Intangible Asset Structure and Financial Performance of Non-Financial Firms Listed at Nairobi Securities Exchange, Kenya

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ABSTRACT

The Kenyan listed firms have immensely contributed to the country's economy. However, poor financing decisions have led to most firms' failure, which has in turn posed a big dilemma to researchers, business managers, as well as investors. Past research relating intangible asset structure and financial performance have also presented mixed results. Therefore, this study purposed to establish the relationship between intangible asset structure and financial performance of listed non-financial firms operating in Kenya. Thirty (30) non-financial firms were targeted as population of the study and were selected using census sampling technique as a unit of analysis. The findings yielded that there was a positive relationship between intangible assets and non-financial firms listed at NSE; with a model as follows $Y = 7.042 + 0.675X + \varepsilon$. It was therefore concluded that managing intangible asset structure contributed betterment and profitability of non-financial firms listed at Nairobi Securities Exchange, Kenya.

Keywords: *Intangible Asset Structure, Financial Performance, Listed Firms Performance*

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1.0 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). Locally, scholars have articulated that asset structure influences firms' performances and that it is essential in every manager of an enterprise, owner, organizational management, scholars and policymakers (Haat, Zulkafi & Mat Zabi, 2010; Wamiori, Sakwa & Namusonge, 2016). Tanui, Omare and Omondi (2021) indicated that current asset and non-current structure asset structure have a strong positive impact on financial performance while the aspect of capital structure seemed to influence performance of firms negatively. A study by Okwo et al. (2012) revealed that fixed assets does not affect net profit significantly. Olatunji, et. al., (2014) found out that investment in fixed asset had strong and positive significant impact on profitability of a firm. Mawih (2014) realized that it was only petroleum sector where asset structure had impact on ROE while another firm did not have. Omwagwa and Mwaniki (2017) argued that financial performance of Kenyan commercial banks was significantly being influenced by long-term investments and tangible assets.

The study objective was to establish the effect of intangible asset structure on the financial performance of non-financial firms listed at the NSE in Kenya. The hypothesis was:

Ho1: Intangible asset structure has no significant effect on the financial performance of non-financial firms listed at the NSE, Kenya.

2.0 Literature Review

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 intangible 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). Previous research has demonstrated that investing in intangible assets can significantly influence a company's profit margin. Lubyanayaa, Izmailova, Nikulinaa, and Shaposhnikov (2016) investigated the viability and asset management potential of intangible 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 intangible 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 intangible 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.

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.

3.0 Research Methodology

This study adopted a cross-sectional research design. It considered the adoption of positivism research philosophy. The unit of analysis of the study was the non-financial firms listed on the Kenyan NSE. The study focused on 30 non-financial listed companies. The unit of observation were the finance managers in those firms. Since this study comprised of a small population, the study employed use of census survey approach as suggested by Setia (2016). Data collected was then subjected to analysis using SPSS version 28. The data was quantitative in nature. Both descriptive statistics and regression analysis were applied in analysing the data collected for this study.

4.0 Study Results

The study present the results and for test of hypotheses and thereafter discussion of the findings. From the findings the results yielded the relationship between intangible assets and performance non-financial firms listed at the Nairobi Stock Exchange (NSE), as follows;

$Y = 7.042 + 0.675X + \varepsilon$; as shown in table 1.0 that follows.

Table 1.0: Intangible 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

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	117.366	1	116.366	255.961	.000[b]
	Residual	129.867	285	.465		
	Total	245.943	286			

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)	7.042	.246		13.057	.000	2.873	3.756
	Intangible Asset Structure	.675	.038	.692	14.999	.000	.502	.657

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Intangible Asset Structure

The findings in Table 1 indicate a significant positive relationship between intangible asset structure and the financial performance of non-financial firms listed at the NSE, as measured by Return on Assets (ROA). As indicated in the model; there exists a positive relationship between intangible assets and performance of non-financial firms listed at the NSE. That is for every unit increase in intangible assets, there is a corresponding 67.5% increase on performance of non-financial firms listed at the Nairobi stock exchange. This aligns with contemporary studies emphasizing the importance of intangible assets in driving a firm performance. For instance, Lee and Park (2020) found that firms with higher investments in intangible assets, such as patents or even customer's good will, achieve better operational efficiency and profitability. Similarly, Athar and Madhul (2013) reported a positive and significant link between intangible assets and a firms' profitability.

A study by Bozovic, Jaksic, and Vukotic (2021) also supports the notion that intangible assets are critical for achieving economies of scale, which enhances financial performance. Additionally, Chen, Yu, and Li (2020) demonstrated that intangible 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 intangible assets such as patents are crucial for leveraging those firms and sustaining competitive advantages in rapidly evolving markets.

5.0 Conclusions and Recommendations

5.1 Conclusions

The study concluded that intangible assets significantly influence the financial performance of listed firms in the Nairobi Securities Exchange in Kenya, especially on ROA, supporting existing literature on their strong effect on financial outcomes. The findings from the study highlight a significant positive relationship between well-managed intangible 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.

5.2 Recommendations

It can therefore be recommended that firms to put more emphasis on the importance of effective management of intangible assets. Given the significant influence of intangible asset structure on financial performance, non-financial firms listed on the Nairobi Securities Exchange should focus on effectively managing their short-term resources, such as inventory and cash. This includes using company patents and supplier goodwill to meet immediate obligations while striving to maximize returns on assets.

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