

FIRM SIZE AND PERFORMANCE OF ORGANISATION

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ABSTRACT

The study investigated the impact of firm size on the performance of organization. This study has contributed to the existing body of knowledge in respect of empirical findings on the topic area which will be used as a reference point for future research. This study distinct itself from others done on the topic: Sustainability Reporting and Financial Performance. It focuses on listed manufacturing firms, no other work to the best of my knowledge has been done on sustainability reporting and financial performance of listed manufacturing firms in Nigeria embracing all the sub-sector of manufacturing firms. It has also provided a blueprint for managers and chief executive officer alike of listed manufacturing firms on the growing demand and advocacy for transparency and it would improve and better their firm performance by attracting both human and capital resources.

Keywords: Firm Size, Performance. organisation

INTRODUCTION

Brewer and Jagtiani (2013), opine that financial performance is affected by the size of the firm. Large firms can exploit economies of scale and scope and thus being more efficient compared to small firms. Worthy of note is that small sized firms usually have less power compared to larger firms and thus they would find it difficult to effectively compete favourably with large sized firms in competitive markets. Majority of the large firms enjoy economies of scale hence they are able to mitigate their costs and enhance financial performance. The implication of this that a positive relationship is anticipated between the size of the firm and profitability. Chell and Baines (2014), argue that the growth of firms which are considered to be small is more sensitive to internal finance than that of larger firms. Small size firm are most likely to face financial constraints; this prevents them to gain access to finances from financial institutions.

According to Schmalensee (2001), size is defined in terms of total assets and used a number of accounting profitability measures such as return on assets, net profit margin and return on assets. Boyd and Runkle (1993), opine that a large sized firm is more cost efficient and less likely to fail. This theory suggests that being bigger proffers and advantage in reducing pooted risks through a large number of contacting parties, thereby reducing the possibility of failure. Larger institutions are believed to have more profitable investment opportunities, higher efficiency, more diversification and a lower risk level. Mainelli and Giffords (2010), opined that large sized firms can enjoy economies of scale and scope and also pass an important criterion to enable them to compete globally.

Firm size is an important characteristic to gain performance. Large sized firms have more resources and capacity to carry out more product lines and higher production capacity together with organizational resources. This enable the firms to boost their financial performance since they can mitigate risk (Alvarez & Barney, 2001). However, smaller firms may be more flexible, it can be argued that large sized firms have better perquisites for behavior compared to their smaller counterparts. This is because large sized firms may be better equipped to engage inter-firm networking both in width (number of networking actors and depth (networking intensity with the actors).

Brown (2009), stated that firm size refers to how large or small firm is measured by the firm's market value. Therefore, firm size can be concluded as how large a company is reflected by its total assets, sales or market capitalization. According to Vieira (2010), size affects small – size firms (measured by total assets or total capitalization) tend to out-perform the market even when returns are adjusted for risk. Haugen (2001), opines that firm size is a picture of large or small companies that appear in the value of total assets and its measures by logarithm of total assets. Agency theory highlights the fact that the bigger a firm is the higher the monitoring and agency costs will be due to the asymmetrical information. According to Souissi and Khlif (2012), large-sized firms have stronger motivations to disclose more information. The under listed are attributes of firm size:

Concept of Firm Size

Firm size has been considered as a vital determinant of firm profitability. In the market economy, firms vary widely in size, profitability and survival. Factors determining the above mentioned observed variables and how they are operated has been an active discourse of research in industrial organizations and more generally in developing nation like Nigeria.

The size of a firm plays a significant role in the determination of the kind of relationship the firm enjoys internally or externally from its operating environment. The size (larger) of the firm has positive and greater influence on its stakeholder. Moreover, the accelerating influences of conglomerate and multinational companies in today's global economy (and in local economies where their business activities are carried out are indicative of what role size plays within the corporate environment. Bhayani (2010), posits that an interesting aspect of economic growth is that much of it takes place through the growth in their size of organizations in existence.

The size of the firm is an essential variable in explaining organizational profitability and a good number of prior studies have tried to explore the effect of firm size on profitability (Punnose 2008; Serrasfueins & Nunes 2008; Wu, 2006;).

The size of the firm is described as the quantity and array of production capacity and potential a firm possesses or the quantity and diversity of service a firm can make available to its clients (Shaheem & Malik, 2012). In today's world, the size of the firm is very essential because of the phenomenon of economics of scale in contrast, larger firms can produce or manufacture items on much lower costs to smaller firms.

In fields requiring competition, large firms have more competitive power when compared to small firms. Considering the fact that they have a bigger market share, large firms have the opportunity to profit more. Moreover, large firms are capable and able to seize the opportunity to work in the fields which require high capital rates because they have large resources and this situation gives them the opportunity to work in more profitable fields with little or no competition (Bayyort, 2007). Size is observed as an important determinant of performance in any firm. One of the objectives of the firm is to increase in size in order to have or gain an edge over their competitors. Beaks, et al. (2005) argued that the size of firm has a strong association with firm's survival, profitability and productivity though depending on policy implementation like legal and financial policy effects, depending on their size.

Capital Invested

The invested capital is an important attribute of size and can be used for comparison of both like and unlike firms. But as Boyd and Runkle (1993), point out, the major difficulty of this attribute is that accurate data involving capitalization are difficult to obtain. As a result of the variation in the capital requirements of different units and their financing methods this attribute is not much reliable.

Value of the Product

The value of the product is the second attribute of size and this is adjudged in term of money turned out by a firm. This attribute has the advantage of making every comparison in terms of money, which is convenient. But difficulty would arise in case of fluctuating value of the product or where the comparison is over two periods of time, one which is the rising prices (boom) and the other which is the falling prices (depression), because irrespective of large volume of output during depression the value may be small where as during the boom era even with relatively small output vary may be big.

The Number of Wage Earners Employed

Another attribute is the number of wage-earners employed by each firm. The attribute is mostly used and advantageous in comparing firms with similar features. However, in case of its application to unlike firms results may be misleading. Also, it can be used only for the firms at the same stage of development because as firms grow in size all of them may not employ increasing number of workers, some may actually install more machines for increased production rather than increasing their labour force.

Power Used

The amount of power usage per unit is also "an index of the size and growth" of firms involved in manufacturing. However, the amount of power used may be more or less even due to the factors other than the scale of operations of a firm. This may not always prove to be a reliable attribute.

Amount of Raw Materials

Looking at firms whose output are of similar nature the consumption rate per annum of raw materials by a firm may likely be a good attribute.

Volume of Output

This is a good attribute of output in the case of firms manufacturing products which are uniform or homogeneous in nature or characteristics. But it will not give perfect picture in case of the firms which produce variety of goods such as is the case with the cotton textile industry.

Productive Capacity of the Plant

This is a good attribute of size where it involves industries producing a variety of products. For example, number of plants in case of iron and steel industry with their productive capacity may provide a good standard of attribute.

Global Reporting Initiative (GRI)

This is an non-profit oriented international organization. The primary purpose of this organization is to provide sustainability reporting framework that can be used by all companies globally without taking into cognizance the geographical location and scope of the company. This is an attempt to buttress the issue of accountability transparency on sustainability programme of companies.

The first set of sustainability reporting guideline was lunched in June 2000 by the GRI committee. The second was launched in Johannesburg 2002 at the world Summit on sustainability development, the third was launched in 2006 and the fourth was launched on the 22nd day of May, 2013. GRI puts forward to harmonize with other important global framework. Aggarwal (2013), opines that sustainability report are prepared based on certain principles that state the scope and quality of report

Concept of Financial Performance

Gan and Selah (2008), posit that financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be

used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance refers to a firm's ability to generate new resources from day to day operations over a given period of time (Bora, 2008). In short, the firm itself as well as various interested groups such as shareholders, creditors, government, general public, and others seek answers to the following important questions: what is the financial position of the firm at a given point in time? And how is the financial performance of the firm over a given period of time? These questions can be easily answered with the help of financial analysis of a firm. Financial analysis involves the use of financial statements. A financial statement is a whole bulk of statements and information as contained in published annual accounts presented to shareholders and other stakeholders at the annual general meetings by the managing director. It shows a summary but comprehensive performance of the organization during the year under review and its projections into the foreseeable future. It may show a position at a moment of time as in the case of a balance sheet or may reveal a series of activities over a given period of time as in the case of an income statement. According to Igwe and Wokeh (2017), financial statements show a summary but comprehensive performance of the organization during the year under review and its projections into the foreseeable future. The statement of financial position is a snapshot in time. It provides an overview of how well the organization is managing assets and liabilities at a particular date. The assets are classified into current and non-current assets while the liabilities are classified into current liabilities and non-current liabilities. Analysts can find information about long-term vs short-term debt on the statement of financial position. The statement of financial position shows the financial position (condition) of the firm at a given point of time. "statement of financial position is a summary of a firm's financial position on a given date that shows Total assets = Total liabilities + Owner's equity.

Legitimacy Theory

The legitimacy theory was propounded by Dowling Pfeffer in 1975. Legitimacy as a concept is very important in analyzing the relationships between companies and their environment. Parson (1960), defines legitimacy as "the appraisal of action in terms of shared or common values in the context of the involvement of the action in the social society. Legitimation is the process whereby an organization justifies to a peer or superordinate system its right to exist; that is to continue, import transform and export energy material or information (Maurer, 1971). Legitimacy theory is derived from the concept of organizational legitimacy, which has been defined as a condition or status, which exists when an entity's value system is congruent with the value system of the large social system of which the entity is a part. When there is a disparity, whether actual or potential exists legitimacy (Dowling & Pfeffer, 1975). Preston, et al. (1995) opined that legitimacy is conceived as congruence between institutional actions and social values and legitimation as actions that institutions take either to signal value congruency or to change social value. Legitimacy theory posits that corporations must take into consideration the right of the community at large and not just only that of investors. If the corporation do not appear to operate within the bounds and norms of their respective societies i.e breaching its social contract, then the organizational survival will be threatened. Where society is dissatisfied that the organization is operating in a legitimate manner, the society will officially cancel the organization contract to continue its operations (Deegan & Rankin, 1997). The implication is that it will lead to threats to organizational legitimacy which could take the form of legal, economical and probably any other sanctions. Neu, et al. (1998), argue that the legitimacy of a corporation is constructed and maintained through symbolic action which form part of corporation's public reputation. They put an argument that it is often easily to manage a corporation's reputation through environmental information disclosure.

Limitations of legitimacy theory and failure way forward

The most widely used theory in social and environmental accounting research is the legitimacy theory it nevertheless is not without its critics. Some of the criticisms include:

- a. There is a lack of research that demonstrates that legitimizing disclosure actually work in reducing legitimacy gaps
- b. Tied to the above point, there is a lack of research that explores which specific types of disclosures are relatively more effective in changing community expectations.
- c. There are problems of resolution-legitimacy theory tends to focus at society at large and does not explore whether particular groups with society might be relatively more influenced by corporate disclosures and the types of disclosure
- d. Research utilizing legitimacy theory fails to provide insights about the attributes of managers that influence how they respond to legitimacy threats or indeed, how they perceive the existence of legitimacy threats.
- e. Proponents of legitimacy theory often talk about 'society and compliance with the expectations of society (as embodied within the social contract; however, this provides poor resolution given that society is clearly made up of various groups having unequal power or ability to influence the activities of other groups.

CONCLUSION

The increased level of transparency provides investors with the possibility to make more appropriate valuations and to better orient their investments towards firms with a more positive impact. Firms with high sustainability performance have better firm performance as they attract both human and capital resources from the environment. Conclusively, it can be agreed upon that from all indications there is an in depth need for sustainability reporting and financial performance of listed manufacturing firms in Nigeria as revealed by the study. Therefore, there's a significant relationship between sustainability reporting and financial performance of listed manufacturing firms in Nigeria.

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