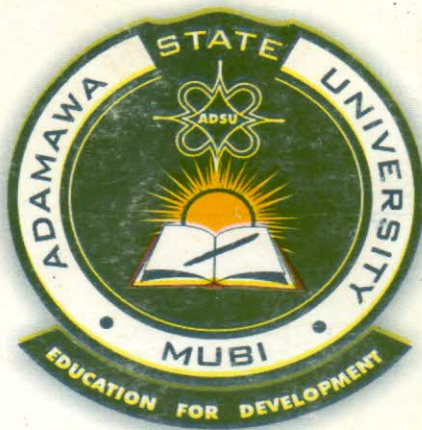




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ABSTRACT

The need for firms to measure their performance become imperative in view of their vulnerability to environmental risks and the fact that firms can only continue to exist if the firms are performing their activities well internally and relative to competitors in the market. Measurement of the performance business firms is done in the field of financial management through ratio analysis and that why this study specifically the investigates how financial ratio analysis can be used to measure the performance of manufacturing Industry using three selected manufacturing firms in the Foods and Beverages industry as case study. The study mainly sourced it data through secondary means, that is, examination of relevant literature such as text book, journal, conference papers and 2005 and 2006 annual Fact Books of Nigerian Stock Exchange. Three firms were randomly selected from the industry and selected financial ratios were used as analytical tool for this study. The study discovered Nestle had the highest earnings per share and dividend per share as well as the most liquid in terms of the ability to redeem its financial obligations.

INTRODUCTION

The continue existence of businesses in general, and manufacturing firms in particular depend on the firms' dexterity in utilizing its resources efficiently and effectively to be able to generate profit and realise the firm's stated objectives. The paramount objective business entity pursues is maximization of profit in order to be able to pay for the resources committed by the business owners and increase shareholders' wealth. However, it is on the profit that other business objectives depend, as profit realization or maximization ensures firm's survival, growth and expansion (Mustapha, 2006, Motajo, 2008, Olujide and Aremu, 2004). A firm that makes profit will continue to existence and going concern is an important concept in Accounting and this is important because a continuous lift is anticipated for the firm within a foreseeable future (Omuya, 1992, Abdulraheem, 2004 and Aliu and Shagari, 2005).

Business organizations' periodic financial reports through profit and loss accounts, sources and uses of funds and

Balance Sheets requires a cautious assessment and interpretation to be able to establish the extent of performance of such firms. Hence, the evaluation of the performance of business organization should start with the interpretation of the financial statements as this will reveals the strengths and weaknesses of business organisations generally and manufacturing firms in particular and the future plans of the firm should be laid down in the view of the firm's financial strength and weaknesses Pandey (2005). Thus, it is in this regard that the study examines how best financial ratio analysis can be used to measure performance in manufacturing industry.

Specifically the study investigates on financial ratio analysis as a measure of performance in manufacturing Industry using selected manufacturing firms in the Food and Beverages industry as a case study. The study aims at educating operators in the selected industry, shareholders, creditors, financial management researchers as well as financial management students and other interested publics on how financial ratio can empirically

be used to analyse the performance of manufacturing firms and firms in other industries in general. It also seeks to establish the utility of financial ratio in credit analysis and competitive analysis well as determining financial capability of the firm.

The next section provides theoretical framework on financial ratio analysis. Section three addresses the methodology used in gathering data for this study while section four presents and discusses the results. The last section draws conclusion on the bases of the findings.

THEORETICAL FRAMEWORK ON FINANCIAL RATIO ANALYSIS

Sharpe et al (2003) define ratio analysis as a technique commonly employed by analysts in examining a company's financial statements. Giving a concise definition of ratio, Pandey (2005) asserts that ratio is the indicated quotient of two mathematical expressions and as the relationship between two or more things.

Van Horne (2001) opines that to evaluate the financial condition and performance of a company, the financial analyst made certain yardsticks. The yardstick frequently used is a ratio or index, relating two pieces of financial data to each other. Otokiti and Awodun (2001) further gave a succinct definition of financial ratio as the relationship between financial condition and performance of a firm.

On his part Olowe (1997) gives a broad definition of financial ratio as the relationship between financial data in the financial statements to aid the financial condition and performance of a firm. Gerald et al (1997) further opine that financial ratios are used to compare the risk and return of different firms in order to help equity investors and creditors make intelligence investment and credit decisions.

From the above definition, it is seen that financial ratio analysis is used to set certain standards that organization can strive to attain and it is through financial ratio analysis that firm's profitability, liquidity, credit worthiness could be assessed and established. Furthermore, financial ratio analysis will give analysts a better insight into the understanding of the financial statements than would be obtained by examining the financial data alone. In short, there can be no

financial analysis without ratio analysis and ratio analysis without financial analysis. Thus, financial ratios are tools used by financial analysts (Abdulraheem, 2004 and Pandey, 2005).

In fact, the result of financial ratio is normally compared with the industrial average where this is available to know the performance of a firm in its industry.

Financial ratio as a tool for identifying the financial strengths and weaknesses of firms by properly establishing the relationships between the items of the balance sheet and profit and loss account is of interest to various groups in the management of business firms generally and manufacturing firms in particular and each of these groups are interested in the financial ratio analysis based on their specific interest and need. According to Pandey (2005), these users can be grouped into two, viz, internal users, and external users.

In the internal users' category are management, employees, and shareholders who are interested in the firm's profitability, growth and long-term stability.

While the external users, comprise of creditors, customers, competitors, financial analysts and advisers, the government and so on. These groups have various interests or concerns in the management of firms.

In the view of Olowe (1997) for financial ratio analysis to be useful, a calculated ratio needs to be compared with other ratios. This opinion was shared by Nickels et al (2002), Pandey (2005), Akinsulire (2002), Van Horne (2001) and Keown et al (1985) when they pointed out that financial ratio are especially helpful to use in analysing the actual performance of the company compared to its financial objectives and compared to other firms in its industry.

According to Pandey (2005), Akinsulire (2002), and Van Horne (2001) there are three types of comparisons and these are:

- a. **Trend Analysis:** This is the process of comparing the present ratios with the past ratios. This gives an indication of the direction of changes and reflects whether the firm's financial performance has improved,

deteriorated or remained constant over time.

b. **Cross-Sectional Analysis:** This is the process of comparing ratios of one firm with some selected firms in the same industry at the same point in time. This kind of analysis indicates the relative financial position and performance of the firm.

c. **Industry Analysis:** This is the process of comparing the ratios of a firm with average ratios in the industry of which the firm is a member. This analysis helps to ascertain the financial standing and capability of the firm vis-à-vis other firms in the industry.

There are several types of ratios that can be calculated from accounting data to serve the interest of the various groups earlier identified in this paper. These are short and long term creditors, owners, and management. In the view of Pandey (2005), short-term creditors' main interest is in the liquidity position or the short term solvency of the firm. Long term creditors, on the other hand, are more interested in the long term solvency and profitability of the firm. Similarly, owners concentrate on the firm's profitability and financial condition. Management are interested in evaluating every aspect of the firm's performance.

However, in view of the requirement of the various users of financial ratio information, financial management writers such as Olajide (2007), Pandey (2005), Nickel, et al (2002), Van Horne (2001) Otokoti and Awodun (2001) and Keown et al (1985) have identified and classified financial ratio into the following four types:

1. **Liquidity Ratios:** This measures the firm's ability to meet current obligations;
2. **Leverage Ratios:** This measures the degree to which a firm relies on borrowed funds in its operations;
3. **Activity Ratios:** This measures the effectiveness of a firm's management in using the assets that are available;
4. **Profitability Ratios:** This measures the effectiveness of a firm's

management in the utilizations of resources that are available.

In spite of the fact that ratio analysis is a widely used tool for measuring business firms performance. This analytical tool should be used with caution in view of the limitations that trailed it. These limitations as Pandey (2005), Akinsulire (2002) and Abdulraheem, (2004) observed are as follows:

- i. It is difficult to decide on the proper basis of comparison: Ratio is only meaningful if it is compared to find out proper set standards. At times it is difficult to find out a proper standard. In most cases industrial average are usually used as standards.
- ii. The price level changes make the interpretations of ratios invalid: Since accounting is presented in monetary value which is assumed to be constant, unstable prices will make mockery of the comparison based on financial ratio.
- iii. Problem of definition: In most cases, differences exist in the meaning of certain terms in the balance sheet and the profit and loss statement.
- iv. Use of Historical Data: The fact that ratios are usually calculated from past financial statement serves as a limit to its usage, as past financial statement may not serve as an indicator of the future.
- v. Differences in firms also make comparison difficult: The situations of two firms are never the same. Thus, performance of firm changes year in year out and comparison becomes useless as a result of differences in situation in which they are operating.
- vi. The ratios calculated at a point in time are less informative and defective as they suffer from short-term changes.
- vii. Operating in more than one industry: Many large firms operate in a number of different divisions in quite different industries making it difficult

to develop a meaningful set of industry average for comparison purposes.

METHODOLOGY

The study essentially sourced its data through secondary source, that is, it explores existing academic body of knowledge related to financial ratio analysis to provide theoretical background for the study. The scope of this study ranges from 2001 to 2005 using financial records of the selected quoted firms sourced from The Nigerian Stock Exchange Fact Book 2005 and 2006 editions. The population of this study comprises of all the 15 manufacturing firms in the beverages industry as at 2006. The study uses random sampling to select three manufacturing firms in the food and beverages industry and this represents about 20% of the study population which is in line with the view of Gay and Diehl (1992) which say that 20% of the study population may be required for a population that is small. The selected firms are 7-Up Bottling Company PLC, Nestle Nigeria PLC, and Nigerian Bottling Company PLC and the computed ratios were the ones that are provided for in the selected firms records which are uniform. This uniformity takes care of the differences that exist in the meaning of certain terms in the firms' records. The study used cross sectional and Trend analysis of the performance of selected firms to measure these firms' performance. The study restricts itself to the two because the researcher experienced hitch getting an already compiled industry average for the selected industry.

Since it has been unanimously established by Pandey (2005), Nickel, et al (2002), Van Horne (2001) and Keown et al (1985) that for financial ratio to be useful it must be compared, hence, this study uses cross sectional and trend analysis, that is, it compares the ratios of one firm with some selected firms in the same industry at the same

point in time and its yearly performance for a period of five years.

After the analysis, the interpretation of financial ratio results was done to be able to see the performance of the individual firms and on the basis of this examine its trend and compare it with competing firms (selected firms) in the industry. The study further uses Graph and Bar Chart to explain the cross sectional and trend performance of the selected manufacturing firms. Earnings per Share and Dividend per Share through the analysis that was conducted.

RESULT OF THE FINANCIAL RATIO ANALYSIS OF THE SELECTED FIRMS

NO OF SHARES = $\frac{\text{Share Capital}}{\text{Share Price (.50K)}}$

EPS = $\frac{\text{Profit after Tax}}{\text{No of Shares}}$

DPS = $\frac{\text{Total Amount of Dividend}}{\text{No. of Shares}}$

X represents No. of ordinary shares,

Y represents the profit after tax, and

Z represents Total amount of Dividend.

NESTLE NIGERIA PLC

YEARS	X'000 (Unit)	Y'000(₦)	Z'000 (₦)	EPS (₦)	DPS (₦)
2001	422750	2,526,238	2,325,125	5.98	5.50
2002	422750	3,174,080	3,170,626	7.50	7.50
2003	528438	3,804,114	3,699,062	7.20	7.00
2004	528438	3,935,495	3,699,062	7.45	7.00
2005	528438	5,303,128	5,284,375	10.04	10.00

Source: Author's Computation

From the above table, Nestle Nigeria PLC has performed creditably well in terms of earnings per share and the dividend payment per share. The firm earnings per share moved from N 5.98k in 2001 to N10.04k in the year 2005 while the dividend payment to the firm's shareholders also rose in similar manner from N 5.50 in 2001 to N10.00 in 2005. The trend of these two ratios shows that the firm's performance is in good state as the value of the share earnings and dividend payment almost doubled within the space of five years. Hence, it can be deduced from the table that this firm is performing well.

FIG. 1

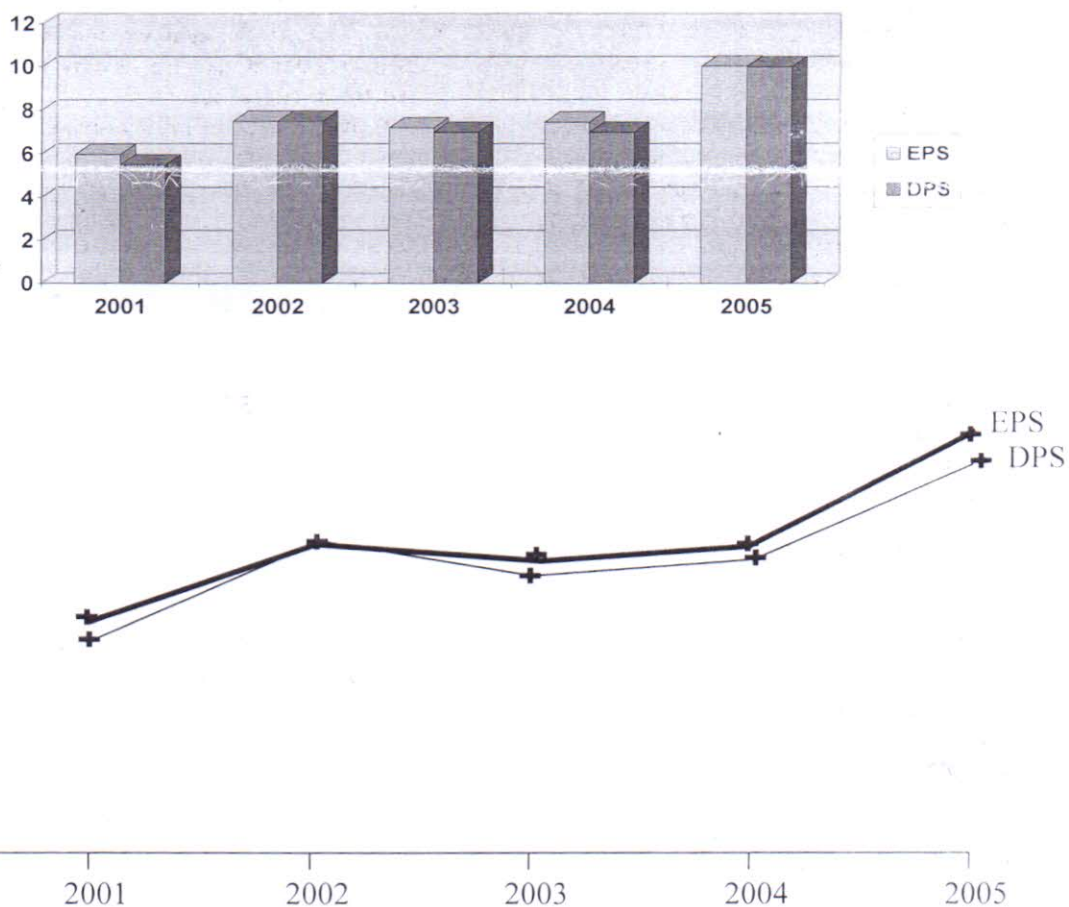


Fig. 2 2001 2002 2003 2004 2005

NBCPLC

YEARS	X'000 (Unit)	Y'000 (N)	Z'000 (N)	EPS (N)	DPS (N)
2001	974, 458	2, 991, 201	974, 458	3.07	1.00
2002	974, 458	4, 170, 544	1, 461, 687	4.27	1.50
2003	974, 450	4, 401, 100	1, 559, 133	4.52	1.60
2004	1,299,278	3,032,322	1,559,133	2.33	1.20
2005	1,299,278	2,327,060	779,566	1.79	0.60

Source: Author's Computation

This table shows that NBC PLC earnings per share and dividend payment rose

from N3.07K and N 1.00 in 2001 to N 4.52k and N1.60K in the year 2003 respectively. However, the firm experienced a drop in earnings per share and dividend per share from year 2004 and 2005 as it is showed in the above table. This trend clearly shows that the firm's performance dropped in the last two years under consideration.

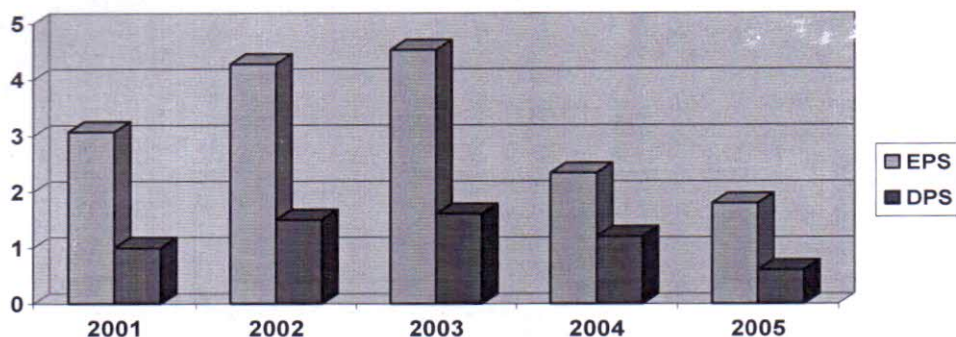


Fig. 3

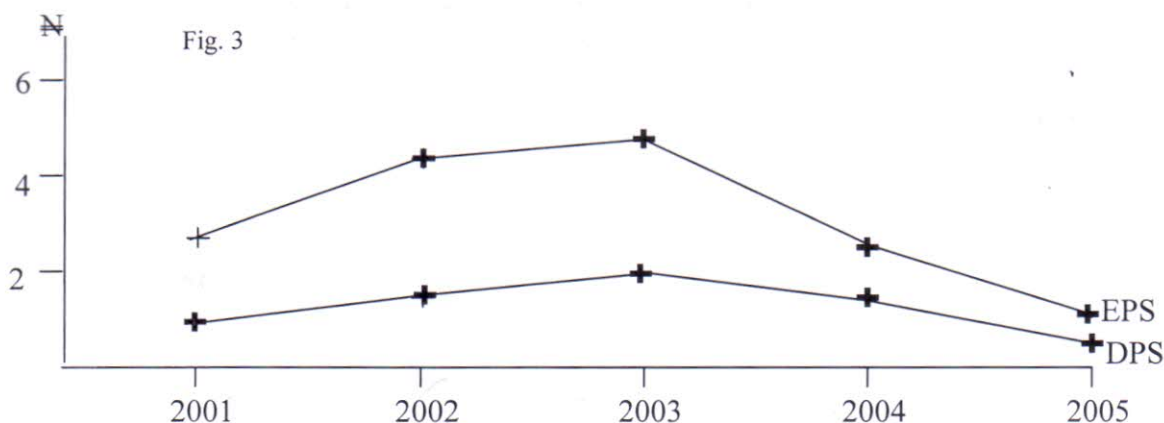


Fig. 4

7-UP BOTTLING COMPANY PLC

YEARS	X'000(Unit)	Y'000(N)	Z'000 (N)	EPS (N)	DPS (N)
2001	327,982	397,441	163,991	1.21	0.50
2002	327,982	1,151,394	245,987	3.51	0.75
2003	409,978	1,382,205	307,483	3.37	0.75
2004	409,978	1,143,994	409,978	2.79	1.00
2005	409,978	954,296	512,472	2.33	1.25

Source: Author's Computation

It is clear from this table that 7-UP Bottling Company PLC performance in 2002 was higher than that of 2003 as its earnings per share increased to N3.51k from N1.21k while its dividend per share rose to N 0.75k from N 0.50k. This performance dropped in the year 2004 and 2005 as the firm's earnings per share fell to N2.33K. However, in spite of the fall in the firm's earning per share, it increased dividend pay out to it shareholders for the two years. This trend vividly shows that it earnings per share fell while it dividend per share increased through out the period under consideration.

From above tables it can be deduced that Nestle Nigeria PLC had consistently performed creditably well in terms of increase in earnings per share and dividend per share and as the firm had

higher earnings per share and dividend pay out. This is followed by Nigeria Bottling Company Plc. and 7-UP Bottling Company PLC respectively.

Fig. 5

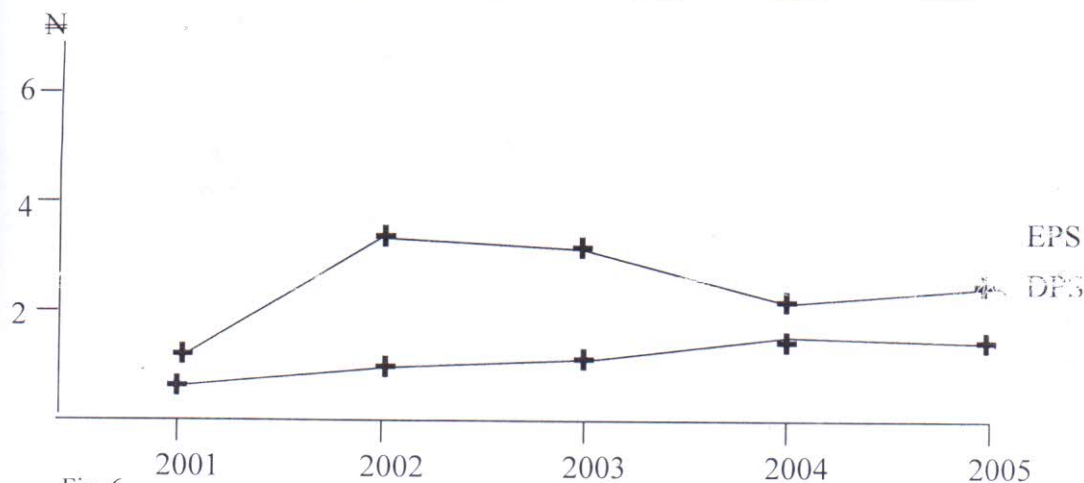
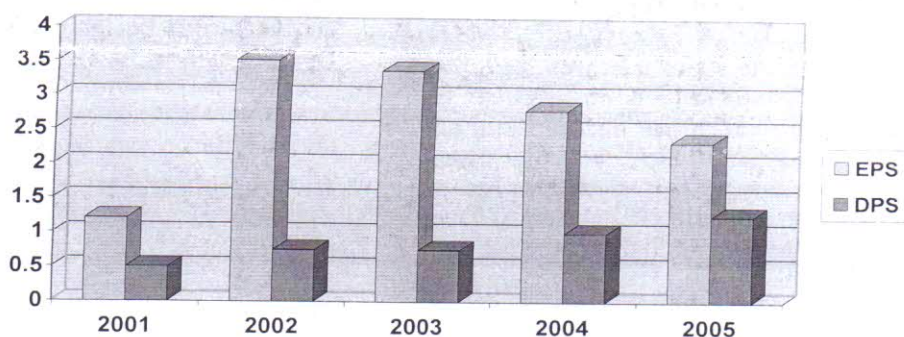


Fig. 6

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

FIRMS	2001	2002	2003	2004	2005
NBC	1.2	1.2	1.1	0.9	0.7
7UP	0.52	2.05	0.55	0.02	0.86
NESTLE	1.2	1.3	1.2	1.3	0.9

Source: Author's Computation

It is seen from the above that the liquidity position of NBC and Nestle was high for the period under consideration than that of 7up which was almost half of the two firms' except for year 2002 that it has all time highest in the sector. However there was consistency in the trend of the firms' liquidity position.

From the above Nestle Plc and NBC Plc had the same current ratio in the 2001 which is higher than that of 7UP Plc and the implication of this is that Nestle and NBCPlc are more liquid than 7UP Plc in terms of their ability to meet short term obligations. In the year 2002, 7Up had the highest followed by Nestle and NBC respectively. For year 2003 Nestle took it turn to lead and this was followed by NBC and 7Up and this performance was maintained the following year, that is, 2004. Year 2005 witnessed dropped in the liquidity position of Nestle and NBC while 7up experienced a little surge in its performance. Nestle is the most liquid out of all the firms, this is followed by NBC and 7up for the period under investigation.

Returns on Sales = $\frac{\text{Net Income}}{\text{Net Sales}} \times 100$

Net Sales

	2001	2002	2003	2004	2005
FIRMS					
NBC	0.09	0.1	0.1	0.06	0.04
7UP	0.05	0.10	0.10	0.08	0.06
NESTLE	0.18	0.16	0.15	0.14	0.15

Source: Author's Computation

From the above it can be seen that even though Nestle had a downward trend in its returns to sales, it had highest return on sales throughout the period - under investigation while 7up and NBC had a gradual rise in returns to sales in the first three years and a gradual fall in this in the last two years. From the above it can be vividly seen that Nestle had all time highest in terms of return on sales for the period under investigation and the implication of this is that the firm is generating more income than other firms this was followed by 7up and NBC respectively.

Return on Assets = $\frac{\text{Net Income}}{\text{Total Assets}}$

FIRMS	2001	2002	2003	2004	2005
NBC	0.19	0.21	0.19	0.13	0.09
7UP	0.32	0.53	0.43	0.29	0.22
NESTLE	0.37	0.36	0.32	0.29	0.31

Source: Author's Computation

For this ratio both Nestle and 7up had almost the same percentages for the period under investigation while NBC had the lowest. While the trend of 7up and NBC plc randomly fluctuate that of Nestle plc fell gradually within the period under investigation. The implication of this is 7up had the best return on assets followed Nestle and NBC respectively.

Assets Turn Over = $\frac{\text{Sales}}{\text{Total Assets}}$

FIRMS	2001	2002	2003	2004	2005
NBC	2.21	2.11	1.89	2.07	2.20
7UP	4.46	5.48	4.40	3.77	3.93
NESTLE	2.1	2.2	2.1	2.1	2.0

Source: Author's Computation

The above table shows that 7up had the highest assets turnover within the five years under investigation and this is followed by Nestle and NBC respectively. 7up and Nestle plc experienced gradual fall in respect of this ratio while that of NBC was consistent within the period of this study. In terms of cross sectional analysis 7up had the best assets turn over ratio, followed by Nestle and NBC

respectively. The implication of this is that 7up is generating more sales from all financial resources committed to total assets than the other two firms.

Debt to Owner's Equity = $\frac{\text{Total Liabilities}}{\text{Times}}$

	Owner's Equity				
FIRMS	2001	2002	2003	2004	2005
NBC	1.67	1.73	1.59	1.76	2.02
7UP	0.19	0.34	0.33	0.27	0.42
NESTLE	3.5	4.9	6.5	6.7	8.6

Source: Author's computation

The table show that the three firms under consideration had a progressive rise in their debt to owner's equity within the period under investigation. However, Nestle had the best and this is followed NBC and 7up respectively. The implication of this result is that Nestle and NBC have higher degree of debt. That is, these two firms largely financed their activities with borrowed funds that must be repaid.

Net Profit To Capital Employed = $\frac{\text{Net Profit After Tax}}{\text{Capital Employed X 100}}$

FIRMS	2001	2002	2003	2004
NBC	0.19(19%)	0.21(21%)	0.19(19%)	0.13(13%)
7UP	0.27(27%)	0.40(40%)	0.32(32%)	0.23(23%)
NESTLE	0.37(37%)	0.36(36%)	0.32(32%)	0.29(29%)

Source: Author's Computation

From the above table NBC Plc has the highest overall profitability of 21% in the year 2002 as against it 19%, 19%, 13%, and 9% in 2001, 2003, 2004 and 2005 respectively in terms of trend of its performance. In similar vain 7UP equally has the highest overall profitability of 40% in the same year as against its 27%, 32%, 23% and 15% of the remaining years under consideration. Nestle plc recorded it highest profitability of 37% in the year 2001 while its profit for the remaining years under consideration are 36%, 32%, 29% and 31% respectively. If one looks at the trend of the performance of these firms most of them have experienced drop in their profit at one time or the other. For cross sectional comparison purpose Nesle plc had the highest profit of 37%, this is followed by

7UP, and NBC Plc respectively. 7UP Plc took the lead for the year 2002 and this is followed by Nestle plc, and NBC Plc. For the year 2003, Nestle Plc and 7U Plc recorded the same percentage of profit and this is followed by NBC. Nestle plc took the lead again in the 2004 when it recorded 29% profit while 7UP plc, and NBC Plc followed her respectively. For the last year under consideration it was Nestle Plc that led again by 31%, followed by 7Up Plc and NBC Plc respectively. Generally, Nestle plc had the best overall performance in terms of profit if one looks at cross sectional performance for the period under consideration

Returns on Equity = $\frac{\text{Net Profit After Tax}}{\text{Total Owners Equity}}$

FIRMS	2001	2002	2003	2004	2005
NBC	0.25(25%)	0.28(28%)	0.25(25%)	0.18(18%)	0.13(13%)
7UP	0.32(32%)	0.53(53%)	0.43(43%)	0.29(29%)	0.22(22%)
NESTLE	1.696(170%)	2.127(213%)	2.381(238%)	2.71(271%)	3.031(303%)

Source: Author's Computation

In terms of returns on equity which measures the net returns on the shareholders equity, Nestle had a progressive raise in terms of returns on equity for the five years under investigation and this is followed by 7up and NBC respectively. From Cross sectional analysis Nestle had all time best performance throughout the period and this feat is followed by 7up and NBC respectively.

CONCLUSION

From the analysis conducted through the financial records of the three firms under investigation the following conclusion are drawn.

- That Nestle Plc. Had the highest earnings per share and Dividend per share for the fives years under study and this feat is followed by NBC Plc and 7Up Plc respectively.
- Secondly, Nestle is more liquid in terms of ability to redeem obligation for the period under investigation, followed by NBC Plc and 7Up Plc respectively.
- Thirdly, Nestle had highest return on sales for the period under study which means the firm is generating more income from sales. This feat is followed by 7Up and NBC.

- Fourthly, that 7Up had the highest return on assets than the other two firms and the implication of this is that 7Up is more profitable in terms of returns on assets than Nestle Plc and NBCPlc.
- Fifthly, 7Up had the highest assets turnover than the other two firms and this means that 7Up is generating more sales from all financial resources committed to total assets than Nestle Plc and NBC respectively.
- Sixthly, NBC had low level of debt finance for it activities while Nestle and 7Up financed their operations with high level of debts which must be repaid.

Lastly, that Nestle had all time best performance in terms of returns on equity throughout the period under investigation. That is, net returns on the shareholders' equity of Nestle is higher than that of 7up and NBC.

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