Asian Journal of Business Management Studies 4 (2): 30-36, 2013
ISSN 2222-1387

Effect of Stock Market Financing on Corporate Growth in Nigerian Brewery Industry

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Abstract: This study examines the effect of stock market financing on corporate growth of Nigeria Brewery Industry from 2005-2013 using multiple Regression Analysis. The result of the findings shows that leverage has a negative and insignificant relationship to return on Equity. The implication is that leverage can lead to under utilization of Asset. The result further reveals that liquidity has a positive and insignificant relationship with return on Equity hence; excessive Liquidity may lead to low growth. Equity turnover has a positive and significant relationship with return on Equity. The study recommends that new corporate firms in Nigerian Brewery Industry should focus on Equity financing and less debt financing to ensure corporate growth.

Key words: Stock market · Financing · Corporate growth · Nigeria and Brewery Industry

INTRODUCTION

Stock market plays important role in economic growth and national development. The impact of stock market on corporate growth and development in Nigeria cannot be over emphasized. It has become evident that most corporate financing is done through equity financing [1]. It is the cheapest and the most flexible source of fund that can be raised in the capital market for corporate growth and investment.

Stock market exists primarily as a vehicle for the mobilization of funds for companies to raise capital for investment. This allows business to be publicly traded and raise additional financial capital for expansion by selling shares of ownership of the company in a public market. These vital functions for rapid economic growth and development are the aim and objectives for establishing the Nigerian stock exchange in March 1960 [2].

According to Ezeudu Ikenna (2014), [3], major engine of economic growth and development of a nation is its capital, it impacts positively on the economy by providing financial resources through its intermediation process for the financing of long term projects and hence without an efficient capital market the economy may be starred of required long-term fund for sustainable growth.

An investigation into the views of many researchers made the following revelation on the financing gap. Movement in the stock market can have a profound economic impact on the economy [4]. It was also their views that a collapse in share prices has the potential to cause wide spread economic disruption. Most famously, the stock market crash of (1929). Falling share prices can hamper firm's ability to raise finance on the stock market.

Firms who are expanding and wish to borrow often do so by issuing more shares. It provides a low cost way of borrowing more money. Often share price movements are reflection of what is happening in the economy. For instance, a fear of a recession could cause share prices to fall. The stock market itself can affect consumer confidence. Bad headlines of falling share are a discouraging factor. However, there are times when the stock market can appear out of step with the rest of the economy [5]. In the dept of a recession, share prices may rise as investors look forward to a recovery years in the future.

The stock market could be a source of business investment e.g firms offering new shares to finance investment.

This could lead to more jobs and growth. The stock market can be a source of private financing when bank financing is limited.

A-common index often used as a measure of stock market size is the market capitalization. Market capitalization equals the total value of all listed shares. In Africa Nigeria stock market, come third after Egypt and South Africa, in terms of number of companies listed in the stock market according to stock market online

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information, the market has primary market and secondary market [6]. At the primary market companies can raise capital, shares are issued for the first time to the pubic and shareholders can trade in shares of listed companies. At the secondary market share holders buy and sell existing shares.

The world stock market performances review in 1999 showed that the Nigerian stock market was banked 73 out of 97 countries based on percentage change in the price indices in US dollar.

The Nigerian Brewery Industry is one the biggest industrial sector that is performing well in Nigeria economy. The list of the industries includes Guinness Nigeria plc, Nigeria Breweries, Consolidated Breweries, International Breweries, Mopa Breweries, Babod Breweries. The Nigeria Breweries is the pioneer and largest brewering company in Nigeria. The company has several brands of beers and non alcoholic malt beverages, this is followed by Guinness Nigerian plc and both of them are quoted companies in the stock exchange market [7]. In their (2014) annual report, they have the largest capital reserve and the highest sales volume of trade their reserves are made to guarantee availability of fund to finance their expenditures on purchase of raw materials and components parts, which might include fixed assets replacement. The two breweries are the leaders of the highly intensive industry in Nigeria.

Statement of the Problem: In a financial system, stock market plays a crucial role in economic growth by providing short term and long-term fund necessary for economic growth and development, but falling prices of shares in the stock market create fear and uncertainty among investors.

For instance, the stock price clash of 2008, 2010 in Nigeria banking and manufacturing sector has led to huge lost of fund among investors. These clash cases have further reawaken research interest in the market. The essence of this research is to examine developmental role of the market inspite of the recent stock price clashes in the market.

Objectives of the Study: The main objective of the study is to evaluate the effect of stock market financing on corporate growth in Nigerian brewery industry. The specific objectives are:

- To identify effect of leverage on return on equity of listed brewery industries.
- To determine the effect of liquidity on return on equity (ROE) of listed brewery industries in Nigeria.
- To determine the effect of equity turnover on return on equity of listed brewery industries in Nigeria.

Research Question:

- To what extent has leverage affected firms return on equity in Nigerian Breweries?
- To what extent has liquidity influence, return on equity (ROE) in Nigerian brewery industries?
- What is the relationship between equity turnovers on return on equity of listed brewery industry?

Hypothesis:

H_i: The leverage has no significant effect on the return on equity of Listed brewery industries in Nigeria.

H_2: There is a significant effect of liquidity on return on equity of Listed brewery industries.

H_3: The equity turnover has no significant impact on the return on Equity of brewery industry in Nigeria.

MATERIALS AND METHODS

The research is an ex post facto, therefore, the nature and source of data for the analysis of this work is secondary data, from the published financial statement of the Nigeria Breweries from 2006-2015.

Method of Data Analysis: The statistical tool used for data analysis is correlation and multiple regressions. Person correlations were applied to measure the degree of association between different variables under consideration, while regression analysis was applied to examine the effect of independent variables on dependent variable SSPS software were used for regression analysis.

The independent variables considered in this study are leverage, liquidity, equity turnover and corporate growth represented by return on equity.

Leverage is measured as the ratio of total debt to total equity.

Liquidity is computed by dividing current asset by current liability.

Return on equity (ROE) is measured as net operating profit divided by the total equity of the industry.

Lev = TV ÷ TE
Liq = TCA ÷ TCL
ROE = NOP ÷ TE.

Model Speficification

ROE = $B_O + B_1$ Lev + B_2 Liq + B_3 + E

where
B_1 B_2 and B_3 are regression co-efficient
B_o is constant and E is the error term
Lev = Leverage
Liq = Liquidity and E is Equity turnover ratio

RESULTS

The result (0.505) which is the multiple co-efficient of determination gives the proportion of the total variation in dependent variable explained by the independent variation jointly. Hence, it signifies that 51% of the total variation in corporate growth of quoted brewery industry in Nigeria is caused by their stock market financing. This indicates that the model is fit and the regression are properly elected, combined and used. This further implies that for any change in the stock market of Brewery Industry in Nigeria, their corporate growth will be directly affected.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.710(a)	.505	.412	.126634

a Predictors: (Constant), Equity turnover, Liquidity, Leverage

Table 4.2

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	-.130	.387		-.336	.741
	Leverage	-.052	.118	-.097	-.442	.664
	Liquidity	.033	.059	.103	.552	.588
	Equity turnover	.114	.040	.628	2.838	.012

a Dependent Variable: Return on Equity

Table 4.3

Correlations

		Return on Equity	Leverage	Liquidity	Equity turnover
Return on Equity	Pearson Correlation	1	-.425	.219	.702(**)
	Sig. (2-tailed)		.061	.354	.001
	N	20	20	20	20
Leverage	Pearson Correlation	-.425	1	.122	-.543(*)
	Sig. (2-tailed)	.061		.608	.013
	N	20	20	20	20
Liquidity	Pearson Correlation	.219	.122	1	.202
	Sig. (2-tailed)	.354	.608		.392
	N	20	20	20	20
Equity turnover	Pearson Correlation	.702(**)	-.543(*)	.202	1
	Sig. (2-tailed)	.001	.013	.392	
	N	20	20	20	20

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Name of Company	Years	Leverage	Liquidity	Equity turnover ratio
Guinness PLC		Net liability Asset		
	2015	0.930	N(3, 418488)	2.420
	2014	1.000	N(19, 036, 478)	2.659
	2013	0.535	N(16, 421, 354)	3.016
	2012	0.535	N(6, 233119)	3.070
	2011	0.0.519	N(7, 679, 348)	3.505
	2010	0.514	N(4, 622, 693)	2.827
	2009	0.644	N(10, 759465)	1.877
	2008	0.907	N(14, 84800)	1.967
	2007	0.717	N(14185, 201)	2.090
	2006	1.083	N(885, 797)	0.214

Source of data

Nigeria Breweries PLC	Years	Return on Sales (ROS)	Return on Equity (ROE)	Return on Asset (ROA)
	2015	0.478	N(57, 623, 940)	1.550
	2014	0.570	N(55, 070, 2460)	2.372
	2013	0.802	N(29, 967, 841)	2.703
	2012	0.139	N(33, 509, 858)	3.394
	2011	0.095	N(4, 595, 690)	3.704
	2010	0.105	N(4, 689, 154)	3.526
	2009	0.442	N(14, 150, 035)	4.513
	2008	0.507	N(10, 517, 724)	2.588
	2007	0.053	N(1, 041, 735)	2.381
	2006	0.253	N(1, 391, 506)	2.307

Source of data

Guinness Plc	Years	Return on Sales (ROS)	Return on Equity (ROE)	Equity on Assets (ROA)
Growth variables	2015	0.107	0.212	0.243
	2014	0.139	0.257	0.369
	2013	0.167	0380	0.527
	2012	0.211	0.461	0.659
	2011	0.183	0.401	0.657
	2010	0.151	0.042	0.537
	2009	0.171	0.321	0.467
	2008	1.050	0.330	0.470
	2007	0.213	0.289	0.446
	2006	0.134	0.223	0.288

Source of data

Nigeria Breweries PLC	Years	Return on Sales (ROS)	Return on Equity (ROE)	Return on Asset (ROA)
	2015	0.231	0.247	0.358
	2014	0.232	0.370	0.554
	2013	0.220	0.407	0.595
	2012	2.528	0.490	0.595
	2011	0.241	0.604	0.730
	2010	0.252	0.560	0.889
	2009	0.257	0.797	1.164
	2008	0.249	0.438	0.646
	2007	0.190	0.300	0.453
	2006	0.161	0.237	0.371

Source of data

Return on Equity (ROE)	Leverage	Log Liquidity	Equity turnover ratio
.212	.930	6.533	2.420
.257	1.000	7.280	2.659
.380	.535	7.215	3.016
.461	.535	6.795	3.070
.401	.519	6.885	3.505
.042	.514	6.665	2.827
.321	.644	7.032	1.877
.330	.907	7.172	1.967
.289	.717	7.152	2.090
.223	1.083	5.947	.214
.247	.478	7.761	2.372
.370	.570	7.741	2.372
.407	.802	7.477	2.703
.490	.139	7.525	3.394
.604	.095	6.662	3.704
.560	.105	6.671	3.526
.797	.442	7.151	4.513
.438	.507	7.022	2.588
.237	.253	6.143	2.307

Source of data

Multiple Regression Analysis: Multiple regression analysis is applied to the data to measure the effect of stock market financing on corporate growth of brewery industry. The results are shown below in Table 4.1, 4.2 and 4.3.

The leverage ratio (LR) has negative relationship with return on equity (ROE). The t-calculated of leverage ratio has weak and negative relationship with return on Equity (ROE).

The insignificant negative relationship shows that the leverage ratio (LR) of the quoted brewery industry in Nigeria could insignificantly affect corporate growth industry negatively. However, its significant level of 0.664 shows that to leverage is statistically insignificant. Thus, the weight of the evidence suggest that we accept hull hypothesis (Ho) ad conclude that here is no significant effect of leverage ratio on (ROE) of quoted brewery industry in Nigeria. this means that change in leverage ratio practically has no effect on Nigeria brewery corporate growth during the period under review.

Moreover, it shows that the liquidity ratio (LR) stands at 0.552 < t2 confirming that is it statistically significant to quoted brewery industry corporate growth. This indicator shows that liquidity ratio (LR) has positive relationship and does statistically affect the corporate growth of the Nigerian brewery industry. At significant level at 0.552 renders the (LR) statistically insignificant. The weight of the evidence that suggest that null hypothesis (Hi) be accepted. This means the liquidity ratio has no effect on ROE of quoted brewery industry in Nigeria.

Finally, the coefficient result shows that equity turnover (ETO) has positive relationship and statistical effect on the corporate growth of Nigerian quoted brewery industry. Given that the + calculated < 2.837 t 2, we confirm the statistically significance effect of equity turnover on ROE, the weight of the evidence suggest that null hypothesis (Ho) be rejected. This implies that there is significant effect of equity turnover ratio on ROE of quoted brewery industry in Nigeria. The observed relationship can be mathematically expressed as:

$$ROE = -.130 - 0.052B_1 + 0.033_2 + .114B_3 + E$$

That the stock market promotes economic growth of corporate organization is not in doubt. It serves as an important mechanism for effective and efficient mobilization and allocation of savings, a crucial function for an organization desirous of growth.

This study attempted to place this role in the Nigerian Brewery Industry context between the periods of 2006-29 15. The study aims at determining the effect of stock market financing on corporate growth in Nigerian Brewery Industry. The researcher applied the person correlation and multiple regressions to measure the degree of association between different variables while regression analysis was applied to examine the effect of independent variables on dependent variable.

Leverage has a negative Relationship with Return on Equity, the implication is that leverage leads to a reduction in asset utilization potentials of the industry. The Brewery Industry should not assign much value of the leverage financing for growth of their company.

Liquidity shows a long term positive and insignificant Relationship with Return on Equity. According to Kunt and Levine (1996), [8], observed that there are some channels through which liquidity can detail growth. Firstly saving rate may be reduced, this happens when there is increasing return on investment through income and substitution effect. As saving rate falls and with the existence of externality attached to capital accumulation, greater stock market liquidity could slow down corporate growth [9]. The result also suggest that volatities of shares traded is not an effective measure of stock market liquidity. This may be especially so in developing countries where stock markets are highly volatile, causing the value of shares traded to be misleading indicators of liquidity. The results indicate that, in all its form, equity turnover Ratio is an important and statistically significant determent of aggregate growth. Equity turnover shares positive relationship with turnover on Equity [10]. This shows that Asset growth, sales growth is based on equity issuance and repurchase effect.

Recommendation: Stock market should create enabling environment that will ensure the trade of equity easily at the market since it plays a key role in economic growth. Savers prefer assets that are easily liquidated at any time. While simultaneously allowing firms permanent access to capital that are raised through equity issue.

The stock market should improve its information dissemination to investors, the situation where by information comes through price changes is unhealthy for the inquisitive investors who wants to know more about the market and its stocks.

Manager's compensation should be tied to stock, it is an incentive that will align the interest of principal (owner) and Agent (Manager) there by spacing efficient resource allocation and economic growth.

The Nigerian stock market should create innovation through information technology that will help to make the market more efficient and transparent in information disclosure.

The stock market should be strengthened to serve the interest of corporate entity and the three tiers of government, they should be encouraged to fund their developmental programme through the stock market.

CONCLUSION

Stock market promotes corporate growth through the issuance of shares at the primary market. The capital raised from the market is used for developmental projects which propel growth.

The study attempted to place the roll in Nigerian stock market in promoting corporate growth between 2006-2015 through notable financial variables; it was found that stock market promotes fundamental economic growth in corporate institution like Nigerian Brewery Industry. The future of Nigerian stock market is very bright, effect should by made to ensure that its operations are not hindered through political interference so that its performance should be as effective and efficient like its counter parts in developed countries of the world. Such as US, Uk, Germany, China etc.

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