sector in Nigeria. The study used simple linear regression in analyzing secondary data from four (4) selected firms over ten (10) years. The study found that retained earnings had a positive and insignificant effect on Return on Assets used as a proxy for financial performance. For all the companies tested retained earnings effect on ROA and ROE was positive and insignificant except for Mobil Nigeria Plc. where retained earnings had a positive and significant effect on ROE only. The paper recommended that the retention of firms in oil and gas should be enhanced to impact significantly on the values of the shareholders measured by ROA and ROE. The current study has reviewed a different sector and used more companies as against the test on only 4 companies by Ugwu et al (2021). The use of Retained Earnings as an independent variable by Ugwu et al (2021) aligns with the current study but one of the differences exists in the dependent variable where the current study has used Earnings Per Share rather than the usual ROA and ROE.

Okeke and Okeke (2018) reviewed the dividend policy and performance of selected quoted companies in Nigeria using ex-post facto research design for the period 2010-2016. The study adopted dividend payout ratio (DPR), retained earnings (RE), and cash dividend (CD) as explanatory variables on performance and found that DPR had a positive and significant effect on performance while CD had a negative and insignificant effect on performance. The study recommended that listed firms in NGX should maintain a steady increase in dividend payments to continuously boost the companies' performance. Apart from the fact that the study is now in the distant past, the scope of the study was limited. The current study has looked at the current happening making use of an extended scope that covers the very recent past. The current study has also applied more robust statistical analysis tools to investigate the topic.

Yemi and Serki (2018) reviewed the retained earnings and firm market value for Nigerian firms. The study used a sample size of 75 non-financial firms listed on the Nigeria stock exchange. Ex-

post facto research design was applied and secondary data spanning the periods 2003 and 2014 were used. A panel data analysis conducted by the researchers showed a positive and significant relationship between retained earnings, dividend payout, and earnings per share on Tobin Q while financial leverage had no significant relationship with Tobin Q. The study concluded that earnings retention has a positive and significant relationship with the market value of firms. It also recommended that it was necessary to retain the earnings to finance new investments with the potential of generating more wealth and positive NPVs. The current study not only looked at more recent periods, it applied E-views version 10 to do correlation and regression analysis.

2.3 Theoretical Framework

This study which is on the effect of corporate reserve on the performance of industrial goods firms in Nigeria has referenced three theories: the Lifecycle theory, the Pecking Order Theory, and the Signaling theory.

2.3. 1 Pecking Order Theory

Pecking Order Theory popularized by Myers and Maijluf (1984) agrees that firms prefer internal funds first, debt second, and external equity last and that funding needs and internal funds jointly determine capital structure decisions. In other words, Pecking Order Theory is a model that affirms that a standard capital structure of a firm flows in the following hierarchy: the company first considers internal financing before looking at debt options if the internal funding is not feasible, and only selects external equity funding as an unavoidable last option. It is also important to note the impact of firm maturity in all of these, for example, you and the new firms would rather go for external equity financing while the very matured firms would choose to use internal funding strength via retained earnings. For the very old firms, dividends could be paid from accumulated earnings which guarantee the trust and cooperation of the existing shareholders.

The underpinning theory for this study is Pecking Order Theory. The study reviewed the effect of corporate reserves on financial performance of listed industrial firms in Nigeria and the originators of Pecking Order Theory have argued that internal funding such as corporate reserves are preferred ahead of forms sources of resources.

2.3.2 Signaling Theory

The Signaling Theory which originated from Spence's seminal articles in 1973 is a model that looks at existing information asymmetry between managers and the owners of the firm(shareholders). Tsuji while citing Miller and Modigliani (1961) confirmed the application of information on dividend policy. In simple terms, this implies expectations of those future earnings largely depend on the currently declared dividends. This means that any change or changes in dividend payout would send signals to the market regarding future earnings. Tsuji (2012) also cited Allen and Michael (2003) confirming that dividend-information/signaling hypotheses included

three important implications that had been empirically examined: (1). Unanticipated dividend changes should be accompanied by stock-price changes in the same direction. (2). Dividend changes should be followed by subsequent earnings changes in the same direction. (3). Unanticipated changes in dividends should be followed by revisions in the market's expectations of future earnings in the same direction as the dividend change.

2.3.3 Life Cycle Theory

Life Cycle Theory, first articulated in 1954 by Franco Modigliani and Richard Brumberg confirms that dividend payout by mature companies is carried out because they have higher profitability and fewer investment opportunities while the younger companies tend to have very many investment opportunities which makes them to align the quest to retain earnings (Angelo & Stulz 2006). Lifecycle theory also confirms that dividend policy depends on the back-and-forth between the distribution and retention of corporate earnings and this back-and-forth depends on the firm maturity.

3.   Methodology

The study adopted ex-post facto research. The area of study was all listed industrial goods companies in Nigeria Exchange Group as of December 2022. Cross-sectional data (2013-2022) was extracted from the audited annual reports of the selected quoted firms in the industrial sector in Nigeria. Data on corporate reserves and financial performance variables such as retained earnings, capital reserve, and earnings per share were extricated from the books of eight listed industrial goods companies. The Nigeria Industrial Goods industry has a population of 13 firms listed on the Nigeria Exchange Group (NGX) as of December 31, 2022. The study relied on the availability of required data to sample the companies that were reviewed to determine the impact of corporate reserves variable on financial performance. The panel data regression analysis model of Asuquo et al (2018) is adjusted to determine the relationship between corporate reserves and financial performance based on the use of earnings per share, retained earnings, and capital reserves proxies. The regression model for the empirical analysis is therefore expressed as:

$$EPS_{it} = \beta_0 + \beta_1 RE_{it} + \beta_2 CR_{it} + \beta_3 FSZ_{it} + \epsilon_{it} \dots\dots\dots\dots\dots\dots\dots\text{ (i)}$$

Where:
EPS = Earnings Per Share
RE = Retained Earnings
CR = Capital Reserve
FSZ = Total Asset (Firm size)
β_0 = Constant
€ = Stochastic error term
I _ Number of firms
T = Time Period

The apriori expectation is that all explanatory variables, excluding those with a negative relationship, are positively connected to the dependent variable.

Decision Criteria
The null hypothesis (Ho) will not be rejected if the computed value falls within the critical positive value of the distribution table for whichever degree of freedom will be computed with a 5% (0.05) significance level. Otherwise, reject the null hypothesis.

Definition of variables

S/N	PROXY	TYPE	MEASUREMENT	SOURCE
1	Earnings Per Share (EPS)	Dependent Variable	Measured by dividing profit after taxation by paid-up share capital	Mohammad et al (2013), Saeedi et al (2011), Saeedi et al (2013)
2	Retained Earnings	Independent Variable	Picked from annual financial reports of the firms	Aloys et al (2022) and Ugwu et al (2021)
3	Capital Reserves	Independent Variable	Picked from the audited financial statements of the firms	Elvira et al (2020)
4	Firm Size (FSZ)	Control Variable	The natural log of Total Assets of the firms	Saona and Martin (2016) Aggarwal and Padhan (2017)

Source: Researcher's compilation (2024)

4. RESULTS AND DISCUSSION

4.1.1 Descriptive Statistics
Descriptive statistics give a presentation of the mean, median, maximum, and minimum values of variables applied together with their standard deviations obtainable. The table below shows the descriptive statistics for the variables applied in the study. An analysis of all variables was obtained using the E-View 10 software for the period under review.

Table 4.1; Descriptive Statistics Result

	EPS	R_E	CR	FSZ
Mean	436.4159	127.8757	1.118650	6.976221
Median	105.5000	1.527124	0.251928	6.565843
Maximum	2825.000	1482.913	5.182780	9.424631
Minimum	-54.00000	-0.511600	-0.897136	5.309573

Std. Dev.	643.6553	339.3299	1.341964	1.181731
Skewness	1.820508	2.890618	0.839339	0.746060
Kurtosis	5.732747	10.22112	2.689138	2.472059
Jarque-Bera	69.08302	285.2243	9.715321	8.350474
Probability	0.000000	0.000000	0.007769	0.015372
Sum	34913.27	10230.06	89.49201	558.0977
Sum Sq. Dev.	32729075	9096438.	142.2686	110.3226
Observations	80	80	80	80

E-VIEW 10 OUTPUT (2024)

Table 4.1 presents the descriptive statistics of the effect of Corporate Reserves on the financial performance of listed industrial goods firms in Nigeria from 2013 to 2022. The table shows that Earnings Per Share (EPS) as a measure of financial performance has a mean of 436.4159 with a standard deviation of 643.6553, a minimum value of -54.00000, and a maximum value of 2825.000. Though the range between the minimum and the maximum is wide, it implies stable earnings per share as the standard deviation indicated that there is no wide dispersion of the data from the mean. For the other measure of corporate reserves, Retained Earnings, (RE), and the capital reserve (CR) from the table shows a mean value of 127.8757 and 1.118650 with a standard deviation of 339.3299 and 1.341964 with minimum values of -0.511600 and -0.897136 with maximum values of 1482.913 and 5.182780 respectively. This implies that the corporate reserves variables in terms of retained earnings and capital reserves have a substantial increase during the study period, as the standard deviation is so large compared to the mean, together with the huge range between the minimum and maximum values. The kurtosis value measures the peakness and flatness of the distribution of the series. If the Kurtosis value is less than 3, it means the distribution of the variable is normal, but when it is more than 3, the distribution of the variable is said to be abnormal.

4.1.2 Correlation Matrix

Correlation Analysis

Table 4.2 presents correlation values between dependent and independent variables and the correlation among the independent variables themselves. These values are generated from Pearson Correlation output. The table contains a correlation matrix showing the Person correlation coefficients between the dependent and independent variables and among the independent variables of the study. Generally, a high correlation is expected between dependent and independent variables while a low correlation is expected among independent variables.

Decision Rule: A correlation is between two variables that range from -1 and +1.

Table 4.2 Correlation Matrix

Covariance Analysis: Ordinary
Date: 03/25/24   Time: 04:02
Sample: 2013 2022

Included observations: 80

Correlation Probability	EPS	R_E	CR	FSZ
EPS	1.000000			

R_E	0.732283	1.000000		
	0.0000	-----		
CR	0.475796	0.416058	1.000000	
	0.0000	0.0001	-----	
FSZ	0.706129	0.709707	0.524291	1.000000
	0.0000	0.0000	0.0000	-----

E-VIEW 10 OUTPUT (2024)

The Pearson correlation ® was analyzed to establish the measures of association between the variables. The Pearson correlation coefficient (r) was employed to establish the measures of associations between the variables. The table above shows the Pearson correlation coefficient and the respective probabilities of the relationship between corporate reserves variables (RE, and CR) and financial performance variable (EPS). The results show that the coefficient of the correlation between EPS and RE stood at 0.7322833 which is positively correlated. This implies that an increase in EPS would lead to a substantial increase in RE. This is supported by the p-value which is 0.0000 stating that the correlation is significant at 0.0%. The coefficient of correlation between EPS and CR stood at 0.475796 which is equally positive. This implies that an increase in EPS would lead to a substantial increase in CR. Furthermore, the coefficient of the correlation between EPS and FSZ stands at 0.706129 which is positive. The result presented above confirms that retained earnings and capital reserve have a strong positive correlation.

4.1.3 Diagnostic Test (Multicollinearity)

To validate the robustness of the estimates, the multicollinearity test was conducted, using the Variance Inflation Factor (VIF) as a diagnostic check. Multicollinearity happens when one or more of the independent variables exert superior influence on the others and this position is a violation of the assumptions for linear regression modeling and so it can impact the validity of the results from the analysis.

Decision Rule: A centered VIF of less than 10 is an indication of the absence of multicollinearity, while a centered VIF of more than 10 is a sign of multicollinearity.

Table 4.3: Multicollinearity Test (VIF) Result

Table 3: Multicollinearity Test (VIF) Result

Variance Inflation Factors
Date: 03/25/24   Time: 04:03
Sample: 2013 2022
Included observations: 80

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	146956.8	71.14946	NA
R_E	0.036797	2.317051	2.025727
CR	1610.380	2.362192	1.386531
FSZ	3459.921	83.83466	2.310056

E-VIEW 10 OUTPUT (2024)

Table 4.3 shows that there is no multicollinearity among the independent variables since the independent variables (RE, CR, and FSZ have a center VIF that is less than 10.

4.1.4 Robustness Test (Heteroskedasticity Test)
A heteroskedasticity test was carried out as a diagnostic check to verify the robustness of the estimates. The heterogeneous variance occurs when a standard error of the variable being monitored is not constant over time**.** Heteroscedasticity violates linear regression modeling assumptions and can affect the validity of analytical results. On the other hand, heteroscedastic does not cause any bias in the coefficient estimates, but it reduces the precision, and less precise coefficients are more likely to be estimated. The estimates are far from the correct population values that have been removed.

*Decision Rule: At 5% level of significance
Hypothesis
H_0: The Error Variances are all Equal (Homoscedastic)
H_1: The Error Variances are not Equal (Heteroskedasticity)
Table 4.4   Heteroskedasticity Test
Panel Cross-section Heteroscedasticity LR Test
Null hypothesis: Residuals are homoscedastic
Equation: EQ01
Specification: EPS C R_E CR FSZ

	Value	df	Probability
Likelihood ratio	192.6733	8	0.0000

E-VIEW 10 OUTPUT (2024)

Table 4.4 shows the results of the panel cross-section Heteroskedasticity regression test. The decision rule for the panel cross-section Heteroskedasticity test is stated above.

From the result in Table 4 above with a ratio value of 192.6733 and a corresponding probability value of 0.0000 which is less than 5%, the study therefore posits that there is every

reason to reject the null hypothesis, while the alternative hypothesis that states there is conditional Heteroskedasticity problem is accepted. Consequently, based on the diagnostic probability of 0.0000 the null hypothesis is rejected, thus there is conditional heteroskedasticity, indicating that residuals are heteroscedastic, and as such the samples did not give a true reflection of the population. This is corrected by logging the dependent variable as an independent variable to correct the presence of heteroscedasticity.

4.1.5 Hausman Test

The Hausman test is a model specification test used in panel data analysis to select between fixed and random effects models. Because the datasets utilized in this study were panel, both fixed and random effects were performed. A Hausman specification test was then used to choose between the fixed-effects and random-effects regression models. This test determined if the error term was connected to the regressor. As a result, the decision rule for the Hausman specification test is presented at a 5% level of significance:

H_0: Random effect is more appropriate for the Panel Regression analysis.
H_1: Fixed effect is more appropriate for the Panel Regression analysis.

Decision Rule: If the p-value is less than 0.05, the null hypothesis is rejected, and the alternative hypothesis should be accepted.

Table 4.5: Hausman Specification Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10234.6492 22	3	0.0000

E-VIEW 10 OUTPUT (2024)

Results of the Hausman test indicated in table 4.5 show sufficient evidence for the rejection of the null hypothesis as a 0.05 level of statistical significance as can be seen that the probability value (0.0000) of the test is lower than the critical value of 0.05. Therefore, the study upholds that the difference in coefficients is systematic, and hence, the fixed effect model is the more appropriate model for the study.

4.1.4 Fixed Effect Likelihood Ratio Test

The Fixed Effect Likelihood Ratio test is a test for model specification in panel data analysis and this test is employed to choose between the pooled effect model and the fixed effects model. Due

to the panel nature of the data set, both pooled effect and fixed effect regressions were run. A fixed effect likelihood ratio specification test was then conducted to choose the preferred model between the pooled effect and the fixed effect regression models. The test checked if the error terms were correlated with the regressors. Thus, the decision rule for the fixed effect likelihood ratio specification is stated; thus, at a 5% Level of significance:

H_0: The pooled effect is not appropriate for the Panel Regression analysis.

H_1: Fixed effect is not appropriate for the Panel Regression analysis.

Decision rule: As encapsulated above, if the p-value is less than 0.05 the decision rule is to reject the null hypothesis which states that pooled effect is most appropriate for the Panel Regression analysis (meaning that the preferred model is fixed effects). Similarly, if the p-value is greater than 0.05 the decision rule is to accept the null hypothesis which states that pooled effect is most appropriate for the Panel Regression analysis (meaning that the fixed effect model is to be rejected).

Table 4: Fixed Effect Likelihood Ratio Table
Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	42.940922	(7,69)	0.0000
Cross-section Chi-square	134.262255	7	0.0000

Source: E-View 10 Output (2022)

The Result of the fixed effect likelihood ratio test shows that the chi-square statistics value is 134.262256 while the probability value is 0.0000. This implies that there is enough evidence to reject the null hypothesis which states that the pooled effect is most appropriate for the Panel Regression analysis. It thus stands that the error component model (pooled effect) estimator is not appropriate because the pooled effects are probably correlated with one or more regressors. Thus, the most consistent and efficient estimation for the study, given the options of a pooled effect analysis and a fixed effect analysis, is the fixed effect model of regression analysis. Consequently, the result suggests that the fixed effect regression model is most appropriate for the sampled data

(given the two options as encapsulated above) because the likelihood ratio test statistics as represented by the corresponding probability value is less than 5%.

Test of Research Hypothesis

Ho$_1$- There is no significant relationship between retained earnings and earnings per share (EPS) of listed industrial goods companies in Nigeria.

Ho$_2$- There is no significant relationship between capital reserves and earnings per share (EPS) of listed industrial goods companies in Nigeria.

Table 4.7: Panel Regression Result (Fixed Effect)

Dependent Variable: EPS
Method: Panel Least Squares
Date: 03/25/24   Time: 04:19
Sample: 2013 2022
Periods included: 10
Cross-sections included: 8
Total panel (unbalanced) observations: 71

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-9326.779	2010.684	-4.638610	0.0000
R_E	-0.158758	0.196167	-0.809301	0.4216
CR	393.4340	93.93864	4.188202	0.0001
FSZ	1226.773	280.7115	4.370225	0.0001
LOGEPS	145.9969	39.60929	3.685926	0.0005

Effects Specification			

Cross-section fixed (dummy variables)

R-squared	0.889327	Mean dependent var	493.4046
Adjusted R-squared	0.868693	S.D. dependent var	662.0029
S.E. of regression	239.8852	Akaike info criterion	13.95108
Sum squared resid	3395150.	Schwarz criterion	14.33351
Log likelihood	-483.2635	Hannan-Quinn criter.	14.10316
F-statistic	43.10024	Durbin-Watson stat	1.962265
Prob(F-statistic)	0.000000		

E-VIEW 10 OUTPUT (2024)

Table 4.7 shows a panel regression result of the dependent variable proxied by EPS, two independent variables RE and CR and one control variable FSZ. Between the R^2 and the adjusted R^2, there is a range of values of 88.9% and 86.9% respectively. The variation in the dependent variable (EPS) because of a change in the independent variable is explained by the R^2 of 88.9%. Therefore, it can be concluded that the independent variables have a combined predictive power of influencing the financial performance of listed industrial goods firms in Nigeria, with the

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remaining 11.1% being explained by other factors not included in the model. Furthermore, the regression results as described above showed an intercept of -9326.779 which is negative. This simply implies that when another variable is held constant, the financial performance of listed industrial goods firms decreases by -9326.779. The result of the constant is statistically significant, as indicated by a P-value of 0.0000.

Table 4.7 shows that the coefficient of the variable RE was -0.158758 with a p-value of 0.4216 (>0.05). That means that the retained earnings have a negative effect on the financial performance of listed industrial goods firms which supports the null hypothesis. On the other hand, the second hypothesis showed that the coefficient of the variable CR was 393.4340 with a p-value of 0.0001 (<0.05). This confirms that CR (capital reserve) has a positive and significant effect on the financial performance of firms listed under the industrial goods sector in Nigeria which provides support for the alternative hypothesis.

Table 4.7 also confirmed that the control variable (firm size) has a positive and statistically significant effect on the financial performance of listed industrial goods firms.

4.2 Discussion of Findings

The result of the study as explained above indicated that retained earning has a negative and insignificant effect on the financial performance of the companies listed under the industrial goods sector in Nigeria. This suggests that there is an insignificant relationship between retained earnings and financial performance. The study agrees with the findings of Ugwu et al (2021) and Thuranira (2014) while the contrary opinion disagrees with the findings of Omollo et al (2018).

Also, it is evident from the findings that capital reserves have a positive and significant effect on financial performance. This study also agrees with the study of Elvira et al (2020), Omollo et al (2018) but negates the findings of Ugwu et al (2021) and Thuranira (2014). The overall research outcome is based on the probability of f-statistics of 0.00010 and therefore agrees with the apriori expectation.

5. CONCLUSION AND RECOMMENDATIONS

The study reviewed the impact of corporate reserves on the financial performance of companies in the industrial goods sector in Nigeria. The findings in line with the objectives and hypothesis affirmed that retained earnings have a negative and insignificant effect on financial performance while capital reserves have a positive and significant effect on the financial performance of listed industrial goods firms in Nigeria. The following recommendations are therefore presented to support the effective and efficient management of companies listed in the industrial goods sector in Nigeria.

i. From the foregoing, it has been established that earnings retention has an insignificant relationship with the firms' performance hence it is recommended that the firms desist from retaining huge amounts.

ii. Instead of keeping large sums by the firms (in the form of retained earnings) by the companies it is recommended that they make specific capital reservations and apply the reserved funds on ventures that will increase stakeholders' value in the business.

The management of the industrial goods companies is advised to only retain funds meant for investment opportunities. Managers of the firms should ensure that such investment opportunities have positive NPV (net present values). For corporate investors, the study recommends investments in firms that keep capital reserves as against those that keep retained earnings.

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APPENDIX 1: DATA EMPLOYED FOR THE STUDY

ID	COMPANY	YEAR	Earnings Per Share EPS =Kobo=	Retained Earnings RE =N=billion	Capital Reserve CR =N=billion	Total Asset (TA) FSZ log of TA
1	**BETA GLASS PLC**	2013	295.00	10.7604	2.4299	7.4340

ID	COMPANY	YEAR	Earnings Per Share EPS =Kobo=	Retained Earnings RE =N=billion	Capital Reserve CR =N=billion	Total Asset (TA) FSZ log of TA
1	**BETA GLASS PLC**	2014	478.00	12.9602	2.4299	7.4302
1	**BETA GLASS PLC**	2015	398.00	14.5854	2.4299	7.4341
1	**BETA GLASS PLC**	2016	760.00	18.4822	2.4299	7.5209
1	**BETA GLASS PLC**	2017	823.00	22.1523	2.4299	7.5822
1	**BETA GLASS PLC**	2018	1,011.00	26.6348	2.4299	7.6635
1	**BETA GLASS PLC**	2019	1,116.00	31.5652	2.4299	7.7167
1	**BETA GLASS PLC**	2020	693.00	34.1969	2.4299	7.7321
1	**BETA GLASS PLC**	2021	910.00	39.1346	2.4299	7.8001
1	**BETA GLASS PLC**	2022	781.00	43.2206	2.4299	7.8805
2	**DANGOTE CEMENT PLC**	2013	1,234.00	518.2499	2.8280	8.9147
2	**DANGOTE CEMENT PLC**	2014	1,071.00	584.7804	2.8280	8.9838
2	**DANGOTE CEMENT PLC**	2015	1,046.00	695.7080	2.8280	9.0509
2	**DANGOTE CEMENT PLC**	2016	1,797.00	927.5890	2.8280	9.1768
2	**DANGOTE CEMENT PLC**	2017	1,494.00	937.2390	2.8280	9.2071
2	**DANGOTE CEMENT PLC**	2018	2,825.00	123.9770	2.8280	9.2360
2	**DANGOTE CEMENT PLC**	2019	1,534.00	1,228.4710	2.8280	9.3255
2	**DANGOTE CEMENT PLC**	2020	2,069.00	1,308.4320	2.8280	9.2613
2	**DANGOTE CEMENT PLC**	2021	2,242.00	1,417.5270	2.8280	9.4120
2	**DANGOTE CEMENT PLC**	2022	2,387.00	1,482.9130	2.8280	9.4246
3	**TRIPPLE GEE AND COMPANY PLC.**	2013	380.00	0.0188	0.1213	6.2225
3	**TRIPPLE GEE AND COMPANY PLC.**	2014	313.00	0.0155	0.2035	6.2432

ID	COMPANY	YEAR	Earnings Per Share EPS =Kobo=	Retained Earnings RE =N=billion	Capital Reserve CR =N=billion	Total Asset (TA) FSZ log of TA
3	TRIPPLE GEE AND COMPANY PLC.	2015	823.00	0.0309	0.2035	6.2565
3	TRIPPLE GEE AND COMPANY PLC.	2016	559.00	0.0277	0.2035	6.2851
3	TRIPPLE GEE AND COMPANY PLC.	2017	207.00	0.0102	0.2035	6.2737
3	TRIPPLE GEE AND COMPANY PLC.	2018	11.00	0.1527	0.1596	6.2468
3	TRIPPLE GEE AND COMPANY PLC.	2019	558.00	0.2761	0.1157	6.2420
3	TRIPPLE GEE AND COMPANY PLC.	2020	758.00	0.0375	0.3191	6.2715
3	TRIPPLE GEE AND COMPANY PLC.	2021	1,735.00	0.0562	0.2035	6.4356
3	TRIPPLE GEE AND COMPANY PLC.	2022	1,338.00	0.0316	0.2035	6.6381
4	BERGER PAINTS PLC	2013	83.00	1.6660	0.2576	6.5596
4	BERGER PAINTS PLC	2014	89.00	1.6402	0.1488	6.5611
4	BERGER PAINTS PLC	2015	51.00	1.7532	0.3303	6.5906
4	BERGER PAINTS PLC	2016	114.00	1.7598	0.2240	6.6130
4	BERGER PAINTS PLC	2017	77.00	1.8612	0.2463	6.6346
4	BERGER PAINTS PLC	2018	111.00	2.0331	0.3205	6.6566
4	BERGER PAINTS PLC	2019	47.00	2.2934	0.4487	6.7047
4	BERGER PAINTS PLC	2020	50.00	2.3670	0.1460	6.6965
4	BERGER PAINTS PLC	2021	47.00	2.4507	0.1356	6.7085
4	BERGER PAINTS PLC	2022	72.00	2.5435	0.2087	6.7426
5	PREMIER PAINTS PLC. [MRF]	2013	17.00	0.2136	0.1246	5.4985
5	PREMIER PAINTS PLC. [MRF]	2014	7.00	- 0.2055	0.1246	5.4609
5	PREMIER PAINTS PLC. [MRF]	2015	24.00	- 0.2350	0.1812	5.5331

ID	COMPANY	YEAR	Earnings Per Share EPS =Kobo=	Retained Earnings RE =N=billion	Capital Reserve CR =N=billion	Total Asset (TA) FSZ log of TA
5	**PREMIER PAINTS PLC. [MRF]**	2016	27.00	- 0.2685	0.1812	5.5052
5	**PREMIER PAINTS PLC. [MRF]**	2017	44.00	- 0.3224	0.1812	5.4534
5	**PREMIER PAINTS PLC. [MRF]**	2018	56.00	- 0.3916	0.1812	5.4171
5	**PREMIER PAINTS PLC. [MRF]**	2019	13.00	- 0.4081	0.1812	5.3775
5	**PREMIER PAINTS PLC. [MRF]**	2020	25.00	- 0.4388	0.1812	5.3422
5	**PREMIER PAINTS PLC. [MRF]**	2021	17.00	- 0.4602	0.1812	5.3096
5	**PREMIER PAINTS PLC. [MRF]**	2022	21.00	- 0.4495	0.1812	5.3262
6	**MEYER PLC.**	2013	8.00	0.4494	0.0105	6.4146
6	**MEYER PLC.**	2014	11.00	0.4086	0.0105	6.3866
6	**MEYER PLC.**	2015	25.00	0.4819	0.0105	6.3619
6	**MEYER PLC.**	2016	74.00	0.2675	0.0105	6.3382
6	**MEYER PLC.**	2017	54.00	- 0.0003	0.0544	6.2767
6	**MEYER PLC.**	2018	- 54.00	0.3190	0.0532	6.2646
6	**MEYER PLC.**	2019	64.00	0.3055	0.0532	6.5706
6	**MEYER PLC.**	2020	225.00	1.4140	0.0532	6.4793
6	**MEYER PLC.**	2021	7.00	0.7011	0.0532	6.2981
6	**MEYER PLC.**	2022	79.00	1.0947	0.0532	6.2805
7	**BUA Cement**	2013	124.00	4.0217	4.0217	7.1778
7	**BUA Cement**	2014	153.00	5.1828	5.1828	7.1981
7	**BUA Cement**	2015	96.00	5.8217	3.6947	7.2342
7	**BUA Cement**	2016	100.00	6.9498	3.9151	7.3017

ID	COMPANY	YEAR	Earnings Per Share EPS =Kobo=	Retained Earnings RE =N=billion	Capital Reserve CR =N=billion	Total Asset (TA) FSZ log of TA
7	**BUA Cement**	2017	227.00	10.1737	3.6102	7.3918
7	**BUA Cement**	2018	189.00	14.3342	0.1949	8.5413
7	**BUA Cement**	2019	179.00	146.8338	- 0.0729	8.6726
7	**BUA Cement**	2020	214.00	159.9155	- 0.8971	8.8844
7	**BUA Cement**	2021	266.00	181.9207	- 0.7404	8.8624
7	**BUA Cement**	2022	298.00	194.8841	- 0.7079	8.9415
8	**AUSTINE LAZ & COMPANY PLC**	2013	0.70	0.1841	1.2248	6.3764
8	**AUSTINE LAZ & COMPANY PLC**	2014	-] 14.72	0.0252	1.2248	6.3099
8	**AUSTINE LAZ & COMPANY PLC**	2015	- 5.47	- 0.0339	1.2248	6.2714
8	**AUSTINE LAZ & COMPANY PLC**	2016	- 13.53	- 0.1800	1.2248	6.2457
8	**AUSTINE LAZ & COMPANY PLC**	2017	0.03	- 0.1797	1.2248	6.2302
8	**AUSTINE LAZ & COMPANY PLC**	2018	- 1.50	- 0.1960	1.2248	6.2198
8	**AUSTINE LAZ & COMPANY PLC**	2019	- 7.81	- 0.2803	1.2248	6.1858
8	**AUSTINE LAZ & COMPANY PLC**	2020	- 13.16	- 0.4225	1.2248	6.1435
8	**AUSTINE LAZ & COMPANY PLC**	2021	- 4.13	- 0.4670	1.2248	6.1294
8	**AUSTINE LAZ & COMPANY PLC**	2022	- 4.13	- 0.5116	1.2248	6.1148

Sourced by the Researcher (2024) from the Annual Reports of the Firms- 2013-2022