

Firm Attributes and Profitability of Listed Food Product Companies in Nigeria

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Abstract

This study examines the attributes of profitability of listed food products companies in Nigeria. The study utilizes archived data collected from annual reports and accounts. The population consist of 11 firms out of which 5 firms were selected from the companies for the period 2007 to 2016. The study employed Panel data methodology, therefore, Ordinary Least Square (OLS), Fixed Effect (FE) and Random Effect (RE) techniques were applied for the data analysis. Findings from the research revealed that firm age, size and leverage have significant impact on profitability of listed food products companies in Nigeria, while growth have non-significant impact on profitability. Based on these findings, the research therefore recommends that firms that are older should put in place measures to counter the new changes in market condition and avoids unnecessary bureaucracy in order to stabilize its profitability, it also recommends that companies should diversify and expand to achieve an optimum size so as to enjoy economics of scale which will ultimately result in higher level of profitability, among others.

Keywords: Profitability, Firm Age, Size, Leverage and Growth
JEL Code: M13, M41

Contribution/Originality:

This study is one of the very few studies which investigated the impact of four firm attributes on profitability. The paper contributes to public policy on food product companies' profitability.

1.0 Introduction

Profitability of a firm enhances its market value. This attracts other firms within the industry to compete and the competition enhances national economy growth. The word 'profitability' refers to earnings of companies that are generated from revenues after deducting all expenses incurred during a given period. It is considered one of the most important goals that management of every company strives to achieve and without it companies will ceased (Abiodun, 2013). Ultimately, the goal of the firm is to maximize the wealth of its shareholders by increasing the value of their stocks. However, literature in finance provided evidence of a strong relationship between earnings and stock values. Accordingly, if earnings announcements come as expected or better, stock prices will increase. On the other hand, if earnings announcements fell short of expectations, the stock prices will decline (Al-Jafari & Al-Samman, 2015). In addition, financial analysis includes profitability ratio as one of the main ratios to analyze the performance of a firm. So, both managers and stakeholders are concerned about the measures of profitability of a firm.

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Furthermore, considering the impact of the subject, a large number of literatures were put to inquire the main factors that are influencing profitability of the firms, for instance; Burja (2011), Popa and Chiobanu (2014) in Canada, also, Al-Jafari and Al-Samman (2015), Bano, Azeem, and Hassan (2012), Coban (2014) in Turkey among others examined the impact of firm attributes on profitability. All these were conducted outside Nigeria. On the other hand, the impact of the size of a firm on profitability as a single variable was tested by Dogan (2013), Nawaiseh and El-Shohnah (2015), Pevan and Visic (2012), Kira and He (2012), Mule, Mikras and Nzioka (2015), among others. In addition, the influence of age and profitability was explored by Coad, Segarra and Teruel (2010), Osunsan, Nowak, Mabonga, Pule, Kibirige and Baliruno (2015), studies the effect of firm age on financial performance.

All the studies mentioned above focused on single attribute while the study at hand is with four attributes. The contribution of food product companies necessitates the need to carry out this research especially at this present time when the federal government of Nigeria bans the importation of food through land borders. Therefore, building on previous studies, the objective of this paper is to investigate factors influencing the profitability of food product companies in Nigeria. These factors include firm size, firm age, leverage and firm growth.

2.0 Literature Review

This section deals with literature review on firm age and profitability, firm size and profitability, leverage and profitability, growth and profitability.

2.1 Firm age and profitability

The study of Ilaboya and Ohiokha (2016) investigated the relationship between company age, company size and profitability against the background of the learning by doing method and the structural inertia hypotheses using seven years (2006-2012). With the population of companies (202) listed on the Nigerian Stock Exchange as at December 2014, and a sample of 30 firms, panel data regression analysis technique is used for the data analysis. The study finds a significant positive relationship between firms age, firms size and profitability.

Similarly, Al-Tahat (2015) examined firms in Jordan. The attributes of companies are size, profitability, growth, age, leverage, audit firm size, and market listing status. The study analyse 193 half-yearly financial reports ended on 30th June, 2013, and showed that there is a significant association between profitability, growth, age, and market listing status and timeliness but no significant association is evidenced between size, leverage, and audit firm size and timeliness.

Also, Osunsan, *et. al.* (2015) found that, the effect of firm age on performance, using both financial (net profit before tax) and non-financial (operational) performance indicators. An ex-post facto,

descriptive correlation, descriptive comparative and cross-sectional survey design was used. A sample of 409 firms was used with age ranges in six categories. The parametric statistical techniques and regression analysis were also used. The result revealed that there is a significant positive relationship between firm age and performance. It further revealed that both financial and non-financial indicators could be used as effective measures of profitability.

Moreover, Radipere and Dhliwayo (2014) examined the effect of age and business size on business performance. A structured research instrument was used to collect data from 500 SMEs in retail industry through interview administration and questionnaire survey from which 93% of the questionnaires were returned. The result showed that there was no significant difference between the age categories; under one year, 20 years and beyond with **Return on Earnings**. Age is no longer a significant factor in a company's performance after twenty years. Life cycle approach of the company or industry could be an appropriate basis for analysis.

2.2 Firm size and Profitability

In a study by Akinlo (2008) on firm size and profitability. It investigated the long run relationship and causality issues between size and profitability in 66 firms in Nigeria using the panel co-integration method for the period 1999-2007. The empirical results showed that there are long-run steady state relationship between firm size and profitability. The short-run causal relationship indicated positive relationship between firms' size and profitability.

Moreover, Pervan and Visic (2012) examined the influence of firm size on business success in Croatia. The analysis covered small and medium enterprises between 2002 and 2010. The sample comprised of 2050 firms per year, yielding a total of 18,492 observations for the period under consideration using the correlation method of analysis. The study revealed that firm size has a significant positive (although weak) influence on firm profitability.

Also, Kaguri (2012) determined the relationship between firm characteristics which include size, diversification, leverage, liquidity, age, premium growth and claim experience as well as financial performance of life insurance companies in Kenya. Secondary data of 17 life insurance companies over the period of 2008-2012 were obtained on the financial performance from the annual reports and audited financial statements of the country. Consequently, regression analysis was used to analyze data and findings revealed that the variables are statistically significant to influencing financial performance of life insurance companies as indicated by the positive and strong Pearson correlation coefficients.

Likewise, Abiodun (2013) investigated the effect of firm size on the profitability of manufacturing companies listed in the Nigerian Stock Exchange, the data was analysed using a panel data set over the period 2000-2009. Profitability is measured by using Return on Assets, while both total assets and

total sales were used as the proxies of firm size. The study established that firm size, both in terms of total assets and sales, has a positive impact on the profitability of manufacturing companies in Nigeria.

Contrary to Abiodun (2013) research, Naiwaiseh, Boa and El-Shohnah (2015) established in their analysis on whether there is an influence of firm size and profitability on corporate social responsibility disclosures towards employees' dimension (CSR-D) in the Jordanian banks. The analysis was based on contents disclosed in their annual reports. The study found solid evidence to reject possible influence for **ROA**, size variables on (CSR-D) adopted by each bank. The study accepts possible relationship with **ROE**.

While, *Iroma et al* (2018) examined the effect of firm attributes on profitability of listed companies in Nigeria for a period of five years. The population and sample size of the study comprises of all the 41 listed manufacturing companies in the Nigerian Stock Exchange as at 31 December, 2016. The result of random effect regression provides evidence that all firm attributes apart from operating expenses and firm size had a negative and significant effect on return on asset. Based on this result.

2.3 Leverage and profitability

Leverage and profitability, studies have been conducted by many scholars among them are: Uluyol, Lebe and Akbas (2014), Gweyi and Karanja (2014), Barakat (2014), Moghadam and Jafari (2015), Al-Otaibi (2015), Abubakar (2015), Ahmad, Salman and Shamsi (2015), Kunga (2015), among others.

The study of Uluyol, Lebe and Akbas (2014) investigated the relation between financial leverage ratios (debt to total assets ratio) and **return on equity** and the impact of the leverage ratio on **return on equity**. The study was carried out on the basis of five industries using the financial leverage and **return on equity** ratios during the 22 years' quarter periods from 1991 to 2012. Result of the analysis revealed that the relationship between debt to total assets and **return on equity** is positive in the construction industry and negative in the IT, food, mining and textile.

Similarly, Gweyi and Karanja (2014), investigated the effect of financial leverage on financial performance of deposit taking Savings and Credit Co-operative Societies (SACCOS) in Kenya. The sample was extracted from 40 SACCOS registered by Sacco Society Regulatory Authority (SASRA) extended from the period 2010 to 2012. The secondary data used for analysis was collected from the financial statements of the various deposit taking SACCOS. Two basic approaches were used, these are the descriptive and analytical techniques. The results show perfect positive correlation between debt equity ratio with return on equity and profit after tax with a weak positive correlation between debt equity ratio and **return on assets** as well as income growth.

Also, Barakat (2014) investigated the effect of financial structure, financial leverage and profitability on industrial company's value, a sample was thus selected from Saudi Arabian industrial companies listed in Saudi Stock Market amounting to forty-six companies. The study used the brochures issued by Saudi capital market for four years during the period, 2009 – 2012. The study reveals that there was a direct relationship between two independent variables: return on equity and capital structure while the dependent variable represented by stock market price. However, there was a weak and inverse relationship between financial leverage and stock value.

However, Moghadam and Jafari (2015) described the role of financial leverage on the performance of listed companies in India stock exchange. Sample under investigation consists of 115 companies; their financial data are collected for the years 2007 to 2012 and analysed. The study shows that financial leverage has a significant positive relationship on the performance of sample companies. In other words, firms with higher debt levels are more profitable.

Furthermore, Al-Otaibi (2015) investigated the impact of financial leverage on the performance of Saudi Arabian firms, the sample consists of (26) financial statements of Saudi Arabian firms listed in the Saudi stock exchange for a period of 2 years (2011-2012). The study applied the regression analysis using debt ratio as independent variable representing financial leverage & ROA and ROE as dependent variables representing the performance. The study results indicate that, there was a significant relationship between debt ratio and ROE, however there is no significant relationship between the debt ratio and ROA.

While, Abubakar (2015) examined the relationship between financial leverage and financial performance of deposited money in banks of Nigeria, with specific reference to how debt – equity ratio and debt ratio affect return on equity of deposit money banks in Nigeria. The study selects 11 deposit money banks from Tier 1, Tier 2 and Tier 3 classification of banks using convenience sampling technique for the period 2005 – 2013. The study adopts both descriptive and correlation analysis in describing the data set and in investigating the relationship between financial leverage and financial performance. Findings from the correlation analysis revealed that there is a significant relationship between debt – equity ratio and financial performance proxied by return on equity. It also revealed that, there is no significant relationship between debt ratio and financial performance surrogated by ROE. The descriptive analysis show that about 84% of the total assets of deposit money banks in Nigeria are financed by debts, confirming that banks are highly levered financial institutions.

Equally, Ahmad, Salman and Shamsi (2015) attempts to establish a relationship between financial leverage and profitability of cement sector operating in Pakistan. For this purpose, 18 cement manufacturers, out of 21, are incorporated in the study, and a six-year annual data from 2005 to 2010 was taken. The sample size for 18 firms for six years consists of 108 observations. The Ordinary Least Square technique was applied on the data to establish a causal relationship between the variables. The

study found that, financial leverage has a statistically significant inverse impact on profitability at 99% confidence interval.

Likewise, Kunga (2015) sought to establish the relationship between financial leverage and profitability of firms listed at the Nairobi Securities Exchange (NSE). The study considered firms that have been listed on the NSE for the past five years and utilised secondary data obtained from the period 2010-2015. Data was collected from 47 listed firms which represent a response rate of 73 percent. Data is analysed using descriptive statistics, correlation and regression analysis. The results indicate that liquidity and financial leverage depicted a negative relationship with profitability. Size of the firm is found to have a positive relationship with profitability of listed firms at the NSE. Other studies that found negative relationships includes (Raza, 2013; Rajkumar, 2014; Mule and Mukras, 2015; Alhassan Bajahir and Alsheri, 2015).

In another vein, Charles *et al.* (2018) studied the effect of firm characteristics on profitability of listed consumer goods companies in Nigeria. Profitability is the dependent variable while firm characteristics is the independent variable proxied by firm age, firm size, sales growth, liquidity and leverage. The population of the study consists of twenty-two (22) listed consumer goods companies as at 31st December, 2016. Eighteen of the listed consumer goods companies were selected as the sample of the study for the period of six years (2011-2016). The study employed multiple regression as a tool for analysis. A hypothesis was formulated and tested for the study. Secondary data obtained from the financial statements of the companies were analysed. The results show that firm size, sales growth and leverage have significant effects on profitability. In contrast, firm age and liquidity are not significantly affecting profitability of listed consumer goods companies in Nigeria.

2.4 Growth and Profitability

Studies on firm growth include; Bano, Azeem and Hassan (2012), Sam and Hoshino (2013), Coban (2014), Yoo and Kim (2015), etc.

The study of Bano, Azeem and Hassan (2012) provided an in-depth description of the inter-relationship between firm size, growth and profitability of non-financial companies listed at Karachi Stock Exchange. The study is based on the sample of seventy (70) non-financial companies listed at Karachi Stock Exchange of Pakistan, selected on the basis of their market capitalization. Panel data techniques are employed using 700 observations of each of the variables of study; size (log natural of total assets), growth (sustainable growth rate for firm) and profitability (return on assets). Observations were collected for ten years' period of 2001 – 2010. They concluded that profitability has strong positive relationship with the growth of firms. However, they discovered that firm size having less significant and negative impact on the profit making.

While, Sam and Hoshino (2013) explored the performance by analysing sales growth ratio and profitability ratio in ICT industry between Japan and three Asian countries. Data from Orbis Database (OVBD) were analysed; 24 ICT companies in Asia region which consist of Thailand, Malaysia, and Philippines; and 69 ICT companies in Japan by using t test technique. The findings revealed that Japan and Asian had no significant difference with each other in their sales growth performance. Meanwhile, Asian shows better performance in profitability when comparing with Japan in ICT industry.

Whereas, Coban (2014) examined the interaction between firm growth and profitability using panel data on 137 Turkish listed manufacturing firms over the period 1997 – 2012. Using system Generalized Method of Moments Model (system-GMM), the study discovered that, there was a significant positive relationship between current profits and current growth. The impact of current profits on current growth is much stronger than the impact of current growth on current profits in the case of Turkish manufacturing firms.

Similarly, Yoo and Kim (2015) conducted an empirical analysis of the dynamic relationship between growth and profitability for small and medium - sized construction companies that faced long-term economic stagnation in Korea. The period of the analysis spanned from 2000 to 2014, and the full period was divided into two halves: before the 2008 global financial crisis and after it. The empirical model was based on the system-GMM model and 264 construction companies were used as the study sample. The results of the empirical analysis showed profitability driven management strategy limits company growth. Thus prolonging the economic downturn and when the macroeconomic environment is relatively stable, high growth in the previous period fosters profitability in the current period.

3.0 Methodology

This study used historical data of annual reports and accounts of the Nigerian food product companies covering a period of ten years (2006 to 2015). Ex-post facto design was employed. It focuses on the determinant of firm profitability. Also, panel data analysis was utilized in the study. Descriptive statistics, Pearson Moment Correlation and Multiple Regression were used as tools of analysis. The population of the study consist of eleven (11) companies, the companies are; Multi-Trex Integrated Food Plc, Honeywell Flour Mills Plc, Dangote Sugar Refinery Plc, Dangote Flour Mills Plc, Big Treat Plc, Union Dicon Salt Plc, UTC Nigeria Plc, Flour Mills of Nigeria, Northern Nigeria Flour Mills, National Salt Company of Nigeria Plc and P.S Mandrid Plc. A sample of five (5) companies were selected after applying two filters. These filters are: company must be listed throughout the period of study, and company must have available data required for the study. Therefore, only the last five companies listed above met the criteria as the sample of the study.

3.1 Variables and their Measurement

Profitability is used as dependent variable and the firm's attributes are taken as independent variable. Profitability was proxied by Return on Equity (ROE) while firm attributes were proxied by Firm Age (AGE), Size (SIZE), Leverage (LEV) and Growth (GRW) represent the independent variables as used by Hassan (2011); Mahmud (2015).

Firm Age (AGE): This was to ascertain the number of years of existence of a firm from the date of incorporation.

Firm Size (SIZE): log on total asset

Leverage (LEV): This is measured by a ratio of total debt to total asset.

Firm growth (FGRW): This is measured by current year total assets minus (-) previous year total asset divided by (/) previous year total assets.

Return on Equity (ROE): The ratio is used to measure the profitability of the firm in term of equity investment. It is measured by profit after tax divided by total equity.

In a bid to examine the firm attributes on profitability, we specify a model in line with Tariq, Ali, Usman and Abbas (2013), which are modified to include firm age.

$$ROE_{it} = \beta_0 + \beta_1 FSIZE_{it} + \beta_2 AGE_{it} + \beta_3 LEV_{it} + \beta_4 GRW_{it} + \epsilon_{it} \quad \dots (1)$$

Where:

ROE_{it} is the return on equity for firm i in period t

$FSIZE_{it}$ is the size of firm for firm i in period t .

AGE_{it} is the firm age for firm i in period t .

LEV_{it} denote leverage for firm i in period t .

GRW_{it} denote firm growth for firm i in period t .

β_0 represent the fixed intercept.

$\beta_1 + \beta_4$ represent the coefficient of the independent variables.

i denote the number of firm in the panel.

t denotes the time period of the panel data.

ϵ_{it} is the error term.

4.0 Empirical Results

This section presents the empirical result of the study. These include the descriptive statistics results, correlation matrix of firm attributes and profitability as well as the regression results.

4.1 Descriptive Results

The descriptive statistics results are presented in Table 4.1 below. It shows that the mean of ROE is 0.12 which indicates that for every N100 worth of total equity of the firms, N0.12 was profit after tax with a minimum and maximum of N-0.66 and N0.45. AGE has mean of 54years this shows that the firms are incorporated as far back as last 54 years with minimum and maximum of 33 and 83years respectively.

Table 4.1: Descriptive Statistics Result

Variables.	Obs.	Mean.	Std. Dev.	Minimum.	Maximum.
ROE	50	0.118437	0.2051571	-0.65632	0.447093
AGE	50	53.50000	15.59206	33.0000	83.0000
SIZE	50	6.634106	0.8949357	5.370472	8.364607
LEV	50	0.5203067	0.1103576	0.30482	0.783632
GRW	50	0.593256	3.357902	-0.99908	23.69158

Source: Authors' computation using Stata version 12.

The mean of size is N663, 410,621.05m with minimum and maximum of N537, 047,232.17m and N836, 460,789.36m respectively, this mean the size of firms varies widely across sample ranging from 5 to 8. Leverage on average is 0.52 implying that on the average, sampled food products companies has N0.52 debts per every Naira of its asset for the period of the study with minimum and maximum values of 0.30 and 0.78 respectively. Growth has a mean value of 0.59, indicating that the average growth by sampled food products companies is about 59% with a maximum of 23.69 and minimum decrease of -0.99.

4.2 Correlation Matrix

The result of correlation matrix is presented in Table 4.2 below. It shows the correlation matrix between the variables of the study. The values of the correlation coefficient vary from -1 to 1. The sign of the correlation coefficient indicates the bearing of the relationship whether positive or negative, the complete values of the correlation coefficient indicates the strength, with larger values indicating stronger relationships.

Table 4.2: Correlation Matrix of Firm Attributes and Profitability

	ROE	AGE	Size	LEV	GRW
ROE	1.0000				
AGE	-0.5210	1.0000			
SIZE	0.4177	-0.2633	1.0000		
LEV	-0.0827	-0.0826	0.4767	1.0000	
GRW	0.2013	-0.1794	0.0607	-0.0773	1.0000

Source: Authors' computation using Stata version 12.

The correlation coefficients on the main diagonal are 1.0, because each variable has an absolute positive linear relationship with itself. The correlation coefficient of the independent variables AGE, and dependent variable ROE are negatively correlated as the coefficients is -0.52, which indicates a significant negative correlation meaning that as firms goes older its profitability will decrease.

However, size is positively but not significant with return on equity. Leverage is negatively insignificant with profitability, while growth is positive but insignificant with return on equity.

4.3 Regression Results

The regression model is presented in Table 4.3 below. The regression model of return on equity (ROE) as the dependent variable did not provide efficient estimates and to check whether the variability of error terms is constant or not, a test for Heteroskedasticity was conducted.

Table 4.3: Regression Results: Firm attributes on return on equity

Variables.	Coeff.	Std. Err.	t.	P> t .
AGE.	-0.00503	0.0019099	-2.63	0.012
SIZE.	0.1096107	0.0315644	3.47	0.001
LEV.	-0.6715783	0.2650687	-2.53	0.015
GRW.	0.0045652	0.0702858	0.65	0.519
Cons.	0.0405431	0.2932756	0.14	0.891
R-squared.	0.4571			
F value.	6.03			
Prob>F.	0.0001			
Hausman Test (Prob>Chi) 12.24				

Source: Authors' computation using Stata version 12.

The Hausman test reveals absence of Heteroskedasticity.

The results from Table 4.3 indicate that the OLS regression results reveals that the R-square is 0.4571 which is the multiple coefficient of determination that gives the percentage of the total variation in the dependent variable explained by the explanatory variables. Hence, it signifies that 45.71% of a total variation in ROE of Nigerian listed food product companies is caused by their firm age, size, leverage, while the remaining change is as a result of other variables that are not addressed by this model. Similarly, the result of the F- statistics value of 6.03 implies that the variables use in the model were jointly fit.

In the OLS results, it can be seen that there exist a negative and significant relationship between return on equity with age and leverage. AGE is negative and significant on return on equity. This implies that, being older as a firm have inverse relationship with the return on equity, also LEV has significant negative relationship with return on equity, this means that high leverage reduces profitability. These findings are consistent with Omondi & Muturi (2013), and Dogan (2013). Also, size (SIZE) has positive and significant relationship in the regression at 1%. This shows that larger firms have an advantage over the smaller ones because of its large economies of scale, easy access to credit facilities, good reputation and usually have strong internal control system among others, which eventually improve their financial performance. This result is in line with the findings of Kaguri

(2012); Abiodun (2013); Seluk (2016), among others. Growth (GRW) of firm is found to be positive but insignificant relationship in the regression. This implies that, as firm is growing in term of its asset, it does not have any significant relationship in enhancing profitability. This finding agrees with that of Fitzsimmon, Stefferand & Dauglas (2005).

5.0 Conclusion and Recommendations

The correlation coefficient shows that age and leverage are negatively correlated with return on equity (profitability), which implies that as firms grow older its profitability will decrease. However, size and growth of the firm are positively correlated with return on equity. The regression result indicates that there exist a negative and significant relationship between the variables, age and leverage with return on equity. While, the variable, size has positive and significant relationship with return on equity (profitability). This shows that larger firms have an advantage over smaller ones due to economies of scale. But, growth of firm as a variable, is also positive but has an insignificant relationship with return on equity (profitability).

This study proffered the following recommendations:

1. Firms that are older should be up to date in terms of technological advancement to counter the new changes in market condition and avoids unnecessary bureaucracy in order to stabilize their financial performance.
2. Companies should diversify and expand their level of economies of scale so as to achieve an optimum size which will ultimately result in higher level of profitability.
3. Lastly, listed food product companies in Nigeria should be mindful in expansion of their assets and consider equity market in financing their business.

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