

# Firm Structural Characteristics and Corporate Performance of Brewery firms: Evidence from Nigeria

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**Abstract:** This paper examined the effect of firm structural characteristics on the corporate performance of brewery firms in Nigeria for the period 2006-2020 by using panel fixed effect regression model. Four explanatory variables (firm size, age, ownership structure and leverage) were used to measure the effect on corporate performance (return on assets as a proxy) of Nigeria brewery firms. The results show that firm size, firm ownership and firm leverage has significant effect on the corporate performance of Nigeria brewery firms at 5% level of significance while firm age has insignificant effect on the corporate performance (ROA). Also, all the variables in the model are jointly significant in explaining variations in the corporate performance of the selected breweries in Nigeria. However, firm size and firm leverage has negative and strong influence on corporate performance of listed brewery firms. The implication of the insignificant effect of firm age on the corporate performance is that an increase in firm age by one per cent will lead to an increase in the corporate performance in the brewery firms by more than one percent. This study contributed to knowledge by identifying firm size and leverage as the areas that managers/directors of brewery firms should focus their performance management strategies because of their negative and strong influence on their corporate performance. It then recommends that investors and managers of brewery firms should consider firm structured-related characteristics (firm size, age, ownership structure and leverage) when they take their investment decisions.

**Key Words:** Firm structural characteristics, corporate performance, brewery firms, Firm Size, Nigeria

## I. INTRODUCTION

The performance of any firm will not only be vital in enhancing the market value of that particular firm but will also results in the growth of the entire industry which will invariably encourage the overall gross domestic product of the economy (Kaguri, 2013). The Nigerian brewery sector is a sub-sector of the food and beverages industry in Nigeria. This sector continues to thrive, despite the fact that the global consumption declines as a result of the recent global economic crisis and the Nigeria economic recession as well as increasing health awareness of the consumers. The major operations of brewery firms comprise the production, packaging and sales of alcoholic and malt beverages (Adekoya, 2016; GTI Research, 2012). From the report of the Deutsche Bank Market Research, it has been certified that

Nigeria is Africa's largest alcohol consumer, accounting for 36% of Africa's formal alcohol market. The sector is now competing with brewing multinationals over the huge consumer market in Nigeria with a dense population making up the largest in Africa and an increasing middle class with a good number of drinking - age consumers, beer demand and intense competition (GTI Research, 2012). The major multinational players in the Nigeria brewery industry are Heineken Brouwerijen BV, with 71% share of the market through its subsidiary, Nigerian Breweries; Diageo Beverage Company with a 27% market share through its stake in Guinness Nigeria; while SABMiller, a South African brewery multinational, with its acquisition of Pabod Breweries in 2008 and International Breweries in 2012.

Brewery industry in Nigeria is one of the industries that is measured by value added and employment. Under the current recession in Nigeria and the growing pressure of the heated global competition, brewery industry is faced with a number of challenges which needs the understanding of strategies that improve the corporate performance of the firms.

The topic on corporate performance has been given remarkable attention from researchers in various areas of finance, business and strategic management. It has also generated key concern of business managers in different types of industries because corporate performance has implications to companies' financial health and ultimately its survival (Kaguri, 2013). High corporate performance indicates management efficiency in utilizing the firm's assets and this invariably facilitates the growth of the country's economy at large (Naser & Mokhtar, 2004).

Corporate performance is a focal phenomenon in business studies although it is complex and multidimensional. It can be characterized as the firm's ability to create acceptable outcomes and actions. Corporate performance has been interpreted with different variables by different authors like return on assets, return on equity, survival, return on investment, net profit margin, gross profit margin, sales growth, number of employees, happiness, reputation, market share, return on capital employed, and so on (Kisengo & Kombo, 2014; Bhutta & Hassan, 2013; Damilola, 2007;

Raheman & Nasr, 2007; Goddard, *et al.* 2004; Demirguc-Kunt & Huizinga, 2000; Foley & Green, 1989).

Different determinants of corporate performance have been identified in various industries, but those indices seem to differ across countries and industries (Dogan, 2013; Mahfoudh, 2013; Anic, *et al.* 2009; Nunes, *et al.* 2009; Amoako-Gyampah & Acquah, 2008; Capon, *et al.* 1990). Irrespective of the large volume of studies that explored firm characteristics and corporate performance relationship, very little is yet known about the effects of different firm structural characteristics on the corporate performance of brewery firms

Nigeria.

Golan, *et al.* (2003) observed that firm characteristics are defined by firm's resources and objectives. The characteristics are made up of structure variables (firm size, ownership and firm age), market variables (industry type, environmental uncertainty and market environment) and capital-related variables (liquidity and capital intensity) (Kisengo & Kombo, 2014). It is important to have a grip understanding of the impacts of specific firm structural characteristics on corporate performance whether in the form of profitability, returns on capital employed, returns on equity, returns on investment, or returns on assets. Inasmuch as the managers of these firms try to influence performance at their functional levels (either in marketing, finance or Operations), there still remains a gap in understanding the combined effects of these firm structural characteristics in a more holistic view (Mahfoudh, 2013). Therefore, the study is an attempt to ascertain the effects of firm structural characteristics on the corporate performance of brewery firms in Nigeria.

The remaining part of the paper is subdivided into the following sections: literature review and hypotheses development, empirical review, methodology, model specification, results, discussions, conclusion, and recommendations.

## II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

### 2.1 Corporate Performance

There is no generally accepted definition of corporate performance among scholars. It can be defined as the evaluation of achievement of the firm target (Daft, 1995). Corporate performance was also described by Reed, Lemak and Mero (2000) as firm's ability to create acceptable outcomes and actions. The major corporate performance indicators in a firm are sales growth, profitability, market share, liquidity, capacity utilization, financial structure, investment – shareholder ratio, and number of employees (Nwiboeke, 2016, Egbide, 2009; Damilola, 2007; Philip, 2004). Profitability takes the centre stage in the structure and development of firm because it is the principal determinant of the performance and success of a firm (Bhutta & Hassan, 2013). In fact, Kisengo & Kombo (2014: 1794) averred that

corporate performance is “often defined simply in terms of output such as quantified objectives or profitability”.

Profit is faced with imprecision in terms of definition and thus poses decisional challenges to scholars when choosing the right variant to proxy profitability. Some of those variants used to proxy profits include profit after tax, profit before tax, return on assets, return on equity, return on capital employed, profit per share, gross profit, net profit, profit per share, net profit margin, gross profit margin, and so on (Nwiboeke, 2016, Bhutta & Hassan, 2013; Kaguri, 2013; Egbide, 2009; Raheman & Nasr, 2007; Damilola, 2007; Pandey, 2005; Philip, 2004). Egbide (2009) observes this imprecision as follows:

Conceptually, profit connotes the excess of revenue generated by a firm over its associated cost for an accounting period. Operationally, the term profit is imprecise as many variants exist (Egbide, 2009: 45).

Profit maximization is a key concern in the objectives of a firm, as it is the ability to improve on the stability of the firm and maximizes stakeholders' value. Bhutta & Hassan (2013) and Egbide (2009) are of the opinion that Profitability is the most proper determinant of corporate performance, especially under competitive market environments. Brewery industry in Nigeria is faced with strong competition in recent years. Van Horne & Wachowicz (2005) aver that return on assets (ROA) is a measure of the overall effectiveness of the firm in generating profit with available assets. Therefore, in line with prior studies, this study with adopt profitability measured by return on assets (ROA) as a proxy for corporate performance in Nigeria brewery firms.

### 2.2 Firm Size and Corporate Performance

Firm size is one of the most influential characteristics in organizational studies (Kaguri, 2013). Among the firm structural characteristic that is mostly related to corporate performance is firm size (Mgbada, 2017; Mahfoudh, 2013; Dechow and Ge, 2006; Beard & Dess, 1981). The firm size in most times measured by the asset size of the firm (Olowokure, Tanko & Nyor, 2016; Saheed, 2013) or by either natural logarithm of assets, or sales or employees (Anic, *et al.* 2009; Mahfoudh, 2013; Kaguri, 2013; Babalola, 2014; Bhutta and Hassan, 2015). Studies have shown that there is a positive significant relationship between firm size and profitability (Akhavain, *et al.* 1997; Smirlock, 1985). The larger a firm is, the more structured, diversification capabilities, and more formalized procedures it will be. To this effect, Mgbada (2017) further emphasized that the large the firms are more diversified, have easy access to the capital market, receive higher credit ratings for debt issues, and pay lower interest rate on debt capital. Larger firms are also likely in a better position to attract professional and skilled human resources that will remarkably turn around in significant manner the corporate performance.

Demircuc-Kunt and Huizinga (1998) revealed that the degree of which various financial, legal and other factors like corruption, affect corporate performance (profitability) is strongly related to firm size. However, other studies such as Leibenstein (1976) cited in Mahfoudh (2013) argued that firm size can result to inferior corporate performance due to formalized procedures and market x-inefficiencies. With the ambiguous results from different studies as seen above in their attempt to explain the causal relationship that exist between firm size and corporate performance, we therefore decided to conduct this study and focused on brewery firms in an emerging economy. Hence we hypothesize as follows:

*H<sub>01</sub>: Firm size has no significant relationship with corporate performance of brewery firms in Nigeria.*

### 2.3 Firm Age and Corporate Performance

Firm age can be described as an absolute metric that indicates the number of years the firm has been in operations from inception. It is measured as the natural logarithm of the years of incorporation (Chandrasekaran, 2012). The age of a firm has been variously associated with corporate performance by those in favour and against it as well (Mahfoudh, 2013). When there is reduction in corporate performance as firms grow older, it could explain why most of brewery firms like Nigeria Breweries Plc and Guinness Nigeria Plc, are eventually taken over through acquisition (Loderer, *et al.* 2009).

After a long period of time, firms may however discover through SWOT (strength, weakness, opportunity and threat) analysis what they are good at and learn how to improve on their operation (Ericson and Pakes, 1995). In the view of Mgbada (2017), the more time a firm continues to stay in business, the more it establishes itself as an ongoing business and therefore increases its capacity to improve on its operations. Kristiansen, *et al.* (2003) found that length of time in operation was significantly linked to business success. Stinchcombe (1965) cited in Mahfoudh (2013) argues that older firms are more experienced, have enjoyed the benefits of learning and are not prone to liability of newness which ultimately leads to superior performance. Studies by Evans (1987) and Yasuda (2005) show that the probability of firm growth, firm failure, and the variability of firm growth decreases as firm age.

Older firms may also take advantage from reputation effects, which give the opportunity to generate a higher margin on sales. Newer and smaller firms then take away market share not minding the disadvantages such as lack of capital, brand names and corporate reputation with older firms (Kakani, *et al.* 2001). Meanwhile, another dissenting view is that older firms may lose out on profitable venture that is at their door step as a result of structural inflexibility. The following hypothesis is then formulated:

*H<sub>02</sub>: Firm age has no significant relationship with corporate performance of brewery firms in Nigeria.*

### 2.4 Firm Ownership and Corporate Performance

Firm ownership is one of the firm structural characteristics that influence corporate performance. It is conceptualized as the shareholding structure of the firm. Ezeoha and Okafor (2010) define ownership structure as the percentage of share held by managers (managerial ownership), institutions (institutional ownership), government (state ownership), foreign investors (foreign ownership), family (family ownership) and so on. The influence of firm ownership on performance could be positive (Mitton, 2002; Claessens and Djankov, 1999), as a result of closer monitoring of the directors by the investors due to increase in shareholdings. However, the influence of firm ownership concentration on corporate performance “could be negative, because a higher degree of ownership concentration could signify underdeveloped capital markets, within holding control as a disciplinary mechanism may be ineffective” (Vintila and Gherghina, 2014: 272). The interest of the non – controlling interest shareholders could be impaired because of sub-optimal interest that conflict with the corporate goal by the controlling interest shareholders. Past research observed that higher levels of ownership concentration are found in countries that are known for comparatively low protection of shareholders which most of the time lead to conflict between the controlling interest and non-controlling interest shareholders (La Porta, *et al.* 2002).

Adinoyi, *et al.* (2014) conceptualized the firm sector as the ownership status which implies either a privately or a publicly owned enterprise, and their findings show that ownership has no significant and positive impact on the firm innovative practices. Based on the above controversy on the effect of firm ownership, the study then hypothesized that:

*H<sub>03</sub>: Firm ownership has no significant relationship with corporate performance of brewery firms in Nigeria.*

### 2.5 Firm's Leverage and Corporate Performance

Leverage refers to the percentage of debt financing in the capital structure of a firm and it measures the percentage of total funds provided by creditors. It is often called debt ratio or gearing ratio. It is an indication of a company's solvency (Anic, *et al.* 2009) and measured by long term debt-to-fixed asset ratio (Kaguri, 2013) or total debt-to-total assets (Anic, *et al.* 2009). Prior studies suggest that debt is negatively related to performance at the firm level (Capon, *et al.* 1990 as cited in Anic, *et al.* 2009). Leverage is found to be insignificantly and positively related to profitability (Long and Maltiz, 1985). Also, leverage is negatively related to profitability in both the US and Japan (Kester, 1986). The higher the ratio, the greater risk is associated with the firm's operation. High debt to assets ratio indicates low borrowing capacity of a firm, which in turn lowers the firm's financial flexibility and its profitability. On their different studies on earning management, Waweru and Riro (2013) find that highly leverage firms are more likely to engage in earnings management than firms that are not highly leveraged, while

Shehu and Ahmad 2013 also posit that there is a significant relationship between the degree of leverage and the level of earnings management. The following hypothesis is proposed:

*H<sub>03</sub>: Firm's leverage has no significant relationship with corporate performance of brewery firms in Nigeria.*

### III. EMPIRICAL REVIEW

#### 3.1 Empirical Review of the Effect of Firm Size on Corporate Performance

In many literatures, it has been suggested that firm size is positively related to corporate performance. Browne, *et al.* (2001) and Asimakopulos, *et al.* (2009) has shown empirically that firm size is positively related to the financial performance. Another study by Malik (2011) examined the determinants of Pakistan's insurance companies' profitability (using return on total assets as a proxy). The result shows that there is a significant and positive relationship between profitability and size. The understanding of the relationship between firm size and performance was also advanced by Symeou (2012) when he examined whether firms enjoying higher growth potential are better performers, arguing that small economy size could contain firm growth potential and by extension firm performance. Controlling for the effects of competition, firm governance structure, and institutional risk, *inter alia*, the findings suggest that firm growth potential is not necessarily a limiting factor as both firms in small and large economies can operate efficiently.

Also, Kaguri (2013) investigates the relationship between firm size and financial performance of life insurance companies in Kenya. The study used secondary data from the annual reports and audited financial statements of 17 life insurance companies over the period of 2008-2012. Regression analysis result shows that that firm size is statistically significant to influencing financial performance of life insurance companies. In another study, Ahmed, *et al.* (2011) investigated the impact of firm level characteristics on the performance of the life insurance sector of Pakistan over the period of seven years from 2001 to 2007. The results of the OLS regression analysis revealed that firm size is positively and significantly related to the performance of life insurance companies.

The study by Mahfoudh (2013) sought to find the effect of selected firm characteristics namely firm size, leverage, firm age, liquidity, and board size on firm financial performance of seven agricultural firms listed at the Nairobi Securities Exchange from 2007 to 2012. Using correlational research design and a multivariate linear regression analysis, it was found that firm size was not statistically significant but was positively related to firm financial performance. The study recommends to the management to focus efforts on those variables that positively affect their long run financial performance such as increase firm sizes. Zare, *et al.* (2013) assess the firm size, asset structure and age effects on financial leverage. The data for the study was gathered from 69 firms listed in Tehran stock exchange in 2001–2010. The

finding indicates that the firms' financial leverage is influenced by the three variables, namely the firm age, size and asset structure in the firms listed in Tehran stock exchange.

In determining the significance and nature of the interactions between firm size and corporate performance in Nigeria brewery industry from 2000 to 2013, Inyama and Chukwuani (2014) used the simple regression framework to analyze the time series data on firm size and earnings per share. The test revealed that firm size has both short and long term positive effect on EPS; with a significant long run influence. The implication is that firm size does not granger cause EPS and vice versa in Nigeria brewery industry.

Oyerogba, *et al.* (2016) investigated the impact of firm size on the return on capital employed of listed companies in Nigeria for the period from 2004 to 2013. The study relied on the secondary data extracted from the audited financial statement of a sample of 70 companies purposefully selected from the 198 listed companies in Nigeria. The results revealed that a significant positive relationship exists between the firm size and return on capital employed. Hendricks and Singhal (2000) find that smaller firms do significantly better than larger firms.

However, firm size is not found to be an important determinant of corporate performance in the Bermuda insurance market during the period 1993-1997 (Adams and Buckle, 2000). In Bhutta and Hassan (2013), the impact of firm specific and macroeconomic factors on profitability of food sector in Pakistan was examined. This study employed multivariate regression analysis in common effect setting for the period of 2002-2006. The firm specific factors used include debt to equity, tangibility, growth and size and macroeconomic factor include food inflation. The findings revealed the presence of significant negative relationship between size and profitability.

Efuntade and Akinola (2020) examine the impact of firm characteristics on the financial performance of quoted manufacturing firms in Nigeria. Secondary Data were obtained from annual reports of five selected quoted manufacturing firms and Panel least square regression model was used. The result shows that all the independent variables (Firm Age, Firm Size, Sales Growth, Liquidity and Leverage) jointly and strongly have impact on the financial performance of manufacturing firms in Nigeria measured by return on assets.

Agarwal and Singh (2022) examine the effect of firm size, firm age, firm growth, board size, and independent directors on a board, on corporate performance. The study used a sample of 270 Indian IT companies and the result depicts the positive impact of firm size on corporate performance.

#### 3.2 Empirical Review of the Effect of Firm Age on Corporate Performance

Like the firm size-performance relationship, the association between firm age and corporate performance has been widely studied. Hannan and Freeman (1989) find that older firms are more resistant to changes in a competitive environment and newer technologies which may, as a result of the need to operate in an age-old standardized manner, leave older firms progressively outdated and lead to organization failure. On their own study, Sidhu and Bhatia (1993) argue that younger firms will be outperformed by older ones. Older firms have the early mover advantage and may possess specific competencies and skills which younger firms may not have developed as yet. In doing so, they are able to grow faster to achieve higher profitability. Anic, *et al.* (2009) sought to identify factors that are behind superior performance of manufacturing firms. It compares the similarities and differences in ten selected firms' characteristics and strategic factors between high performers and low performers operating in the Croatian manufacturing industry. Using one-way analysis of variance (ANOVA), the research results indicate that high performers were smaller and younger companies with higher level of capital intensity.

A study by Malik (2011) examines the determinants of Pakistan's insurance companies' profitability (using return on total assets as a proxy). The result shows that there is no relationship between profitability and firm age. Ahmed, *et al.* (2011) also investigate the impact of firm level characteristics on the performance of the life insurance sector of Pakistan over the period of seven years from 2001 to 2007. The results of the OLS regression analysis revealed that age of a firm has also negative relation to performance of life insurance companies but they are statistically insignificant. Kaguri (2013) investigate the relationship between firm age and financial performance of life insurance companies in Kenya. The study used secondary data from the annual reports and audited financial statements of 17 life insurance companies over the period of 2008-2012. Regression analysis result shows that that firm age is statistically significant to influencing financial performance of life insurance companies.

The study by Mahfoudh (2013) sought to find the effect of selected firm characteristics including firm age on firm financial performance of seven agricultural firms listed at the Nairobi Securities Exchange from 2007 to 2012. Using a multivariate linear regression analysis, it was found that firm age was not statistically significant but was positively related to firm financial performance. In similar vein, Huang, Rose-Green and Lee (2012) earlier documented an insignificant relationship between firm age and financial reporting quality using the year of incorporation of such firms to measure the firm age.

Inyiama and Nwankwo (2016) examine the effect as well the magnitude and nature of relationship between firm size and firm age in Nigeria brewery industry from 2004 to 2014. Ordinary least squares method in the form of multiple regression was applied in the analysis and the outcome of the

analysis reveals that firm size is significantly and positively affected by firm age. This implies that as firm increases in age, especially in the capital intensive brewery industry, the firms tend to grow in asset size to meet up with increasing demand for their brands and to also remain competitive.

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Agarwal and Singh (2022) examine the effect of firm size, firm age, firm growth, board size, and independent directors on a board, on corporate performance. The study used a sample of 270 Indian IT companies and the result depicts the positive impact of firm age on corporate performance. The growth of the firm seems to have an insignificant impact on corporate performance as sales figures have a recessionary impact.

### *3.3 Empirical Review of the Effect of Firm Ownership on Corporate Performance*

A study by Demsetz and Villalonga (2001) investigate the relationship between the ownership structure and the performance of corporations if ownership is made multi-dimensional and also is treated as an endogenous variable. The study finds no statistically significant relationship between ownership structure and firm performance. It opined that the finding is in line with the principle of diffuse ownership, while it may aggravate some agency problems, and then results to compensating advantages that generally offset such problems. Consequently, for data that reflect market-mediated ownership structures, no systematic relation between ownership structure and firm performance is to be expected. Oyelaran-Oyeyinka (2002) examined the innovation response of private Nigerian brewing firms to a state-induced crisis. It was found that size and ownership were decisive factors in the innovation success of firms that survived and prospered under a decidedly turbulent industrial environment. Firms with superior innovative performance recorded strong economic performance.

Ezeoha and Okafor (2010) investigate the local corporate ownership and capital structure decisions in Nigeria with the aim of identifying the nature, degree and direction of the effects of certain classes of corporate ownership on capital structure decisions among firms specifically in Nigeria. The study sampled 71 listed firms in Nigeria Stock Exchange and the result indicate that discrimination between foreign owned and indigenous firms is a major determinant of financial leverage in Nigeria. The study recommends that the consistency of empirical results and capital structure theories

across countries depend much on the dominant nature of corporate ownership structure.

Lee (2008) examines the effect of equity ownership structure on firm corporate performance in South Korea. It focused on the role of two main dimensions of the ownership structure: Ownership concentration (i.e., the distribution of shares owned by majority shareholders) and identity of owners (especially, foreign investors and institutional investors). The study found that firm performance measured by the accounting rate of return on assets (ROA) generally improved as ownership concentration increases, but the effects of foreign ownership and institutional ownership are insignificant. The study also found that there is a hump-shaped relationship between ownership concentration and firm performance, in which firm performance peaks at intermediate levels of ownership concentration. The study provided some empirical support for the hypothesis that as ownership concentration increases; the positive monitoring effect of concentrated ownership first dominates but later is outweighed by the negative effects, such as the expropriation of minority shareholders.

BlancaArosa *et al.* (2010) provide new evidence regarding the way in which ownership concentration influences non-listed firm performance focusing on the conflict between majority and minority shareholders, and differentiating between the behavior of family and non-family firms, using data from 586 non-listed Spanish firms. In first generation family firms, the classic owner-manager conflict is mitigated due to the large shareholder's greater incentives to monitor the manager. The empirical evidence shows that for family firms, the relationship between ownership concentration and firm performance differs depending on which generation of the family manages the firms.

Abosedo and Kajola (2011) investigates the relationship between ownership structure and financial performance of firms in Nigeria for the period of 2001 - 2008. Using a sample of thirty listed companies, and pooled Ordinary Least Square method for estimation; the findings show a negative but significant relationship between ownership structure (proxied by director shareholding) and firm financial performance (proxied by ROE).

Vintila and Gherghina (2014) provide the first empirical evidence for the companies listed in Romania regarding the influence of ownership concentration on firm value. The empirical research was employed for a sample of companies listed on the Bucharest Stock Exchange (BSE), over the period 2007-2011, being estimated multivariate regression models for panel data, unbalanced, with fixed effects. The study considered differently the ownership of the first, the second, and the third largest shareholder, and the sum of holdings of the two largest shareholders and the sum of holdings of the three largest shareholders. Therefore, the results sustain a lack of influence on firm value exhibited by the first largest shareholder, while the second largest shareholder positively influences firm value. However, there

was not identified any statistically significant relationship between the sum of holdings of the two largest shareholders and firm value. Accordingly, the results are influenced by the context of an underdeveloped Romanian capital market within the first largest shareholder ownership discourages the occurrence of another investors holding significant stakes.

Inyama, *et al.* (2015) examined the effects, magnitude and strength of the relationships between dividend pay-out policies and other performance indicators in the Nigeria brewery sector. The research made use of secondary data obtained from annual report and accounts of the two market leaders in the sector, Nigeria Breweries Plc and Guinness Nigeria Plc, from year 2000 to 2013. Using the multiple regression model, dividend per share (DPS) was found to be positively and significantly influenced by earnings per share (EPS) and market Price of equity shares (MPS), while net asset value per share (NAVPS) and total assets (TA) exert a negative but insignificant influence on DPS. The study recommended that directors should strive to improve on net earnings and also closely monitor the determinants of share price movements in order to enhance share price as a determinant of dividend pay-out. On their own study, Menicucci and Paolucci (2017) examine the profitability and its determinants using a sample of 2366 Italian hotel firms during the period 2008-2016. The results show that ownership structure influence profitability of hotel firms. Findings suggest the importance of considering firm specific factors to evaluate the profitability of a hotel firm.

#### 3.4 Empirical Review of the Effect of Firm's Leverage on Corporate Performance

Prior research by Mcconnell and Servaes (1995) show that financial leverage has a negative relation over firm's investment, which means that the ones with higher leverage often have lower investments. A study conducted by Ondiek (2010) investigates the relationship between capital structure and financial performance of firms listed at the Nigeria Stock Exchange. Using multivariate regression analysis where ROE (dependent variable) was regressed against independent variables like short term debt/ total capital, long term debt/ total capital, total debt/ total capital, firm size and sales growth. The findings show that firm size and sales growth were positively related to profitability while long term debt/ total capital was significantly negative when related with firm performance.

Isola (2012) studies the corporate financial structure of quoted firms in the textile industry in Nigeria and adopted balance sheet approach. The study seeks to investigate the relationship between the degree of gearing and leverage ratio of firms in the non-financial sector as a measure of financial risk and the factors that determine them. The result holds that adequate gearing ratio and liquidity ratio should be maintained so that the firm would be able to meet its financial obligations.

#### IV. THEORETICAL FRAMEWORK

This study is anchored on the trade-off theory as developed in Kraus A. and Litzenberger in the year 1973. The modern theory of capital structure began with the celebrated papers of Modigliani & Miller (Paseda, 2021). The first version of the theory evolved with the addition of company income tax by Meyers in 1984 to the original irrelevance proposition of Modigliani-miller theorem, the benefit for debt was established because it provides tax haven for earnings. Bearing in mind the linearity in the objective of the firm, a total debt financing is implied because the cost of debt cannot be offset (Mursalim & Kusuma, 2017; Gajdka & Szymański, 2019).

The trade-off theory refers to the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. In the opinion of Myers (1984), a firm that adopts the trade-off theory sets a target debt-to-value ratio and eventually acts in the direction of the target. Murray and Vidhan (2005) stated that the target is determined by balancing debt tax shields against costs of bankruptcy. The assumptions of the Myers trade-off theory are:

1. a decision maker managing a firm evaluates the alternative leverage plans as par the cost and benefit
2. That an interior solution is achieved to reach the optimum managerial costs and marginal benefits. Therefore, the trade-off theory refers to the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits.

The investors and business managers are mostly interested in maximizing returns and also minimizing the risk. Braitland & Hornbbrunk (2013) observed that the risk return trade-off is interested in the amount of risk that one is willing to bear with it and equally in good terms with the returns made from the investment. However, the impact of risk is not clear, even if uncertain condition is assumed to be normally distributed. To that effect therefore, Bradley, Jarrell & Kim (1984) in Murray & Vidhan (2005) revealed that the correlation between the debt ratio and volatility is negative.

The trade-off theory is one of the imperfect market theories (Kruk, 2021). As noted in Atseye, Edim & Eke (2014), the trade-off theory suggested that a firm's target leverage is driven by three competing forces of taxes, costs of financial distress (bankruptcy costs) and agency conflicts, which give rise to agency cost. This however explains further why companies don't have 100% debt or equity financing.

The relevance of the theory to this study can be ascertained by relating the risk and return trade-off to capital structure policies of firm. The theory maintain that for a firm to reach its optimal capital structure, the firm need to balance these opposing forces that is, the benefits of debt (tax shields) and the cost of debt (expected bankruptcy). Therefore, determining the percentage ratio of debt and equity in the

financial structure of the firm forms the basis of the trade-off theorist. However, trade-off theory of capital structure can also include the agency costs arising from agency conflicts between managers and shareholders, and that of debt holders and shareholders. Therefore, the trade-off theory is relevant to this study in that (i) In terms of controlling agency cost, managerial ownership seems to serve as a substitute to debt. As managerial ownership rises, the need for debt as a disciplining device reduces. (ii) There is every tendency that managers would do anything to shield their non-diversifiable human capital which would be endangered by bankruptcy risk as a result of debt issuing. Thus, the managers prefer minimal level of debt. (iii) Managers would like to have a less performance pressure condition that accompanied a low debt repayments circumstance. (iv) When there is no monitoring by debt holders, managers would extract private benefits of control. Therefore managers prefer less debt scenario, which is the consciousness that the trade-off theory try to raise.

#### V. METHODS

##### 5.1 Research Design

The study adopted an ex-post fact design. This type of design is used when the intention of the researcher is to ascertain cause and effect relationship between the independent variable and the dependent variable with a view to establishing a causal link existing therein (Onwumere, *et al.* 2013). The variables under study were categorized into two namely: the dependent variable (corporate performance with ROA as the proxy) and the independent variables (firm structural characteristics proxied by firm size, firm age, firm ownership, and firm leverage). The data used was collected from the Nigeria Stock Exchange (NSE) statistical bulletin/fact-book and the audited annual financial statements of the brewery firms under study for the period 2006 - 2020.

The population of the study is the brewery firms listed in the NSE and they include - Champion breweries Plc, Guinness Nigeria Plc, International Breweries Plc, Jos International Breweries Plc, Nigeria Breweries Plc, and Premier Breweries Plc. Nigerian Breweries and Guinness Nigeria are the two major players in the industry with Nigerian Breweries leading the market with about 65% market share while Guinness Nigeria follows with about 25% (Corporate Nigeria, 2010/2011). Hence, this study focused on these two giants that constitute 90% market share as the sample.

##### 5.2 Variable Operationalization and Measurement

In this study, corporate performance proxied by return on assets (ROA) is our dependent variable while firm structural characteristics components [firm size (FSIZE), firm age (FAGE), firm ownership (FSHR), and Firm leverage (FLEV)] are our independent variables. ROA is equivalent to return on investment (ROI), but more appropriate in measuring the operaring efficiency of the firm (Egvide, 2009; Pandey, 2005). ROA is measured in this study as profit before tax divided by total assets. FSIZE is the size of the firm

measured as the natural logarithm of total assets. FAGE is the age of the brewery firm and is measured by the natural logarithm of the years of incorporation (Chandrasekaran, 2012; Olowukere, *et al.* 2016). FSHR means foreign shareholding, which is used in this study as a proxy for firm ownership. The brewery firms in Nigeria are dominated in terms of shareholding by foreign shareholders like Heineken Brouwerijen BV Global from Netherlands, controlling 71% of the Nigeria brewery market; Diageo Group from United Kingdom controlling 27% of the Nigeria beer market; and SABMiller “a South African brewery giant”. Therefore, the study measured ownership of Nigeria brewery firms using percentage of foreign shareholding (FSHR) as given in their annual report.

5.3 Regression Model Specification

The regression model used for this study is as shown below.

$$ROA = \beta_0 + \beta_1 FSIZE + \beta_2 FAGE + \beta_3 FSHR + \beta_4 FLEV + \varepsilon$$

Where,

ROA = measured as a ratio of Profit after Tax to Total Asset (Abu, Okpeh and Okpe, 2016)

FSIZE = natural logarithm of total assets

FAGE = natural logarithm of number of years from incorporation

FSHR = foreign Shareholding (percentage as given in the annual report)

FLEV = firm’s leverage measured as total debt to total assets

$\varepsilon$  = stochastic error terms

VI. RESULTS AND DISCUSSIONS

6.1 Unit Root Tests

From the panel data unit root test as summarized in the Table 1 below, it indicates that ROA, FSIZE, FAGE, FSHR and FLEV of each of the two companies (Guinness Nigeria and Nigerian Breweries) which are the variables in the model are all non-stationary at level but stationary at the first difference at 5% level of significance.

Table 1: Panel Data Unit Root Test Summary

Variables	ADF test statistic (5%)		PP test statistic (5%)		Order of integration	Remark
	At level	At 1 <sup>ST</sup> difference	At level	At 1 <sup>ST</sup> difference		
ROA	-0.646733	-2.56124	-2.963972	-2.963972	I(1)	Stationary
FSIZE	-1.574516	-1.76658	-2.960411	-2.967767	I(1)	Stationary
FAGE	-2.099993	-2.66570	-2.960411	-2.981038	I(1)	Stationary
FSHR	-1.358742	-1.93785	-2.976263	-2.981038	I(1)	Stationary
FLEV	-1.080123	-2.45670	-2.976263	-2.976263	I(1)	Stationary

Source: Author’s computation from E-Views 7.0 Software Package

It could be seen that these series could effectively be referred to have a random walk when they are in levels but refer to their mean level after first difference. This means that the null hypothesis which is specified that a variable under investigation has a unit root, against the alternative, can be rejected for all the data series in their levels at 5% significance level. Having taken the difference of all the series, the Augmented Dickey-Fuller and Philip-Peron tests were further employed in testing for the stationarity of the differenced series. By carrying out unit root tests for individual variables in their first difference, the comparison of respective critical

values with their reported statistics leads to the rejection of the null hypothesis for all variables at 5% level of significance. The inference of the ADF and PP tests, therefore, is that all the data series for this study are I(1) series.

6.2 Correlation Matrix

The Table 2 below shows correlation matrix result between the dependent variable which is the return on assets (ROA) and independent variables which are the firm size (FSIZE), age of the firm (FAGE), firm ownership (FSHR) and the firm’s leverage (FLEV).

Table 2: Correlation Matrix

Variables	ROA	FSIZE	FAGE	FSHR	FLEV
ROA	1.000000				
FSIZE	-0.245569	1.000000			
FAGE	-0.190269	0.770135	1.000000		
FSHR	-0.151401	0.891025	0.676558	1.000000	
FLEV	-0.140550	-0.329411	-0.414589	-0.341298	1.000000

Source: Author’s computation from E-Views 7.0 Software Package

The above table indicates that there is correlation between the dependent variable (ROA) and independent variables. The result shows that the correlation between the dependent and independent variables are weak but perfectly correlated. The coefficient of correlations between firm size and corporate performance of brewery firms is -0.245569. This implies that firm size is negatively related to corporate performance of brewery firms in Nigeria up to the tune of 24.56%. The result therefore revealed an inverse relationship between firm size and corporate firm performance (ROA). The correlation between firm age and corporate performance is -0.190269 revealed a negative and significant relationship. The relationship is significant at 10% level of significance. This result shows that the years of company incorporation does not determine the performance of the company and the older the firm, the lower the performance of the listed brewery companies under review. This is because the 19.03% is very weak and cannot be used to determine the growth of the companies under study.

The Table 2 above also revealed that the correlation between corporate performance (ROA) and firm ownership is

15.14%. This indicates the level of foreign shareholders' contribution to the corporate performance of the Nigerian breweries. The correlation between firm leverage and corporate performance among the selected breweries is 14.06%. The correlation is statistically significant. Therefore, the firm size, firm age, firm ownership and firm leverage are weakly correlated with dependent variable (ROA).

6.3 Discussion of Panel Regression Result (Fixed Effect Model)

In statistics, a fixed effects model is a statistical model in which the model parameters are fixed or non-random quantities. This is in contrast to random effects models and mixed models in which all or some of the model parameters are considered as random variables. The result below shows the regression result of the dependent variable which is corporate performance among the selected breweries proxied by ROA and the independent variables (FSIZE, FAGE, FSHR and FLEV) of the study.

Table 3: Fixed Effect Model

Dependent Variable: ROA				
Method: Panel Least Squares				
Sample: 2006 2020				
Periods included: 11				
Cross-sections included: 2				
Total panel (balanced) observations: 22				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.705973	140.6796	0.547768	0.5914
FSIZE	-4.454808	1.17E-07	-2.380594	0.0085
FAGE	0.780731	1.952106	-0.399943	0.6945
FSHR	4.349170	121.3989	2.358255	0.0048
FLEV	-4.522362	47.05822	-3.961014	0.0008
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.740115	Mean dependent var		23.38227
Adjusted R-squared	-0.728599	S.D. dependent var		14.45848
S.E. of regression	15.36005	Akaike info criterion		8.528418
Sum squared resid	3774.898	Schwarz criterion		8.825975
Log likelihood	-87.81260	Hannan-Quinn criter.		8.598513
F-statistic	25.21427	Durbin-Watson stat		2.042345
Prob(F-statistic)	0.000000			

Source: Author's computation from E-Views 7.0 Software Package

The Table 3 above shows the result of the fixed effect model on the effect of firm structural characteristics on the corporate performance of breweries in Nigeria. From the result, we observed that firm size (FSIZE), firm ownership (FSHR) and

firm leverage (FLEV) has significant effect on the corporate performance of Nigerian breweries under review looking at their P-value which is 0.0085, 0.0048 and 0.0008 respectively

at 5% level of significance while firm age (FAGE) has insignificant effect on the corporate performance (ROA).

The R-squared which measures the goodness of fit of the estimated parameters stands at 74.01%, implying a good fit. However, the adjusted R squared which takes care of the degree of freedom and the number of regressors in the model stands at 72.86%. This also implies a good fit. The Durbin-Watson statistic which measures the level of serial correlation among variables in the model reads 2.042345. This points out the presence of a positive serial correlation between the variables in the model. This is possible because most time series models are likely to have autocorrelation.

The joint significance of variables in the model measured by the F statistic is 25.21427 with p value of 0.000000. This implies that all variables in the model are jointly significant in explaining variations in the corporate performance of the selected breweries in Nigeria. A-priori, firm structural characteristic variables (FSIZE, FAGE, FSHR and FLEV) are expected to carry a positive sign. From the result, we observe a negative sign, though fairly statistically significant in FSIZE and FLEV. The result from FSHR and FAGE agrees with the a-priori expectation with positive sign. This means that other variables in the model did not show conformity with the a-priori expectations thus validating theoretical sources.

In summary, the fixed effects regression result revealed that firm size, firm ownership and firm leverage as shown in Table 3 above has the coefficient value of -4.454808, 4.349170 and -4.522362 with a P-value of 0.0085, 0.0045 and 0.0008 respectively. We reject the null hypotheses since the P-values are less than 0.05 at 5% level of significance and accordingly accept the alternative hypotheses with the conclusion that firm size (FSIZE), firm ownership (FSHR) and firm leverage (FLEV) has significant impact on the corporate performance (ROA) of breweries in Nigeria. However, firm size and firm leverage has negative and strong influence on corporate performance of listed brewery firms in Nigeria such as Guinness Nigeria and Nigerian Breweries. The negative effect of firm size and firm leverage is inconsistent with our a priori expectation. Meanwhile, we see that firm age (FAGE) behave insignificantly with the corporate performance of brewery firm in Nigeria (ROA). This means that an increase in firm age variable (FAGE) by one per cent will lead to an increase in the corporate performance (ROA) in Nigeria by more than one percent. A-priori expectation, firm age variable (FAGE) is expected to carry a positive sign. From the result, we observe a positive sign with statistically insignificant value. This indicates a very insignificant coefficient of 0.780731 with P-value of 0.6945. Since the P-value of 0.6945 is greater than the 5% level of significance, we therefore reject alternative hypothesis and thus accept the null hypothesis with conclusion that there is insignificant and positive impact of firm age (FAGE) on the corporate performance of brewery firms in Nigeria.

## VII. CONCLUSION

This paper empirically examined the effect of firm structural characteristics on the corporate performance of brewery firms in Nigeria for the period 2006-2020 by using panel fixed effect regression model. Four explanatory variables (firm size, age, ownership structure and leverage) were used to measure the effect on corporate performance (return on assets as a proxy) of Nigeria brewery firms. Results reveal that the explanatory variables (firm size, age, ownership structure and leverage) are weakly correlated with dependent variable (ROA) of the brewery firms. From the fixed effects regression result, we find that firm size, firm ownership and firm leverage has significant effect on the corporate performance of Nigeria brewery firms at 5% level of significance while firm age has insignificant effect on the corporate performance (ROA). Also, all the variables in the model are jointly significant in explaining variations in the corporate performance of the selected breweries in Nigeria. However, firm size and firm leverage has negative and strong influence on corporate performance of listed brewery firms in Nigeria such as Guinness Nigeria and Nigerian Breweries.

The policy implication of the insignificant effect of firm age on the corporate performance is that an increase in firm age by one per cent will lead to an increase in the corporate performance in the brewery firms by more than one percent.

The study contributed to knowledge by identifying firm size and leverage as key areas that managers/directors of brewery firms should focus their performance management strategies because of their negative and strong influence on corporate performance.

## VIII. RECOMMENDATIONS

The study then recommends as follows:

1. That investors and managers of brewery firms should consider firm structured-related characteristics when they take their investment decisions.
2. That similar or related studies should be conducted in other sectors/industries to compare how firm structural characteristics are determinants of corporate performance in Nigeria in order to aid generalization.

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