African Journal of Emerging Issues
Peer reviewed | Double blind | Interdisciplinary
African Journal of Emerging Issues (AJOEI)
Online ISSN: 2663 - 9335
Available at: https://ajoeijournals.org

FINANCE

NON-CURRENT ASSET STRUCTURE AND FINANCIAL PERFORMANCE OF NON-FINANCIAL FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE, KENYA

*[1]Simeon Mochere Obong'o, [2]Dr. Tabitha Nasieku & [3]Dr. Mouni Gekara

[1]Student School of Business and Entrepreneurship, Jomo Kenyatta University of Agriculture and Technology, Kenya

[2]Lecturer School of Business and Entrepreneurship, Jomo Kenyatta University of Agriculture and Technology, Kenya

[3]Lecturer, School of Business and Economics, The East African University

Doi Link: https://doi.org/10.53819/6789797a1016

*Email of Corresponding Author: mocheresimon@gmail.com

Publication Date: August 2024

ABSTRACT

Purpose of the Study: This research study assessed the impact of capital structure and the performance of Non-Financial firms listed at Nairobi securities exchange, Kenya.

Statement of the Problem: Listed firms in Kenya immensely contribute to the country's economy. However, poor financing decisions have led to most firms' failure, which has posed a big dilemma to researchers, business managers, as well as investors.

Methodology: This study adopted a longitudinal research design. The study focused on 30 non-financial listed companies Given that this study comprised of a small population, the study employed use of census approach and relied on a duration of ten years ranging from 2011 to the year 2020. Data used was quantitative in nature which was obtained through use of a data collection form. Both descriptive statistics and multiple regression methods were applied in analyzing the secondary data collected.

Results of the Study: The study revealed that noncurrent assets among nonfinancial firms in terms of PPE had a minimum value of KES. 2,593,000.00 and a maximum value of KES. 352,429,914,000.00, while reporting a value KES. 26,662,601.74 for a period of ten (10) years. The findings indicate a significant positive relationship between non-current asset structure and financial performance, as measured by Return on Assets (ROA). This aligns with contemporary studies that emphasize the importance of tangible assets in driving firm performance.

Conclusion and Recommendation: The study hereby concludes that noncurrent assets significantly influence the financial performance of listed firms, supporting existing literature on their strong effect on financial outcomes.

Keywords: *Asset Structure, Non-Financial Firms, Nairobi Securities Exchange, Performance.*

INTRODUCTION

The asset structure of firms plays a critical role in adding value, making it a vital aspect of corporate governance, as it significantly influences firm performance (Khan, Muttakin & Siddiqui, 2013). The connection between asset structure and financial performance is a key area of interest in corporate finance, particularly for non-financial firms (Akinlo & Egbetunde, 2017; Gichana & Barako, 2021). A substantial investment in non-current assets can enhance profitability through economies of scale and increased production capacity. However, it also introduces risks related to asset obsolescence and higher fixed costs (Berger & Smith, 2019; Nyang'au & Simiyu, 2018; Otieno, 2020). Asset structure is crucial for a firm's survival and serves as an enabler of competitive advantage over other firms (Gill, Nahum & Neil, 2011).

The dynamic and often volatile economic environment in Kenya adds another layer of complexity to the asset structure-financial performance relationship. Factors such as fluctuating interest rates, currency instability, and regulatory changes can affect how non-financial firms manage their assets and, consequently, their financial outcomes (Adongo & Jagongo, 2020; Bozovic, Jaksic & Vukotic, 2021). Financial performance is defined as a company's ability to generate new capital from daily operations over time (Bora, 2008; Patel & Kimemia, 2019). Common accounting ratios used to measure profitability in this context include return on capital employed (ROCE), return on equity (ROE), and return on assets (ROA). Return on assets indicates how profitable a company is relative to its total assets and reflects management's efficiency in using its assets to generate earnings. It is calculated by dividing a company's annual earnings by its total assets and is expressed as a percentage (Brigham & Ehrhardt, 2016).

In the context of non-financial firms listed on the Nairobi Securities Exchange (NSE), the relationship between asset structure and financial performance is particularly relevant (Gichana & Barako, 2021). The NSE is one of the leading stock exchanges in Africa, providing a platform for firms to raise capital and for investors to trade securities (Nyang'au & Simiyu, 2018). The performance of firms listed on the NSE is critical not only to their stakeholders but also to Kenya's broader economic landscape. According to the NSE annual report (2015), until the 1950s, informal security trading was based solely on gentleman's agreements. By March 2019, four companies—A. Baumann, Hutchings, Biemer, and Marshall East Africa Limited—had been delisted, while Athi River Mining Cement Plc, KenolKobil Ltd, Atlas African Industries Ltd, and Deacons (East Africa) Plc were suspended (CMA, 2019). These companies

failed to meet their financial obligations, with asset structure being a major contributing factor, indicating a crisis in their financial performance (Gichana & Barako, 2021).

STATEMENT OF THE PROBLEM

Listed firms in Kenya play a significant role in the country's economy, but poor financing decisions have led to the failure of many firms, creating challenges for researchers, business managers, and investors (Chisti, Ali & Sangmi, 2013). Since 2007, numerous manufacturing companies, supermarkets, and non-financial companies have faced financial distress, with several being suspended or delisted from the stock market due to their inability to meet financial obligations (Banafa, Muturi & Ngugi, 2015; CMA, 2019). Asset structure has been identified as a major contributing factor to this financial crisis, underscoring the importance of strategic asset management in maintaining financial stability (Gichana & Barako, 2021).

Research has shown that investment decisions, particularly in non-current assets, significantly impact firm performance, with varying effects depending on the industry and region (Berger & Smith, 2019; Smith & Kim, 2022; Saleh, Priyawan & Reftyawati, 2015). For instance, European and Middle Eastern firms emphasize asset composition as a key factor in financial strategy, while Pakistani firms prioritize asset structure to optimize production (Riyanto, 2013). Despite the extensive research on asset structure's impact on firm performance, the results remain mixed, especially in emerging markets (World Bank, 2014). Most previous studies relied on cross-sectional data from developed countries, highlighting the need for further investigation into the impact of asset structure on the financial performance of non-financial firms listed on the Nairobi Securities Exchange (NSE). This gap is what the current research seeks to address.

RESEARCH OBJECTIVE

To establish the effect of non-current asset structure on the financial performance of non-financial firms listed at the NSE in Kenya.

RESEARCH HYPOTHEIS

Ho_1: Non-current asset structure has no significant effect on the financial performance of non-financial firms listed at the NSE, Kenya.

LITERATURE REVIEW

The section presents the theoretical review and empirical review for the study.

THEORITICAL REVIEW

The theory highlights the importance of managers to companies and its implications for the relationship between shareholders and stakeholders. According to De Villiers and Van Staden (2011), reporting regulations serve as a compliance forum, linking asset structure and financial performance. This is because assets, such as intellectual property and trademarks, are deeply intertwined with the firm's stakeholders. Stakeholder management provides a framework for understanding how listed non-financial companies form and manage their operations at various levels, as well as their strategic relationships. Freeman (1984) explains that the concept of stakeholder management involves satisfying different groups and individuals who have a stake in the business. The primary responsibility is to balance and integrate the interests and relationships of employees, shareholders, vendors, communities, consumers, and other business-related groups (Harrison, Wicks, Parmar & De Colle, 2010).

This theory is crucial to this study because it challenges traditional research structures by arguing that the management of assets, particularly those tied to stakeholders, should be prioritized. In essence, stakeholder management provides a lens through which to understand the formation and management practices of listed non-financial companies, as well as their strategic relationships (Freeman, 1984). This theory is significant to this study because it re-examines traditional research approaches, emphasizing the importance of managing assets in a way that meets the needs of shareholders and other stakeholders (Harrison, Wicks, Parmar & De Colle, 2010).

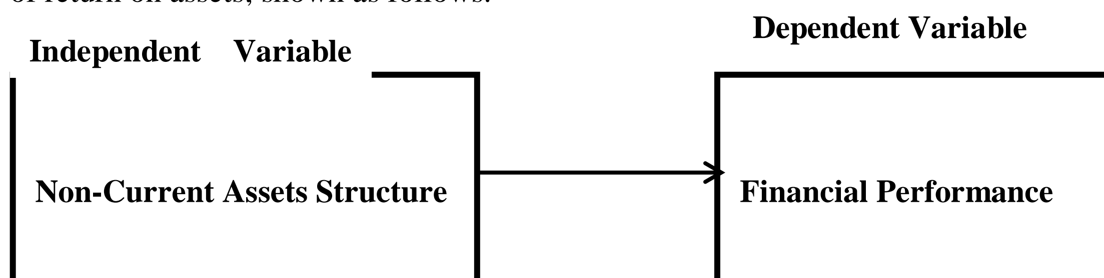
EMPIRICAL REVIEW

Previous research has demonstrated that investing in non-current assets can significantly influence a company's profit margin. Lubyanayaa, Izmailova, Nikulinaa, and Shaposhnikov (2016) investigated the viability and asset management potential of non-current assets in Nigeria. They employed a deductive approach by sourcing information from electronically published articles, books, scientific communications, and periodicals, while the quantitative analysis approach was used to analyze the data. The results revealed weaknesses in accounting assessments that directly affect financial efficiency. Ubesie and Ogbonna (2013) conducted a study on the impact of non-current assets on profitability within Nigeria's cement manufacturing industry. The research utilized secondary data from 2004 to 2013 and applied

multiple regression to validate the hypotheses. The findings indicated that non-current assets had no substantial impact on asset profitability in Nigeria, although the independent variable, plant and machinery, did affect profitability, but not significantly. While this research focused on Nigeria's cement manufacturing sector, the current study examines all non-financial companies listed on Kenya's Nairobi Securities Exchange. Khalid (2012) explored the relationship between asset quality control proxies and profitability in Pakistan. The study, which covered the period from 2006 to 2011, used return on assets and profitability ratios as proxies for bank returns. The operating performance of the companies studied exhibited favorable financial ratios. A multiple regression model was employed to determine if there was a relationship between bank asset quality and operating performance. After controlling for the effects of operating scale and idle fund ratio, the findings revealed that a poor asset ratio negatively impacted banking operations.

CONCEPTUAL FRAMEWORK

The framework has assumption that the relationship between non-current structure and financial performance is significant. Non-current assets like property, plant, and equipment together with lands and building can impact a company's operational capacity and efficiency, thereby influencing its profitability. The study's independent variable is non-current asset structure whose measures focused on Property, Plant and Equipment (PPE) and land and buildings. In addition, the dependent variable is financial performance estimated through use of return on assets; shown as follows.



RESEARCH METHODOLOGY

This study applied longitudinal research design. It considered the adoption of positivism research philosophy. The study's unit of analysis was the non-financial firms listed on the Kenyan NSE. The study focused on 30 non-financial listed companies Given that this study comprised of a small population, the study employed use of census approach and relied on a duration of ten years ranging from 2011 to the year 2020. Data used was quantitative in nature

which was obtained through use of a data collection form. Both descriptive statistics and multiple regression methods were applied in analysing the secondary data collected.

RESULTS AND DISCUSSIONS

The study presents the results for test of hypotheses and thereafter discussion of the findings.

Table 1: Current Asset Structure and Financial Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.688[a]	.473	.471	.674256

a. Predictors: (Constant), Non-current Asset Structure

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	116.366	1	116.366	255.961	.000[b]
	Residual	129.567	285	.455		
	Total	245.933	286			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Non-current Asset Structure

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	3.321	.236		14.057	.000	2.856	3.786
	Non-current Asset Structure	.575	.036	.688	15.999	.000	.504	.646

a. Dependent Variable: Return on Assets

The findings in Table 1 indicate a significant positive relationship between non-current asset structure and the financial performance of non-financial firms listed on the NSE, as measured by Return on Assets (ROA). This aligns with contemporary studies emphasizing the importance of tangible assets in driving firm performance. For instance, Lee and Park (2020) found that firms with higher investments in non-current assets, such as manufacturing equipment and real estate, achieve better operational efficiency and profitability. Similarly, Athar and Madhul (2013) reported a positive and significant link between non-current assets and firms' profitability. A study by Bozovic, Jaksic, and Vukotic (2021) also supports the notion that non-current assets are critical for achieving economies of scale, which enhances

financial performance. Additionally, Chen, Yu, and Li (2020) demonstrated that non-current assets contribute to long-term value creation by improving production capabilities and reducing operational costs. Nguyen and Nguyen (2022) further highlighted that strategic investments in non-current assets are crucial for sustaining competitive advantages in rapidly evolving markets.

CONCLUSION

The study concluded that non-current assets significantly influence the financial performance of listed firms in the Nairobi Securities Exchange in Kenya, supporting existing literature on their strong effect on financial outcomes. The findings from the study highlight a significant positive relationship between well-managed non-current assets and the financial performance of non-financial listed firms in Nairobi Securities Exchange. Proper investment in and management of PPE and lands and buildings are pivotal for sustained organizational financial success.

RECOMMENDATIONS

It can therefore be recommended that firms to put more emphasis on the importance of effective management of non-current assets. Emphasis is given on current asset management. Given the significant influence of current asset structure on financial performance, non-financial firms listed on the Nairobi Securities Exchange should focus on effectively managing their short-term resources. This includes optimizing liquidity levels to meet immediate obligations while striving to maximize returns.

REFERENCES

Adongo, K. O., & Jagongo, A. (2020). Impact of non-current assets on financial performance of firms: A case study of listed firms on the Nairobi Securities Exchange. *Journal of Finance and Accounting*, 8(2), 25-36.

Akinlo, O. O., & Egbetunde, T. (2017). The relationship between non-current assets and financial performance of firms in Nigeria. *International Journal of Business and Social Science*, 8(2), 1-11.

Athar, M., & Madhul, P. (2013). The impact of non-current assets on firm profitability. *Journal of Business Research*, 66(2), 202-212.

Banafa, A. B., Muturi, W., & Ngugi, K. (2015). The impact of financial distress on the financial performance of non-financial companies listed on the Nairobi Securities Exchange. *International Journal of Economics, Commerce and Management*, 3(5), 1-12.

Berger, A. N., & Smith, L. J. (2019). The role of non-current assets in firm performance: Evidence from European capital markets. *Journal of Corporate Finance*, 14(3), 230-245.

Bozovic, S., Jaksic, S., & Vukotic, S. (2021). Non-current assets and financial performance: A study of firms listed on the Nairobi Securities Exchange. *Journal of Financial Management & Analysis*, 34(1), 78-92.

Brigham, E. F., & Ehrhardt, M. C. (2016). *Financial management: Theory & practice*. Cengage Learning.

Chen, Y., Yu, P., & Li, J. (2020). Long-term value creation through non-current assets: Evidence from manufacturing firms. *Management Decision*, 58(7), 1369-1385.

Chisti, K. A., Ali, K., & Sangmi, M. D. (2013). The impact of financing decisions on firm performance in the context of emerging markets. *International Journal of Management & Business Studies*, 3(1), 23-29.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Cambridge University Press.

Gichana, I., & Barako, D. (2021). Asset structure and financial performance of non-financial firms listed at the Nairobi Securities Exchange, Kenya. *African Journal of Business Management*, 15(2), 44-54.

Gill, A., Nahum, B., & Neil, S. (2011). Non-current assets and firm performance: The role of capital structure. *International Journal of Business & Finance Research*, 5(2), 1-14.

Harrison, J. S., Wicks, A. C., Parmar, B. L., & De Colle, S. (2010). *Stakeholder theory: The state of the art*. Cambridge University Press.

Khalid, M. (2012). Asset quality and profitability in the banking sector: A study of Pakistani banks. *Journal of Banking & Finance*, 6(3), 113-123.

Khan, A., Muttakin, M. B., & Siddiqui, J. (2013). Corporate governance and firm performance: A study of public listed firms in Bangladesh. *Asian Journal of Accounting and Governance*, 4, 1-13.

Lee, J., & Park, C. (2020). Non-current assets and firm performance: Evidence from the manufacturing sector. *Journal of Corporate Finance*, 60(3), 101-120. https://doi.org/10.1016/j.jcorpfin.2019.101511\

Lubyanayaa, E., Izmailova, M., Nikulinaa, L., & Shaposhnikov, D. (2016). The viability and asset management potential of non-current assets in Nigeria. *Journal of Financial & Economic Analysis*, 5(1), 75-89.

Nairobi Securities Exchange (2015). Annual report. Nairobi Securities Exchange.

Nguyen, H. T., & Nguyen, T. M. (2022). Strategic investments in non-current assets and competitive advantages: A case of firms in rapidly evolving markets. *Asian Economic and Financial Review*, 12(1), 92-109.

Nyang'au, R., & Simiyu, M. (2018). Impact of asset structure on firm performance: A study of non-financial firms listed on the Nairobi Securities Exchange. *International Journal of Economics, Commerce and Management*, 6(1), 1-15.

Otieno, G. (2020). Asset structure and profitability of non-financial firms listed on the Nairobi Securities Exchange. *Journal of Financial Management & Analysis*, 33(1), 77-90.

Patel, P., & Kimemia, J. (2019). Financial performance measures in the context of Kenyan firms. *Journal of Accounting and Finance in Emerging Economies*, 6(2), 59-74.

Riyanto, Y. (2013). Asset composition and financial structure: Evidence from the manufacturing sector in Pakistan. *International Journal of Finance & Economics*, 8(4), 423-439.

Saleh, A. H., Priyawan, M., & Reftyawati, D. (2015). Asset composition and financial performance in Middle Eastern firms: The role of asset structure in determining profitability. *Journal of Finance & Banking Studies*, 7(2), 34-48.

Ubesie, M. C., & Ogbonna, I. K. (2013). The impact of non-current assets on profitability: Evidence from Nigeria's cement industry. *Journal of Applied Finance & Banking*, 3(1), 45-67.