FIRMS CHARACTERISTICS AND THE FINANCIAL PERFORMANCE OF QUOTED CEMENT MANUFACTURING COMPANIES IN NIGERIA

BY

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BEING A DISSERTATION SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES NASARAWA STATE UNIVERSITY, KEFFI IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE (M.Sc.) DEGREE IN ACCOUNTING AND FINANCE

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DECLARATION

I hereby declare that this Dissertation has been written by me and it is a report of my research work. It has not been presented in any previous application for Master of Science in Accounting and Finance. All quotations are indicated and sources of information specifically acknowledged by means of references.

FALASE KOLAWOLE **----------** ----------
(NSU/ADM/MSC/ACC/485/12/13) Sign. Date

CERTIFICATION

The Dissertation entitled "Firms Characteristics and the Financial Performance of Quoted Cement Manufacturing Companies in Nigeria" meets the regulations governing the school of post graduate studies for the award of Master of Science (M.Sc.) Degree in Accounting and Finance, Faculty of Administration, Nasarawa State University, Keffi for its contribution to knowledge and literary presentation.

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Abstract

This study examined the effects of Firms Characteristics on the Financial Performance of Quoted Cement Manufacturing Companies in Nigeria. The research plan that was adopted for this study was descriptive research design. The study utilized secondary data from the annual reports of the quoted cement manufacturing companies in Nigeria for the period spanning through 2005-2014. Ordinary Least Square Method of Regression was used for the analyses of the data. It is found that, size of a company has significant effect on the profitability. Whereas, a significant negative effect of leverage on the financial performance (ROA) was indicated. Furthermore, Liquidity, assets tangibility, and assets utilization revealed significant positive effect on the Financial Performance (Return on Assets) of quoted cement manufacturing companies in Nigeria. The study recommended that, Quoted Cement Manufacturing Companies in Nigeria should be expanded in a controlled way with the aim of achieving an optimum size so as to enjoy economies of scale, and resort to debt financing when all means of raising equity financing are exhausted among others.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The contribution of the manufacturing industries in any economy cannot be over emphasized when considering its employment potentials and financial impacts on the economy. Apart from its role in laying a solid foundation for the economy, it also serves as import substituting industry and provides a ready market for intermediate goods. Manufacturing sector contributes significantly to the nation's economic development in several ways, such as, enhancing standard of living, improving in infrastructure, contribution to the Gross Domestic Product, employment generation, increasing manpower development, makes available many essential commodities, leads to transfer of technology, and brings about an improvement in bilateral relationship, especially in terms of trade with other foreign nations (Aderibigbe, 2004). The industry is the largest among the industries in Nigeria in term of employment, with more than 50 per cent of the working population employed in the sector. The sector is regarded as the basis for determining a nation's economy efficiency.

However, despite these numerous contributions to the economy, the Nigerian manufacturing sector has been in crisis. The sector average contribution to the nation's Gross Domestic Product over the past few years has not gone beyond five percent. Many years of neglect and mal-administration on the part of the government, coupled with

corruption and indiscriminate policy reversals have been some of the factors contributing to the crisis in this sector. Past governments have always failed to pursue policies that could create a vibrant real sector, as such the impact of the manufacturing sector has steadily declined over the years and its contribution to national growth and development has been disappointingly low (Okeke,1991).

With the increasing trend of failure in the sector characterised by very low asset level, high leverage, low liquidity position, poor assets utilization and underutilization of fixed assets. Stakeholders are becoming more concerned about the influence of these institutional factors and other macro variables determinants on the financial performance of the sector as well as the need to increase and sustain the performance.

Financial performance is very essential to the management of any company as it is an outcome which has been achieved by an individual or a group of individuals in an organisation related to its authority and responsibility in achieving the goal legally, not against the law and confirming to the morale and ethic (Hansen & Mowen, 2005). It is measured to determine the operating and financial characteristics and the efficiency and performance of economic unit by management as reference in the financial records and reports (Bhunia, 2010).

Financial performance to Iswatia and Anshoria (2007) is the function of the ability of an organisation to gain and manage the resources in several different ways to develop

competitive advantages. The importance of financial performance was rightly stated Banjalux (2006) and Katja (2009), as the lifeblood of economic units, since without it no decision can be made. Financial performance measure is one of the important performance measures for economic units. Financial performance measures are used as indicators to evaluate the success of economic units in achieving stated strategies, objectives and critical success factors.

Theoretically, apart from macro-variables factors like interest rate and inflation, the entire empirically identified institutional firm characteristics are directly related with financial performance (Liagovas & Skandalis, 2008; Almajali, Alamro & Al-Soub, 2012). In contrast to the theoretical assertion, Weir and Laing (1999) find little evidence to suggest that firm specific variables affect firm's performance. Similarly, Gopinath (2012) in his studies concludes that, size has a negative effect on firm's performance, as firm size grows; it becomes more difficult for it to sustain impressive financial performance. The cement manufacturing companies in Nigeria have recently dived into this menace.

Based on these backdrops, the study examines the effects of firms' characteristics in terms of Companies Size, Leverage, Liquidity, Asset Tangibility, and Assets Utilization on financial performance [profitability (ROA)] of quoted cement manufacturing companies in Nigeria.

1.2 Statement of the Problem

The manufacturing sector in Nigeria has had its share of misfortune; the financial performances of the sector are poor and non-sustaining. Their performance has become the issue of common concern of all stakeholders and the government. In recent studies, the apprehension has been on finding an appropriate model to measure as well as predict financial performance of manufacturing companies in Nigeria.

Empirical finance literatures have documented several theories and models which are used to explain firm financial performance. The classical models by Geroski (1999) and Hart (2000), believe that all firms within an industry are pushed by the existence of a U-shaped long run average cost curve and with the goal of maximizing profit to expand their size until they reach the scale corresponding to the feasible cost and that the process of growth is exhausted as far as the process of optimization is completed, as there is no incentive to grow beyond the optimum size.

Gibrat (1931) with the stochastic model lays out that, the growth of firms is a random process and the expected increase in firm size is proportional to the current size of the firm. The structure-based theorist argues that the industry factors are the primary determinants of firm's performance, while the resource based view argues that the competitive advantage is derived from the firm's internal environment in which the firm's resources and capacity is the determinants of firm performance (Wernerfelt, 1984).

A number of studies on the other hand emphasises the relative importance of a distinctive strategy in determining the firm's financial performance in various environments and examine the relationship between industry and firm's level strategy and firm's performance (Hitt, Hoskisson & Kim, 1997; Lee & Giorgis, 2004).

More so, literatures reveal that, findings in this area are still mix or inconclusive, since contradictory views exist regards the variables of the study. This study therefore, measures the effect of financial and institutional factors related to areas of Total Asset, Leverage, Liquidity, Asset Tangibility, and Assets Utilization on profitability of quoted cement manufacturing companies in Nigeria to validate or invalidate the existing literatures.

1.2 Research Questions

The following are the research questions of this study:

i. To what extent is Profitability of Quoted Cement Manufacturing Companies in Nigeria affected by Size of Company?

ii. What is the effect of Leverage on the Profitability of Quoted Cement Manufacturing Companies in Nigeria?

iii. How does the Liquidity of Quoted Cement Manufacturing Companies in Nigeria affect their Profitability?

iv. What is the effect of Tangibility of Assets on the Profitability of Quoted Cement Manufacturing Companies in Nigeria?

v. How does Assets Utilization of Quoted Cement Manufacturing Companies in Nigeria affect their Profitability?

vi. What is the combined effect of firm's characteristics on the Profitability of Quoted Cement Manufacturing Companies in Nigeria?

1.3 Objectives of the Study

The main objective of the study is to examine the effects of Total Asset, Leverage, Liquidity, Asset Tangibility, and Assets Utilization on Profitability of Quoted Cement Manufacturing Companies in Nigeria. The specific objectives are to:

i. Examine the effect of Firm Size on Profitability of Quoted Cement Manufacturing Companies in Nigeria.

ii. Assess the effect of Leverage on Profitability of Quoted Cement Manufacturing Companies in Nigeria.

iii. Evaluate the effect of Liquidity on Profitability of Quoted Cement Manufacturing Companies in Nigeria.

iv. Examine the effect of Assets Tangibility on Profitability of Quoted Cement Manufacturing Companies in Nigeria.

v. Evaluate the effect of Assets Utilization on Profitability of Quoted Cement Manufacturing Companies in Nigeria.

vi. Assess the combined effect of firm's characteristics on Profitability of Quoted Cement Manufacturing Companies in Nigeria.

1.4 Statement of Hypotheses

In consideration of the research questions and objectives of this study as stated above, the following null hypotheses are formulated:

H_{01}: Firm Size has no significant effect on Profitability of Quoted Cement Manufacturing Companies in Nigeria.

H_{02}: Leverage has no significant effect on Profitability of Quoted Cement Manufacturing Companies in Nigeria.

H_{03}: Liquidity has no significant effect on Profitability of Quoted Cement Manufacturing Companies in Nigeria.

H_{04}: Assets Tangibility has no significant effect on Profitability of Quoted Cement Manufacturing Companies in Nigeria.

H_{05}: Assets Utilization has no significant effect on Profitability of Quoted Cement Manufacturing Companies in Nigeria.

H_{06}: Combined effect of firm's characteristic has no significant effect on Profitability of Quoted Cement Manufacturing Companies in Nigeria.

1.5 Significance of the Study

Given the importance of the manufacturing sector in boosting economic growth and the standards of living of the people, the measurement of its institutional determinants and corporate governance variables on financial performance is of importance to both policy makers and researchers.

This study will also be significant as the measurement of financial performance of manufacturing companies are readily used to evaluate the efficiency of the real sector in relation to other sector as well as the economy as a whole. This knowledge will aid the management of the companies in deciding on which of the determinants should be accorded priority and also in the mobilisation of resources to achieve the best performance result.

Furthermore, the policy recommendations to be made will be of immense benefits to prospective investors in making sound investment decisions, particularly, investment analysts and stock brokers. Finally, this study will be useful to future researchers, especially university students and other academicians by serving as a reference in related areas.

1.6 Scope and Limitation of the Study

This study focuses on Quoted Cement Manufacturing Companies in Nigeria from year 2005 to 2014. The real sector was selected for study as a result of the importance of the industry in generating employment in the country and the contribution to economic development and growth. The period of 2005 to 2014 which culminated with the period of global financial crises in the world which nearly brought about the near collapse of the world economy also witnessed changes in public policy that affected the operation of manufacturing companies in Nigeria.

The choice of the variables: Total Asset, Leverage, Liquidity, Asset Tangibility, and Assets Utilization, ROA was as a result of intense review of relative literature on the subject and the overwhelming importance of these factors in determining financial performance of any profit making organisation. There is no limitation of this study, apart

from the natural limitation of data availability, which resulted in using only quoted cement manufacturing companies in Nigeria.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, related literatures with respect to the factors that affect the financial performance of companies are reviewed. This range from the conceptual framework of the study where various variables were defined, the empirical literature that reviewed similar studies regarding the variables of the study, down to theoretical underpinnings from which the study is grounded.

2.2 Concept of Firm's Characteristics

Empirical literature examines how financial factors, such as size, leverage, liquidity, capitalization, tangibility, and assets utilization have influence on the firms' financial performance and growth. The researcher has chosen these factors because they are the most appropriate ones in case of cement manufacturing firms in Nigerian context among many factors affecting the financial performance. On the other hand, these factors can be easily measured by using the data that can be afforded by Nigerian cement manufacturing companies. Thus, Debt leverage is measured by the ratio of total debt to equity (debt/equity ratio). It shows the degree to which a business is utilizing borrowed money. Companies that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on their debt; they may also be unable to find new lenders in the future.

Leverage is not always bad, however; it can increase the shareholders' return on their investment and make good use of the tax advantages associated with borrowing.

Liquidity refers to the degree to which debt obligations coming due in the next 12 months can be paid from cash or assets that will be turned into cash. It is usually measured by the current assets to current liabilities (current ratio). It shows the ability to convert an asset to cash quickly and reflects the ability of the firm to manage working capital when kept at normal levels. A firm can use liquid assets to finance its activities and investments when external finance is not available or it is too costly. On the other hand, higher liquidity would allow a firm to deal with unexpected contingencies and to cope with its obligations during periods of low earnings (Liargovas & Skandalis, 2008).

The size of the firm affects its financial performance in many ways. Large firms can explore economies of scale and scope and thus being more efficient compared to small firms. In addition, small firms may have less financial power than large firms; hence they may find it difficult to compete with the large firms particularly in highly competitive markets. On the other hand, as firms become larger, they might suffer from inefficiencies, leading to inferior financial performance. Theory, therefore, is equivocal on the precise relationship between size and performance (Majumdar, 1997).

The determinants of firm performances can be classified into bank specific (internal) and macroeconomic (external) factors (Al-Tamimi, 2010; Aburime, 2005). These are stochastic variables that determine the output. Internal factors are individual firm's characteristics which affect the firm's performance. These factors are basically influenced by internal decisions of management and the board. The external factors are sector-wide or country-wide factors which are beyond the control of the company and affect the profitability of firms. The overall financial performance of firms in Nigeria in the last two decade has been improving. However, this does not mean that all firms are profitable, there are firms declaring losses (Oloo, 2010). Studies have shown that firms specific and macroeconomic factors affect the performance of firms (Flamini et al. 2009).

As explained above, the internal factors are firms specific variables which influence the profitability of specific firm. These factors are within the scope of the bank to manipulate them and that they differ from firm to firm. These include size, leverage, liquidity, capitalization, tangibility, and assets utilization.

2.3 Concept of Financial Performance

There is no universally recognised definition of performance; the concept of performance has many meanings, as it is perceived by different users. There are still debates among several disciplines regarding how the performance of a firm can be measured and the factors that affect financial performance of companies (Liargovas & Skandalis, 2008).

Performance is success, performance is the result of an action, and performance is a state of competitiveness of the company, achieved through a level of effectiveness and efficiency that ensures a sustainable market presence. Performance also depends on the level of achievement of a company's strategic objectives, based on the creation of value, productivity and business effectiveness. Firm's performance is actually achieved by balancing and merging the four forces, the efficiency of production processes, satisfying shareholders, ensuring customer satisfaction and company growth and development capacity, degree of innovation and use of opportunities.

A company can be categorized as a global performance if it can satisfy the interests of all stakeholders. For example, managers are interested in the welfare and to obtain it, because their work is appreciated accordingly. Owners want to maximize their wealth by increasing the company's market value; current and potential shareholders perceive performance as the company's ability to distribute dividends for capital investment, given the risks they take. Commercial partners look for the solvency and stability of the company; credit institutions want to be sure that the company has the necessary capacity to repay loans on time a stable job and to obtain high material benefits. Finally, the state seeks company to be efficient, to pay its taxes, to help creating new jobs, and so on.

According to Hansen and Mowen (2005), financial performance is very essential to management, as it is an outcome which has been achieved by an individual or a group of

individuals in an organisation related to its authority and responsibility in achieving the goal legally, not against the law and conforming to the morale and ethics. Performance is the function of the ability of an organisation to gain and manage the resources in several different ways to develop competitive advantages.

In respect to a manufacturing company, financial performance can be measured in term of increase in revenue, increase production capacity, reduction in cost of production, improvement in operating cycle, increase and improved market share, increase asset base, and increase profitability. These performances are quite different from the non-measurable and non-monetary performance, such as increase in community relationship impact, reduction in staff turnover, and so on.

One of the common tools used in the measurement of financial performance is the financial ratio. Financial ratio analysis is an important analytical tool which provides managers with executives important insights regarding overhead cost structure, ability to raise capital, adequacy of working capital and contingency reserves, and efficient use of assets through the evaluation of a set of financial ratios, observations of trend in those ratios, and compared to average values for other companies in the industry Rabo, (2008). Ratio analysis helps to determine the performance of liquidity, profitability and solvency position of economic units and it provides valuable assistance to management in fixing any challenge that might have arisen (Periasamy, 2005).

Almajali et al (2012) argue that there are various measures of financial performance. For instance return on sales reveals how much a company earns in relation to its sales, return on assets explain a firm's ability to make use of its assets and return on equity reveals what return investors take for their investments. Company's performance can be evaluated in three dimensions. The first dimension is company's productivity, or processing inputs into outputs efficiently. The second is profitability dimension, or the level of which company's earnings are bigger than its costs. The third dimension is market premium, or the level at which company's market value is exceeds its book value (Walker, 2001).

Cohen, Chang and Ledford (1997) measured accounting returns using Return on Assets (ROA). They indicate that return on assets (ROA) is widely used by market analysts as a measure of financial performance, as it measures the efficiency of assets in producing income. The most used accounting measures of financial performance is Return on Assets (ROA) (McGuire *et al.,* 1988; Russo and Fouts, 1997; Stanwick and Stanwick, 2000; Clarkson *et al*., 2008), Return on Equity (ROE) (Bowman and Haire, 1975), and Return on Sales (ROS) (Stanwick and Stanwick, 1998). Thus, the study used return on assets (ROA) as a measure of financial performance.

2.4 Company Size and Financial Performance

Previous studies in finance have shown that company size can predict the financial performance of a firm (Simerly & Li, 2000). For instance, Hvide and These (2007) in their study concluded that larger firms have better performance. Flamini et.al (2009) suggested that bigger firms are more competitive than smaller firms in harnessing economies of scale in transactions and enjoy a higher level of profits. Athanasoglou et al., (2005) assert that increase in company size increases the performance of the bank. Almajali et al (2012) argue that the size of the firm can affect its financial performance. However, for firms that become exceptionally large, the effect of size could be negative due to bureaucratic and other reasons (Yuqi 2007).

Chen and Wong (2004) find that size, investment, liquidity are the important determinants of financial health of insurance companies. Vijayakumar and Tamizhselvan (2010) find a positive relationship between firm size and profitability. Papadognas (2007) conducted analysis on a sample of 3035 Greek manufacturing firms and reveal that for all size classes, firms' profitability is positively influenced by firm size. Lee (2009) examines the role that firm size plays in profitability. Results show that absolute firm size plays an important role in explaining profitability. Amato and Burson (2007) test size-profit relationship for firms operating in the financial services sector. With the linear specification in firm size, the authors reveal negative influence of firm size on its

profitability. Amarjit et.al (2010) find no significant relationship between firm size and gross operating profit ratio. The study of Falope and Ajilore (2009) also foid no significant variations in the effects of working capital management between large and small firms in Nigeria using a sample of 50 quoted companies.

The size of the company is an important determinant of a company's financial performance. Size is believed to have a positive effect on firm performance, since larger firms can leverage on their size to obtain better deals in finance as well as product or other factor market. Also large firm often gets access to cheaper financial resources (Mathur & Kenyon, 1998). Size is generally expected to have a positive relationship with financial performance. Kakani, Saha and Reddy (2004), Papdognas (2007), Lee (2009), Vijayakumar andTamizheselvan (2010), Abbas, Bashir, Manzor and Akram (2013), Omondi andMuturi (2013).Kakani, Saha and Reddy (2004), study was conducted using 566 Indian firms for the period from 1992 to 2000. The study finds that as the size of the firm increases, the firm's financial and market power will probably increase, which will invariably result in the increase in revenue. Abbas, Bashir, Manzor andAkram (2013), studying the factors affecting firm performance in the food sector in Pakistan for the period from 2005 to 2010, conclude that leverage, size and risk are the factors that significantly affect the firm's financial performance.

However, contrary to the above, Evan (1987), Dunne and Hughes (1994), Singh and Whittington (1968), Banz (1998) and Gopinath (2012) in their studies conclude that, size has a negative effect on firm performance, as firm size grows it becomes more difficult for it to sustain impressive financial performance. Gopinath (2012) examining the determinants of firm financial performance in young REITs (Real Estate Investment Trust) with the view that REITs with its unique operating conditions may have different implications for new venture growth. Data were collected from 148 United State equity REIT that had its Initial Public Offering (IPO) during the period from 1993-2005. The study concluded that financial performance is inversely proportional to REIT size, age and leverage and directly related to cash flow and insider ownership.

The above findings contradict with Gibrats stochastic firm theory, which sees firms' growth and performance as a random process with no past history or record. That is, the performance of any company is not depending on historical, institutional or external information of the firm.

2.5 Leverage and Financial Performance

Leverage refers to the proportion of debt to equity in the capital structure of a firm. The financing or leverage decision is a significant managerial decision because it influences the shareholder's return and risk and the market value of the firm. The ratio of debt-equity has implications for the shareholders' dividends and risk, this affect the cost of capital and the market value of the firm (Pandey, 2007). Gupta *et al* (2010) cite some studies showing contradictory results about the relationship between increased uses of debt in capital structure and financial performance. Ghosh, Nag and Sirmans (2000), Berger and Bonaccorsi di Patti (2006) report a positive relationship between leverage and financial performance, while Gleason *et al* (2000), Simerly and Li (2000) show negative relationship between financial performance and leverage level. Similarly, Zeitun and Tian (2007) find that debt level is negatively related with financial performance.

Several researchers have studied firms' debt use and suggest the determinants of financial leverage by reporting that firm's debt-equity decision is generally based on a trade-off between interest tax shields and the costs of financial stress (Upneja & Dalbor, 2001).According to the trade-off theory of capital structure, optimal debt level balances the benefits of debt against the costs of debt (Gu, 1993) hence, use of debt to a certain debt ratio results in higher return on equity, however, the benefit of debt would be lower than the cost after this level of capital structure. In other words, the more a company uses debt, the less income tax the company pays, but the greater its financial risk. Based on the

trade-off theory for capital structure, firms can take advantage of debt to make a better return on equity. Thus the study hypothesizes that;

According to Rajan and Zingales (1995), leverage can be defined as the ratio of total liabilities to total assets. It can be seen as alternative for the residual claim of equity holders. Aquino (2010) studies the capital structure of listed and unlisted Philippine firms. His study shows that high debt ratio is positively associated with the firm's growth rate and profitability. Joshua (2005) research paper reveals significant relationship between the ratio of total debt to total assets and ROE. The results of Aivaziana et al (2005) examine the impacts of financial leverage on the investment decisions and find that this is a negative relationship. In another study, Ahna et al (2006) find that the negative impact of financial leverage on the investment in the unimportant sectors is much important than the key sectors. Results of Youmatelo (2012) show that financial leverage negatively affects the investment decisions and those companies with higher debts are less eager to invest in the capital assets.

Sulairnan, Jili, and Sanda (2001) investigate the corporate failure in Malaysia. They have developed a logit model and investigated the factor that could be used to predict the failure. Various financial ratios have been used in the study but three main ratios are found to have a significant prediction power. These ratios include leverage, interest

coverage and total assets turnover. Another Malaysian study by Abdullah and Ahmad (2008) compared the different methodologies for failure prediction. They conclude that out of ten determinants of corporate performance studied, leverage, net income growth and return on assets are found to have the significant power to predict the failure of the firm.Storey, Keasey, Wynarczyk, and Watson (1987) examine the sample of 636 manufacturing firms from United Kingdom. They find the financial ratios that matter in the survival of the firms. Ownership, management structure, accounting procedures, and financing of the firms have been investigated. Results of the study confirm that financial ratios have significant power of failure prediction.

The influence of leverage also known as debt ratio on firm financial position is an interesting and widely researched topic. The initial study on the relevancy of leverages on the performance was the classical theory of Modigliani-Miller (MM theory). The theory holds that the financial structure is irrelevant to determine the firm performance, that is under a certain market price process, in the absence of taxes, bankruptcy costs, agency costs, and asymmetric information in an efficient market, the value of a firm is unaffected by how that firm is financed Modigliani and Miller (1958). This theory is similar to the Gibrat stochastic theory of firm performance.

However, recent researches on capital structure/leverage (Scot, 1972; Myers, 1977; Jensen & Mackling, 1976; Ross, 1977) recognised that the capital structure or leverage of a firm is relevant in determining its financial performances. The pecking order hypothesis by Myers (1984), indicates that firms will prefer retained earnings for financial purpose to debts and they prefer debt to new equity as a form of financing; retained earnings, debt and equity issues have progressively higher cost to the firm.

The trade-off theory by Scot (1972) suggests that a firm should choose their mix of debt and equity financing by trading-off expected costs and benefits of debt financing. In this theory, high inflation, decreasing gross domestic product (GDP), decreasing market capitalization and high interest rate will lower the level of debt in the capital structure as also the profit level of the company. The signally theory by Ross (1977), investors believe that higher levels of debt will imply higher quality and higher future cash flows. This means that lower quality firms with higher expected costs of bankruptcy at any level of debt cannot follow the steps of higher quality firms by incurring more debt. Leverage is low or negative when profitability and business risk is high Myers (2001). Debt ratio variability depends on the sector or industry concern, for example marketing and advertising intensive companies such as Procter and Gamble have traditionally operated at low debt ratios, whereas manufacturing companies operating in developed countries have a very high debt ratio.

Debt ratio also depends on how developed is the economy, the ease of obtaining loans, rate of interest, inflation and other governmental policy. For example, reported debt ratios for United State (US) corporations are generally lower than in other industrialized countries Myers (2001). It is expected that debt ratio will have a positive relationship with a firm financial performance as in Xu and Banchuenvijit (2008), Aquino (2010), and Mirza andJaved (2013). Aquino (2010) studies the leverage of listed and unlisted Philippine firms and finds that high debt ratio is positively associated with the firm's growth rate and profitability.

Xu and Banchuenvijit (2008) while studying financial performance of 28 firms listed in Shanghai Stock Exchange find that leverage and asset utilization are factors that affect financial performance. Similarly, Mirza and Javed (2013), examining the performance of firms in terms of profitability and its association with multiple determinants for 60 Pakistani corporate firms listed in Karachi stock exchange for the period of 2007 to 2011 conclude that, leverages, corporate governance and economic indicators influence financial performance in the selected companies.

Contrary to the above, Barton and Gordon (1988), Krishnan and Moyer (1997), Zeitun and Tian (2007), Onaolopo and Kajola (2010), all conclude with a negative relationship between firm financial performance and debt ratio. Barton and Gordon (1988) suggest

that a firm with high earnings rate will maintain a relatively lower level of leverage because of its ability to finance itself from self-generated funds.

2.6 Liquidity and Financial Performance

The International Financial Reporting Standards (2006) define liquidity as the available cash for the near future, after taking into account the financial obligations corresponding to that period. Liargovas and Skandalis (2008) argues that firm can use liquid assets to finance its activities and investments when external finance are not available. On the other hand, higher liquidity can allow a firm to deal with unexpected contingencies and to cope with its obligations during periods of low earnings.

Almajali et al (2012) find that firm liquidity has significant effect on Financial Performance of insurance companies. The result suggests that the insurance companies should increase the current assets and decrease current liabilities because of the positive relationship between the liquidity and financial performance. In contrast to the above reasoning, based on a theoretical model by Jovanovic (1982) suggests that a moderate amount of liquidity may propel entrepreneurial performance, but that an abundance of liquidity may do more harm than good. Therefore, they concluded that the effect of liquidity on firms' financial performance is ambiguous.

One of the most common measure of working capital is the current ratio. “Current ratio is a measure of relative liquidity that takes into account differences in absolute size. It is used to compare companies with different total current assets and liabilities” (Louderback et al., 2000). Binti and Binti (2010) find that current ratio is negatively significant to financial performance of 172 listed Malaysian firms. Eljely (2004) empirically examines the relationship of liquidity and profitability as measured by current ratio and cash gap on a sample of 29 joint stock companies in Saudi Arabia and find significant negative relationship between the firm’s profitability and its liquidity level, as measured by current ratio using correlation and regression analysis.

Another very important measurement of financial performance of manufacturing companies is the company’s liquidity. The liquidity of a company is basically an expression of how much in liquid asset the firm currently has to build its business, produces value and discharge short term expiring obligations. The impact of liquidity or current ratio on the performance of a company is very dynamic, as its affects time and money. If a firm can get cash to move faster around the operating cycle or reduce the amount of money tied up in the business, it will generate more cash, and as a direct impact, the firm will reduce the amount of bank interest (cost of operation) and will have additional free cash available to support additional sales growth or investment. In the

same way, if the company can negotiate improved terms with suppliers, the company can effectively create finances to help future sales Gup (1983).

Just like all the other variables, there are contrary views as to the effect of liquidity/working capital on the financial performance of the company. Omondi and Muturi (2013) study the influence of working capital on the financial performance of 29 listed companies at the Nairobi Securities Exchange, concludes that liquidity has a significant positive effect on the financial performance of the companies. As necessary as liquidity, a high current ratio will show the inability of the company to manage its current asset as such empirically there is a negative relationship between liquidity and financial performance Eljely (2004), Falope and Ajilore (2009), Binti and Binti (2010). Eljely (2004) empirically examined the relationship between liquidity and profitability with a sample of 29 listed companies in Saudi Arabia and find that liquidity as measured by current ratio exhibit significant negative relationship with profitability.

2.7 Assets Tangibility and Financial Performance

Asset Tangibility is considered to be the major determinant of a firm's performance. The most common argument in the literature favours a positive relationship between asset tangibility and performance. Mackie (1990) concludes that a firm with high fraction of plant and equipment (tangible assets) is the asset base makes the debt choice more likely and influences the firm performance. Akintaye (2008) argues that a firm which retains large investments is tangible assets will have smaller costs of financial distress than a

firm that relies on intangible assets. The relationship between asset tangibility and firm performance is expected to be positive.

Medhat and Tarawneh (2006) compare the financial performance between five commercial banks in the Sultanate of Oman, during period from 1999 to 2003, the researcher used method of simple regressions in order to determine the impact of independent variables on dependent variables in the research sample, the researcher used the return on assets and the interest income as proxies (dependent variables), while used the bank size, asset management, tangible assets, and operational efficiency as independent variables. The study finds there is positive strong effect of the tangible assets, operational efficiency, asset management and bank size on financial performance (ROA).The study concludes that the bank with higher tangible assets, deposits, credits, or shareholder equity, does not always mean that has better profitability.

Liargovas and Skandalis (2008) identify the factors affecting the financial performance of Greece, industrial firms during the period from 1997 to 2004, this study uses the return on sales (ROS), return on assets (ROA) and return on equity (ROE) as proxies (dependent variables), while used the factors of leverage, liquidity, capitalization, tangible assets, investment, size, age, location, export and management efficiency as independent variables. The study findings show that leverage, tangible assets, liquidity, size and index management competence index, significantly affect on financial performance of Jordanian insurance companies listed at Amman stock exchange. The

results of this study show that leverage, export , location, size and management efficiency significantly affect on financial performance of Greece industrial firms, these results implies that profitable in Greece industrial firms are large, young, exporting firms with a competitive management team , which have an optimal debt-equity ratio and use their liquidity to finance their investments.

Almajali, et al (2012) examine and identify the factors affecting the financial performance of Jordanian insurance companies listed at Amman stock exchange during the period from 2002 to 2007, the researcher used the return on assets (ROA) as proxies (dependent variable), while used the factors of leverage, tangible assets, liquidity, age, size and management competence index as independent variables. The study findings show that leverage, liquidity, size and index management competence index, significantly affect on financial performance of Jordanian insurance companies listed at Amman stock exchange.

Amalendu and Bhunia (2010) state in his study that the financial performance of Indian pharmaceutical Industry, this study has been undertaken for the period of twelve years from 1997 to 2009, the researcher used the return on investment (ROI) as proxy (dependent variable), while used the current ratio (CR), liquid ratio (LR), debt to equity ratio (DER) , tangible assets ratio (TAR), interest coverage ratio (ICR) , inventory turnover ratio (ITR) , debtors turnover ratio (DTR) , net profit to total asset ratio (NPTAR), return on investment ratio (ROIR), debt to total asset ratio (DTAR) , debt to

net worth ratio (DNWR), net worth to total asset ratio (NWTAR) and total liabilities to net worth ratio (TLTWR) as independent variables. The results of this study showed that there is statistically significant relationship between most of study variables with return on investment.

2.8 Asset Utilization and Financial Performance

According to Ellis (1998), asset utilization measures which assets are capable of producing and what they actually produce. Conversely, asset dis-utilization represents losses in revenue in relation to the investment that may be attributable to the inefficient use of assets. Fleming, Heaney and McCosker (2005) pointed out that asset dis-utilization may increase agency costs because managers do not act in the best interests of the owners.

Okwo (2012) a study of asset utilization and firm profitability. It is found that the relationship is positive but the result is not statistically significant. Xu and Xu (2013) assess the optimal allocation of assets structure and business performance, and the finding shows statistically significant relationship between assets Structure and business performance. Furthermore, Jose et al. (2010), Wu et al. (2010) and Seema et al. (2011) point out that asset utilization has a significant effect on firm's financial performance.

2.9 Theoretical Framework

There are several models and theories explaining firm financial performance, however, for the purpose of this study the following theories/models are most relevant: classical models, Gibrat Stochastic model, Resources based model and the Stakeholder theory.

2.9.1 Classical Model: According to the classical theory, all firms within an industry are pushed by the existence of a U-shaped long run average cost curve and with the goal of maximizing profit to expand their size until they reach the scale corresponding to the feasible cost, Geroski (1999). The classicists believe that the process of growth is exhausted as far as the process of optimization is completed, as there is no incentive to grow beyond the optimum size Hart (2000). However, this is done under the assumption that firm operates in a homogenous product market and can easily expand or contract to arrive at the optimal output level. In reality, the empirical evidence gives a different story about firm growth, which is beyond the profit maximising mechanism. Thus, the main criticism of the classical economist's school of thought is that, the theory cannot explain the presence of firms whose size is larger than the optimum size and how the process of firm growth actually evolves over time.

2.9.2 Stochastic Model: The stochastic model as explained by Gibrat (1931) is based on the 'law of proportional effect. Gibrat lays out the principle that growth of firms is a random process and the expected increase in firm size is proportional to the current size of the firm. The stochastic model was initially formulated by Fama (1965, 1970) to explain the pattern of stock price movement. Fama in the theory notes that knowledge of

the sequence of price changes during the previous time period is completely independent of the present price change.

Gilbrat's law of proportional effect has been tested by many researchers with differing conclusions. Hart and Prais (1956) and Hart (2000) support the views of the law of proportional effect, whereas Hymer and Pashigan (1962) only support a part of the theory of firm growth being independent of firm size. Recent studies by Kumar (1985) and Evans (1987) state that there is a negative relationship between size and growth of a firm, while others like Hart (2000) and Glencey (1998) are of the opinion that smaller and younger firms grow at a higher rate than the larger and mature firms.

2.9.3 Resource Base Theory: Penrose (1959) basically departs from the traditional emphasis on the size of the firm to a resource based view of firm growth. The resource based view considers the firm as a collection of resources and the focus is on the activities it can perform with those resources. Penrose further analysed the process of growth in terms of the speed with which firms could accumulate and assimilate such resources, and the opportunities for further growth which arise when firms internal resources are under used.

In supporting the resources base theory, Wernerfelt (1984), Barney (1991) consider that the market of production factors, rather than the market of products defines corporate success.

2.9.4 Stakeholder Theory: The stakeholder theory was initially introduced by Freeman (1984), Carrol (1991) and Clarkson (1995). This theory refers to stakeholders as a collection of individuals or group interests which may affect or be affected by organisations. These groups include employees, shareholders, consumers, suppliers, trade union, business associates as well as competitors. They are also recognised and involved in the success and failure of the organisation. Further, stakeholder theory established and maintained that measure of firms' performance should also be through social and environmental factors. Moreover, firms should also be aware that responsible behaviour leads to sustainable business success Carrol (1991). Therefore, the theory stated in both practical and managerial terms, that corporate organisations should strive, apart from making profit, to obey laws, be ethical and of course be a good corporate citizen.

2.10 Summary

The chapter covers the reviewed of related literatures from which the study gap was identified. Thus the literatures reveal clearly that the findings in previous researches are still inconclusive. Again, none of these studies bothers to consider the specific variables used in this studies to explain the firms characteristic and financial performance in manufacturing companies especially the quoted cement manufacturing companies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the process of achieving the objective of this study. In this chapter, the research design, population and sampling technique were defined. The method of data collection, procedures for data analysis and model specifications as well as the justification of the method used were presented.

3.2 Research Design

This study adopts the descriptive research design among all the other research design. The choice of descriptive research design is because; descriptive design is highly concerned with describing the actual situation and establishing the relationship existing among variables. Furthermore, Akpa (2011) states that descriptive research findings provide insights for predicting the observed relationship and provides a clue to causation. The use of descriptive research design will lead to the realisation of the objective of this study as it primarily seeks to describe, explain and interpret existing conditions among variables.

3.3 Population of the Study and Sampling Technique

The population of this study is the quoted cement manufacturing companies in Nigeria. Thus, all the quoted cement manufacturing companies were selected for the study. There

are four quoted cement manufacturing companies in Nigeria and all of them were used in the analysis. Below are the names of the listed cement manufacturing companies.

i. Cement Company of Northern Nigeria Plc.

ii. Dangote Cement Company Plc

iii. Lafarge Cement WAPCO Nigeria Plc

iv. Ashaka Cement Plc

3.4 Method of Data Collection

This study uses secondary data for analysis. The data were sourced from the financial statements of the listed cement manufacturing companies and Nigeria stock exchange fact book. Thus, confirmed that the method used in collecting the data is text.

3.5 Procedure for Data Analysis and Model Specifications

The Ordinary Least Squares Method of Regression was used with the aid of statistical package for social sciences (SPSS) to determine and analyze the effects of Firms Characteristics on Financial Performance of Quoted Cement Manufacturing Companies in Nigeria. Thus, Total Asset, Leverage, Liquidity, Asset Tangibility, and Assets Utilization are independent variables, while Profitability is the dependent variable.

The Models for the Regression are:

PRFT =f (CS)

PRFT =f (LVRG)

PRFT =f (LIQ)

PRFT =f (AT)

PRFT =f (AU)

PRFT =f (CS, LVRG, LIQ, AT, AU)

Mathematically,

$$\mathbf{PRFT = \alpha + \beta CS + \mu}$$

$$\mathbf{PRFT = \alpha + \beta LVRG + \mu}$$

$$\mathbf{PRFT = \alpha + \beta LIQ + \mu}$$

$$\mathbf{PRFT = \alpha + \beta AT + \mu}$$

$$\mathbf{PRFT = \alpha + \beta AU + \mu}$$

$$\mathbf{PRFT = \alpha + CS + LVRG + LIQ + AT + AU + \mu}$$

Where:

PRFT = Profitability (ROA)

CS = Company Size (Natural Log of Total Assets)

LVRG = Leverage (Total Liabilities to Total Assets)

LIQ = Liquidity (Current Assets to Current Liabilities)

AT = Assets Tangibility (Fixed Assets to Total Assets)

AU = Assets Utilization/Total Assets Turnover (Net Sales to Total Assets)

α = Intercept or Constant

β = Slope of the regression line with respect to the independent variable

μ = error term

Decision Rule

In order to estimate the regression analysis model, SPSS was used. The procedure involves specifying the dependent and independent variables; in this case, Total Asset, Leverage, Liquidity, Asset Tangibility, and Assets Utilization are the independent variables while profitability is the dependent variable. SPSS was run and from the output, the values of the constant (b_0) coefficient of regression β were obtained. In addition the outputs show the T statistics and P values for the coefficients which results in either rejecting or failure to reject the hypotheses at 5% level of significance. The P value is a probability of getting a result that is at least extreme as the critical values (0.05). The null hypotheses is rejected if the P-value is less than or equal to the critical value. Also, the outputs show the coefficient of determination (r^2), which measures the proportion of the dependent variables that can be explained by the regression model. At the P-value of less than or equal to critical value the null hypothesis is rejected that there is a slope between the variables. The linear relationship exists when the P-value or significance level is less than or equal to the critical value.

3.6 Justification of the Method Used

The ordinary least square method of regression was used to measure the cause-effect relationship, thus is most appropriate in this case of studying the effect of firm characteristics on financial performance. Thus Total Asset, Leverage, Liquidity, Asset Tangibility, and Assets Utilization were regressed against profitability. The method is considered simple and explicit as it tells how significant each of these variables has on the dependent variables. This helps to draw a reliable and reasonable conclusion without much stress. The small population size of four (4) instigates the study to taking the entire population as sample.

3.7 Summary

In this chapter, relevant methodology for the study are explained ranging from research design, population and sampling technique, method of data collection, procedures for data analysis and model specification down to justification of method used. Thus, descriptive research design was adopted; text method of data collection was used to collect data from annual reports of the sampled firms and the NSE Fact book. The data were analyzed using OLS considering the nature and objective of the study.

CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter covers the presentation and analysis of data collected from the sample of the study, quoted Cement Manufacturing Companies in Nigeria (i.e. Cement Company of Northern Nigeria Plc, Lafarge WAPCO Plc, Dangote Cement Plc, Ashaka Cement Plc). In this case, each of the samples data are presented in tables and analysed accordingly. The data and results of our regression are presented in table 4.1 down to table 4.20 below to assess the effect of firm characteristics on profitability of quoted cement manufacturing companies in Nigeria. Our hypotheses are tested at 5% level of significance (95% confidence interval).

4.2 Company Size and Profitability

Table 4.1: Aggregate Total Assets and Profitability

Year	Profitability	Total Assets	ROA	Size
	N'M	N'M		(LogTA)
2005	2,474	16,161	**0.1531**	**5.0814**
2006	4,719	26,647	**0.1771**	**6.47235**
2007	4,912	32,489	**0.1512**	**6.19236**
2008	3,445	43,442	**0.0793**	**6.09131**
2009	29,044	108,902	**0.2667**	**6.80462**
2010	38,571	108,927	**0.3541**	**6.83195**

2011	9,301	186,018	**0.05**	**2.89037**
2012	69,472	519,219	**0.1338**	**5.38907**
2013	41,419	644,152	**0.0643**	**5.02388**
2014	89,613	450,545	**0.1989**	**6.30079**

Source: Researcher's Computation, 2015

Table 4.1 presents the aggregate data of 4 quoted cement manufacturing companies in Nigeria. The data are the total profitability of the four firms and their total assets. The ROA is computed by dividing total profitability to total assets, while company size is the natural log of the total assets.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.722[a]	.521	.461	.06894

a. Predictors: (Constant), Size

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.041	1	.041	8.700	.018[a]
	Residual	.038	8	.005		
	Total	.079	9			

a. Predictors: (Constant), Size

b. Dependent Variable: Return on Assets

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.163	.113		-1.448	.186
	Size	.057	.019	.722	2.950	.018

a. Dependent Variable: Return on Assets

The regression line ROA = -0.163+0.057CS indicates that profitability will increase by 0.057% for every 1% increase in Company Size (CS). The P-value of 0.018 is less than the t-value of 0.05. The Null Hypothesis is therefore, rejected that the effect of CS on profitability of Quoted Cement Manufacturing Companies Nigeria is significant. This is corroborated by the correlation coefficient (r) of 0.722 which shows a strong relationship and the coefficient of determination (r^2) of 0.521 which indicates that 52.1% of variation in profitability can be explained by CS. The remaining 47.9% is explained by variables that are not captured in the regression model (error term). In the absence of the CS, profitability will reduce by 0.163 as indicated by constant (α).

4.3 Leverage and Profitability

Table 4.2: Aggregate Leverage and Profitability

Year	Profitability N'M	Total Assets N'M	Liabilities N'M	ROA	LVRGR
2005	2,474	16,161	5,768	**0.1531**	**0.3569**
2006	4,719	26,647	5,076	**0.1771**	**0.1905**
2007	4,912	32,489	10,176	**0.1512**	**0.3132**
2008	3,445	43,442	22,008	**0.0793**	**0.5066**
2009	29,044	108,902	19,559	**0.2667**	**0.1796**
2010	38,571	108,927	11,241	**0.3541**	**0.1032**
2011	9,301	186,018	69,757	**0.05**	**0.375**
2012	69,472	519,219	67,239	**0.1338**	**0.1295**
2013	41,419	644,152	272,605	**0.0643**	**0.4232**
2014	89,613	450,545	60,058	**0.1989**	**0.1333**

Source: Researcher's Computation, 2015

Table 4.2 presents the aggregate data of 4 quoted cement manufacturing companies in Nigeria. The data are the total profitability of the four firms, their total assets and total liabilities. The ROA is computed by dividing total profitability to total assets, while leverage is the ratio of total liabilities to total assets.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.763[a]	.582	.530	.06440

a. Predictors: (Constant), Leverage

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.046	1	.046	11.134	.010[a]
	Residual	.033	8	.004		
	Total	.079	9			

a. Predictors: (Constant), Leverage

b. Dependent Variable: Return on Assets

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.300	.046		6.541	.000
	Leverage	-.506	.152	-.763	-3.337	.010

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	.300	.046		6.541	.000
	Leverage	-.506	.152	-.763	-3.337	.010

a. Dependent Variable: Return on Assets

The regression line ROA = 0.300-0.506LVRG indicates that Profitability will decrease by 0.506% for every 1% increase in Leverage (LVRG). The P-value of 0.010 is less than the t-value of 0.05. The Null Hypothesis is therefore, rejected that the effect of Leverage on profitability of Quoted Cement Manufacturing Companies Nigeria is significant. This is corroborated by the correlation coefficient (r) of 0.763 which shows a strong relationship and the coefficient of determination (r^2) of 0.582 which indicates that 58.2% of variation in profitability can be explained by Leverage. The remaining 41.8% is explained by variables that are not captured in the regression model (error term). In the absence of the Leverage, profitability will stand at 0.300 as indicated by constant (α).

4.4 Liquidity and Profitability

Table 4.3: Aggregate Liquidity and Profitability

Year	Profitability N'M	Total Assets N'M	Current Assets N'M	Current Liabilities N'M	ROA	LIQR
2005	2,474	16,161	985	3,589	**0.1531**	**0.2745**
2006	4,719	26,647	3,059	6,143	**0.1771**	**0.498**
2007	4,912	32,489	916	5,219	**0.1512**	**0.1756**
2008	3,445	43,442	816	8,434	**0.0793**	**0.0967**
2009	29,044	108,902	2,027	8,245	**0.2667**	**0.2459**
2010	38,571	108,927	4,363	8,894	**0.3541**	**0.4906**
2011	9,301	186,018	3,001	18,223	**0.05**	**0.1647**
2012	69,472	519,219	11,446	29,531	**0.1338**	**0.3876**
2013	41,419	644,152	5,387	54,632	**0.0643**	**0.0986**
2014	89,613	450,545	30,690	103,124	**0.1989**	**0.2976**

Source: Researcher's Computation, 2015

Table 4.3 presents the aggregate data of 4 quoted cement manufacturing companies in Nigeria. The data are the total profitability of the four firms, their total assets, total current assets and total current liabilities. The ROA is computed by dividing total profitability to total assets, while liquidity is the ratio of total current assets to total current liabilities.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.682[a]	.465	.398	.07289

a. Predictors: (Constant), Liquidity

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.037	1	.037	6.940	.030[a]
	Residual	.042	8	.005		
	Total	.079	9			

a. Predictors: (Constant), Liquidity

b. Dependent Variable: Return on Assets

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.044	.051		.874	.408
	Liquidity	.435	.165	.682	2.634	.030

a. Dependent Variable: Return on Assets

The regression line ROA = 0.044+0.435LIQ indicates that Profitability will increase by 0.435% for every 1% increase in Liquidity (LIQ). The P-value of 0.030 is less than the t-value of 0.05. The Null Hypothesis is therefore, rejected that the effect of Liquidity on profitability of Quoted Cement Manufacturing Companies Nigeria is significant. This is corroborated by the correlation coefficient (r) of 0.682 which shows a moderate relationship and the coefficient of determination (r^2) of 0.465 which indicates that about 47% of variation in profitability can be explained by Liquidity. The remaining 53% is

explained by variables that are not captured in the regression model (error term). In the absence of the Liquidity, profitability will stand at 0.044 as indicated by constant (α).

4.5 Assets Tangibility and Profitability

Table 4.4: Aggregate Assets Tangibility and Profitability

Year	Profitability	Total Assets	Fixed Assets	ROA	ATR
2005	2,474	16,161	9,543	**0.1531**	**0.5905**
2006	4,719	26,647	20,009	**0.1771**	**0.7509**
2007	4,912	32,489	10,939	**0.1512**	**0.3367**
2008	3,445	43,442	4,540	**0.0793**	**0.1045**
2009	29,044	108,902	49,703	**0.2667**	**0.4564**
2010	38,571	108,927	71,532	**0.3541**	**0.6567**
2011	9,301	186,018	38,041	**0.05**	**0.2045**
2012	69,472	519,219	212,309	**0.1338**	**0.4089**
2013	41,419	644,152	125,996	**0.0643**	**0.1956**
2014	89,613	450,545	156,970	**0.1989**	**0.3484**

Source: Researcher's Computation, 2015

Table 4.4 presents the aggregate data of 4 quoted cement manufacturing companies in Nigeria. The data are the total profitability of the four firms, their total assets and total fixed assed. The ROA is computed by dividing total profitability to total assets, while Assets Tangibility ratio is the ratio of total fixed assets to total assets.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.692[a]	.479	.413	.07193

a. Predictors: (Constant), Assets Tangibility

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.038	1	.038	7.342	.027[a]
	Residual	.041	8	.005		
	Total	.079	9			

a. Predictors: (Constant), Assets Tangibility

b. Dependent Variable: Return on Assets

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.038	.051		.747	.476
	Assets Tangibility	.307	.113	.692	2.710	.027

a. Dependent Variable: Return on Assets

The regression line ROA = 0.038+0.307AT indicates that Profitability will increase by 0.307% for every 1% increase in Fixed Asset (Assets Tangibility). The P-value of 0.027 is less than the t-value of 0.05. The Null Hypothesis is therefore, rejected that the effect of Assets Tangibility on profitability of Quoted Cement Manufacturing Companies

Nigeria is significant. This is corroborated by the correlation coefficient (r) of 0.692 which shows a moderate relationship and the coefficient of determination (r^2) of 0.479 which indicates that about 48% of variation in profitability can be explained by Assets Tangibility. The remaining 52% is explained by variables that are not captured in the regression model (error term). In the absence of the Assets Tangibility, profitability will stand at 0.038 as indicated by constant (α).

4.6 Assets Utilization and Profitability

Table 4.5: Aggregate Assets Utilization and Profitability

Year	Profitability	Total Assets	Net Sales	ROA	AUR
2005	2,474	16,161	2,091	**0.1531**	**0.1294**
2006	4,719	26,647	7,877	**0.1771**	**0.2956**
2007	4,912	32,489	2,203	**0.1512**	**0.0678**
2008	3,445	43,442	1,034	**0.0793**	**0.0238**
2009	29,044	108,902	20,463	**0.2667**	**0.1879**
2010	38,571	108,927	27,362	**0.3541**	**0.2512**
2011	9,301	186,018	10,547	**0.05**	**0.0567**
2012	69,472	519,219	106,128	**0.1338**	**0.2044**
2013	41,419	644,152	56,621	**0.0643**	**0.0879**
2014	89,613	450,545	138,182	**0.1989**	**0.3067**

Source: Researcher's Computation, 2015

Table 4.5 presents the aggregate data of 4 quoted cement manufacturing companies in Nigeria. The data are the total profitability of the four firms, their total assets and total net sales. The ROA is computed by dividing total profitability to total assets, while asset

utilization is the ratio of the total assets turnover computed as the ratio of net sales to total assets.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.666[a]	.444	.374	.07429

a. Predictors: (Constant), Assets Utilization

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.035	1	.035	6.381	.035[a]
	Residual	.044	8	.006		
	Total	.079	9			

a. Predictors: (Constant), Assets Utilization

b. Dependent Variable: Return on Assets

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.065	.045		1.423	.192

Assets Utilization	.609	.241	.666	2.526	.035

a. Dependent Variable: Return on Assets

The regression line ROA = 0.065+0.609AU indicates that Profitability will increase by 0.609% for every 1% increase in Net Sales (Assets Utilization). The P-value of 0.035 is less than the t-value of 0.05. The Null Hypothesis is therefore, rejected that the effect of Assets Utilization on profitability of Quoted Cement Manufacturing Companies Nigeria is significant. This is corroborated by the correlation coefficient (r) of 0.666 which shows a moderate relationship and the coefficient of determination (r^2) of 0.444 which indicates that 44.4% of variation in profitability can be explained by Assets Utilization. The remaining 55.6% is explained by variables that are not captured in the regression model (error term). In the absence of the Assets Utilization, profitability will stand at 0.065 as indicated by constant (α).

4.7 Combined effect of Firm's Characteristics and Profitability

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.905[a]	.818	.591	.06002

a. Predictors: (Constant), Assets Utilization, Size, Assets Tangibility, Leverage, Liquidity

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.065	5	.013	23.606	.009[a]
	Residual	.014	4	.004		
	Total	.079	9			

a. Predictors: (Constant), Assets Utilization, Size, Assets Tangibility, Leverage, Liquidity

b. Dependent Variable: ROA

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.122	.199		.611	.574
	Size	.835	.020	.441	1.708	.013
	Leverage	-.524	.331	-.790	-1.583	.059
	Liquidity	.560	.429	.251	.373	.028
	Assets Tangibility	.212	.220	.478	.966	.189
	Assets Utilization	.536	.476	.394	.757	.041

a. Dependent Variable: ROA

The regression line ROA = 0.122+0.835SZ-0.524LVRG+0.560LQ+0.212TAN+0.536AU indicates that Profitability will increase by 0.835% for every 1% increase in Firm Size, decrease by 0.524% for every 1% increase in Firm's Leverage, increase by 0.560% for

every 1% increase in Liquidity Position, increase by 0.212% for every 1% increase in Asset Tangibility, and increase by 0.536% for every 1% increase in Net Sales (Assets Utilization). The respective P-values except in the case of Assets Tangibility indicate significant effect of the combined effects of firm's characteristics on profitability. Thus, the Null hypothesis is rejected that the combined effect of firm's characteristics on profitability of Quoted Cement Manufacturing Companies Nigeria is significant. This is corroborated by the correlation coefficient (r) of 0.905 which shows a strong relationship and the coefficient of determination (R^2) of 0.818 which indicates that about 82% of variation in profitability can be explained by the combined effect of firms characteristics. The remaining 18% is explained by variables that are not captured in the regression model (error term). The F-statistic and its corresponding P-value of 0.009 indicates the fitness of the model.

4.8 Discussion of Findings

It is evident from the above results and analyses that, company's size has significant effect on the profitability of quoted cement manufacturing companies in Nigeria. This implies that, increase in size of the companies increases their profitability. This finding is in agreement with the findings in previous works of Loderer et al, (2009); Simerly and Li (2000); Hvide and These (2007); Flamini et.al (2009); Athanasoglou et al. (2005); and more recently Almajali et al (2012) who find positive and significant relationship between the size of a company and profitability. But the finding is inconsistent with the finding in previous study such as Yuqi (2007) who argues that, for firms that have

become extremely large, the effect of size could be negative due to bureaucracy and other reasons. This study aligns with classical theory that says, all firms within an industry are pushed by the existence of a U-shaped long run average cost curve and with the goal of maximizing profit to expand their size until they reach the scale corresponding to the feasible cost.

In the case of leverage, a significant negative effect on the financial performance (ROA) of quoted cement manufacturing companies in Nigeria is indicated. The firm's debt-equity decision is generally based on a trade-off between interest tax shields and the costs of financial stress. The tax benefits of debt dominate up to a certain debt ratio, resulting in higher return on equity, but the benefit would be less than the cost after the level of debt ratio. Thus, increase in leverage ratio decreases the profitability of quoted cement manufacturing companies in Nigeria. This is consistent with the findings in the previous studies such as Gleason *et al* (2000); Simerly and Li (2000); Zeitun and Tian (2007), but disagrees with the findings in previous works such as Ghosh, Nag and Sirmans (2000); Berger and Bonaccorsi di Patti (2006) reported a positive relationship between leverage and financial performance.

Furthermore, Liquidity reveals a significant positive effect on the Financial Performance (Return on Assets) of quoted cement manufacturing companies in Nigeria. This deduces that, profitability of quoted cement manufacturing companies in Nigeria increases as liquidity increases. The study findings concur with the findings in previous works of

Liargovas and Skandalis (2008); that a firm can use liquid assets to finance its activities and investments when external finance is not obtainable or expensive. Nevertheless, according to Jovanovic (1982) abundance of liquidity may do more harm than good. Other studies that reveal negative effect of liquidity on profitability are such as Eljely (2004); Falope and Ajilore (2009); Binti and Binti (2010).

Similarly, a significant positive effect of assets tangibility on profitability of quoted cement manufacturing companies in Nigeria is shown. This means that, profitability of quoted cement manufacturing companies in Nigeria grows with growth in fixed assets of the companies. This finding is consistent with the findings in previous studies such as Mackie (1990); Akintaye (2008); Medhat and Tarawneh (2006); Liargovas and Skandalis (2008).

More so, a significant positive effect of assets utilization on profitability of quoted cement manufacturing companies in Nigeria is shown. This also infers that, profitability of quoted cement manufacturing companies in Nigeria increases with increase in net sales (assets utilization) of the companies. This finding is consistent with the findings in previous studies such as Fleming, Heaney and McCosker (2005); Okwo (2012) and more recently Xu and Xu (2013). The study supports Resource Base Theory put forward by Penrose (1959), which basically departs from the traditional emphasis on the size of the firm to a resource based view of firm growth. The resource based view considers the firm as a collection of resources and the focus is on the activities it can perform with those

resources. Penrose further analysed the process of growth in terms of the speed with which firms could accumulate and assimilate such resources, and the opportunities for further growth which arise when firms internal resources are under used. Thus, effective utilization of company's assets can increase their performance.

4.9 Summary of Findings

The above results show that, company's size has significant effect on the profitability of quoted cement manufacturing companies in Nigeria. Whereas, a significant negative effect of leverage on the financial performance (ROA) of quoted cement manufacturing companies in Nigeria is indicated. Furthermore, Liquidity reveals a significant positive effect on the Financial Performance (Return on Assets); Similar, significant positive effect of assets tangibility on profitability is revealed; and a significant positive effect of assets utilization on profitability of quoted cement manufacturing companies in Nigeria is shown. These findings are corroborated by multiple regression result which indicates the significance effect of the firm's characteristics on the financial performance of quoted cement manufacturing firms in Nigeria.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study examines the effect of firm characteristics on the financial performance of quoted cement manufacturing companies in Nigeria. Thus the population of this study is the quoted cement manufacturing companies in Nigeria. These consist of Cement Company of Northern Nigeria Plc; Dangote Cement Company Plc; Lafarge Cement WAPCO Nigeria Plc; and Ashaka Cement Plc. This study uses secondary data for analysis. The data were sourced from the annual financial reports of the quoted cement manufacturing companies and Nigeria stock exchange fact book. This confirms that the method used in collecting the data is text.

Ordinary Least Squares Method of Regression was used with the aid of statistical package for social sciences (SPSS) to determine and analyze the effects of Firms Characteristics on Financial Performance of Quoted Cement Manufacturing Companies in Nigeria. Thus, Total Asset, Leverage, Liquidity, Asset Tangibility, and Assets Utilization are independent variables, while Profitability is the dependent variable. It is found that, company's size has significant effect on the profitability of quoted cement manufacturing companies in Nigeria. Whereas, a significant negative effect of leverage on the financial performance (ROA) of quoted cement manufacturing companies in

Nigeria is indicated. Furthermore, Liquidity reveals a significant positive effect on the Financial Performance (Return on Assets); Similar, significant positive effect of assets tangibility on profitability is revealed; and a significant positive effect of assets utilization on profitability of quoted cement manufacturing companies in Nigeria is shown. These were corroborated by the significant effect revealed using multiple regression model for the combined effect.

5.2 Conclusion

Based on research findings, the study concludes that company size has a significant positive effect on financial performance. Large companies are found to have a competitive advantage over small firms as large firms have a wide array of resources and also enjoy economies of scale, hence, are in a better position to compete in the market. However, for firms that become extremely large, the effect of size could be negative due to bureaucracy and other reasons (Yuqi, 2007). Conversely, the study affirms that leverage has a significant negative effect on financial performance. From the study findings there is clear evidence to conclude that as the firm increases debt beyond the optimum level, financial performance declines and the possibility of bankruptcy also increases. Nevertheless, an optimal level of leverage can enable a firm to improve its financial performance as it can accrue tax advantage (tax shield) associated with optimum level of debt. The study also provides evidence to infer that liquidity play an important

role in improving the firm's financial performance. Thus, firms with optimum levels of liquidity report better financial performance as a result of the risk-return tradeoff.

Finally the study finds that assets tangibility and utilization have significant positive effect on financial performance. Thus, the study concludes that, increase in fixed assets reduces fixed cost and consequently increases profitability. It is also concluded that, increase in sale with reduction in sales returns boost profitability.

5.3 Recommendations

Based on the findings and conclusions of the study, the following recommendations are made:

Quoted Cement Manufacturing Companies in Nigeria should expand in a controlled way with the aim of achieving an optimum size so as to enjoy economies of scale which will ultimately result in higher level of financial performance. However if a firm expands beyond the optimum size diseconomies of scale will set in and this can result in a decline in the financial performance of the firm.

Based on the pecking order theory of capital structure, the study recommends that Quoted Cement Manufacturing Companies in Nigeria should only resort to debt when all means

of raising equity financing are exhausted. In resorting to the debt capital they should determine an optimal debt level that balances the benefits of debt against the costs of debt. Firms should avoid situations where they are highly leveraged since this may lead to bankruptcy if they are unable to make payment on their debt.

Quoted Cement Manufacturing Companies in Nigeria should develop sound techniques of managing current assets to ensure that neither insufficient nor unnecessary funds are invested in current assets as maintaining a balance between short-term assets and short-term liabilities is critical.

Quoted Cement Manufacturing Companies in Nigeria should ensure that their fixed assets level is increasing to enable them reduce fixed cost for better profits. They should also increase their assets utilization by increasing their net sales to boost their profits. Thus, stringent control mechanism should be in place to ensure sales returns are minimal.

5.3.1 Suggestion for Further Study

The study was only limited to five factors that affect the financial performance of the quoted cement manufacturing companies in Nigeria. Thus, more research should be carried out to determine other factors that affect financial performance. Factors such as age, managerial competency and capitalization of the firm are recommended for future study. This would enable the researchers and concerned investors to mitigate effects of

such factors and hence enhance financial performance. Another research area that could be done is to find out the factors that affect the financial performance of manufacturing and service industries to make comparative study.

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