Accounting Predictors of Firms' Growth in Nigeria: The Banking Industry Experience

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Abstract
The dynamics of commercial banks' growth in Nigeria has been an issue that has attracted research interest over the years. This study examined the accounting predictors of firms' growth in Nigeria drawing evidence from the banking industry. A sample of 11 commercial banks listed on the Nigeria Exchange Group was selected for the study. The ex post facto research design was adopted for this study. Secondary data were extracted from the financial statements of the sampled banks for the period of 11 years, which spanned from 2012 to 2022. The Kaiser-Meyer-Oklin (KMO) and Bartlett's Test, Communalities, and Rotated Component matrix were carried out to analyze the study data. The findings of the study indicate that liquidity, specifically; the cash ratio and current ratio are the most significant predictors of commercial bank growth in Nigeria. The study concluded that commercial bank with high liquidity has the most significant growth rate in Nigeria. It was recommended that banks should endeavour to prudently manage and optimize their liquidity positions to ensure and assure sustained growth that will ensure the interest and expectations of their stakeholders.

Keywords: *Growth; Firms' growth; Accounting predictors; Commercial Banks; Principal Component Analysis*

1. INTRODUCTION

The need to understand the factors that drive the growth and success of firms has become increasingly vital, especially in emerging economies like Nigeria (Adeyemi & Okafor, 2023). This is because apart from assuring the survival and going concern of firms, firm growth also contributes to the creation of jobs and increases economic activity. A cursory look at the socioeconomic peculiarities of Nigeria and the volatility of the global and national business environment makes the issue of firm growth a crucial issue that needs not be overemphasized (Chong & Gradstein, 2009; Salami, 2022). More so, the significance of accounting in contributing towards development through risk and resource management, and the facilitation of sustainable businesses that contribute to economic growth makes the understanding of accounting predictors of firm growth an imperative for strategic decision-making (Jeremiah & Daferighe, 2019; Etim, Jeremiah & Akpanuko, 2023).

Accounting predictors encompass a wide range of financial metrics and ratios derived from firms' financial statements, providing valuable insights into their financial health, operational efficiency, and profitability (Adeyemi & Okafor, 2023). These predictors include liquidity (cash and current ratio), financial leverage (Debt-Equity ratio), profitability (returns on asset, returns on equity, earnings per share), cash flow (cash flow from operation), dividend (dividend history and payout) and management efficiency (earnings per share growth, asset turnover ratio, and operating margin). Each of these predictors offers unique perspectives on firm growth potential and financial performance, serving as crucial indicators for investors, policymakers, and stakeholders (Osazevbaru, Onwuka & Ajala, 2020). This explains why the role of accounting predictors in assessing and predicting firm growth trajectories has garnered significant attention from scholars, policymakers, and practitioners alike.

However, despite the growing interest in accounting predictors of firm growth, existing literature on this subject in Nigeria primarily focuses on a few individual predictors in isolation, overlooking the interdependencies and synergies among them (Ademola & Adeniran, 2020). Also, recent studies that utilize Principal Component Analysis (PCA) to analyze the relationships among accounting predictors of firm growth in the Nigerian context are rare. This study addresses this limitation by applying PCA to identify the key factors driving commercial bank growth and evaluate the relative contributions of various accounting predictors in shaping their growth outcomes. Thus, this research is aimed at providing a comprehensive and balanced knowledge of the dynamics of commercial bank growth in Nigeria, thereby providing evidence-based and decision-relevant information to policymakers, investors, and stakeholders in Nigeria.

This paper is structured in five (5) sections. This section (Section One) is the introductory section. Section two is the review of related literature. In section three, the methodology adopted for the study is discussed. The analyses of the data collected and the findings are discussed in Section Four while the summary, conclusions and relevant recommendations are presented in Section Five.

2. REVIEW OF RELATED LITERATURE

Relevant concepts related to the subject matter as well as the theory that provides a theoretical foundation for the paper is reviewed in this section. This section also contains a review of empirical studies carried out by previous researchers in related areas.

2.1 Concept of Firm Growth

Firm growth is a multifaceted concept that encompasses various dimensions of expansion, development, and evolution within an organization. It is a dynamic process that reflects the quantitative and qualitative changes experienced by a firm over time, encompassing increases in revenue, market share, profitability, assets, and organizational capabilities (Davidsson & Wiklund, 2000). Firm growth can occur through organic means, such as increasing sales and expanding operations internally, or through inorganic strategies like mergers, acquisitions, and strategic alliances.

2.2 Dimensions of Firm Growth

Firm growth could take a number of dimensions. These include:

i. *Revenue Growth*: One of the most common indicators of firm growth is an increase in revenue or sales over time. Revenue growth reflects a firm's ability to attract and retain customers, penetrate new markets, and offer innovative products or services (Joensuu-Salo, Viljamaa & Kangas, 2022).

ii. *Market Share Expansion*: Firm growth often involves capturing a larger share of the market in which it operates. This may entail gaining market share from competitors through superior products, pricing strategies, marketing efforts, or distribution channels.
iii. *Profitability Improvement:* While revenue growth is important, sustainable firm growth also requires improvements in profitability (Nath, Nachiappan & Ramanathan, 2010). This can involve enhancing the efficiency of operations, cost reduction, optimization of pricing strategies, and maximizing returns on investment.
iv. *Asset Growth*: Firm growth may also be reflected in the expansion of its asset base. These assets include those that are tangible in nature (property, plant, and equipment) as well as the intangibles such as intellectual property, brand equity, and organizational capabilities (Maggina & Tsaklanganos, 2012).
v. *Geographical Expansion*: Firms may achieve growth by expanding their geographic reach, either domestically or internationally (Doukas & Lang, 2003). This expansion can open up new markets, diversify revenue streams, and leverage economies of scale.
vi. *Product and Service Diversification:* Another dimension of firm growth is diversifying its product or service offerings to meet evolving customer needs and preferences (Chang & Wang, 2007). This may involve expansion into complementary markets or introduction of new product lines.

2.3 Accounting Predictors

Accounting predictors refer to financial indicators or variables used in predictive modeling within accounting contexts. These predictors are typically financial metrics or ratios derived from financial statements, such as profitability ratios, liquidity ratios, or leverage ratios. They are used to forecast future financial performance, assess financial health, or make investment decisions (Smith & Jones, 2020).

2.3.1 Liquidity Ratios

Liquidity ratios are financial metrics used to assess a firm's ability to meet its short-term obligations with its current assets. These ratios provide insights into the firm's liquidity position and its ability to effectively manage cash flow and working capital It is also an important indicator of a firm's financial stability and resilience (Boyte-White, 2021; Jeremiah, Akpanuko & Acha, 2022). In the study of accounting predictors of firms' growth in Nigeria, liquidity ratios play a significant role in the evaluation of the financial health and stability of firms, as well as their capacity to sustain operations and pursue growth opportunities (Olayinka, Ogunlana & Adeyemo, 2019). Firms with good liquidity ratios are believed to be better positioned to survive economic downturns, seize expansion opportunities, and invest in growth initiatives. Conversely, firms with poor liquidity ratios may face challenges in meeting their financial obligations, accessing credit, and sustaining growth momentum. The common liquidity ratios include the current ratio, quick ratio and cash ratio.

i. *Current Ratio*: The current ratio is a measure of a firm's ability to meet its short-term liabilities using its current assets. It is calculated by dividing current assets by current liabilities. A higher current ratio indicates better short-term liquidity (Fernando, 2024).
ii. *Quick Ratio (Acid-Test Ratio):* The quick ratio assesses the ability of a firm to meet its short-term obligations using its most liquid assets, excluding inventory. It is computed by subtracting inventory from current assets and then dividing by current liabilities

(Seth, 2023). A higher quick ratio suggests greater liquidity and the ability to cover immediate liabilities without relying on inventory sales.

iii. *Cash Ratio:* The cash ratio measures the ability of a firm to meet its short-term liabilities using its cash and cash equivalents alone (Kenton, 2022). This ratio is derived by dividing cash and cash equivalents by current liabilities. A higher cash ratio indicates a stronger liquidity position and less reliance on non-cash assets to meet obligations.

2.3.2 Financial Leverage Ratios

Financial leverage ratios, also known as solvency ratios, measure the extent to which a firm relies on debt financing to support its operations and investment activities. These ratios assess the firm's ability to meet its long-term financial obligations and the potential risks associated with its capital structure. In the study of accounting predictors of firms' growth in Nigeria, financial leverage ratios provide useful insights into the firm's financial risk profile, capital efficiency, and capacity for sustainable growth (Onyema, Nzewi & Ozioko, 2020). Firms with moderate levels of leverage may benefit from the tax advantages of debt financing and have greater flexibility to invest in growth initiatives. However, when a firm's leverage is too high, it can increase its financial risk and hinder the firm's ability to access capital markets, pursue strategic opportunities, and sustain growth over the long term. Financial leverage ratios include debt-equity ratio, interest coverage ratio and debt ratio.

i. *Debt-to-Equity Ratio:* The debt-to-equity ratio compares a firm's total debt to its total equity, reflecting the proportion of financing provided by creditors versus shareholders. It is calculated by dividing total debt by total equity. A higher debt-to-equity ratio indicates greater financial leverage and potential risk associated with high levels of debt.

ii. *Interest Coverage Ratio:* The interest coverage ratio is a measure of a firm's ability to meet its interest payments on outstanding debt obligations with its earnings before interest and taxes (EBIT). It is calculated by dividing EBIT by interest expense. A higher interest coverage ratio indicates a greater capacity to service debt obligations and lower financial risk.

iii. *Debt Ratio:* The debt ratio evaluates the proportion of a firm's assets financed by debt. It is calculated by dividing total debt by total assets. A higher debt ratio signifies a higher degree of financial leverage and potential vulnerability to changes in interest rates or economic conditions.

2.3.3 Profitability Ratios

Profitability ratios are financial metrics used to evaluate a firm's ability to generate earnings relative to its resources, investments, and sales. These ratios provide insights into the efficiency and effectiveness of a firm's operations, as well as its overall profitability. According to Adegbie, Adegbie & Fakile (2018), profitability ratios are crucial indicators of a firm's financial health, performance, and growth potential. Firms with strong profitability ratios are better positioned to reinvest earnings, attract investors, and pursue growth opportunities. By contrast, firms with weak profitability ratios may struggle to generate sufficient returns to support expansion initiatives and may face challenges in sustaining growth over the long term. Return on assets, returns on equity and net profit margin are some of the examples of profitability ratios.

i. *Return on Assets (ROA):* The return on assets ratio measures the firm's ability to generate profits from its total assets. It is calculated by dividing net income by average

total assets. A higher ROA indicates better utilization of assets to generate earnings and higher profitability.

ii. *Return on Equity (ROE):* The return on equity ratio evaluates the firm's ability to generate profits from shareholders' equity. It is calculated by dividing net income by average shareholders' equity. A higher ROE signifies more efficient use of equity capital to generate returns for shareholders.

iii. *Net Profit Margin:* The net profit margin measures the percentage of revenue that remains as net income after all expenses, including taxes and interest, have been deducted. It is calculated by dividing net income by revenue. A higher net profit margin reflects stronger profitability and efficient cost management.

2.3.4 Management Efficiency Ratios

In addition to liquidity ratios, financial leverage ratios, and profitability ratios, other accounting predictors such as earnings per share, asset turnover ratio and operating margin also play a significant role in studying firms' growth in Nigeria. These predictors provide valuable insights into different aspects of a firm's operations, efficiency, and financial performance, contributing to a comprehensive understanding of its growth potential and sustainability.

i. *Earnings per Share (EPS):* Earnings per share is a financial metric that measures the portion of a company's profit allocated to each outstanding share of common stock. It is calculated by dividing net income by the total number of outstanding shares. EPS reflects the firm's profitability on a per-share basis and is often used by investors to assess the company's earnings performance and growth prospects.

ii. *Asset Turnover Ratio:*
The asset turnover ratio measures the efficiency with which a firm utilizes its assets to generate revenue. It is calculated by dividing net sales or revenue by average total assets. A higher asset turnover ratio indicates better asset utilization and efficiency in generating sales, which can contribute to higher growth rates and profitability.

iii. *Operating Margin:* Operating margin, also known as operating profit margin, measures the percentage of revenue that remains as operating income after deducting operating expenses such as cost of goods sold, salaries, and overhead costs. It is calculated by dividing operating income by revenue. Operating margin reflects the firm's operating efficiency and profitability from core business activities, providing insights into its ability to control costs and generate profits.

2.4 Theoretical framework

The resource-based view theory provides the theoretical foundation for this research. The theory was initially proposed by Jay Barney and Birger Wernerfelt. However, it was Jay Barney who played a significant role in developing and popularizing the theory through his influential works in strategic management literature during the late 1980s and early 1990s. The resource-based view theory posits that a firm's competitive advantage and long-term success are driven by its unique bundle of resources and capabilities (Barney, 1991). In the context of accounting predictors, this theory suggests that firms with superior financial resources and capabilities, as indicated by favorable accounting predictors such as liquidity, profitability, and efficiency ratios, are better positioned to achieve sustainable growth and competitive advantage in the Nigerian business landscape. This theory therefore provides a framework for understanding the role of accounting predictors in driving a firm’s growth in Nigeria.

2.5 Empirical Review

Aregbeyen (2012) investigated the influencing factors of firms' growth in Nigeria. The sample of the study was 94 firms listed on the Nigeria Stock Exchange. The result of the multiple regression that was conducted revealed that size, age, capital intensity, financial constraints, and management efficiency were the most significant determinants of firms' growth. It was concluded that firm growth determinants differ depending on how the growth is measured.

Mishra and Deb (2018) conducted an exploratory analysis of the predictors of firm growth in India. The study spanned a period of 12 years (2003-2014). The sample size for the study comprised 1,450 Indian firms. The Principal Component Analysis (PCA) approach was adopted for the study. The results of the analysis showed that the management efficiency of current assets and capital were the most significant influencing factors of firms' growth in India.

Ugwu and Eze (2018) undertook a study on the effect of firms' growth indices on the profitability of firms in Nigeria. The period that was covered in the study spanned from 2001 to 2016. The data which were sourced from the financial statements were analyzed using multiple linear regression. The result of the analysis revealed that total assets, market value and firm size had a significant effect on the firm performance.

Megaravalli and Sampagnaro (2017) carried out a study on firm age and liquidity ratio as predictors of firm growth. The result shows that there is a strong positive relationship between firm age, liquidity ratio and firm growth.

Aladejebi and Olufemi (2018) studied predictors of firm performance among selected SMEs in Lagos, Nigeria. Data was collected from a sample of 142 respondents. The data were analysed using regression analysis. The findings of the study revealed that proactiveness and innovativeness are significant predictors of firm performance.

Coad and Srhoj (2020) did a study on big data techniques for the prediction of high-growth firms. The Least Absolute Shrinkage and Selection Operator (LASSO) was employed to analyse the data for the study. The data of the study were collected from Croatian and Slovenian firms. The analysis revealed that inventory level, previous employment growth, and short-term liabilities significantly affect firm growth.

Pointer and Khoi (2019) examined the predictors of return on assets (ROA) and return on equity (ROE). The study was focused on 16 banks and 10 insurance companies listed on the Ho Chi Minh Stock Exchange. Firm size, book value, ROE, years in business and, earnings per share (EPS) was used as predictor variables. It was observed that return on equity, firm size, years in business, book value, and EPS affect the ROA and ROE

These studies reviewed were carried out in other country contexts and many of them employed various techniques in their analysis. There is a need to look at a similar study within the Nigerian context using the Principal component analysis method. The study is particularly significant at a time like this when the nation's apex bank is on the verge of implementing an increase in the capitalization of banks in Nigeria.

3. METHODOLOGY

In this section, the research design, population of the study, source of data and data analyses technique are highlighted.

3.1 Research Design

The *ex post facto* research design is adopted for this study. This designed afforded the use of existing historical data which has been attested to by the audit process as a basis for the realization of the objective of this study.

3.2 Population and Sample of the Study

The population of the study comprised all the 15 Commercial banks listed on the Nigerian Exchange Group. A sample of 11 commercial banks listed on the Nigeria Exchange Group was purposively selected for the study. The basis of selection of these 11 banks was availability and accessibility of required data for the entire period covered by the study (2012 – 2022).

3.3 Source and Nature of Data for the Study

The data for this study were secondary and quantitative in nature and they were sourced from the audited annual reports of the sampled banks for the period.

3.4 Data Analyses Technique

This research conducts a principal component analysis (PCA) of the various accounting predictors mentioned in the literature to determine the accounting components that most significantly contribute to firms' growth in Nigeria. The Kaiser-Meyer-Oklin (KMO) and Bartlett's Test were first carried out to assess the data suitability for PCA. The PCA is chosen because it helps in reducing multi-dimensionality and identifying key components that explain the most variance in the data.

4. RESULTS AND DISCUSSION OF FINDINGS

The results generated by the analysis of the study data and the findings deduced from it are presented and discussed in this section.

Table 1: Descriptive Statistics of Accounting Predictors of Firm Growth

Factors	N	Mean	Std. Deviation
Liquidity			
Current ratio (CRTR)	121	3.33	2.99
Cash ratio (CSHR)	121	3.39	2.92
Financial leverage			
Debt to Equity.(DBTE)	121	7.10	3.64
Interest coverage (INTC)	121	8.21	6.84
Profitability			
Return on Asset (ROA)	121	.04	.03
Return on Equity (ROE)	121	8.98	11.27
Management efficiency			
Earnings per share (EPS)	121	2.62	2.73
Operating Margin (OPMG)	121	.21	.18

Source: Researchers' SPSS Analysis (2024).

Table 1 contains the descriptive statistics for the factors under investigation. 121 respondents partook in the survey. According to Chetty (2015), it is universally accepted that factor analysis is inappropriate when the sample size is below 50 (Chetty, 2015). Return on asset has the highest mean (8.98) and highest standard deviation (11.27). This suggests that the variance in the spread of the return on equity was high. It seems there was a high level of

variability in the banks' ROE during the period covered by the study. Conversely, the ROA appeared relatively less volatile as it had a very infinitesimal standard deviation of .03.

Table 2: Correlation Matrix of the Study Variables

	CRTR	CSHR	DBTE	INTC	ROA	ROE	EPS	OPMG
CRTR	1							
CSHR	.80	1						
DBTE	.003	-.14	1					
INTC	.30	.39	.06	1				
ROA	.11	.34	-.36	.35	1			
ROE	.14	.38	-.21	.32	.75	1		
EPS	.04	.06	-.15	-.07	.57	.64	1	
OPMG	.28	.23	-.13	-.01	.34	.41	0.50	1

Source: Researchers' SPSS Analysis (2024).

The correlation matrix in Table 2 reveals that 'Cash ratio' (.80), 'interest coverage (0.30), and also current ratio had coefficients of .3 and above. The correlation results indicate that these data were reasonably suitable for the analysis. Operating margin (.28) is also quite close to and approximates to .3. However, the correlation of debt to equity (.003), ROA (0.11), ROE (0.14) and EPS (0.04) were below the .3 benchmark (Pallant, 2005). The very low correlation of ROA, ROE and EPS seems to suggest that these factors have a very weak correlation with firm growth. This observation seems to contradict the view of Ademola and Adeniran (2020) who concluded that EPS, asset turnover ratio and operating margin are the major predicting factors of firms' growth and financial performance in the Nigerian market. In order to make for a more reliable result, these 4 factors (equity debt, ROA, ROE, EPS) that fall short of the minimum cut-off correlation were eliminated at this point. The four factors that had a correlation of .3 and above were included in the subsequent analysis.

Table 3: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.595
Bartlett's Test of Sphericity	Approx. Chi-Square	150.227
	Df	6
	Sig.	.000

Source: Researchers' SPSS Analysis (2024)

Kaiser-Meyer-Oklin value (.595) exceeds the benchmark of 0.5 (Pallant 2005, Chetty, 2015). This KMO value indicates that the sample was adequate for the analysis. Bartlett's Test of Sphericity reached statistical significance ($p = .00$, $p < .05$) thus supporting the factorability of the correlation matrix.

Table 4: Communalities

	Initial	Extraction
CRTR	1.000	.815
CSHR	1.000	.842
INTC	1.000	.670
OPMG	1.000	.807

Extraction Method: Principal Component Analysis.
Source: Researchers' SPSS Analysis (2024)

Table 4 indicates that of the 4 remaining factors, cash ratio has the highest extraction loading (.842). This is followed by current ratio (.815), operating margin (.807) while interest coverage had the lowest loading of .670.

Table 5: Total Variance Explained

	Extraction Sums of Squared Loadings		
Components	**Total**	**% of variance**	**Cumulative %**
1	2.122	53.040	53.040
2	1.012	25.309	78.349
3			
4			

Source: Researchers' SPSS Analysis (2024)

Table 5 indicates that out of the 4 remaining components, 2 components were extracted. The Eigenvalues of these extracted components were 2.122 and 1.012. The cumulative percentage of variance of the 2 components is 78.349. This implies that these extracted components jointly explain up to 78.349 % of the variation in firm growth in the Nigerian banking industry. In other words, only 21.651% of the variances in the firm growth of commercial banks in Nigeria are explained by other components. These factors are specifically identified in Table 4.6.

Table 6: Rotated Component Matrix

	Component	
	1	2
Current ratio (CRTR)	0.901	
Cash ratio (CSHR)	0.916	
Interest coverage (INTC)	0.554	- 0.603
Operating margin (OPMG)	0.406	0.802

Extraction Method: Principal Component Analysis.

Source: Researchers' SPSS Analysis (2024)

In the rotated component matrix, the higher the absolute value of the loading, the more the factor contributes to the variable (Chetty, 2015). From Table 6, cash ratio and current ratio

have the highest loadings of .916 and .901. This implies that cash ratio and current ratio are the major factors that predict the growth of commercial banks in Nigeria. This suggests that liquidity is the most significant predictor of commercial bank growth. This finding corroborates the findings of Mishra and Deb (2018) that current assets is one of the crucial factors that influence a firm's growth and is equally applicable to banks in Nigeria. Megaravalli & Sampagnaro (2017) also established a significant positive relationship between liquidity and firm growth. Current ratio is one of the measures of a firm's ability to meet short-term obligations. This study has therefore confirmed the finding of Coad and Srhoj (2020) that short-term liabilities are a key predictor of firm growth.

5. CONCLUSION AND RECOMMENDATIONS

In this study, the predictors of firm growth in Nigerian banks were examined. The principal component analysis approach was adopted to analyze the predictive ability of liquidity, profitability, financial leverage, and management efficiency ratios on the growth of banks. The result of the extraction highlighted liquidity factors as the key predictors of firm growth in the banking industry. It is concluded that both the cash ratio and current ratio play the most significant roles in forecasting the growth trajectory of commercial banks in Nigeria. The observed significance of these predictors underscores the importance of liquidity management in driving financial health and sustainable growth within the banking sector. Taking due cognizance of these predictors, banks can strategically align their operations to seize growth opportunities while mitigating risk. This will consolidate the significant position of banks as drivers of economic growth and stability in the Nigerian economy. It is therefore recommended that banks should:

(i). Prioritize cash ratio optimization to ensure sufficient liquidity for operational needs while also leveraging excess cash for profitable investments.

(ii). Prudently manage their current assets and current liabilities to bolster solvency and resilience in the face of economic uncertainties.

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