



**Assets utilization and financial performance of pharmaceutical companies in Nigeria
(A case study of Fidson Healthcare Plc)**

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Abstract

The purpose of this study was to look into how asset utilization affects the financial performance of pharmaceutical companies (as measured by return on asset) in Nigeria, with a particular focus on Fidson Healthcare Plc, between 2011 and 2020 fiscal years. Two specific objectives, research questions, and hypotheses were developed for this study. The ex-post facto research design was used with secondary data derived from the pooled data collected from the annual financial reports of FIDSON healthcare. The collected data were analyzed using ordinary least square regression analysis, but the study also performed preliminary analyses such as descriptive statistics and correlation analysis. According to the study, variations in the asset utilization variables captured in the model explain approximately 32.7% of the total variation in ROA as explained by variations in the independent variables captured in the study. Furthermore, both current asst ratio and the non-current ratio were found to be positively and significantly related to profitability of Fidson Healthcare Plc in Nigeria. Therefore, the study recommended that, in Nigerian manufacturing enterprises, special emphasis be devoted to maximising asset use. Also, financial ratios should be computed and used by Nigerian companies to monitor their financial performance on a regular basis.

Keywords: Current asset ratio, Non-current asset ratio, Return on asset, Asset utilization

1. Introduction

The desire to win in a difficult business environment has raised managers' responsibilities, pushing them to employ company resources promptly and successfully in order to achieve shareholder value generation and other firm objectives (Nkechi & Sunday 2020). As a result, effective utilization of firm resources available to managers in attaining organizational objectives can be a significant performance measure and a distinguishing element between effective and counterproductive managers. According to Robert (2011), as cited in Shafiquea,

Kashifb, Haiderc, Zaheerd, and Khan (2021), this privilege may increase the manager's investment opportunity set (though corporate governance helps to regulate it), which may make it more difficult for shareholders to evaluate the executive's behavior toward asset utilization, contributing to information asymmetry problems. According to agency theory, there are two participants: an agent and a principal. Both parties are fiduciaries/trustees to one another. Some authors criticize it as a contentious theory because it causes many problems in organizations, such as self-interested



behavior between two groups, such as managers and stakeholders, despite the fact that, as Shehata (2014) asserts, stakeholders have less information about the firm's performance than managers.

Rahim (2017) and Manaf et al. (2018) proved that asset usage influences a firm's ability to grow optimally based on internal funding, also known as sustainable growth. According to Ashta (2008), sustainable growth denotes a firm's ability to expand without negatively impacting its cash flows. As a result, organizations that prioritize development should likewise prioritize performance in order to prevent financial difficulties or even insolvency (Fonseka, Ramos & Tian 2012; Junaid & Ali 2020). Firm management must make a smart decision about financing sources to capitalize on growth prospects (Uddin, 2021).

According to Osamor, Abata and Adebajo (2021), asset utilization has a considerable impact on the net worth of large cap corporations. In a study of Bukit, Haryanto and Ginting (2018), asset utilization has a favorable and significant effect on firm value. With a larger profitability ratio, more profit income is delivered to shareholders, boosting the value of the company. Highly leveraged enterprises may boost asset usage to avoid insolvency during a severe recession. As Pham (2020) claims that effective asset utilization can increase the firm's value, while Modigliani and Miller (1953) discovered that the firm's value is unrelated to its capital structure, the correlation between leverage and asset utilization will improve the ability of company policymakers to make decisions. However, Modigliani and Miller revealed in a later study in 1963 that the firm's worth is larger with debt than without debt. Filbeck and Gorman (2000) discovered that a firm's

financial performance is positively connected to asset usage. This is due to the company's use of debt to obtain a higher return on its assets. The effective and efficient use of assets can have a significant impact on a company's level of development and cash flow (Nkechi & Sunday, 2020).

Many local industries in Nigeria are currently operating under unfavorable conditions such as insufficient energy supply, inadequate infrastructure, lack of access to funds, security problems, and high interest rates on bank loans to mention among other factors that have slowed the growth of the manufacturing sector (Aniefor, Nduka, Ananwude & Ezeaku 2021). Manufacturing firms, due to their purpose, have the highest investments in utilizing assets; thus, the performance of these companies is heavily reliant on proper finance and asset utilization (Kabuye, Kato, Akugizibwe & Bugambiro 2019).

The performance of Fidson Healthcare Plc during the last five years prompted a research. Over the last five years, Fidson's earnings have declined by -18.1 percent per year, and her Return on Equity (4.2 percent) is regarded low in comparison to the industry, which stood at 16.1 percent in 2018. From N7.155 billion in 2017 to N6.319 billion in 2018, the gross profit declined 11.7 percent. The operating profit in 2018 was N2.047 billion, a 19.7 percent decline from the profit of N2.549 billion the previous year. After-tax losses totaled N97.447 million, compared to a net profit of N1.060 billion in 2017. (Fidson Annual Report, 2020). As a result, the company's performance is worth evaluating. The majority of firms in Nigeria have closed down owing to poor performance, which is primarily ascribed to poor asset usage and insolvency (Akinleye & Dadebo 2019). Thus, pharmaceutical enterprises like Fidson



Healthcare Plc must still create alternate means of employing their assets for profit maximization in the face of strict financial restraints from traditional and specialized finance institutions. The performance of an organization can be judged by a variety of industrial criteria, both internal and external. On the other hand, the efficiency with which pharmaceutical businesses, such as Fidson Healthcare, use fixed assets to generate sales income for the firm influences the organization's performance. Furthermore, there is a scarcity of research on asset usage and how it affects organizational performance in Nigeria. As a result, the study attempts to address the vacuum by examining the effect of asset utilization on Fidson Healthcare Plc with specific objectives to:

1. Examine the impact of current assets ratio on return on assets of Fidson Healthcare Plc.
2. Evaluate the effect of non-current asset ratio on return on assets of Fidson Healthcare Plc.

2. Literature Review

2.1 Asset Utilization

Asset utilization is a tool for determining asset opportunity gaps (Nkechi & Sunday 2020). It can assist business managers in identifying latent asset capacity by assessing the difference between what an asset is capable of producing and what it actually produces (opportunity gap). According to Nkechi and Sunday (2020), asset utilization has a considerable impact on big cap companies' net worth. The ratio of total revenues earned divided by total assets possessed by the company is referred to as asset utilization (Bukit, Haryanto & Ginting 2018). Companies must seek high asset utilization as well as a profit margin, which may be achieved through sales growth, in order to strengthen their capital structure. According to a study conducted by Bukit et

al. (2018), asset utilization has a favorable and significant effect on firm value. With a larger profitability ratio, more profit income is distributed to shareholders, and the company's value rises. In order to prevent insolvency during a severe recession, highly leveraged enterprises may enhance asset utilization. According to Pham (2020), effective asset utilization may raise the value of the firm, and Modigliani and Miller (1953) discovered that the value of the firm is not tied to the capital structure in an earlier study. However, in a later study conducted by Modigliani and Miller in 1963, it was discovered that the value of the corporation is greater with debt than without debt. Filbeck and Gorman (2000) discovered that a firm's capital structure is positively connected to asset utilization. It is because the company uses debt to make better use of its assets. The effective and efficient use of assets can have a significant impact on a company's level of development and cash flow (Nkechi & Sunday, 2020).

Intangible Non-current Assets Utilization

Intangible assets are non-physical assets that are significant sources of future economic advantage and, to some extent, can be retained and traded (Shafiquea et al., (2021). Research and Development, patents, trademarks, human resources and capabilities, organizational competences (such as database and technology), and "relational" capital (e.g. customer and supplier networks, organizational design and process) are examples of intangible assets (Kirkpatrick 2006). Intangible assets are further classified by Shafiquea et al., (2021), as human capital, information-based, management skill, reputation, brand name, consumer information, and company culture. They may also be relational or competence-based (Shafiquea et al., 2021). Client loyalty, reputation, organizational structures,



intangible capital-represented competence, skill, expertise, structure capital, innovation capital, process capital, and consumer capital are the most important components of intangible assets that define an organization's long-term survival, profitability, and competitiveness (Nkechi & Sunday 2020).

Tangible Non-current Assets Utilization

Non-current tangible assets are immovable assets that cannot be easily converted into cash. The tangible non-current asset accounts for the majority of manufacturing firms' total assets. However, the quality of those tangible non-current assets can be critical in determining the quality of the product and the firm's long-term survival strategy. Fixed asset turnover can be used to measure the management's effective and efficient use of noncurrent assets. Harc (2015) believes that a firm's investment in tangible non-current assets is heavily influenced by its line of business. This is true because some businesses operate in capital-intensive industries, such as oil and gas, while others operate in less-capital-intensive industries. Most firms operating in oil and gas or other natural resources sector need large and technology driven non-current assets than firms in service sector whose assets in majorly intangible in nature.

2.2 Asset Utilization and performance

The company's financial performance improves as its asset utilization improves. When asset management is efficient, sales increase, which increases profit (Akinleye & Dadebo 2019). The company's capability is to manage assets in order to increase sales. The more sales there are, the more profit there is, which improves financial performance. Excessive use of a company's assets imitates efficiency and effectiveness in asset management and reduces expenses, resulting in higher profits and an increase in

the wealth of the company's owners. Dhandapani, Ganesh and Babu (2013) concluded that there is a need for financial performance improvement by implementing various forms of rebuilding, such as the write-off of lost assets and the alteration of share capital. Fixed assets are assets that are used in the production of divine services or the supply of goods and services that will be used within a fiscal year. Umadevi and Babu (2015) discovered that current assets, their indicators, and company structures in general are heavily influenced by the situation. Companies exhibit stable development under stable economic conditions. As the main concern is the efficiency in the utilisation of assets and the components of the working capital, the performance of the manmade textile industry is much better than the cotton industry.

2.3 Empirical Review

Shafiquea et al., (2021) used a sample dataset of 30 listed textile companies on the Pakistan Stock Exchange from 2015 to 2019 to investigate the effects of asset utilization and corporate growth on financial performance. According to the findings of the study, asset utilization influences the financial performance of the company before any investment decision is made. The results of the study, which used descriptive statistics and panel regression techniques, show that asset utilization and corporate growth have a significant and positive influence on financial performance. Nkechi and Sunday (2020) investigated the impact of asset utilization on the net worth of large cap companies listed on the Nigeria Stock Exchange between the 2012 and 2016 fiscal years. Four specific objectives, questions, and hypotheses were developed for this study. According to the study, both current assets (CASU) and tangible non-current

assets (TNCAU) have a positive and significant impact on the net worth of companies with large market capitalizations in Nigeria at a 10% significance level. The study recommends that managers of companies with large market capitalizations in Nigeria make aggressive investment moves to increase asset utilization because it has the potential to positively drive their firms' net worth.

Nurlaela, Mursito, Kustiyah, Istiqomah, and Hartono (2019) conducted an empirical test on the effect of capital structure, liquidity, asset structure, and asset turnover on the financial performance of companies in the consumption industry sector listed on the Indonesia Stock Exchange between 2016 and 2018. The use of independent variables, the number of samples used, and the study period distinguish this study from previous research. This study is quantitative in nature. Multiple linear regression analysis was used as the analytic method in this study. The t-test hypothesis results show that the capital structure variables debt to equity ratio (DER), liquidity current ratio (CR), and asset turnover (TATO) all have a significant impact on financial performance (return on assets).

Mwaniki and Omagwa (2017) investigated the impact of asset structure on the financial performance of firms listed on the Nairobi Stock Exchange in the service sector between 2010 and 2014. The asset structure is measured in the study using property, plants, and equipment; current assets; intangible assets; and long-term investments. Secondary data was gathered from the annual reports of the selected firms, and it was discovered that asset structure had a significant impact on firm financial performance. According to the study, non-current assets have a greater impact on firm financial performance, whereas current

assets and intangible assets have no statistical significance on firm financial performance.

Owumi (2015) conducted a related study on the impact of fixed asset management on the profitability of textile mill firms in Pakistan between 2010 and 2014. The study relied on ex-post facto and secondary data, which were analyzed using ordinary least square regression. According to the findings, there is a significant relationship between net profit and fixed assets. The study also revealed that fixed asset investment has no effect on the profitability of textile firms in Pakistan.

From these studies reviewed, the hypotheses put forward to be tested in this study are?

- i. Current asset ratio has no significant impact on the performance of pharmaceutical companies in Nigeria.
- ii. Non-current asset ratio has significant impact on the performance of pharmaceutical companies in Nigeria

2.4 Theoretical Framework

Agency theory

The Agency theory, proposed by Jensen and Meckling (1976), was deemed appropriate for the study. Despite the fact that Jensen and Meckling (1976) provided the first comprehensive exposition of agency theory, Adam Smith (1776), Ross (1973), and Davis, Schoorman & Donaldson (1997) later examined the potential challenges and problems. The theory established a relationship between the principals (for example, shareholders), agents (for example, company executives), and managers (Singh & Davidson 2003). The agency theory focuses on the issues that can arise when one component (the 'principals') contracts with another component (the 'agents') to make decisions on their behalf (Davidson, Boursli & Singh 2006). The theory's viewpoint asserts that the principals



outsource the administration of the business to directors and engage the agents to undertake certain tasks on their behalf (Fadun 2013). Shareholders ideally expect the agency to operate and decide in the interests of the main. Nevertheless, the agent must not behave and make judgments for the good of the officers (Davidson et al., 2006; Fadun 2013). In this type of engagement, the problem that may arise (agency problem) is such when refuse to disclose the business information to the principal (a case of information asymmetry) and hence manage the organization in their own interest (Fadun 2013). An 'agency costs' can be stated for lost from the misdirected interest of opportunistic and self-interested managers.

The agency cost measure is the ratio between annual sales and total assets, a measure of the utilization of asset. This ratio reflects the ability of management to efficiently use assets (Singh & Davidson 2003). A high turnover ratio for assets suggests a significant quantity of income and eventually cash flow generated by a particular asset level. A low percentage would suggest that management uses assets that generate non-cash flows and possibly ruin companies. Efficient asset management practice (in this case information governance) and thus the production of value by the owners might identify higher asset turnover, but less revenue to the asset ratio signals asset deployment for unproductive objectives. Thus, organizations with significant conflict of agencies will have lower asset revenue ratio compared to those with fewer conflict agencies. (Singh & Davidson 2003).

3. Methodology

The research design employed in this study is ex post facto research design (Simon & Goes, 2013). Kerlinger and Rint (1986) explained that in the context of social

science research an ex post facto investigation seeks to reveal possible relationships by observing an existing condition or state of affairs and searching back in time for plausible contributing factors. Ex post facto research uses data already collected, but not necessarily amassed for research purposes. The data used has the characteristics of time series and cross sectional, they already existed and the researcher made no attempt to change its nature and its value. The study adopted the ex- post-facto design because the study sought to analyse the causal effect relationship using the available data.

Secondary data was used for the study. These data have been collected from Annual Reports and Accounts of the sampled pharmaceutical company, i.e., Fidson Healthcare Plc. for the period of ten (10) years i.e. 2011–2020. The choice of Fidson Healthcare Plc was based on the availability of data. Asset utilisation is an independent variable which specifies the number of assets that are available for use. As suggested by Nkechi and Sunday, (2020), current asset ratio (CAR) and non-current asset ratio (NCAR) are the proxies which used to measure the asset utilisation of the available data while return on asset (ROA) is the proxy for financial performance.

Current Assets ratio = Current Asset/Total Asset
Non-current asset ratio = Non-Current Assets /Total Asset

The data collected was analysed using descriptive statistics, regression and correlation analysis. The descriptive statistics was used to evaluate the characteristics of the data, such as the mean, maximum, minimum, and standard deviation and also checks for normality of the data. The correlation analysis was used to evaluate the relationship between the variables and to check for multicollinearity.

The multiple regression analysis was used to evaluate the effect of the independent variables on the dependent variable. It reveals the degree of influence and effect the independent variables has on the dependent variable.

In a bid to examine the effect of asset utilization on performance of Fidson Healthcare. The model is designed to accommodate time series regression. Thus, following Nurlaela et al., (2019), we specify that:

$$\text{Performance} = f(\text{asset utilization}) + \varepsilon_i$$

$$\text{ROA}_t = \alpha_0 + \beta_1 \text{CAR}_t + \beta_2 \text{NCAR}_t + \varepsilon_t$$

Where:

CAR = Current assets ratio

NCAR = Non-current asset ratio

t = is error structure defined as firms unobserved effects;

α_0 = the regression;

β_1 , and β_2 = the change coefficient for the independent variables

4. Results and Discussion

This section is solely concerned with the presentation of results in precise form to enhance critical discussion and analysis of the data collected from the financial statements of the sampled pharmaceutical company.

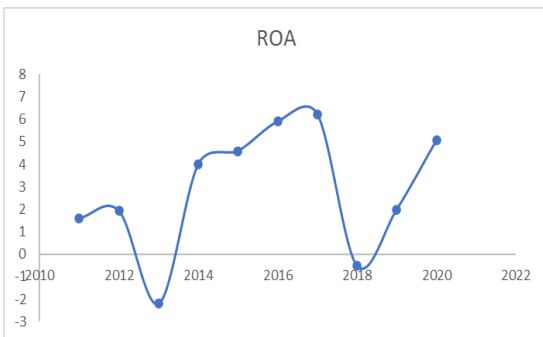


Figure 1: Trend of return on assets for Fidson Healthcare for 2011 to 2020

Figure 1 shows the trend of return on assets for Fidson Healthcare for 2011 to 2020. From the figure, it was observed that Fidson has its minimum value of return on asset in 2013 and the maximum value in 2017.

Table 1: Descriptive Statistics

	ROA	CAR	NCAR
Mean	2.858000	0.317606	0.674022
Median	3.000000	0.285705	0.682600
Maximum	6.220000	0.477606	0.762448
Minimum	-2.200000	0.237552	0.522394
Std. Dev.	2.786379	0.076430	0.073979
Skewness	-0.473847	0.935348	-0.713040
Kurtosis	2.119164	2.782706	2.688552
Jarque-Bera	0.697498	1.477799	0.887794
Probability	0.705570	0.477639	0.641532
Sum	28.58000	3.176060	6.740221
Sum Sq. Dev.	69.87516	0.052575	0.049257
Observations	10	10	10

Eview Output, 2022

Table 2 presents a summary of descriptive statistics of independent and dependent variable used in the research. It indicates the mean, standard deviation, minimum, maximum and observation. Specifically, the mean values of the impact of current asset ratio (CAR), non-current asset ratio (NCAR) and return on asset (ROA) stood at about 0.317606, 0.674022 and 2.858000 respectively. Their respective minimum and maximum values are equally shown indicating variations over the years for the respective series. The standard deviation values shown on Table 1 indicate the dispersion or spread in the data series. The higher the standard deviation value, the higher the deviation of the series from its mean and the lower the standard deviation



value the lower the deviation of the series from the mean. The variable with a highest degree of dispersion from the mean is the return on asset (ROA), this further explains its variations over the years under study.

The skewness, kurtosis and Jarque berra statistics of all variables shown on Table 1 fully indicate the true nature of the data series since the probability value of Jarque berra statistics of all the series are shown to be above the acceptable value of 0.05 for all the variables. Based on the probability values for Jarque Berra statistics in the descriptive table 1, all the series are normally distributed. Thus, the regression model is thus estimated since one of the assumptions of Multiple Regression is normality of series which have been met.

Table 2: Correlation Matrix

Covariance Analysis: Ordinary, Date: 04/11/22 Time: 13:49

Sample: 2011 2020, Included observations: 10

Correlation t-Statistic Probability	ROA	CAR	NCAR
ROA	1.000000 ----- -----		
CAR	0.164306 0.471132 0.0061	1.000000 ----- -----	
NCAR	0.112372 0.319863 0.0073	0.638653 2.347495 0.0469	1.000000 ----- -----

Eview Output, 2022

Table 2 above presents the correlation results between natural log of asset utilization and organization performance for 10 years period of study. The correlation between the predicators (CAR and NCAR) and the dependent variable (ROA) is

0.164306 and 0.112372 respectively. The results suggest that there is absence of multicollinearity problem since the correlation coefficient between the predicators' falls short of the rule of thumbs of 0.90 (Kothari, 2005).

Table 3: Result from Regression Analysis

Dependent Var: ROA, Method: Least Squares, Date: 04/11/22

Time: 13:50, Sample: 2011 2020, Included observations: 10

Variable	Coefficie nt	Std. Error	t-Statistic	Prob.
C	0.729547	9.776833	0.074620	0.9426
CAR	5.697566	2.66263	7.322577	0.0064
NCAR	0.473088	0.24782	9.025926	0.0000
R-squared	0.327090	Mean dependent var		2.85800
Adjusted R-squared	0.250884	S.D. dependent var		0
S.E. of regression	3.116368	Akaike info criterion		2.78637
Sum squared resid	67.98224	Schwarz criterion		9
Log likelihood	23.77269	- Hannan-Quinn		5.35453
F-statistic	23.09745	crit.		8
Prob(F-statistic)	0.000352	Durbin-Watson stat		5.44531
				4
				5.25495
				8
				1.54601
				6

Eview Output, 2022

The findings show that. R², the multiple coefficient of determination of the variables stood at 0.327090 indicating that about 32.7% of the total variation in ROA is explained by variations in the independent variables captured in the study. The adjusted R² being 0.250884 also indicates that the independent variables will still explain 25.0% of the variations in ROA even if other variables were added to the study. More so, the assumption of no auto correlation of the error terms is also a requirement of linear regression. Norusis (1995) is of the opinion that Durbin-Watson



can be used to test the independence of error terms. He added that the general rule of thumb is that if the Durbin-Watson value is between 1.5 and 2.5, the assumption of independence of the terms is not violated. The Durbin Watson coefficient stood at 1.546016 as shown in Table 3 which falls within the benchmark. This indicates the absence of harmful serial correlation. The F-statistic which measures the adequacy and fitness of the model used in the study stood at 23.097455 with a p-value of 0.000352 which is significant at 5%; this shows that the model is fit for the data. Thus, the model is considered fit and any conclusion made from it.

Current asset ratio and performance of Pharmaceutical companies in Nigeria

Current asset ratio (CAR) is found to be positively related to the performance of pharmaceutical companies in Nigeria. It has a beta coefficient of 5.697566, with a t-statistics of 7.322577 respectively. The positive beta coefficient implies that an increase in the CAR will lead to an increase in performance. However, the significance of this is ascertained from its p-value. The p-value of the t-statistic stood at 0.0064, indicating that the t-statistic is significant at 95% confidence level. Based on this, the study rejects the null hypothesis which states that Current asset ratio has no significant impact on the performance of pharmaceutical companies in Nigeria thus, the alternative hypothesis is accepted which states that current asset ratio has significant impact on the performance of pharmaceutical companies in Nigeria.

Non-current asset ratio and performance of Pharmaceutical companies in Nigeria

Non-current asset ratio (NCAR) is found to be positively related to performance of pharmaceutical companies in Nigeria. It has a beta coefficient of 0.473088, with a t-

statistics of 9.025926. The positive beta coefficient implies that an increase in the NCAR will lead to an increase in performance of pharmaceutical companies in Nigeria. However, the significance of this is ascertained from its p-value. The p-value of the t-statistic stood at 0.000, indicating that the relationship is insignificant at 95% confidence level. Based this, the study accepts the alternative hypothesis which states that non-current asset ratio has significant impact on the performance of pharmaceutical companies in Nigeria.

This result agrees with Akinleye and Dadebo (2019) who found out that Assets Utilization has significant impact on performance of Manufacturing Firms in Nigeria. In addition, Nurlaela et al., (2019) who found out that fixed assets management and working capital management have a positive impact on profitability of the organization.

5. Conclusion and Recommendations

The purpose of this study was to look into how asset utilization affects the performance of pharmaceutical companies (as measured by return on asset) in Nigeria, with a particular focus on Fidson Healthcare Plc, between 2011 and 2020 fiscal years. The study thus concludes that asset utilization affects the performance of Fidson Healthcare Plc.

The research aims to assist investors and businesses in making decisions. The findings of the study provide significant advice for businesses in terms of smart decision-making, asset use, and financial strategies. The study recommended that, in Nigerian manufacturing enterprises, special emphasis be devoted to maximising asset use. Also, financial ratios should be computed and used by Nigerian companies to monitor their financial performance on a regular basis.



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