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Operating Leverage, Firm Size and Return on Assets of Quoted Financial Firms in Nigeria

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Abstract

The introduction of company income tax necessitated the use of debt capital (leverage) to optimize financial performance given the tax savings. Thus, the study critically investigated the extent and nature of the association between operating leverage, firm size and profitability of listed financial firms in Nigeria. The study period was 15 years (i.e. 2006-2020). The study adopted ex-post facto research design via making use of data already in existence. Diagnostic tests carried out indicated absence of unit roots and multi-colinearity. However, heteroskedasticity (i.e. presence of non-constant variance) is detected. Panel least squares, specifically, feasible generalized least square (FGLS) regressions were employed in analyzing data collated from the audited financial statements of the sampled firms. While natural logarithm of total assets negatively exerted very strong and significant impact on return on assets, both operating leverage and asset tangibility exhibited insignificant positive connection with return on assets. It suggested that management of firms should increase steadily the size of their near liquid resources (negative net working capital) given that interests due on debentures and loans must be paid as at when due. Redeemable debentures must be cleared as soon as they become period costs.

Keywords: Total Assets, Debts, Profitability, Size.