The Influence of Corporate Attributes on Business Success in Nigeria

R. Uwuigbe Olubukunola, Uwuigbe Uwalomwa,
A. Adeyemo Kingsley and D. Ogunbanjo Oluwatobiloba
Department of Accounting, College of Business and Social Sciences, Covenant University, Nigeria

Abstract: This study investigates the effects of company attributes on the success of companies by employing the annual reports of thirty selected companies listed on the Nigerian Stock Exchange (NSE) for a period of 5 year (2007-2011). The study made use of descriptive statistics and the Ordinary Least Square (OLS) regression analysis to estimate the effects of these attributes on the financial performance of companies listed in Nigeria. The study also tested for the relationship between leverage, firm size, firm age and return on assets by employing the Pearson's product moment correlation coefficient. Of all the variables employed in this study, only the firm age was statistically significant. Clearly from this study, one can infer that the level of financial performance of a firm increases as the firm grows older. This is also likely to be because older firms are more experienced, have enjoyed the benefits of learning, are not prone to the liabilities of inventiveness and can therefore enjoy superior financial performance. The study therefore recommends that adequate attention should be given to financial leveraging because it was observed that highly leveraged firms are at the risk of insolvency.

Key words: Corporate attributes financial performance, age, size and leverage, risk, Nigeria

INTRODUCTION

The performance of a company is always critical to its executives. It involves the ability of organizations to get, manage and also optimally utilize the resources available in diverse ways to develop economical advantage. Researchers have postulated that there are two kinds of performance; financial performance and non-financial performance. Financial performance emphasizes on variables that are related directly to financial reports, while non-financial performance refers to any ratio-based performance measure that is not in monetary units employed to measure an entity's performance.

The performance of an organization can be valued in three ways. The first dimension is productivity of the company, or efficiently processed inputs into outputs. The second is profitability part, or the proportion of costs to company's earnings. The third aspect is market premium that is, the excess of the market value over the book value (Almajali et al., 2012). Performance as a concept is very difficult, in relation to both its definition and how to get it measured. It has often been described as the outcome of an activity and the suitable degree identified to assess the performance of a corporation is dependent on the type of organization and the objectives set to be realized through the assessment. Prior studies (Coles et al., 2001) have presented variety of ways in evaluating financial performance, however, researchers are yet to reach a compromise on what makesup to a binding set of performance criteria. This multi-facet opinion of performance implies that the different forms of association between corporate performance and the variables that determine it will establish the different types of relationships between the estimated dependent and independent variables in the model (Almajali et.al, 2012).

The effect of corporate attributes on the financial performance of listed companies have been carried out in countries like Jordan, Pakistan, United States of America; as seen in the researches of Almajali et al. (2012), Babalola (2013) and Payne, et al. (2009). However, there is death of literature in Nigeria on this topic as the few visible studies are been limited to a single sector.

This research therefore bridges this gap in the existing literatures by not focusing on a particular sector but cuts across different sectors of the Nigerian economy. This study contributes to the literature on the factors that influence business success of firms in Nigeria.

Thus, this study adds substance to the existing theory developed by previous researchers by investigating the effects that corporate attributes have on financial performance of firms listed in Nigeria.

Corresponding Author: Uwuigbe, Department of Accounting, College of Business and Social Sciences, Covenant University, Nigeria

Research hypotheses: In achieving, the objectives of this study, weformulated and tested the following hypotheses stated in their null forms:

Hypothesis 1:
- H_0: A significant relationship does not exist between leverage and the Return on Assets of listed companies in Nigeria

Hypothesis 2:
- H_0: There is no significant relationship between the firm size and the Return on Assets of listed companies in Nigeria

Hypothesis 3:
- H_0: There is no significant relationship between the age of the firm and the Return on Assets of listed companies in Nigeria

Previous researches on corporate attributes and business success
Size and profitability: Studies on the association between size and the profitability of the firm in terms of its successhave produced varied results extending from those in supportof a positive association among these variables to those with conflicting results. Studies by Conyon and Peck (1998) found a positive and significant relationship between firm size and profitability. The study applied a simple semi-logarithmic specification model for a sample of 15 firms selected from South India, to measures the relationship between size proxied by sales and total assets and profitability also proxied by profit margin and profit on total assets. In another similar study inIndia(Majumdar, 1997) examinedthe effect that firm size has on the level of production and profit of a firm. With control for other variables that can influence firm'sperformance, he observed that larger firms are less productive but more profitable.

Lee (2009) investigatedat the role that firm size play in profitability. The panel data model was used to perform analysis on a sample of over 7000 US publicly-owned firms. The results depicted that size plays a significant role in profitability. However, a nonlinear relationship was observed. This implies that gains in profitability for larger firms reduced. In 2007, Amato and Burson examined the association between size and profit for firms functional in the financial sector. The study revealed that firm size negatively influences profitability. Nevertheless, this effect wasn't statistically significant. Conversely, the authors observed a cubic relationship between Return on Asset and firm size. In a similar study, Ammar and coauthors between 1985 and1996 examined a sample of

electrical contractors. The result showsthat a significant difference exists in the profitability between small, medium and large firms. It was observed that profitability decreasesas firms'sales increases more than $50 million. Amato and Wilder (1985) in the US tested the relationship that exists between size and profitability.Theresults of their investigationdisclosed that there is no relationship between firm size and rate of profit.

Leverage and financial performance: Debt leverage can be measured by the proportion of total debt to equity. It shows the extent to which a business is utilizing borrowed money. Companies that are highly leveraged may be at threat of bankruptcy if they are not able to make payments on their debt. Leverage is not bad always, however; it can make shareholders' return on investment to increase and also make use of the tax advantages associated with borrowing.

Some empirical studies have been used to analyze the association between leverage and business success. Majumdar and Chhibber (1999) examined the association between leverage and corporate profitability on a sample of firms in India. Using an accounting measure of profitability, return on net worth, to evaluate performance, they noted a significant negative association between leverage and corporate performance. Kinsman and Newman (1999) used numerous performance measures with leverageona sample of US firms. They used regressions to analyse the effects of leverage on themeasures of performance. Theresult depicts the existence of a strong relationship between leverage and some of the measures of performance.

In Nigeria, Ojo (2012) empirically examined the effect of financial leverage on selected indicators of corporate performance in and found out that leverage significantly affects corporate performance. Abor (2005) present an empirical study on the relationship between (ROE), financial leverage and size of firms for the period 1998-2003 in the restaurant industry. Using OLS regressions on 62 Restaurant firms in US, the results disclosed that firms with high leverage were less risky in both market and accounting based measures. Therefore, a positive relationship exists between financial leverage and profit among the selected firms.

Firm age and financial performance: Many researchers (Fariñas and Moreno, 2000; Bartelsman *et al.*, 2005) have investigated the relationship between firm age and performance but there has not beenclear-cut results. Stinchcombe adopted the term `liability of newness' in describing how young firms face higher risks of failure. However, authors (Bruderl and Schussler, 1990) have

referred to the `liability of adolescence to describe why firms encounter an earlyperiod of `honeymoon' in which they are safeguarded from unexpected exit by their initial stock of resources. Others have also identified liabilities of senescence and oldness that shows that older firms are expected to face higher exit threats once other influences (such as firm size) are controlled for.

Many researchers (Batra, 1999) contended that the age of firm significantly impact its performance. Sorensen and Stuart (2000) argued that organizational in activity that operates in old companies to make them not to be flexible and unable to appreciate changes in the environment. As a result of this, market share is taken away by newer and smaller firms despite the disadvantages like lack of capital, brand names and corporate goodwillthat older firms enjoy (Kakani *et al.*, 2001). In relation to firm's age, older firms are seen to be more skilled, have enjoyed the benefits of learning, are not prone to the liabilities related to newness and can therefore, benefitgreater performance. Older firms may also enjoystatus effects which makes them to earn a better margin on sales (Almajali *et al.*, 2012). Conversely, older firms are prone to inertia and the administrative ossification that is linked with age; they usually develop routines which are out of touch with changes in market conditions.Therefore, a negative relationship between age and profitability or growth could be observed.

MATERIALS AND METHODS

This study attempts to establish a causal relationship between two variables; the relationship between company attributes and the business success as captured by financial performance of listed companies in Nigeria. In investigating the association between corporate attributes and the financial performance of listed companies in Nigeria, the research covered 30 listed companies. These companies were selected randomly from 9 major sectors over a period of 5 year which is form 2007-2011. The method adopted for the analysis of this data was chosen to give assurance to a realistic level of the relationship between corporate attributes and financial performance. For the analysis, the researcher used Pearson's Product-Moment Correlation Coefficient and regression analysis. The regression results report the linear equation model of the equation of the variables used in this research.

The Return On Assets (ROA) is the dependent variable (which is based on the ratio of profit before interest and tax and total assets for the years under review. Leverage was based on the total amount of debts

to total amount of assets of all the firms in the years of study, the firm's size is the total assets of the firm and the age of the firm covers from the firm's incorporation date till date.

Model specification: The mathematical description of the relationship existing between the adopted variables is represented below:

$$Y = \beta_0 + \beta x_1 + \mu_{it} \qquad (1)$$

Where:
Y = Financial Performance (Dependent variables)
X = Corporate Attributes (Independent variables)
B = Coefficient and
μ = Error term

Equation 1 is further expanded by the introduction of the constructs of Company Attributes, formulating Eq. 2. This is to enhance predictability and easy analysis of the relationship that is between the two constructs (Financial Performance and Corporate Attributes):

$$\begin{aligned}(\text{Re turnonassets}) = \\ (\text{Leverage} + \text{firmsize} + \text{ageofthefirm})\end{aligned} \qquad (2)$$

RESULTS AND DISCUSSION

Data analysis: From Table 1, the ROA and the Leverage show a very weak negative correlation of -0.1515. This indicates that there is a weak negative relationship between the variables; therefore, as the leverage increases, the profitability of the firm decreases due to payments of debt interest, hence the financial performance of the firm reduces.

Also, the relationship between the ROA and the Firm Size shows a weak positive relationship between the variables. The relationship shows a value of 0.0329 which indicates a moderate positive relationship between the variables. This shows that as the asset increases (which was used to measure firm size), the performance of the company increases. Hence, total assets, inclusive of financial assets are a good determinant of firm performance.

Table 1: Test of Correlation between independent variables and ROA

Variable	ROA	LEV	LOGSIZE	AGE
ROA	1.0000			
LEV	-0.1515	1.0000		
LOGSIZE	0.0329	0.1137	1.0000	
AGE	0.2340	-0.1815	-0.3129	1.0000

ROA in this table represents Return on Asset, and it is the financial performance variable for this study, LEV represents LEVERAGE, LOGSIZE represents log of the size of the company, AGE represents age of the company

Table 2: The result of regression analysis using OLS

Source	Sum of Squares	df	Mean square	Nu of obs. 150	Parameters values
Model	0.153781283	3	0.051260428	$F(3,146) =$	4.30
Residual	1.74128321	146	0.011926597	$Prob > F =$	0.0061
Total	1.8950645	149	0.012718554	R-2 =	0.0811
				Adj R-2 =	0.0623
				Root MSE =	0.10921

Table 3: The cofficient of determination of independent variables

ROA	Coef.	SE	t	p>|t|	Conf. (95%)	Interval
LEV	-0.0220491	0.0148341	-1.49	0.139	-0.0513665	0.0072683
LOGSIZE	0.0170699	0.0114026	1.50	0.137	-0.0054655	0.0396053
AGE	0.0014213	0.000478	2.97	0.003	0.0004766	0.0023659
Constant	0.1293404	0.127246	-1.02	0.311	0.3808226	0.1221418

ROA in this table represents Return on Asset, and it represents the financial performance variable for this study, LEV represents LEVERAGE, LOGSIZE represents log of the size of the company, AGE represents age of the company. *,**, *** 1; 5; 10%

Furthermore, a weak positive relationship was observed between the return on asset and the Age of the firm. The relationship shows a value of 0.2340 which indicates a positive relationship between the variables. This suggests that there is a positive relationship between the variables. The positive relationship indicates that the performance of the company and the age of the company move in the same direction.

That is when the age of the company increases, performance increases. It indicates that young companies perform lower financially than companies that are relatively old. This means that the older the company, the better the performance of that company.

Regression analysis: STATA, (2014) Table 2 and 3 represents the results of the regression analysis in this study using ordinary least square. It also presents the association between the dependent variable (ROA) and the independent variables (LEV, LOGSIZE and AGE). The coefficient of determination (R^2) conveys an idea of the amount of variance in the dependent variable (financial performance) as explained by the model (which includes the variables of company attributes used). This shows that our model (which includes the variables of company attributes) explains 8.11% of the variance in financial performance. About 91.89% is left unaccounted for which is attributed to error term, this shows that either some of the explanatory variables used were not important or that other important explanatory variables have been left out. For the adjusted coefficient of determination (adjusted R^2), When a sample is involved for example if the number of observations is less than thirty, the R^2 value tends to be an over-estimation of the true value of the population. Therefore, the Adjusted R^2 corrects this value to give a better estimate of the true population. Here, we have 150 observations and the normal R^2 value is better off since the higher the better at 8.11% shared variance over

the Adjusted R^2 at 6.23% shared variance. The Prob>F (the F-statistic test) gives the test of the overall significance of the regression model. It seeks to find out if the explanatory variables have significant influence on the dependent variables. A test of the overall significance of the model indicates that the model is significant at 1% level because the calculated figure is 0.0061.

Hypotheses testing
Hypothesis 1:

- H_0: There is no significant relationship between leverage and the Return on Assets of listed companies in Nigeria

From Table 2, the P>|t| (probability) value for LEV is 0.139 for ROA. This stipulates that there is no significant relationship between LEV and the ROA of listed companies in Nigeria. This is because the probability value of p>|t| for LEV is not significant at 1, 5 or 10%. Thus, the researcher accepts the null hypothesis that Leverage is not significantly related to ROA of listed companies in Nigeria.

Hypothesis 2:

- H_0: There is no significant relationship between the Firm Size and the Return on Asset of listed companies in Nigeria

From Table 2 the P>|t| (probability) value for LOGSIZE is 0.137. This depicts that there is no significant relationship between the Firm Size of listed companies in Nigeria and ROA. This is because the probability value, P>|t| for Firm Size is not significant at 1 5 or 10%. Thus, the researcher accepts the null hypothesis that there is no significant relationship between the Firm Size and the Return on Assets of listed companies in Nigeria.

Table 4: Analysis of null hypothesis

NULL HYPOTHESIS	ACCEPT	REJECT
H_{01}:A significant relationship does not exist between leverage and ROA of listed companies in Nigeria.	✓	X
H_{02}: There is no significant relationship between firm size and ROA of listed companies in Nigeria.	✓	X
H_{03}: There is no significant relationship between age of the firm and ROA of listed companies in Nigeria	X	✓

Source: Field survey 2014

Hypothesis 3:

- H_0: There is no ignificant relationship between the age of the firm and the Return on Asset of listed companies in Nigeria

From Table 2, the P>|t| (probability) value for AGE is 0.003 for ROA. This portrays that there is a significant relationship between the age and the ROA of listed companies in Nigeria. This is because the probability value, P>|t|for AGE is significant at 5%. Thus, the researcher accepts the alternative hypothesis that there is a significant relationship between the age and the Return on Asset of listed companies in Niger Table 4

CONCLUSION

From hypothesis one, the research concludes that no significant relationship between the financial performance and the leverage of listed firms using Return on Assets as the measure of performance. This is in line with the work of Majumdar and Chhibber (1999) on Indian firms where they found a negative relationship between corporate profitability and leverage. This is however contrary to the work of Abor (2005) in Ghana where a positive relationship was observed between profitability and leverage

Also, from the second hypothesis, we concluded that there is no significant relationship between firm size and the financial performance of listed firms in Nigeria. This coincides with the result of Majumdar (1997) in Almajali *et al.* (2012) who stated that as firms become larger they might suffer inefficiencies, leading to inferior financial performance.

Additionally, we concluded fromthe result of hypothesis three that there is a significant relationship between financial performance and age of listed firms in Nigeria. This corresponds with the works of Batra (1999), Lumpkin and Dess (1999) who stated that older firms are more experienced, have enjoyed the benefits of learning, are not prone to the liabilities of newness, and can therefore enjoy superior financial performance.

In view of the forgone research work, the effect or extent of company attributes on the success of companies cannot be exaggerated. The study shows that the financial performance of listed firms is influenced by the age of the company and that leverage and total assets do not significantly influence the financial performance of companies when ROA is employed as the means of measuring financial performance.

RECOMMENDATIONS

This study therefore recommends that companies should pay attention to leverage because; companies that are highly leveraged may be atrisk of bankruptcy if they are unable to make payments on their debt. They may also be unableto find new lenders in the future. Nevertheless, leverage can increase the shareholders'return on their investment and make good use of the tax advantages associated withborrowing. However, older firms are also to be cautious as they are associated with inertia, and the bureaucratic ossification that is related to age.

SUGGESTIONS

Further studies on this subject matter can employ other means of measuring financial performance for the dependent variable. Further research can also be conducted on the company attributes of Small and Medium scale Enterprises and their growth and performance.

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