


THE EFFECT OF FINANCIAL RATIOS, FIRM SIZE, AND CASH FLOWS FROM OPERATING ACTIVITIES ON EARNINGS PER SHARE

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ARTICLE INFO	ABSTRACT
<p>Article history:</p> <p>Received 21 April 2023</p> <p>Accepted 18 July 2023</p>	<p>Purpose: The study aims to examine the effect of Financial Ratios, Firm size, and Cash Flows from Operating Activities on Earnings per Share.</p>
<p>Keywords:</p> <p>Financial Ratios; Firm Size; Cash Flows from Operating; Earnings per Share.</p>	<p>Theoretical framework: Earnings per share are one of the crucial matters of concern to dealers in securities because of their important role in evaluating investments and the risks surrounding them. Since earnings per share are affected by several factors.</p>
<div data-bbox="172 954 480 1189" data-label="Image">  </div>	<p>Design/Methodology/Approach: The study sample consisted of industrial companies listed on the Palestine Exchange during the period 2016–2020. Secondary sources were used to collect study data.</p> <p>Findings: The results of the study showed that there is a statistically significant effect of each company's size and financial leverage on stock returns. However, the results of the study showed that there was no statistically significant effect for each of the liquidity and operating cash flows on the returns per share.</p> <p>Research, practical & social implications: We can consider that financial ratios, return on equity, debt to equity, price to book value, and cash flow from operating activities altogether affect earnings per share.</p> <p>Originality/Value: The results of this study provide evidence for stakeholders to be able to judge the efficiency of firms by understanding the factors that affect the size and stability of earnings per share.</p> <p>Doi: https://doi.org/10.26668/businessreview/2023.v8i6.3317</p>

O EFEITO DOS ÍNDICES FINANCEIROS, TAMANHO DA EMPRESA E FLUXOS DE CAIXA DE ATIVIDADES OPERACIONAIS NOS LUCROS POR AÇÃO

RESUMO

Objetivo: O estudo tem como objetivo examinar o efeito dos Índices Financeiros, Tamanho Firme e Fluxos de Caixa das Atividades Operacionais nos Ganhos por Ação.

Enquadramento teórico: Os lucros por ação são uma das questões cruciais que preocupam os corretores de títulos devido ao seu importante papel na avaliação dos investimentos e dos riscos que os envolvem. Uma vez que os ganhos por ação são afetados por vários fatores.

Projeto/Metodologia/Abordagem: A amostra do estudo foi constituída por empresas industriais listadas na Bolsa da Palestina durante o período de 2016-2020. Fontes secundárias foram usadas para coletar dados de estudos.

Constatações: Os resultados do estudo mostraram que há um efeito estatisticamente significativo do tamanho e da alavancagem financeira de cada empresa no retorno das ações. No entanto, os resultados do estudo mostraram que não houve efeito estatisticamente significativo para cada liquidez e fluxos de caixa operacionais nos retornos por ação.

Investigação, implicações práticas e sociais: Podemos considerar que os rácios financeiros, o retorno sobre o capital próprio, a dívida para o capital próprio, o preço para o valor contabilístico e o fluxo de caixa das atividades operacionais afetam os ganhos por ação no seu conjunto.

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Originalidade/Valor: Os resultados deste estudo fornecem evidências para que as partes interessadas possam avaliar a eficiência das empresas, compreendendo os fatores que afetam o tamanho e a estabilidade dos ganhos por ação.

Palavras-chave: Taxas Financeiras, Tamanho Firme, Fluxos de Caixa Operacionais, Ganhos por Ação.

EL EFECTO DE LAS RELACIONES FINANCIERAS, EL TAMAÑO DE LA EMPRESA Y LOS FLUJOS DE EFECTIVO DE LAS ACTIVIDADES OPERATIVAS SOBRE LAS GANANCIAS POR ACCIÓN

RESUMEN

Finalidad: El estudio tiene como objetivo examinar el efecto de las ratios financieras, el tamaño de la empresa y los flujos de efectivo de las actividades operativas sobre las ganancias por acción.

Marco teórico: Las ganancias por acción son una de las cuestiones cruciales que preocupan a los operadores de valores debido a su importante papel en la evaluación de las inversiones y los riesgos que las rodean. Dado que las ganancias por acción se ven afectadas por varios factores.

Diseño/ Metodología/ Enfoque: La muestra de estudio estuvo compuesta por empresas industriales cotizadas en la Bolsa de Palestina durante el período 2016-2020. Se utilizaron fuentes secundarias para recolectar los datos del estudio.

Hallazgos: Los resultados del estudio mostraron que hay un efecto estadísticamente significativo del tamaño y el apalancamiento financiero de cada empresa en los retornos de las acciones. Sin embargo, los resultados del estudio mostraron que no hubo un efecto estadísticamente significativo para cada uno de los flujos de efectivo de liquidez y de explotación sobre los rendimientos por acción.

Investigación, implicaciones prácticas y sociales: Podemos considerar que los ratios financieros, el rendimiento del capital, la deuda sobre el capital, el precio sobre el valor contable y el flujo de caja de las actividades operativas afectan por completo a las ganancias por acción.

Originalidad/Valor: Los resultados de este estudio proporcionan evidencia para que las partes interesadas puedan juzgar la eficiencia de las empresas entendiendo los factores que afectan el tamaño y la estabilidad de las ganancias por acción.

Palabras clave: Ratios financieros, Tamaño de la Empresa, Flujos de Efectivo de Operaciones, Ganancias por Acción.

INTRODUCTION

The financial statements (income statement, retained earnings statement, financial position statement, change in equity statement, and cash flow statement) include quantitative and qualitative data used in financial analysis and investment decision-making. The financial statements contain a large amount of accounting information that pertains to the previous financial periods and the current financial period (Aidi et al., 2023). Therefore, it is not sufficient to prepare these financial statements; it is necessary to analyze them using appropriate methods and tools to convert these data into useful information for decisions and predict the future of companies, and then employ the results of the analysis to serve the various parties that use accounting information (Welc, 2022; De Franco et al., 2011). The analysis using financial ratios is one of the important financial analysis tools that the various interested parties depend on in studying and analyzing the company's financial position and comparing it with other companies, in addition to comparing it with companies operating in other sectors (Bulgneb,

2022; Kumbirai & Webb, 2010; Innocent et al. 2013). Earnings per share are the result of several policies and decisions made by the company's management. Therefore, earnings per share are the company's ability to generate income and net profits from the activities carried out during the financial period. In other words, the greater the ability to earn profits, the higher the earnings per share. The greater the profitability, the greater the company's ability to distribute profits to shareholders, and this also indicates the value of the company (Hemadivya & Rama Devi, 2013). Earnings per share are an important financial indicator for evaluating the company's performance, as they help the investor and the lender make sound decisions. The decision to invest in stocks is also closely linked to earnings per share. The earnings per share index is considered one of the most motivating factors for investors to make the right investment decision (Talab & Flayyih, 2023). In the literature, earnings per share is still a research topic that has been studied in several areas. For example, in the context of Indonesia, Sausan et al.'s (2020) research on the effect of earnings per share on stock returns Abdulkareem and Meghanathi (2020) research on the relationship between leverage and earnings per share in the context of India On the other hand, Rizal (2022) researches the relationship between earnings per share and stock prices in the context of Indonesia. However, in the context of Palestine, limited studies have studied the earnings per share. Given the importance of earnings per share, this study aims to examine the relationship between financial ratios, company size, and operating cash flows on earnings per share in Palestinian industrial companies.

JUSTIFICATION

Shares are among the common options that investors resort to in the financial markets due to the earnings that come from them. On the other hand, the shareholder bears the risk because of the uncertainty associated with these earnings, which is embodied in the permanent change in share prices. Making the decision that achieves the highest earnings with the least risk among the available alternatives requires obtaining appropriate information and great experience to analyze this information. The financial statements constitute the most important source of information that investors resort to, as they provide information about the financial position of the institution and its performance to external parties to take appropriate decisions. At the same time, for the financial statements to achieve their desired purpose, they need to be studied and analyzed using several models, ratios, and tools. Among the tools used in analyzing financial statements are financial ratios. Financial ratios are used as a guide in evaluating the financial position of the institution and its operations and comparing its results with the results

of previous years or the results of other institutions. The analysis of the financial statements using financial ratios is very important for the investor, especially in the financial markets that have the efficiency that makes them respond to the disclosure of the financial statements.

Objective of the Work or Research Problem

The importance of the current study stems from its connection to the industrial sector. More specifically, the industrial sector has a significant impact on the economy as a major driver. On the other hand, the importance of the current study stems from enriching the scientific and practical knowledge that stakeholders and investors rely on in judging the companies that will be invested in, based on a number of financial ratios and other indicators. Based on the multiplicity of items included in the financial statements, a large number of financial ratios can be derived. These ratios are classified into several categories, each of which is concerned with a specific aspect of the organization's activity. In this regard, and given that the earnings per share are the sum of the various aspects of the organization's activity, there is a possibility of an impact of the financial ratios on the earnings per share. Based on the discussion above, the study problem can be posed as follows: To what Extent do financial ratios, Firm size, and Cash Flows from Operating Activities impact Earnings per Share?

LITERATURE REVIEW

Investors resort to earnings per share to compare available investment options and learn about the market price trends of shares. The earnings per share ratio shows the percentage of profit that is achieved for each share during the financial period, so this ratio is also known as the ordinary share of profits. Earnings per Share (EPS) is one of the metrics used to assess a company's shareholder-distributed profitability (Atidhira & Yustina, 2017). Earnings per Share (EPS) is the ratio of the financial year's net profit after tax less preference shares to the weighted average of outstanding shares (Kieso et al., 2011). Earnings per Share (EPS) is a metric that investors and prospective share buyers frequently use to assess a company's capacity to profit from the shares held.

Earnings per Share (EPS) is a metric used for specific types of analysis (Hanafi and Halim, 1995). First, securities analysts evaluate the profitability of a company using earnings per share. Second, earnings per share and the yield ratio of the price-to-earnings ratio are related to the market price of a share. The price-earnings Earnings Ratio (PER) measures the relationship between the market price (and share price) and the earnings per share (EPS) of the

relevant shares (Ang, 1997). As well, earnings per share (EPS) are typically regarded as the most important factor in determining share price. It is also crucial for determining the price-to-earnings valuation ratio (Saeed & Tahir, 2015).

In the literature, researchers studied a number of factors that can affect earnings per share. For example, liquidity is one of the most important financial ratios used to determine a company's ability to meet its short-term obligations (Effiong & Ejabu, 2020). In other words, investors use liquidity to determine the creditworthiness of companies and the riskiness of investing in them, which is reflected in financial performance and earnings per share (Dahiyat et al., 2021). In this regard, Dahiyat et al. (2021) found that liquidity, solvency management, and firm size were significantly positively related to financial performance measured by earnings per share in the context of Jordan. On the other hand, Mazengo & Mwaifyusi (2020) confirmed a significant positive relationship between liquidity and dividend payout in a study conducted among financial institutions listed on the Dar es Salaam stock exchange.

Furthermore, Taani & Banykhaled (2011) found that financial ratios (profitability ratio measured by ROA, Market ratio, and leverage ratio) were significantly related to earnings per share in a study conducted in the Jordanian industrial sector. Besides, Saeed & Tahir (2015) also confirmed a significant positive relationship between profitability measured by (ROA, ROE, Net profit) and earnings per share among commercial banks working in Pakistan for the period 2007–2013. Furthermore, Rachmawati & Sherlita (2021) found a significant relationship between profitability and earnings per share. Thalji (2019) also found a significant positive impact of profitability on earnings per share in companies listed on the Amman Stock Exchange. These results indicate that profitability looks at the ability of the firm to utilize its assets, in other words, a high return on assets indicates efficiency in asset wealth management and its impact on high returns measured by earnings per share. However, Ali (2020) found that there is no relationship between leverage and financial performance.

Concerning firm size, it should be carefully considered in light of the primary variables that will determine its profitability; the bigger the firm, the simpler it will be to raise funds from third parties with a sizable sum, and the more appealing it will be to investors to invest in it (Sjahrial, 2012). The size of the business indicates how much of its goods or services it can provide to clients (Dang et al., 2018). Investors are more interested in businesses that can offer a high rate of return than in businesses where they can place their money. Companies' capacity to benefit from investment expansion may be made easier by the availability of investor cash (Kartikasari & Merianti, 2016). Therefore, it is expected that there will be a relationship

between firm size and earnings per share. In this regard, Rachmawati & Sherlita (2021) found a significant positive relationship between firm size and earnings per share in a study conducted in manufacturing companies listed on the Indonesia Stock Exchange.

The evaluation of the cash flow statement and the indications that may be retrieved from it is an important function of financial analysis. The cash flow statement connects the income statement with the general budget statement (Hamshari, 2020). In this regard, researchers linked cash flow from operations from various angles. According to Abu Al-Rab (2019), there is a direct relationship between operating cash flows and stock return, and there are extraordinary activities that positively affect earnings per share. The study recommended that investors and users focus on data related to cash flows, particularly operational cash flows to credit facilities. As well, Hamshari (2020) concludes that there is a strong relationship between cash flows from operating activity and earnings per share. These results indicate that there is a need to pay attention to operational activity and provide and create economic conditions, laws, and legislation that help to strengthen and achieve voluntary power because they reflect the continuity of facilities and companies. However, Al-Ghoul (2018) found no significant relationship between operating cash flow and earnings per share in a study conducted among Jordanian Commercial Banks.

According to the discussion above and the majority of empirical evidence, the researcher developed the following hypotheses:

H₁: These is a significant relationship between liquidity and earnings per share.

H₂: These is a significant relationship between leverage and earnings per share.

H₃: These is a significant relationship between firm size and earnings per share.

H₄: These is a significant relationship between cash flow from operations and earnings per share.

MATERIAL AND METHODOLOGY

This study aims to examine the effect of financial ratios, firm size, and cash flows from operating activities on earnings per share in the Palestinian industrial sector. Indeed, one of the key cornerstones of the Palestinian economy is the industrial sector. It makes a significant contribution to Palestine's economic and social growth. Despite numerous challenges, this industry has continued to expand, particularly in recent years. This expansion was caused by the development of some sub-sectors and the emergence of chain clusters, as seen in the leather

and shoe sectors, as well as the textile and clothing sectors. As a result, Palestinian exports benefit (Investment Promotion and Industrial Estates Agency).

The study population consisted of industrial companies operating in Palestine. However, the study sample is limited to the industrial companies listed on the Palestine Exchange for the period 2016–2020. According to Palestine Exchange, there are 13 industrial companies listed on Palestine Exchange, the following table shows these companies.

Table (1): Study Sample

No.	Company	Symbol
1	Birzeit Pharmaceuticals	BPC
2	Vegetable oil factories	VOIC
3	Jerusalem Pharmaceuticals	JPH
4	Palestine poultry	AZIZA
5	Dar Al Shifa Pharmaceutical Industry	PHARMACARE
6	Beit Jala for the pharmaceutical industry	BJP
7	Jerusalem cigarettes	JCC
8	National Aluminum & Profile Industry - NAPCO	NAPCO
9	Golden Wheat Mills	GMC
10	Arab for the manufacture of paints	APC
11	The National Carton Industry	NCI
12	Palestine Plastic Industries	LADAEN
13	East Electrode Factory	ELECTRODE

Source: Palestine Exchange

With regard to the selection criteria for the study sample, this study depends on the following criteria:

1. Availability of financial reports during the study period.
2. Availability of information related to the variables of the study.

Concerning collecting study data, primary sources of published books and research were relied upon to build the theoretical framework and previous studies, in addition to secondary sources for collecting study data that were used to reach results and test hypotheses. The annual financial reports published for the study sample companies that meet the selection criteria will be relied upon, and the necessary data will be collected from them to reach the results of the study.

The following table shows the study variables and their measurement methods.

Table (2): Description of Study Variables

Category	Symbol	Description
Dependent Variable		
Earnings Per Share	EPS	Net income divided by average outstanding shares
Independent Variables		
Liquidity	LI	Current ratio
Leverage	LE	Debt to equity ratio

Firm Size	FS	Log of firm' total assets
Operating Cash Flows	OCF	Cash flow from operation/Sales

Although the study is expected to provide important results, there are some limitations associated with these results. This study is limited to the context of industrial companies in Palestine. Therefore, there is a limitation to generalizing the results to the rest of the sectors in Palestine and contexts other than Palestine as well. On the other hand, the study period was limited to 2016–2020. The conclusions of the study may be more powerful and deeper if the study period was longer than that.

RESULTS AND DISCUSSION

Using (SPSS26), the researcher uses descriptive statistics, Pearson correlation, and multiple regression models to analyze the study data. The following sections show the results.

Descriptive Statistics

The following table shows the descriptive statistics (minimum, maximum, mean, and standard deviation) of all study variables.

Table (3): Descriptive Statistics of Study Variables

	Minimum	Maximum	Mean	Std. Deviation
EPS	.00	1.47	.2097	.35567
LI	.11	38.15	3.9178	5.70361
FS	5.92	7.98	7.2320	.55361
OCF	-2,295,643	8,444,357	1,206,399.62	1,952,908.214
LEE	.27	365.45	21.1075	52.74102

It is clear from the previous table that the minimum value and the maximum value of the earnings per share (EPR) are (.00) and (1.47) according to the descriptive statistics and the mean (.2097). This indicates that there is a large fluctuation in the EPS for the study sample during the period that was studied. The descriptive statistics also show the mean of liquidity (LI) firm size (FS) is (3.9178) and (7.2320) respectively. Concerning operating cash flow (OCF), the above table shows the minimum and maximum values are (-2,295,643) and (8,444,357). Finally, the mean value of leverage (LEE) is (21.1075).

Multi-Collinearity

An important assumption in the regression analysis model is that there is no linear overlap between the independent variables of the study. According to Anderson et al. (1993),

if the correlation coefficient between the independent variables is 70% or more, it can be concluded that there is a linear overlap in the regression analysis model, which will affect the interpretation of the results of the study. The following table shows the Pearson correlation to examine the multi-collinearity in the study model.

Table (4): Correlation among independent variables

	LI	FS	OCF	LEE
LI	1			
FS	-0.030	1		
OCF	-0.166	.470**	1	
LEE	0.081	.267*	.521**	1

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

As shown in the above table, the correlation among all independent variables was less than 70%; this indicates that the regression model is free from the multicollinearity problem.

Regression Results

The researcher uses linear regression analysis (OLS) to estimate the effect of the independent variables (liquidity, leverage, firm size, and cash flow from operations), on the dependent variable, which is the earnings per share of listed companies on the PEX. Regression analysis is used to clarify the relationship between two or more variables through a set of mathematical equations, such as the regression equation, or what is known as the regression analysis equation. The following table shows the results of OLS regression.

Table (5): Results of OLS regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Hypothesis Result	
	B	Std. Error	Beta				
1	(Constant)	-1.673-	.633		-2.642-	.011	
	LI	0.006	0.009	0.104	0.714	0.478	Reject
	FS	0.272	0.089	0.424	3.075	0.003	Accept
	OCF	-4.656E-08	0.000	-0.256	-1.595	0.116	Reject
	LEE	-0.002	0.001	-0.242	-1.921	0.060	Accept

Dependent Variable: EPS / R = .435 R / Square = .189

As shown in the table, the value of R Square is .189, which indicates that (18.9) of the change in the dependent variable (Earnings per Share) is due to the variables of the study (Liquidity, Leverage, Firm Size, and Operating Cash Flows). The OLS regression shows that the liquidity (LI) has no significant effect on earnings per share ($t = 0.714$, $\text{sig} = 0.478$), therefore the H1 is rejected. According to table (5), there is a significant positive effect of firm size (FS) on earnings per share ($t = 3.075$, $\text{sig} = .003$), therefore H2 is accepted. As well as, the

regression found no significant effect of operating cash flow on earnings per share ($t = -1.595$, $\text{sig} = .116$), therefore H3 is rejected. Finally, there is a significant negative effect of leverage (LEE) on earnings per share ($t = -1.921$, $\text{sig} = .060$), therefore the H4 is accepted.

CONCLUSION

The main objective of investment is to achieve future returns. In general, investment consists of disbursing an amount of money now and postponing its consumption by the investor in order to achieve future returns. In this regard, the return is a basic measure of the benefit generated by investing over the invested amount.

The basis for analyzing the company's shares is analyzing all its financial statements by studying them. Earnings per share is an accurate measure and is often used to measure a company's profitability per share owned by shareholders (Pushpa & Sumangala, 2012; Consler et al., 2011). Earnings per share are the main driver of share prices, as companies with high earnings per share may witness a rise in the price of their shares in the market. On the other hand, earnings per share is a financial indicator that includes information of important value with regard to evaluating the financial condition of the enterprise.

This study aims to examine the effect of financial ratios, firm size, and operating cash flow on earnings per share. The results show that liquidity, and operating cash flow have no significant effect on earnings per share. This result is inconsistent with the viewpoint of literature that indicates a positive relationship between cash flow and earnings per share, as the greater the cash inflows than the cash outflows, the greater the company's ability to invest its money and pay its obligations to provide liquidity, which results in high returns. This result is also inconsistent with the findings of Taani & Banykhaled (2011), Saeed & Tahir (2015); and Rachmawati & Sherlita (2021).

However, the results show a significant positive effect of firm size on earnings per share. This result indicates that the biggest firms are more effective at generating returns. This result is consistent with Rachmawati & Sherlita (2021), as they found a significant positive relationship between firm size and earnings per share. The results of this study also show a significant negative effect of leverage on earnings per share. In general, the leverage ratio occupies a key role in earnings per share (EPS). Leverage causes variability in the returns of shareholders (Elangkumaran & Nimalathan, 2013). However, this result is inconsistent with the study of Rengasamy (2014), as it concludes that leverage has no significant effect on earnings per share.

In general, the results of this study are useful to stakeholders, especially investors, when evaluating the earnings per share of a particular company in the long run. The results of this study show the extent to which it is possible to rely on the variables related to the company, such as the size of the company, its liquidity, and other factors, to predict the profits associated with the share and thus properly evaluate the investment opportunities. This study recommends investors invest in big firms to achieve high earnings per share.

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