

Intangible Assets and Financial Performance of Nigeria’s Deposit Money Banks

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Abstract. One of the measures of organisational success is its financial performance. In this study, the relationship between intangible assets and financial returns of Nigeria’s deposit money banks (DMOs) was investigated. Secondary data from annual reports and account of the selected DMOs were collected and analysed using panel ordinary least square regression, descriptive statistics, correlation analysis and Hausman test. Results reveal a positive but insignificant relationship between intangible assets and profitability of Nigeria’s deposit money banks. It is therefore recommended that organisation should invest significantly in intangible assets in order to boost profitability.

Keywords: Intangible Asset, Profitability, IAS 38, IFRS, Goodwill

1. Introduction

The Nigerian economy is emerging, filled with corporate bodies fighting to stay afloat and persevere notwithstanding high competition in their industries. Deposit Money Banks are faced with a number of problems such as liquidity issues, poor governance, sustainability problems and this leads to poor performance. Economists reflect on the new business environment as well as the crucial function of intangibles in value creation of companies (Meritum, 2001). Intangible assets have risen to be the focus of businesses, corporate analysts, investors, and accountants in recent time initiating attempts to understand as well as reduce the gap amid firms’ book and market value. In the information period where intangibles are important and viewed as possessing monetary value that boosts the profitability as well as sustainability of an entity, the

disclosure of such asset/ resource is key (Madinios, Chatzoudes, Tsairidis & Theriou, 2011).

According to Guthrie and Petty (2000) intangibles assets are "soft" or "weightless" wealth of an organisation. Also, Fincham and Roslender (2003) referred to them as “Intellectual capital” and “Knowledge assets”. In order intangible assets can be referred non-physical property which are used for creating future wealth.

Various types of intangible assets exist – they include but not limited to copyright, trademarks, brand, software and patents. Globally, there are acceptable principles guiding valuation, report, record and account of intangible assets (The International Accounting Standards Board (IASB) (nd). The IAS 38, recognised intangible assets as entity that accrue future inflows to organisation, meanwhile the cost of which could be assessed consistently for an entity to depict these subject matters as an asset. In their study of advanced economies, Marrocu, Paci and Pontis (2012) reported association between intangible assets and economic performance. In addition, the study found that property rights encapsulate, copyright, land use rights, franchise and patents.

Various scholars (Boujelben & Fedhila, 2011; Clarke et al., 2011; Ehie & Olibe, 2010; Kamath, 2008; Kundu et al. 2010; Maditinos et al. 2011; Salamudin et al, 2010; Su & Wells, 2015) have been investigating the factors affecting intangible assets in relation to organisation financial performance and found strong association between economic performance and intangible assets. On the other hand (Ruiwen & Honghui, 2010; Widianoro, 2012) found negative association between intangible asset and

companies' performance. However, literature (Andonova and Ruiz-Pava, 2016) has found that emerging economies might not have the ability to create sustainable competitive advantage through intangible assets.

Researchers have pondered on the relationship between intangible and corporate performance. Okoye, Offor and Manukaji, (2019) examined the effect of intangible assets on performance of quoted companies in Nigeria using Ex post facto research design. They revealed that goodwill has a significant effect on return on capital employed of quoted companies in Nigeria. Their findings were in line with the study of Ofurum, Onuoha, and Nwaekpe (2018) who used human capital investment as proxy for intangibles; Chukwu and Salifu (2018); Bhatia and Aggarwal (2018) who applied regression analysis; Zhang (2017) who focused on telecommunication firms; Rindu (2015); Abdelwahab (2014); Rezaie and Salehi (2015) using ANOVA and multiple regression then Mendoza (2017) in the Philippines which showed that intangible assets impact significantly on total cash flow. Although, Nnado and Ozouli (2016) revealed that intangible assets and financial performance proxied by EVA is very significant and negative

Businesses seek means for value creation, which rests on the best combination of tangible and intangible assets (Bhatia, & Aggarwal, 2018). Intangible assets value has become notable due to the high adaptation of businesses to objective use of assets. Tangible assets are without difficulty acquired, since the business holds financial capabilities to do so. Nevertheless, intangible assets are exceptional and uniquely owned by a single entity. This makes it to be a vital differentiating element, contributing to the attainment of competitive advantage (Tsai, Lu, & Yen, 2012).

There is no doubt about the importance of financial performance in organisation including the banking system. To explain, financial performance and resources this study adopted the resource-based theory. Resource-based theory (RBT) is grounded on the notion of economic rent. It views a company as a combination of capabilities. This helps a foundation for strategic decision making. Rauch et. al. (2005) adopted the (RBT) to elucidate the place of human capital in entrepreneurship. Consistent with RBT, human capital as well as other intangibles is viewed to be a boost in competitive advantage for corporate entities.

The RBT also posits that an entity competitive advantage is generated from their capability to create, manage as well as utilize an appropriate blend of available resources. The aforementioned resources can be tangible and/or intangible, and signify the contributions into an organization's production stages; such as equipment, capital, technical knowhow of employees, talented managers, patents, and financing. As a corporation's efficiency and competences rise, their array of accessible resources has a tendency to become larger. With continued usage, these "capabilities", well-defined as the ability for a combination of resources to actively accomplish a set task, become tougher and more problematic for market competitors to comprehend and imitate. Intangibles like research and development and can be applied to boost imminent performance prospects.

While studies have been conducted in developed countries regarding intangible assets and financial performance, fewer researches have been conducted in developing countries. The present study therefore, makes an effort to evaluate the impact of intangible asset on financial performance of Nigeria's deposit money banks; thus, bridging the research gap.

2. Methodology

The study builds on existing research studies and methodologies and uses ex-post facto research design. Data from secondary sources were adopted in this study. The data covered the period of eleven (11) years from 2008 to 2018. Using judgmental sampling, the study selected 9 deposit money banks out of 15 listed on the Nigerian stock exchange. To capture intangible assets in a company, the natural logarithm of total intangible assets was used in this study. To measure the company's performance, the financial indicator return on asset (ROA) was selected, because ROA (**profit after tax/total asset**) shows how profitable, a company's assets are in generating revenue. Firm size was also used as a control variable which was derived as the natural logarithm of total asset.

Data generated were subjected to descriptive statistics to analyze the individual characteristics variables; while correlation analysis was run in order to determine the extent of association and presence or otherwise of multi-collinearity. In this work, the estimate technique used is the Panel Ordinary Least Square (OLS), which would be engaged to establish the existence of relationship through the application of the econometric software (E- view). The choice of the estimation procedure (OLS) was as a result of its advantage over other method or technique which is

preferred given us desirable properties of unbiased, consistency, efficiency, sufficiency, best, linear (Gujarati, 2004). The technique also has computation ease.

2.1 Model specification

This model of this study was adapted by Hanran and Wenshu (2014). The adapted model will be expressed in functional and econometric forms. The functional form of the regression model is represented as:
 ROA = F (INTGB, FSIZE)

Where:

- ROA = Return on Asset
- INTGB= Intangible asset
- FSIZE= Firm Size

The Regression Model can be restated in econometric form as:

$$ROA_{it} = \alpha O + \beta_1 INTGB_{it} + \beta_2 FSIZE_{it} + \epsilon_{it} \tag{1}$$

Where

- α = Constant Term
- β = Beta coefficients
- ϵ = Error Term

3. Data Analysis and Interpretation

Dependent Variable: ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INTGB	0.004331	0.003932	1.101520	0.2742
FSIZE	-0.001381	0.004908	-0.281457	0.7791
C	0.015050	0.030685	0.490481	0.6252
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R-squared	0.579504	Mean dependent var		0.046558
Adjusted R-squared	0.522680	S.D. dependent var		0.046989
S.E. of regression	0.030627	Sum squared resid		0.069414
F-statistic	10.19826	Durbin-Watson stat		1.692726
Prob(F-statistic)	0.000000			

Source: Authors Computation (2020)

This study examined the relationship between intangible assets and financial performance of Nigeria’s Deposit Money Banks. From the regression results above, it can be inferred that the R-squared is 58% while the adjusted R-squared is 52%. This depicts that 52% of changes in the financial performance of DMOs is accounted for by the intangible assets while the remaining 48% is accounted for by variables not covered by this study. Also, the F-statistics is significant (0.0000) which shows that the model is fit and appropriate for this study, its findings as well as for policy recommendations. Also, the Durbin Watson of 1.692726 falls within acceptable levels which show absence of serial autocorrelation.

Examining the individual co-efficient, it can be seen that intangible asset has a positive (0.004331) and non-significant (0.2742) impact on profitability of deposit money banks in Nigeria. This means that the null hypothesis should be accepted and alternative hypothesis rejected. This shows that a unit increase in intangible asset will lead to a 0.4% increase in return on asset. From these findings, we can infer that there

is a positive but non-significant relationship between intangible assets and financial performance.

The findings further show that firm size in terms of total assets influences return on asset of listed deposit money banks negatively and not significantly ($\beta = -0.001381$, p-value = 0.7791). This implies that a unit increase in the total assets would lead to a 0.1% decrease in return on asset. The relationship is not significant as the p-value (0.77) is greater than the significance level (0.05) and hence we accept the null hypothesis and reject the alternative hypothesis. We can therefore deduce that there is a negative but insignificant relationship between size of listed deposit money banks and their return on asset.

The findings of this study are consistent with previous research that have reported a nexus between intangible assets and financial performance. For instance, in Garger (2010) study intangible asset was reported to crease higher market value than book value. This is also consistent with Ulum, Ghozali, and Chariri (2008), which found intangible assets

having significantly positive effect on overall corporate value.

4. Conclusion and Recommendations

Thus far, this study investigated the relationship between intangible assets and financial performance of Nigeria's DMOs. The results revealed positive but non-significant effect on intangible assets on financial performance of DMOs in Nigeria. It could be concluded that the higher organisation invest in intangible assets, the higher the financial returns to the organisation. Based on the findings, we recommend that:

- Management should have positive disposition towards intangible assets disclosure with a view to increase the real value of intangible assets in their organization.
- Firms should invest in intangible assets because such would definitely reinforce internal resources and capabilities for sustained competitive advantage.
- Invest significantly in intangible assets as they pose the great potentials of boosting firm profitability as posited by the Resource-Based Theory.

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