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Firm Characteristic and Financial Performance of Consumer Goods Manufacturing Firms in Nigeria: Moderating Effect of Some Key Monetary Variables

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Abstract

This study moderates firm characteristics with key monetary variables (inflation rate and exchange rate) and examine their effect on the financial performance of fifteen (15) listed consumer goods manufacturing firms in Nigeria using an annual panel dataset from 2004 to 2020. The dependent variable (financial performance) is measured as return on assets while the independent variables are capital structure, dividend policy, managerial efficiency and firm size. In addition, the study used fixed and random effects regressions as techniques of data analysis. The results of this study are categorized into two parts namely; regression results without moderators and regression results with moderators (inflation and exchange rate). The result from the model without moderators shows that there is a positive and statistically relationship between capital structure, managerial efficiency and firm size and financial performance while dividend policy has no significant effect on financial performance. However, the results moderated with both the inflation and exchange rate indicate that capital structure and firm size have a significant negative effect on financial performance while dividend policy and managerial efficiency have a significant positive effect on financial performance. Thus, this study recommends the need for an increase in both dividend policy and managerial efficiency and limiting the increase in capital structure and firm size since they adversely affect financial performance. Finally, there is a need for consumer goods manufacturing firms to put into consideration the trends in monetary variables before making any investment decision.

Keywords: firm characteristics, monetary variables, consumer goods, manufacturing.

INTRODUCTION

The manufacturing sector is very important to the development of economies of countries globally because it is considered the cornerstone of industrialization and an engine of growth that provides an avenue for employment generation, wealth creation, sustainable development and economic prosperity. In Nigeria, the sector is bedevilled with several challenges that result in low sales, poor financial performance and in some cases winding up of many firms (Alex, 2019). However, it is assumed that the financial inability of a business firm to meet up with its basic obligations is never caused by sudden catastrophes, but rather, it is caused by accumulated financial and non-financial forces which company resistance can no longer hold.

Undauntedly, manufacturing firms are majorly established with the view to maximize profit, flourish, prosper and meet all aspirations of their respective stakeholders. Unfortunately, instability in some monetary variables such as inflation and exchange rate has critically led to a decline in financial performance. Thus, making it very difficult for them to meet up with challenges of the modern century. The current difficulties facing the Nigerian economy have serious

implications for many manufacturing firms, irrespective of size and nature. However, the causes of financial difficulties and ineffective financial performance are divided into internal and external factors (Rose, 2015).

The internal characteristics such as managerial efficiency, dividend policy, capital structure and firm size of manufacturing firms predict their position in the competitive environment and also enable them to perceive and implement strategies that are geared towards improving their efficiency and effectiveness. In addition, the financial performance of manufacturing firms could be ascertained by the stability of monetary variables (external characteristics) such as inflation, money supply, lending rate and exchange rate among others. Furthermore, within the external environment, the recent economic recession in Nigeria due to instability in monetary variables has led to the delisting of some firms from the Nigerian stock exchange. This has brought to the limelight the consequence of macroeconomic indicators on corporate financial performance. More specifically, an increase in the nominal value of interest rate and inflation rate deepens the aggregate rate of default of firms to meet up with their financial obligations.

Moreover, previous studies on firm characteristics have explored their importance to firm financial performance. However, these studies have not considered the moderating effect of some key monetary variables (i.e., inflation and exchange rate) on a firm's characteristics and how it affects the financial performance of consumer goods manufacturing firms in Nigeria. Most of these studies (Abubakar, 2015; Charles, Ahmed and Joshua, 2018; Danna, 2020; Rodah and Joshua, 2020) focus on the direct effect of firm characteristics on firm financial performance and found mixed and inconsistent results.

Given the foregoing, this study, therefore, moderates firms' characteristics with some key monetary variables and estimate their effect on the financial performance of consumer goods manufacturing firms in Nigeria. To achieve these, the study is divided into five sections including this introduction. Sector two presents a theoretical framework and review of related empirical studies, sections three and four consists of data and methodology, and results and discussions, while section five comprises conclusions and recommendations.

LITERATURE REVIEW

Theoretically, two theories underpin this study namely; the agency theory and the growth of firm theory. Concerning the decision about a firm's capital structure and dividend policy, the agency theory argues that the conflicts between shareholders and managers are affected by the level of leverage. Thus, such an argument encourages or constrains managers to take decisions in the interest of shareholders and their operation decisions. Hence, these behaviours affect the financial performance of the firm (DeAngelo & DeAngelo, 2006). On the other hand, the growth of the firm theory developed by Penrose (1959) provides a clear explanation of how managerial efficiency and firm size play a significant role in the management of a firm's resources and the generation of productive opportunities for growth and innovation. In addition, the experience of managers in the effective management and utilization of limited resources makes the firm to be unique in terms of its production operations and opportunities. The theory added that the managers function as a catalyst in the conversion of a firm's resources into firm capabilities and new products. Thus, leading to a better financial performance of the firm.

Empirically, Charles, Ahmed and Joshua, (2018) conducted a study on how firm size, firm age, sales growth, leverage and liquidity affect the profitability of consumer goods manufacturing firms listed on the Nigerian stock exchange. The study used an annual panel dataset from 2011 to 2016 and fixed and random effects regressions in the analysis. The findings suggest that firm size, sales growth, leverage, firm age and liquidity have no significant effect on the profitability of consumer goods manufacturing firms in Nigeria over the study period. In addition, Yodit, (2017) investigates the determinants of profitability of food and beverages of a large manufacturing firm in Addis Ababa, Ethiopia using an annual panel dataset for a sample of fourteen (14) firms from 2011 to 2015. By applying pool least square regression, the results show that leverage, firm size and capital intensity have a significant negative impact on the profitability of the sampled firms. On the other hand, the results indicated that managerial efficiency has a positive significant influence on the sampled firms.

However, studies on the linkages between capital structure and a firm's financial performance were carried out by many researchers. For instance, Oyedokun, Olatuji and Sanyaolu (2018**)** applied panel regression analysis to examine the effect of capital structure on the financial performance of firms in Nigeria using a sample of ten (10) manufacturing firms from 2007 to 2016). Their findings reveal that there is a statistically significant relationship between capital structure and financial performance. Furthermore, Arikekpar (2020) used fixed effect regression and analyzed the nexus between capital structure and financial performance of some selected manufacturing companies in Nigeria. By using an annual panel dataset from 2014 to 2018, the findings indicated that capital structure has a significant positive effect on financial performance (measured as return on equity, return on asset and earnings per share). Furthermore, Mukumbi, Khisa and Shu (2020) revealed that capital structure has a significant positive influence on financial performance measured as return on assets and return on

equity on the listed firms in the Nairobi security exchange, Kenya.

Also, the relationship between dividend policy and financial performance was estimated by Rafindadi and Bello (2019) using panel regressions for a sample of twenty-one (21) listed financial companies in Nigeria from 1997 to 2016. Their findings reveal that return on assets and return on equity have a significant positive effect on the dividend payout ratio while Tobin-Q and market value of equity have a significant negative effect on dividend payout. The study further shows that leverage, liquidity ratio and firm size have no significant effect on dividend payout ratio. Additionally, Ubesie, Emejulu and Iyidiobi (2020) on their study the influence of dividend per share and dividend payout ratio on a firm's financial performance of manufacturing firms using a panel dataset from 2009 to 2018 in Nigeria. Their findings suggest that dividend per share has a significant positive effect on firms' financial performance while the dividend payout ratio has no significant effect on financial performance. In a similar study by Musa, Abubakar and Garba (2020) on the effect of dividend policy on the financial performance of consumer goods companies in Nigeria. They revealed that dividend per share has a significant positive influence on return on assets and has no significant effect on return on equity measured as financial performance. On the effect of firm size, the studies were conducted and come up with different results. For instance, Akinyomi and Adebayo, (2015) and Oyelade (2019) revealed that firm size has a significant positive effect on firms' financial performance; while Abeyrathna and Priyadarshana (2019) show that firm size has no significant influence on the financial performance of the manufacturing firms.

However, the efficient operation of any firm cannot be separated from the effect of monetary variables such as inflation and exchange rate. The companies are expected to perform better financially if these monetary variables are stable and vice versa. Furthermore, any change in the inflation rate is expected to have an adverse effect on the cost of production and the purchasing power of money. Studies on the effect of these variables on manufacturing firms were analyzed by numerous authors. For instance, Ibrahim and Amin (2005) conducted a study on how the exchange rate and monetary policy rate affect manufacturing output in Malaysia. Quarterly data from the first quarter of 1979 to the last quarter of 1999 were used and Vector Autoregressive Model was also applied. The results indicated that exchange rate and monetary policy rate have a significant influence on manufacturing output. Hodge (2012) examined the extent to which exchange rate and Dutch diseases affect the manufacturing sector in South Africa. A Johansen VAR/CEC cointegration approach was employed and quarterly data covering the period 1980 to 2010 were used. His findings show that the exchange rate is negatively related to manufacturing output. Lotfalipour, Ashena and Zabihi (2013) analyzed the effect of the exchange rate on investment in the manufacturing sector in Iran using an annual dataset from 1995 to 2009. They found that exchange rate fluctuations have negatively connected to investment in the manufacturing sector.

DATA AND METHODOLOGY

This study used a panel dataset from 2004 to 2020 sourced from the Central Bank of Nigeria Statistical Bulletin and annual financial reports of the sampled consumer goods manufacturing firms. This study selected fifteen (15) consumer goods manufacturing firms listed in the Nigerian Stock Exchange (NSE) market as of 2004. The dependent variable in the model is financial performance (measured as Return on Assets which is profit after tax to total assets) while the independent variables are capital structure (measured as total debt to total equity), dividend policy (measured as dividend per share to the market price per share), managerial efficiency (measured as total revenue to total asset) and firm size (measured as the natural log of the total asset). Thus, the model without moderators is specified as:

$$ROA_{it} = \beta_0 + \beta_1 CS_{it} + \beta_2 DP_{it} + \beta_3 ME_{it} + \beta_4 FS_{it} + \mu_{it}$$

……..…… 1

Where ROA is the return on assets, CS donates capital structure, DP represents dividend policy, ME is the managerial efficiency, FS is the firm size and μ is the error term. In addition, β_1-β_4 are the coefficients of the estimated parameters, i represents the number of firms and t is the number of time or study period. However, to capture (moderate) the effect of key monetary variables, this study multiplies the independent variables with the inflation rate and exchange rate and models them on financial performance. Beginning with the moderated effect of inflation, the model is specified as:

$$ROA_{it} = \beta_0 + \beta_1 CS * INF_{it} + \beta_2 DP * INF_{it} + \beta_3 ME * INF_{it} + \beta_4 FS * INF_{it} + \mu_{it}$$

..…….. 2

Where INF is an inflation rate, however, the model moderated with the exchange rate is given as:

$$ROA_{it} = \beta_0 + \beta_1 CS * EXR_{it} + \beta_2 DP * EXR_{it} + \beta_3 ME * EXR_{it} + \beta_4 FS * EXR_{it} + \mu_{it}$$

……. 3

Where EXR = Exchange Rate and all other parameters are explained in equation 1.

In the estimation, the fixed effects and Random effects were used. In the fixed effects model, the constant is treated as a group-specific. This means that the model allows for different constants for each group. Thus, the model is specified as:

$$y_{it} = \lambda_i + \delta_1 x_{1it} + \delta_2 x_{2it} + ... + \delta_k x_{kit} + \mu_{it}$$

…… 4

Where y and x are both dependent and independent variables, δ_1 and δ_2 are the coefficients of the estimated parameters, i and t are the number of consumer goods manufacturing firms and study period respectively, while μ is the error term. On the other hand, an alternative model of estimating a model is the random effects model. The difference between fixed effects and random effects models is that the latter handles the constants for each section not as fixed, but as random parameters. Hence the model is given as:

$$y_{it} = (\kappa + \lambda_i) + \delta_1 x_{1it} + \delta_2 x_{2it} + ... + \delta_k x_{kit} + \mu_{it}$$

…….. 5

Where λ_i is a zero mean standard random variable. Nevertheless, the Hausman test was conducted with the view to assist in choosing between fixed effects and random effects regressions. Thus, the model of the Hausman test is given as:

$$H = (\beta^{FE} - \beta^{RE})' \left[(\text{var}(\beta^{FE}) - \text{var}(\beta^{RE}) \right]^{-1} (\beta^{FE} - \beta^{RE}) \sim x^2(k)$$

…….. 6

The decision rule is that, reject the null hypothesis if the probability value is statistically significant at a 5% (0.05) level and fixed effects are more appropriate, otherwise use random effects is more appropriate (Dimitrios & Stephen, 2011).

RESULTS

In conducting a multi-variant analysis, there is a need to estimate the descriptive statistics of the variables. Understanding the descriptive nature of the dataset will help in identifying the responses and the behaviour of the variables used in the model. The descriptions of the data were based on mean, maximum, minimum, standard deviations, skewness, and kurtosis. The results are summarized in Table 1.

Table 1

Variables	ROA	CS	DP	ME	FS	INF	EXR
Mean	0.0702	4.8278	2.5812	1.1184	10.3161	11.8132	182.694
Median	0.0611	1.3320	0.5000	1.0049	10.4227	12.0947	153.862
Maximum	0.4501	808.357	58.5000	9.7523	11.6478	17.8634	306.921
Minimum	-1.3074	-118.686	-1.2208	-0.0792	8.3832	5.3880	118.566
Std. Dev.	0.1539	51.8651	7.4900	0.8724	0.7139	3.3444	66.869
Jarque-Bera	7431.14	553112.2	11195.24	25076.22	5.9180	5.7815	49.1040
Probability	0.0000	0.0000	0.0000	0.0000	0.05186	0.0555	0.0000
Obs.	252	252	252	252	252	252	252

Source: *Author' Computation using Eviews Version 10.0*

From Table 1, the results show that all the variables recorded a positive mean. This implies that the variable experienced a positive growth rate during the study period. For instance, the average growth rate of return on assets is 7.02% over the sample period while managerial efficiency grows by about 11.18%. In addition, the results show that the exchange rate has the highest standard deviation in the distribution while the return on the asset has the lowest standard deviation in the distribution. This implies that the exchange rate is the most volatile variable in the distribution. Furthermore, the results show that firm size and inflation are normally distributed while all other variables are not normally distributed. This is due to the significant probability value of the Jarque-Bera coefficients. However, the correlation analysis was conducted based on the three models with the view to identify the presence of multi-collinearity or otherwise. Consequently, the results are summarized and reported in Table 2.

Table 2: Correlation analysis of the variables used for estimation

Correlation analysis of model without moderators					
	ROA	**CS**	**DP**	**ME**	**FS**
ROA	1.0000				
CS	-0.0041	1.0000			
DP	0.3178	-0.0195	1.0000		
ME	0.2531	-0.0372	0.1096	1.0000	
FS	0.2868	-0.0904	0.3046	-0.2241	1.0000
Correlation analysis of model moderated with the inflation rate					
	ROA	**ICS**	**IDP**	**IME**	**IFS**
ROA	1.0000				
ICS	-0.2304	1.0000			
IDP	0.5512	0.0825	1.0000		
IME	0.1329	0.5184	0.2162	1.0000	

IFS	-0.0076	0.3548	0.2927	0.5252	1.0000
Correlation analysis of model moderated with exchange rate					
	ROA	**ECS**	**EDP**	**EME**	**EFS**
ROA	1.0000				
ECS	-0.2061	1.0000			
EDP	0.5607	0.0918	1.00000		
EME	0.1369	0.5471	0.2266	1.000	
EFS	0.0678	0.3518	0.3108	0.5388	1.0000

Source: *Author's computation using Eviews version 10.0*

It is argued that testing the correlation among the variables of estimate would help the researcher detect whether the variables have multi-collinearity among themselves. In addition, two or more variables with a bivariate correlation of 0.07 and above should not be included in the same model because the two variables may be correlated due to the values of their coefficients (Tabachnich & Fideli, 1996). Furthermore, Dimitrios and Stephen (2011) stated that multi-collinearity among variables occurs when the results of the correlation coefficient are above 0.95. Following the foregoing explanation, this study presents the correlation analysis in Table 2 and the results show that there is no evidence of multi-collinearity among the variables. This is because none of the variables has a correlation coefficient greater than 0.7 and the variables are well fit to be included in the models for the analysis going by the correlation results, this study goes further and estimated the moderated effect of firms' characteristics on the financial performance of consumer goods manufacturing firms in Nigeria.

Table 3: Firms characteristics and financial performance

Dependent variable: Financial performance measured by return on asset						
Model without moderators						
Fixed Effects Regression				**Random Effects Regression**		
Variables	**Coef.**	**St. Error**	**P-value.**	**Coef.**	**St. Error**	**P-value.**
CS	0.0003	0.0001	0.0322	0.0002	0.0001	0.0715
DP	-3.67E-05	0.0016	0.9825	0.0015	0.0014	0.2909
ME	0.0640	0.0107	0.0000	0.0595	0.0101	0.0000
FS	0.0993	0.0207	0.0000	0.0825	0.0169	0.0000
C	-1.0279	0.2179	0.0000	-0.8507	0.1785	0.0000
Hausman Test = 15.05 (0.0046)						
Model moderated with the inflation rate						
Variables	**Coef.**	**St. Error**	**P-value.**	**Coef.**	**St. Error**	**P-value.**
ICS	-0.0483	0.0099	0.0000	-0.0494	0.0091	0.0000
IDP	0.0297	0.0055	0.0000	0.0314	0.0049	0.0000
IME	0.0080	0.0010	0.0000	0.0071	0.0010	0.0000
IFS	-0.0007	0.0001	0.0000	-0.0006	0.0001	0.0001
C	0.1570	0.0257	0.0000	0.1608	0.0264	0.0000
Hausman Test = 8.59 (0.0720)						
Model moderated with exchange rate						
Variables	**Coef.**	**St. Error**	**P-value.**	**Coef.**	**St. Error**	**P-value.**
ECS	-0.0575	0.0098	0.0000	-0.0573	0.0091	0.0000
EDP	0.0304	0.0054	0.0000	0.0314	0.0048	0.0000
EME	0.1119	0.0133	0.0000	0.0957	0.0124	0.0000
EFS	-0.0943	0.0218	0.0000	-0.0764	0.0200	0.0002
C	0.3967	0.1071	0.0003	0.3431	0.1048	0.0013
Hausman Test = 12.18 (0.0160)						

Source: *Authors' computation using Eviews version 9.0*

In Table 4.5, under return on an asset without moderators, the Hausman post specification test results indicate probability value (0.0046) is statistically significant at a 1% level. This shows that the fixed effects regression is more appropriate. But for the sake of comparison, results obtained using random effects are also reported. Based on the Hausman test, this study will only interpret the results of fixed effects regression. Accordingly, the results reported that there is a positive and statistically significant relationship between capital structure and financial performance (measured as return on assets) of consumer goods manufacturing in Nigeria at a 5% level. This implies that an increase or decrease in capital structure will lead to an increase or decrease

in the financial performance of sampled firms. Thus, the results suggest that capital structure has a significant positive influence on the financial performance of consumer goods manufacturing firms in Nigeria.

However, the results show that there is a negative and statistically insignificant relationship between dividend policy and the financial performance of consumer goods manufacturing firms in Nigeria. This means that an increase (decrease) in dividend policy does not increase (decrease) the financial performance of the selected consumer manufacturing goods in Nigeria. Furthermore, the findings indicated that there is a significant positive relationship between managerial efficiency and financial performance of consumer goods manufacturing firms in Nigeria at a 1% level. This suggests a 1% increase in managerial efficiency is associated with a 0.06% positive change in consumer goods financial performance. However, the result of firm size shows a positive and significant effect on financial performance. This implies that when firm size rises by 1%, the financial performance (measured as return on assets) of the firm will rise by 0.09% and vice versa.

Furthermore, on the model moderated with inflation rate, the Hausman specification test shows that the coefficient of the test is statistically significant at a 10% level which is a weak level of significance. Based on the outcome, the decision rule is that random effect regression is the best since the probability value of the test is greater than the 5% (0.05) level of significance. Therefore, this study goes further and interprets the random effect regression results.

From the results, it is acknowledged that capital structure and firm size have a significant negative influence on financial performance at a 1% level. This means that when moderated with the inflation rate, an increase in capital structure and firm size will lead to a decrease in the financial performance of consumer goods manufacturing firms. On the other hand, the results documented that when moderated with inflation, dividend policy and managerial efficiency have a significant positive influence on the financial performance of the selected firms.

However, the result obtained concerning Return on asset moderated with exchange rate shows that the fixed effect model is the most appropriate model to use because the Hausman post estimation test results under ROA moderated with the exchange rate as the objective function indicate probability values of 0.016.

The results moderated with the exchange rate indicate that capital structure and firm size have a significant negative effect on financial performance at a 1% level. This explains that a rise in capital structure and firm size will lead to a decline in the financial performance of consumer goods manufacturing firms. On the other hand, the results reported that dividend policy and managerial efficiency have a significant positive influence on the financial performance of the target firms.

CONCLUSIONS AND RECOMMENDATIONS

Going by the results, this study concludes that the results from the model without moderators show that capital structure, managerial efficiency and firm size have a significant positive effect on financial performance while dividend policy has no significant effect on the financial performance. However, the results moderated with both the exchange rate and inflation rate indicate that capital structure and firm size have a significant negative effect on financial performance while dividend policy and managerial efficiency have a significant positive effect on financial performance. Therefore, the results inform us that moderators (inflation rate and exchange rate) play a significant role in determining the actual financial performance of the consumer goods manufacturing firms in Nigeria. So, in line with moderated results, this study recommends the need for an increase in both dividend policy and managerial efficiency and limiting the increase in capital structure and firm size since they have a negative effect on financial performance. Finally, there is a need for consumer goods manufacturing firms to put into consideration the trends in monetary variables before making any investment decision.

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