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Non-Current Asset and Financial Performance of Listed Deposit Money Banks in Nigeria

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Abstract: This study examined the relationship between non-current asset and financial performance of listed deposit money banks in Nigeria. The ex post facto research design was adopted for the study with a population of thirteen (13) listed deposit money banks as listed by the Nigerian Exchange Group in 2022. The entire population was used as the sample size of the study using the census approach. Data were retrieved from the annual reports of the selected construction and real estate companies for the period 2017 to 2021. Multiple regression analysis was used to analysed the data gathered with the aid of Stata12 statistical software. The study revealed a negative and insignificant relationship between property, plant and equipment and return on assets of listed deposit money banks in Nigeria. Also, it revealed a positive but insignificant relationship between property, plant and equipment and return on equity of listed deposit money banks in Nigeria. The study recommended that deposit money banks should increase the allocation of resources towards long term investments and funds, and utilize available resources in terms of the Property, Plant and Equipment effectively. Also, Property, Plant and Equipment utilization and productivity needs to be monitored to boost financial performance for shareholders' satisfaction.

Keywords: Non-Current Asset; Property, Plant & Equipment; Financial Performance; Return on Assets; Return on Equity.

Introduction

Financial performance is an essential measure of the wellbeing of a company. This measures the ability of the company to utilize its resources efficiently and effectively to achieve the desired objectives. This assertion is in line with the view of Kenton (2021) that sees financial performance as a subjective measure of how well a firm can use its assets from its primary mode of business to generate revenues". The assets of a business are classified into current and non-current asset. Non- current asset plays a significant role in the actualization of companies set out goals. They are the productive engine.

In Nigeria, the operations of companies are concentrated on its non-current assets which can be found in the statement of financial position. Non-current assets otherwise known as fixed asset and referred to in IAS16 as property, plant and equipment are tangible items that: "are held for use in the production or supply of goods and services, for rental to others, or for administration purpose and are expected to be used for more than one period".

Deposit money banks invested so much capital on the acquisition of non-current assets in order to aid the company executes its service delivery and activities, thereby generating revenue for the running of the company. To justify the enormous amount of money spent on these assets, the bank must have an

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adequate return for the amount spent. But most times it's not the case. For listed Deposit money banks to achieve its desired financial performance, it must fully utilize its assets, especially non-current.

Poor utilization of noncurrent assets causes low return on investment. And low return on investment is an attribute of ineffectiveness and inefficiency of utilization of assets. Inadequate noncurrent assets result to low productive activities because noncurrent assets are like the structure while current assets are like flesh (Mawih & Ani, 2014). And without the structure the flesh cannot stand. Therefore, to ascertain empirically the relevance of non-current asset in the actualization of firm's financial performance, this study therefore examines the relationship between non-current asset and financial performance of listed deposit money banks in Nigeria.

Operational Framework

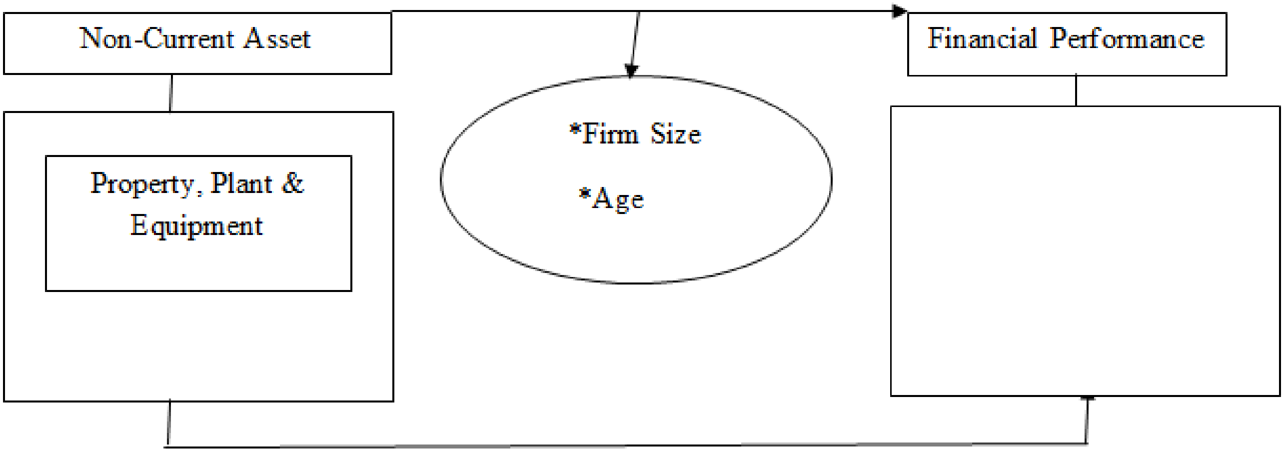

Figure 1: Operational Framework of Non-Current Asset and Financial Performance

The following research hypotheses were stated in a null form;

$H_0$1: There is no significant relationship between property, plant and equipment and return on assets of listed deposit money banks in Nigeria.

$H_0$2: There is no significant relationship between property, plant and equipment and return on equity of listed deposit money banks in Nigeria.

Literature Review

Non-Current Asset

Non-current assets constitute an essential part of the overall resources that are available for organizational use. Non-current asset investment plays vital roles in carrying out corporate activities and also enhances the capacity of an organization in providing goods and services. These may include asset such as Machinery, Buildings, Motor Vehicle, Furniture and Fittings, and Office Equipment. These assets are referred to as property, plant and equipment under International Accounting Standards (IAS)16, and are used for the production or supply of goods and services, for rental to others, or for administration purposes. Property, plant and equipment are expected to be used for more than one accounting period, and are capital intensive in nature. Chukwu and Egbuhuzor (2017) assets that for many firms, tangible non-current assets constitute more than fifty per cent of their asset structure, and contribute substantially to the revenue earning capacity of the firms.

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Financial Performance

A company operating in a level of performance restore the confidence of owners and prospective investors. Performance is a difficult concept, in terms of both definition and measurement. It has been defined as the result of activity, and the appropriate measure selected to assess corporate performance is considered to depend on the type of organization to be evaluated, and the objectives to be achieved through that evaluation. Financial performance reflected in profit maximization, maximizing ROA, maximizing ROE and maximizing ROI is based on the firm's efficiency (Mohammed, 2015). The firm's level of goal achievement in terms of shareholders wealth maximization is well articulated by the information presented in the financial statements (Chimaleni et al., 2015). Financial performance is compared using ratio analysis like net profit margin, return on asset, return on equity etc. but in this study return on asset and return on equity were used as a measure for financial performance.

Theoretical framework

This study is anchored on the resource-based theory. The proponent of this theory is Jay Barney in 1991. Firm resources as defined by Barney (1991) "are all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness". The Resource-based theory explains that a firm can gain a competitive advantage over its rivals through the possession of strategic resources. These resources will improve the financial performance of the organization to a great extent if fully utilized.

Empirical Review

Charlie and Akpan (2020) examined the influence of tangible and intangible assets ratio on the performance of deposit money banks (DMBs) in Nigeria. Secondary data, were collected from published financial statements of ten (10) sampled DMBs from 2000 to2017. The ex-post facto research design was adopted, and Pooled multiple regression techniques was employed for the analysis and test of the hypotheses. Result revealed that the ratio of tangible to the intangible asset has a significant negative effect on ROA of DMBs in Nigeria.

Ullah and Ahmad (2019) examined the impact of current and non-current assets on the profitability of pharmaceutical companies of Pakistan. Six (6) pharmaceutical companies listed in Karachi Stock Exchange were used for the study. The regression analysis was used for data analysis. The result revealed that current assets have a significant positive impact with the return on assets while the fixed assets have a significant negative impact on profitability of pharmaceutical companies of Pakistan.

Mwaniki, and Omagwa (2017) examined the relationship between asset structure and financial performance of quoted firms under the commercial and service sector at the NSE, Kenya. A multiple regression analysis was used for data analysis. The results of the study revealed that asset structure had a significant statistical effect on the financial performance.

Chukwu and Egbuhuzor (2017) examined the effect of tangible assets on the corporate performance of manufacturing firms in Nigeria. Ten (10) manufacturing companies listed on the stock exchange were used as the sample size. Results from multiple regression analysis revealed a significant positive relationship between return on assets and plant and machinery; but the relationship between return on assets and land and buildings is negative.

Inyiama et al. (2017) examined the relationship between assets growth rate and financial performance of manufacturing firms in Nigeria. Six (6) firms were selected from the twenty-two (22) manufacturing firms listed on the Nigeria Stock Exchange Market (NSE). The data were analyzed using Pearson Product

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Moment Correlation Matrix and Multiple Regression. The result revealed that non-current assets growth rate and net assets growth rate of manufacturing firms in Nigeria positively and strongly related with the profit after tax of the firms for the period.

Mawih (2014) examined the effects of assets structure (fixed assets and current assets) on the financial performance of some manufacturing companies listed on Muscat Securities Market (MSM), for the period 2008-2012. The study revealed that the structure of assets does not have a strong impact on financial performance in terms of ROE.

Ubesie and Ogbonna (2013) examined the effect of non-current assets on return on assets of cement manufacturing industry in Nigeria. Multiple regression was used for data analysis. The findings revealed that there is effect of non-current assets on return on asset but is not significant.

Methodology

Ex-post facto research design was adopted for this study with a population of thirteen (13) listed deposit money banks as listed by the Nigerian Exchange Group in 2022. The entire population was used as the sample size of the study using the census approach. Data were retrieved from the annual reports of the listed deposit money banks for the period 2017 to 2021. Multiple regression analysis was used to test the formulated hypotheses computed with the aid of Stata12 statistical software.

Model Specification

Panel Regression Model

$FP = f(PPE + FSZ + AGE + \mu)$……………………….(3.1)

$ROA = f(PPE + FSZ + AGE + \mu)$……………………….(3.2)

$ROE = f(PPE + FSZ + AGE + \mu)$……………………….(3.3)

Therefore, the model is

$ROA_{it} = \alpha_0 + \alpha_1 PPE_{it} + \alpha_2 FSZ_{it} + \alpha_3 AGE_{it} + \varepsilon_{it}$ ----------(3.4)

$ROE_{it} = \alpha_0 + \alpha_1 PPE_{it} + \alpha_2 FSZ_{it} + \alpha_3 AGE_{it} + \varepsilon_{it}$ ----------(3.5)

Operational Definition of variables

Return on Assets (ROA): Return on Asset is proxied by the effectiveness of the company in generating profits by exploiting its assets. It is calculated as

$$\text{Return on Assets} = \frac{\text{Profit Before Tax}}{\text{Total Assets}} * 100$$

Net Profit Margin (NPM): Net profit margin is proxied by the percentage of profit a company produces from total revenue.

$$\text{Return on Equity} = \frac{\text{Profit After Tax}}{\text{Total Equity}} * 100$$

Property, Plant & Equipment: It is measured in terms of the total value of property, plant and equipment as reported in the financial statement of listed deposit money banks in Nigeria.

Firm Size (FSZ): It is measured as the natural logarithm of total asset.

Age: It is the date of incorporation of the listed deposit money banks.

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Results/Findings

Table 1: Regression Result on $ROA_{it} = \alpha_0 + \alpha_1 PPE_{it} + \alpha_2 FSZ_{it} + \alpha_3 AGE_{it} + \varepsilon_{it}$ ----------(3.4)

Source	SS	df	MS
Model	350.909341	3	116.96978
Residual	1453.855	61	23.8336886
Total	1804.76434	64	28.1994429

Number of obs =	65
F(3, 61) =	4.91
Prob > F =	0.0040
R-squared =	0.1944
Adj R-squared =	0.1548
Root MSE =	4.882

roa	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
ppe	-7.18e-09	1.21e-08	-0.59	0.556	-3.14e-08	1.71e-08
fsz	-.3835283	.5191676	-0.74	0.463	-1.421668	.6546116
age	-.09437	.0326933	-2.89	0.005	-.1597444	-.0289957
_cons	15.16077	9.76904	1.55	0.126	-4.373632	34.69517

Source: Output from STATA version 12

Hypothesis One

$H_0 1$ There is no significant relationship between property, plant and equipment and return on assets of listed deposit money banks in Nigeria.

Table 1 above reveals a negative and insignificant relationship between property, plant and equipment and return on assets of listed deposit money banks in Nigeria (p-value=0.556). This implies that that a 1% increase in property, plant and equipment will bring about 0.0000718% decrease in return on assets. This led to the acceptance of (**Ho1**) that there is no significant relationship between property, plant and equipment and return on assets of listed deposit money banks in Nigeria.

Table 2: Regression Result on $ROE_{it} = \alpha_0 + \alpha_1 PPE_{it} + \alpha_2 FSZ_{it} + \alpha_3 AGE_{it} + \varepsilon_{it}$ ----------(3.5)

Source	SS	df	MS
Model	863.806864	3	287.935621
Residual	3360.48437	61	55.0899077
Total	4224.29123	64	66.0045505

Number of obs =	65
F(3, 61) =	5.23
Prob > F =	0.0028
R-squared =	0.2045
Adj R-squared =	0.1654
Root MSE =	7.4223

roe	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
ppe	4.04e-09	1.84e-08	0.22	0.827	-3.28e-08	4.09e-08
fsz	1.999305	.7893107	2.53	0.014	.4209809	3.57763
age	-.121755	.0497049	-2.45	0.017	-.2211462	-.0223639
_cons	-26.15275	14.85225	-1.76	0.083	-55.85166	3.546162

Source: Output from STATA version 12

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Hypothesis Two

H_02: There is no significant relationship between property, plant and equipment and return on equity of listed deposit money banks in Nigeria.

Table 2 above reveals a positive but insignificant relationship between property, plant and equipment and return on equity of listed deposit money banks in Nigeria (p-value=0.827). This implies that that a 1% increase in property, plant and equipment will bring about 4.04% increase in return on equity. This led to the acceptance of (**Ho2**) that there is no significant relationship between property, plant and equipment and return on equity of listed deposit money banks in Nigeria.

Discussion of Findings

The study revealed a negative and insignificant relationship between property, plant and equipment and return on assets of listed deposit money banks in Nigeria which led to the acceptance of (Ho1) that there is no significant relationship between property, plant and equipment and return on assets of listed deposit money banks in Nigeria. This finding is in line with the finding of Ubesie and Ogbonna (2013) that revealed that there is effect of non-current assets on return on asset but is not significant. This finding is in contrast with the work of Chukwu and Egbuhuzor (2017) that revealed a significant positive relationship between return on assets and plant and machinery.

Also, the study revealed a positive but insignificant relationship between property, plant and equipment and return on equity of listed deposit money banks in Nigeria that led to the acceptance of (Ho2) that there is no significant relationship between property, plant and equipment and return on equity of listed deposit money banks in Nigeria. This finding is in line with the finding of Mawih (2014) that revealed that the structure of assets does not have a strong impact on financial performance in terms of return on equity. It contradicts the finding of Mwaniki, and Omagwa (2017) that concluded that asset structure had a significant statistical effect on the financial performance.

Conclusion

From the findings of the study, the study concluded that there is no significant relationship between Property, Plant and Equipment and financial performance (return on asset and return on equity). Also, that firm size and age of listed deposit money banks have significant relationship with financial performance.

Recommendations

The following recommendation were made in respect to the findings;

1. Deposit money banks should increase the allocation of resources towards long term investments and funds, and utilize available resources in terms of the Property, Plant and Equipment effectively.

2. Property, Plant and Equipment utilization and productivity needs to be monitored to boost financial performance for shareholders' satisfaction.

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