(RESEARCH ARTICLE)

Effect of non-current assets on the performance of consumer goods firms listed in Nigeria

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Abstract

This paper examines the effect of other non-current assets on the performance of the listed consumer goods firms in Nigeria as measured by return on assets (ROA). An ex post facto research design was employed, and the data collected were from the audited annual reports of 17 firms from 2011 to 2020, using multiple regression through STATA software. This study reveals that additional investment in the building, plant and machinery leads to positive and significant changes in ROA when compared to furniture and equipment, which reduce ROA. Contrarily, leasehold land, and motor vehicles had an insignificant effect. Consequently, the research concluded that the actual building, plant and machinery should be given preference, while the furniture and equipment should be managed well to prevent cutting down on the profitability level.

Keywords: Buildings; Furniture and equipment; Motor vehicles; Plant and machinery; Return on assets

1. Introduction

In the global business environment, firm performance is a defining factor for success and is particularly constructed out of capital-intensive industries encompassing consumer goods. One of the key factors that can be used to evaluate performance is the return on assets, which indicates the ability of the firm to be sustainable and efficient (Wang et al., 2016). The consumer goods firms mostly depend on this kind of asset, including leasehold land, buildings, plants and machinery, motor vehicles, furniture and equipment to sustain competitive advantage and production in large proportions. This is demonstrated that consumer goods firms in countries like South Africa and Brazil have employed non-current assets to boost their operational capacities, including their market share (Almeida & Santos, 2020).

More investment in non-current assets, such as modern equipment and enhancement of production facilities, affects the corporation's flow of operation and solvency in the long run. Research in India and China reveals that firms that invest in better technologies or increase the size of production plants perform better by raising efficiency and reducing production costs (Kumar & Soni, 2017). Therefore, more investment in non-current assets should be made by Nigerian consumer goods firms (CGFs) as the competition and demands steeply increase concurrently.

The CGFs in Nigeria belong to a continuously changing economic environment in terms of inflation rate, exchange rate, and consumer preferences. These factors are threats to maintaining growth and performance rates (Olaniyi & Adebola, 2019). Nonetheless, the cases of Vietnam and Indonesia reveal that the non-current assets portion can afford firms

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reasonable protection against those macroeconomic forces and enhance enduring growth (Nguyen & Pham, 2018; Sutanto & Widjaja, 2021). Thus, this study investigates the effect of incremental capital expenditure on non-current assets on the performance of CGFs in Nigeria and, in the process, adds to the emerging literature on effective asset management in an uncertain business environment.

The CGF is an important sector of the Nigerian economy since it complements the basic people's needs and impacts employment and economic growth, specifically through its contribution to the gross domestic product. Despite this, firms within this sector are subjected to many challenges that affect their stability; thus, their performance is unstable due to macroeconomic factors such as inflationary factors, fluctuating foreign exchange rates, and unpredictable market demand. These problems, combined with uncompetitive production infrastructure and low investment levels in modern non-current assets, have limited operational performance and future profitability. Factually, it has been seen that investment made in non-current assets like machinery and infrastructure boosts productivity and firm performance across the world, and yet the majority of the Nigerian CGFs have remained below par in their utilization of asset bases to achieve performance. There are practical issues of high acquisition costs coupled with poor maintenance of assets and suboptimal utilization of some technological advancements, thereby exposing the firms to poor performance. In addition, there is a lack of research in the Nigerian context on how more capital investment in noncurrent assets influences more return on assets, which is central to competitiveness within the CGFs. This is why Brigham and Ehrhardt (2016) pointed out that knowledge management can assist Nigerian firms in closing this gap so that they can compete at the global and local market levels. This study will, therefore, aim to establish the effect of extra capital outlay on non-current assets on the performance of the CGFs that are listed in Nigeria to have findings that will benefit managers, investors, and policymakers in enhancing the allocation of assets that will improve the profitability and sustainability of the firms.

2. Literature review and hypotheses development

Return on Assets (ROA) is widely known to be an indicator of the efficiency or profitability of a firm and is computed by dividing an organization's net profitability by the total value of the assets it controls. It shows how effectively an organization utilizes assets to make a profit (Ross et al., 2019). The ROA measures the conversion efficiency of investments to net earnings, hence, a high value of the ROA is preferred. This metric is often applied in measuring the operational efficiency of companies that use a lot of capital, such as the consumer goods sector. Although ROA is a useful measure of profitability, it fails to consider the cost of capital as well as the differences in asset intensity between firms. Further, using ROA may be problematic in that it does not always correlate properly with the strategic development of important non-current assets because the effects of such investments may not always manifest themselves in earnings over the short term.

One of the definitions of performance related to ROA that has been proposed earlier stresses operational efficiency. This view implies that ROA does a good job of explaining the extent to which a firm can harness its asset base to run activities that generate returns (Li & Zhang, 2018). The higher the ROA, means that the firm is utilizing the resources it has to generate value, especially in industries that have heavy investment in non-current assets. While following this approach, the focus is on operational efficiency in the management of assets, and the approach fails to consider external influences of factors such as market changes that can individually influence profitability. Also, ROA can be rather volatile, as the variation can result from adjustments in the asset's value rather than actual efficiency gains, so it can offer a rather misleading view of performance (Chen & Chen, 2020).

ROA can also be seen as an indicator of asset turnover, with the latter showing how productively the total assets are used to generate revenues (Penman, 2017). This definition is centered on the overall balance sheet figure of the total assets of a firm and the evaluative measure of the ability of these assets to generate income. ROA is the measure of the extent of the ability of the firm to employ asset investment to generate revenue. While this definition aptly describes the concept of asset utilization, it is sometimes fraught with the reality that assets have a variable useful life. When these assets get old, then the ability of the firm to generate revenues could reduce and therefore make its ROA lower even if it is still operationally efficient (Barney & Hesterly, 2018). It does not also consider the fact that one industry's asset intensity could be different from another industry's, thus resulting in some level of distortion.

This study defines performance as the firm's capacity to make a profit from the total assets, with more emphasis on the changes in investment in non-current assets. ROA is then applied to assess the return derived from the total assets, implying the efficiency and profitability of the firm. This definition is more appropriate to examine the CGFs because in this industry large amounts of capital are needed and the emphasis is given to the changes in the total performance indicator in terms of profitability and asset utilization.

Non-current assets are described as the firms' assets that cannot be converted into cash within one accounting period. These non-current assets leasehold premises, buildings, plant and machinery, furniture and fittings, motor vehicles, etc. (Atrill & McLaney, 2020). The above definition offers a general gist of non-current assets, where proposals for defining 'assets' emphasize their non-current characteristic of not being holdings used in the current operation cycles. However, in identifying and calculating the value of non-current assets, it fails to distinguish the varieties of non-current assets and their part in providing the company's future economic benefits. For this reason, it fails to show how appreciation of such assets helps to determine their contribution toward performance at different periods through depreciation and amortization.

Based on the IFRS, non-current assets are those firms' assets that are operated and controlled by an entity following an exciting event, as well as assets that will yield benefits to the company in the future fiscal year and more than 12 months (IFRS, 2021). The IFRS definition of non-current assets is clear, as the assets that are expected to provide future economic benefits, relating them to financial reporting. Though helpful for defining and measuring it for reporting and benchmarking, it may not involve enough practice-based information on how non-current assets such as machinery or buildings influence the general performance in real-life business organizations.

This study defines non-current assets as infrastructural assets including leasehold land and buildings, furniture and equipment, plant and machinery, vehicles, and returning packaging materials. Such assets are necessary for long-term operation and should improve the organizational performance of the consumer firms listed in Nigeria by increasing production capacity and operational performance.

The rationale for this study is rooted in the Resource-Based View (RBV) theory, which asserts that resources and capabilities are antecedents of a firm's performance and competitive advantage. According to the RBV, only firms that possess valuable, rare, inimitable, and non-substitutable resources can generate more profit for a prolonged period than their competitors (Barney, 1991). In the framework of this work, non-current assets—leasehold land, plants and machinery, buildings, motor vehicles, and furniture and equipment—are considered important resources that, if effectively deployed, would contribute to efficiency increase and, therefore, to the improvement of the firm's profitability.

Thus, the RBV appears pertinent to CGFs in Nigeria, where investments in non-current assets play a key role in maintaining competitiveness in a very intense and unfavorable business environment. The theory suggests that the capability to manage and upgrade the asset stock helps the firms enhance their ROA by increasing the efficiency of operations, cutting costs, and adding to the production capabilities of the assets (Wernerfelt, 1984). This concurs with this study's objective, which aims to establish the relationship between incremental investment in noncurrent assets and firm performance. Furthermore, it declined the impact of external conditions and argued that any organization might secure superior performance irrespective of existing external economic conditions, provided it effectively manages its resources (Peteraf, 1993). This is very important in an unpredictable economy like Nigeria, where CGFs must balance the cost of resources such as non-current assets with inflation and currency risk. On this note, this study is underpinned by RBV.

Zhang and Li (2018) analyzed the impact of leasehold land on the performance of manufacturing firms listed in China from 2010 to 2017 using annual panel data of 120 firms. The fixed-effects regression analysis that they conducted showed that leasehold land, although having the opposite effect in the initial years, boosted the ROA because of better asset efficiency. Nevertheless, with time, maintenance costs and depreciation of assets reduced the feasibility of such benefits. Though performed within the manufacturing industry, it didn't consider fluctuations in the market or the regulatory forces. This research seeks to address this issue by investigating the impact of leasehold land on the ROA in Nigeria's CGFs, where economic fluctuations may exacerbate other performance asset factors.

Kumar and Suresh (2020) examined the relationship between leasehold land and ROA in Indian real estate and infrastructure firms from 2011 to 2019, leveling OLS regression analysis. The study found that leasehold land has a positive and significant effect on the ROA, especially in real estate firms with leasehold land as a strategic resource. However, liquidity constraints arising from long-term investments in leasehold land impacted negatively on profitability in the long run. An unfortunate consequence of this study is the lack of generality; it may not be so useful for other industries apart from real estate. This research fills this void by exploring the effect of Nigerian CGFs' leasehold land on ROA. From the theoretical and empirical review, this study hypothesize that:

- $H0_1$: Nigerian consumer goods firms' leasehold land has no significant effect on return on assets.

Williams and Lee (2017) investigated the effect of buildings as noncurrent assets on the ROA of industrial firms in the South. This research utilized cross-sectional data from 80 firms from 2010 to 2016 and utilized fixed-effects regression models in data analysis. The study found that building investments had a positive effect on ROA; this was credited to the increase in efficiency as indicated by new structures. Despite this, returns were deemed to decrease over time due to the high costs incurred in maintaining the assets. The study, however, has some limitations, bearing in mind that it is only for industrial firms. This research is unique in its approach to answering the research question because it seeks to establish how building investments affect ROA in Nigeria's CGFs, and it is quite possible that structures in this sector may differ from structures in other countries.

Smith and Johnson (2018) investigated the association of building assets with ROA of the real estate firms listed in the United States from 2012 to 2017 using a time series regression model. The research revealed that capital investment in increasing the building depreciated assets had a positive impact on ROA, particularly during the growth state. However, these enhanced assets in periods other than recessions turned out to be liabilities due to high overhead expenses. The limitations of the study are that it was conducted during periods of economic growth, and I did not look at the long-term consequences in periods of recession. This research seeks to fill this gap by exploring the relationship between building assets and the ranked operating asset (ROA) in a developing economy like Nigeria with a volatile economic environment. From the theoretical and empirical review, this study hypothesize that:

- $H0_2$: Nigerian consumer goods firms' building has no significant effect on return on assets.

Khan and Ali (2019) have analyzed the relationship of plant and machinery investments with return on assets (ROA) using Pakistan's manufacturing industry. They used fixed-effects regression estimation analysis, whose sample included data involving 100 firms covering the years 2011 to 2017. According to their research, the increase in ROA was a result of investment in new technology, which enhanced the efficiency of production while at the same time cutting down on costs. However, they also saw a decay when firms overimmersed their investments, resulting in underutilization of such investments. The work was conducted mainly on manufacturing firms, thus restraining applications in other industries. This research is therefore useful in filling this gap by examining the impact of investments in plants and machinery on ROA, especially by observing the CGFs in Nigeria, where asset utilization and market forces may not be similar to Western industries.

Martinez and Garcia (2020) established a model for analyzing the impact of plant and machinery investments on ROA in Spanish automotive firms from 2012 to 2018. The study used the random effects model and revealed a significant positive relationship between modern equipment investment and ROA owing to its enhancement of production capability and a corresponding reduction in time wastage. However, it cited the danger of technological dangers such as the obsolescence of technology. This research therefore fills this void by investigating the relationship between plant and machinery investment and ROA in Nigeria's CGFs, where capital expenditures are spatially different. From the theoretical and empirical review, this study hypothesize that:

- $H0_3$: Nigerian consumer goods firms' plant and machinery has no significant effect on return on assets.

Johnson and Taylor (2018) examined the relationship between total motor vehicle expenditures and return on assets (ROA) in Australian logistics firms. The study employed a fixed effects regression model and utilized panel data from 50 firms from 2013 to 2017. The study found that investments in motor vehicles positively and significantly impact ROA as they boost operations efficiency and delivery speed. However, they pointed out that, at some level, maintenance costs and deprecation reduce the returns over the same period. The drawback of the study is that it only looks into the accounts of logistics firms and, hence, may not be of much meaning to other industries. This study thus aims to provide the missing link through an understanding of how motor vehicle investments influence ROA in Nigeria's CGFs, where business requirements are unique.

Garcia and Lopez (2019) investigated the effect of motor vehicle acquisitions on the ROA in Spanish retail firms by employing the data from 2014 to 2018. The study used random effects and found that motor vehicles enhanced the returns on assets by positively influencing distribution channels and alleviating transport costs. Yet during the worst of recessions, the assets could be considered more liabilities because of maintenance and fuel costs. The research focuses on retail firms, and thus generalization of the research outcomes is slightly laborious. Hence, this research fills this gap by examining how motor vehicle investments affect ROA in Nigerian CGFs operating in dynamic market conditions where market challenges are unheard of. From the theoretical and empirical review, this study hypothesize that:

- $H0_4$: Nigerian consumer goods firms' motor vehicles has no significant effect on return on assets.

Brown & Wilson (2017) employed furniture and equipment as independent variables to assess their effect on the return on assets (ROA) in office-based service firms in Canada. The study utilized firm data between 2011 and 2016 and used fixed-effects regression analysis. The research also revealed a significant and direct correlation between modern office furniture and equipment and ROA since they helped increase working efficiency. However, the study established the fact that overinvestment leads to the problem of diminishing returns because most investments are underutilized. The study is also confined to office-oriented firms, so it may not apply to other industries or the economy in general. This research fills this void by evaluating the effect of furniture and equipment investments on ROA for the CGFs in Nigeria, where operating necessities are not the same as those in developed markets.

Martinez and Cruz (2019) studied the impact of furniture and equipment on ROA in a more specific context of Spanish hospitality firms from 2013 to 2018. The study sampled 40 firms and employed a random effects model to estimate the effect. The study established that when institutions spent more on high-quality furniture and equipment, the ROA was boosted through customer satisfaction and effective functioning. However, the study revealed that these investments get easily exploited by wear and tear and, hence, are less effective in the long run. The generalizability of the findings is also limited to hospitality firms. This research is essential to fill the existing gap, especially by establishing the effects of furniture and equipment investments on ROA in Nigeria's CGFs, where the usage and depreciation rates are usually distinct. From the theoretical and empirical review, this study hypothesize that:

- H0$_5$: Nigerian consumer goods firms' furniture and equipment has no significant effect on return on assets.

3. Methodology

This study utilized an ex post facto research design and collected data from annual reports of 17 firms, which were randomly sampled from a population of 28 firms throughout 2011/2020. The sample size of this study was 60 percent of the firms operating in the consumer goods industry. Data were collected from these audited annual reports, considered valid and reliable, and used along with a panel data estimation method controlling for heterogeneity and endogeneity to assess its effect on ROA. This study introduces control variables (additional to returning packaging materials and additional to capital work in progress) into the model to isolate the total effect of independent variables on dependent variables, holding other factors constant that may cause variation. A regression model is formulated to capture the effect of additional non-current assets on ROA in CGFs in Nigeria. This model helps in testing the stated hypotheses. A functional specification was formed as follows:

$$ROA = f(ALL, AB, APM, AMV, AFE, ARPM, ACWIP) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (3.1)$$

The multiple regression model of equation (3.1) is specified in its econometrics form as follow:

$$ROA_{it} = \beta_0 + \beta_1 ALL_{it} + \beta_2 AB_{it} + \beta_3 APM_{it} + \beta_4 AMV_{it} + \beta_5 AFE_{it} + \beta_6 ARPM_{it} + \beta_7 ACWIP_{it} + a_i + e_{it} \dots\dots (3.2)$$

Where;

ROA$_t$ = Return on Assets for the year, ALL$_t$ = Additional leasehold land, AB$_t$ = Additional buildings, APM$_t$ = Additional plant and machinery, AMV$_t$ = Additional motor vehicles, AFE$_t$ = Additional furniture and equipment, ARPM$_t$ = Additional returning packaging materials, ACWIP$_t$ = Additional capital work in progress, β_e = Constant or intercept, β_e – β_7 = Coefficient for independent variables, a_i = company specific variable, i = individual company, t = current period, e = the error term

4. Results and Discussion

The result of the descriptive statistics presented in Table 1 was generated through the estimation of panel Summary statistics. It shows the raw level form of the data which also depicts characteristics of the variables in term of overall, between and within the panel.

Table 1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
roa	170	-5.648	5.086	-3.89	25.93
all	170	4.322	5.571	0	15.29
ab	170	6.11	5.412	0	15.62
apm	170	10.615	4.716	0	16.72
amv	170	10.252	4.595	0	16.23
afe	170	9.271	4.44	0	15.46
arpm	170	3.089	5.905	0	17.1
acwip	170	10.557	6.382	0	18.59

Source: Stata 13, 2024

Table 1 also shows descriptive statistics of the distribution of 170 observations. The following results were obtained: return on assets (roa) has a mean of -5.648 with standard deviations of 5.086 and ranges from -3.89 to 25.93. This implies sustainability in ROA in all the firms demonstrating steady performance in this area. The variable "all (additional leasehold land) has a mean of 4.322, a standard deviation of 5.571, a minimum of 0, and a maximum of f 15.29. The standard deviation is high and suggests a greater variability in additional leasehold land the firms have acquired. Likewise, the additional investments in buildings ("ab") mean was 6.11 with a standard deviation of 5.412 and values between 0 and 15.62, although not tremendously diverse. The mean for additional plant and machinery (apm) is 10.615 with a standard deviation of 4.716, showing that, on average, the firms have invested an additional amount for plant and machinery, although the amount varies from firm to firm with the range being 0-16.72. From the above analysis, it can be deduced that components such as "amv" (additional motor vehicles) have a mean of 10.252 and a standard deviation of 4.59, implying similar trends in motor vehicle investments. "afe" (additional furniture and equipment), and its mean is equal to 9.271 and standard deviation equals to 4.44, which means that there are moderate investments in this respect.

Table 1 shows the result of summary statistics of the variables used in the study. It could be observed that all the variables exhibit sufficient variations with varying mean, standard deviations values and their corresponding minima and maxima.

Table 2 Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) nto	1.000							
(2) nall	0.101	1.000						
	(0.192)							
(3) nab	0.138	0.310*	1.000					
	(0.074)	(0.000)						
(4) napm	0.236*	0.469*	0.377*	1.000				
	(0.002)	(0.000)	(0.000)					
(5) namv	0.103	0.387*	0.395*	0.603*	1.000			
	(0.180)	(0.000)	(0.000)	(0.000)				
(6) nafe	-0.003	0.438*	0.467*	0.548*	0.660*	1.000		
	(0.967)	(0.000)	(0.000)	(0.000)	(0.000)			
(7) narpm	0.043	0.063	0.288*	0.384*	0.249*	0.103	1.000	

	(0.579)	(0.418)	(0.000)	(0.000)	(0.001)	(0.179)		
(8) nacwip	0.191*	0.264*	0.115	0.277*	0.255*	0.118	0.250*	1.000
	(0.013)	(0.001)	(0.134)	(0.000)	(0.001)	(0.127)	(0.001)	

*** p<0.01, ** p<0.05, * p<0.1Source: Stata 13, 2024

Table 2 indicates that the dependent variable only correlated with plant and machinery with a coefficient of 0.236 and p-value of 0.002; while the independent variables within themselves corrected but not highly correlated. This implies no problem of multicollinearity.

Table 3 Robustness Test

	VIF	1/VIF
afe	2.212	0.452
amv	2.153	0.464
apm	2.081	0.481
all	1.458	0.686
ab	1.413	0.708
arpm	1.34	0.746
acwip	1.18	0.847
Mean VIF	1.691	
hettest	0.000	
Hausman specification test	0.950	

Source: Stata 13, 2024

Table 3 presents the robustness test of the panel data, and it indicates that the VIF mean of 1.691 < 10 and the inverse of it < 10 implies multicollinearity is not present. In addition, hettest has a p-value of 0.000, which is significant at 1%, implying that there is presence of heteroscedasticity, and rectified by regression robust. The Hausman specification test has a p-value of 0.950, which is not significant at 5%, even at 10%, which implies that the random effect model is more appropriate for the panel data. However, to take care of autocorrelation, the study opt for general least square.

Table 4 Cross-sectional time-series FGLS regression

roa	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
all	-0.301	0.904	-0.33	0.739	-2.073	1.471	
ab	1.723	0.916	1.88	0.06	-0.072	3.518	*
apm	4.142	1.276	3.25	0.001	1.641	6.642	***
amv	0.295	1.332	0.22	0.825	-2.315	2.905	
afe	-3.502	1.397	-2.51	0.012	-6.24	-0.764	**
arpm	-1.436	0.817	-1.76	0.079	-3.039	0.166	*
acwip	1.352	0.71	1.90	0.057	-0.04	2.743	*
Constant	-38.228	12.91	-2.96	0.003	-63.53	-12.926	***
Number of obs		170		Wild Chi-square		24.005	
Prob > chi2		0.001					

*** p<.01, ** p<.05, * p<.1Source: Stata 13, 2024

Table 4 shows that Wald chi-square of 24.005 significant at 1% implies that the model is well combined and used. Table 4 indicates that additional leasehold land (all) has an insignificant effect on ROA with a coefficient of -0.301 and p-value of 0.739. This implies that additional investment in leasehold land has an insignificant effect on ROA. This study therefore accepts hypothesis one. Table 4 also shows that additional buildings have a positive and significant effect on ROA with a coefficient of 1.734 and p-value of 0.06. This implies that additional investment in buildings has positive and significant effect on ROA. This study therefore rejects the second hypothesis. Similarly, additional plant and machinery indicate positive and an insignificant effect on ROA with a coefficient of 4.142 and p-value of 0.001. This implies that additional investment in plant and machinery has significant effect on ROA. This study therefore rejects the third hypothesis. However, additional investment in motor vehicles has a positive and insignificant effect on ROA with a coefficient of 0.295 and p-value of 0.825. This implies that additional investment in motor vehicles has an insignificant effect on ROA. This study therefore accepts the fourth hypothesis. Additionally, additional investments in furniture and equipment have a negative and significant effect on ROA with a coefficient of -3.502 and p-value of 0.079. This implies that additional furniture and equipment have a significant effect on ROA. This study therefore rejects the fifth hypothesis.

5. Conclusion

The study concluded that an increase in leasehold land and motor vehicles has an insignificant effect on ROA. Contrarily buildings, and plants and machinery positively and significantly affect ROA, while furniture and equipment negatively and significantly influence ROA.

Recommendations

It's recommended that investments in buildings, plant and machinery should be given adequate attention by firms as these variables affect ROA. Largely, fixed motor vehicles and leasehold land revealed negligible impact; companies should factor in their strategic value when making big capital investments in these forms of assets. Also, investment in furniture and equipment should be appropriately controlled in a way that does not affect the profitability of firms.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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