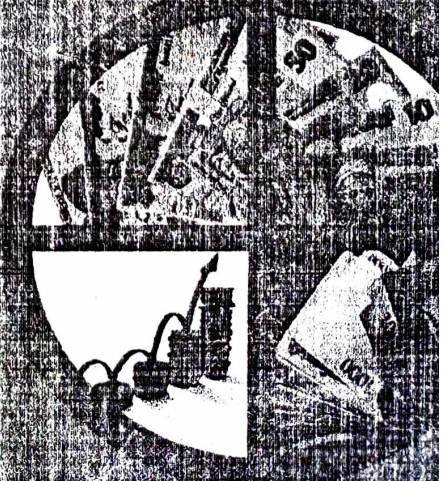
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EDITORIAL NOTE

The Journal of Finance and BankingResearch (JOFABR) is the single authoritative academic Journal of the department of Banking &Finance Nasarawa State University. It seeks to promote scholarship through publication of well – researched original theoretical and empirical studies on contemporary issues in accounting, finance and allied fields.

JOFIBR is peer reviewed. All articles published in JOFIBR undergo a blind peer review. The journal welcomes both theoretical contributions that yield novel testable implications and empirical papers that are theoretically motivated. Contributions are also sought from diverse contributors locally and internationally.

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Professor M. A.Mainoma
Editor- in-Chief
October, 2015

PREFACE

This edition of NSUK Journal of Finance and Banking Research parades an array of interesting research.

The banking research takes a look at the Empirical assessment of the Determinants of Capital through Managing Loan Loss Provisioning; Intangible Assets and Performance of deposit money bank as well as Credit Terms and The Financing of Micro Enterprises in Nasarawa State

This edition also highlights diverse key sub-themes such Auditing Attributes; Financial Reporting Quality; Corporate Governance; Internally Generated Revenue by tertiary institutions; Public Management And Effective Service Delivery In Local Governments

This edition parades capital market and exchange rate researches: The Impact Of Collective Investment Scheme On Financial Market Development; and Exchange Traded Funds And The Volatility Of The Nigerian Stock Market.

Dr. Uche Uwaleke
Managing Editor

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INTANGIBLE ASSETS AND PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This paper examines the impact of intangible assets on the performance of Deposit Money Banks (DMBs) in Nigeria. Correlated research design was adopted in the study; and data for the study were secondary in nature and obtained from Nigerian Stock Exchange (NSE) Fact Book and the Annual Reports and Accounts of the selected DMBs for the period of ten (10) years from 2001 to 2010. Multiple regression analysis was used as a technique of data analysis. The findings from this study revealed that intangible assets have strong negative association with the performance of the selected Deposit Money Banks (DMBs) in Nigeria. The study concluded that there is a negative relationship between intangible assets and performance of DMBs in Nigeria during the period under study. Consequently, the study recommended, among others, that DMBs in Nigeria should change their culture of expensing amounts incurred in intangible assets. Also capitalizing and reporting intangible assets in financial reports of DMBs in Nigeria need guidelines and procedures. Finally, investors are the owners of the DMBs in Nigeria and should therefore insist on the adoption of any change that can enhance the quality of DMBs of financial reporting.

KEY WORDS: Intangible Assets, DMBs, Capitalisation, OLS, Performance

Introduction

The dynamic nature of the environment in which accounting operates makes human being developed different methods of wealth-creation in each emerged environment (era) through time. These environments, according to Lamberg (2004), include agriculture, industrial and information era. Each wealth-creation method is toserved with appropriate accounting model in order to produce relevant accounting information for economic decisions. He further opined that during agricultural era, firms' performance is measured by computing the net assets position at two different dates and comparing one with the other to arrive at income. Accounting provides the necessary infrastructure during this period, as the objective then was the determination of net- worth and changes in net-worth for the proprietor.

The industrial revolution that changed the mode of production with machineries which resulted in the emergence of the large-scale enterprises increased the capital

requirements more than could be provided by a proprietor or one family. In this system, owners of the enterprise were no longer able to keep accounts for business operations and performance, because ownership was separated from management. Accounting responded to this situation by providing a model based on entity theory to measure and communicate economic activities of enterprises. That is, performance was measured by tracking the costs of resources obtained and used by a firm and on matching cost with revenues realized by the enterprise through time to arrive at income.

However, in the information era also referred to as post-industrial era, new economy or knowledge-based era, financial statements that have been prepared under Generally Accepted Accounting Principles (GAAP) are designed to describe the industrial era enterprise; the enterprise that creates wealth by using more of tangible assets. While the main assets on the industrial era enterprises are those tangible assets, intangible assets dominate the information era enterprises. These assets include; the capacity of innovation, research and development (R&D), Human resource, information and technical know-how, brand equity, good relations with customers and vendors as well as with employees. These intangible assets drive post-industrial era firms, and most of them are not on the balance sheet at all (Elliott, 1998). In essence accounting has not adequately responded to the shift in mode of production from industrial era to the information era.

Looking at the conventional accounting procedure, intangible assets value is mostly neglected from inclusion in financial reporting under the cost perspective. This is because their existence is not verifiable and they cannot be measured with the same degree of reliability as tangible assets (Lonnqvist, 2002). Whereas the financial reports prepared and presented by organizations suggest that the performance is almost totally the function of tangible assets, intangible assets do have an output on the financial position, performance and survival of an enterprise. They influence an organizations ability to generate cash.

Based on our knowledge no one has conducted research in this area of study in Nigeria, thereby linking intangible assets value with performance. Although literatures exist in the area of intangible assets, it is therefore imperative for a study like this to be conducted in Nigeria to fill the gap that exist in those literatures to the extent of establishing the contribution of intangible assets to the performance of organizations.

The main objective of this study is to examine the impact of intangible assets value on the performance of Deposit Money Banks in Nigeria using ROA. In line with the objective of this study, the following hypothesis is

formulated in a null form and tested in arriving at a dependable solution to the problem under study. There is no significant relationship between intangible assets and the ROA of DMBs in Nigeria from 2001 to 2010.

Literature Review and Theoretical Framework

This section covers the discussion and conceptualization of asset, intangible assets, value relevance, and reliability. Assets are defined by SFAC No.6 as the probable future economic benefits controlled by and accruing to a particular entity as a result of past transactions or events. This definition identifies ownership and ability to generate future economic benefits as attribute of assets. Paton and Stevenson (1972) in Hendriksen (1982) see assets as any consideration, material or otherwise, owned by business enterprise. They divide assets as material (tangible) and immaterial (intangible).

On the other hand, assets according to IFRS 16 are materials used by the enterprise in production, goods delivery, provision of services, leasing out or administrative purposes, and are intended for use over several accounting period. The standard also states that for an asset to be recognized as asset, a probability that any future economic benefits associated with the use of the asset will flow into the enterprise; and the value of an asset can be reliably measured. Belkaoui (1992) sees intangible assets as those assets which lack a physical substance, but result from legal or contractual rights and are likely to produce future benefits to a firm. In this definition intangible assets are classified in to Identifiable (e.g, patents, brand name among others) and unidentifiable (e.g goodwill).

Intangible Assets Accounting

In the industrial economy, production facilities, physical location and efficient manufacturing processes were the important resources for a firm and sufficient to sustain a superior position in the market place (Chandler, 1980 & 1994; Nakamura, 2001). During this industrial era, the effect of the two world wars created a post-war sellers' market in most of the developed economies of the world in which traditional cost-focused reporting models were able to provide an adequate picture of firm financial performance and position Marr & Spender (2004). However, globalization has changed this into buyers' market in which, the market do not absorb all goods and services produced. Under this situation, consumers are better informed and more demanding, which leads to increasing innovation speed and decreasing product life cycles (Lev, Nissim& Thomas 2005). This according to them made differentiation and innovation critical, and capabilities and assets such as R & D, creativity, brand image,

patents and copyrights are essential to achieving a competitive advantages, economic success and value creation in firms. This means that traditional cost-focused reporting tools cannot provide adequate information of firm financial performance and position. Hence, the objective of accounting is to provide useful information for users in making economic decisions on the financial position and performance of firms (FASB, 1979; IASC, 1989). A leading argument against the recognition of intangible assets as asset is their general uncertainty and this make the accounting system to delay their recognition.

Review of Empirical Research on Intangible Assets and performance

Intangible assets and firm performance are important issues for both academics and practitioner. In practice, managers of corporate firms who are able to identify the importance of intangible assets towards generating profit for an organization are best rewarded. If a firm's intangible assets influence its profitability, then it is reasonable to expect that the firms health is also affected. It is believed that in the emerging economies of our time, where service-oriented firms are increasing as compared to the manufacturing- based economy, information on intangible assets is necessary for investors to make decision on whether to invest in the company or not.

It is believed that an investor who wishes to undertake investment in a Microsoft company cannot rely on the balance sheet of the company (Dess et al 2006). This is because, information supplied by such balance sheet does not reveal the true position of the business. Therefore, it is important to inform the public about the presence of intangibles of such organization.

Many studies have been conducted internationally in this area of study. Whereas, locally we cannot lay our hands on one study undertaken in this field although may exist. This section of the study is therefore concerned with looking at some of those studies as follows.

In the first place, Delios and Beamish (2001) conducted research on survival and profitability thereby focusing on the roles of experience and intangible assets in foreign subsidiary performance. They examine the influences a firms intangible assets and its experience have in subsidiary survival and profitability using a sample of 3,080 subsidiaries of 641 Japanese firms. They find out that investment in and reporting of intangible assets by foreign subsidiaries has a positive significant impact in the profitability and survival of these subsidiaries. Lucas de Barros Jr. *et al* (2010) conducted research on intangible assets and value creation at Brazilian companies. They conducted their research using Brazilian textile manufacturing sector. They find a positive correlation between intellectual capital and the profitability of the entity using ROA.

Liberatore and Mazzi (2009) as contained in Pozzoli, et al. (2011), showed that there is an association between the impairment of goodwill and the market quotation.

Theoretical Framework

Freeman (1982), stated that innovation theory sees investments in innovation as the main cause of economic growth, as competitiveness is achieved by means of investment in R&D and other intangibles. He lamented that innovation is a fundamental sources of wealth. He regarded innovation as a development of new ideas in to marketable products. Development of new ideas into marketable products is generally identified with staff. Thus, in light of this theory commitments to organizational staff could cause economic growth and gives a firm competitive advantage, which will leads to an increase in the value of firm.

David and Foray (1995) asserted that evolutionary theory attempt to explain the knowledge-based economy that is, knowledge based economy is an evolutionary process in which intangible investments are among the fundamental determinants of economic growth. By extension, intangibles are the outcome of the evolution from industrial economy to knowledge based economy and they are the drivers of the economy in terms of growth and development. It is the contribution of such evolutionary process that the clean surplus relation upon which Ohlson based his model that is not captured

Methodology

The nature of problem and objective of any study normally determine the type of research design to be adopted by any researcher. This study used correlational research design as it attempts to find the relationship between intangible assets and the performance of Deposit Money Banks in Nigeria using ROA as proxy for measuring performance which is arrived at by dividing profit after tax by total assets. There are basically two sources of data collection that is, primary and secondary source of data collection. For the purpose of this study, only secondary source was utilized. The method of data collection employed is also secondary via the use of, annual financial statements of the sampled Deposit Money Banks for the period 2001-2010, and the Nigeria Stock Exchange Fact Books 2006 and 2009 editions. The population of this study comprises all Deposit Money Banks in Nigeria that were quoted on the Nigerian stock exchange as at 31st December, 2010. As at 31st December, 2010, a total of twenty one banks are quoted on the Nigerian Stock Exchange. The study implores some filter in arriving at the sample size of the study. In this study, the following filters are used:

(i) The Deposit Money Banks to be selected into the sample did not change their name or corporate identity during the period 2001-2010;

(ii) The Deposit Money Banks to be selected into the sample must have been quoted on the Nigerian Stock Exchange prior to the year 2001

By applying the above filters, five (5) banks are adjudged to have satisfied the identified filters. They are: Access Bank Plc, First Bank of Nigeria Plc, Guaranty Trust Bank Plc, Union Bank of Nigeria Plc, and Wema Bank Plc. Linear regression technique was used via the application of SPSS-Statistical package.

Model Specification

This study postulates a linear relationship between intangible assets and the profitability of Deposit Money Banks in Nigeria. In this vein, a mathematical linear relationship is structured as follows in form of a multiple linear regression model.

$$PERFM_{it} = \alpha + \beta_{it} IASV_{it} + \beta_{it} GFCit + e \quad \text{----------} (1)$$

Where: IASV = $\frac{\text{Intangible Assets value}}{\text{TOTAL ASSETS}}$

$$ROA = \frac{\text{Profit after Tax}}{\text{Total asset}}$$

α = The Intercept

β = Beta Coefficient

e = Error Term

it = Panel data

Results and discussion

Descriptive Statistics

Table: 1 Descriptive Analysis ROA as a Dependent Variable

Variable	Mean	Std dev.	Min.	Max.	Skewenes s	Kurtosis	N valid

ROA	0.0174	0.02540	-0.11	0.08	-2.536	11.885	50
IASV	0.1998	0.26826	-0.15	1.76	4.258	23.663	50
GFC	0.300	0.46291	0.00	1.00	0.900	-1.241	50

Dependent variable: ROA

Source: Output of Data Analysis by Author (2014) using SPSS

Basic statistical results obtained from the analysis of the data are presented and discussed in this section. The discussion is centered on the mean, standard deviation, and correlation matrix of the variables under study. The summary of the descriptive statistics of all the variables used in the study are presented in1a & 1b.

From Table 2b, the mean values showed the average ROA and IASV of the selected DMBs during the period under study. The mean of ROA revealed that the selected DBMs were able to generate an average of 1.74%. On the other hand, the standard deviation of 2.54% indicated the deviation of the Profitability from the mean. It also showed the extent to which the variable fluctuates over the period of the study.

Correlation Analysis, ROA as a dependent variable

The correlation matrix shows the extent of the association of the independent variables and the dependent variable; and even between independent variables themselves. Table 2 contains the correlation coefficients of the variables under study.From Table 3, ROA is negatively correlated with Intangible Assets (IASV). The correlation coefficient of -0.631 revealed that the level to which the ROA is associated to IASV is 63.1% and it is significant at 1% level of significance. Additionally, the association between ROA and GFC is also negative and gives -0.315.

Table 3 : Correlation Matrix, ROA as a Dependent Variable

Variable	ROA	IASV
ROA	1.000	

IASV	-0.631 (0.000)*	1.000
GFC	-0.315 (0.026)**	0.249 (0.082)*** -0.178 (0.216)

Source: output of data analysis by author (2014) using SPSS

**correlation is significant at the 0.05 level *correlation is significant at 0.01 level

***correlation is significant at the 0.1 level

This also means that the level of association between ROA and GFC is 31.5% and it significant at 5% level of significance. Furthermore, the matrix revealed that the two independent variables (IASV and GFC) have -0.178 level of association. This means that even the IASV is associated to the 2008, 2009 & 2010 GFC by 17.8%.

Presentation and Analysis of Regression Results

Intangible Assets and ROA

The statistical results in table 4 indicated that the coefficient of determination (R^2) for the model is computed as 39.9%. This R^2 showed the extent of the explanatory power of the independent variable and control variable on the performance of the selected DMBs in Nigeria. The value of 0.399 indicated that explanatory variables (IASV & GFC) have the power of explaining 39.9% of the fluctuations or variations in the ROA of the selected DMBs in Nigeria. Moreover, even when the coefficient of determination (R^2) is adjusted, the explanatory variables have the power of explaining 37.3% of the variations in the ROA of the selected DMBs in Nigeria.

In this study, the F Statistics and Sig. F Change showed 15.577 and 0.000 respectively. This indicated that the regression model used in this study is fit at 1% level of significance. This also means that the regression model is well fitted and captures important variables that influenced the ROA of the selected DMBs in Nigeria during the period from 2001 to 2010.

Table 3: **Output of Regression Analysis**

Independent Variables

	Dependent variable (ROA)
IASV: Beta	-0.625
t-values	-5.355
	(0.000)
GFC: Beta	-0.022
t-values	-0.192
	(0.849)
R	0.631
R^2	0.399
Adjusted R^2	0.373
F-Statistics	15.577
Sig F Change	0.000
Durbin Watson	1.159

Source: Output of data analysis by author 2014 using SPSS

Note: The figures in the parentheses above represent the P-values (t-significance values).

The t-value of 3.058 in respect of IASV with 0.004 significance indicated that the IASV has significant relation with the profitability of the selected DMBs in Nigeria at 1% level of significance. In the same way, the control variable GFC has no significant relationship with ROA of the selected DMBs in Nigeria. The inference here is that intangible asset has significant relationship with the ROA of the selected DMBs in Nigeria from 2001 to 2010. This means the null hypothesis formulated in the study is rejected. The conclusion from this study is inconsistent with the findings and conclusion of Lucas, Agwar, Basso & Kimura (2010), Nakamura (2003), Zhang (2003). The conclusion from this study also concurred to the findings of Xu-dong & Wei (2010) and Nakamura (2008).

Conclusion

The findings from this study revealed that intangible assets have strong negative association with the performance of the selected Deposit Money Banks (DMBs) in Nigeria. Also, it has been established in the study that intangible assets explained more than 30% of the variations in the performance of DMBs in Nigeria for 10-year period from 2001 to 2010. This is a strong indication that DMBs in Nigeria should be reporting their capitalized value of intangible assets.

Since this study inferred that there is a significant negative relationship between intangible assets and profitability of the selected DMBs in Nigeria from 2001 to 2010, reporting the capitalized value of the intangible assets in the Annual Reports and Accounts of DMBs in Nigeria can enhance the quality of the information contents of the reports and make more relevant for stakeholders' decision making needs.

The study, therefore, concludes that the more the value of intangible assets credited to the DMBs in Nigeria, the weaker was their performance as far as it relates to the ten-year period studied. This conclusion is built on the premise of the findings of the study and the decision to reject the null hypothesis formulated.

Recommendations

In line with the findings of this study, the following recommendations are offered. The recommendations are grouped into three namely: The Deposit Money Banks, Policy makers [Financial Reporting Council of Nigeria (FRC)], and investors and other stakeholders.

a) The Deposit Money Banks in Nigeria (DBMs):
   The DBMs in Nigeria should change their culture of expensing amounts incurred on intangible assets. This could be done by capitalizing and reporting them as assets in the Statement of Financial Position (Balance Sheet). Changing to this new way of reporting can make the DMBs in Nigeria to enhance the quality of their financial reporting and to establish the effect of the intangible assets on their performance.

b) The Policy Makers (FRC):
   Capitalizing and reporting intangible assets in the financial reports of DMBs in Nigeria need guidelines and procedure. This is the responsibility of the FRC and other accounting regulatory bodies in Nigeria. Though there is an International Accounting Standard on intangible assets (IAS 39), the standard failed to give details on the valuation and reporting of the intangible assets. These details are necessary and the FRC should issue out detailed standard to capture important areas neglected by the IAS 39.

c) Investors and Other Stakeholders:

Investors are the owners of the DMBs in Nigeria and should therefore insist on the adoption of any change that can enhance the quality of DBMs financial reporting. By doing this, they will be accorded with the necessary and relevant information for their various decisions making needs.

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