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Corporate Characteristics Effect on Firm Growth: Evidence from Listed Non-Financial Firms in Nigeria

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ABSTRACT

This study examined the relationship between firm age, firm size, profitability and leverage on firm growth of listed non-financial firms in Nigeria. Using secondary data from 66 non-financial firms within Ten years period (2012-2021) in Nigeria, hypotheses were developed and tested using multiple regression technique along with the F-statistics model. The results shows that the computed F-Stat value is 4.53 with a corresponding p-value of 0.0338 implying that firm age (FAGE) has no significant influence on firm growth. The result for firm size also observed that the computed value of F-stat is 9.82 with a corresponding p-value of 0.0018 inferring that firm size has no significant effect on firm growth. Similarly, in testing the relationship between firm profitability and firm growth, the F-stat stood at 2.43 with a corresponding p-value of 0.1198 indicating that firm profitability has no significant influence on firm growth. Additionally, in testing the relationship between firm leverage and firm growth, the value of F-stat is 3.11 with a corresponding p-value of 0.0785 indicates that firm leverage has no significant effect on firm growth.

KEYWORDS: *Firm Age, Firm Growth, Profitability, Firm Leverage.*

JEL Classification: *G32, L25, M40.*

1. INTRODUCTION

1.1. Background of the Study

The purpose of firm growth in every corporate entity is not only to raise its market “value” but also to contribute to its expansion and the economy as a whole. The distinctiveness of these features is particular to firms through the boosting of the perception of information users about the company. Firm characteristics are the motivational aspects that influence a firm's decisions at various levels and across time, both internally and externally. They also pertain to ownership structures, period, degrees of diversity, financial leverage, profitability, and liquidity (Lubabah & Anyalewechi, 2021). According to Yang & Aldrich (2017), present microeconomic challenges such as organizational outcomes arising from the merger of company-specific resources and competencies promote firm growth. Firm growth drivers are classified into three interwoven themes: organizational, environmental, and individual determinants. These distinguishable items have an impact on the growth of firms.

Firm expansion according to Chabachib, Hersugondo, Erna & Imang (2020) is an important engine of sustainable growth in emerging nations. It has been observed that large firms have a competitive edge over small firms (Echobu, Okika & Mailafia, 2017). They tend to have a larger market share, which allows them to make more profit and create more value for their shareholders, resulting in higher return on equity; since they have more resources, they take advantage of opportunities that need big sums of money. Another significant corporate trait that may affect growth is leverage, which has been described as the extent to which a firm or organization employs fixed-income assets [Gloria, Emenike & Innocent, (2018); Sinebe, (2020)]. This concept stated unequivocally that when borrowed money grows, so does financial leverage (gearing ratio), with a commensurate increase in financing charges and the danger of bankruptcy (Ghareli & Mohammadi, 2016). Profitability is a key problem for numerous stakeholders who are either directly or indirectly involved with the company. This may be attributed to the lack of thorough analyzing elements that play a significant part in attaining profit and optimizing manufacturing enterprises in Nigeria. Various factors influence business growth, some are external (macroeconomic factors), while others are internal to the organization (microeconomic factors). This paper seeks to examine the degree to which firm characteristics contribute to growth of listed non-financial firms in Nigeria.

2. THEORETICAL REVIEW

2.1. Firm Age

Firm characteristics can be said to be the demographic and managerial elements that a certain firm has that characterize its operations as part of the firm's internal environment (Ibrahim & Hussaini, 2015). It is defined as the broad range of information reported in financial statements of business organizations that serves as a predictor of the firm's accounting information quality and performance (Kenny & Luqman, 2019). Firm-age researches are currently expanding and bringing new insights into firm-level and industrial dynamics, just like firm-size research has witnessed a surge in interest in recent years [Valipour & Moradbeygi, (2011); Coad, Holm, Krafft, & Quatraro, (2018)].

2.2. Firm Size

This is important in understanding the kind of interactions that a company has both inside and outside of its working environment. According to Hope and Kemebradikemor (2019), the positive relationship between firm size and production stems from the implementation of more visible differentiation and specialization methods that would lead to increased efficiency. Firm size is defined as the number and variety of production capabilities and potential (Ibrahim & Jehu, 2018), as well as the number and variety of services a firm has to provide to its clients at the same time; some of these firms are “big” while some are “small” and are generally classified into the small and medium enterprise (SMEs) (Msy. Mikial, Marwa, Fuada & Meutia, 2020).

2.3. Profitability/Financial Performance

Profitability is the level of financial performance that a corporation accomplishes over a given time period as measured by capital sufficiency, liquidity, solvency, efficiency, and leverage [Mahmud, (2016); Reschiwati, Syahdina & Handayani (2020)]. Stainer (2016) defined firm performance as the outcome of a company's evaluation or strategy on how successfully it achieved its aims and objectives over a specific period.

In Sinebe (2020) opinion, one component of management's strategic duty is to measure the firm financial performance to fulfill the overarching interests of shareholders and other stakeholders in the organization. Appraising a firm's performance requires conducting regular and systematic review of its entire operations to assess the extent to which organizational goals and objectives are met (Adebayo & Adebiyi, 2016). This can be done using the most generally used accounting-based indicators of corporate performance which are Return on Investment (ROI), Return on Asset (ROA), Return on Equity (ROE), and Tobin's Q, (Olowokure, Tanko, & Nyor, 2016).

2.4. Leverage

According to Pandey, (2017), firms can use debt to increase their return on equity. The use of debt to support a corporation or business entity in the hopes of boosting the firm's financial performance is known as leverage finance (Mohamed Amr, 2016).

A firm may utilize leverage financing to accomplish a particular purpose, such as acquiring another firm, completing a buy-out, purchasing shares, or promoting investment in cash-generating and self-sustaining assets [Pandey & Prabhavathi, (2016); Mohammed & Usman, (2016)].

2.5. Corporate Entity Growth

The expansion of a corporate entity is seen as critical since it describes the company's owner in connection to profitability. The manager, on the other hand, has the obligation of the corporation to optimally grow the corporate entity (Nurul, 2014). It is common for businesses to need to buy more non-current assets when their sales are growing quickly, indicating that higher-growth businesses will need more money in the future (Pandey, 2017). Growth firms depend largely on external finance to acquire the assets required to develop because they are still relatively young and have limited internal capital (Odia, Ekundayo, Odhigu & Josiah, 2021).

New information on corporate developments and stock recommendations is constantly made public, and articles on new and innovative strategies to exploit the market are published (Safdar, Hazoor, Toheed & Ammara, 2013). One of the primary reasons for a firm to go public is to promote shareholder investment by enhancing the company's value. The importance of business growth cannot be overstated, since stronger firm growth benefits shareholders, (Musa & Kwakipi 2019).

2.6. Literature Review

In a study by Lodikero and Amodu (2020), they investigated the relationship between business factors and financial statement. The correlation technique was used to examine data. Their findings reveal that financial reporting restatement is connected to firm size, ROA, and leverage and that financial statement has a significant influence on the behavior of investors and potential investors, as well as functioning as a corrective and controlling yardstick to check for intentional major misstatements in financial records. The report suggested that the restatement standard be carried out with honesty and independence by executors.

Efuntade and Akinola's (2020) analysis into 14 years of the association between variables of company and financial performance of publicly traded manufacturing businesses in Nigeria used secondary data, descriptive, and cross-sectional study approaches. The results of the hypothesis evaluation using the panel least square regression model shows that Firm Age, Sales Growth, Firm Size, Liquidity, and Leverage had a significant impact on the financial performance of Nigerian manufacturing firms as assessed by return on assets.

3. RESEARCH METHODOLOGY

3.1. Research Design

Using 161 companies listed on the Nigerian Stock Exchange as its target population, this investigation utilized a quantitative technique. For the study sample, the real sampling method was also used with a total of 66 businesses spanning 10 years (2012-2021). The data was analyzed using multiple regression analysis, and samples t-test was performed to determine how different business characteristics affected the expansion of corporate entities listed on the Nigerian Stock Exchange. A 5% significance level was used to examine the statistical findings. Sampled firms' annual accounts for the pertinent time were used to obtain secondary data.

Economic models for the study are specified below;

$$FGROWTH_{it} = a_0+a_1FAGE_{it}+\mu_t \quad - \quad - \quad - \quad - \quad - \quad (i)$$
$$FGROWTH_{it} = a_0+a_1FSIZE_{it}+\mu_t \quad - \quad - \quad - \quad - \quad - \quad (ii)$$
$$FGROWTH_{it} = a_0+a_1FPRO_{it}+\mu_t \quad - \quad - \quad - \quad - \quad - \quad (iii)$$
$$FGROWTH_{it} = a_0+a_1FLEV_{it}+\mu_t \quad - \quad - \quad - \quad - \quad - \quad (iv)$$

Given the above, $FChart_{it}$ is defined and measured as follows:

Firm Characteristics ($FChart_{it}$) = F (FAGE, FSIZE, FPRO & FLEV)

Where:

$FAGE_{it}$ = Firm Age (measured as the number of years (plus one) elapsed since the year of the company's IPO)
$FSIZE_{it}$ = Firm Size (measured as total assets, sales, and market Value of Equity)
$FPRO_{it}$ = Firm Profitability (Total Revenue - Total Expenses)

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$FLEV_{i\ t}$	=	Firm Leverage (Measured by total company debt/shareholder's equity)
U_t	=	Error Terms
it	=	Firms at time t.
a_0, a_1, a_2	=	Regressors.

4. DATA PRESENTATION, ANALYSIS AND DISCUSSION OF RESULTS

4.1. Descriptive Statistics

The study looked at the traits of listed companies in Nigeria based on company age, size, profitability, and leverage. It also examined how companies were expanding. Table 1 below displays variables, mean, minimum and maximum values and standard deviation:

Table 1: Summary of Descriptive Statistics

VARIABLE	OBS	MIN	MAX	MEAN	STD. DEVIATION
FGROWTH	660	-90.7016	558.5844	8.452493	39.86834
FAGE	660	1	55	25.32727	13.66382
FSIZE	660	5.0927	9.2409	7.057522	.8119237
FPRO	660	-1466.617	7029.232	16.44483	364.3092
LEV	660	3.5504	138.0014	65.16289	19.81618

Source: Researcher's Computation, 2022.

4.2. Correlation Analysis

Table 2 Correlation Analysis Result

VARIABLE	FGROWTH	FAGE	FSIZE	FPRO	LEV
FGROWTH	1.0000				
FAGE	-0.0826	1.0000			
FSIZE	0.1213	0.1159	1.0000		
FPRO	0.0606	0.0194	0.0438	1.0000	
LEV	-0.0685	-0.0275	0.0081	0.0481	1.0000

Source: Researcher's Computation, 2022.

4.3. Test of Hypotheses

4.3.1. Hypothesis One

H_{01}: There is no significant relationship between Firm Age and the growth of corporate entities in Nigeria.

Table 3: Results of Model I and Test of Hypothesis I (FGRWTH and FAGE)

VARIABLES	SYMBOL	COEFFICIENT	T-STATISTICS	P>(T)
CONSTANT	_CONS	14.56021	4.46	0.000
FIRM AGE	FAGE	-.2411516	-2.13	0.035
NUMBER OF OBS			660	
F(1, 658)			4.53	
PROB> F			0.0338	
R-SQUARED			0.0068	
ADJ R-SQUARED			0.0053	

Source: Researcher's STATA 13.0 Computation

4.3.2. Hypothesis Two

H_{02}: Firm Size does not significantly affect the growth of corporate entities in Nigeria.

Table 4: Results of Model II and Test of Hypothesis II (FGRWTH and FSIZE)

VARIABLES	SYMBOL	COEFFICIENT	T-STATISTICS	P>(T)
CONSTANT	_CONS	-33.57036	-2.49	0.013
FIRM SIZE	FSIZE	5.954336	3.13	0.002
NUMBER OF OBS			660	
F(1, 658)			9.82	
PROB> F			0.0018	
R-SQUARED			0.0147	
ADJ R-SQUARED			0.0132	

Source: Researcher's STATA 13.0 Computation

4.3.3. Hypothesis Three

H_{03}: Firm profitability does not significantly affect the growth of corporate entities in Nigeria.

Table 5: Results of Model III and Test of Hypothesis III (FGRWTH and FPRO)

VARIABLES	SYMBOL	COEFFICIENT	T-STATISTICS	P>(T)
CONSTANT	_CONS	-33.57036	-2.49	0.013
FIRM PROFITABILITY	FPRO	5.954336	3.13	0.002
NUMBER OF OBS			660	
F(1, 658)			2.43	
PROB> F			0.1198	
R-SQUARED			0.0037	
ADJ R-SQUARED			0.0022	

Source: Researcher's STATA 13.0 Computation

4.3.4. Hypothesis Four

H_{04}: Firm leverage has not significantly affected the growth of corporate entities in Nigeria.

Table 6: Results of Model IV and Test of Hypothesis IV (FGRWTH and FLEV)

VARIABLES	SYMBOL	COEFFICIENT	T-STATISTICS	P>(T)
CONSTANT	_CONS	17.43849	3.27	0.013
FIRM LEVERAGE	FLEV	-.1379005	-1.76	0.001
NUMBER OF OBS			660	
F(1, 658)			3.11	
PROB> F			0.0785	
R-SQUARED			0.0047	
ADJ R-SQUARED			0.0032	

Source: Researcher's STATA 13.0 Computation

4.4. Discussion of Finding

This study looked at how firm characteristics affected the expansion of listed companies in Nigeria. In order to gather and evaluate data for the years 2012 to 2021, this article used the assumption that a sample of 66 Nigerian listed companies would be surveyed. Firm age (FAGE), firm size (FSIZE), firm profitability (FPRO), and firm leverage (FLEV) are the independent variables of board firm characteristics (FCHART), and firm growth is the dependent variable (FGRWTH).

When the hypotheses were tested, it was found that the firm age (FAGE) t value obtained from the evaluation of the regression result of the hypothesis one under consideration, on the relationship between firm age and firm growth, was -2.13 (P>|t | = 0.034), indicating that on an individual basis, the number of years a firm has been in existence has no significant effect on the growth of listed firms in Nigeria. It is further demonstrated that there is no significant correlation between company age and the development of listed firms in Nigeria because the computed value of F is 4.53 and the related P value is 0.0338. Given the inverse relationship between firm age and firm growth, it is possible that a rise in firm age will not result in an increase in that business's growth. This suggests that a firm's age has no bearing on how quickly it grows and becomes listed in Nigeria.

According to the results of the test of Hypotheses II, firm size and firm growth had an antagonistic relationship on an individual level. It's interesting to note that FSIZE is the t value for the explanatory variables (3.13). Overall, the hypothesis that firm size has no appreciable influence on the growth of listed enterprises in Nigeria is accepted because the computed value of F is 9.82, and the related P value is 0.0018. According to Nigerian listed companies, there is ostensibly no substantial correlation between business size and firm growth. The findings go against those of Chenhall and Smith (2017), who found that firm size significantly and favorably affects the expansion of businesses listed on the Indonesia Stock Exchange between 2009 and 2011.

When Hypothesis III was tested, the analyses indicate that business profitability could not significantly affect firm growth, with an F value of (2.43). Thus further, we draw the conclusion that business profitability has little bearing on the expansion of listed companies in Nigeria. This meant that growth drastically falls by the coefficient value for every increase in the percentage of profit after tax to total assets.

The fourth test result showed that firm leverage (FLEV) had a negative coefficient of roughly -.1379005 when it was regressed with firm growth. This implies that there is a conflict between firm leverage and company expansion. The finding that there is no substantial association between firm leverage and firm growth among Nigeria’s listed companies resulted from the acceptance of the null hypothesis that there is no relationship between the two. It was discovered that leverage has a negligible adverse impact on the company growth of listed Nigerian companies. This suggests that a larger leverage ratio limits business growth, i.e., a proportionate increase in a firm's debt level affects a firm's propensity to expand.

5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1. Summary of Findings and Conclusion

The results of this study are enumerated as follows based on the outcomes from the examined data and testing of hypotheses:

1. Firm Age has no discernible impact on the expansion of listed companies in Nigeria.
2. Firm Size has no substantial impact on the growth of listed companies in Nigeria.
3. Company profitability has little influence on the growth of listed companies in Nigeria.
4. Firm Leverage has no discernible impact on the expansion of listed companies in Nigeria.

5.2. Conclusion

The findings demonstrated tests on the variances in means across all factors taken into account in the growth model. The positive values suggested that the model's variables were crucial to forecasting the expansion of Nigeria's listed companies. The results revealed that the independent variables taken into account in the regressions had a negative association. Firm size, firm age, firm profitability, firm leverage, and ROE as a measure of firm growth of listed businesses in Nigeria, are independent variables in the model.

5.3. Recommendations

Based on the study's findings, we made the following recommendations:

1. Businesses should implement every reasonable and less expensive technique possible to take full advantage of economies of scale.
2. Companies should invest more in liquid assets since they are more likely to be profitable when they are more liquid. This will help them pay their short-term financial obligations on time.
3. Because leverage reveals the debt-to-equity ratio, it is also suggested that creditors manage the debt they collect more skillfully to foster healthy growth.

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