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Global Economic Crisis Effect on Shareholders' Wealth in Agro - Allied Industries in Nigeria

Dr. Adesola Adebayo Akande

Department of Accounting & Finance, College of Management Sciences, Ipetumodu, ile-ife, Nigeria

Abstract

This paper examined the effect of global economic crisis on shareholders' wealth through evaluation of price movement in agro-allied industries in Nigeria. Agriculture being the most accepted sustainable source of revenue to Nigeria economy, though under gross neglect since the time of oil boom, is becoming the turning point of action for Nigeria to retain her economic status among the Commonwealth Nations in recent time. Consequent upon this, the trend of movement of share price in this sector need urgent analysis. Selected listed agricultural based company's share prices were collected through secondary source from April, 2004 to March, 2014. The trend of share price movement were observed for a period of ten years divided into pre- share crisis period (April 2004 to March 2008) and post share crisis period (April 2008 to March 2014). Data were analyzed through Analysis of Variance (ANOVA) and the student's t- test. The paper revealed that there is a significant relationship between the 2008 global economic crisis and shareholders' wealth in the agriculture sector of economy in Nigeria as the p value of yearly average share price was (0.000) in the post share crisis period which is lower than (0.05) level of significant record in the pre - crisis period. The paper concluded that the crisis was responsible for the crash in the agro-based share price on the Nigeria Stock Exchange Markets thus rendering investment in the share of this sector unattractive. Based on this, proactive stock market regulation and reforms to strengthen the wealth of investors by regulatory institutions were recommended.

Keywords: Shareholders; Wealth; Economic-crisis; Market-capitalization; Agricultural; Regulations; Reforms; Synchronization act 2004; Sartorial; Economic-growth.

1. Introduction

Generally, shares and stocks are facilities traded on Stock Exchange Markets all over the world. Stock Exchange Markets are framework of institutions that arranged for mobilization and channelization of funds from the surplus units to the deficit units of the economy for long-term economic development (Udochuku, 2007). The modus operandi of every stock markets all over the world necessitate the involvement of regulatory institutions established for the purpose of ensuring smooth and effective operationalization. Bolbol *et al.* (2005), indicated that capital market development has contributed to the economic growth of Egypt and other related agricultural based countries of the world. The World Bank (1994) found that stock market development does not merely enhanced economic development, but provides the means to predict future rates of growth in capital, productivity and per capita income of a Nation.

Shareholders wealth on the other hand is the value of investment of investors on shares of listed companies in Stock Exchange Markets. It covers the amount invested, the returns expected and the dividend paid to individual investors in the market. The fortune of investors is established by the performances of the market in both intrinsic and extrinsic forms. The wealth composition of shareholders is usually measured by unit share price and the volume of the share held. The portion of earnings/returns appropriate to shareholders from stock markets proceed is usually gotten in form of dividend and capital gain when resale of shares are made. The study carried out by Muhammed *et al.* (2008), suggested that there is a long-run relationship among shareholders wealth, stock markets development and effectiveness of the enabling stock markets regulations and reforms. Thus, the components of shareholders wealth - share unit price, earning per share and dividend payment to shareholders are variables that need critical examination alongside the enabling regulations in the face of present economic down turn in Nigeria. Agriculture, the main stay of Nigeria economy in the past (1960s,1970s and 1980s) were not given prominent attention anymore since the advent of oil boom in Nigeria, Now that price of crude oil kept falling day in day out in the world market, there has been a lot of hullabaloo especially in meeting recurrent expenditure of government at all levels - salaries of Nigerian work force is the worst hit and still under treat day in day out hence there is an urgent need to take a recourse to agriculture sector of economy. But there has been a wide gap in the unit price of share in this sector - the least of all in the record share index of all listed economic sectors in Nigeria Stock Exchange Market.

2. Theoretical Framework

The Nigeria stock markets history had shown that right from 1962, the trend of investment on the market has been on increase in all sectors of economy, but all of a sudden, records of declension in the price of shares, earnings per share and returns that get to the hand of investors in term of dividend began from March, 2008. This was as a result of the global economic crisis which originated from the United State of America and which hit every stock markets all over the world, and since then, it has become a syndrome of dynamism that frequently affects the value of the hard earned wealth invested in shares of listed companies, especially in the Nigeria Stock Exchange. This syndrome affected the earnings of shareholders such that many investors (individuals and corporate bodies) experienced serious wealth-loss from March, 2008 few months after the advent of the global economic crisis. Up till this present time, investors have not recovered from the shock of loss experienced during the crash in the stock businesses in Nigeria.

In this wise, an economy where the stock market performance keeps declining need urgent examination, especially its enabling regulations since the stock market is the primary indicator and tool of measuring economic strength and development of a nation (Esosa, 2010).

Tharawaniji (2007), observes that countries with deeper capital market rules and regulations face less severe business cycle output contraction and lower chances of economic downturn compared to those with less developed capital market. He further stressed in the study that market development is ensured and built on the platform of stock market regulations and reforms especially when lapses or inadequacies are noticed. Osinubi and Amaghionyeodiwe (2003) examine the relationship between Nigeria stock market and economic growth during the period 1980 to 2000, using Ordinary least square regression. The results show that there is a positive relationship between the stock market development and economic growth. They therefore suggested that government should pursue policies that are geared toward rapid development of the stock market. Abu (2009), examines whether stock market development raises economic growth in Nigeria, by employing the Error Correction Approach. The econometric results indicate that stock market development raises economic growth. He however encouraged Security Exchange Commission in Nigeria to facilitate the stability of the market so as to restore smooth operation and the confidence of stock market participants and safeguard the interest of shareholders by checking sharp practices of market operators. From all indications, stock market development can save a Nation from economic mess if well channeled and focused on a veritable sector like agriculture and raw material based.

Ewah *et al.* (2009), appraise the impact of the capital market efficiency on economic growth of Nigeria using time series data from 1963 to 2004. They found that the capital market in Nigeria has potential of growth-inducing, but it has not contributed meaningfully because of low market capitalization, low absorptive capitalization, illiquidity, misappropriation of funds among others. Abdulahi (2005), investigates the role of the Nigeria stock market in the light of economic growth. He reported a significant positive effect of stock market on economic growth. Moreover, Agarwal (2001) argues that financial sector development facilitates capital market development, and in turn raises real growth of the economy. Similarly, Kolapo and Adaramola (2007), found that Nigerian capital market development has significant relationship with economic growth, just as Abdulahi (2005), agrees that capital market development in Nigeria is an engine to her economic growth. The quest that arise from this end is that can there be economic growth of a nation without recourse to individual well-being and focus to the most veritable economic sectors, especially the investors in the stock markets of an economy. Thus, investor's wealth connectivity with economic growth becomes expedient on this nexus hence this analysis

3. Data Analysis and Findings

3.1. Share Price

Share price determine the value placed on unit of share. There is a need for frequent comparison between the unit price at purchase and the current unit price. New investors and old investors must focus on time series check of Price of share at the beginning of the year, quarter or monthly. This often aid investment decision. According to Nyong (1997) stock price movement at the stock market follow two specific patterns: the general price and the individual price movements. The first reflects changes in the price of all quoted securities while the individual price movement relates to changes in the prices of individual securities that may not be as a result of general price movement. In the stock exchange market, the price movement fully reflects changes in the investors wealth while stock returns reflects new market level and firm information. Paul (1996), firms in low-income countries might have more corrected fundamentals, and this correlation might make their stock price move more synchronously if low-income economy tend to be undiversified, some level earnings may be highly correlated because industry events are essentially market level events. Secondly, low-income economics often provide poor and uncertain protection to private property rights. Politics and rumors in such a country could by themselves caused market-wide stock price swings. Moreover, inadequate and infrequent stock market regulation reforms could make informed risk arbitrage in their stock market unattractive. According to David (2008), the principal theory is that the price movement of a stock indicates what investors feel a company is worth. He went further to say that the price of a stock does not only reflect a company current values, it also reflects the growth expectation of investors which is the attribute that attract investors to subscribe to share in any sector. But this attractiveness is lacking in the agricultural sector of Nigeria economy especially since the advent of the global economic crisis in 2008. The most important factor that affect shareholders wealth is the price of the share which functions as determinant of earnings.

Table-1.1. Economic Sectors and the Selected Listed Companies

Economic Sector	Selected Listed Companies
Agricultural Sector:	Cocoa Processors PLC Livestock Feeds PLC Okomu Oil Palm PLC Presco PLC

Table-1.2. Rate of Share Price Changes - Pre and Post Share Crisis Period

Sector/Company	Yearly Average Changes		Pre – Period % Change		Post – Period % Change	
	Pre	Post	@ OP	@ CP	@ OP	@ CP
AGRIC: Cocoa Pro. PLC	0.57	0.56	1.75	5.26	0.00	1.79
Livestock Feed PLC	0.38	0.51	76.30	97.4	-2.23	17.65
Okomun Oil Palm PLC	3.19	4.67	35.4	-0.31	-49.04	-41.70
Presco PLC	5.74	1.58	34.84	51.22	-15.12	46.20

Source: Author’s Computation

Data on share price yearly average changes, related percentages at the opening and closing period in the pre and post share crisis period are as shown in table 1.2. It showed the rate at which each selected listed company share prices react to stock market regulations and reforms during the period of study in Nigeria. To arrive at this, twelve months data of the twenty selected listed companies from five sectors of economy were collected for a period of ten years, from April, 2004 to March, 2008 as the pre share crisis period. As shown in the appendix, share price movement average were relatively stable in Cocoa Processor PLC, though there are spontaneous reaction of share price economic forces of demand and supply which resulted to declension in monthly average, however, the yearly share price average of the company is fifty seven kobo which is within a steady range in the pre-share crisis period. In Livestock Feed PLC, the yearly share price averages were relatively on increasing trend and relatively stable in line with economic forces of the period, however, monthly average price changes of the company was forty seven kobo. In Okomun Oil Palm PLC share price were relatively stable, though there were some slight reaction to economic forces of demand and supply which caused small fluctuation in the monthly average price, but the year average of the company showed a stable trend and as such the pre-share crisis period year average of the company was three naira, nineteen kobo. In Presco PLC, share price were relatively stable, though there were slight reaction to economic forces of demand and supply. The year average of the company showed a stable trend and as such the pre-share crisis period year average of the company was five naira, seventy four kobo.

Based on this result, average changes of share prices of companies in each sectors were determined and the company with the closest average rate was sampled for graphical presentation of price change in agricultural sector of economy. Related data of the selected sampled company in the sector were as presented in the graphs below:

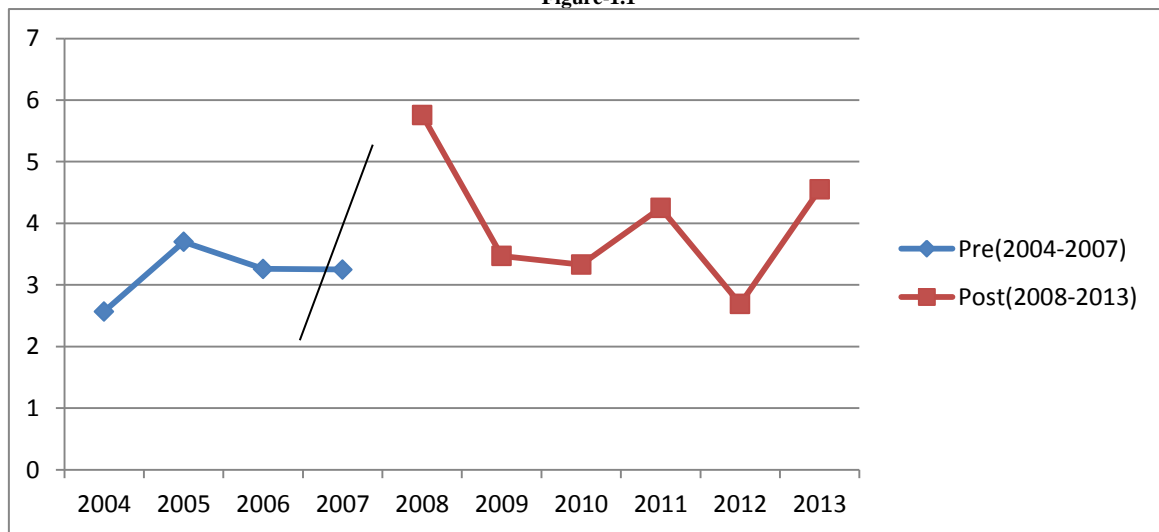
3.2. Agricultural Sector

Table-1.3. Sampled Firm (Okomun Oil Palm Plc)

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Average	2.57	3.70	3.26	3.25	5.76	3.47	3.33	4.25	2.69	4.55

Source: Research Survey, 2014

Figure-1.1



From figure 1.1, the average unit price of share of agricultural sector represented by Okomun Oil Palm improves from 2004 to 2005 and decline slightly up to the end of 2006 before it suddenly picked and got to the peak in 2007. Immediately after 2007, the trend fell drastically, since then it has not regain the value strength recorded in 2007.

Table-1.4. General Overview of Difference in Share Price Averages in Pre and Post Crisis Period

Period	N	Mean \pm SD	t-value	p-value	Decision
Pre	1515	25.44 \pm 58.43	5.976	0.0000	Significant
Post	1439	38.83 \pm 61.99			

4. Result of Data Analysis

Generally, table 1.3 showed that share prices from all the selected companies in agricultural sector were considerably appreciating from April, 2004 to March, 2008 before the global economic crisis that created challenges in the stock industries hit the market from March, 2008. The stock market regulations and reforms could not grip the share prices which on a declining slope from its appreciating records in the pre share crisis period. The mean differences of share prices between the pre and post share crisis period show a significant difference since small p-value is (0.000) which less than (0.05) level of significance. Thus, the global economic crisis have significant effect on share price in the post share crisis period. However, analysis of data on share price movement averages of each companies showed different level of significance. The result of each selected companies were as presented below.

Table-1.5. Differences in Share Price Movement Average of Selected Agricultural Companies

Sector / Period	N	Mean \pm SD	S E	t-table	p-value	Decision
Agric.						
Pre	192	2.38 \pm 2.43	0.18	3.93	0.000	Significant
Post	289	9.83 \pm 10.43	0.62			

Table 1.4 is the mean difference of price changes between the pre and post share crisis period in agricultural sector which showed a significant difference with the mean average in the pre-crisis period of (2.38) while that of post share-crisis period is (9.38) at (0.05) level of significant since the small p-value is (0.000) which is less than (0.05) level of significant. This implies that in Agricultural sector of the economy, the global economic crisis has a significant effect on unit price of shares in the period of study.

4. Conclusion and Recommendations

This paper established that there was a positive relationship between agricultural stock price movement and 2008 global economic stock crisis, thus the price of shares in the selected agricultural based companies were stable and reacting adequately to normal forces of demand and supply in stock markets in the pre - crisis period but in the post crisis period share price crashed beyond normal, this was caused by the crisis. Thus, the value of share return and saving instrument bearing a fixed nominal return in the agricultural sector of economy is now at the mercy of timely regulations and reforms in order to forestall the price changes trend in Nigeria.

This crisis was also responsible to proportional movement of share prices in the pre-share crisis period and that to safeguard the returns expected by investors on shares of the Nigeria Stock Markets proactive regulations and reforms are essential. The lower the opportunity cost of funds to borrowers the better will be the results obtained in the stock market business and the active the stock market regulations and reforms effectiveness will be to the economy. Thus, SMRR is seen as a tool to achieving improvement in the trading activity in Agric' based stocks, it improvement tendency of course, if it is highly focused, will cushioning the effect of wealth-loss on stock investments and revenue generation will automatically be boosted.

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