THE EFFECT OF REVENUE GROWTH ON PROFITABILITY OF COMPANIES LISTED IN THE JOHANNESBURG STOCK EXCHANGE SOCIALLY RESPONSIBLE INVESTING INDEX

by

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[redacted]

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DEDICATION

I dedicate this dissertation to my late mother, Mrs. Violet Nkuna, my loving Husband, Mr. Segopotso Sekhwela, my beautiful children, Boitumelo and Kgothatso Sekhwela and my beloved siblings Ms. Monicca Nkuna, Ms. Virginia Nkuna and Mr. Keimetsi Nkuna.

DECLARATION

I declare that the "THE EFFECT OF REVENUE GROWTH ON PROFITABILITY OF COMPANIES LISTED IN THE JOHANNESBURG STOCK EXCHANGE SOCIALLY RESPONSIBLE INVESTING INDEX" dissertation submitted to the University of Limpopo for the degree of Masters in Business Administration is my own work and all sources used or recited have been indicated and acknowledged by means of complete references and that this work has not been submitted before for any other degree at any other institution.

Sekhwela MC	01 March 2024
Full names	Date

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ABSTRACT

Profitability of companies is a key indicator that has the potential to draw more investors and grow the economy. A high profitability increases the value of stockholder's returns and market share price. It is therefore crucial for stockholders to uncover underlying factors that can influence profitability of companies. This study seeks to analyse the effect of revenue growth on operating profit and to evaluate the effect of revenue growth on net profit. The study utilised a descriptive quantitative method to extract secondary data from companies listed in the FTSE/JSE's Socially Responsible Investing Index. Purposive sampling method was used to collect data from the audited annual financial statements of five (5) selected companies listed in the FTSE/JSE's Socially Responsible Investing Index with a high market capitalisation from different categories of industries. A simple linear regression model was used to measure the correlation between independent variable which is revenue growth and dependent variables being operating and net profit. Data for each company was collected over a period of ten (10) years starting from 2011 to 2020 financial years. Companies which are not listed in the FTSE/JSE's Socially Responsible Investing Index and those that are not contributing to Corporate Socially Responsibility were not considered in this study. The results of the study indicates that there is a correlation between independent and dependent variables. However, the results from other researchers revealed that an increase in revenue growth could give rise to a decrease in profitability if cost of sales and other operational costs associated with the generation of revenue increases. Stockholders should therefore consider identifying more variables that will determine other factors affecting profitability growth because companies that are unable to grow profitability will find it difficult to expand their operations and increase stockholders returns. Future researchers can further extend future studies to identify other variables that can influence profitability.

Key words: *stockholders, revenue growth, profitability, operating profit and net profit.*

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LIST OF ACRONYMS

AFS	Annual Financial Statements
ANOVA	Analysis of Variance
COVID-19	Corona Virus Disease 2019
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
ESG	Environmental, Social and Governance
FTSE	Financial Times Stock Exchange
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
JSE	Johannesburg Stock Exchange
LTD	Limited
ROE	Return on Equity
ROI	Return on Investment
RSA	Republic of South Africa
SPSS	Statistical package for the Social Sciences
SRI	Socially Responsible Investing
TREC	Turfloop Research Ethics Committee

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

Listed companies in the stock market have more advantage of growing revenue and profitability compared to unlisted companies as they are eligible to obtain additional capital from the public. Global statistics indicates that companies which are listed in the stock market have higher performance results in terms of revenue growth and profitability. It is therefore important for stakeholders of companies to implement necessary financial strategies that will increase revenue growth and profit (operating and net profit) to remain competitive in the industry. Companies generating low revenue and profit cannot compete in the industry market in terms of attracting and increasing the level of confidence of potential investors due to low shareholders returns and market share price (Napier and Stadler, 2020).

According to Hakim and Naelufar (2020) financial statements are accounting records of company's financial data for a certain financial period and are used to assess a company's performance and its ability to meet its short and long-term obligations. A statement of financial performance comprises of the gross revenue generated by the company and the actual operating expenses incurred by the company during the financial period. The profit generated by the company can be assessed and evaluated using the statement of financial performance. Furthermore, the company's retained income indicates whether the company has managed to achieve its planned financial objectives for that particular financial year. Profitability can be used as a tool to assess a company's ability to generate revenue as well as the efficiency of revenue management. A company's high profitability indicates how well a company can make profit, which is a positive sign for sustainability of the business.

According to Sugosha and Artini (2020) profitability illustrates a company's measure of net profit. The ability of the company to pay dividends increases with increased profitability. This will undoubtedly catch investors' attention and demonstrate strong business performance. Operating income, net profit, the rate of return on investment and assets, and the rate of return on owner's equity are used as a tool to measure profitability of a company. In addition, operations of companies are guided by documented policies implemented by management with the intention to raise shareholders wealth and improve the value of the company.

Profitability is the ability of the business to generate profit (operating and net profit) from its operation. The increased profitability indicates a positive signal for the business to draw potential investors from the public. The amount of sales or assets that the company owns are undoubtedly strongly tied to profitability, which demonstrates the ability of the company to generate a significant profit (Hakim and Naelufar, 2020). Continuous businesses expansion and the increased value of the company’s assets are likely to increase investors’ expectations for investment opportunities and expected rate of returns. Profit is generally affected by revenue growth (Warmana, Rahyuda, Purbawangsa and Artini, 2020). According to Fajaria and Isnalita (2018) one of the key components of performance evaluation in an organisation is profitability, which can be presented in the form of profit percentage in comparison to revenue, stockholders’ equity, and asset investments. One of the key objectives for existence of a business is to increase profitability. A stable economy with high profitability can attract interest and investments from both domestic and foreign investors and can provide adequate capital funds to sustain the operations of companies.

Profitability represents the accomplishments and success of the company. It will be difficult for a business to increase their profitability without revenue growth. Profitability is seen as a positive indicator of a company's success because it has been found that businesses with high profitability have potential to draw in more investors. It was further indicated that businesses are currently actively concentrating on growing revenues to thrive in an uncertain and unpredictable economy. The effectiveness and quality of management also depends on their ability to identify elements that could increase profitability (Gharaibeh, Saleh, Jawabreh and Ali, 2022). The study will primarily focus on the effect of revenue growth on profitability in companies listed in the FTSE/JSE’s Socially Responsible Investing Index. The study will also assist companies to comprehend dynamics surrounding the effect of revenue growth on profitability.

1.2 PROBLEM STATEMENT

Mabandla and Makoni (2019) emphasises that lack of working capital results in slow growth, more operational inefficiencies, and subsequently lower profitability. Companies that do not recognise the effect of revenue growth on profitability are likely to miss potential investors needed to expand the capital. Failure to recognise the effect of revenue growth will result in management and shareholders of the company putting more effort on activities which are less profitable. This will ultimately reduce the retained earnings and shareholders wealth in a company. Fredrick (2019) indicates that the recent collapse of certain major international corporations and their negative impact on corporate structure have made financial distress one of the most hotly disputed topics in the field of finance. In addition, financial difficulty has a negative effect on an organisation that undermines its ability to stay in business. Businesses struggle to pay their bills when they are due. The company's operating conditions deteriorate, placing a huge financial load on the company and making it unable to settle for its short and long-term obligations. It was further indicated that, businesses in financial distress are those that failed to grow their revenue and minimise their operating costs which resulted in low profitability. Failure by organisations to grow revenue will result in companies experiencing difficulty to settle obligations incurred by the organisation and low profitability which reduces the share capital in the statement of financial position.

According to Mamaro and Tjano (2019) the 2008 financial distress influenced the economy across the world in several countries and businesses. During that time, demand for goods and services worldwide decreased. In addition, the affected companies experienced decline in the revenue growth, thereby affecting profitability. After the crisis, the majority of companies were negatively affected by the drop in demand for goods and services, which had an adverse effect on revenue growth and profitability. The problem is that if the company fails to increase its profitability, this will affect the shareholders wealth and the market price of their shares negatively. The ultimate effect will shy away the investors from investing in their companies due to low profitability and low market price of the shares. These will make the company’s reputation unattractive before the potential investors who are eligible to invest in the company’s operations as their main objective is to generate a high rate of returns for their investments. Hájek, Zhunissova, Oralbaeva, Zhidebekkyzy and Baidildina (2019) indicates that only a financially stable business can generate economic value and maintain its competitiveness. Failure by listed companies to grow revenue and profitability will adversely affect competitive advantage of the company negatively as it will result in low returns on investments to the shareholders and market share price. Therefore, it will be crucial to uncover the underlying factors that can influence revenue growth and profitability.

1.3 MOTIVATION/RATIONALE OF THE STUDY

Profitability of a company is one of the key factors that encourages investors to invest because they use it as a metric to assess a firm's health. The value of the company increases if profitability is high, whereas the value decreases if profitability is low (Purba and Africa, 2019). A high profitability indicates that the company has good potential to increase potential investors to respond favourably and cause the company to rise. A company will attract investors and experience increased growth, which will increase its level of profitability and have a beneficial effect on stock prices in the market. This implies that it will increase the company's value (Warmana, Rahyuda, Purbawangsa and Artini, 2020). The study such as this is important to the internal and external stakeholders of a company in justifying why they should put more effort on establishing and implementing financial strategies that will necessitate the revenue growth and profitability in order to increase investors' level of confidence.

1.4 AIM OF THE STUDY

The aim was to assess and evaluate the effect of revenue growth on profitability of companies listed in FTSE/JSE's Socially Responsible Investing Index.

1.5 OBJECTIVES

The main objectives of this study were the following:

- To analyse the effect of revenue growth on operating profit.
- To evaluate the effect of revenue growth on net profit.

1.6 RESEARCH QUESTIONS

The study was guided by the following research questions:

What is the effect of revenue growth on operating profit?
What is the effect of revenue growth on net profit?

1.7 RESEARCH HYPOTHESIS

The study resolves the following research hypothesis:

Revenue growth on operating profit

H_0: there is no linear relationship between revenue growth and operating profit.

H_1: there is a linear relationship between revenue growth and operating profit.

Revenue growth on net profit

H_0: there is no linear relationship between revenue growth and net profit.

H_1: there is a linear relationship between revenue growth and net profit.

1.8 DEFINITIONS OF KEY CONCEPTS

1.8.1 Profit

Susila, Cipta, Telagawathi and Kusuma (2021) define profit as the difference between revenue generated and operating costs a company must incur to operate its business. Determining profit targets is important in realising overall business goals and objectives. In this study, profit is defined as the difference between total revenue received and expenditures incurred for a particular period.

1.8.2 Net profit

According to Susila, Cipta, Telagawathi and Kusuma (2021) net profit is a profit generated from the operations of the company after deducting the operating costs from total revenue within a certain financial period. In this study, net profit is the amount of revenue a company has after deducting operating expenses, interest, and income tax expenses for a particular period of time.

1.8.3 Operating profit

Operating profit is the company's profit generated from the company's core business functions or the company's operating activities (Susila, Cipta, Telagawathi, and Kusuma, 2021). In this study, operating profit is defined as profit generated from business operations before deducting income taxes and interest expenses.

1.8.4 Revenue

According to Napier and Stadler (2020), companies listed in the JSE are required to apply the International Financial Reporting Standards (IFRS) in the preparations of their annual financial statements at year-end. The implication is that revenue amount to be recognised in the annual financial statements should be disclosed in terms of International Accounting Standards (IAS) 18, now revised as IFRS 15. Picker, Clark, Dunn, Kolitz, Livne, Loftus and Van der Tas (2019) define revenue as the gross flow of income generated during ordinary business operations of a company and can be disclosed using different names including sales, fees, interest, dividends, and royalties.

1.8.5 Profitability

Hakim and Naelufar (2020) define profitability as a measure that provides the likelihood of a company's capability to generate profit over a particular financial period. The degree to which a business yield profit can be used as a benchmark for an investment decision as the process measures the ability of a company to create the level of investments. Hidayah and Santosa (2022) emphasised that profitability is a scale that measures the organisation's capability to generate profit. In this study, profitability is defined as the actual difference between revenue generated from companies' operations against operating expenditures incurred.

1.8.6 Stockholder or Shareholder returns

Nguyen, Van Nguyen and Nguyen (2022) define stockholder or shareholder returns as a criterion of financial performance that represent the entire profit that investors make from a stake they have purchased in a company, specifically in the form of equity or stock shares. Stockholder returns are defined in this study as a gain or loss resulting from fluctuations in market share value and dividends received over a predetermined period.

1.8.7 Stockholder or Shareholder theory

According to Mayer, Mikes and Murthy (2021), stockholder or shareholder theory is a theory that supports the idea that corporations' social purpose is to increase profits, as long as the company is operating within the acceptable laws and regulations. In this study, shareholder or stockholder theory is defined as the theoretical framework that promotes the prioritisation of shareholders' interests in companies, which is maximisation of profit.

1.8.8 Stockholders or Shareholders

A stockholder or shareholder is referred to as anyone who owns at least one share of a firm and has a financial interest in its success, whether they are an individual, business, or organisation (Nguyen, Van Nguyen and Nguyen, 2022). However, Garzón (2021) argued that stockholders are individual investors or large corporations with the right to exercise a vote in the management of a company. In this study, stockholders are individuals or companies that own shares in a company and are entitled to receive payment in the form of dividends for their equity investment.

1.8.9 Financial distress

Kisman and Krisandi (2019) contend that financial distress is a state where a company is faced with financial challenges. However, Dirman (2020) defines financial distress as a state in which a company's operating cash flow is insufficient to cover its regular obligations, such as trade debtors and interest payments due to overdue accounts. El Beshlawy and Ardroumli (2021) added that financial distress refers to a state in which companies are unable to meet their financial obligation as and when they are due. In this study, financial distress is defined as an instance where companies are unable to generate sufficient income to meet their financial obligations.

1.8.10 Financial statements

Financial statements are sets of financial information outlining financial status of the company which the prospective investor can use in making investment decisions (Kisman and Krisandi, 2019). However, Tshipa (2017) defines financial statements as a set of financial records that indicate the business operations and financial performance of a company. They include a statement of financial position that reflects the company's assets and liabilities as well as shareholders' equity, a statement of financial performance that shows the company's profitability and a cash flow statement that includes cash from operations, cash used for investing, and cash on hand. In this study, financial statements are defined as a report that outlines status of financial position, performance, and cash flow at a certain financial period.

1.9 OUTLINE OF THE STUDY

The research study will include the following chapters:

Chapter 1: Motivation and background of the study: the chapter outlines the introduction and background, the problem statement, research questions, aim and the objectives of the study.

Chapter 2: Literature review: this chapter analyses prior literature from articles, books, journals and will examine documents relevant to the study. The literature review covers the following headings: Stakeholder theory, Effect of revenue growth on operating profit and Effect of revenue growth on net profit.

Chapter 3: Research methodology: the study indicates the methodology that was followed, and the method used to collect data.

Chapter 4: Findings: the chapter indicates findings on the effect of revenue growth on profitability in companies listed on the FTSE/JSE's Socially Responsible Investing Index.

Chapter 5: Summary, recommendations and conclusion: a summary of the findings is included in this chapter, as well as recommendations on how to grow revenue on profitability of companies listed on the FTSE/JSE's Socially Responsible Investing Index.

1.10 SUMMARY OF THE CHAPTER

This chapter outlined the background, problem statement, aims and objectives, research questions and hypotheses. It further provided the rationale behind the study and definition of key concepts that are applicable to this research study. The chapter that follows will outline prior literature related to the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

The main purpose of this section is to examine and review existing literature on the effect of revenue growth on profitability of corporations listed in the FTSE/JSE's Socially Responsible Investing Index (SRI). Paul, Merchant, Dwivedi and Rose (2021) state that a literature review provides a detailed summary of previous research on a topic and combines previous research to extend the research's existing knowledge. Various sources such as journals, approved documents, published reports, and legislation are examined to achieve research objectives.

The previous chapter outlined the background, problem statement, aims and objectives, research questions and hypothesis. This chapter provides an analysis of the prior literature on the effect of revenue growth on profitability for companies listed in the FTSE/JSE Socially Responsible Investing Index. Section 2.2 discussed the conceptual review and Section 2.3 provides theoretical framework undertaken in this study. Stockholder theory is discussed in Section 2.3.1. Section 2.4 discussed the application of stockholder theory to corporate revenue and profitability which is divided into two parts namely; the Stockholder theory and Corporate revenue growth and Stockholder theory and Corporate profitability growth. Section 2.5 discussed review of the empirical literature which is in five parts, namely, 2.5.1 Corporate revenue and Corporate revenue growth, 2.5.2 Corporate operating profit and Corporate operating profit growth, 2.5.3 Corporate net profit and Corporate net profit growth, 2.5.4 Effect of revenue growth on operating profit and 2.5.5 Effect of revenue growth on net profit.

2.2 CONCEPTUAL REVIEW

A study by Salam (2022) states that to maximise profits, companies should implement good financial systems to generate maximum profits. The financial system assists companies to document and retrieve all financial information necessary to monitor business growth. Instances exist whereby companies intentionally discloses financial information which are materially misstated to grow the company image and attract potential shareholders. In addition, the financial systems generate adequate audit trails of financial information to all business operations implemented by companies and also provides significant financial information on revenue movements from one financial year to the other thereby guiding management to take well-informed decisions. A well-designed financial system embedded with good internal controls features enables companies to generate maximum revenue and monitor revenue activities according to policies and procedures approved by management. The financial system enables companies to record cash and credit sales and generation of adequate audit trail of the sales transactions.

2.3 THEORETICAL FRAMEWORK

A theoretical framework is important as it provides a clear guideline on how the entire dissertation should be approached philosophically, epistemologically, methodologically, and analytically. It serves as the process flow to guide the researcher to depend on formal theories founded with established and reasonable explanations of certain occurrences and relationships. A theoretical framework thus comprises of a selected theory which underpins the understanding of the topic and reasoning about the planned investigation and the notions and definitions from the theory that are relevant to the topic (Heale and Noble, 2019). The stockholder theory was chosen for this study to guide and assist in providing ideas on how to resolve the phenomenon under investigation and is discussed below.

2.3.1 Stockholder theory

According to Garzón (2021) companies should put more effort to maximise profit and payback the investments of the shareholders. Shareholders expects managers and employees to maximise profit that will yield high rate of return for their investments. However, Purba and Africa (2019) indicate that, the higher the profit, the better the company's ability to compensate shareholders for their return on investments. Company value is one of the factors that influence investors to invest their capital. Investors tend to allocate capital to companies with superior corporate value in terms of dividend payments and shareholder welfare. In addition, profitability is the net profit a company can generate after deducting core and non-core expenses. Profits worth sharing with shareholders are interest and after-tax profits. The higher the profit, the better the company's ability to reward shareholders for their investments.

Mamaro and Tjano, (2019) indicates that profitability is one of the most favourite criteria that investors consider before making their investments. Profitability indicates capability of a company to generate revenue using its financial resources. Organisations with long-term profitability are particularly preferred and sought after because they offer financial security to their shareholders. The decision to pay dividends is dependent on profitability, as the company's high profitability results in high dividend payments to shareholders. The payment of a cash dividend to shareholders depends on the level of the company's profit after deducting interest, tax and operating expenses.

The stockholder theory was initiated by Friedman in 1962 as one of the corporate governance theories. The theory is of the view that, the main objective of a company's existence is to maximise profit to its shareholders. Therefore, managers have an ethical responsibility to shareholders of generating significant value (Friedman, 2020 and Garzón, 2021). The analysis of theories is explained on the table below:

Table 2. 1: Analysis of theoretical frameworks

No.	Name	Author	Year	Description
1.	Agency theory	Adam Smith	1776	It is an economic theory necessitated by the principal authorising management to act on its behalf in the operation of the company.
2.	Shareholder or Stockholder theory	Friedman	1962	The main existence of companies is to maximise the shareholders interest, which is profit as long as it operates within acceptable standards.
3.	The resource dependency theory	Pfeffer, Salancik	1978	Consider organisations as interdependent based on the environment they function in.

4.	Stakeholder theory	Freeman	1984	The organisation must be built with consideration for the preferences of the major stakeholders such as consumers, suppliers, employees and the public while upholding the moral values that underpin capitalism.
5.	Stewardship theory or Management theory	Donaldson	1990	Owners and managers do not have competing interests. Coordination-friendly organisational structure is sought to increase efficiency.
6.	Knowledge-based approach	Aoki	2001	Create a theory of corporate governance that combines the simultaneous action of disciplinary and cognitive factors.

Source: (Garzón, 2021)

The origin of the stockholder theory emanates from the book of Capitalism and Freedom, which stipulates that companies are socially responsible for the application of their resources to maximise profit within the accepted standards of the environment in which it operates. Companies' moral obligations or social responsibilities is mainly focused on shareholders' interest which is to maximise the profit for them. The value created is determined by what the shareholders receive. According to the shareholders method, shareholders are given priority in terms of partaking in the net profit generated by the company. This strategy indicates that only shareholders' returns on investments (ROI) are taken into consideration and that corporate governance focused on the interaction between investors and managers who monitor the value of production. Maximisation of shareholder value is the objective of managers. Therefore, management should display moral ethics in executing the operations to the benefit of shareholders interest which is to increase profitability (Friedman, 2020).

According to the stockholder theory, a company's social obligation is to increase profit. The theory advocates for the concept of corporate moral responsibility, which holds that a company has only one moral obligation which is to prioritise the financial well-being of its shareholders. According to expected norms and standards for stockholder theory, managers and employees must act ethically in a way that maximises shareholder return. Furthermore, the business should create and adopt standard operating procedures in order to reduce expenses and increase profit (Zwanka, 2018).

Garzón (2021) indicates that businesses should generate significant amount of income while complying with the basic set of laws and regulations which serve to protect the community in which the company is operating. In addition, stockholder theory asserts that managers have got the obligation to act in an ethical manner while generating and increasing the company's profits since it is the main shareholder's interest. He further explains that the main goal of managers is to increase shareholders' wealth, which translates into the increase of organisational value and market share value.

Normative Stockholder approach sought to maintain that senior management have an obligation to act with reasonable care and skill to stockholders which is the maximisation of stockholders' value. The fiduciary responsibility on senior management is necessitated by the fact that stockholders invest their capital funds in companies through acquisition of shares with the intention of maximising their wealth. Additionally, management of a company is appointed by stockholders to execute and monitor business operations on their behalf and is therefore obliged to utilise its resources to increase profitability within accepted standards and procedures without engaging in fraudulent activities. The stockholder theory was adopted in this study as it puts more emphasis to profit maximisation which increases the shareholders returns and wealth. The more the profit the more the shareholders return, and companies become sustainable and competitive in the stock market. Thus, companies listed in the JSE should maximise profits to strengthen their competitive advantage and maintain high market share value. (Friedman, 2020).

2.4 APPLICATION OF STOCKHOLDER THEORY TO CORPORATE REVENUE AND PROFITABILITY

Shareholder theory is a theory that embraces the concept of corporate social responsibility, which impose the notions of how the role of corporations should be, in advancing the interests of shareholders. It can also be viewed as a theory that demands management of a company to display ethical behaviour in making business decisions that advances the interest of stockholders. The theory emphasises that investors invest their capital funds to management of the company, who are required by accepted standards and procedures to execute the funds in ways that serve the best interest of shareholders. According to this theory, the social responsibility of the business is to effectively and efficiently, implement its resources with the goal of increasing profit as long as it executes its operations within acceptable laws and regulations, without deception or involved in fraudulent activities. The profit of a company means the prosperity of its investors because the main responsibility of the company is primarily to maximise the stockholders returns (Friedman, 2020).

Majadibodu (2023) claims that companies in South Africa operating without adequate knowledge and skill of technology will deter management from advancing the interest of stockholders, which is maximisation of revenue and profitability. The social responsibility imposed on the business according to stockholder theory implies that management should utilise the resources of the business effectively and efficiently to grow its profit provided it operates in accordance with acceptable laws and regulations affecting the business, carrying out its business activities without bias or involved in fraudulent activities. Furthermore, the theory insinuates that businesses through its management have the duty to act with reasonable care and skill to advance the interests of stockholders or owners. The fiduciary duty of the business towards its stockholders is to increase the profit and maximise the value of share price. The theory emphasises that shareholder's capital should only be utilised to fund business activities that promote the interest of shareholders which is maximisation of profit. The challenge with this theory is that management may design and implement policies and procedures which are aimed at advancing the interests of shareholders without considering the negative impact caused by such policies and procedures to other interested stakeholders such as employees, customers, society, and suppliers. The theory also does not take into consideration cultural practices, economic needs, and environmental impact in which the business operates.

2.4.1 Stockholder theory and corporate revenue growth

Bukair (2019) indicates that revenue growth is the most important factor affecting stockholder returns. Corporate revenue growth is essentially based on the assumption that managers will strive to ensure that resources of the company are directed at maximising revenue and minimising costs resulting in increased profit. Revenue growth and profit maximisation behaviour is expected as management utilises the resources of the company to advance the interest of stockholders. High revenue growth indicates the potential existence of untapped investment opportunities which represent higher market returns to stockholders.

According to Nguyen, Van Nguyen and Nguyen (2022) revenue growth in companies is also used as an important tool to reinforce the stockholder's confidence with their equity investments made. An increased revenue growth will generate anticipated returns to the company and stockholders. A stable revenue growth will attract more potential investors and stockholders' returns will be assured. Mbonu and Amahalu (2021) claim that revenue growth is a significant indicator for sustainability and financial growth of the company. It is used in decision making by stockholders when determining whether to retain or discontinue their investment portfolios with the company. In addition, the objective of registering a company in the listed stock market is to increase the investment equity from potential stockholders which will result in increasing the market share value and wealth of the business. Maximising the value of market share price also increases the wealth of the business and this will provide competitive advantage to the company over its competitors in the market.

The higher revenue growth generates an increased net profit to stockholders resulting in an increased stockholder returns. Companies that have increased net profit, have a significant amount of revenue available for distribution to shareholders in the form of shareholders returns. An increased revenue growth increases shareholders wealth and value of the company (Wahyudi, 2020).

2.4.2 Stockholder theory and corporate profitability growth

Yadav, Pahi and Gangakhedkar (2022) claim that profitability growth of a company enables stockholders to increase their investments and the value of shares in the securities exchange. Therefore, stockholders assess profitability growth of a company to determine if the company could fund and enhance the existing operations. If the company is unable to grow its profitability, it will be difficult to expand its operations and increase stockholders returns. The study further indicated that profitability growth provides an opportunity to stockholders in exploiting further growth opportunities that will maximise their returns.

According to Wahyudi (2020) profitability growth is significant to stockholders and the welfare of the company as it sustains the operations and increases stockholder's confidence. Potential stockholders assess profitability growth when making investments in companies. The research findings further indicate that profitability growth is crucial to stockholders as they use it to determine their rate of returns on investments. High profitability of a company is an indication that resources of a company are managed efficiently and effectively resulting in an increased company's wealth and profits which serve the best interest of the stockholders. However, Mbonu and Amahalu (2021) explain that stockholder theory imposes social responsibility to managers of companies to display moral obligation that will enhance sustainable value creation for its shareholders which is the generation of profit.

2.5 REVIEW OF EMPIRICAL LITERATURE

According to Warmana, Rahyuda, Purbawangsa and Artini (2020) the company's revenue growth on profitability has a positive impact on capital value of the business. The growth enables the company to grow its operations which in turn attract investors who will acquire share capital of the business with the expectation of obtaining a high return for their investments. Inability to grow revenue affects the going concern of the company and threatens sustainability of producing the products or rendering the service to its customers. Decline in revenue will result in companies to cease its operations. Kliestik, Valaskova, Lazaroiu, Kovacova, and Vrbka (2020) outlined a list of symptoms of financial distress which are annual decrease in operating profit, an annual decrease in market share, a decrease in business capacity and a decrease in revenue.

2.5.1 Corporate revenue and corporate revenue growth

Why companies are interested in revenue growth

Dang, Vu, Ngo and Hoang (2019) conducted a study on enterprises in Vietnam. The study indicates that investors consider revenue growth of a company when making investment decisions to acquire equity shares in companies. The increase in revenue growth give rise to high profitability which increases investors returns. The study further indicates that companies with revenue growth have competitive advantage of obtaining high investments from potential investors over its competitors.

A study by Priyono, Moin and Putri (2020) on companies in Indonesia found that companies increased their revenue to prevent bankruptcy and insolvency by introducing digital technologies in their operations. It was stated that the main priority of these companies was to prevent loss of shareholders' returns in the event of discontinuation of operations resulting from lack of revenue growth. Companies that are unable to grow revenue are more vulnerable to the risk of insolvency and bankruptcy.

Transportation factory companies located in the South-East Europe region are interested in growing their revenue as it increases their profitability. Revenue growth has a direct relationship with profitability of the company which increases shareholders returns and market share price. Increase in revenue growth give rise to increase in profitability and value of the company (Vuković, Milutinović, Mirović and Milićević, 2020).

Factors that enhance revenue growth

The effective and efficient utilisation of resources increases revenue growth and reduces costs. In addition, revenue generated by companies is influenced by its customer base. The increase in value creation of companies increases customer base and revenue growth. Moreover, the increase in consumer for goods or services result in increased revenue growth. (Porter and Kramer, 2018). However, Ali, Saleh, Akoi, Abdulrahman, Muhamed, Noori, Anwar (2021) believe that customer needs are satisfied by the goods or services received from the company. A high level of customer's satisfaction increases the demand for goods or services provided by companies which result in increased revenue.

Dang, Vu, Ngo and Hoang (2019) conducted research studies in the construction and banking sectors of Malaysian listed companies. The research findings show that revenue growth has a positive and significant relationship on the net profit of the company. The studies also found that expanding business size, effective and efficient utilisation of existing equipment and maintaining the growth rate contributes to revenue growth needed to maximise capital value of the business. Yangklan (2021) carried out an investigation to determine the impact that the disclosure of corporate social responsibility by all companies listed in the security exchange has on the operational performance and future revenue growth. The study revealed that the disclosure of corporate social responsibility by companies has significant positive influence on the operational performance and enhances future revenue growth. Charitable contributions are considered to have positive effect on revenue growth of companies.

What constitute revenue growth

Revenue is the gross amount that can be quantified in terms of monetary value which is generated by business operations and resulted in the increase in retained earnings and shareholders capital. The international financial reporting standard (IFRS 15) encompasses all income generated from sale of business goods and services and the use of company assets generating interest, royalties and dividends (Picker, Clark, Dunn, Kolitz, Livne, Loftus, and Van der Tas, 2019). While Sono (2022) describe revenue as income generated from selling of goods and services.

2.5.2 Corporate operating profit and corporate operating profit growth

Why companies are interested in operating profit growth

Studies conducted on Kenyan Listed companies by Nariswari and Nugraha (2020) found that operating profit as presented in the statement of financial performance is commonly used by financial analysts in making investment decisions that is required to increase the equity of companies. Furthermore, investors assess operating profit of companies to avoid the risk of investing in companies with unfavourable gross profit. Companies use operating profit ratio to measure the profit margin realised compared to its total sales to identify whether companies generate income from its core operation or from other sources such as investments. If a company does not generate operating profit and is incurring losses continuously, it is deemed to be facing the risk of going concern.

Companies listed in Vietnamese stock exchange prefer operating profit growth as one of the tools for performance evaluation as it can be utilised by investors to determine the operating profit margin in relation to investment made by the company on acquiring its assets, equity, or revenue. The study further revealed that, operating profit growth is one of the key objectives for companies to achieve as only viable companies with high operating profit can provide enough financial resources for expansion and attract investments from existing and potential investors. Operating profit also serve as a criterion that can be used to predict the performance of businesses in the future to determine whether to expand or maintain existing operations (Nguyen and Nguyen, 2020).

Vuković, Milutinović, Mirović and Milićević (2020) indicate that transportation factory companies located in the South-East Europe region view operating profit as vital for every business. The study also found that businesses generating low profit experience financial difficulties in paying for interest expenses, taxation and distribution of dividends to stockholders. Improving operating profit guarantees the survival of the company as it will be able to meet its operating costs.

Factors that enhance operating profit growth

Nguyen and Nguyen (2020) indicate that factors enhancing operating profit include the firm size, revenue generated and overhead costs. They further state that the firm size with large structure and high market power generate high revenue from greater choice of customers which increases operating profit. The increased revenue generated from customers directly enhances the operating profit thereby reducing the risk of liquidity and solvency. Effective management of overhead costs and increasing revenue generated from customers results in increased operating profit needed to expand business operations and dominate the market shares.

What constitutes operating profit growth

The research study conducted by Syriopoulos, Tsatsaronis and Gorila (2022) on the global cruise industry in Greece indicates that operating profit constitute net income retained after deductions made on actual operating expenditures and prior to deducting interest expense, taxes and dividends to shareholders. In addition, the findings articulate the fact that the operating profit component is utilised subsequently by the company to compensate for outdating debtors, interest expense, statutory obligation costs and shareholders dividends. The shareholders dividends payment carries the highest risk as the payment can only be made after all other business expenses have been made. The net profit available for dividend payments to shareholders depends on the availability of profit generated from actual operations of the business. Effective management and control of operating expenses will result in high operating profit needed to spend on other business operations.

Jayathilaka (2020) argued that profit generated from actual operations of the business is considered highly by management of companies as it includes the income and expenditures under their control. The actual financial performance of the business can be measured through operating profit since it resulted from actual income generated by the business against actual expenditure incurred in the business operations.

2.5.3 Corporate net profit and corporate net profit growth

Why companies are interested in net profit growth

Kisman and Krisandi (2019) found that companies registered in the Indonesia Stock Exchange are interested in the net surplus to maximise share value and improve shareholder's welfare. They further emphasise that net profit enables the company to sustain its competitive over a period of time and provide sustainable return on investment to its shareholders. Businesses that find it difficult to maintain healthy profit are in a state of experiencing difficulties in expanding their operations and compensating shareholders for their equity investments. Moreover, companies that fail to generate net profit, will find it difficult to continue with their business operations due to lack of funds to pay for their business expenditure. The discontinuation of business operations has a negative effect, not only for internal parties but also external parties such as staff or employees, shareholders, suppliers and the government as the party who receives statutory obligation costs. Analysis of the financial challenges faced by businesses is imperative to all external interested parties and potential stockholders prior to making decisions of investing their funds and other assets to prevent losses. A business that encounters financial challenges is identified by reduction or loss in the dividend payments to shareholders and continuous decrease in net profits and market share price.

Diana and Maria (2020) discovered that companies experiencing net profit growth can maintain competitive advantage in the market, attract more investors and develop the company operations. Net profit growth is another method of demonstrating benefits generated through maximum allocation and effective utilisation of company resources to achieve planned results. Companies are interested in net profit as it is used to calculate the profit margin which measures the mark-up percentage in comparison to its revenue generated from its operations. In their research Vuković, Milutinović, Mirović and Milićević (2020) concluded that one of the key objectives for existence of companies is maximisation of the net surplus growth, giving rise to an increased shareholders wealth. Effective utilisation of company's financial management is demonstrated by its ability to influence key decision makers to recognise factors that are important in enhancing net profit growth and overall performance as well. Potential investors are interested in understanding on how business operations are financed before making investment decisions. Additionally, the effect of the capital financing method on financial performance is therefore a great concern to potential shareholders to determine the level of return on their investments based on actual revenue generated by the business.

When the company finances its operations through debt or borrowings, shareholders' return will be considered low as the major portion of the net profit will be used to finance the debt or borrowings and its interest. Companies that finance their operations through their own revenue can grow the net profit, thereby increasing the shareholders' wealth and shareholders returns. Moreover, the financial performance of a company is evaluated by means of the net profit margin which companies achieve after considering revenue generated from operations. The ratio reveals the remaining profit after all overhead costs, interest and income taxes have been deducted from revenue generated from operations. It is therefore one of the best measures of the overall results of the company as it considers all the costs excluding the dividends payments (Ngoc, Tien Chau and Le Khuyen, 2021).

Factors that enhance net profit growth

Dirman (2020) states that effective management of companies' operational activities such as management of cash and expenses enhances the increase in the net profit growth that is needed to maximise the wealth of shareholders. Companies utilise their assets to generate revenue required to fund its operations. In addition, the revenue generated from its operations is off set against overhead costs to determine the net profit over a certain period. Net profit is also enhanced by maximising the efficiency of the business operations.

What constitutes net profit growth

Syriopoulos, Tsatsaronis and Gorila (2022) indicate that net profit comprises of gross revenue generated from the ordinary course of the business less operating expenditures incurred in the generation of revenue, interest payments on loans, statutory obligation costs and payments of dividends to shareholders. They further indicated that net profit in business and accounting is the income that is retained after deducting all cash expenses, non-cash expenses, interests on loan obligations, statutory obligation costs and payments of dividends to shareholders. According to Hasanaj and Kuqi (2019) net surplus which is referred to as retained income, indicates an amount of income after deducting business expenditures and other expenses such as interest on loans, statutory obligation costs and payments of dividends to shareholders over a particular financial period. Retained income is the final amount reflected in the statement of financial performance of a company. Consequently, it is considered as the company's ''bottom line'' number.

Jayathilaka (2020) argues that net profit is an important indicator for companies to evaluate as the increase in revenue does not automatically result in increased profitability. However, Hasanaj and Kuqi (2019) indicates that business costs that are considered in determining retained income and not operating profit includes repayments of capital loan, interests incurred on loans and other expenditure emanating from events such as legal costs. They further indicated that expenditure incurred on interests does not form part of operating expenses as indicated in the statement of financial performance since it represents interest expense on loans and credit purchases. Galasso (2022) reveals that the capital portion of debt is reflected as a deduction of total capital loan in the statement of financial position while interest incurred on loan is recorded as a deductible expense in the statement of financial performance over a particular financial period.

2.5.4 Effect of revenue growth on operating profit

Susila (2022) points out that the operating profit of BUMDes (Village Owned Enterprises) located in Banjar Sub-District is expected to decline due to high operational costs incurred and low revenue generated. This indicated management's inability to manage the enterprise's resources effectively and efficiently and to reduce operating costs. This implied that operating expenses were higher compared to the operating income, and therefore the operating results achieved were lower. The company played no role in increasing operating profit. Crespí-Cladera, Martín-Oliver and Pascual-Fuster (2021) conducted research study about the effect of natural disaster on the stock market prices of Spanish hospitality firms. The outcome of the research indicates that natural disasters affected stock market prices negatively and many firms in the hospitality industry faced difficulties in obtaining financial resources to maintain their operations. These resulted in hospitality companies generating low operating profit which threatened their sustainability in the market. Agrawal (2021) states that the pandemic outbreak highly disrupted the aviation sector adversely in India, threatening the sustainability of airline industry. The aviation industry experienced a decline in operating profit due to low revenue. Haas, Kuehl, Moran and Venkataraman (2020) indicate that restaurants in the United States of America are still struggling to grow their revenue and operating profit after the pandemic. The decline in operating profit was caused by the decline in revenue.

Research study by Endri, Sari, Budiasih, Yuliantini and Kasmir (2020) on factors that determines operating profit growth in food manufacturing companies registered in Indonesia stock exchange reveals that revenue growth and operating profit have a corresponding relationship. This implies that when revenue growth of a company increases, the operating profit also increases. Increase in revenue growth and revenue base enables the company to increase its operating profit without accumulating external capital. Companies experiencing an increase in the amount of revenue from one period to the next, which are backed by effective management of revenue, can increase operating profit. The food and beverage companies in Indonesia were able to grow revenue and earned operating profits by minimising operating costs and improving operational efficiency. Endri *et al.* (2020) further stated that operating profit is generated by the difference between revenue generated from business operations against the operational expenses paid by the business over a certain financial period. The growth in revenue and operating profit made the food and beverage companies more attractive to internal and external stakeholders. Additionally, Herison, Sahabuddin, Azis and Azis (2022) conducted a study on retail trading sub-sector companies registered in the Indonesia Security Exchange to determine whether the rate of revenue growth has any effect on the operating profit of the business. The study revealed that the rate of revenue growth has a direct relationship with the operating profit of a business. The study also found that when revenue generated from the ordinary course of business increases, operating profit also increases. However, collection costs have a detrimental effect on the profitability of large companies as they increase operational expenses which decreases operating profit.

Dirman (2020) conducted a research study to determine the effect of revenue on profitability and liquidity of Industrial and Chemical manufacturing sectors listed in Indonesia Stock Exchange. The study found that companies that generate high revenue can increase their operating profit which is required to safeguard the businesses from encountering financial distress. Other findings from the study indicated that when the revenue growth of companies increases, the operating profit also increases resulting in an increased shareholders wealth. Improvement in revenue growth and operating profit gives rise to continuous operation of the business in carrying its activities.

Whereas Rohmadini, Saifi and Darmawan (2018) indicated that if the amount of revenue growth and operating profit of the company increases, it will be impossible that the business will face financial difficulties. Nguyen and Nguyen (2020) conducted a research study to identify relationship between financing structure and profitability of businesses registered in Vietnamese Security Exchange and found that expanding the operations of the company is important to strengthen the revenue growth and operating profit needed to sustain competitive advantage of companies and dominate the market share. The study also showed that there is a direct relationship between revenue growth, operating profit, and the size of a company. It was further indicated that companies that finance their operations using the debt equity find it difficult to sustain their operations as the capital repayments and interests charged on debt obligation has an adverse effect on cash coverage and sustainability of the business. In addition, financing the operations through debt equity poses a risk of the company undergoing liquidity and solvency as it reduces the operating profit.

According to Domashenko (2021) both automobile manufacturers such as BMW and Telsa adopted an innovative strategy of eco free environment. The implementation of the strategy resulted in revenue growth and operating profit. Technological innovation strengthened the companies to maintain a competitive advantage and increase customer base resulting in the growth of their operating profit. However, Weitzman, Nakamoto, ZXhang, Haxo and Mat (2023) indicated that revenue of Tesla company is growing rapidly. Its operating profit is also expected to grow faster due to the expected increase of business revenue in the future period. The company is expected to generate a total revenue amount of $10.3 billion, and the value of market share is likely to increase by

$0.85 in the first quarter of 2023. The revenue growth of electric automobile industry had been influenced by legislative prescripts governing the industry, increase in gasoline prices and lastly the increase in environmental air pollution.

Endri *et al.* (2020) contend that the growth of company operating surplus is only realised when companies implement and execute their operations effectively and efficiently to facilitate a high revenue growth in the food and beverage sector. The revenue of companies comprise of revenue generated from the sale of goods and services on cash and credit purchases. In addition, revenue growth can be used as a tool to project the targeted growth in operating surpluses. Revenue growth has a severe impact on the growth of business operating surpluses. The outcome of the study further indicated that companies could achieve increased revenue growth without depending on external funding if its revenue growth increases. The study concluded that companies that experience an increase in revenue growth consistently due to effective management of revenue can increase operating profit. Businesses that encounter growth in revenue periodically due to effectiveness and efficient management of sales, can maintain the growth of business operating surpluses continuously.

Devi, Warasniasih, Masdiantini and Musmini (2020) conducted a study which suggests that revenue growth generated by companies and its inability to settle for outstanding debt obligations due to insufficient funds has negative impact on the operating profit of companies. A decrease in the revenue growth results in the decrease in capital value of companies. Whereas, lower revenue growth affects the company's potential to settle for its operating expenditure resulting in a loss generated from operations.

Moreover, Oladipupo and Azeez (2022) emphasises that growing revenue enhances operating profit of listed brewery companies in Nigeria. Revenue could be generated from trading goods and services on cash, credit, and payment in advance. Nonetheless, businesses would want to always sell products or provide services for cash. Receivables therefore contribute to a growth in revenue volume, which has the potential to change the amount of revenue generated by business operations. Revenue from sales may be generated through cash or credit purchases of goods and services using account receivables which the cash inflow from the debtors will receive in the future. Credit sales are purchases made by clients who have delayed payments, increasing the possibility of losses from bad debts.

According to Devi, Warasniasih, Masdiantini and Musmini (2020) companies listed in the Indonesia Stock Exchange and Jakarta Stock Exchange purchases goods and services on credit and sell them to customers on cash and credit to boost their revenue growth and operating profit. The higher receivable turnover results in greater revenue growth and profitability while lower receivable turnover affects revenue growth and profitability negatively. On the other hand, the decrease in revenue growth will result in lower profitability. The equity financing of the company also declined due to high business expenses incurred resulting in the reduction of retained income. Insufficient revenue generated by the company minimised its ability to settle for all expenses needed for their business operation resulting in loss of income for the company. The decline in sales revenue value in the industrial sector certainly impacted the company by lowering net profit.

Domashenko (2021) claims that Spanish clothes retailer Zara clothing retail outlet located in Spain introduced a digital visual elements application technology that allows consumers to scrutinise how particular clothes would appear prior to purchases and the implementation of technology influenced the sale of products and the operating profit of the company positively. The company experienced growth in revenue and operating profit due to benefits provided by the technology such as enhancement of product features and benefits, improvement of operational management, increasing and maintaining competitive advantage of the company over its competitors, strengthening production and sales management, improving operational efficiency of the organisation, and decreasing negative impact caused by the company on the environment in which it operates. It was further indicated that for a business to maintain revenue growth and operating profit, companies should continuously enhance their products or services and introduce new product lines in the consumer market. They further investigated the performance of Nokia and Kodak companies and found that these companies failed to keep abreast with change and competition in the market and subsequently discontinued their operations due to lack of innovation on their products and services. These companies experienced decline in revenue which affected operating profit growth negatively and as a result were unable to continue with their business operations. It was also found that competitiveness and implementation of innovative strategies causes the prices of goods or services to increase resulting in increased revenue and operating profit. Moreover, competitiveness and implementation of innovative strategies maintained by companies enables them to increase prices of products and services offered resulting in the improvement of sales and operating profit. Furthermore, businesses with strong innovative technologies in advertising and promoting company products and services can expand customer base through the introduction of branding awareness to new customers.

Zinina, Dalisova and Olentsova (2020) evaluated companies that are manufacturing bread and bakery products in Kransnoyarsk region located in Russia and the study revealed that companies within this sector experienced a decline in the income level of the consumers due to lack of innovations in their operations. The companies implemented an innovative strategy by upgrading the existing equipment which resulted in the increase in volume of revenue received from sale in the period under consideration in relation to prior financial years. Both revenue and operating profit increased thereby enabling the company to enhance and expand its operations.

Companies that are failing to implement advanced technology of managing inventory experiences poor sales and low operating profit for their products. Lack of technology slow down the purchasing power of customers due to inability of consumers to access company products and services timeously. Consequently, consumers resorted to acquire substitute products and services or purchases the products and services from other competitors. Further investigations revealed that companies in the food manufacturing industry in Nigeria are experiencing difficulties in managing and sustaining their customer base, due to lack of adequate inventory system which is required to assist in ordering, monitoring, and managing of inventory and proper advertising and promotion to market the products. Lack of adequate inventory system poses a challenge to companies of holding inventory over a longer period which result in the decline of sales revenue and increase in inventory holding costs. All these factors resulted in companies generating low revenue which resulted in the decline of operating profit (Sonko and Akinlabi, 2020)

Suryani, Zysman, Akhyar, Sinta and Ilham (2023) argued that PT Semen state owned enterprise registered in Indonesia Security Exchange failed to manage its operational costs effectively resulting in the decline of profit generated from actual operations of the business. The company subsequently increased its income from sales in 2020. In addition, the statement of financial performance of the company also indicated that its financial strategy was less effective in providing long-term profitability due to fluctuations in cost of sales for the financial period 2020 and 2021 resulting in the fluctuation of the company's profitability in the same financial period. As a result, no effect on revenue growth and operating profit.

2.5.5 Effect of revenue growth on net profit

Onsongo, Muathe and Mwangi (2020) emphasised that companies listed in the trade and services category of the Nairobi Stock Exchange (NSE) have been unable to grow their revenue and net profit due to the downward trend in the performance of their business operations. Consequently, the companies were unable to settle all their operational expenses when they occur. For companies to yield net profit, they need to generate more revenue and be able to pay all their commitments. These businesses were unable to manage and control their operational costs effectively and efficiently. They were unable to maintain their expenditure level effectively and efficiently in order to reduce their operating expenses. The study conducted by Gharaibeh, Saleh, Jawabreh and Ali (2022) indicated that net profit is the key indicator for analysing the financial strength of a company and signifies the net income retained after the total operating expenses, interest and taxes are deducted from gross income of the business.

Afiezan, Wijaya and Claudia (2020) states that the debt for PT. Gunawan Dianjaya Steel manufacturing companies located in Indonesia continued to increase from 2016 to 2018 financial year and consequently, business suffered significant financial losses. In 2019, the company raised its debt by 85 percent and started to experience loss in net profit due to the increase in debts. According to Adiyanto (2021) the company is a legal entity that execute its business operations to generate a profit. An increase in the level of competition in consumer market renders other companies that lacks competitive advantage unable to compete and consequently suffers financial difficulties, which in turn result in the discontinuation of business operations. Companies that incur losses will not be able to pay dividends. It can be concluded that revenue growth and profitability is a serious challenge facing companies globally.

Nariswari and Nugraha (2020) assessed how much impact the Net Profit Margin, Gross Profit Mark-up percentage of total sales and total revenue generated in comparison to average total assets had on profit growth in the plastic manufacturing sector of companies registered in the Indonesia Security Exchange. The assessment showed that companies within the sector experienced low revenue growth which gave rise to decline in net profit, increase in financial obligations and ineffective utilisation of resources to generate profit which had adverse effect on shareholders' confidence in the performance of the business thereby increasing investment risk of the company. Consequently, the overall net profit of companies was deemed low and tend to decline continuously. The decline in revenue had negative impact on the net profit of companies. Companies that can manage operational expenses as well as non-operational expenses are able to grow sales revenue and increase net profit.

Le, Mai and Nguyen (2020) investigated the factors that determine profitability of construction companies registered in Vietnam security exchange. The study revealed that revenue growth affects net surplus of the business positively. Furthermore, the revenue growth is measured by the continuous growth of revenue after deducting the associated expenses. An improvement in sales revenue will result in the maximisation of net profits of companies. It was further indicated that revenue growth is a significant indicator reflecting the development of companies. In addition, net profit of a company is affected by various elements such as capital financial structure, equity and debt securities, magnitude, and period in which the business has been in existence. Therefore, the establishment of various elements affecting the shift in net profit of companies is crucial to management and stockholders to implement standards and procedures that will maximise performance measurement of the organisation.

Link (2019) claims that revenue growth is crucial to companies as it enables businesses to pay for their overhead costs, maintain existing operations and generate net profits required to pay for shareholders returns and increase investor's wealth. In addition, companies should develop and implement a strategic guideline that helps to maintain revenue growth which give rise to increase in net profit that is needed to sustain long-term financial returns of shareholders. As such, Bas and Aksoy (2022) examined correlations that exist between the revenue generated from storage of cargo, revenue generated from non-core products of the airlines and net surpluses of Turkish commercial airlines, American commercial airlines, and Delta commercial airlines. It was found that maximisation of revenue generated from storage of cargo and non-core products of the commercial airlines resulted in the increased net surpluses of commercial airline companies. However, study conducted by Oladipupo and Azeez (2022) on Consumer Good Firms listed in Nigeria believes that an increased market share of companies enhances greater balance of operations which results in increased net profit. The increase in market shares also gives rise to an increased net profit. The high volume of sales revenue on company products and services implies that the business is operating effectively and efficiently which results in the maximisation of shareholder's wealth. This increase in market share had an effect in the increase of net profit of the firm.

El Beshlawy and Ardroumli (2021) conducted a study on how the international global recession in 2008 affected companies' revenue and net profit. The study indicates that the crisis affected revenue growth of companies negatively which in turn had an adverse effect on net profit resulting in the loss of shareholders returns. Moreover, Baloğlu and Çakali (2023) indicates that dishonest decisions by Enron stakeholders such as shareholders, audit committee, management and auditors necessitated the decline in revenue required to fund the company operating costs which ultimately caused the company to operate at a net loss and subsequently collapsed its operations, resulting in significant losses of shareholders' returns and other stakeholders who had vested interest in its operations.

Ikpesu (2019) researched on companies within the manufacturing sector listed in the Nigerian stock exchange and resolved that companies experienced financial distress due to lack of revenue growth required to compensate its overhead costs and shareholders' returns for their investments. Failure by companies to increase their revenue had an adverse effect on the net profit, which is needed to increase the shareholders' wealth and expand the business operations. The decline in revenue growth led to the increase in financial burdens and deterioration of business operations which subsequently resulted in liquidation and bankruptcy. Therefore, revenue growth of companies has a positive effect on the net profit which is necessary to increase the market share price and shareholders' returns. The study further indicated that a continuous decline in revenue growth resulted in net loss, decrease in share price and shareholders returns, discouraging the prospective investors to invest in the companies.

According to Sonko and Akinlabi (2020) net profit is the key objective which financial management function strives to achieve since its main goal is maximisation of the shareholders' value. It is the income portion that is available for payments of dividends to shareholders in the company. It was further indicated that companies that do not generate net profit are unable to pay dividends for its shareholders and enhance or expand its operations. As a result, companies that generate high net profits have the potential to compensate their shareholders with greater dividend payments on share capital investments made in the company. The main important aim of companies is the generation of adequate net surpluses to sustain their operations and remains competitive in the prevailing market conditions. Furthermore, Ernayani, Fauzan, Yusuf and Tahirs (2022) believes in their research study on the relationship that exist between sales revenue, operating costs, and profitability of copyright Cirebon Cipta graphic printing company. The outcome of the research study revealed that sales generated from actual operations of the business and operational costs have major effect on profitability of the business. Thus, businesses generating low revenue and incurring maximum amount of operational costs will give rise to low profitability. Consequently, a company with high revenue and low operational costs will enhances high profitability. Additionally, Bagina (2020) examined and evaluated the statement of balance sheet of Anglogold limited in Ghana. The study emphasised that net retained surplus provides important measurements of the performance of a firm since it refers to the net income after deducting all direct and indirect costs against revenue of the company. Shareholders and potential investors are interested in net profit as it represents a major feature of its operational results over a certain period. A high net profit is necessary for the company to increase its revenue through enhancement of existing operations and business expansions.

Research study conducted by Ramdhani (2021) to determine the impact of sales revenue on net income of retail trade sub-sector registered in Indonesia Security Exchange indicates that revenue generated from sales of goods and costs incurred in the generation of sales revenue have a greater impact on net surplus of companies. As such, Maverick (2021) argued that an increase in revenue of a company does not result in high net profit.

They further indicated that an increase in revenue can give rise to a decrease in net profit if the overhead costs associated with the generation of revenue increases. Overhead costs resulting from the business operations affect the revenue growth negatively which subsequently decreases the net profit. The increase in revenue can only give rise to an increase in profitability if the overhead costs associated with company operations are maintained at a lower level.

Ayeni-Agbaje, Ogunmakin, Adebayo and Olaoye (2023) conducted a study about the effect of capital financing on revenue growth and net profit of consumer goods companies listed in the Johannesburg Stock exchange of South Africa. The study found that companies that finances business activities through retained earnings increases revenue growth and net profit. It was further indicated that short-term and long-term debts are the appropriate capital sources that could be considered for effective revenue growth and net profit of consumer goods firms in South Africa.

2.6 SUMMARY OF THE CHAPTER

This chapter presented the theoretical framework adopted in this study. The stockholder theory highlights that social responsibility of businesses is to maximise profit. The stockholder theory illustrates the importance of utilising companies' assets and finances and engaging in business activities aimed at increasing the profit of a company if the company operates within accepted laws and regulations without involving itself in biasness or fraudulent activities. From the reviewed literature, it can be indicated that some contrasting studies pointed out that there is a direct relationship that exist between revenue growth and profitability of companies and other literatures argued that companies experiencing revenue growth do not necessary guarantee an increase in profitability. Therefore, a study such as this is necessary to carry further investigation to determine if an increase in revenue growth give rise to an increase or decrease in profitability. The next chapter discusses research methodology of the study.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 INTRODUCTION

The aim of this study is to assess and evaluate the effect of revenue growth on profitability of companies listed in the Johannesburg stock exchange socially responsible Index. To achieve this objective, it is crucial to apply suitable research methods that will provide adequate responses to the research questions. This chapter provides a detailed analysis of the research methodology applied in this study. The research methodology outlines the research design and method appropriate for the study, the targeted population, sample size, data collection, data analysis and explanation of variables used in the study. Research methodology is crucial to the study as it enables the researcher to obtain appropriate data needed to achieve research objectives.

3.2 RESEARCH PARADIGM

Research paradigm is a shared worldview that expresses principles and values in a field and guides how to solve problems. The research paradigm for this study will be positivism as it measures the dependent and independent variables that are verifiable. The positivism approach also assists researchers to provide outcomes that are reliable, valid and of high-quality standards. In addition, positivism assumes that reality or truth is independent of individuals and support the idea of objectivism (Alharahsheh and Pius, 2020). The positivist paradigm is justified for this research because the study made use of quantitative data to assess and evaluate the correlations between the independent (Revenue Growth) and dependent (Operating and Net profit) variables, which are consistent with the positivist research paradigm (Ramli, Omar, Ahmad and Leh, 2019).

3.3 RESEARCH DESIGN

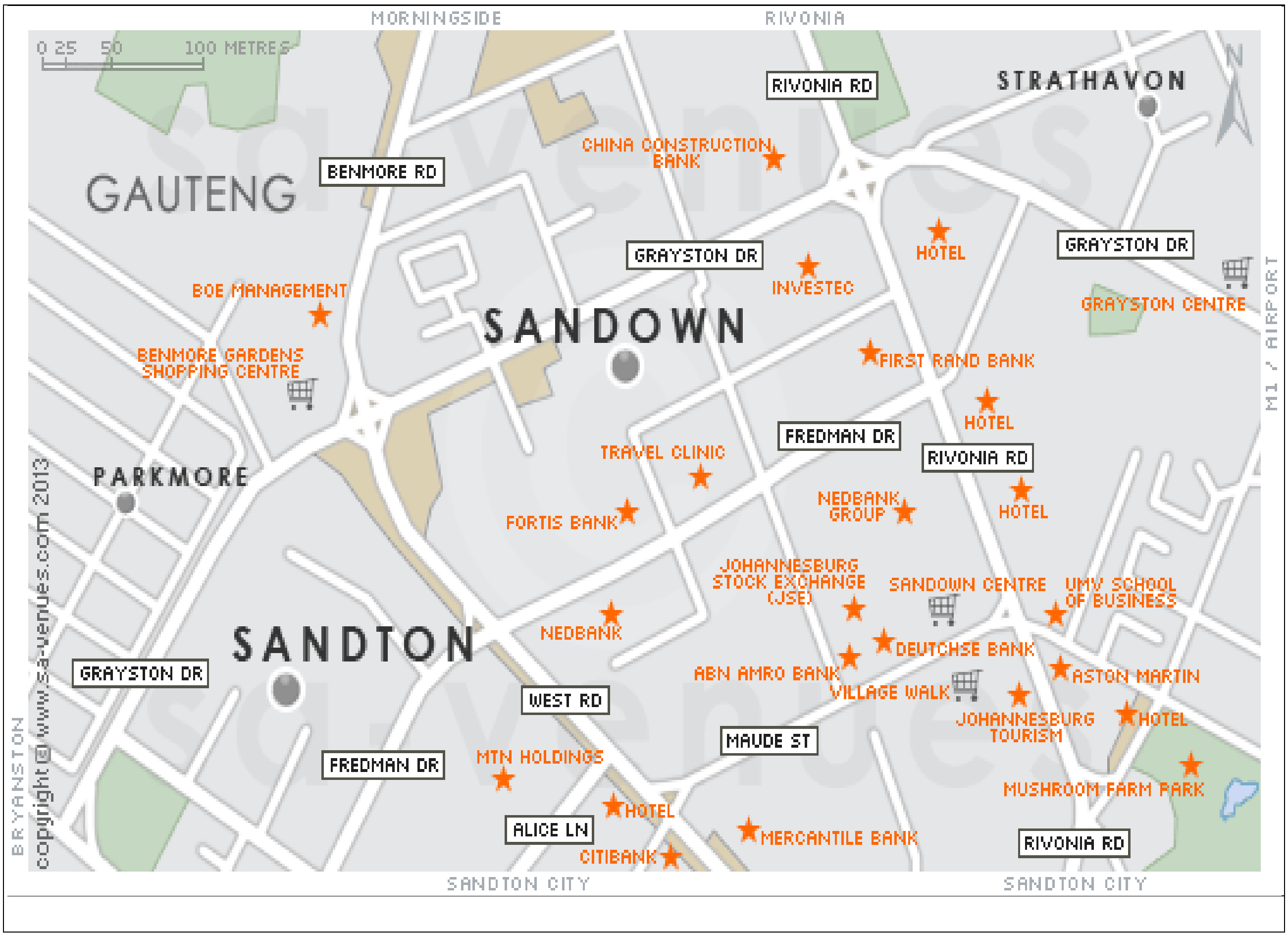
According to Asenahabi (2019) research design is the process in which the researcher established the layout of the plan to gather information or data. There are different types of research design, which includes descriptive case study, survey, correlations, experimental and semi-experimental. This study made use of correlational design to determine the relationship between the two quantitative variables, revenue growth and profit (Operating and Net Profit) of companies. This research design was considered appropriate for this study because it measures the relationship between two quantitative variables, profit and revenue growth, (dependent and independent variables). Correlational design is required to determine the relationship between two variables and how they influence one another.

3.4 RESEARCH METHOD AND JUSTIFICATION

Alharahsheh and Pius (2020) define research method as procedures followed by the researcher in collecting and analysing data to measure the correlations between independent and dependent variables which are revenue growth, operating profit and net profit, respectively. There are three main research methods that the researcher can consider, which are Qualitative, Quantitative and Mixed methods. Marczyk, DeMatteo and Festinger (2021) state that qualitative research is a research approach, which does not measure the researcher's results through statistical analysis. Qualitative studies involve interviews and observations without quantifying the results. Asenahabi (2019) described quantitative research as an approach where research is conducted to test variables measured with numerical figures and evaluated using statistical procedures to establish the outcome of relationship that exist between the dependent and independent variables. However, mixed method entails collecting, analysing, and combining quantitative and qualitative data in a single study (Leavy, 2022). This study will utilise descriptive quantitative research method as this method is in alignment with the research paradigm, which deals with the quantitative measurement of variables and correlational research design. Quantitative method is also applicable to this research because the variables contained in the research objectives are quantitative financial variables (Revenue and profit)

3.5 STUDY AREA

The Johannesburg Stock Exchange (JSE) is situated at 1 Exchange Square, 2 Gwen Lane, Sandton, Johannesburg, South Africa. It is the largest stock exchange in the African continent. The JSE provides post-trade and regulatory services in addition to a wide range of securities offered in primary and secondary capital markets. For local and international investors who want to get information, on the capital markets in South Africa and African continent, the JSE is the market of choice. To aid in the funding of South Africa's first gold rush, the JSE was founded in 1887. JSE offers trading opportunities on Company equities, bonds and derivatives on currencies, commodities first and interest rates (Nhleko, 2022).



Source: (Nhleko, 2022)

Figure 3.1: Location of the study area

3.6 TARGET POPULATION

According to Ganesha and Aithal (2022) target population is defined as a total large group of people, object or items by which a researcher seeks to obtain data for the study and make a conclusion based on the selected sample of the total targeted population. Targeted population in this study is the top thirty (30) companies listed in the FTSE/JSE's Socially Responsible Investing Index with the reporting period ending 2020/2021 financial year as it is the latest information available in the JSE's data base at the time of conducting the research.

3.7 SAMPLING AND SAMPLING TECHNIQUE

According to Alharahsheh and Pius (2020) sampling is a process of selecting a sample size of few people, items or companies within the defined targeted population to draw conclusion on the characteristics of the entire targeted population. The sample for the content analysis phase of the study comprised the audited annual financial statements for companies listed in the FTSE/JSE's Socially Responsible Investing Index from the latest statistics. Only the audited annual financial statements from 2020/2021 financial year will be assessed and evaluated. Ganesha and Aithal (2022) defines non-probability sampling as a sampling that is related with a case study research design and focuses on small samples. They further defined a purposive sampling as a strategy in which people or items are purposefully chosen to convey essential information that is not available through other options and will be meaningful for the study.

Non-probability sampling technique which is the purposive sampling will be used in this study to select a sample of companies from the FTSE/JSE's Socially Responsible Investing Index. The rationale for selecting the purposive sampling technique is that the technique allows the researcher to focus on a specific trait of a population that is of their interest (Ganesha and Aithal, 2022). The purpose and interest of the researcher is to select companies with the highest market capitalisation from different category of industries.

3.8 SAMPLE SIZE

According to Ganesha and Aithal (2022) a research sample size is a subset of the total population chosen to adequately represent the same population. In this study, a sample size is defined as a number of participants selected from a given population to predict the behaviour of the whole population. Due to a homogeneity of the sample size, the researcher will select five (5) companies from the top thirty (30) listed companies in the FTSE/JSE's Socially Responsible Investing Index with high market capitalisation from different category of industries.

3.9 DATA COLLECTION APPROACH

According to Musango and Rusibana (2021) data collection is the method of collecting and assessing data on variables of interest to answer research questions and evaluate results.The proposed data collection method for this study will be secondary data, which will be sourced from audited annual financial statements of the selected sample of companies listed in the FTSE/JSE's Socially Responsible Investing Index. The audited annual financial statements will be obtained from FTSE/JSE's database and selected companies' websites. Financial performance data namely revenue growth, operating profit and net profit will be collected from the audited annual financial statements.

This approach is considered because secondary data collection from audited financial statements are considered valid and reliable because the financial data have been audited by qualified chartered accountants before publication for public use, and also verified and accepted by the JSE (Krippendorff, 2018). In addition, the data is freely and readily available for public use thus making the research cost effective and time less consuming. Data was collected over a period of ten years starting from 2011 to 2020. This will give a total panel data of fifty (50) observations, which is 5 companies times 10 years of data.

3.10 DATA ANALYSIS

The researcher used the data analysis section to assess and evaluate the effect of revenue growth on profitability of the sample selected from companies listed in the FTSE/JSE's Socially Responsible Investing Index. SPSS is a windows-based program that will be used to perform data entry and create tables, graphs, correlation, regression analysis and data analytics. Simple Linear Regression analysis will be used to measure how much influence the independent variable has on the dependent variable (Alharahsheh and Pius, 2020). Regression analysis will be used to see the value that is influencing the other and because the variables are quantitative variables. Regression analysis was used to measure the influence of independent variable on the dependent variable, and it uses numerical variables. In addition, regression analysis contains the correlation coefficient which determine the strength of the relationship.

Statistical analysis

The researcher used the SPSS to conduct a regression analysis of the data to measure the relationship between companies' revenue as the independent variable and operating and net profit as the dependent variables. Data will be analysed using the simple linear regression analysis to determine the effect of revenue growth on profitability. The statistical analysis model for the two research objectives were as follows:

Objective 1

$\hat{y} = \alpha + \beta x + e$

Where: $y =$ operating profit

(In accounting, operating profit is gross profit plus other income minus operating expenses)

Objective 2

$\hat{y} = \alpha + \beta x + e$

Where: $y =$ net profit

(In accounting, net profit is operating profit minus interest and tax)

Other indicators in the two models are:

$\alpha =$ constant

$\beta =$ coefficient

$x =$ revenue

$e =$ error term

Independent variables

Revenue is the independent variable of this study.

Dependent variables

The study used two dependent variables, which is operating profit and net profit.

3.11 RELIABILITY AND VALIDITY OF THE DATA

Reliability emphasises that findings should be specific to a particular time and place, and that explanations should be applied consistently throughout the data (Lemon and Hayes, 2020). According to Leavy (2022) reliability refers to the consistency of results. In this study, reliability of the study was achieved by using secondary data which is accurately reported in the FTSE/JSE's database and companies' websites. The goal of reliability is to provide consistency, stability, and the researcher's capacity to accurately capture data. Data used in this study is reliable as it will be obtained from reliable and verifiable source. Data will be obtained from FTSE/JSE's Socially Responsible Investing Index website and audited annual statements downloaded from companies' official websites. Data used in this research is therefore believed to be both reliable, transparent, accurate and dependable as the information was audited by independent external auditors.

Lemon and Hayes (2020) states that validity is a criterion that assesses if the researcher has established and expressed a level of confidence in the findings based on the subject matter under the study. Furthermore, validity is defined as the method by which a researcher substantiates the accuracy of his or her results by formulating and implementing specific procedures. In this study, validity was tested obtaining the audited annual financial statements from the companies listed in the FTSE/JSE's Socially Responsible Investing Index with high market capitalisation from different categories of industries. The financial statements are audited by independent auditors to ensure that they are free of errors or omissions. To ensure validity of data in this research, only audited annual financial statements of companies listed in the FTSE/JSE's database were used. FTSE/JSE's database information appear to be valid as they are audited, reviewed, and approved by board of directors before the publications.

3.12 ETHICAL CONSIDERATIONS

The following ethical considerations were applied in this study:

Permission to conduct the study and ethical clearance from the school: The proposal for this study was presented at the University of Limpopo, Faculty of Management and Law, Turfloop Graduate School of Leadership for further review before approval by Turfloop Research Ethics Committee (TREC).

Permission to conduct research: The study assessed and evaluated published financial data of companies listed in the JSE. The data is secondary and was collected from verifiable sources such as JSE database and selected companies' websites. Therefore, the researcher did not consider human interaction during data collection.

Informed consent: There were no interactions between the researcher and the participants. Therefore, there was no need for the researcher to request informed consent from the participants.

Privacy and confidentiality: There was no risk of disclosure of confidential information as data were collected from the JSE database and companies' website which are freely available for public consumption.

No harm: There was no harm created on using the content analysis of the audited annual financial statements.

Acknowledgement of resources used: Data were obtained from companies' annual financial statements that were already published in the companies' websites and FTSE/JSE database. The information is not copyrighted. However, the researcher did not use the information for personal gain. The researcher acknowledged the financial data used and employed appropriate referencing methods.

Professionalism and honesty: The researcher examined data, drew findings, made recommendations and conclusions in an honest and accurate manner. The researcher displayed the required competency and expert knowledge in assessing the audited AFS.

3.13 SIGNIFICANCE OF THE PROPOSED RESEARCH

This study is relevant because it aimed at contributing to the effect of revenue growth on profitability about companies listed in FTSE/JSE's Socially Responsible Investing Index. The present study is of importance to shareholders as well as managers of the different JSE listed companies in the sense that the findings would help them achieve the growth objective of their businesses by focusing more on the factors that were found to affect their businesses positively, thus making them successful. All stakeholders are interested in firm performance for their rate of returns to determine whether the organisation would be able to sustain its operation, grow revenue and profitability. Findings of this study would, therefore, be beneficial to various stakeholders of JSE listed companies to grow their revenue and profitability to remain competitive in the market. The knowledge on the effect of revenue growth on profitability in their business will help the management as well as other stakeholders in making policies and decisions that will help the business to achieve high revenue growth and profitability.

3.14 SUMMARY OF THE CHAPTER

This chapter focused mainly on the methodology of the study which includes data analysis method and technique that are applied in the study. This study made use of correlational research design to determine the correlations between the two quantitative variables, revenue growth and profit (Operating and Net Profit) of companies. This research design is considered appropriate for this study because it measures the relationship between two quantitative variables, profit and revenue growth, (dependent and independent variables). The researcher selected five (5) companies from the top thirty (30) listed companies in the FTSE/JSE's Socially Responsible Investing Index with high market capitalisation from different categories of industries. Data were collected over a period of ten years starting from 2011 to 2020. This would give a total panel data of fifty (50) observations, which is 5 companies times 10 years of data. In addition, this chapter discussed the simple linear regression to analysie and interprete data from five (5) selected companies. The next chapter discusses the data analysis, findings on reasearch objectives and discussions.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSIONS

4.1 INTRODUCTION

The previous chapter discussed research methodology, research design, research paradigm, research method, data collection approach, population, sample and sampling technique, the definition of dependent, independent and control variables. Sources of data, data analysis, reliability and validity were also discussed in detail. This chapter presents the results of data analysis based on research hypotheses. SPSS program was used to gather and analyse the data. Tools such as Pearson Correlation and Pearson Coefficient were used to authenticate (unbiased outcome) the results. Analysis of variance was used to test the hypotheses (ANOVA). A simple Linear Regression Model was used for modelling the correlation between dependent and independent variables.

4.2 DATA PRESENTATION

4.2.1 Research objectives

Objectives of the research study are outlined below:
Objective 1: To analyse the effect of revenue growth on operating profit.
Objective 2: To evaluate the effect of revenue growth on net profit.

4.2.2 Research Hypothesis

The following are the hypothesis for the research study.

Revenue growth on operating profit

H_0: there is no linear relationship between revenue growth and operating profit.
H_1: there is a linear relationship between revenue growth and operating profit.

Revenue growth on net profit

H_0: there is no linear relationship between revenue growth and net profit.
H_1: there is a linear relationship between revenue growth and net profit.

4.2.3 Research model

The statistical analysis model for the two research objectives is as follows:

Objective 1

$\hat{y} = \alpha + \beta x + e$

Where: $y =$ operating profit

(In accounting, operating profit is gross profit plus other income minus operating expenses)

Objective 2

$\hat{y} = \alpha + \beta x + e$

Where: $y =$ net profit

(In accounting, net profit is operating profit minus interest and tax)

Other indicators in the two models are:

$\alpha =$ constant

$\beta =$ coefficient

$x =$ revenue

$e =$ error term

4.3 PANEL DATA ANALYSIS

Secondary data used for testing the objectives of the study was obtained from companies listed in the FTSE/JSE's Socially Investing Index audited annual financial statements (AFS) as published on their websites. In analysing the relationship between the two variables being revenue growth and profitability (operating profit and net profit), secondary data was employed. The first five (5) companies from the top thirty (30) listed companies in the FTSE/JSE's Socially Responsible Investing Index with high market capitalisation from different categories of industries were selected. Sample data included audited annual financial statements extracted from companies' websites over a period of ten years starting from 2011 to 2020. Data was collected from the five (5) selected companies, which is 5 companies times 10 years financial periods, giving a total panel data of fifty (50) observations. Data was presented in the form of a worksheet as indicated below.

Table 4. 1: Data collected from companies audited AFS

NAME OF COMPANY	FINANCIAL YEAR	SALES REVENUE	OPERATING PROFIT	NET PROFIT
		R' million	R' million	R' million
1. COMPAGNIE FINANCIERE RICHEMONT AG	2011	686	135	107
	2012	842	192	146
	2013	130 187	31 117	25 717
	2014	144 286	34 938	29 755
	2015	147 523	37 837	18 905
	2016	180 286	33 547	36 249
	2017	710	118	81
	2018	171 947	28 791	19 064
	2019	866	120	173
	2020	762	81	50
2. ANGLO AMERICAN PLATINUM	2011	51 484	7 965	3 687
	2012	43 148	- 6 334	- 6 720
	2013	52 822	1 968	- 1 514
	2014	55 626	843	372
	2015	59 829	- 6 325	- 12 435
	2016	61 976	4 559	696
	2017	65 688	6 574	1 924
	2018	74 582	10 821	6 993
	2019	99 571	26 814	18 569
	2020	137 804	39 723	30 403
3. BRITISH AMERICAN TOBACCO PLC	2011	179 072	54 900	39 247
	2012	1 170	417	317
	2013	230 560	83 491	63 442
	2014	249 498	81 184	60 593
	2015	255 857	88 976	88 293
	2016	294 790	93 027	96 705
	2017	1 143	374	2 199
	2018	432 014	164 272	109 538
	2019	1 405	490	318
	2020	1 227	474	312
4. BHP GROUP PLC	2011	9 943	4 410	3 278
	2012	8 605	3 004	1 889
	2013	636 499	202 686	108 311
	2014	5 742	2 161	1 277
	2015	3 517	683	216
	2016	1 948	191	- 21
	2017	2 688	944	503
	2018	571 407	211 928	102 599
	2019	639 944	232 826	137 560
	2020	2 623	881	534
5. ANGLO AMERICAN	2011	4 238	1 469	1 098
	2012	3 502	- 195	- 69
	2013	283 174	23 229	4 111
	2014	2 499	13	- 141
	2015	1 612	- 324	- 460
	2016	1 458	114	131
	2017	1 973	416	305
	2018	365 799	80 407	57 937
	2019	431 610	89 241	94 963
	2020	1 888	344	382

Source: https//www.richemont.com, http://www.angloamericanplatinum.com, https://www.bat.com, https://www.bhp.com and https://www.angloamerican.com (2023)

4.4 STATISTICAL MODELS AND TESTS

This section presents descriptive statistics test, scatter plots, two t-tests and regress test. The Pearson Correlation Coefficient was used to determine relationship between the dependent variable (Sales Revenue) and independent variables (Operating and Net profit) (Model summary). Analysis of Variance (ANOVA) was used for two reasons: (a) to determine if there is a linear relationship between sales revenue and operating profit and (b) whether there is a linear relationship between sales revenue and net profit. The null hypotheses specifies that there is no difference between revenue growth and profitability. ANOVA test was, therefore, used to either accept or not accept the null hypotheses. A Linear Regression Model was then used to illustrate the relationship between dependent and independent variables.

4.5 DESCRIPTIVE STATISTICS

Table 4. 2: Descriptive statistics on sales revenue, operating profit and net profit

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Sale Revenue	50	686	639944	122160	172629
Operating Profit	50	-6334	232826	33510	58448
Net Profit	50	-12435	137560	22951	38000
Valid N (listwise)	50				

Source: Statistic outcome of descriptive statistics from SPSS (2023)

Table 4.2 above provided a summary of descriptive statistics of the dependent (Revenue) and independent (Operating and Net Profit) variables of the selected companies. The results show minimum value, maximum value, mean and standard deviation for sales revenue, operating profit and net profit. The independent variable which is sales revenue takes values between 686 and 639944 with the standard deviation of 172629. The response variables which are operating profit and net profit takes values from -6334 to 232826 and -12435 to 137560, with a standard deviation of 58448 and 38000 respectively.

This research study indicates that the number of audited annual financial statements were 50 for 5 companies listed in the FTSE/JSE's Socially Responsible Investing Index selected from luxury goods, tobacco, multinational mining and metal industrials over 10 years. In terms of the first test, the mean for sales revenue as independent variable was 122160 whereas the mean for operating profit as dependent variables was 33510. For the second test, the mean for sales revenue as independent variable was 122160 whereas the mean for net profit as dependent variable was 22951. The result showed that sales revenue has the most robust growth rate as compared to operating and net profit in companies listed in the FTSE/JSE's Socially Responsible Investing Index for the period 2011 to 2020.

According to the statistical information provided in this research study, the first test results indicated the independent variable (sales revenue) as 172629 and dependent variable (operating profit) as 58448. In terms of the second test, the results showed independent variable (sales revenue) as 172629 and dependent variable (net profit) as 38000. The standard deviation for independent variable (sales revenue) 172629 is more than the average mean of dependent variables (operating profit and net profit) which is 33510 and 229517, respectively. Large value of standard deviation means that the data is spread far away from the mean, the implication is that independent and dependent variables which are sales revenue, operating profit and net profit will spread far away from the mean. This suggests that sales revenue is yielding to low profitability. In addition, the standard deviation for operating profit is 58444, which is more than the mean of 33510. This means that the operating profit is widely distributed. The standard deviation for net profit of 38000 is also more than the mean of 22951. This indicates that the operating profit is widely spread.

The research study further indicated the minimum and maximum values for independent variable (sales revenue) to be 686 and 639944, respectively. The minimum and maximum values for dependent variables (operating and net profit) ranges from -6334 and 232826; -12435 and 137560 respectively. These figures represent the minimum and maximum value of data within the sequence of independent and dependent variables. The next section discusses the two-sample t-test results.

4.6 DATA ANALYSIS

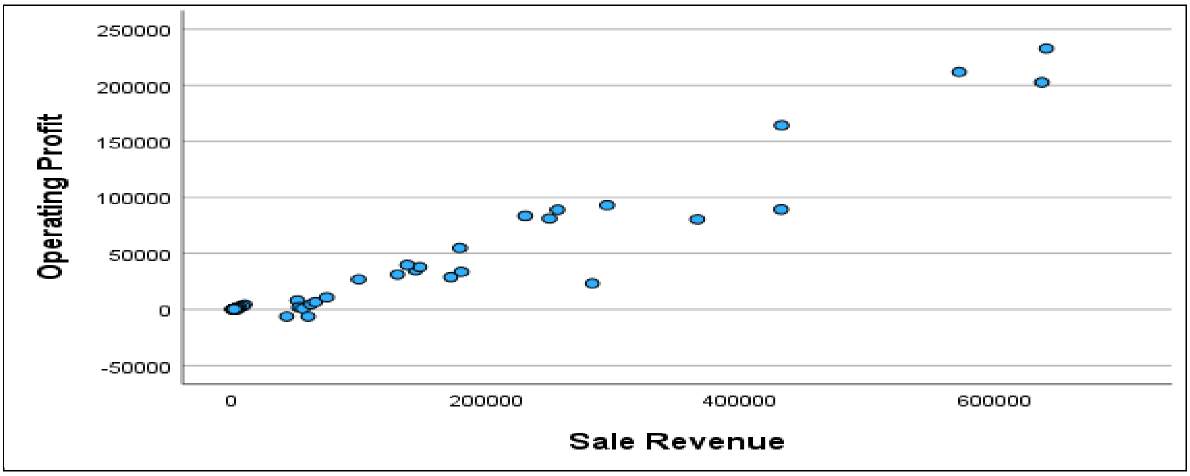
Analysis of the two independent variables to the dependent variable is discussed below:

Objective 1: To analyse the effect of revenue growth on operating profit.

H_0: there is no linear relationship between revenue growth and operating profit.

4.6.1 Scatter plots: Sales revenue and operating profit

Figure 4.1 below is called scatter plot. Scatter plot illustrates the relationship between the dependent (sales revenue) and the independent variables (operating profit).



Source: Statistic output of Scatter Plot from SPSS (2023)

Figure 4. 1: Scatter plot: The relationship between sales revenue and operating profit

The scatter plot reveals that there is a positive linear relationship between revenue growth and operating profit.

4.6.2 Simple Linear Regression on sales revenue and operating Profit

Table 4. 3: Pearson Correlation Coefficient on sales revenue and operating profit

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,960[a]	,922	,920	16480,625

a. Predictors: (Constant), Sale Revenue

b. Dependent Variable: Operating Profit

Source: Statistic output of Pearson correlation coefficient from SPSS (2023)

Table 4.3 above outline fit statistics for the overall model. The statistic R takes the value 0.960 and is equivalent to the Pearson correlation coefficient for a simple linear regression. The value of R measures the strength of the relationship between sales revenue and operating profit. The value confirms that there is a strong positive correlation between the two variables. R-square (0.922) is simply the value of R squared and represents the proportion of variance in the response variable, operating profit explained by the sales revenue.

ANOVA on sales revenue and operating profit

Table 4. 4: ANOVA on sales revenue and operating profit

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	154358866736,345	1	154358866736,345	568,309	<,001[b]
	Residual	13037328102,875	48	271611002,143		
	Total	167396194839,220	49			
a. Dependent Variable: Operating Profit						
b. Predictors: (Constant), Sale Revenue						

Source: Statistic output of ANOVA from SPSS (2023)

H_0: there is no linear relationship between revenue growth and operating profit.
H_1: there is a linear relationship between revenue growth and operating profit.

The P-value of 0.01 in Table 4.4 is less than the level of significance of 0.05. This suggest that the independent variables are associated with the dependent variable. We, therefore, reject the null hypothesis and conclude that there is a linear relationship between operating profit and sales revenue, which is also confirmed by the t-test on the next table, which is Table 4.5.

Coefficient on sales revenue and operating profit

Table 4. 5: Coefficient on sales revenue and operating profit

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	-6207,234	2864,956		-2,167	,035
	Sale Revenue	,325	,014	,960	23,839	<,001
a. Dependent Variable: Operating Profit						

Source: Statistic output of Coefficients from SPSS version (2023)

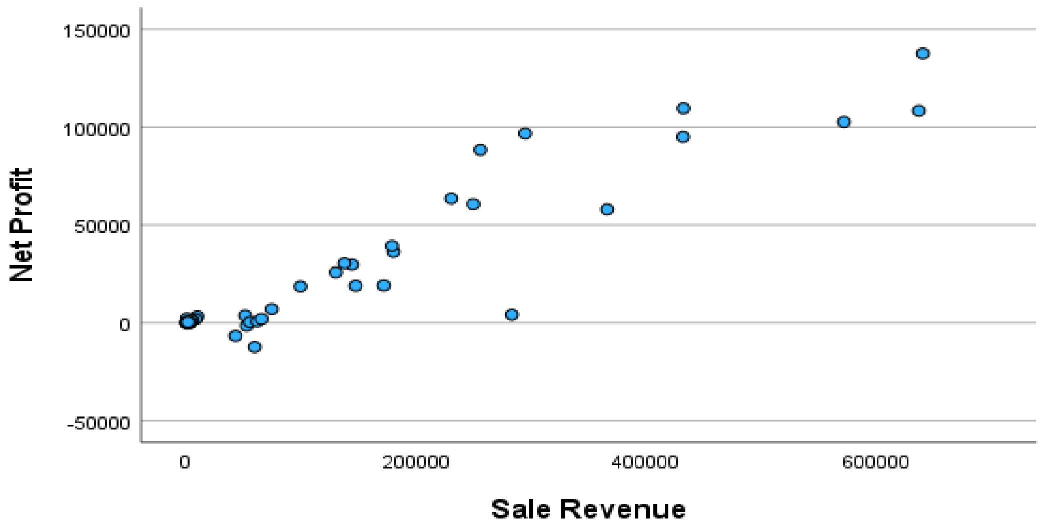
Simple Linear Regression model is given by $\widehat{operating}\ profit = -6207{,}234 + 0.325\ Sale\ revenue$. The coefficient results in Table 4.5 shows the value of 0.325 for sales revenue. This indicates that, for every one unit increase in sales revenue, we expect the operating profit to increase by 0,325. The value of the constant (intercept) i.e., -6207,234 indicates that when the sales revenue is zero, we expect the profit to decrease by 6207,234.

Objective 2: To evaluate the effect of revenue growth on net profit.

H_0: there is no linear relationship between revenue growth and net profit.

4.6.3 Scatter plots: Sales revenue and net profit

Figure 4.2 below is the scatter plot. Scatter plot that illustrates the relationship between the dependent (sales revenue) and the independent variables (net profit).



Source: Statistic output of Scatter Plot from SPSS (2023)

Figure 4. 2: Scatter plot: The relationship between sales revenue and net profit

The scatter plots reveals that there is a positive linear relationship between revenue growth and net profit.

4.6.4 Simple Linear Regression on sales revenue and net profit

Pearson Correlation Coefficient on sales revenue and net profit

Simple linear regression model was fitted with net profit as the dependent variable and sales revenue as the independent variable.

Table 4. 6: Pearson Correlation Coefficient on sales revenue and net profit

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,934[a]	,872	,869	13762,890

a. Predictors: (Constant), Sale Revenue
b. Dependent Variable: Net Profit

Source: Statistic output of Pearson correlation coefficient from SPSS (2023)

Table 4.6 above outline fit statistics for the overall model. The statistic R takes the value 0.934 and is equivalent to the Pearson correlation coefficient for a simple linear regression. The value of R measures the strength of the relationship between revenue and net profit. The results confirm that there is a strong positive relationship between the independent and dependent variables. The value of R squared (0.872) indicates that 87.2 percent of the total variation in the net profit can be explained by sales revenue. The standard error of the estimate indicates that the difference between the actual value and the predicted value is 13762,890.

ANOVA on sales revenue and net profit

Table 4. 7: ANOVA on sales revenue and net profit

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	61666760221,019	1	61666760221,019	325,561	<,001[b]
	Residual	9092022327,561	48	189417131,824		
	Total	70758782548,580	49			

a. Dependent Variable: Net Profit

b. Predictors: (Constant), Sale Revenue

Source: Statistic output of ANOVA from SPSS (2023)

H_0: there is no linear relationship between revenue growth and net profit.
H_1: there is a linear relationship between revenue growth and net profit.

The P-value (Sig) is less than the level of significance or cut-off point of 0.05 on Table 4.7. The researcher therefore rejects the null hypothesis and concludes that there is a linear relationship between net profit and sales revenue, which is also confirmed by the t-test on the coefficient results on Table 4.8 below.

Coefficient on sales revenue and net profit

Table 4. 8: Coefficient on sales revenue and net profit

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	-2152,195	2392,511		-,900	,373
	Sale Revenue	,205	,011	,934	18,043	<,001
a. Dependent Variable: Net Profit						

Source: Statistic output of Coefficients from SPSS version (2023)

Simple Linear Regression model is given by $\widehat{Net}\,profit = -2152{,}195 + 0.205\ Sale\ revenue$. Researcher's findings on Table 4.8 above shows the value of 0.205 for sales revenue. This indicates that for every one unit increase in the sales revenue it is expected that the net profit should increase by 0.205. The value of the constant (intercept) of -2152.295 indicates that when the sales revenue is zero the profit is expected to decrease by 2152.295.

4.7 DISCUSSION OF FINDINGS ON RESEARCH OBJECTIVES

4.7.1 Research objective 1: To analyse the effect of revenue growth on operating profit

The aim of this research objective is to determine if there is an effect of revenue growth on operating profit using a selected sample from companies listed in the FTSE/JSE's Socially Responsible Investing Index. The outcome of the research objective as outlined in Table 4.3 indicates that there is an effect of revenue growth on operating profit where the value of R measures the strength of the relationship between sales revenue and operating profit. R-square (0.922) is simply the value of R squared and represents the proportion of variance in the response variable, operating profit explained by the sales revenue. In addition, the results in Table 4.5 indicates the P-value of 0.01 which is below the level of significance, or the cut-off point of 0.05. This implies that there is a linear relationship between operating profit and sales revenue. The researcher, therefore, rejects the null hypothesis and concludes that there is a linear relationship between operating profit and sales revenue. Moreover, Table 4.5 shows that for every increase in the sales revenue, it is expected that the operating profit will increase by 0,325. The value of constant (intercept) indicates that when the sales revenue is zero, profit is expected to decrease. The statistical results prove that there is a linear relationship between revenue growth and operating profit. Therefore, any growth that happens to the sales revenue gives rise to the operating profit.

The findings of this study are similar to those of Endri, Sari, Budiasih, Yuliantini and Kasmir (2020) on factors that determines profit growth in food manufacturing industry companies listed in Indonesia Security Exchange. The study found that revenue growth has a positive effect on operating profit. This implies that an increase in revenue growth of the company will result in an increase in operating profit. Increase in revenue growth and revenue base enables the company to increase its operating profit without accumulating external capital. In addition, food and beverage companies in Indonesia were able to grow revenue and earned operating profits by minimising operating costs and improving operational efficiency. However, this research study is different from the current study given that the current study is limited to companies listed in FTSE/JSE SRI index.

A study by Devi, Warasniasih, Masdiantini and Musmini (2020) suggests that a significant decrease in revenue derived from sale of goods or services affect operating profit level of companies negatively. The study further indicates that the value of the company's assets would also decrease due to operating loss suffered by the company as a result of decreased revenue. The decrease in revenue generated from the sale of goods has adverse effect on the operating profit of companies. In addition, Herison, Sahabuddin, Azis and Azis (2022) added that the level of profitability on retail sub-sector companies listed in the Indonesia Stock Exchange shows that revenue growth rate has an impact on the operating profit level of companies. The greater the revenue growth rate would result in a high operating profit level of companies while the lower revenue growth rate result in low operating profit of companies.

Contrary to the findings of this study, Suryani, Zysman, Akhyar, Sinta and Ilham (2023) found that PT Semen Indonesia (Persero) Tbk failed to manage operational expenditures effectively resulting in the company generating low operating profit. In addition, the growth in revenue did not result in increased operating profit as the company was still ineffective in increasing its operating profit. Statement of financial performance of the company also indicated that its financial strategy was less effective in providing long-term profitability due to fluctuations in cost of sales for the financial period 2020 and 2021. This resulted in the fluctuation of the company's operating profit in the same financial period. Furthermore, Nguyen and Nguyen (2020) argue that companies may still experience a decrease in operating profit despite generating high revenue due to acquisition of significant debts which results in payments of high interest expense. Repayments of capital and interest expenses caused a decline in operating profit of a company.

4.7.2 Research objective 2: To evaluate the effect of revenue growth on net profit

The purpose of this research objective was to determine if there is an effect of revenue growth on net profit using a selected sample of audited annual financial statements from companies listed in the FTSE/JSE's Socially Responsible Investing Index. The outcome of the research objective as outlined in Table 4.6 showed that there is an effect of revenue growth on net profit where the value of R measures the strength of the relationship between sales revenue and net profit. The value of R squared of 0.872 confirms that there is a strong positive relationship between the two variables. The value of R-squared indicates 87.2 percent of the total variation in the net profit which can be explained by sales revenue. P-value (Sig) of 0.01 in Table 4.8 is less than the level of significance or the cut-off point of 0.05 which suggest that there is a linear relationship between net profit and sale revenue. In addition, sales revenue of 0.205 on Table 4.8 indicates that for every one unit increase in the sales revenue we expect the net profit to increase by 0.205. The value of the constant (intercept) indicates that when the sales revenue is zero the researcher expects the profit to decrease, which suggests that there is a linear relationship between revenue growth and net profit.

In support of these findings, a research study conducted by Ernayani, Fauzan, Yusuf and Tahirs (2022) reveal that there is a linear relationship that exists between sales revenue, operating costs and net profit of copyright Cirebon Cipta graphic printing company. The study found that sales revenue and operational costs have a significant impact on net profit. Thus, a company with low revenue and high operational costs will give rise to low net profit. Consequently, a company with high revenue and low operational costs will enhance high net profit. In addition, Ramdhani (2021) suggests that revenue generated from sale of goods and high business and non-business expenses have a greater impact in the determination of net profit of companies in the retail trade sub-sector listed on the Bursa Efek Indonesia. However, the study of Oladipupo and Azeez (2022) concluded that an increased market share of companies enhances greater balance of operations which results in increased net profit. In addition, the increase in market shares also gives rise to an increased net profit. However, this research study is different from the current study given that the current study is limited to companies listed in FTSE/JSE SRI index.

Bas and Aksoy (2022) examined correlations that exist between the revenue generated from storage of cargo, revenue generated from non-core products of the airlines and net surpluses of Turkish commercial airlines, American commercial airlines, and Delta commercial airlines. The study revealed that maximisation of revenue generated from storage of cargo and non-core products of the commercial airlines resulted in the increased net surpluses of commercial airline companies.

Moreover, Ayeni-Agbaje, Ogunmakin, Adebayo and Olaoye (2023) conducted a study on the effect of capital financing on revenue growth and profitability of consumer goods companies listed in the Johannesburg Stock exchange of South Africa. The study revealed that financing business activities through retained earnings, short-term and long-term debt has got positive effects on revenue growth and net profit.

Contrary to the above findings, Maverick (2021) found that an increase in revenue of a company does not result in high net profit. The researcher argued that an increase in revenue could give rise to a decrease in net profit if the overhead costs associated with the generation of revenue increases. In addition, overhead costs resulting from the business operations affect the revenue growth negatively which subsequently decreases the net profit. The increase in revenue can only give rise to an increase in net profit if the overhead costs associated with company operations are maintained at a lower level.

4.8 SUMMARY OF THE CHAPTER

This chapter presented a brief analysis of research findings based on the study objectives and formulated hypotheses for the independent and dependent variables which are revenue growth, operating profit and net profit respectively. The research study found that there is a positive linear relationship between the independent variable, revenue growth and dependent variables, operating profit, and net profit. A simple linear regression analysis was used to measure how much influence the independent variable (revenue growth) has on the dependent variables which in this case is operating profit and net profit. The study found that for every one unit increase in the revenue growth, the operating profit is expected to increase by 0,325 and for every one unit increase in the revenue growth, the net profit is expected to increase by 0.205. The next chapter presents the summary of findings, contribution of the body of knowledge, limitation of the study, recommendations, and conclusion.

CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 INTRODUCTION

The previous chapter presented detailed analysis of research objectives, research hypothesis, research model, statistical model and tests, data analysis and discussions of research findings. This chapter highlights summary of findings on research objectives, contribution to the body of knowledge, study limitation, recommendations and conclusion.

5.2 SUMMARY OF FINDINGS ON RESEARCH OBJECTIVES

This section discusses the summary of findings for each research objective.

5.2.1 Research Objective 1: To analyse the effect of revenue growth on operating profit.

The review of literature provided useful information necessary to address the objectives of the study. This study illustrated through stockholder theory, that companies have a duty to act with reasonable care and skill towards their stockholders or owners, to advance the interests of its stockholders through enhancement of revenue growth which results in the increase of operating profit, stockholder's returns, and market value of the shares. The stockholder theory emphasises that, capital funds of a company will only be directed at business activities that promotes the interest of shareholders which is maximisation of operating profit (Majadibodu, 2023).

Nguyen, Van Nguyen and Nguyen (2022) added that revenue growth in companies is also used as an important tool to reinforce the stockholder's confidence with their equity investments made. An increased revenue growth will generate anticipated returns to the company and stockholders. A stable revenue growth will attract more potential investors and stockholders' returns will be assured. According to Wahyudi (2020) profitability growth is significant to stockholders and the welfare of the company as it sustains the operations and increases stockholder's confidence. Potential stockholders assess profitability growth when making to invest in companies. The research findings further indicates that profitability growth is crucial to stockholders as they use it to determine their rate of returns on investments. High profitability of a company is an indication that resources of a company are managed efficiently and effectively resulting in an increased company's wealth and profits which serve the best interest of the stockholders.

Results from the test analysis show a P-value of 0.01 which is less than the level of significance of 0.05 suggesting that any growth in sales revenue give rise to the increase in operating profit. This implies that there is a correlation between operating profit and revenue growth. A simple linear regression was used to estimate the relationship between independent and dependent variables which is revenue growth, operating and net profit respectively. Adamu (2022) also found that there is a strong relationship between revenue growth and operating profit of Grand Cereals and Oil Mills Limited. However, companies should have effective control to monitor the costs as companies are more likely to reach their profit target when costs are appropriately managed. Managers of companies should make decisions based on the interest of its investors and put more effort to ensure that resources are allocated to maximise revenue and minimise expenses as operating costs have a major negative effect on the operating profit.

Furthermore, Komarek, Jakab, and Festő (2020) are of the view that low revenue has influence on operating profit. Therefore, when the revenue declines the operating profit decreases. The P-value shows the results of 0.01 which is less than 0.05 level of significance. This indicates that low revenue on winter wheat varieties had an adverse effect on operating profit. Therefore, management of companies should focus highly on developing and implementing cost containment strategies and identify other additional variables that can give effect to enhancement of operating profit, while at the same time not neglecting revenue growth. However, the objective of this study was addressed and the outcome of testing the hypothesis provided the researcher with useful information in concluding that there is a correlation between revenue growth and operating profit. The researcher concludes that, managers should strive to ensure that resources of companies are directed at maximising revenue and minimising cost of sales resulting in increased operating profit. Revenue growth and profit maximisation behaviour is expected when managers are presumed to act in the interest of stockholders which is maximisation of stockholders returns and market share value.

5.2.2 Research Objective 2: To evaluate the effect of revenue growth on net profit.

This objective was addressed through analysis of different sources of the existing research study which showed that revenue growth is a major indicator reflecting the development of companies. Revenue growth is crucial to companies as it enables businesses to pay for their overhead costs, maintain existing operations and generate net profits required to pay for shareholders returns and increase investor's wealth (Link, 2019). As a result, companies should implement effective internal controls to maintain financial performance and maximise net profits. The discussion further revealed that companies experience financial distress due to lack of revenue growth required to compensate its overhead costs and shareholders' returns for their investments. In addition, continuous decline in revenue growth resulted in net loss, decrease in share price and shareholders returns, discouraging the prospective investors to invest in the companies (Ikpesu, 2019). Results from the test analysis show a P-value of 0.01 which is less than the level of significance of 0.05 which suggests that any growth in sales revenue give rise to the increase in net profit. This implies that there is a correlation between net profit and revenue growth of companies listed in the FTSE/JSE's Socially Responsible Investing Index with high market capitalisation from different category of industries. To support this finding, a study by Ramdhani (2021) emphasises that revenue growth has a major effect on net profit. In addition, companies can achieve maximum profit growth without depending on external capital funds if their revenue growth and net profit increases. Companies experiencing an increase in the level of revenue consistently by implementing effective controls over management of revenue can increase their net profit.

The outcome of this study is conflicting with those by Maverick (2021) who indicates that an increase in revenue of a company does not result in high net profit. The researcher further indicates that an increase in revenue could give rise to a decrease in net profit if the overhead costs associated with the generation of revenue increases. Furthermore, overhead costs resulting from the business operations affect the revenue growth negatively which subsequently decreases the profitability. The increase in revenue can only give rise to an increase in net profit if the overhead costs associated with company operations are maintained at a lower level. In addition, Ramdhani (2021) states that revenue together with costs of sales have a major effect in the determination of net profit which can further be lowered by non-core expenses such as interest expense and payments of dividends to shareholders.

In support of this findings, the study conducted by Ayeni-Agbaje, Ogunmakin, Adebayo and Olaoye (2023) revealed that financing business activities through retained earnings, short-term and long-term debt on consumer goods companies listed in the Johannesburg Stock exchange of South Africa has positive effects on revenue growth and net profit.

Therefore, management of companies should consider other additional variables that can improve net profit, while at the same time not neglecting revenue growth. The determination of additional variables that will result in enhancing revenue is important since companies incur additional costs in the generation of revenue, and the more revenue increases, the more expenses are incurred in the generation of increased revenue. Therefore, the objective of this study has been achieved since the outcome of testing the hypothesis provided the researcher with useful information in concluding that there is a correlation between revenue growth and net profit.

The researcher recommend further studies to focus on the area of this current research study by selecting a larger sample of the FTSE/JSE's Socially Responsible Investing Index which is greater than five (5) companies considered in the current studies in order to replicate the results of this study.

5.3 CONTRIBUTION TO THE BODY OF KNOWLEDGE

Different companies can increase their operational performance by applying the knowledge and competency established from this study. Stockholders should assess the revenue growth of companies together with the costs associated with revenue prior to investing into companies. The researcher has contributed to the body of knowledge by bringing together key inputs on revenue growth and profitability to stockholders that lack competencies to improve revenue growth and profitability of their companies. Companies listed in the FTSE/JSE's Socially Responsible Investing Index can benefit from this study, in identifying factors that have effect on revenue growth and profitability. Additionally, companies that generate low revenue and profitability can also benefit by implementing factors identified in this study, which increases revenue growth and profitability resulting in the maximisation of shareholders returns.

5.4 LIMITATION OF THE STUDY

Companies which are not listed in the FTSE/JSE's Socially Responsible Investing Index and those that are not contributing to Corporate Social Responsibility were not considered in this study. This study focused on companies listed in the FTSE/JSE's Socially Responsible Investing Index. The study was limited to a sample of five (5) companies with high market capitalisation from different category of industries. The regression analysis method was used to evaluate and assess financial data obtained from the selected sample of five (5) companies with high market capitalisation from different categories of industries. The study confined itself to the audited AFS from companies listed in the FTSE/JSE's Socially Responsible Investing Index limited to ten years, starting from 2011 to 2020 financial years. The study utilised secondary data collected from the company's website for the sampled selected companies. The quality of research study is also dependent on the accuracy, reliability and quality of the secondary data source which is in this regard the audited annual financial statements of companies listed in the FTSE/JSE's. The study only considered audited AFS of five companies with the highest market capitalisation drawn from the top 30 companies listed in the FTSE/JSE's Socially Responsible Investing Index. Therefore, credibility of results is explicitly dependent on the integrity, validity and accuracy of information reported in the audited AFS.

5.5 RECOMMENDATIONS

5.5.1 Academic

Future studies can be conducted by selecting a larger sample and different variables of revenue growth and profitability of companies listed in the FTSE/JSE's Socially Responsible Investing Index. This study considered the quantitative approach in testing the hypothesis. For future research, the researchers could use the mixed method approach. The findings and recommendations of research study contributes to existing and future literature for other researchers. This study will assist existing and future researchers to expand theoretical knowledge beyond the view that the objective of every business activity is to maximise profit. Thus, further research becomes appropriate to examine factors such as cost of sales, other expenditures, ethics and internal controls that contributes to the sustainability of companies.

5.5.2 Industry and Economy

The findings and recommendations of this study encourages stockholders and potential investors of companies to consider these variables as they might bring improvement in the industry and economic growth. Stockholders should also consider researching on more variables that will influence profitability growth. Moreover, the study motivates management to strengthen the internal controls and implement strategies that will reduce costs of sales and other expenditure to generate high profitability. In addition, a stable economy with high profitability attracts interest and investment from both domestic and foreign investors and can provide adequate financial resources to sustain and enhances the business operations. In addition, this study will help businesses to actively concentrate on growing revenues to thrive in an uncertain and unpredictable economy.

5.5.3 Future Research

Future researchers can further extend future studies and opt for other sectors of companies that are not listed in the FTSE/JSE's Socially Responsible Investing Index and use different variables to determine effect of revenue growth on profitability of companies. Moreover, future studies can be conducted using primary data collection such as survey forms to gather data information by requesting managers and owners to provide key information on the effectiveness of internal controls implemented to manage and report on revenue transactions in the records of companies in order to maximise the stockholder's wealth as a stable revenue growth will attract more potential investors and increases stockholders' returns.

The researcher realises that in this study there are still shortcomings, there are suggestions for future research to be carried out in other business sectors so that the results can be compared to the previous ones. In addition, it is also necessary to identify variables that will determine other factors affecting profitability growth because companies that are unable to grow profitability will be difficult for them to expand their operations and increase stockholders returns. In addition, companies that finance their operations using the debt equity find it difficult to sustain their operations as the increase in the proportion of debt had a negative effect in financial securities and sustainability of the business.

5.6 CONCLUSION

The study focused on the stockholder theory of selected companies listed in the FTSE/JSE's Socially Responsible Investing Index. The main goal and objective of a business is to implement its resources effectively and efficiently to maximise profit and payback the investments of the shareholders. Shareholders expects managers and employees to maximise profit that will yield high rate of return for their investments. However, the rising cost of sales and other expenditure has been of utmost concern as this will result in companies' inability to pay their obligations when they are due resulting in losses or financial difficulties and discontinuation of business activities.

The first objective of the study was aimed at establishing the relationship between the independent and dependent variables which are revenue growth and operating profit, respectively. The results from the findings indicated that there is a correlation between revenue growth and operating profit. The test results indicate the P-value of 0.01 which is below the level of significance or cut-off point of 0.05. This implies that revenue growth has got an effect on operating profit. Managers and employees can still make use of the concept of revenue growth to enhance their operating profit. However, they should also consider researching more variables that can be used to increase operating profit of companies, which is necessary to expand existing operations, enhancing competitive advantage and minimising cost of sales.

The second objective was aimed at determining the relationship between the independent and the dependent variables which are revenue growth and net profit. Research results revealed that a strong positive relationship exist between revenue growth and net profit. The test results show the P-value (Sig) of 0.01 which is less than the level of significance or cut-off point of 0.05. This suggests that revenue growth influences net profit. Therefore, the management of companies should encourage key decision makers to recognise the elements that influence the improvement of net profit growth and overall financial performance.

This study considered quantitative method to test the research hypothesis. The primary source data utilised comprised of audited AFS of companies selected from the FTSE/JSE's Socially Responsible Investing Index. A simple linear regression analysis was used to measure how much influence revenue growth has on operating profit and net profit. It is therefore important that management and stockholders of companies' direct capital funds only to business activities that enhances revenue growth and profitability, minimising operational costs, improve the level of innovation, implement, and maintain the cost containment measures over operational cost and strengthening the internal controls of enhancing revenue. These strategies will help companies to prevent huge financial losses which might result in the discontinuation of business activities.

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APPENDIX 1: FTSE/JSE RESPONSIBLE INVESTMENT TOP 30 INDEX

(in alphabetical order according to instrument)

No.	Index Code	Statistic Date	Alpha	Instrument
1	J110	2021/06/28	ABG	Absa Group Limited
2	J110	2021/06/28	ARI	African Rainbow Minerals Ltd
3	J110	2021/06/28	AGL	Anglo American
4	J110	2021/06/28	AMS	Anglo American Platinum
5	J110	2021/06/28	ANG	Anglogold Ashanti
6	J110	2021/06/28	APN	Aspen Pharmacare Holdings
7	J110	2021/06/28	BAW	Barloworld
8	J110	2021/06/28	BHP	BHP Group Plc
9	J110	2021/06/28	BTI	British American Tobacco PLC
10	J110	2021/06/28	CLS	Clicks Group Ltd
11	J110	2021/06/28	CFR	Compagnie Financiere Richemont AG
12	J110	2021/06/28	EXX	Exxaro Resources
13	J110	2021/06/28	IMP	Impala Platinum Hlds
14	J110	2021/06/28	KIO	Kumba Iron Ore
15	J110	2021/06/28	LBH	Liberty Hldgs.
16	J110	2021/06/28	MNP	Mondi Plc
17	J110	2021/06/28	MRP	Mr Price Group
18	J110	2021/06/28	MTN	MTN Group
19	J110	2021/06/28	NED	Nedbank Group
20	J110	2021/06/28	NTC	Netcare
21	J110	2021/06/28	OMU	Old Mutual Ltd
22	J110	2021/06/28	REM	Remgro
23	J110	2021/06/28	SLM	Sanlam
24	J110	2021/06/28	SNT	Santam
25	J110	2021/06/28	SAP	Sappi
26	J110	2021/06/28	SOL	Sasol
27	J110	2021/06/28	SSW	Sibanye Stillwater
28	J110	2021/06/28	TKG	Telkom SA SOC
29	J110	2021/06/28	TRU	Truworths International
30	J110	2021/06/28	WHL	Woolworths Holdings

Source: Responsible Investment Index | Indices | FTSE/JSE (2023)

APPENDIX 2: RAW DATA OF THE FIVE SELECTED COMPANIES' WITH HIGHEST MARKET CAPITALISATION

(Data presented in the Audited AFS according to Foreign currencies)

Name of company	Financial Year	Sales Revenue (€'000 000)	Operating Profit (€'000 000)	Net Profit (€'000 000)
1. COMPAGNIE FINANCIERE RICHEMONT AG	2011	6 892	1 355	1 079
	2012	8 868	2 024	1 540
	2013	10 150	2 426	2 005
	2014	10 023	2 427	2 067
	2015	10 410	2 670	1 334
	2016	11 076	2 061	2 227
	2017	10 647	1 764	1 210
	2018	11 013	1 844	1 221
	2019	13 989	1 943	2 787
	2020	14 238	1 518	931

Source: https://www.richemont.com

Name of company	Financial Year	Sales Revenue (R'000 000)	Operating Profit (R'000 000)	Net Profit (R'000 000)
2. ANGLO AMERICAN PLATINUM	2011	51 484	7 965	3 687
	2012	43 148	- 6 334	- 6 720
	2013	52 822	1 968	- 1 514
	2014	55 626	843	372
	2015	59 829	- 6 325	- 12 435
	2016	61 976	4 559	696
	2017	65 688	6 574	1 924
	2018	74 582	10 821	6 993
	2019	99 571	26 814	18 569
	2020	137 804	39 723	30 403

Source: https://www.angloamericanplatinum.com

Name of company	Financial Year	Sales Revenue (£'000 000)	Operating Profit (£'000 000)	Net Profit (£'000 000)
3. BRITISH AMERICAN TOBACCO PLC	2011	15 399	4 721	3 375
	2012	15 190	5 412	4 122
	2013	15 260	5 526	4 199
	2014	13 971	4 546	3 393
	2015	13 104	4 557	4 522
	2016	14 751	4 655	4 839
	2017	19 564	6 412	37 656
	2018	24 492	9 313	6 210
	2019	25 877	9 016	5 849
	2020	25 776	9 962	6 564

Source: https://www.bat.com

Name of company	Financial Year	Sales Revenue ($'000 000)	Operating Profit ($'000 000)	Net Profit ($'000 000)
4. BHP GROUP PLC	2011	71 739	31 816	23 648
	2012	70 477	24 600	15 473
	2013	65 953	21 002	11 223
	2014	62 206	23 412	13 832
	2015	44 636	8 670	2 742
	2016	28 567	2 804	- 312
	2017	35 740	12 554	6 694
	2018	43 129	15 996	7 744
	2019	44 288	16 113	9 520
	2020	42 931	14 421	8 736

Source: https://www.bhp.com

Name of company	Financial Year	Sales Revenue ($'000 000)	Operating Profit ($'000 000)	Net Profit ($'000 000)
5. ANGLO AMERICAN	2011	30 580	10 599	7 922
	2012	28 680	- 1 600	- 564
	2013	29 342	2 407	426
	2014	27 073	138	- 1 524
	2015	20 455	- 4 112	- 5 842
	2016	21 378	1 666	1 926
	2017	26 243	5 529	4 059
	2018	27 610	6 069	4 373
	2019	29 870	6 176	6 572
	2020	30 902	5 631	6 247

Source: https://www.angloamerican.com

APPENDIX 3: RAW DATA FOR PANEL DATA ANALYSIS

DATA ANALYSIS BASED ON FTSE/JSE RESPONSIBLE INVESTMENT INDEX FIVE SELECTED COMPANIES WITH HIGHEST MARKET CAPITALISATION

(Data converted into South African Rands)

NAME OF COMPANY	FINANCIAL YEAR	SALES REVENUE	OPERATING PROFIT	NET PROFIT
		R' million	R' million	R' million
1. COMPAGNIE FINANCIERE RICHEMONT AG	2011	686	135	107
	2012	842	192	146
	2013	130 187	31 117	25 717
	2014	144 286	34 938	29 755
	2015	147 523	37 837	18 905
	2016	180 286	33 547	36 249
	2017	710	118	81
	2018	171 947	28 791	19 064
	2019	866	120	173
	2020	762	81	50
2. ANGLO AMERICAN PLATINUM	2011	51 484	7 965	3 687
	2012	43 148	- 6 334	- 6 720
	2013	52 822	1 968	- 1 514
	2014	55 626	843	372
	2015	59 829	- 6 325	- 12 435
	2016	61 976	4 559	696
	2017	65 688	6 574	1 924
	2018	74 582	10 821	6 993
	2019	99 571	26 814	18 569
	2020	137 804	39 723	30 403
3. BRITISH AMERICAN TOBACCO PLC	2011	179 072	54 900	39 247
	2012	1 170	417	317
	2013	230 560	83 491	63 442
	2014	249 498	81 184	60 593
	2015	255 857	88 976	88 293
	2016	294 790	93 027	96 705
	2017	1 143	374	2 199
	2018	432 014	164 272	109 538
	2019	1 405	490	318
	2020	1 227	474	312
4. BHP GROUP PLC	2011	9 943	4 410	3 278
	2012	8 605	3 004	1 889
	2013	636 499	202 686	108 311
	2014	5 742	2 161	1 277
	2015	3 517	683	216
	2016	1 948	191	- 21
	2017	2 688	944	503
	2018	571 407	211 928	102 599
	2019	639 944	232 826	137 560
	2020	2 623	881	534
5. ANGLO AMERICAN	2011	4 238	1 469	1 098
	2012	3 502	- 195	- 69
	2013	283 174	23 229	4 111
	2014	2 499	13	- 141
	2015	1 612	- 324	- 460
	2016	1 458	114	131
	2017	1 973	416	305
	2018	365 799	80 407	57 937
	2019	431 610	89 241	94 963
	2020	1 888	344	382

APPENDIX 4: FACULTY RATIFICATION OF APPROVED PROPOSAL

UNIVERSITY OF LIMPOPO
Office of the Faculty Research Professor
Prof TS Setati
15 May 2023
PRIVATE BAG X1106, SOVENGA,0727
FACULTY OF MANAGEMENT AND LAW

University of Limpopo
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15 May 2023

SEKHWELA MC (200012920)
TURFLOOP GRADUATE SCHOOL OF LEADERSHIP
MASTER OF BUSINESS ADMINISTRATION

Dear MC Sekhwela

FACULTY RATIFICATION OF APPROVED PROPOSAL

I have pleasure in informing you that the Faculty of Management and Law has ratified the decision for the approval of Masters Research proposal. The research proposal has served at the School Higher Degrees Committee meeting on **23 March 2023**, and it was approved as follows:

Title: 'The Effect of Revenue Growth on Profitability Of Companies Listed In The Johannesburg Stock Exchange Socially Responsible Investing Index'.

Note the following: The study

Ethical Clearance	Tick One
Requires no ethical clearance Proceed with the study	√
Requires ethical clearance (Human) (TREC) (apply online) Proceed with the study only after receipt of ethical clearance certificate	
Requires ethical clearance (Animal) (AREC) Proceed with the study only after receipt of ethical clearance certificate	

Yours faithfully,

Prof TS Setati
Research Professor: Faculty Research Higher Degrees Committee
CC: Supervisor, Prof TJ Musandiwa; Co- supervisor, Prof CC Ngwakwe; Acting Programme Manager, Prof TJ Musandiwa; Director of School, Prof SK Mokoena.

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