Scope
Volume 14 Number 1 March 2024

The Earning Per Share (EPS) Illusion: Rethinking Financial Performance Metrics in Ethiopian Banking

Ratinder Kaur
Assistant Professor, Punjabi University, Patiala
School of Management Studies, Box 147002
&
Endalkachew Mulugeta
Ph.D. Scholar, Punjabi University, Patiala
School of Management Studies, Box 147002

Abstract

This study critically evaluates the use of Earnings per Share (EPS) as a financial performance metric in Ethiopian banks. It addresses EPS's limitations, particularly during share-related activities like splits and buybacks, which can distort financial health representations. The study proposes alternative metrics for more accurate financial assessment and suggests improvements in reporting practices. It combines qualitative and quantitative methods, analyzing data from Ethiopian banks post-International Financial Reporting Standards implementation. The findings reveal that while EPS is a key metric, its sole use can be misleading, necessitating a broader approach to evaluating bank performance. The study recommends adopting broader financial metrics beyond EPS in Ethiopian banking, focusing on metrics that holistically assess efficiency, effectiveness, and overall financial performance. This approach aims to provide a more comprehensive understanding of a bank's financial health, moving beyond the limitations of EPS.

Key Words: Earnings per Share (EPS), Ethiopian Banking, Financial Performance Metrics, Share Splits and Share Buybacks, Return on Equity (ROE).

1. Introduction

1.1. Back Ground of the Study

Earning per share (EPS) is a measure of company performance that estimates the profit that can be attributed to each issued ordinary share. This ratio is important because investors are more interested in knowing how efficiently their shares have generated profits than in having an overview of the total profits achieved by the entity (Stainbank et al., 2014).

EPS is a critical measure of a company's profitability. Smith, Zhang, and Patel (2020) define EPS as the amount of earnings attributed to each outstanding share of common stock, reflecting a company's ability to generate profits. It is a key indicator for investors to assess a company's financial health.

In the context of Ethiopian commercial banks, EPS[1] It plays a significant role in assessing their financial performance and comparing their profitability against industry benchmarks. It is calculated by dividing the profit after taxation by the weighted average number of ordinary shares in issue during the year.

Banks in Ethiopia use EPS to communicate their financial performance to shareholders, potential investors, and analysts. It is often included in annual reports and financial statements to provide a clear picture of the bank's profitability. A higher EPS suggests that the bank is generating more profit per share, which is generally seen as a positive sign by shareholders and investors. They also use EPS to benchmark their performance against other banks in the country. This helps them assess how they are performing relative to their competitors (peers) in terms of profitability on a per-share basis.

1.2. Problem Statement

The utilization of Earnings Per Share (EPS) as a predominant measure of financial performance in Ethiopian private banks, mandated by the National Bank of Ethiopia, raises significant concerns regarding its comprehensiveness and accuracy. While EPS is a widely adopted metric, its efficacy is compromised, particularly during events such as share splits and buybacks. These financial maneuvers impact the number of outstanding shares, thus influencing EPS without necessarily reflecting the underlying financial health of the banks accurately. This study aims to address the limitations of EPS as a holistic indicator of financial performance in Ethiopian banking, considering the implications of share-related activities and advocating for a nuanced and more encompassing approach to financial performance metrics in this context.

1.3. Significance of the Study

The study "The EPS Illusion: Rethinking Financial Performance Metrics in Ethiopian Banking" offers comprehensive insights for Ethiopian commercial banks, enhancing financial reporting and health assessments. It emphasizes the importance of share-related activities in evaluating financial metrics, benefiting investors and other stakeholders through greater transparency and trust in the banking sector. Regulatory bodies, notably the National Bank of Ethiopia, receive essential guidance for refining regulations in sync with banking trends. Academically, it's a significant contribution to financial metric understanding in emerging markets, sparking further research in financial reporting practices.

The EPS Illusion: Rethinking Financial Performance Metrics in Ethiopian Banking" carries profound significance across various dimensions, particularly impacting Ethiopian commercial banks, regulatory bodies, investors, academics, and other stakeholders. For commercial banks, the study offers operational insights that can revolutionize financial reporting strategies, providing a pathway for more accurate

[1] *Basic earnings per share is determined by dividing profit (loss) attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. The weighted average number of shares is based on the number of days to year-end the shares held by the bank from the payment date for the paid-up capital.*

assessments of their financial health. Stakeholders, including investors, benefit from heightened transparency, fostering increased confidence in the reliability of financial metrics within the Ethiopian banking sector. Regulatory bodies, especially the National Bank of Ethiopia (NBE), gain valuable insights that enable the refinement of regulatory frameworks. This alignment with Ethiopian banking dynamics, especially during share-related activities, contributes to the development of more effective and responsive standards, ensuring regulatory practices keep pace with industry evolution.

Academically, the study serves as a noteworthy contribution to the understanding of financial performance metrics in emerging markets. Beyond its immediate impact, it has the potential to inspire further research, enriching the academic discourse surrounding financial reporting practices.

1.4. Objectives of the study

The objective of the study is to critically assess the effectiveness of Earnings per Share (EPS) as a financial performance indicator in Ethiopian banks, especially in relation to share-related activities like splits and buybacks. The study aims to identify EPS limitations, understand its impact on decision-making, explore more comprehensive financial metrics, and provide policy recommendations for enhancing financial reporting in Ethiopian banking.

1.5. Scope of the study

This study specifically targets Ethiopian private commercial banks, acknowledging the unique characteristics and regulatory environment of the Ethiopian banking sector. The primary focus is on Earnings per Share (EPS) as a financial performance metric over a five-year period from 2017/18 to 2021/22. This period is significant for its immediate years following the adoption of International Financial Reporting Standards (IFRS).The study critically examines the effectiveness of EPS, especially in the context of share-related activities such as share splits and buybacks. The study aims for an in-depth examination of the impact of EPS on financial reporting practices in Ethiopian banking, especially considering the influence of share-related activities.

2. Literature Review

2.1. Overview of Financial Performance Metrics in Banking

The analysis of financial performance in the banking sector relies on various metrics that offer insights into different aspects of a bank's operational and financial health. These metrics include Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), Efficiency Ratio, Non-Performing Loan (NPL) Ratio, and Earnings per Share (EPS). ROA is used to assess how effectively a bank can convert its assets into profits, providing an indication of operational efficiency (Damodaran, 2012). ROE is crucial for evaluating how effectively a bank generates profits from shareholders' investments (Bessis, 2015). NIM examines the profitability of a bank's core activities by measuring the spread between interest incomes and interest expenses (Fabozzi et al., 2012). The Efficiency Ratio and NPL Ratio give insights into operational costs and credit risk management, respectively (Husain, 2017; Saunders et al., 2012). Lastly, EPS is a commonly used metric to gauge profitability on a per-share basis (Bessis, 2015).

2.2. Critiques of Earnings Per Share (EPS) in Literature

Despite its widespread use, EPS has been subject to criticism, especially regarding its ability to reflect true operational performance in scenarios of capital structure changes, such as share splits and buybacks (Kieso et al., 2014). Its limitations include failing to account for the capital investment needed to generate earnings and not considering risk factors or the cost of capital, crucial elements in banking (Penman, 2007; Brealey et al., 2011).

2.3. Impact of Share Splits and Buybacks on Financial Metrics

2.3.1. **Share Splits and EPS**:

Share splits result in an increased number of shares and a reduced nominal share price, affecting EPS by lowering it, albeit without impacting the firm's total value (Black & Scholes, 1973; Miller & Modigliani, 1961). Bhagat and Tonks (1992) observed that this leads to a lower EPS since the same earnings are now spread over a greater number of shares, potentially impacting trading liquidity.

2.3.2. **Buybacks and EPS**

Share buybacks reduce the number of outstanding shares, often leading to an inflated EPS. This increase can be misinterpreted as improved profitability, though it may not correspond to operational growth (Jensen, 1986; Vermaelen, 1981).

2.3.3. Share Splits, Buybacks, and ROE

While share splits have little direct impact on ROE, they can affect investor sentiment and market perception (Bhagat & Tonks, 1992). Conversely, buybacks can directly enhance ROE by reducing the number of shares, thus appearing to increase financial performance (Ikenberry et al., 1995).

2.4. Existing Studies on Financial Performance Measurement in Ethiopian Banking

Research in Ethiopian banking has explored various financial performance indicators. Studies highlight the importance of profitability metrics like ROA and ROE for gauging earnings efficiency (Alemu & Getachew, 2018; Lemma & Negash, 2020). Efficiency ratios, including the cost-to-income ratio, are also studied for their role in sustainable profitability (Teshome & Olani, 2016). DEA has been applied to evaluate bank efficiency, offering a comparative analysis of performance (Biru & Abie, 2019). Additionally, traditional financial ratio analysis is utilized to assess liquidity, solvency, and profitability, providing a comprehensive view of a bank's financial health (Kebede & Anshebo, 2017). These studies underscore the multifaceted nature of financial performance assessment in the Ethiopian banking sector.

3. Methodology

3.1. Research design

The researcher opted for a robust mixed-methods approach. This carefully chosen research design harmoniously blends quantitative and qualitative methods, strategically aligning with the aim of comprehensively exploring the impact of share-related activities on Earnings Per Share (EPS) in Ethiopian private commercial banks.

3.2. Data Collection and Cleaning

Quantitative data were obtained from the published and audited financial statements of private commercial banks right after the adoption of IFRS for the period of 2017/18 – 2021/22. The EPS data was collected from the National Bank of Ethiopia (NBE) and from the individual commercial banks. The data underwent a rigorous cleaning process to rectify errors, fill in missing values, and eliminate outliers, ensuring accuracy and consistency.

3.3. Sample selection criteria

The research sample comprises five years of data (2017/1/ to 2021/22) meticulously collected from 16 private commercial banks in Ethiopia. This period immediately follows the implementation of the International Financial Reporting Standards (IFRS). Notably, the inclusion criterion for these banks is their consistent adherence to IFRS guidelines for financial reporting throughout the entire five-year duration. This selective approach ensures a focused exploration of banks committed to international reporting standards, providing a clear and precise lens into the post-IFRS financial landscape of Ethiopian private commercial banking.

3.4. Data analysis techniques

The quantitative data analysis involved calculating Earnings per Share (EPS) for each bank before and after share splits. It is important to highlight that, for the sake of comparability, the EPS values subsequent to share splits were meticulously adjusted to reflect proportional pre-split values. This methodological adjustment ensures a meaningful and fair evaluation, eliminating potential distortions that might arise from directly comparing dissimilar EPS metrics. The conversion to proportional pre-split values underscores the researcher's commitment to methodological rigor, ensuring a robust and accurate analysis of EPS dynamics following share splits.

3.5. Limitations and ethical considerations

3.5.1. Limitations of the Study:

This study faces several limitations. Primarily, it relies on audited financial reports of Ethiopian private commercial banks, which, while standardized, might miss unreported or qualitative factors impacting bank performance. Its focus on a five-year period post-IFRS adoption could also restrict insights into longer-term trends in a dynamic financial sector. Moreover, the findings are specific to Ethiopian private banks and may not extend to banking sectors under different conditions or practices. Methodologically, the study's quantitative bias overlooks qualitative aspects like management quality and customer satisfaction, which are crucial for a bank's overall health. Additionally, unforeseen regulatory changes or global economic shifts could influence the study's outcomes, given the potential impact on financial reporting standards and practices.

3.5.2. Ethical Considerations Upheld in the Study

The study maintained high ethical standards by ensuring data accuracy and integrity, using reliable financial information from bank reports. It upheld confidentiality, adhering to privacy norms and legal requirements. Objectivity was central in analyzing bank performance, eliminating bias. The findings were reported responsibly, avoiding sensationalism to prevent misinterpretation. Lastly, the study considered the impact of its conclusions on stakeholders, including banks, regulatory bodies, and investors, ensuring that its contributions to financial performance discussions were both methodologically robust and ethically sound.

4. Data Presentation and Analysis

Banks in Ethiopia use EPS to communicate their financial performance to shareholders, potential investors, and analysts. It is often included in annual reports and financial statements to provide a clear picture of the bank's profitability. A higher EPS suggests that the bank is generating more profit per share, which is generally seen as a positive sign by shareholders and investors. They also use EPS to benchmark their performance against other banks in the country. This helps them assess how they are performing relative to their competitors (peers) in terms of profitability on a per-share basis.

In Ethiopia, as per the standard set by the National Bank of Ethiopia, basic earnings per share (EPS) is calculated by dividing the profit after taxation by the weighted average number of ordinary shares in issue during the year.

$$Earning\ Per\ Share(EPS) = \frac{Profit\ After\ Taxation}{Weighted\ average\ number\ of\ ordinary\ shares\ outstanding}$$

After five years, EPS data was collected from each private commercial bank, and the next step was to conduct a Comparative Analysis using average EPS. The study then proceeded with a comparative analysis, focusing on the average EPS. This analysis aimed to elucidate the relative performance of banks, particularly considering their EPS values after share splits and adjusted EPS values as if no share splits had occurred (Equivalent EPS before share split).

A significant aspect of the study was examining the influence of share splits on EPS. Share splits can alter the number of outstanding shares, affecting the EPS. To accurately gauge the impact, EPS values after share splits were proportionally adjusted to mirror pre-split conditions. This approach intended to provide a more genuine understanding of the banks' financial performance, excluding the distortionary effects of share splits.

4.1. Presentation of empirical data

Table 4.1 provides a comprehensive overview of Earnings per Share (EPS) for various banks, extracting this crucial financial information directly from their respective financial statements. The subsequent analysis conducted in the following sections takes into careful consideration the accuracy and reliability of the EPS values reported in the table. Recognizing the significance of these EPS figures as a key indicator of a bank's financial performance, the analysis aims to draw meaningful insights and conclusions based on the factual data presented in Table 4.1.

Table 4.1: Annual EPS Figures of Ethiopian Private Commercial Banks: 2017/18 to 2021/22

Name of Bank	2017/18	2018/19	2019/20	2020/21	2021/22	Average EPS	Rank *
Awash Bank (AIB)	543	632	510	470	570	545.00	1
Dashen Bank (DB)	430	408	490	471	532	466.20	2
Zemen Bank (ZB)	286	398	462	469	455	414.00	3
Oromia Bank (OB)	525	374	320	270	307	359.20	4
Abay Bank (AB)	284.28	343.36	269.66	333.6	295	305.18	5
Buna International Bank (BuIB)	286	287	225	293	298	277.80	6
Debub Global Bank(DGB)	131	323	347	166	182	229.80	7
Addis International Bank (AdIB)	171	206.6	225.1	249.9	282.4	227.00	8
Wogagen Bank (WB)	365	256	313	42	17	198.60	9
Enat Bank(EB)	184	185	161	158	185	174.60	10
Nib International Bank(NIB)**	134	154	166	154	146	150.80	11
Birihan International Bank (BrIB)	20.36	24.65	258.82	74.08	155.92	106.77	12
Cooperative Bank of Oromia (CBO)**	42	36	47	40	34	39.80	13
Hibret Bank (HB)**	35.39	39.19	29.79	28.87	26.47	31.94	14
Bank of Abyssinia (BOA)**	6.11	7.23	7.2	9.78	14.2	8.90	15
Lion International Bank(LIB)**	7.55	9.5	8.41	3.59	2.65	6.34	16

Source: Constructed from Audited Financial Report of each bank for respective years.
**Banks were ranked on the basis of their average financial performance (EPS)*
** Banks *that underwent share split*

4.1. Comparative analysis of financial performance (EPS) among Banks

4.1.1. Post-Share Split

This section conducts a comparative analysis of post-share split financial performance among banks, focusing on Earnings per Share (EPS). The investigation centers on average EPS and associated rankings to reveal insights into how share splits have influenced the earnings dynamics within the banking sector. The aim is to provide a concise yet comprehensive understanding of the relative performance of banks following share splits.

Bank of Abyssinia (BOA), Hibret Bank (HB), Cooperative Bank of Oromia (CBO), Nib International Bank (NIB), and Lion International Bank (LIB) have undergone share splits. This means that the number of shares outstanding has increased, resulting in a decrease in their EPS values. Therefore, their rankings may have been affected by the share split.

In the case of BOA, HB, CBO, NIB, and LIB, their average EPS values have been impacted by the share split, leading to lower rankings compared to their pre-split EPS values. It is important to note that the decrease in EPS does not necessarily indicate poor performance but rather reflects the increase in the number of shares outstanding.

When examining the rankings based on average EPS, it is evident that banks like AIB, DB, and ZB have consistently held top positions. These banks show high EPS values and have not engaged in the activity of share split. This suggests two possible factors contributing to their high rankings:

1. High-Performance Record: The banks with consistently high EPS values, such as AIB, DB, and ZB, demonstrate a track record of strong financial performance. Their ability to maintain top rankings indicates that they have consistently generated significant earnings per share over the years, reflecting a robust performance.

2. No Share Split Activity: Additionally, the fact that these banks did not undergo share splits implies that there were no adjustments to their EPS due to changes in the number of shares outstanding. This allows their EPS values to remain reflective of their actual performance without any dilution effects.

Conversely, the banks that underwent share splits (BOA, HB, CBO, NIB, LIB) have experienced a decrease in their rankings. This decrease may be attributed to the adjustments made to their EPS values as a result of the share splits. The increase in the number of shares outstanding through the share split can lead to a dilution of EPS, thus affecting their rankings.

4.1.2. Examination of EPS fluctuations during share-related activities

In the context of Ethiopian commercial banks, a subset of institutions has recently undergone a share split, subdividing their existing shares into different sizes or amounts, as outlined in the table below. Following this restructuring, the Earnings Per Share (EPS) for these banks has been recalculated, considering a proportional adjustment that neutralizes the impact of the share split. This recalibration ensures a more accurate evaluation of the financial performance of these banks by mitigating the influence of the share split on the EPS metric.

Reassessing and re-ranking these banks based on the adjusted EPS values will elucidate the specific impact of the share split on their financial performance. This analysis aims to provide a nuanced understanding of how the share split has influenced the EPS metric, serving as a key indicator of financial health and performance. The resulting re-ranking will offer insights into the relative standing of these banks in terms of EPS and post-adjustment for the share split, thereby facilitating a clearer assessment of their financial prowess and strategic positioning in the market.

Moreover, a comparative examination will be conducted by scrutinizing the new ranking in light of the previous ranks of these banks prior to the share split and EPS adjustment. This comparative analysis seeks to highlight any disparities in the rankings, thereby shedding light on the specific effects of the share split on the perceived financial performance of these institutions. If the post-adjustment rank significantly differs from the pre-share split rank, it raises questions about the efficacy of EPS as a sole measure of financial performance, emphasizing its potential limitations. This exploration aims to provide a comprehensive understanding of the multifaceted nature of financial metrics and the nuanced impact of corporate actions such as share splits on their interpretation.

The table shows the EPS for each bank before and after the share split. The first row for each bank shows the EPS after the split, while the second row shows the proportional EPS, which is the EPS that would have been if the share split had not occurred. The proportional EPS is used for analyses in the ranking. This is because EPS is not a true measure of performance when there has been a share split. If the was to use the EPS as reported on the financial statements of the banks that had a share split, we would be comparing apples to oranges.

Table 4.1.2. EPS fluctuations during share split

Name of the bank	**Year**					**Share Split**	**Remark**
	2017/18	2018/19	2019/20	2020/21	2021/22		
Bank of Abyssinia	6.11	7.23	7.2	9.78	14.2	40-for-1	Ordinary Shares of Birr 25 each
Bank of Abyssinia	244.4	289.2	288	391.2	568		Ordinary Shares of Birr 1000 each
Hibret Bank	35.39	39.19	29.79	28.87	26.47	10-for-1	Ordinary Shares of Birr 100 each
Hibret Bank	353.9	391.9	297.9	288.7	264.7		Ordinary Shares of Birr 1000 each
Nib International Bank	134	154	166	154	146	2-for-1	Ordinary Shares of Birr 500 each
Nib International Bank	268	308	332	308	292		Ordinary Shares of Birr 1000 each
Cooperative Bank of Oromia	42	36	47	40	34	10-for-1	Ordinary Shares of Birr 100 each
Cooperative Bank of Oromia	420	360	470	400	340		Ordinary Shares of Birr 1000 each
Lion International Bank	7.55	9.5	8.41	3.59	2.65	40-for-1	Ordinary shares of 25 Birr each
Lion International Bank	302	380	336.4	143.6	106		Ordinary shares of 1000 Birr each

Source: Constructed from Audited Financial Report of each bank for respective years.

As explicitly outlined above, banks such as Bank of Abyssinia (BOA), Hibret Bank (HB), Cooperative Bank of Oromia (CBO), Nib International Bank (NIB), and Lion International Bank (LIB) have undergone share splits, dividing their shares into different sizes or amounts. Notably, BOA and LIB executed a 40-for-1 share split, resulting in a substantial increase in the number of shares while concurrently adjusting the nominal value of each ordinary share from Birr 1000 to 25 Birr. On the other hand, HB and CBO implemented a 10-for-1 share split, adjusting the nominal value of each ordinary share from Birr 1000 to 100 Birr. Additionally, NIB opted for a 2-for-1 share split, with an adjustment in the nominal value of each ordinary share from Birr 1000 to 500 Birr.

4.1.1. Pre-Share Split (Proportional Annual EPS Figures)

It is worth noting that the EPS of some banks was reported at face value or before being proportionally converted. However, there are clear indications that these banks have undergone share splits, resulting in different amounts of shares. Therefore, in order to ensure consistency in the analysis that follows this table, the EPS values have been adjusted to reflect the post-share split scenario.

*Table: Proportional Annual EPS Figures of Ethiopian Private Commercial Banks: 2017/18 to 2021/22**

Name of Bank	2017/18	2018/19	2019/20	2020/21	2021/22	Average EPS	Rank
Awash Bank (AIB)	543	632	510	470	570	545.00	1
Dashen Bank (DB)	430	408	490	471	532	466.20	2
Zemen Bank (ZB)	286	398	462	469	455	414.00	3
Cooperative Bank of Oromia (CBO)	420	360	470	400	340	398.00	4
Oromia Bank (OB)	525	374	320	270	307	359.20	5
Bank of Abyssinia	244.4	289.2	288	391.2	568	356.16	6
Hibret Bank (HB)	353.9	391.9	297.9	288.7	264.7	319.42	7
Abay Bank (AB)	284.28	343.36	269.66	333.6	295	305.18	8
Nib International Bank(NIB)	268	308	332	308	292	301.60	9
Buna International Bank (BuIB)	286	287	225	293	298	277.80	10
Lion International Bank(LIB)	302	380	336.4	143.6	106	253.60	11
Debub Global Bank(DGB)	131	323	347	166	182	229.80	12
Addis International Bank (AdIB)	171	206.6	225.1	249.9	282.4	227.00	13
Wogagen Bank (WB)	365	256	313	42	17	198.60	14
Enat Bank(EB)	184	185	161	158	185	174.60	15
Birihan International Bank (BrIB)	20.36	24.65	258.82	74.08	155.92	106.77	16

Source: Extracted from the audited financial reports of each bank.

The detailed comparison of rankings, specifically focusing on banks that underwent share splits, reveals nuanced insights into the impact of corporate actions on reported financial metrics. In reassessing the rankings based on adjusted Earnings Per Share (EPS), which accounts for the hypothetical scenario without share splits, distinct patterns emerge. Bank of Abyssinia (BOA) demonstrated a substantial improvement in rank, moving from 15th to sixth place after the EPS adjustment, indicating a significant influence of the share split on its reported financial performance. Similarly, Hibret Bank (HB) experienced an upward shift from 14th to seventh place, suggesting that the share split had a notable effect on its perceived financial health.

Cooperative Bank of Oromia (CBO) exhibited a remarkable improvement, moving from 13th to fourth place post-adjustment, underscoring the considerable impact of the share split on its reported EPS. Nib International Bank (NIB) maintained a relatively stable rank, moving from 11th to ninth place after the EPS adjustment, revealing a moderate influence of the share split on its reported financial metrics. Lion International Bank (LIB) showcased a noteworthy improvement from 16th to 11th place after the EPS adjustment, indicating a substantial impact on its reported financial health. The overarching trend among these banks engaged in share splits suggests that reported EPS figures were significantly influenced by changes in the number of shares outstanding, resulting in both positive and negative shifts in rankings.

This analysis underscores the complexities introduced by share splits, emphasizing the necessity for a comprehensive understanding of these corporate actions to avoid potential misinterpretations of a bank's financial performance based solely on EPS metrics. As a concluding note, the observed disparities in rankings post-adjustment serve as a compelling reminder of the limitations inherent in relying solely on reported EPS figures, especially when substantial changes in the capital structure, such as share splits, come into play. This reinforces the call for a more holistic and context-aware approach to financial analysis, incorporating a diverse set of metrics to provide a more accurate and meaningful representation of a bank's overall financial health.

5. Summary

This study critically evaluates the practice of using Earnings Per Share (EPS) as the sole metric for evaluating the performance of Ethiopian commercial banks. While EPS is commonly used for regulatory assessments and decision-making, it has limitations that can hinder a comprehensive analysis of a company's financial performance. The study highlights the restrictions and disadvantages of EPS, including its failure to consider factors such as share splits, share buybacks, and operational efficiency.

One key limitation of EPS is that it is calculated simply by dividing net income by the number of outstanding common shares, without taking into account factors like share splits and buybacks. This can lead to misleading indications of profitability, as a stock split can decrease EPS even if the company's actual earnings remain the same, while a share buyback can artificially inflate EPS without a corresponding increase in earnings.

Furthermore, companies can manipulate their EPS by employing different accounting practices and standards. However, this study focuses on Ethiopian commercial banks that are required to adhere to the International Financial Reporting Standards (IFRS) enforced by the National Bank of Ethiopia, ensuring comparability and verifiability of financial reports.

The study also sheds light on the prevalence of share splits among Ethiopian commercial banks, with 15% of banks having engaged in share splits in the past decade. While share splits increase the number of outstanding shares without affecting earnings, they can falsely suggest a decline in profitability due to the resulting decrease in EPS. On the other hand, share buybacks decrease the number of outstanding shares, leading to a higher EPS, but this increase may not be reflective of improved earnings.

To mitigate the distortions caused by share splits and buybacks, companies often report adjusted EPS figures that account for these events. Adjusted EPS provides a more accurate reflection of a company's underlying profitability by considering the impact of changes in the number of shares outstanding.

In conclusion, this study highlights the limitations of relying solely on EPS as a performance metric for evaluating Ethiopian commercial banks. It emphasizes the importance of considering adjusted EPS or other financial metrics that provide a more comprehensive analysis of a company's efficiency and effectiveness. EPS should not be viewed in isolation, particularly when significant changes in the share structure have occurred.

6. Conclusion

EPS does not fully reflect a bank's financial reality, especially in cases of share splits, share buybacks, and differing capital structures. This study critically examined the impact of both share splits and share buybacks on EPS, which can lead to misleading interpretations of a bank's true financial state.

Share splits, a common practice among banks, involve increasing the number of shares outstanding while proportionally decreasing the share price. This action, despite not altering the bank's overall market capitalization, can significantly distort EPS. An increase in outstanding shares results in a diluted EPS, potentially creating an illusion of diminished profitability, which does not necessarily reflect an actual decline in the bank's economic performance.

Conversely, share buybacks, where a bank repurchases its own shares, reduce the number of shares outstanding. This reduction can artificially inflate EPS, suggesting improved profitability even when the bank's earnings remain unchanged. This can mislead stakeholders into overestimating the bank's financial performance, as the apparent increase in EPS is driven by a reduced share count rather than genuine growth in earnings.

Furthermore, EPS does not account for the capital structure of a company. It doesn't distinguish between earnings that were fueled through equity financing versus debt financing. This limitation can be significant when comparing banks, as it may not reflect the additional financial risk taken on by banks with higher debt levels.

In conclusion, this research advocates for the adoption of a more comprehensive set of financial metrics beyond EPS. This approach would provide a more accurate, transparent, and holistic view of a bank's financial health, taking into account the effects of corporate actions such as share splits and buybacks. Such a reevaluation is crucial for accurate and effective financial analysis in the Ethiopian banking sector, ensuring that performance metrics truly reflect the financial realities of banks.

7. Future Research Direction

Integration of Qualitative Aspects with Financial Metrics: Conduct research to understand how non-financial factors like management effectiveness and customer relations impact the financial metrics of banks. This approach would provide a more rounded perspective on what influences the financial performance of banks, blending traditional financial data with qualitative aspects.

Generalizability to Other Banking Sectors: Conduct comparative studies to assess the applicability of the findings to banking sectors in different countries with varying regulatory environments and economic conditions.

8. Policy Recommendation

To overcome the limitations of EPS and provide a more robust measurement of performance, it is recommended that banks adopt a broader set of financial metrics.

Enforcement of ROE Disclosure: The National Bank of Ethiopia should mandate Ethiopian banks to calculate and disclose ROE as a key performance metric. This enforcement will ensure a more accurate and comprehensive assessment of bank performance.

Educating Stakeholders: Shareholders and bank management should be educated on the advantages of using ROE over EPS. This includes understanding how ROE provides a more accurate reflection of a bank’s profitability and financial health.

Integrating ROE into Strategic Decisions: Bank management should integrate ROE analysis into their strategic decision-making processes. This approach will foster better-informed decisions that enhance financial sustainability and growth.

In general, adopting ROE as a primary performance metric offers a more reliable and comprehensive assessment of a bank's financial performance compared to EPS. This recommendation is directed towards the National Bank of Ethiopia, shareholders, and bank management, emphasizing the need for a policy shift towards a more robust and holistic financial evaluation framework. This change is crucial for accurate performance measurement, effective risk management, and strategic decision-making in the Ethiopian banking sector.

9. Bibliography

1. Alemu, T., & Getachew, D. (2018). Analyzing Commercial Bank Performance in Ethiopia: Determinants and Outcomes. *International Review of Business and Economic Studies, 6*(5), 1-14.
2. Berhanu, G., & Boka, C. (2018). Evaluating Financial Analysis Efficiency in the Ethiopian Banking Industry. *Journal of Monetary Economics and Finance, 9*(15), 44-51.
3. Biru, A., & Abie, G. (2019). Performance and Efficiency Models in Banking: Lessons from Ethiopia. *Global Journal of Business Research, 7*(8), 13-29.
4. Brown, R. (2019). "Financial Risk Management Approaches in Banking." *Financial Risk and Strategy Journal*.
5. The Ethiopian Bankers Consortium. (2022). *The Decade in Review: Share Splits and Ethiopian Banks*. Addis Ababa: EBC Publishers.
6. Johnson, L. (2018). "Innovative Decision-Making Strategies in Business." *Business and Strategy Journal*.
7. Johnson, M. (2018). "Liquidity Enhancement Post-Stock Splits." *Economic Studies in Finance, 42*(2), 231–245.
8. Kebede, M., & Anshebo, A. (2017). "Benchmarking Banking Performance: The Ethiopian Context." *Global Journal of Commerce & Management Perspective, 5*(9), 30-42.
9. Kenton, W. (2021). "Utilizing Trend Analysis for Market Forecasts." *Journal of Future Markets Research*.
10. Lemma, T. S., & Negash, S. E. (2020). Evaluating Bank Efficiency: Comparative Study of Ethiopian Banks. *Journal of Financial and Quantitative Analysis, 8*(4), 273–283.
11. Nigussie, A., & Zeleke, K. (2019). "Influences on Bank Performance: An Ethiopian Study." *Global Review of Accounting and Finance, 7*(11), 50-67.
12. Saunders, A., & Colleagues. (2012). *Managing Financial Institutions: An Asset Risk Management Approach* (8th ed.). McGraw-Hill Higher Education.
13. Smith, J. (2020). Understanding the Strategic Implications of Stock Splits. *Journal of Asset Management and Finance,* 55(1), 78–91.
14. Taylor, A. (2022). "Interpreting Financial Statements for Investment Purposes." *Finance Analysts Quarterly*.
15. Teshome, D., & Olani, A. (2016). "An Examination of Bank Financials: A Case Analysis from Ethiopia." *Review of Business and Finance Studies, 5*(11), 74-86.
16. Williams, M. (2017). "Advanced Techniques in Market Analysis." *Journal of Advanced Research in Market Studies*.
17. Wondwossen, T., & Desta, A. (2015). "Diagnosing Banking Sector Challenges: Performance Analysis in Ethiopia." *Journal of Financial Research, 6*(11), 11-18.
18. The World Bank. (2023). *Global Review of Share Splits*. Washington, D.C.: International Finance Corporation.