

**CORPORATE STRATEGIC DRIVERS AND SOLVENCY OF LISTED FIRMS IN  
NIGERIA****Akenroye, Christopher Taiwo**Bursary Department, Michael and Cecilia Ibru University,  
Ughelli, Delta State, Nigeria**Adegbie, Folajimi Festus**

Department of Accounting, Babcock University, Ilishan-Remo, Ogun State, Nigeria

**Owolabi, Sunday Ajao**

Department of Accounting, Babcock University, Ilishan-Remo, Ogun State, Nigeria

**Ajibade, T. Ayodeji**

Department of Accounting, Babcock University, Ilishan-Remo, Ogun State, Nigeria

**Adelegan, Michael Oluyomi**

Faculty of Management Sciences, University of Benin, Benin, Edo State, Nigeria

**Otubor, Christopher Osega**Department of Banking and Finance, Faculty of Management Sciences, University of  
Jos, Nigeria**Abstract:**

*In today's dynamic and competitive business environment, solvency is a critical success factor that strategically enables a firm to structure their resources in meeting their financial obligations on the short, medium and long-term bases. However, the inability of a firm to maintain acceptable level of financial stability threatens its future growth. A company's inability to sustain robust solvency portends the firm's sick state that impairs its organic growth rate. Firms' improper utilization of their unique characteristics as their corporate strategic drivers has given rise to illiquidity causing existential threat among listed firms in Nigeria. This study examines the effect of firms' characteristics on solvency of selected listed companies in Nigeria.*

*The study adopted ex-post facto research design. The population of the study was 161 listed companies in Nigeria as at 31st December 2020 with a chosen sample size of 111 purposively determined. Secondary data extracted from the published audited financial statements covering a 10-year period (2011–2020) were used for the study. Descriptive and inferential (multiple regression) statistics were employed to analyze the data. Findings revealed that corporate strategic drivers had joint significant effects on short-term solvency and long-term solvency. The study concludes that corporate strategic drivers exert significant influence on solvency of listed firms in Nigeria. The study recommends that firms should continue to utilize their corporate strategic characteristics to drive their short-term and long-term solvency statuses.*

**Keywords:** Corporate Strategic Drivers, Financial strategy, Firms' Characteristics, Long-term solvency, Short-term solvency

## 1.0 Introduction

The survival, success and growth of firms are dependent upon the firm's capacity to maintain stable financial solvency, which are influenced by the firms' specific resource-based characteristics in driving its growth (Nason, & Wiklund, 2018; Effiong, et al., 2020; Stubbs, 2017). Solvency enhances firms' overall survival, stability and sustenance while providing assurance of a low level of risk management. Solvency of a firm is a fundamental backbone that drives corporate entity's continued existence (Banerjee & Mio, 2018). Thus, solvency is an essential critical success factor for smooth operations of firms in ensuring that all operating financial commitments are met.

Corporate strategic drivers enhance the efficiency of operating activities, continuously support the maintenance of robust investment and financially sustain uninterrupted growth and competitive advantage for superlative stakeholders' value. Corporate strategic drivers are lubricants of firms' growth that provides safeguard against corporate failure. Corporate strategic drivers engender firms' efficiency of operations for their intergenerational equity (Sonkhaskar, 2020).

According to Enyi (2008), the maintenance of the overall success, stability and sturdiness of a corporate entity, is essentially dependent upon the firm's unimpaired solvency status. Financial disruptions that degenerate into financial crises are mostly occasioned by lack of adequate funding, which may ultimately "snowball" into impaired capital base that may threaten the business entity's continued existence, affecting both its short-term and long-term solvency capacities (Oteh, et al., 2016). In order to enhance business survival, maintain organic growth, and have robust capacity to withstand systemic risks and financial shocks, business firms need adequate working capital management through sustainable profitability (Akintoye, 2016). It is the utilization of firms' resource-based specific characteristics that accentuates the stabilization and growth of firm's solvency strategic interventions.

Impaired growth rate of companies due to lack of solvency has led many companies to have failed. According to Günther, et al. (2020), especially from the investor's perspective, a company without healthy solvency status will keep making demands for extra capital on its owners, since the company's survival probability is operationally threatened as a result of lack of consistent revenue generation to maintain healthy working capital. Consequently, insolvency is a state of business failure that will ultimately terminate its going-concern. The problem of insolvency usually manifests in acute internal financial distress or threats. Therefore, to be afloat, a business firm must continuously innovate its liquidity management policies, financially re-engineer its processes, and build a long-term business survival strategy to drive growth sustainably. This is because liquidity is the lifeblood of any business that enable the firm's ability to settle all financial maturing commitments (Adegbe, & Oyindamola, 2020). The challenge of insolvency and consequent threat of business liquidation negate corporate going concern objective, impair corporate performance growth and produce negative returns all stakeholders (Adegbe, et al., 2020).

Thus, the danger of insolvency leads to corporate failure and possible terminal extinction (Michalkova, et al., 2018; Arasti, 2011). The occurrence of corporate insolvency is

occasioned by internal factors that are related to lax institutional and failed corporate strategic management strategies (Nuhu, 2014; Amankwah-Amoah, & Wang, 2019). Insolvency engenders systemic challenge that threaten firms' survival, growth and national economy. From the foregoing therefore, this study examines the effect of corporate strategic drivers on the solvency of selected listed companies in Nigeria. It investigates the effect of corporate strategic drivers on both short-term and long-term solvency that provides comforting assurance of healthy financial status to all stakeholders of the listed companies in Nigeria.

## **2.0 Literature Review and Hypothesis Development**

### **2.1 Research Objective**

The objective of the study is to:

- i. determine the effect of corporate strategic drivers on short-term solvency of selected listed companies in Nigeria;
- ii. assess the effect of corporate strategic drivers on long-term solvency of selected listed companies in Nigeria;

### **2.2 Hypothesis Development**

The study tested the following hypotheses, at 5% level of significance:

- H<sub>01</sub>: There is no significant effect of corporate strategic drivers on short-term solvency of selected listed companies in Nigeria.
- H<sub>02</sub>: Corporate strategic drivers do not significantly affect long-term solvency of selected listed companies in Nigeria.

## **2.3 Review of Extant Literature**

### **2.3.1 Solvency**

Solvency is a strategic business finance concept that describes the extent by which the liquid assets of a business entity can adequately pay its maturing financial obligations in such a way as not to hamper the strength, stability and sustenance of the firm. It is a concept that deals with the capability of a business entity to seamlessly meet all its covenanted long-term fixed expenditure without impairing its expansion, growth and going-concern objectives. Solvency is an index of a firm's operational healthy state that enables it to stay afloat financially, possessing sufficient liquid assets to meet its maturing obligations both in the short-term and long-term bases. Solvency connotes the achievement of financial stability through the effective use of financial resources to consistently meet all financial obligations and grow the business continuously even in the midst of business disruptions (Azadegan, et al., 2020; Bui, et al., 2021).

Solvency deals with the healthy state of a firm to robustly have systemic streams of income to drive the payment of its short term and long-term financial commitments (Owolabi, et al., 2012). According to Okoye, et al. (2017), analyzing the status of solvency of a business firm is fundamental to its growth, notwithstanding the firms' specific characteristics. The deployment of corporate strategic drivers in its efficient resource management capability is aimed at enabling the firms to maintain both internal

and external competences, sustain their strategic positioning and drive their financial sturdiness (Kabue & Kilika, 2016).

A firm's solvency sturdiness is contingent upon the internally and externally generated income streams to the firm. The perking-order theory and resource dependent theory respectively play key roles in explaining the realisms of the principles underpinning the taxonomy of solvency into short-term and long-term solvency. Just as unimpaired liquid financial assets are the bloodline that keeps effective solvency running, solvency itself is the lifeline that drives the sustainable growth of every business organization (Akenroye, et al., 2022). A business firm's financial healthy state makes it sufficiently solvent to drive the consistent achievement of its going-concern objective (Bertoni, et al., 2019). Hence, an organization that is unable to generate adequate financial resources to keep its business operations smoothly running, will default at maturity in the repayment of its financial obligations (Yenni, et al, 2021).

The danger of a firm's insolvency will result into bankruptcy, which is an existential liquidation of the firm terminal end (Gleißner, et al., 2022). Business failure affects all the stakeholders of the entity, which includes shareholders, financial institutions, lenders, employees, customers, tax authorities, capital market and the general economy (Batu, et al., 2018). Prior studies suggest that the underlining factors responsible for business failure include financial instability and insolvency (Zabolotnyy & Wasilewski, 2019). Thus, one of the several causes of corporate financial crisis is inability of business entities to meet their financial obligations either in the short-term or long-term basis (Afonso & Jalles, 2015). The unhealthy situation of firms' financial crises is mainly related to excessive expenditure over revenue generated resulting into funding gaps, excessive debt over equity and inadequate cash inflows to meet maturing obligations that do negatively affect going-concern objectives (Ebeke, et al., 2021). Thus, insolvency, instability and financial turbulence negatively affect business operations, performance, growth, firm's value and investor's wealth optimization. In recent times, the reality of insolvency among firms that negatively affect their long-term survival has been induced by dwindled performance indicators as empirically documented in several studies (Godswill, et al., 2018; Osazefua, 2019; Adebayo, et al., 2021).

Periodically determining and analyzing the solvency status of business entities therefore becomes imperative. The quality of a firm's solvency status is measured by the use of relevant financial ratios that evaluate the company's financial capacity in meeting its short-term and long-term obligations (Adebayo, et al., 2015). Thus, solvency ratio shows the connection between a firm's total debt and its total assets, thereby revealing the effect of debt on firm's financial performance.

Solvency strategy with the use of recapitalization policy becomes a revamping strategic intervention to redeem corporate entity (Adegbe, et al., 2013). However, even when capital structuring is an option to be adopted as a bail out strategy to address the challenge of insolvency, strategic management caution must be applied so that it will not snowball into irredeemable state of bankruptcy (Kyissima, et al., 2020). Therefore, various strategic control interventions including policy assessment, underwriting policy, overhauling of contingent solvency covenants, and establishment of efficient information systems to record, track and account for full documentation of all inflows

and outflows of resources with an eagle's eye for efficiency are required (Owolabi & Oluwadamilola, 2020).

### 2.3.2 Short-term Solvency

Short-term solvency is a financial state that shows a firm's ability to fully pay its liabilities that become matures within one year. Corporate manager formulates strategic polices that pre-defines prospective profits above the break-even level in order to growth the firm endogenously and exogenously (Akintoye, 2016). There are several sources of funding available to a corporate entity, comprising of external and internal sources. However, in line with perking order hypothesis, internal sources of funding have the advantage of eliminating monitoring cost to the project; possessing very low cost of funds. It is the possibility and availability of internal funds that assure managers of lower comparative capital cost advantage, even in the short-term. Short-term liquidity connotes the capability of a company to pay its financial obligations that matures within one year period (Abubakar, et al. 2018). The test of a company's liquidity position is in the firm's capacity to timely meet its short-run cash commitments to outside parties and to also quickly invest in swift short-term business opportunities in its business environment to enable it expand its market share, create additional firm's value, grow the frontier of its business and steadily maintain capacity to fulfill all short-term maturing obligations.

Consequently, the availability of internal short-term funds to corporate finance executives are the driving force to manage their firms smoothly for superlative optimal growth levels. Murphy (1985) posits that management has propensity of influence through supervisory oversight and control on the decision to increase the magnitude of the firm's internal resources available for their corporate growth. The ability to intensify the growth of a firm's internal resources creates an avenue for the enhancement of management executive package, promotion and filling of higher position of responsibility in order to spur their corporate revenue and produce higher performance indicators for growth (Jensen, 1991; Jensen, 1988; Jensen, 1986; Jensen & Meckling, 1976).

The solvency of any firm is largely dependent on the firm's ability to internally manage its financial resources, especially its cash flow efficiently to timely meet up its short-term financial obligations as and when due without creating existential threats to its business organic growth and external expansion. The short-term solvency (STS) ratio of a company is the metric used to measure the liquidity position, its present liquescence state, its preparedness and sturdiness to settle its financial obligations as and when due especially in the short-term period. According to Ali (2020), the short-term solvency of a company is the short-term approach to analyzing a firm's short-term solvency. Short-term liquidity is the timely-paying capability of a business firm to quickly settle its financial commitments in the short-run.

Kirkham (2012) identified the benefits of short-term solvency. The use of current ratio enables the firm to measure its capacity to pay for its operating recurrent financial obligations at maturity and promoting smooth running of operations competitively and comparatively. This enhances its continuous production processes, enables the meeting

of customer's demands consistently, stimulates vendors to constantly supply inventories and materials used in operations, and promotes effective working capital to drive short run growth of the firm. Current ratio measures the size of a firm's current assets that is available to meet maturing commitments and obligations in the short-term period (Nuryani & Sunarsi, 2020; Hertina, 2021). The formula for computing current ratio is as follows:

$$\text{Current ratio:} \quad \frac{\text{Current asset}}{\text{Current liabilities}}$$

The current ratio gauges the firm's short-term solvency; showing the firm's capacity to timely pay its maturing recurrent indebtedness, usually within a one-year period, normally projected to be at least 2 to 1 in terms of the size of current assets to current liabilities. (Hasanuddin, et al., 2021; Yahya & Hidayat, 2020). Shaibu and Okafor (2020) argue that higher level of short-term liquidity decreases the risk of business failure and insolvency situation. Thus, whenever the ratio is lower than the minimum of 1, will imply that the business firm lacks the financial payment power to settle the recurrent expenditure on short-term. Illiquid firms usually suffer from decapitalization, which may lead to insolvency. This means that short-term solvency is an essential measure of a firm's financial healthy state.

### 2.3.3 Long-Term solvency

The long-term survival and growth of corporate entities in a dynamic and competitive business environment are dependent upon the firm's capacity to achieve targeted profit level on the one hand, and the ability to maintain stable financial long-term solvency on the other hand. Corporate growth has a multi-faceted dimension encompassing not just increases in short-term revenues and profits, but also achieving long-term stability and liquidness in order to maintain higher market share, firm's value, growth and financial sturdiness. The determination of the financial health and organic growth of a company is essentially predicated on the firm's capacity to manage its unimpaired cash flow in order to meet all long-term external debts (Akintoye, 2016).

Coulon (2020) opined that solvency is more focused on the long-term liquidity of the firm in having unimpaired capacity to meet leverage commitments. The solvency ratio is a metric that shows the relationship between a firm's total debt and total assets. It assesses the impact of total debt on a firm's performance (Umer & Muhammad, 2018; Akintoye, Adegbe & Onyeka-Iheme, 2020).

Long-term solvency (LTS) ratio is used to measure the long-term status of companies' financial health. However, excessive debt without commensurate profitability growth can impair corporate solvency thereby creating insolvency risk for firms (Nkak, 2020). It measures the riskiness of shareholders' investment (Secinaro, et al., 2020). It also assesses the long-term solvency by ascertaining the long-term soundness of a business firm (M'ng, et al., 2017). This will guarantee its unimpaired existential survival through implementation of sound internal corporate governance architecture (Elmghaamez & Akintoye, 2021).

According to Adegbe and Akenroye (2020), firms' survival, stability and sustainability strategy that can engender competitively advantageous market value creation for all stakeholders must be driven by maintaining long-term financial plan to drive its performance growth consistently. The survival, stability and going concern of corporate entities in dynamic and competitive business environment across industrial sectors is largely dependent on the ability of the firm's management to strategize in order to boost its growth capability and meet the long-term commitments to external creditors, debtholders, debt capital providers and financial institutions. Boosting the growth capability of business firms in the long-term requires innovative growth-oriented corporate strategies. Such strategies have contributory and positive effects both on corporate profitability and the company's long-term survival.

The corporate growth orientation plans of the firm should integrate strategy overcome financial constraints and promote growth both organically and externally in the pecking order theory (Yoo and Kim, 2015). Hence, in order to determine the operational health, competitive position, stability, strength and future survival of the firm, corporate managers need to implement various long-term solvency growth-oriented strategies. It is the long-term solvency ratio that addresses a firm's long-run ability to meet its obligations and financial leverage (Westerfield, et al., 2016). The LTS shows the extent or probability by which a firm has the capacity to meet or be in default on its maturing debt obligations at a point in time. It is the long-term financial steadiness and soundness of a business firm cum its capacity to settle all its long-term obligations. It is a financial state whereby the firm has the ability to settle all short, medium and long-term obligations as and when due without existential encumbrances. LTS measures a firm's financial health status that reveal the extent to which the firm has capacity to superintend its operations without existential threats into the foreseeable future.

Bappi, et al. (2021) opine that solvency ratios reveal the capability of a business firm to readily pay its maturing debts which include the prompt and full settlement of all outstanding maturing long-term financial obligations accruing to all bondholders, creditors and other financial institutions. The LTS ratio reveals how financially stable and better the financial health of the firm is in long-run, showcasing the soundness of the firm's financial stability especially in terms of its creditworthiness status to potential business lenders and existing debt capital owners. Lenders of business capital usually use the LTS ratio to evaluate the possibility of default or credit worthiness of a firm with a view to ascertaining long-run outlook of the firm's financial strength.

The formula for computing LTS via Debt-Equity (D/E) ratio is as follows:

$$\text{Long-term solvency:} = \frac{\text{Total Liabilities}}{\text{Shareholder's Equity}} \times 100$$

From the above formula, D/E ratio is used to measure a company's long-term solvency as a metric to assess the status of a firm's financial sturdiness.

According to Anwar, et al. (2016) a solvency ratio is a ratio used to gauge how the firm's assets, especially the cash flows are employed to settle its operating maturing debt

obligations. Key users of financial information, including suppliers, lenders, bondholders, debt managers, potential investors, existing providers of debt capital and corporate managers use LTS as a financial tool for investment analysis, financial planning and firm's sustainability decision making purposes. The users of the LTS information are more comfortable with a higher or strong solvency ratio, which is an index of financial soundness and sturdiness; than a low ratio that portends a potential future financial danger and systemic existential risk that may nosedive the firm's growth. Essentially, before and at liquidation stage, it is solvency ratio that provide the true status of the firm's capability to meet all maturing financial obligations (Satryo, et al., 2017). Again, the LTS measures cash flow ability in juxtaposition with all liabilities, instead of short-term indebtedness only. This way, a LTS ratio evaluates a firm's long-run financial health by appraising its repayment power for its long-run indebtedness (Nicolas, 2021). The use of cash flow to assess long-term financial solvency and going concern risks of a firm assures of a company's sturdiness and strength in meeting debt obligations as and when due. The soundness of a firm's financial solvency regarding meeting external long-term debt obligations is flawlessly assured when the LTS analysis reports higher ratio rather than lower metric; thereby making the firm to have an upscale progressive net worth and value in realizing its goals and enhancing the long-term development. Tao (2021) identified the fundamental competitiveness of a firm's long-term solvency, which shows risk that endangers stable long-run growth. Measuring the firm's long-term solvency helps companies to optimize their investment strategies in order to remain afloat and overcome existential threats. The long-term solvency of a firm measures its long-term competitiveness especially in terms of its ability to timely overcome overtrading challenges and maintain consistency in operational effectiveness that enhances its growth in the long-term (Batchimeg, 2017). One of the measures of a firms' financial health is reflected through the index of its long-term solvency ratio.

## **2.4 Theoretical Framework**

### **The Pecking-Order Theory**

The Pecking Order Theory was originally hypothesized by Donaldson in 1961, but was later modified and popularized by Stewart Myers and Nicolas Majluf in 1984 (Myers & Majluf, 1984). The Pecking Order Theory is a classical capital structure concept that states that firms take decisions on their funding based on the principle of minimal effort in acquiring finance sources, implying that preference is placed first on internal funds before raising debt capital externally (Muritala, 2012). The proponents of this model believe that corporate managers have a hierarchy of order in selecting the sources of funding to finance their projects. The pecking order theory is a capital structure model that advocates for corporate managers to first utilize internally generated fund (through retained earnings and cash flows) before resorting to the use of debt capital to finance investment projects (Myers & Majluf, 1984). This means that managers prefer to utilize retained earnings as a component of internally generated funds to finance their investment projects before considering external debt funding option (Mohajeri, et al., 2021). Thus, the pecking order theory hypothesizes that there is optimum capital



structure, although corporate managers prefer the use of internal sources of funds to finance their operations and projects.

The core presumption of pecking order theory is that there is no fixed or target capital structure. According to the assumptions of the theory, corporate firms prefer to raise their capitals in the following sequential order: internal finance through retained earnings, followed by external debt source, and then finally equity shareholding (Kalui, 2017). The importance of pecking order in the sourcing and utilization of funds for investment projects analytically signals the level of firm's efficiency and performance to the investing public. This is the importance of pecking order in highlighting and underscoring the crux of corporate financing of investment strategic policies (Naranjo, et al., 2020).

Usually, there are several sources of funding available to a corporate entity, comprising external and internal sources. However, in line with pecking order hypothesis, internal sources of fund used to finance business projects has the advantage of eliminating monitoring cost to the project. It is the availability of internal funds and its effective utilization that assure managers of lower comparative capital cost advantage (Jarallah, et al., 2019). This is where retained earnings epitomize its significance or relevance in capital structure. In other words, the undistributed portion of the profits that are retained in the company provide veritable internal sources of funding that the corporate management can utilize for business growth purposes. This is the foundation on which Pecking Order theory is based, that proposes the first level of charge on internal reserves or funds for expansion purposes before exploiting the option of utilizing external financing sources for corporate growth.

This theory, in part, takes care of some of the strategic drivers that promote sustainable growth. Firms will only embark on external debt finance only and if the firm is under financial pressure arising from an internal funds' deficit (Kalui, 2017). By implication, the pecking order theory provides a searchlight for corporate strategy in the chronological selection of the appropriate firm's specific sources of funds that is most suitable for the entity in enhancing long-term value for all equity holders. The formulation and implementation of such strategic plan will define the firm's acceptable leverage ratio, efficient operating cash reserve, and retained earnings versus dividend payment ratio that will assist to enhance corporate value (Pidun, 2019). The pecking order theory emphasizes the need for firm to look inward within the company's endogenous resource variables to drive the achievement of its competitive advantage instead of focusing on competitive exogenous environmental factors (Wang, et al., 2021). The importance or relevance of pecking order theory to understanding of how a business firm can attain solvency, especially taking into consideration the peculiarities of their specific characteristics. Consequently, it is only if or when there are deficiencies in the size of the firm's internal funding sources (especially in retained earnings) that the firm can look externally for debt capital to finance its projects (Baskin, 1989; Jarallah, et al., 2019).

However, in spite of the bright side of the propositions of pecking order theory, this theory has severally been criticized by various scholars. For instance, Mollick (2014) asserted that some scholars opined that in spite of the import of Pecking Order theory

that emphasizes internally generated funds as an alternative financing source, it is still relatively new thereby needing more empirical testing for its long-term validation. In the same vein, Ahlers, et al. (2015) argued that pecking order hypothesis is bewildered with information dysfunctionality challenges to the extent that managers will use their superior information advantageous position in the agency arrangement to load their positions with large bonuses and emoluments that may negatively affect net income thereby reduce the growth of retained earnings.

### **Resource Dependence Theory**

The origin of the resource dependence theory (RDT) was credited to Pfeffer and Salancik in 1978 from their seminal publication on corporate resource requirement for success. The main thrust of the RDT is on how firms essentially depend on external resources for its critical operations in order to achieve success and long-term solvency. According to Hillman, et al. (2009), the RDT helps to explain how business firms can leverage on the existence of external resources to downplay on corporate environmental interrelationship, risks and unpredictability. RDT explains the pivotal role of the impact of external resources on the strategic choices and decision making of the organization corporate managers take strategic management decisions to seamlessly exploit competences of both external and internal critical resources that drives its sustainability. According to Kabue and Kilika (2016), the analysis of the Resource – Based View (RBV) portrays some intrinsic limitations that warrant an alternative perspective in considering the influence of exogeneous resources on the smooth running of an organization. This alternative model is captured in the Resource Dependence Theory. The Resource Dependence Theory (RDT) is a strategic management analytical tool that is used to analyze the criticality of external resources of organizations for its survival and sustainability in the long-term. To this end, the crux of RDT's cardinal characteristics is that corporate entities rely on external resources that are outside of the control of influence of the firm, but which are often in the hands of other corporate entities for its survival and sustainable performance.

According to Nienhüser (2008), one of the basic assumptions of RDT is that organizations rely heavily on some external critical resources that are interrelated with the organization from the environment for its success. The availability and locational presence of these integral resources do exert significant influence on the decisions and operations of the firm, including the internal structures that the organization sets up from time to time. RDT helps to elucidate on the controlling power of external critical resources that influence the rationale behind the decision making and actions of an organization in terms of its internal structure, behaviour, strategy formulation and change management control geared toward the attainment of corporate survival, stability and solvency. RDT helps to improve a firm's self-sufficiency status in the midst of environmental turbulence and uncertainty in the economy, while at the same time sustaining its steadiness in the managing organization's interdependence and interrelationship with the external stakeholders (Berman, et al., 2005).

Again, according to Celtekliligil (2020), the fundamental presumptions of RDT are that the environment do exert controlling influence on the organization, that the availability

of integral resources are scarce and limited, while at the same time there are uncertainties concerning how these critical resources can be accessed by the firm. Furthermore, another assumption of the RDT is that only a sizeable number of firms are self-sufficient within their internal structure to keep afloat in the midst of environmental turbulence, unpredictability and inherent risk in business operations. As a result, business firms invariably have to collaborate and built business alliances with other firms so as to manage their external environmental dependencies and to secure their internal resource requirement for the smooth running of their operations. The influence that critical resources have on the survival of organizations thereby making firms to be dependent on them has been argued to be culture specific (Schiele, et al., 2015). Thus, organizations invariably prefer to intensify the horizon of their synchronization of their business with other partners through collaboration, internationalization of their business expansion and controlling of their resource acquisition process through business re-organization, mergers and acquisition with other organizations; and by deliberately or intentionally seeking avenues to reduce the impact of critical resource dependencies that may limit their capacity to achieve their going-concern and long-term solvency (Du & Zhou, 2019). In every organization, the expediency and significance of acquirement of external critical resources is at the heart of corporate strategic financial management in all organizations globally. Pfeffer and Salancik (1978) and Pfeffer (1992) opined that RDT deals with the nucleus of organizational functional existence, which affects areas such as interdependence and dependency of resources, control, autonomy, social authority of organizational strategic choice, inter-organizational power and efficient resource allocation. This is the primacy of external factors that influence organizational behaviour and construct in driving firm's long-term survival.

Pfeffer (1992) further opined that one of the key resources of the organization is its workforce. Hence, the extent to which management is influenced by an employee is subject to the power which that employee possesses in terms of his skills, experience and capability. It is the workforce that is capable of building competence (as a differentiating resource) in the organization. Competence building uniquely produces sustainable competitive and comparative advantage for the firm. Therefore, experience and knowledge of key organizational executives often enables the firm's real strength in improving the firm's performance. However, whenever the firm does not possess certain requisite resources to function, it resorts to outsourcing, thereby depending externally on other firms for its survival, sustainability and/or competitive superiority. Outsourcing is a business practice that is employed whenever a firm is destitute of certain capabilities in key performance areas, which is indispensable to the successful implementation of its strategy to achieve sustainability, survival and enhanced performance growth.

Finally, although there are various theories that explain this study that include: pecking-order theory and resource dependence theory. However, the theoretical framework on which this study is hinged upon is resource dependence theory.

## **2.5 Empirical Review**

The importance of corporate strategic drivers as firms' specific characteristics is underscored by their capabilities to influence corporate performance, income generation

and growth in the midst of business dynamics and environmental contingencies. Today's business environments are often bewildered with both internal and external dynamic socks, uncertainties and risks; of which firm-level factors are the influencing factors to impact its level of profitability, growth and solvency. Guerini, et al. (2020) empirically examined the effect of corporate strategic drivers in terms of firms' specific characteristics in relation to firm solvency. Findings from the study revealed that multifarious factors impact on solvency due to differences in their firm size and age. While SMEs and medium to large companies were observed to experience have higher capacity to withstand insolvency challenges, most vulnerable sectors that suffer illiquidity and solvency issues are the hotels, restaurants, household services, and construction companies.

Nga and Long (2021) examined the choice and construction of capital structure in relation to short-term liquidity of 250 energy firms for a 10-year period (2010-2019). The study found that short-term liquidity is affected significantly the firm's capital structure configuration. The study specifically documented evidence of a negative effect of capital structure to short-term solvency. Similarly, Tulcanaza-Prieto and Lee (2019) documented evidence of negative effect of firm-specific internal factors and external contingencies of capital structure to short-term solvency from the study conducted on large listed Korean firms for 8-year period (2010-2017). Howbeit, Ghasemi and Ab-Razak (2016) investigated the correlation between liquidity and capital structure of 300 quoted firms in Malaysia for 14-year period (from 2005 to 2013). Finding from the study provided evidence that short-term solvency (measured by current ratio) negatively affects capital structure.

The short-term solvency of corporate entities can be measured through the analysis of current ratio to assess the operational liquidity of the company. Rochim and Ghoniyah (2017) investigated the effect of current ratio, cashflow from operation, firm size and return on equity of 35 listed firms in Indonesia for 5-year period (2012-2016). Findings of the study revealed that there is a positive effect of current ratio and firm size.

Legesse and Guo (2020) examined the effects of some firms' characteristics as corporate strategic drivers on long-term solvency of some strong manufacturing. The result of the study documented evidence of statistically significant negative relationship between the firm characteristics and the long-term debt financing or solvency in consonance with the pecking order model. Also, analytical finding from the study further reveals that firm characteristic (such as firm size and long-term investment) played crucial role in long-term solvency of the firms.

Similarly, Ichsani (2021) investigated the effect of financial metrics of financial structure on solvency ratios of agricultural sector of listed firms on the Indonesia Stock Exchange for a 5-year period (2015-2019). The finding showed that there is positive correlation of the financial metrics of financial structure to solvency ratios. Similarly, Nga and Long (2021) surveyed and analyzed the firm-specific determinants of capital structure of 250 energy firms over a 10-year period (2010-2019). The study revealed that firm characteristics of firm age, firm size, asset tangibility and short-term solvency are significantly affected by firm's capital structure. The study also documented evidence of

a positive effect relationship firm size to asset structure; whereas the study found evidence of negative effect of capital structure to short-term solvency.

Also, Sarkar (2020) conducted analysis of capital structure, leverage and long-term solvency of selected public sector oil and gas companies in India for a 15-year period (2001 to 2015). The result of the study revealed that leverage ratios are statistically significant in promoting long-term solvency of the studied oil and gas companies. Finally, Patjoshi and Nandini (2019) assessed the interrelationship between capital structure and financial efficiency denoted by long-term solvency for a 10-year period from 2006 to 2015. The result indicated an insignificant effect of capital structure with long-term solvency. Howbeit, the study of Ahmed and Bhuyan (2020). Capital structure and firm performance in Australian service sector firms:

Ali (2020) examined the relationship between firm size and solvency of selected Indian pharmaceutical companies for a period of 6 years from 2013 to 2018. Finding from the study documents moderately positive correlation between company size and long-term solvency of the companies studied. However, the empirical study of Yeo (2016) that investigated the relationship between solvency and liquidity of 130 Korean shipping companies for 5-year period of 2009 – 2013 found a negative association between firm size with long-term debt. Conversely, Yeo (2016) investigated factors that affect the solvency of 130 shipping firms. The study explored the interaction between asset liquidity and the leverage for a 5-year period (2009 to 2013). Finding reveals that there was a negative correlation between the asset liquidity and the leverage. Similarly, Nguyen and Tran (2020) examined some firm-specific factors that affect long-term solvency for a 7-year period of 2012 to 2019, involving 54 listed construction companies on Hanoi Stock Exchange in Vietnam. Finding from the study indicated that tangible asset structure has no correlation with long-term solvency.

Pacheco and Tavares (2017) investigated capital structure determinants of 43 hotels among the SMEs in Portugal and their influences on their long-term solvency in light of the Trade-off theory and the Pecking Order theory. The finding from the study document evidence that firm-specific characteristics (of assets tangibility, total liquidity and risk) are key factors that affect capital structure of hospitality sector. In the same vein, Tulcanaza-Prieto and Lee (2019) assessed the firm-specific factors and external determinants that influence the capital structure of large listed Korean firms for 8-year period (2010-2017). Finding revealed that asset tangibility positively affected long-term solvency. Also, in the study of Mota and Moreira (2017), the evaluation of the determinants of the capital structure of Portuguese 26 firms with investments in Angola for a 5-year period (2006–2010) indicated that asset structure was positively related with the leverage metrics analyzed. Moradi and Paulet (2019) in an empirical study, assessed some firm-specific firms characteristics of capital structure in relation to long-term solvency of 559 firms in six European countries for 16-year period of 1999–2015. The study observed a significantly negative effect of asset tangibility with long-term debt.

### 3.0 Methodology

**3.1 Data and Methods:** This study adopted the *ex-post facto* research design, with the use of secondary data to examine the effect of corporate strategic drivers on solvency of selected listed firms in Nigeria. The population comprise 161 listed firms as at 31st December, 2020; and 111 firms were purposively sampled for a 10-year period (2011-2020). This sample size was considered adequate to permit robust panel data analysis for the study. Panel data analysis was used to evaluate the effect of corporate strategic drivers on the solvency of selected listed firms in Nigeria. Both descriptive and inferential statistics were adopted in analyzing data.

**3.2 Model Specification:** In order to examine the effect of effect of corporate strategic drivers on solvency, the study tested the specified models shown below.

**Table 1: Model Specification**

Functional Relationships		Regression Models	
$STS = f(CSS, FLA, ATI,)$	Equation 1	$STS_{it} = \alpha_0 + \alpha_1 \log CSS_{it} + \alpha_2 \log FLA_{it} + \alpha_3 \log ATI_{it} + \epsilon_{it}$	Model 1
$LTS = f(CSS, FLA, ATI,)$	Equation 2	$LTS_{it} = \beta_0 + \beta_1 \log CSS_{it} + \beta_2 \log FLA_{it} + \beta_3 \log ATI_{it} + \epsilon_{it}$	Model 2

**Source: Author’s Computation (2023)**

Where:

$\log STS$  = logShort Term Solvency

$\log LTS$  = logLong Term Solvency

$\log CSS$  = logCompany Size Status

$\log FLA$  = logFirm Listing Age

$\log ATI$  = logAsset Tangibility Investment

$\alpha_0$  and  $\beta_0$ , are the intercepts;

$\alpha_1 - \alpha_3, \beta_1 - \beta_3$ , are the coefficients of the explanatory variables

$\epsilon$  = Stochastic error term

The explanatory variable in this study was the Corporate Strategic Drivers measured by: company size status (CSS), firm listing age (FLA) and asset tangibility investment (ATI). However, the regressand variable in this study is Solvency (SOL) measured by: short-term solvency (STS) and long-term solvency (LTS). Thus, Table 1 provides the two respective functional relationships and regression models for the study.

### 4.0 Data Presentation and Analysis

#### 4.1 Descriptive Statistics of the Variables’ Results

This section provides a synopsis on the dataset features with a description of their mean, maximum, minimum, and standard deviation of all Corporate Strategic Drivers measured by: company size status (CSS), firm listing age (FLA) and asset tangibility investment (ATI). However, the regressand variable in this study is Solvency (SOL) measured by: short-term solvency (STS) and long-term solvency (LTS).

**Table 2: Descriptive Statistics of the Variables' Results**

Variable	Mean	Std. Dev.	Min.	Max.
STS	5.08	9.68	0	63.03
LTS	-0.47	95.29	-3123.06	202.9
CSS	6.87	0.93	4.7	9.62
FLA	24.40	13.58	2	56
ATI	39.24	28.92	0	99.83

Source: Author's Computation, 2023

### Interpretation

From the Table 2, Long-term solvency has mean of -0.47 with standard deviation of 95.29 while the minimum value for the distribution is -3123.06 and the maximum is 202.9. The long-term solvency of business firms deals with company's long-term ability to meet its financial obligations. With the negative mean of -0.47 and minimum value of -3123.06, the long-term solvency of many listed firms in Nigeria shows a weak capacity to meet their financial obligations as at when due. The implication of these negative values shows that most of these listed firms in Nigeria are financially struggling to survive even to the distant future. These essentially portend and signal red flags or danger that may constitute systemic existential risk of the affected companies to the Nigerian economy on the long-run if no remedial actions are taken to stem the trend.

Furthermore, the short-term solvency as shown in Table 2 shows a mean of 5.08 with standard deviation of 9.68 while the maximum is 63.3 and minimum of 0. This indicates that one company (named Multiverse, from the Natural Resources sub-sector) had no current liabilities in years 2019 and 2020 respectively; hence, the minimum value of 0. Thus, this occurrence apart from not being in tandem with general industrial norm, shows that the observed listed firms did not have current obligations, neither did it have current assets. However, the observed firm may not be contending with any short-term default or distress risk that could arise from maturing obligations in the respective years reported in the short-term.

### 4.2 Correlation Analysis

The correlation of the firms' characteristics proxies and financial sustainability of selected listed firms in Nigeria was examined. The correlation analysis was performed through the use of Pearson Correlation analytic tool. The result is shown on the Table 4.2 below.

**Table 3: Pearson Correlation Matrix**

Variable	NPM	LTS	STS	CEP	CSS	FLA	ATI
LTS	0.001	1.000					
STS	0.017	0.008	1.000				
CSS	0.053	0.075	-0.104	0.126	1.000		
FLA	0.023	0.029	-0.236	0.055	0.104	1.000	
ATI	-0.069	-0.055	-0.396	-0.016	-0.113	0.007	1.000

Source: Author's Computation, 2023

**Interpretation**

The use of Pearson correlation matrix was carried out to test for the possibility of the existence of multicollinearity among the variables. The results revealed that multicollinearity problem does not exist among the variables.

**4.3 Inferential Statistics**

**4.3.1 Test of Hypothesis one and Discussion of Findings**

This section deals with the testing of the hypothesis one and discussion of findings

**Table 4. Regression and Post-Estimation Results for Hypothesis One.**

MODEL ONE				
Clustered Fixed Effect				
Variable	Coeff	Std. Err	T-Stat	Prob
Constant	2.938	7.705	0.38	0.704
logCSS	0.571	1.028	0.56	0.580
logFLA	0.003	0.104	0.03	0.978
logATI	-0.047	0.018	-2.58	<b>0.011</b>
Adj. R <sup>2</sup>	0.23			
F-Stat/Wald Stat	F <sub>(3, 1106)</sub> = 108.42 (0.00)			
Hausman Test	chi <sup>2</sup> <sub>(3)</sub> = 18.07 (0.0004)			
Testparm Test/LM Test	chi <sup>2</sup> <sub>(1)</sub> = 1967.82 (0.00)			
Heteroskedasticity Test	chi <sup>2</sup> <sub>(1)</sub> = 585.11 (0.00)			
Serial Correlation Test	F <sub>(1, 110)</sub> = -23.36 (0.000)			
Cross-Sectional Dependence	-0.27(1.21)			

**Source: Author’s Computation, 2023**

Note: all the hypotheses were tested at 5% significance level

$$\log\text{STS}_{it} = \alpha_0 + \alpha_1\log\text{CSS}_{it} + \alpha_2\log\text{FLA}_{it} + \alpha_3\log\text{ATI}_{it} + \varepsilon_{it} \dots \text{Model 1}$$

**Interpretation and Discussion of findings**

As illustrated in Table 4 (Hypothesis one), the probability values of the t-test revealed that logATI (p=0.011) has statistically significant effect on logSTS. Thus, this result indicated that logCSS and logFLA positively impacted STS. Considering the coefficients of the explanatory variables; logCSS (π = 0.571); logFLA (π = 0.003); and logATI (π = -0.047) means that logCSS and logFLA positively impacted STS while logATI has negative effect on STS. The magnitude of the effect is expressed in the actual value of the coefficients; thus, an increase in the company size status of the firms will result to approximately 0.57 per cent increase in the Short-term Solvency. The study thus, rejected the null hypothesis and accepted the alternate, which means that firm characteristics have significant effect on short-term solvency of the selected listed companies in Nigeria.

As illustrated in Table 4 for hypothesis one, it was revealed that logCSS and logFLA positively impacted STS while logATI has negative effect on logSTS. This result is in agreement with the study of Lei, et al. (2018) who found a negative correlation between short-term solvency and tangible asset. This implies that a firm’s financial development



and investment in critical physical infrastructures or tangible assets reduces the sensitivity of holding cash to the acquisition of tangible assets thereby promoting firm growth. In this study asset tangibility has shown a negative effect on solvency which is in line with the study of Ali (2020), Musah, et al. (2019), Moradi and Paulet (2019) who found negative association between asset tangibility and financial health status. But on the contrary, the work of İltaş and Demirgüneş, (2020) contradicts the observed negative association between asset tangibility and corporate financial sturdiness.

Thus, the result of the regression analysis on model one, which documented the empirical reality of negative significant effect of logATI on logSTS prove the truth underlining the resource dependency theory (RDT). This means that the more a firm acquires more tangible asset, such a strategy will negatively impact on its short-term solvency. This provided additional evidence to the fact the acquisition of more non-current assets or increasing the stock of a firm’s asset tangibility investment acquirement, will exert more financial pressures on the short-term liquidity of the firm. Hence, a constraint on the working capital of the firm will, in the short-term, give rise to negative significance to the firms’ short-term solvency.

#### 4.3.2 Test of Hypothesis two and Discussion of Findings

This section deals with the testing of the hypothesis two and discussion of findings

**Table 5. Regression and Post-Estimation Results for Hypothesis Two.**

<b>MODEL TWO</b>				
Pooled OLS with clustered Std. Err				
Variable	Coeff	Std. Err	T-Stat	Prob
Constant	-45.945	22.312	-2.06	0.040
logCSS	6.935	3.096	2.24	<b>0.025</b>
logFLA	0.162	0.211	0.77	0.443
logATI	-0.157	0.099	-1.58	0.114
Adj. R <sup>2</sup>	<b>0.0058</b>			
F-Stat/Wald Stat	F <sub>(3, 1106)</sub> = 3.14 (0.02)			
Hausman Test	chi <sup>2</sup> <sub>(3)</sub> = 16.65 (0.00)			
Testparm Test/LM Test	chi <sup>2</sup> <sub>(1)</sub> = 1.26 (0.1306)			
Heteroskedasticity Test	chi <sup>2</sup> <sub>(1)</sub> = 3586.98 (0.00)			
Serial Correlation Test	F <sub>(1, 110)</sub> = 456.52 (0.00)			
Cross-Sectional Dependence	35.810(0.00)			

**Source: Author’s Computation, 2023**

$$\logLTS_{it} = \beta_0 + \beta_1 \logCSS_{it} + \beta_2 \logFLA_{it} + \beta_3 \logATI_{it} + \varepsilon_{it} \dots \dots \dots \text{Model 2}$$

#### Interpretation and Discussion of Findings

As illustrated in Table 5 (Hypothesis Two), the probability values of the t-test revealed that logCSS (p=0.025) has significant effect on logLTS, while the other variables insignificantly affect logLTS. This means that logCSS positively impacted logLTS. Thus, an increase in the company size status of the firms will result to approximately 10 per cent increase in the long-term solvency. Therefore, the study rejected the null hypothesis and accepted the alternate, which means that corporate strategic drivers have

significant effect on long term solvency of selected listed companies in Nigeria. This connotes that company size status is really a very crucial strategy in maintaining robust solvency of listed firms in Nigeria. This result is supported by the results of other scholars that have previously carried out similar empirical research in this area. For instance, Nga and Long (2021) has established a significant association between company size and financial sturdiness. On the contrary, the result of this study negates the work of Pat et al. (2020) who found insignificant relationship between company size and financial health of company studied.

#### **4.4 Implication of Findings**

The findings of this study have implications for the diverse stakeholders of the firms for national economic growth. These stakeholders include the following: Managers, creditors, investors, government, researchers, professionals, scholars and the general public. The multi-faceted implications are succinctly outlined below:

##### **To the Board management**

Within the purview of this work, the empirical results and evidence from the hypotheses tested showed that out of the three predictor variables studied, only company size status (proxied by market capitalization) is statistically significant in driving growth of logLTS; while logATI and logFLA were statistically insignificant in influencing logSTS and logLTS. This therefore, implies that Board management should appropriately, configure their firms' financial strategies to exploit the usage of their company size status (measured by market capitalization) to drive their logLTS. It is however, important to also know that logCSS does not positively influence of the growth of short-term solvency of the firms. This connotes that Board management should framework their financial strategies to drive their logLTS beyond short-termism but with critical focus on their long-term survival, sustenance and stability.

Finally, as the obtained empirical results had indicated, only logCSS and logFLA individually positively impacted logLTS and logSTS; whereas logATI negatively affected logLTS and logSTS adopted in the study. This implies that Management should carefully and cautiously weigh all their internal contingency or situational factors before increasing the level of investment in asset tangibility if their strategy is to positively drive the growth of their logLTS and logSTS consistently and continuously.

##### **To the Corporate Managers**

The panel regression analysis indicated that the use of corporate strategic drivers jointly has significant effect on logLTS and logSTS of selected listed companies in Nigeria. Therefore, corporate managers should resourcefully configure the usage of their unique internal characteristics for the efficient and effective management of their respective firms for superior performance, robust competitive advantage and healthy solvency. This will accentuate and assure an enduring and impeccable survival, stability and sustenance of the listed firms.

## 5.0 Conclusion and Recommendations

This study examined the effect of firms' characteristics and solvency of selected listed companies in Nigeria. In today's dynamic and competitive business environment, solvency is a key critical success factors that strategically enables firms to structure their resources in meeting their financial obligations on the short, medium and long-term bases. However, the inability of a firm to maintain acceptable level of liquidity threatens its future growth. Business firms' inability to maintain consistency in producing positive outcomes, cover operational costs do result into liquidity shortfall, nosedive profitability and negative marginal rate of returns to stakeholders. The study concludes that firms' characteristics exert significant influence on corporate solvency.

In view of the findings from this study, the study recommends that since it was found that company size status have positive and significant effect on solvency. Firms should strive to achieve a good size by increasing their market capitalization consistently in order to achieve a better solvency. Also, firms' top Management should improve their company size in order to achieve a bigger size status by increasing their market capitalization consistently in order to boost their financial sustainability robustly.

Furthermore, listed firms should put in strategies that improve their long-term liquidity to strengthen them in meeting their long-term financial obligations as at when due. Board management and Executive Managers of firms too should not just be interested in short-term solvency; they should equally engage their critical strategies on strengthening and salvaging the conditions of their going-concern issues to the distant future.

In sum, the study recommends that firms should continue to deploy their corporate strategic drivers to improve their short-term and long-term solvency statuses.

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