The Role of a Company's Specific Characteristics in Enhancing Business Performance in Nigeria

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Abstract: *the main objective of the study is to investigate the role of company's specific characteristics in enhancing business performance in Nigeria. As part of the adopted methodology, Secondary sources of data were obtained through the annual reports of the selected companies covering the period; 2009 – 2013. The population of the study was drawn from the listed companies on the Nigeria Stock Exchange as at December, 2013. Company's Specific Characteristic was proxied with Size, Age, growth and Liquidity, while performance was proxied with Return on Assets (ROA). Ex-post facto research design was adopted for the study, while Multiple Regression Analysis and Descriptive Statistics was used as technique for data analysis. The study found that company characteristics such as size, growth and liquidity have significant impact on Return of Assets(ROA) which subsequently enhances business performance of Companies in Nigeria, while the relationship between age and ROA was observed to be insignificant suggesting that bureaucratic structure and operational rigidities of some of the older Companies are gradually having a negative impact on their performance. The study concludes that company's size, growth and liquidity have the most significant impact while company's age has the least impact. Some recommendations were made among the major recommendation is the need for companies in the Nigeria Manufacturing Sector to continue to stimulate their growth through improved sales, assets size and proper working capital management through maintenance of optimal level of liquidity.*

Keywords: *Company Performance, Conglomerate, Company's Specific Characteristics, Nigeria.*

1. Introduction

Traditionally, business performance indicators such as financial performance, is directly influenced by the concept of profitability; this is because profit is the rallying point of all stakeholders. Owners' desire for wealth maximization through appreciation of market value which is driven by profitability, make them to look at financial performance in the ability to generate enough profit to guarantee stable dividend from their investment. Lenders are interested in financial stability of the company which will secure their funds and guarantee payment of interest. Management reward and compensation is usually the function of profit performance while employees desire job security and stable financial performance to guarantee payment of their wages and benefits in the same way that Government is interested in stable profitability for tax purpose and job creation. The question therefore is what constitutes the key ingredients that stimulate business performance?

Company's characteristics are referred to as those incentive variables that relatively stick at company's level across time. They are variables that affect the company's' decision both internally and externally (Shehu, 2102). The incentive variable ranges from company size, leverage, profitability, liquidity, growth, company age amongst others. In explaining the various factors that are influencing company's performance, many studies have explained that these factors arise from various companyspecific characteristics. Some are company specific while others are industry specific (Capon, Farley & Hoenig, 1990). Barney, 1991, Pateraf, 1993 suggests that the explanation for the existence of more or less profitable company must be found in the internal factors of each company.

To this end, there have been inconclusive findings and divergent views in extant literature as to whether company's characteristics have effect on performance of listed companies in Nigeria. Also, most studies in this area are not new as their findings must have been overtaken by changing trends in the dynamic environment. To the best of our knowledge no research of this nature has been conducted focusing only conglomerate companies in the sector which this study is designed to accomplish.

1.1 Objectives of the Study

The main objective of the study is to investigate the influence of company's specific characteristics on the performance of quoted conglomerates company. The study specific objectives are:

1) to investigate the impact of company size on performance of Companies in Nigeria
2) to assess the impact of company age on the performance of Companies in Nigeria.
3) to determine the impact of company growth on the performance of Companies in Nigeria.
4) to examine the impact of liquidity on the performance of Companies in Nigeria.

1.2 Statement of Hypotheses

The following null hypotheses have been developed to test the impact of various Company specific characteristics on the performance of companies in Nigeria.

***Ho**$_{1:}$ Company Size has no significant impact on Performance of Companies in Nigeria*
***Ho**$_{2:}$ Company Age has no significant impact on Performance of Companies in Nigeria*
***Ho**$_{3:}$ Company growth has no significant impact on performance of Companies in Nigeria*
***Ho**$_{4:}$ Liquidity has no significant impact on performance of Companies in Nigeria*

2. Literature Review

2.1 Company Size and performance

Literature suggests that firms with larger size excel in performance. Large firms are more likely to exploit economies of scale and enjoy higher negotiation power over their clients and suppliers (Serrasqueiro&Nunes, 2008). In addition, they face less difficulty in getting access to credit investment, have broader pools of qualified human capital, and may achieve greater strategic diversification (Yang & Chen, 2009). Larger firms enjoy the advantage of having spread of business activities which was developed over time; they have business relationships which they built over the years and therefore enjoy a lot of benefits. On the other hand, small firms enjoy certain advantages which counter-balance the handicaps associated with their size (Yang & Chen, 2009).

Empirical evidence lends support to both positive and negative impact of company size on performance which could be attributed to institutional and environmental factors. Serrasqueiro and Nunes (2008) conducted study on small and medium size enterprises in Portuguese companies and found that company size is related positively to performance (ROA) but the relationship was not statistically significant for large companies. The positive relationship suggests that the positive effects of the greater possibility for success are greater than possible negative effect of increased size. Symeou (2008) also conducted empirical examination on company size – performance relationship by using ROA as a measure of performance. He studied the role of company growth potential as a measure of economy size using data for 54 firms from an equal number of economies for the period 1997 – 2007 and found a positive relation between economy size and performance. A similar finding was also arrived at by Pervan, Pervan, and Todoric (2012) using data of listed Croatian firms from 1430 observations obtained from 2003 – 2010 based on dynamic panel analysis.

2.2 Company age and performance

Relationship between company's age and performance is ambiguous. Older companies are credited with a lot of experience and tenacity to excel. It is argued that older companies have more experience, abilities and skills; have enjoyed the benefit of learning through time; they can enjoy superior performance (Majumdar, 1997; Loderer & Waelchli, 2009).Using the data of 1430 observation on Croatian company's Pervan*et al.* 2012 suggests positive and statistically significant relationship which indicates that older Croatian companies generate better performance compared to the younger ones because they are associated with experience, abilities and skills. On the other hand, it is argued that bureaucratic structures and rigidities of older companies make them insensitive to changes and such companies can easily be outperformed by younger, more aggressive and flexible companies. Agarwal and Gort (2002) also suggest that old age may make knowledge, abilities and skills obsolete and induce organizational decay. Loderer and Waelchli (2009) conducted research on a sample of 10,930 companies listed on New York Stock Exchange between; 1978 to 2004, on company age and performance and the result suggested a significant negative relationship between age and performance (ROA). The conclusion of the study was that companies do best when they are young, roughly 15 years after listing or 37 years after incorporation, they start underperforming. Majumdar (2009) suggests a negative relationship which is significant at 5% between age and profitability which was defined as ROA. He measured age as number of years then incorporation and profitability as ROA. The study is on a sample of 1020 Indian companies.

2.3 Company Growth and performance

The relationship between growth and performance is an important issue but results of studies in this area are conflicting. Cord (2009) observed that growth rates are not persistent and very difficult to predict. Fast growth in one period does not guarantee superior performance in the long run. Studies have suggested possible growth performance indicators to include, assets, market share, employment and sales. Delmar (2003) suggests that company growth is not static in nature and there may be considerable variation in growth over time. He discussed various growth performance measures and suggested that if only one indicator had to be chosen as a measure of company growth, then the preferred measure of growth should be sales. The significance of sales as a driving performance of growth could be supported because of its' unique relationship with firm's products and services. Barkham et al. (1996) point out that sales are also the indicator favored by the entrepreneurs. Some firms can witness rapid growth because of the size of their market. MacMillan and Day (1987) considered that rapid growth could lead to higher profitability and improved performance based on evidence that new firms become more profitable when they enter markets on large scale. This position was supported by Sexton and Kasarda (2000) who found that company's profitability measured by ROA was correlated with growth. Empirical studies indicated that there is no consensus in the relationship between growth and performance among the various studies. Some found a positive relationship while others came up with a negative relationship.

2.4 Company Liquidity and performance

Liquidity refers to the degree to which short term debt obligations can be paid from cash, or assets that can be turned into cash. According to Shim and Siegel (2000) accounting liquidity is the company's capacity to liquidate maturing short-term debt (within one year). It shows the ability to convert an asset to cash quickly and reflects the ability to manage working capital effectively and efficiently. A low liquidity level may lead to increasing financial costs and result in the incapacity to pay its obligations (Maness & Zietlow 2005). However, maintaining high liquidity would allow a company to deal with contingencies and to cope with obligations during period of low earnings (Opler& Titman, 1994, Kim, Mauer& Sherman 1998). In contrast, Hvide and These (2001) suggested that a moderate amount of liquidity may mean proper entrepreneurial performance, but an abundance of Liquidity may do more harm than good. Solvency and liquidity are two concepts that are closely related and reflect upon the actions of company's working capital policy. In managing working capital there is need to strike a balance between risk and return. Working capital management policy should be based on risk-return, determine the ratio of current assets and current liabilities and then make integrated decision (Fungen, 1995).Efficient working capital management involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet short term obligations on one hand and avoid excessive investment in these assets on the other hand (Alshubiri, 2011).

2.5 Theoretical Framework

There are various theories that have been used in the literature to underpin the works on company's specific characteristics and performance e.g (Majumdar, 2009; Cord, 2009; Shim & Siegel, 2000). These theories are the Structure Conduct Performance theory, Efficiency theory, and Financing theory. But for the purpose of this study, the structure conduct performance theory (Symeou, 2008 & Cord (2009) was used to underpin the study as it explains better, the relationship between the identified company's specific characteristics variables and performance used in the study.

3. Research Methodology

The research adopted Ex-post facto research design focusing only on eight (8) listed Conglomerate companies as the population of the study rather than the entire listed companies. This is in view of the fact that conglomerate companies are the fastest growing sub-sector of the Nigerian manufacturing industry and some of the sampled companies are mostly dominated by multinational brands that have strategic international alliances. Seven (7) companies were selected as sample based on the availability of complete information on the variables and their proxies.The study covers the periods; 2009 to 2013 owing to the fact that a lot of reforms which transformed the manufacturing sector have taken place in Nigeria within the period. Secondary source of data was used which were generated from the audited reports and accounts of the studied Conglomerate companies. Multiple Regression technique and Descriptive Statistics was used to assess the impact of various factors which was computed using Statistical Package for Social Science (SPSS-version 20). The variables selected and their measurements are as follows:

3.1 Variable Measurement

	Nature of Variable	Proxies	Variable Measurement
Firm Specific Characteristics	Independent variable	Size	Log of TA
		Age	Years in Operation
		Growth	Sales/Total Assets (S/TA)
		Liquidity	Current Asset /Current Liabilities
Firm performance	Dependent Variable	ROA	PBT/TA

Source: *Generated by the Authors*

3.2 Model Specification

The model is estimated using a sample of seven companies that are very active in the Conglomerate sector. Companies were chosen based on the availability of complete data covering period 2009 – 2013. The model is specified based on the variables of the study and considering their relationship.

$$PERF_{it} = a + \beta_1 SIZE_{it} + \beta_2 AGE_{it} + \beta_3 GRW_{it} + \beta_4 LIQ_{it} + e$$

Where;
PERF = Performance variable (Return on Assets)
$\beta_1 - \beta_4$ =the coefficient of the independent variables
SIZE = Company size
AGE = Company Age
GRW = Company growth
LIQ =Liquidity
e = Error Term

4.1 Results and Discussions

In this section, we present the empirical results and discuss the effects of the independent variables on the dependent variable.

Table 4.1: Descriptive Statistics Showing the Nature of Data

Variables	*OBS*	*Mean*	*Std Dev.*	*MIN*	*MAX*
ROA	*35*	*1.7891*	*12.299913*	*-31.00*	*23.81*
Company size	*35*	*6.5285*	*.44578*	*5.36*	*7.25*
Company age	*35*	*45.4286*	*15.70741*	*12.00*	*67.00*
Company growth	*35*	*76.380*	*28.07329*	*25.53*	*137.96*
Liquidity	*35*	*1.4229*	*.70450*	*.30*	*3.41*

Source: *Generated by the Authors Using SPSS (Version 20)*
Dependent Variable: ROA

Descriptive result on Table 4.1 shows the mean performance of quoted Conglomerate Companies in Nigeria as 1.7891% with standard deviation of 12.299913. Among the explanatory variables, company growth has the highest standard deviation of 28.073 and an average of 76.38 which explains that the sales figure represents about 76% in relation to the asset size of the company. The minimum of age variable is 12 years and maximum of 67 years and an average of 45 years. This confirms that most of the listed conglomerate companies in Nigeria are in existence for over 40 years. The mean of Size variable which is measured by the natural log of total assets is 6.5285, standard deviation of 0.44578, minimum of 5.36 and maximum of 7.25 which indicates a disperse level of sizes during the period.

Table 4.2: Correlation Matrix Showing the Relationships between the Variables

Variables	Return on Asset	Company size	Company age	Company growth	Liquidity
Return on Asset	1.000				
Company size	.546**	1.000			
Company age	-.211	-.241	1.000		
Company growth	.738**	.527**	-.176	1.000	
Liquidity	.356*	-.024	-.120	.012	1.000

Source: *Generated by the Authors Using SPSS (Version 20)*

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.2 indicate that there is a positive relationship between ROA and company size which is significant at 10%, the relationship between ROA and company growth& liquidity is significant at 1%. But the relationship between ROA and company age is negative and non significant. This analysis explains that the three (3) explanatory variable which have positive and significant relationship have contributed significantly to the performance of quoted manufacturing companies in Nigeria. The correlations between the independent variables are mixed. The relationship between company age and company size, company growth and company age and liquidity with company size and company age are all negative and insignificant. This implies absence of colinearity between them. On the other hand, a positive relationship is observed between company growth and company size which is significant at 1%, while an insignificant positive relationship exist between liquidity and company growth.

Table 4.3: Summary of Regression Result

Variable	Coefficient	t-values	P-values	Tolerance	VIF
Constant	-68.878	-3.250	0.003		
Company size	6.374	1.942	0.062	0.697	1.434
Company age	-0.004	-0.048	0.962	0.923	1.083
Company growth	0.268	5.214	0.000	0.719	1.390
Liquidity	6.177	3.529	0.001	0.982	1.018
R					0.839
R2					0.704
Adj R2					0.664
F-Stat.					17.822
F-Sig					0.000
D/W					1.339

Source: *Generated by the Authors Using SPSS (Version 20)*

a. *Predictors: (Constant),Company size, Company age, Company growth& Liquidity*
b. *Dependent variable: ROA*

The summary table on the regression analysis as shown on table 4.3 indicates that the R-squared which expressed the proportion of variation in ROA is accounted for by the overall predictors included in the model was 70.4% while the adjusted R-squared was 66.4%. This means that the explanatory variables together can explain 70.4% variations in the performance of quoted conglomerate companies in Nigeria. The F-value indicates the fitness of the study model at 1%. This implies that the variables were well selected, combined and used. The Durbin Watson statistics that measures auto correlation shows a result of 1.339, which falls within the acceptable range of 1.222 – 1.726 as indicated in Durbin Watson table in Gujarati and Porter (2009).The tolerance level and Variance Inflation Factor that explained the extent of multicollenearity were below 1 and 10% respectively. They are therefore within tolerable limits.

The Individual result as indicated on table 4.3 shows that company size has a coefficient of 6.374 and a t value of 1.942 which is significant at 10%. This indicates a positive association between company size and performance. Thus for every unit increase in company size, performance of quoted conglomerate companies will increase by 6.37.The result provides an evidence of rejecting hypothesis one of the study which states that company size has no significant impact on the performance of the quoted Conglomerate companies in Nigeria. This finding is consistent with literatures that support positive association between the two. They include the findings of Serrasqueiro and MacasNunes (2008) and Pervan*et al.,* (2012) but contrary to the findings of Whittington, (1980), Ramasamy*et al*., (2005).

Age of the company however reveals a negative coefficient of 0.004 and t value of 0.048 which is insignificant. This implies a negative association between age and performance. The implication of this is that if age increases by one, performance of the selected companies may nothave any significant changes. In view of this finding; we fail to reject the second hypothesis that age has no significant influence on the performance of the quoted Conglomerate companies in Nigeria. This result is in agreement with the findings of Leanard-Barton, (1992) and Agarwal&Gort (2002) and contrary to Majumdar, (1997) and Pervan*et al.*, (2012).

Company growth indicates coefficient value of 0.268 and a t value of 5.214 which is significant at 1%. This signifies that growth is positively and strongly influencing performanceof quoted conglomerate companies. The result implies that for every unit increase in company growth, performance of the quoted conglomerate companies in Nigeria will increase by 0.268. The result provides an evidence to reject the null hypothesis 3 which states that company growth has no significant impact on the performance of listed conglomerate firms in Nigeria. The findings are in line with Asimakopolous*et al.,* (2009), Vijayakumar and Devi (2011), Coad (2009) and Serrasqueiro and MacasNunes, (2008); but contrary to Fitzsimmons *et al.,* (2005), Glancy (1998) and Hoy *et al*. (1992).

The result also shows that Liquidity has a coefficient value of 6.177 and a t value of 3.529 which is significant at 1%. This implies a positive association between liquidity and performance. Thus for every unit increase in liquidity, the performance of the selected conglomerate companies will increase by 6.18.The result provides evidence of rejecting null hypothesis 4 of the study which states that liquidity has no significant impact on the performance of quoted conglomerate companies in Nigeria. The findings concurs with Rajesh& Reddy, (2001), Charitou (2010) and Pervan*et al* (2012) who found evidence that liquidity has positive impact on performance, but contradicts the result of Raheman and Nasr (2007) and Niresh (2012).

5. Conclusion and Recommendations

5.1 Conclusion

The intent of this study is to identify the impact of company's specific characteristics which are defined ascompany size, company age, company growth and liquidity on company performance proxied with Return on asset of quoted conglomerate companies in Nigeria during the period 2008 – 2012. The result indicates a significant positive relationship between company size, company growth and liquidity of quoted conglomerate companies in Nigeria which enhances business performance of the selected companies. The study concludes that; company size, company growth and liquidity has impacted positively on performance within the study period as this goes in line with conventional economic theory which advocates that larger firms have leverage economies of scale to realize higher returns and can be more efficient compared to smaller firms because they have more experience, skills and abilities. Also, the result on company growthis an indication that turnover and size of assets are key elements in determining performance of conglomerate companies in Nigeria. In addition, the positive influence of liquidity onperformance indicates the ability of conglomerate companies in Nigeria to maintain an optimal level of liquidity which is a central to their survival and outstanding performance.

5.2 Recommendations

It is recommended that the management of quoted conglomerate companies should strive hard in expanding and increasing their assets of the company. Also, this study recommends that manufacturing companies in this sector should continue to stimulate their growth through improved sales. In addition, proper working capital management through maintenance of optimal level of liquidity should be encouraged by the companies in order to meet up with day to day running of their business.

5.3 Limitations and Suggestions for Further Studies

Like any other research, this paper is not without some limitations, the study is only limited to the listed conglomerate companies as against the entire listed companies within the Manufacturing sub-sector. Therefore interested researchers in this area should investigate other companies and sub-sectors of the Nigerian economy. Also there are other companies specific characteristics variables not used in this study. However, interested researcher may use leverage and others to assess how they enhance business performance of companies. In addition the study used return on asset to proxy performance, so other researchers in this area should make use of return on equity, net profit margin or other measurement of performance.

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Appendix A: Summary of Regression Results

Model Summary[b]

					Change Statistics					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**R Square Change**	**F Change**	**df1**	**df2**	**Sig. F Change**	**Durbin-Watson**
1	.839[a]	.704	.664	7.12586	.704	17.822	4	30	.000	1.339

a. Predictors: (Constant), Liquidity, Company growth, Company age,
b. Dependent Variable: Return on Asset

ANOVA[b]

Model		**Sum of Squares**	**Df**	**Mean Squa**	**F**	**Sig.**
1	Regression	3619.793	4	904.948	17.822	.000[a]
	Residual	1523.338	30	50.778		
	Total	5143.131	34			

a. Predictors: (Constant), Liquidity, Company growth, Company age, Company size
b. Dependent Variable: Return on Asset

Coefficients[a]

		Unstandardized Coefficients		**Standardized Coefficients**			**Collinearity Statistics**	
Model		**B**	**Std. Error**	**Beta**	**T**	**Sig.**	**Tolerance**	**VIF**
1	(Constant)	-68.878	21.193		-3.250	.003		
	Company size	6.374	3.283	.231	1.942	.062	.697	1.434
	Company age	-.004	.081	-.005	-.048	.962	.923	1.083
	Company growth	.268	.051	.611	5.214	.000	.719	1.390
	Liquidity	6.177	1.750	.354	3.529	.001	.982	1.018

a. Dependent Variable: Return on Asset

Correlations

		Return on Asset	Company size	Company age	Company growth	Liquidity
Return on Asset	Pearson Correlation	1	.546**	-.211	.738**	.356*
	Sig. (2-tailed)		.001	.225	.000	.036
	N	35	35	35	35	35
Company size	Pearson Correlation	.546**	1	-.241	.527**	-.024
	Sig. (2-tailed)	.001		.164	.001	.892
	N	35	35	35	35	35
Company age	Pearson Correlation	-.211	-.241	1	-.176	-.120
	Sig. (2-tailed)	.225	.164		.312	.492
	N	35	35	35	35	35
Company growth	Pearson Correlation	.738**	.527**	-.176	1	.012
	Sig. (2-tailed)	.000	.001	.312		.946
	N	35	35	35	35	35
Liquidity	Pearson Correlation	.356*	-.024	-.120	.012	1
	Sig. (2-tailed)	.036	.892	.492	.946	
	N	35	35	35	35	35

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Descriptive Statistics

	N	Range	Minimum	Maximum	Mean		Std. Deviation	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	Std. Error
Return on Asset	35	54.87	-31.06	23.81	1.7891	2.07893	12.29913	.618	.778
Company size	35	1.88	5.36	7.25	6.5285	.07535	.44578	.218	.778
Company age	35	55.00	12.00	67.00	45.4286	2.65504	15.70741	.065	.778
Company growth	35	112.43	25.53	137.96	76.3860	4.74525	28.07329	-.235	.778
Liquidity	35	3.11	.30	3.41	1.4229	.11908	.70450	1.235	.778
Valid N (listwise)	35								