A Profitability-based Framework for enhancing Shareholder Value Creation in Listed Firms: A Zimbabwean Perspective

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Abstract

The purpose: This study was aimed at examining the impact of profitability performance measures on shareholder value (SHV) creation, and then recommending a framework for enhancing SHV creation using the profitability variables in developing economies such as Zimbabwe, based on companies listed on the Zimbabwe Stock Exchange

Design/methodology/approach: The study was based on all publicly listed companies on the Zimbabwe Stock Exchange constituting a sample of 59 firms over the period 2016-2018. It utilized the shareholder value (SHV) as a dependent or response variable and six profitability variables were used as independent variables, namely, net profit margin, gross profit margin, gross profit mark-up, return on capital employed (ROCE), return on equity (ROE) and return on assets (ROA). A quantitative methodology using data from the Zimbabwe Stock Exchange and the African Financial Statements website was followed. All the data was subjected to Panel data analysis, ANOVA and regression analysis to examine the impact of the profitability measures on SHV creation.

Findings: Using the regression analysis, the study found that the rate of return on capital employed (ROCE) had a statistically significant positive impact on shareholder value (SHV) creation, while all other profitability measures did not have significant effect on SHV creation. Further, the model was found to influence just over 11% of the changes in SHV in listed firms in Zimbabwe. This means other factors account for about 89% of SHV creation in markets such as Zimbabwe.

Research Implications/limitations: The conclusion from this study was that profitability still played a role, although small, in influencing creation of SHV. Profitability measures such as ROCE can still be used as input to maximise SHV in emerging markets such as Zimbabwe and other developing countries. Managers and investors may enhance SHV creation if they include profitability measures in their criteria. However, much reliance on profitability variables for increasing SHV will not yield superior results as these elements influence only about 11% of the impact on SHV creation. Other more formidable factors for enhancing SHV should therefore be identified through further research.

Originality/value: This study is the first of its kind on the subject of SHV creation and its drivers in the Zimbabwean economy. The model will assist managers to be familiar with the concept of SHV creation and to therefore try to focus on the widely recognised key objective of creating value for their shareholders. This concept will change their business –as – usual approach to a more investor oriented methodology. The study opens up research in this area in developing economies such as Zimbabwe and other countries

Keywords: Shareholder value, Shareholder value creation, Profitability, Performance measurement.

Paper type: Research paper

1. Introduction

Shareholder value creation has been subjected to a lot of studies over the past five or so decades according to recent studies such as Adam & Quansah (2019) and Ali-Awawdeh and Al-Sakini (2018). These studies have brought about a widespread debate on shareholder value (SHV) and the various factors that influence it (Ali-Awawdeh and Al-Sakini, 2018). Such debate pertains to the SHV and performance measures relationship according to ibid. SHV has developed into a critical performance factor in many businesses, particularly listed companies. It is widely believed that investors put their money in businesses in order to increase the value of their investment. Corporate managers are there to create value for the shareholders as well as for the firm according to a number of researchers such as Scroufe (2018), Battisti et al (2019) and Windsor (2017). SHV creation has therefore become a key performance factor in many organisations. A number of recommendations have been made on how to create and measure SHV. A number of other commentators such as Fayed and Dubey (2016) have observed that numerous accounting measures have been utilised for performance measurement and SHV evaluation. The use of accounting or traditional performance metrics has been made since a long time ago as contended by Van Looy & Shafagatova (2016) and Ali-Awawdeh and Al-Sakini (2018). The traditional accounting performance measures are found in a number of categories namely, profitability ratios, liquidity or solvency ratios, use of assets or efficiency ratios, shareholder or investor's ratios and capital structure or gearing ratios (Fayed and Dubey (2016). Further work on performance measurement has seen the emergence of other categories such as human resources utilisation measures and market performance measures.

The objective of this study is to examine the impact of profitability performance measures on SHV creation. Theoretically, businesses are there to make profits for owners. Any business that does not is viewed as a waste of investment. Hence the profitability of a business appears to be central and is therefore expected to influence the decisions made by both the business managers and owners. However, the question is, do profitability measures really impact on SHV, particularly in listed firms? This question comes against some observations in a number of studies that the traditional performance measures have shown some flaws (Panigrahi et al, 2014). These have been cited to include that they may not be relied upon as measure of performance in terms of SHV creation because they are subject to many different bases and definitions when they are determined in various businesses. Further, there is a view that they are susceptible to manipulation by managers in their quest to pursue different plans. It is further contended that these measures do not consider impact of time value of money, cost of capital and cash flows, and therefore cannot accurately and adequately measure SHV creation. There have been very few empirical studies on SHV creation and its importance in developing countries such as Zimbabwe. As a consequence, the impact of profitability measures on SHV creation has not been empirically considered to inform decision making in firms in these countries by various stakeholders, particularly shareholders and managers (Panigrahi et al, 2014). This study will therefore help fill the gap in the literature on SHV creation particularly in emerging economies and also to provide a framework for corporate managers to properly utilise profitability metrics to enhance SHV creation. This framework will avail shareholders and corporate managers an informed basis for using profitability information in making investment decisions in developing countries.

2. Background to study

This study endeavoured to determine the impact on SHV creation, of profitability performance measures and then recommend a framework for enhancing SHV creation using these variables in developing economies such as Zimbabwe. The study is an attempt to contextualise empirical research on these important performance factors in Zimbabwe and other developing countries. As Panigrahi et al (2014) observed, there is a dearth of empirical studies on SHV in developing countries like Malaysia and Zimbabwe, among others. During the period of this study, 2016 to 2018, there were between 57 and 62 listed companies on the Zimbabwe Stock Exchange. The Zimbabwean economy was still struggling to recover from a decade of recession and decay. The number of quoted firms had dropped from over 150 in 2000 to 58 in January 2016. These remaining listed firms and a few state owned enterprises and private limited companies constituted formal business activities in the Zimbabwean economy. The bulk of economic activity was visible through micro, small and medium enterprises (MSMEs), mainly street vending. Investment in the economy was still low and the economy was showing signs of no growth, such as the decrease in capacity utilisation from 26 percent in 2015 to 21 percent in 2016 and then to 18.5 percent in 2017 (CZI, 2018). It is against this background that this study undertook to focus on businesses listed on the Zimbabwe Stock Exchange in order to give confidence to investors, particularly foreign. There is a great need to attract foreign direct investment in Zimbabwe and a framework for listed companies to enhance SHV creation would be one way of doing so.

Traditionally, performance has been undertaken using accounting metrics, hence the now famous expression of 'traditional performance measures' (Fayed & Dubey, 2016; Adam & Quansah 2019). In developing countries such as Zimbabwe and Malaysia, firms, even those listed on stock exchanges, do not report specifically on SHV creation (Panigrahi et al, 2014). They prefer to report on performance using traditional financial metrics mainly profitability ratios such as the net profit percentage (N P Percentage), gross profit margin (Margin), the return on capital employed (ROCE), the gross profit mark-up (Mark-up), the return on assets (ROA) and the return on equity (ROE) (Delta Corporation, 2016 – 2018; CBZ Holdings, 2016 – 2018; British American Tobacco Zimbabwe Limited (BAT), 2016 – 2018). These organisations have however highlighted market capitalisation value at end of each reporting period. In essence these companies report indirectly, the shareholder value added and not necessarily the shareholder value created. Shareholder value added is the difference between the market capitalisation at the beginning and end of a financial or a reporting year (Panigrahi et al, 2014). This value is affected by number of shares and share prices at those dates, among other things. As a result, shareholder value added may exist without the firm creating SHV. SHV creation is the amount of benefit to shareholders, that is, created shareholder value. This is the proportion of shareholder return on equity market value over and above that of cost of capital on equity market value. It is determined by the following formula ((Panigrahi et al, 2014); Hall, 2016, Fernandez, 2013):-

Shareholder value created = (Shareholder return – Cost of capital, ke) x Equity market value.

A positive value indicates SHV creation and a negative one will be SHV destroyed (Fernandez, 2013, Panigrahi, 2017). However SHV creation can be deemed to have occurred when market value added is due to solely increase in share price of a firm (Fernandez, 2013). This is because management decisions and actions would have driven up demand for firm's shares and consequently an increase in share price. The concept of SHV creation is often accredited to Rappaport (1986), who is said to have developed it ((Panigrahi et al, 2014; Adegbite et al, 2020). Today's corporate managers are expected to adopt this concept as their central guide as it has developed to be a standard for business performance (Adam & Quansah 2019; Denning, 2017). This study used share price movements to measure SHV creation instead of created shareholder value created. This choice was consistent with that of Mbuvi (2015) in a study of 59 listed companies in Kenya and Ukhriyaawati et al (2017) in a study of listed banking companies in Indonesia.

The gross profit margin (Margin) was taken into consideration in this study. It is derived from dividing gross profit by net sales and expressed as a percentage. Gross profit is net sales less cost of sales. The gross profit margin shows the extent of trading income before charging operating costs. This is important in that the higher it is the more likelihood of earning higher net profit. Investors are therefore expected to favour such results in their decision making.

$$\textbf{Gross profit margin} = \frac{\textbf{Gross profit}}{\textbf{Net of sales}} \times \textbf{100}$$

The gross profit mark-up (Mark-up) is another profitability measure that was considered in this study. It shows the percentage of trading profit before operating expenses on cost of sales. It is calculated as follows:

$$\textbf{Gross profit mark-up} = \frac{\textbf{Gross profit}}{\textbf{Cost of sales}} \times \textbf{100}$$

This measure reveals the management pricing decisions and practices. A high mark-up is normally regarded as desirable as this shows higher potential for making profit. This is critical to shareholders and investors as the primary purpose of investment decisions is to earn profits. This study wanted to examine the impact of this measure on SHV creation at that level of performance measurement.

The net profit percentage (N P Percentage) is one of the important traditional measures used by firms to evaluate performance. It shows the proportion of income remaining after deducting all trading and operating expenses, taxes on profits and dividend to preferred shareholders. In essence it is calculated as follows:

$$\text{Net Profit Percentage} = \frac{\text{Net Profit After Tax} - \text{Preference Dividends}}{\text{Net Sales}} \times 100$$

The higher the percentage, the better the performance of the firm in that shareholder funds increase and there is a greater chance to pay dividends to equity holders. This measure was considered in this study as it relates to increase in shareholder funds.

The return on capital employed (ROCE) shows the profitability of the business in relation to total capital employed. Capital employed is made up of paid up share capital, capital and revenue reserves and long-term borrowed capital (loans, debentures etc). ROCE is determined by dividing net profit after taxation by capital employed and expressed as a percentage. Alternatively, net profit after taxation is divided by total net assets, that is, non-current assets plus investments and current assets less current liabilities. A high ROCE depicts favourable profitability of the firm. Theoretically, this is very important to shareholders and potential investors as this measure shows the success of a business. The major objective of investing in a business is to obtain satisfactory earnings on invested capital. ROCE therefore reveals the attainment of this objective by shareholders. In addition, it shows the efficiency of business decisions and operations (Akgun et al, 2018).

The return on assets (ROA) was also taken into account in this study as it is an important indicator of the profitability of a business in relation to total assets. It is determined by dividing net profit after taxation by total assets. Total assets comprise of total non-current assets, investments and current assets. A high ROA reveals that the business' total assets are highly profitable. It shows that the assets are actively generating profits for the firm and shareholders, hence this could impact on SHV creation.

The return on equity (ROE) was contended by Panigrahi et al (2014) and other researchers as one of the best tools for measuring performance by investors. It shows the proportion of net profit after taxation on the book value of equity. It is calculated by dividing net profit after taxation by book value of equity and expressed as a percentage. It reveals the magnitude of net profit after taxation earned by each dollar of equity at book value. This links profitability directly with shareholders' interests, that is, earnings on their investment. This study therefore wanted to find if there was really any impact of this measure on SHV creation.

3. Literature Review

3.1 Shareholder value creation

Shareholder value is viewed by Panigrani et al (2014) as the wealth shareholders possess in an enterprise. Shareholder value created is the additional wealth made available to the investor in a given period according to Fernandez (2013).

It is measured variably as shareholder value added or created shareholder value and the concept on shareholder value is said to have been originated by Rapport in 1986 (Panigrahi et al, 2014). Shareholder value added comprises of the difference from share values owned by shareholders at the end and beginning of a financial period, especially a year (Agrawal, 2012; Fernandez (2013). This includes changes in share market prices, the dividends and other returns received by shareholders during the financial period. It is confirmed by Panigrahi et al (2014) when he contends that the only concern of shareholders is about share values of a business and the return and dividend to shareholders.

Shareholder value creation is seen by Zumente and Bristova (2021) as one of the major goals of listed or quoted businesses all over. Earlier studies such as by Alipour and Pejman (2015), Panigrahi et al (2014), Korankye (2013) and others contend that the shareholder value creation concept is critical in enterprises as it provides a business goal to managers. They opine that shareholder analysis offers a systematic way for corporate decisions to be related to value creation strategies. This goal is to ensure that corporate managers endeavour to create value for their shareholders. This has been seen by many researchers as a pivotal objective for every corporation (Fernandez (2013). The concept provides a critical performance measurement tool to measure performance and to evaluate the ability of managers to create value for the firm and its owners (Panigrahi et al, 2014; Rapportport, 1999). It is observed by Jodlbauer (2012) that shareholder value is premised on the ideal that corporate managers should achieve a required rate of return on capital that is greater than the rate of interest charged by suppliers of borrowed capital. Believers in this concept, such as Fernandez (2013) and Panigrahi et al (2014), demand that corporate managers should make and implement decisions that lead to shareholder value creation, especially financing and investment decisions. Among the activities they pursue, these managers are recommended to concentrate on those that create shareholder value. Further, managers should ascertain drivers of shareholder value creation in order to fulfil their expected objective (Panigrahi et al, 2014).

There is increasing demand for corporate managers to achieve proper management, measurement and reporting of shareholder creation regularly, according to Korankye (2013). A consideration of shareholder creation from a legal viewpoint by Mocsary (2013) ascertained that managers 'must attempt to maximize shareholder value' although they are not legally obliged to achieve this. However, the author is quick to cite the Delaware Case of Air Prods, & Chems v Airgas (Del. Ch. 2011), in which it was reinforced that 'a firm cannot neglect its long term responsibilities to its shareholders' to create value for them.

3.2 Profitability measures and shareholder value creation

An extensive debate has been reported by Ali-Awawdeh and Al-Sakini (2018) on the impact of traditional financial performance measures on shareholder value. Zumente and Bistrova (2021) are of the view that corporates should make sure that they achieve shareholder value creation through financial performance, such as profitability. They observe that profitability performance as determined by net profitability, return on equity (ROE) and stock returns generate higher shareholder value. They concur with the contention over time that profitability is a major driver of shareholder value. This is in line with the observation by Bistrova and Lace (2012) in their shareholder measurement hypothetical model, that shareholder value creation is generated and measured by profitability and capital budgeting among a few others factors.

Profitability of a businesses is measured by a number of variables that include return on capital employed (ROCE), return on equity (ROE), return on assets (ROA), return on sales (ROS), net profit margin, gross profit margin and gross profit mark-up and return on net worth (RONW) (Alipour and Pejman, 2015; Panigrahi et al (2014); Maditinos et al, 2009). These variables have been used over time to evaluate performance and shareholder value (Adegbite, 2020; Adam & Quansah, 2019; Hall, 2018; Ali-Awawdeh and Al-Sakini (2018); Fayed & Dubey, 2016).

It was found by Abu-Wadi & Saqf al-Hait (2016) that ROE positively influences or drives shareholder value creation. Earlier, Korankye (2013) had determined the same on ROE and had gone further to assert that in theory, profitability levels are critical in determining shareholder value creation. In this regard, he concluded that profitability and shareholder value creation had a positive relationship and that the former influenced the latter. An increase in profitability produces an increase in shareholder value. These findings are consistent with other findings, such as by Akgun et al (2018); Panigrahi et al (2014), Asogwa (2009), Pandey (2005). ROA was also found by Panigrahi et al (2014) to influence shareholder value creation. ROI was found by Maditinos et al (2009) to explain movement in shareholder value, while ROE did not. It was determined by Alipour and Pejman (2015) that increase in ROA, ROE and ROS led to creation of value for firms and shareholders. Investors would therefore be able to allocate their investment assets better especially in today's competitive business environment if guided by these profitability measures. In their study, ROA and ROS were found to be the best drivers of firm and shareholder values in Iranian firms, while earlier on Kumar & Sharma (2011a) had determined that net operating profit after tax (NOPAT) was an effective measure for market value for the firm and shareholders. Another study by Vijayakumar (2011) established that profit after tax (PAT) and ROS had significant effect on changes in market value. Companies are therefore encouraged by Alipour and Pejman (2015) to use accurate and dependable measures of business activities, such as profitability measures, if they want to achieve the business objective to create shareholder value.

However, Ramezaniet al (2001) had earlier posited that profitability does not necessarily increase shareholder value after a certain optimal level of growth due to scale diseconomies. In an Indian study of 608 companies, Kumar & Sharma (2011b) found traditional measures, profitability metrics included, not to have significant impact on shareholder value as measured by the market value added. ROA and ROCE were not found by Vijayakumar (2011) to influence market value movements.

Further, while profitability has been widely noted to be key determinant of shareholder value creation, there has been other factors emerging such as stakeholder focus, environmental sustainability and governance (ESG) (Zumente and Bistrova (2021).

4. Research Methodology

This study was aimed at examining the impact of profitability measures on SHV creation in companies listed on the Zimbabwe Stock Exchange. It was conducted over a period of three years from 2016 to 2018. The study was not extended beyond 2018 because of serious monetary and fiscal policy and legislative changes that took place in February 2019. The Zimbabwean authorities made the local currency, the RGTS dollar, the reporting currency with effect from 22 February, 2019 instead of the United States dollar which had been used since the advent of the multicurrency era in 2009. Further, the study could not be stretched back to 2009 because of the turbulent economic situation which was struggling to recover from a decade of recession. The three year period covered in this study represents a period of some stability and confidence since observations were that industry and commerce were experiencing increased capacity utilisation and profitability.

The research used movements in share prices of listed firms as a dependent or response variable. The independent variables comprised of six profitability ratios, namely the gross profit margin (Margin), the gross profit mark-up (Mark-up), the net profit percentage (N P Percentage), the return on capital employed (ROCE), the return on assets (ROA) and the return on equity (ROE) as hypothesized below. The research is based on secondary data. Data on share prices was obtained from the Zimbabwe Stock Exchange share price listings and trading. Data on profitability measures was gathered from financial reports of the listed firms. These reports were accessed from the websites of the companies and from the African Financial Statements website. A total of 59 listed firms from all sectors of the economy were studied in this research, after excluding 3 companies which were partly listed during the period under consideration. All the data was subjected to Panel data analysis, ANOVA and regression analysis in line with studies by Panagrahi et al, (2014); Schmidheiny and Basel, (2011) and Baltagi, (2008). Further, a diagnostics Ramsey Reset test and Breusch-Pagan/Cook-Weisberg test for heteroscedasticity were carried out on the fitness of the research model of the profitability measures and share price movements.

In conducting this study, the following hypotheses were considered in order to achieve its objectives:

H1*: Gross profit margin (Margin) has a significant positive impact on SHV creation*

H2*: Gross profit mark-up (Mark-up) has a significant positive impact on SHV creation*

H3*: Net profit margin (NP Percentage) has a significant positive impact on SHV creation*

H4*: Return on capital employed (ROCE) has a significant positive impact on SHV creation*

H5*: Return on assets (ROA) has a significant positive impact on SHV creation*

H6*: Return on equity (ROE) has a significant positive impact on SHV creation*

5. Research Findings

The hypotheses in this study endevoured to test the impact of profitability measures have on share price movements, that is, shareholder value creation, in firms listed on the Zimbabwe stock exchange over the period 2016 to 2018. **Table 1** shows the extent to which the model pertaining to this task was fit for the purpose. The model was found to be usable with a Prob > F value of 0.0002, which is <0.05 at 95% confidence level, although the adjusted R-squared is 0.111. The profitability measures in this model influence 11.1 percent of the shareholder value creation experienced in firms listed on the Zimbabwe Stock Exchange.

Table 1. ANOVA analysis for the profitability measures and share price model

Source	SS	df	MS	Number of obs	=	173
				F(6, 166)	=	4.70
Model	4167315.06	6	694552.51	Prob > F	=	0.0002
Residual	24539579.6	166	147828.793	R-squared	=	0.1452
				Adj R-squared	=	0.1143
Total	28706894.6	172	166900.55	Root MSE	=	384.49

Table 2 shows the results of the regression analysis of the profitability measures and share price. Of the six profitability measures used in this study only the ROCE (return on capital employed) is shown to impact on shareholder value creation. ROCE has a p-value (P>t) of 0.000, which is less than the 0.05 threshold for statistical significance. ROCE has therefore statistically significant influence on shareholder value creation. This significance is alternatively depicted by the t-statistics of 3.69 which is more than the acceptance level of 2.

Table 2. Multiple regression analysis for the profitability measures and share price

Share_price	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
Margin	.5285995	1.046539	0.51	0.614	-1.537643	2.594842
MarkUp	-.0077619	.0144081	-0.54	0.591	-.0362087	.0206849
NP_Perc	-.0051169	.2822946	-0.02	0.986	-.5624674	.5522337
ROCE	5.5631	1.50752	3.69	0.000	2.586716	8.539484
ROA	-.4236105	3.057144	-0.14	0.890	-6.459506	5.612285
ROE	.5922055	.4304997	1.38	0.171	-.2577549	1.442166
_cons	21.29325	54.50432	0.39	0.697	-86.31779	128.9043

In order to test for omitted variables in the model, the following diagnostic test was made.

Diagnostics

Ramsey RESET test using powers of the fitted values of Share Price

Ho: model has no omitted variables

F(3, 163) = 31.35

Prob > F = 0.0000

This shows that the model had omitted variables as already indicated by the model fit test in **Table 1** above, which showed an Adj R-squared value of 0.1143. This means that about 89% of the impact on shareholder value is from omitted variables. The Breusch-Pagan/Cook-Weisberg test for heteroscedasticity shown below confirms this result. The results show that the null hypothesis (H0) is rejected, meaning that there was no constant variance in the arrangement of study data.

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity

Ho: Constant variance
Variables: fitted values of share price
chi2(1) = 421.18
Prob > chi2 = 0.0000

6. Discussion and Conclusions

The model test results showed that this model accounted for 11.4% of the impact on shareholder value creation. This was confirmed by the Ramsey RESET diagnostics test as indicated above. This is a valid finding as the aspect of shareholder value creation involves many other variables such as liquidity or insolvency measures (Zumente & Bistrova, 2021; Ukhriyawati et al, 2017; Sitorus and Denny (2017; Mbuvi (2015); Sedzik (2013); Kumar & Sharma, 2011a;), human resources utilization (Ranani and Bijani (2014); Sedzik (2013); Jamal & Anastasiadou (2009), market performance measures (Sedzik, 2013; Kim and Richarme, 2009; Tellis and Johson, 2007) , economic value added and other market value added measures (EVA and MVA). However, a number of researchers have found that traditional accounting measures such as the profitability measures have significant influence on share price movements and therefore shareholder value creation ((Adegbite, 2020; Adam & Quansah, 2019; Hall, 2018; Ali-Awawdeh and Al-Sakini (2018); Fayed & Dubey, 2016).

This study finds ROCE to be the only profitability ratio that significantly impacts on shareholder value creation. This is in agreement with findings by Venugopal et al (2019), Chari et al, (2009) and Viswanadham and Luthra (2005). Although Panigrahi et al (2014) registered a significant relationship of ROCE with shareholder creation in a Spearman correlation test, the regression analysis thereof failed to show an impact of ROCE and shareholder value creation. ROCE was not found to impact on market value movements by Vijayakumar (2011). Since the achievement of reasonable earnings on invested capital is a key objective of investing in an enterprise, listed firms in Zimbabwe prefer to get a satisfactory ROCE in order to create value for shareholders. In Zimbabwe, ROCE is very significant to shareholders and potential investors as this creates value for them and this shows the success of a business. ROCE is the profitability measure that creates shareholder value in developing markets such as Zimbabwe. This may be due to the fact that profitability performance conditions did not favour the other profitability measures. During the study period, more attention was put on return on capital employed than on the other profitability parameters. This is a time when investors were putting more and more of their funds into investments in Zimbabwe because of growing capacity utilization in various industrial sectors, in anticipation of better returns. In essence, the higher the anticipated return on capital employed, the higher the demand for firm's shares, thereby driving up share value and therefore shareholder and firm value.

The other five profitability measures in this study did not register any significant impact on shareholder value creation. These are the gross profit margin (Margin), the gross profit mark-up (Mark-up), the net profit percentage (N P Percentage), the return on assets (ROA) and the return on equity (ROE). Their p-values (P>t) were all well above the 0.05 significance threshold, with the worst being the net profit percentage with the p-value of 0.986. All these profitability variables therefore do not qualify to be included in the framework for enhancing SHV creation. As highlighted in the foregoing paragraph, business conditions, such as scarcity of equipment and machinery, raw materials and poor infrastructure in Zimbabwe, during the study period, did not induce these metrics to impact on shareholder value. These findings point to the fact that to a large extent, profitability is not a driver of SHV creation in developing economies such as Zimbabwe.

The profitability-based framework for enhancing SHV creation in listed firms therefore comprises of the return on capital employed (ROCE). This means a focus on the ROCE by listed firms will enhance SHV creation.

7. Recommendations

This study examined the impact of profitability measures on shareholder value creation. It offers a tool for practical and managerial effectiveness in listed firms. It is recommended that managers adopt this model to create SHV through managerial efforts being focussed on ROCE in the area of profitability. If corporate managers focus on improving ROCE, they will improve SHV creation. Every time managers achieve increase in ROCE they will be assured that they have increased SHV. Further, shareholders and prospective investors in listed firms in developing economies such as Zimbabwe should be motivated by the ROCE results in their investment decisions. This will enhance creation of their value. However, investors and managers should not emphasise profitability as a means of creating SHV in emerging markets such as Zimbabwe. They should look at other factors for driving SHV creation, such as human resources utilisation, capital structure or gearing, market share performance and use of assets elements, among others.
Future studies on SHV creation should tape on the results of this study. The research paves way for better understanding of the aspects and extent of empirical issues covered in a research environment such as Zimbabwe. The concept of SHV creation has not been introduced in listed and all other companies in Zimbabwe, as firms in the country do not report on it. None of the numerous studies that have been conducted world-wide have been on Zimbabwean firms. As a result none of the SHV creation framework variables have been examined in Zimbabwe. Other countries such as South Africa, Kenya, India and Malaysia have been introduced to the SHV creation concept (Hall, 2016; Mbuvi, 2015; Kumar & Sharma, 2011; Panigrahi et al, 2014 respectively) The study will therefore contribute to evidence from empirical studies on SHV creation and to insights into the achievement of SHV creation in different and new environments, particularly in emerging economies in Africa, Asia and others. Further studies on SHV creation should endeavour to identify and examine the other major drivers of shareholder value creation in listed firms in economies such as Zimbabwe as there still exists some gaps that may need further research attention. These studies should utilise the framework from this research for testing the impact of more financial performance variables on SHV creation and how research work on SHV creation can be carried out.

However, since the study was on all listed firms in Zimbabwe, sectorial characteristics and differences might have distorted a lot of impact of the profitability measures on SHV creation. It is therefore recommended that industry specific studies be conducted in order to conclusively examine the impact of these measures on SHV creation. In addition, analysis of data may be done using alternative dependent variables such as stock returns, market value added (MVA), economic value added (EVA) among others and based on larger or similar data set as well as longer or similar span of time.

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