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Asset Tangibility Investment and Operating Business Liquidity of Listed Companies in Nigeria

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ABSTRACT

Corporate strategic management requires sound financial acumen to drive its liquidity sustainability. Sturdy liquidity enables firm's ability to maintain cash position that seamlessly meets daily obligations while utilizing excess cash to acquire tangible assets. This study investigated the effect of asset tangibility on liquidity of selected listed companies in Nigeria. The study adopted ex-post facto research design, with secondary method of data collection. The sample was 111 companies selected from 161 firms listed in Nigeria as at 31st December, 2020 for the period of 10-year (2011–2020). The findings from panel regression analysis revealed that asset tangibility had significant negative effect on operating business liquidity at 5% level of significance. The study concludes that corporate asset tangibility has significant negative effect on operating business liquidity of selected listed companies in Nigeria. Thus, the study recommends that investment in tangible assets should be properly planned and optimally executed so as to achieve seamless operating business liquidity; bearing in mind that an increase in asset tangibility investment would produce statistically significant negative effect on liquidity.

Keywords: Asset Tangibility, Financial strategy, Insolvency, Liquidity, Sustainability
JEL Classification code: M41

1. Introduction

Business sustainability occupies pivotal place in strategic management of firms, having multifarious drivers (Hoffman, 2018). The survival, stability and success of firms requires critical resource dependencies, of which liquidity is key (Patrick, 2018). The Operating business liquidity is a driver of firms' value creation (Broccardo & Zicari, 2020). Achieving sustainable business liquidity requires sound financial strategies, enhancing companies to maintain cash position that seamlessly meet its short-term obligations; while utilizing its excess cash to acquire tangible assets for shareholders' value addition (Adegbie & Akenroye, 2020; Huang, *et al.*, 2022).

A financial strategy essential to achieve sturdy operating liquidity borders on carefully-chosen investment timing for tangible assets acquisition without impairing its operating liquidity sturdiness for better positive outcomes (Kamasak, 2017). Thus, sustainable operating business liquidity is a driver of financial performance (Maciková, et al., 2018, Wang, et al., 2020). Sustainability of operating business liquidity is a key performance metric for organic growth (Bini, et al., 2018; Thorisdottir & Johannsdottir, 2019; Dentchev, et al., 2018; Curtis & Mont, 2020). Maintenance of firm's operational stability is accentuated by sturdy liquidity for financial growth metrics (Osazefua, 2020).

Globally today, managing business firms is becoming more challenging due to harsh operating, environmental and economic instabilities. Declined business outcomes have been linked to firm's illiquidity caused by cash crunch, which hampers firm's capability to meet maturing obligation (Yu, & Fu, 2021). Operating business illiquidity further causes funding gaps and financial crisis that limits firm's capacity to deliver optimum performances with some firms becoming bankrupt or insolvent thereby facing existential threats or business failure (Bushe, 2019; Nwosu, et al., 2021).

Essentially, inability of firms to appropriately manage their strategy for robust liquidity while at the same time utilizing their idle fund to acquire tangible assets has proven to be a challenge. Hence, the link between asset tangibility investment and operating liquidity of listed firms in Nigeria has not been studied widely. How can listed firms formulate and implement financial strategies to acquire tangible assets without impairing their liquidity-capacity in such a way as to make their business sustainable? Therefore, this study consequently investigated the effect of asset tangibility investment on liquidity of selected listed companies in Nigeria. The hypothesis tested in the study is as follows:

H_0: Asset tangibility investment does not have any significant effect on operating business liquidity among listed firms in Nigeria.

2. Literature Review

2.1 Operating Business Liquidity

Generally, liquidity is construed to mean the ease with which business assets are converted into cash, measuring an up-to-date ability to seamlessly and speedily convert assets to cash (Ismail, 2017). This means that business liquidity measures a firm's capacity to settle its short-term financial obligations, especially those falling due within a year.

Sustainable operating business liquidity enables firms to maintain robust favourable financial fluidity at a certain sturdy rate. It provides 'lubricating oil' mechanism to drive a firm's key performance metrics. The ease to which assets are converted into cash enhances working capital sustainability, drives a firm to stay afloat in its operation, overcome financial socks and improve its performance, effectiveness and efficiency (Bhunia, *et al.,* 2011).

Liquidity, therefore, measures companies' ability to cover short-term financial obligations (Lima-Santos, *et al.,* 2021). This is gauged by assessing the quality and soundness of current assets, showing the ease with which, the financial values of current assets are converted into cash (Sapand, *et al.,* 2022). It gauges the sustainability of operating liquidity status of a business firm that shows the continuous healthy and sturdy position without impeding the firm's operations seamlessly. Healthy liquidity position helps business firms to overcome financial challenges and prevent financial failure.

The sound financial health status of a firm shows its ability to fully pay its liabilities that becomes mature within one year. The measurement of a firm's liquidity is proxied by current ratio, which is computed by dividing current assets by current liabilities.

2.2 Asset Tangibility Investment

According to the IASB Framework (2018), an asset is an economic resource controlled by the entity with the potential to generate further economic, monetary and financial benefits. Financial benefits generated through tangible assets enhance the firm's short-term, medium-term and long-term survival (Pelger, 2020). Thus, without investment in tangible assets acquisition, firms' capacity to galvanize continuous cash flows, profit and returns for all stakeholders sustainably will be limited. Tangible assets are firm-specific assets that have physical features and facilities; comprising properties (buildings), plants, equipment, machinery, motor vehicles, furniture, fittings and land that have acquisition cost with finite monetary value, owned by the firm to produce financial values to all stakeholders of the entity (Mitchell, et al., 1997).

According to Hill and Jones (1992), an entity's tangible assets are firm-specific proprietary resources used to drive firm's value and create more wealth for the stakeholders. Determining the currency of the economic value of tangible assets requires that assets are periodically depreciated in the books of the firm. This is because with the continuous usage of assets, their value does depreciate due to impairment. Hence, contemporary accounting standard require that assets are recorded at their fair value.

Fair value connotes the price that would be received to sell an asset at a particular time (as opposed to its historical acquisition cost), making the asset to continuously be defined with its present rights (Barth, 2014). It is the current price that would be received to sell an asset in an orderly transaction between market participants, at the measurement date (Diana, 2015). This perspective is in agreement with the International Financial Reporting Standard 13 (IFRS 13) that requires an asset to be measured in terms of their fair value. Thus, fair value is the exit price to dispose an asset for a realizable proceed in advantageous market. Fair value accounting provides accurate current asset valuation on an ongoing basis to users of the company's reported financial information; so that in event of its disposal, the current value of the asset's proceed can be reasonably ascertained (Yusuf & Idris, 2021).

Within the purview of this study therefore, asset tangibility is proxied by asset tangibility ratio, which is denoted as the total assets minus (intangible assets, all liabilities and par value of preferred stock) of the firm (Boasiako, et al., 2022).

2.3 Asset Tangibility Investment and Operating Business Liquidity

Acquisition of tangible assets does impacts operating business liquidity. Tangible assets can easily be converted into cash so as to increase the inflow of cash for operations. Hence, disposal of tangible assets provides avenue for a firm to garner more cash to increase its working capital for greater level of business performance. The greater the level of a business firm's liquidity, the reduction in both its financial and business risks. Thus, as long as the fair value of the assets owned by a business is measured to be more than the money invested in acquiring the assets, the greater the level of the firm's sturdiness, safety and solvency.

Corporate financial management strategy to invest in tangible assets acquisition provides a strategic pathway to grow the long-term financial health of the firm, though with a concurrent reduction in the residual funds available for short-term financing. Hence, the higher the size of firm's tangible assets, the higher its external financing potentials; which enhances its long-term financial sustainability and solvency, but with negative impact in its short-term liquidity (İltaş & Demirgüneş, 2020). This shows that there is a nexus between a firm's investment in tangible assets acquisition and the size of its operating business liquidity availability.

Importantly, investment in tangible assets' acquisition and its efficient utilization will enhance the firm-specific ability to generate varied level of returns periodically based on the type, nature and asset functionality at its disposal in the pursuance of their goals and objectives (Zhang, 2005; Docherty, et al., 2011). Tangible assets of a firm represent a fraction of the non-current assets in comparison to the total assets that a business firm has at a particular point in time (Rao, et al., 2019; Kyriazopoulos, 2017; Aggarwal & Padhan, 2017). Thus, tangible asset is an asset that has a finite, transactional monetary value with a physical form.

Strategically, business firms formulate their financial plans in such a way as to commit a fraction of their funds into the acquisition of more tangible assets and/or maintenance of existing tangible assets in order to enable it to sustainably perform and achieve the firm's going-concern objectives. However, where required liquid cash is not sufficiently available nor timely used to maintain relevant tangible assets, such impaired tangible assets will sustain unprecedented diminution in its critical form thereby resulting into loss of value in its operational capability. The healthy status or condition of assets, as measured by their fair value, usually determines the price that will be placed on the physical assets, especially in providing crucial collateral comfort to secure external debt financing and tap into investment opportunities in its environment for sustainable growth (Lei, et al., 2018). This implies that a firm's financial development and investment in critical physical infrastructures or assets reduces the sensitivity of cash holding for the acquisition of further tangible assets.

2.4 Resource Based Theory

In 1984, Birger Wernerfelt hypothesized the Resource-Based View (RBV) theory. The main focus of the RBV was on the efficient use of unique resources to drive the performance, growth and sustainability of business firms. This research was based on Birger Wernerfelt's resource-based theory. According to this theory, an organization has the chance to gain differentiating and competitive edge over its competitors when it has access to strategic and unique resources. These competitive advantages might help the business maintain long-term success (Barney, 1991; Barney, 2018).

The resource-based paradigm gives significant weight to the usefulness of a firm's unique and differentiating resources. This notion is crucial to this research since using tangible assets will improve the firm's overall performance. According to Porter (1991), a resource's worth is determined by its capacity to give a company-advantageous position in specific markets. The theoretical framework on which this study was anchored upon is the resource-based view (RBV) theory.

2.5 Empirical Review

The composition of a firm's stock of assets tangibility investment (ATI) is the cornerstone driver of its business sustainability, performance and growth (Li & Islam, 2019). It is an essential business enabler to driving company's growth, strength, stability and sustainability (Jiang, et al., 2018). This shows that ATI operationally impacts business liquidity for the achievement of a firm's going-concern, survival and sustainability. Tangible assets are mainly non-current assets with their unimpaired state to influence firm's performance, health sturdiness and smoothness of operations. (Sacer, et al., 2016). Hence, ATI is a crucial driver of company's competitive profitability, shareholder's value maximization, consistent corporate growth, financial sustainability and going concern status (Ito, 2014).

The review of some empirical studies has shown the relationship between asset tangibility and other variables to have positive effect. For instance, Chukwu and Egbuhuzor (2017), Olatunji and Tajudeen (2014), Lee (2010), Irungu, et al. (2018); Olatunji and Adegbite (2014) and Aboody, et al. (1999) examined the relationship between investments in tangible assets and profitability, cash flow from operations and business value to have a significant and positive relationship.

However, in the study of Musah, et al. (2019), Kodongo, et al. (2015); Dakua (2019); Hakim and Kasenda (2018) and Balios, et al. (2016) asset tangibility does not have a direct effect on profitability, but has significant negative relationship with financial performance. Similarly, Hidayah, et al. (2021) examined the effect of asset tangibility on cash holding and found ATI having a significant negative effect on cash holdings.

3. Data and Methods

This study adopted the *ex-post facto* research design, using secondary data to investigate the effect of asset tangibility investment on operating business liquidity among selected listed firms in Nigeria. The population of the study comprised 161 listed firms on the Nigerian Stock Exchange (NSE) as at 31st December, 2020. A 10-year period (2011-2020) was chosen and considered adequate to permit robust panel data analysis for the study. The sample size was 111 firms determined from the population using purposeful sampling technique. Panel data analysis was used to evaluate the contribution of asset tangibility investment to the operating business liquidity among the selected listed firms in Nigeria. Both descriptive and inferential statistics were also adopted in analyzing data.

Model Specification: In order to investigate the nexus between asset tangibility investment and operating business liquidity, the study tested the specified model shown below.

$$OBL = \beta_0 + \beta_1 ATI + e \qquad (1)$$

Where:
OBL = Operating Business Liquidity
ATI = Asset Tangibility Investment
β_0- β_1 = Coefficient
e = Stochastic error term

The above econometric construct was developed for the analysis. The explanatory variable in this study was asset tangibility investment (ATI) while the dependent variable was operating business liquidity (OBL). It was expected that there would be a negative correlation between ATI and OBL, in line with the study of Dakua (2019). The theoretical framework underpinning this study is the resource dependency theory. This is because tangible assets are critical resources that firms depend upon for sustainable performance. Thus, investment in tangible asset acquisition will have effect on the available amount for the firm's operating liquidity position due to scarcity of financial resources required for its operations.

4. Data Analysis and Discussion of Findings

4.1 Descriptive Statistics

Table 1 shows the descriptive statistics for the variables. As observed, OBL as shown in Table 1 shows a mean of 5.08 with a standard deviation of 9.68 while the maximum is 63.3 and minimum of 0. On the other hand, while the asset tangibility has a mean value of 39.24 with standard deviation of 28.92, the minimum value was 0 while the maximum was 99.83.

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min.	Max.
OBL	5.08	9.68	0	63.03
ATI	39.24	28.92	0	99.83

Source: Authors' Computation, 2022

4.2 Correlation Matrix

Table 2 shows that there is negative correlation between Asset tangibility investment (-0.396) and operating business liquidity. Also, the result shows that there is no multi-collinearity between the variables with the value of (0.396).

Table 2: Correlation Matrix

Variable	OBL	ATI
OBL	1.000	
ATI	-0.396	1.000

Source: Authors' Computation, 2022

4.3 Asset Tangibility Investment and Operating Business Liquidity

Table 3 showed the result of the panel regression analysis, using cluster standard error in a fixed effect panel. The probability value of the t-test revealed that ATI (p=0.015) has statistically significant effect on operating business liquidity (OBL). Thus, considering the coefficients of the explanatory variable the result indicated that ATI has negative (-0.047) effect on OBL at 5% significance level. This implies that an increase in investment in tangible assets will result in reduction of the firm's liquidity. The *F-statistics* of 6.08 with a p-value of 0.015 indicated that the model is of good fit. The value for the *Adj.* R^2 was 0.156 (16%), which shows that asset tangibility can only be explained by 16% of changes in operating liquidity while other factors not included in the model account for the rest.

Table 3: Panel regression Result

	Cluster Standard Error for Fixed Effect Model			
Variables	Coeff	Std. Err.	t-Stat	Prob
Constant	6.936***	0.754	9.20	0.000
CAT	-0.047**	0.019	-2.47	0.015
Adj Rsq		0.156		
F-Stat		6.08(0.015)		
Hausman Test		9.14 (0.003)		
Heteroskedasticity Test		482.66 (0.000)		
Serial Correlation Test		23.63 (0.000)		
Pesaran Cross-Sectional Independent		-0.94 (0.348)		
Observations		1110		

Source: Authors' Computation, 2022

4.3 Discussion and Implication of Findings

The hypothesis tested in the study established evidence of significant negative effect of ATI on OBL of selected listed companies in Nigeria from 2011 to 2020. The result of the regression analysis further substantiated the truth underlining the resource dependency theory (RDT). This means that the more a firm acquires tangible assets, such a strategy will negatively impact on its liquidity. This finding of this work is in congruent with the findings of Farooq and Masood (2016), Balios, et al. (2016) and Harc (2015) who documented the evidence of asset tangibility investment having inverse and significant relationship with firms' value, capital structure and profitability. Also, the result of Hidayah, et al. (2021) study confirmed the evidence of ATI having a significant negative effect on cash holdings. Thus, this result shows that increasing the level of investment in tangible assets inversely and significantly decreases the volume of liquidity. Conversely, the above result was at variant with the findings of Sibilkov (2009) and Mehari and Aemiro (2013) who studied the effect of asset liquidity on operating capital structure but found a positive correlation between leverage and asset liquidity.

Therefore, the finding of this study establishes a novel hypothesis of *tangible asset liquidity theory* in evidencing the fact that increasing the size of a firm's investment in tangible assets will lend to a negative impact on the firm's liquidity position. This is because acquisition of more non-current assets will exert more financial pressures or strains on the liquidity of the firm thereby limiting the availability of cash flows for operations. Thus, firms should carry out proper analysis on the use of asset tangibility as a financial strategy to drive sustainable business liquidity, so as to prevent illiquidity in its cash flow position.

5. Conclusion and Recommendation

Liquidity is the ability to convert tangible assets into cash easily without losing money against the market price. The easier it is for firms to turn assets into cash, the more liquid the firms are thereby strategically keeping them afloat with the capacity to easily pay off their maturing obligations. Business liquidity facilitates the flexibility to acquire tangible assets and pay for them easily; providing enhanced capacity to pay bills even without disruption in income stream sources.

As observed from the findings, the probability value of the *t-test* revealed that ATI ($p=0.015$) has statistically significant effect on OBL. This implies that an increase in ATI will lead to reduction in OBL position of the firm. This shows that the study documented the evidence of corporate asset tangibility having significant negative effect on operating business liquidity of selected listed companies in Nigeria. Thus, this result is consistent with the *a priori* expectation, which anticipated that asset tangibility would have significant negative effect on operating business liquidity among listed firms in Nigeria. Conclusively, this study documented the evidence of ATI having negative significant influence on OBL.

Consequently, the study recommends that investment in asset tangibility acquisition by corporate managers should be properly planned, monitored and optimally executed strategically in order to enhance operating business liquidity position; bearing in mind that an increase in tangible asset investment, as empirically proven in the study, would produce statistically significant negative effect on liquidity position of the firm. Hence, increasing asset acquisition should be well strategically planned before implementation so as to ensure that the firms' working capital financing is not disrupted to avoid insolvency, financial crisis and corporate failure.

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