MODERATING EFFECT OF ORGANISATIONAL CULTURE ON PROFITABILITY AND FIRM VALUE OF LISTED CEMENT MANUFACTURING COMPANIES IN NIGERIA

Atabo Victor Okpanachi[1], Nyor T [2]

[1] Department of Accounting, Faculty of Management Sciences, University of Maiduguri-Maiduguri, Borno, Nigeria
victoratabo23@gmail.com
[2] Department of Accounting, Faculty of Management Sciences, Nigerian Defence Academy, Kaduna, Nigeria
tnyor@nda.edu.ng

Abstract

This study examined the moderating effect of organisational culture on the relationship between profitability and firm value of listed cement manufacturing companies in Nigeria. Ex post facto research design with panel data was adopted for the study. The population consists of the only three (3) cement manufacturing firms listed on the Nigerian Exchange (NE) as at 2021. Purposive sampling technique was used in determining the sample size of the 3 quoted cement manufacturing firms in Nigeria for a period of 13 years (2009-2021). Secondary data was collected for this study and correlation coefficient and multiple regression analysis were used to analyse the data collected and this was computed with the aid of Stata13. Findings of the study revealed a positive and significant effect of profitability on firm value, a positive and significant effect of organisational culture on firm value and a positive moderating effect of organisational culture on the relationship between profitability and firm value of the listed cement manufacturing companies in Nigeria. Hence the study concluded that organisational culture significantly moderates the relationship between profitability and firm value. The study recommended adherence to diversity in board composition in such areas like gender diversity, expatriate mix, ethnicity and specialisation in order to increase owners' wealth and increase the value of the firm.

Keywords: Board diversity, firm value, organisational culture, profitability, shareholder's wealth

Introduction

The growth of the capital markets has brought with it the increasing demand for efficiency and credibility in the determination of firm value and whether this value reflect the true realty of the firm. Firm value is crucial for financial analysis and investment decisions, as it define shareholder welfare, given that a high firm value will results in greater shareholder wealth. The value of a firm is generally referred to as the purchase and sales value of the organization's share, estimated by buyers and sellers at arm's length transaction with full information. The assets of the firm, the organisational structure, human resources, technology and the firm discounted future cash flows are often used to establish the value of the firm. The continuous change in dynamics has brought with it a demand beyond maximization of profit as the basic objective of the firm but rather, the sustainability of this objective into the future is more preferred as a firm in continuous profit will turn out to be more sort after by investors and other stakeholders alike. The subjective meaning of profit when it comes to definition has established firm value as an added objective of firms in performance measurement.

Profitability is the ability of a business to earn profit. It is the extent to which the company's total income exceeds its total expenses for a given period after matching all the expenses that have brought about the revenue. Profitability as an accounting concept is often referred to as net profit/net income, which is the bottom line item of utmost interest to most business's stockholders. As shown by Nguyen and Nguyen (2020), profitability reflects shareholders' wealth, and appeals accordingly to other stockholders' interest in the business. A profit making company will have many investors who will want to identify with the company, driving the market price of the company high. Haugen and Baker (1996) and Yang et al. (2010) argued that a profitable company, will have greater distributable income available for shareholders, and the expected firm value will be greater. Thus, every company strives to remain profitable in order to increase firm value. In this regard, management which has the trust of the owners to run the business strives to achieve this goal of continues profitability.

Corporation when established puts on life, which distinguish it from the owners and other corporations alike. It's objectives and ways of achieving these objectives differentiates it from other organisations. This difference is generally referred to as organisational culture. Organisational culture is seen as that which defines people's perception of the entity. Culture are behaviour acquired and transmitted by symbols and embodiments in artifacts. The essential core of culture consists of ideas and their attached values; which consists of patterns, explicit and implicit in nature, that can affect company's strategies, goals and modes of operation. Inah, et al. (2014) argued that organisational culture affects both quantitative and qualitative variables. Several studies on organisational culture have been done in Africa using different cultural traits. Davidson (2003), Amah (2012), Oyafunke, Paul and Olumuyiwa (2014) and Zakari, Poku and Ansah (2013) all used adaptability, involvement, mission and consistencies but to the best of the researcher knowledge no study has been found using organisational culture as an intervening variable in sub-Saharan African. It is against this backdrop that the study accesses the moderating effect of organisational culture on profitability and firm value in Nigeria cement sector.

Literature Review

This section reviews conceptual, theoretical and empirical review on organisational culture profitability and firm value.

Conceptual Clarifications

The concept of profitability, firm value and organisational culture were discussed in this part of the literature review.

Profitability

Profitability is the subtraction of cost of goods sold and other related expenses not directly associated with goods/service produced or sales revenue. Profitability can either be gross or net. It is one of the vital elements for performance evaluation, showing the proportion of profit in comparison with investment in asset, equity, or sales. A firm's ability to generate profits from their activities will also help in the evaluation of the business performance, in budgeting and forecasting the performance of businesses in the future (Sudiyatno, et al., 2021). Improving profitability is one of the primary function for enterprises, especially in the context of global economic integration. As put by Nguyen and Nguyen (2020) only companies with stable profitability over time can provide financial resources for sustainable growth for the shareholders and others with stake in the business. Such profitable business attract attention and more investment from local investors and international investors alike. Profitability can be measured in different ways in line with the interest of the financial information user. The common measures of profitability are profit margin, return on investment, return on assets (ROA), and return on equity (ROE) others include return on invested capital (ROIC) and return on capital employed (ROCE) among many others.

Firm Value

Firm Value as an economic concept reflects the market value of a business. It is often referred to as enterprise value (EV) or total enterprise value (TEV). With the firm's primary objective which is to maximize the wealth of the shareholders, leaves managers with the responsibility to ensure the smooth running of the company, which should increase share value and the value of the company’s debt not affected. As argued by Brigham and Gapenski (2006) a higher firm value results in more shareholder wealth. Conversely, if the company fails to run smoothly, the rights of the creditor takes precedence over the shareholders and the company's share value will decrease. So it can be concluded that the value of the company can be measured from the appropriate index of the value of stock holdings (Akhmadi & Yeni, 2021). The irrelevance dividend theory by Miller and Modigliani (1961) posits that a business’s profitability affects its value. This study measured firm value using tobin's q among other measures such as stock price indicators, price to book value (PBV) and total assets value.

Organisational Culture

Organisational culture is commonly defined among researchers and practitioners as a system of values, beliefs, and assumptions that are shared among employees (Pathiranage, Jayatilake, & Abeysekera, 2020; Ortega-Parra & Sastre-Castillo, 2013; Schein, 2010; Hofstede 1983). This shows that organisational culture in practice is relative and differentiate organisations from another. Organisational culture influences how an organization is managed, the level of relationship, interaction and utilization that exist between the actors responsible for the business and their environment starting from man to nature. As shown by Simoneaux and Stroud (2014) that Organisational culture is the way that organisational members interact within themselves and with other stakeholders. Yirdaw (2016) showed that organizational culture is the glue which combines the non-human materials/resources to the human resources. As claimed by Hofstede (2004) organisational culture is so important to the organisation that, in the long run, it may be the one decisive influence for the survival or fall of the company. Schein (2004) stress that organisational culture matters because decisions made without awareness of the operative cultural forces may have unanticipated and undesirable consequences both good or bad. This study used board diversity as proxy for organisational culture.

Board diversity takes various forms and it is seen to encourage a strong cultural trait because of its relative nature. This may be seen in the elements of gender mix, racial mix, expatriate-local mix, ethnicity/religion mix among other form of diversity. According to Singh and Vinnicombe (2004) the heterogeneity of corporate boards may raise relevant ethical, economic and political issues in the running of a company. Board diversity in an organisation can help establish a constant way the buainess activities are carried out, which can increase the value of the firm in the long run.

Empirical Review

In this work, the empirical literature on the effect of profitability on firm value, organisational culture and firm value and the moderating effect of organisational culture on the relationship between profitability and firm value will be reviewed.

Profitability and Firm Value

Profitability is a reflection of the financial condition of a company, which often attract investors. Stable profitability over the years would increase the value of the company's share. Firm value is seen as investor's perception of the success of a company and usually reflected in the market share price of the company. Investors's return on investment depend on the profits produced by their company. Haugen and Baker (1996), Chen and Steiner (2000) Iturriaga and Sanz, (2001) in their work showed that the more profit a company makes, the more profit would be distributed as dividend to their shareholders, which will increase the value of the firm. Several other empirical literatures such as; Kontesa (2015) using 130 Indonesia manufacturing firms found that firm value is affected by profitability. Machmuddah, Sari, and Utomo, (2020) also found that profitability moderates the effect of corporate social responsibility disclosure on firm value. Jihadi et al. (2021) examine the effect of profitability and other performance factors on firm value with a sample of 22 companies and the results show a positive significant effect on firm value.

Similarly studies such as Harningsih et al., (2019); Widagdo et al, (2020) also found a significant effect of profitability on firm value. The implication of these various research shows that profitability has a very important role in determining firm value. Velnamby and Nimalathasan (2009) noticed that profitability will provide more accurate view of the firm's performance. While Sexton and Kasarda (2000) found that firm profitability was correlated with sustainable growth. In same vain Mai (2006) showed profitability as the growth opportunity of a firm. This shows a positive signal that companies that generate constant and increase profit will continue to see the value of the firm increase.

Organisational Culture and Firm Value

Previous studies see organisational culture as an intangible asset with purpose and intent to meet unanticipated contingencies as they arise (Kreps, 1990; Prosci 2010). This intangible asset constitutes shared assumptions, values, and beliefs that help employers/employees understand which behaviors are appropriate (Schein 1990). Organisational culture can be one of the most important means of establishing a pattern or model on how things will subsequently be done within the company. Firm value which is a reflection of the market share price of the company, can increase in a well-rooted positive organizational culture. According to Prosci (2010) Organisational culture is critical for managers to understand the underlying values of their companies because these factors directly influence their company's profitability.

Further work in this area showed evidence that organizational culture is a core driver of value creation. Pearce and Robinson (2004) observe that culture is a strength but can also be a weakness. Examining the effects of socio-cultural realities on ten Nigerian SMEs owners, Jonson et al. (2013) indicate that socio-cultural realities are key factors affecting their businesses value. Edmans (2011) showed that companies ranked with a good working conditions had a significant increase in stock price return. Grennan (n.d) in his work show corporate culture as an important channel through which firm value can be improved.

Organisational Culture, Profitability and Firm Value

Several empirical studies have supported the positive link between organisational culture and profitability (Kotter & Heskett, 2002). Denison and Mishra (2005); Kotter and Heskett (2002), have contributed significantly to the field of culture and profitability. Gordon and Christensen (2003) also reported that industry moderates the link between organisational culture and profitability. These findings have advanced understanding of the determinants of firm values. However, Chow (2006) observe that, there are some aspects of organisational culture that may enhance the value of a firm. Corbett and Rastrick (2000) indicate that companies that pursue best practices and total quality management as organisational traits, achieve higher profits and good cash flows, as well as greater shareholder value.

Organisational culture is becoming a vital factor in the survival of business and growth as it defines people's perception on the company. Schein (2009) stated that organisational culture is now relevant, since cultural elements determine a company's strategies, goals and modes of operation. Given the increasing importance of organisational culture, many companies, are taking the role of organisational culture in business serious as it impacts on profitability which eventually affect the value of the firm in the long run**.** As argued by Haryono and Iskandar (2015), one of the company objective is maximizing the wealth of the shareholders, which can be reached by increasing the value of the company**.** Organisational culture variables such as percentage (%) of female on board, number of expatriate on board, board diversity, social responsibility report, artefact, symbols, rituals ethnic mix among others are vital as they have direct effects on profitability and the value of the firm. Profitability can be traced to current and past actions of the organization covering all operations and systems within the oranisation. Wetherly (2011) describes the socio-cultural environment as consisting of everything that is contained within the organisation's system and plays a great role in the value of the firm. Therefore, culture as distinct from political, social, technological or economic context has relevance for economic behaviour and business profitability (Shapero & Sokol, 2002). These may have a far-reaching implication for both the measurement of firm value and profitability.

Theoretical Framework

The study used both the signalling theory and the stakeholder theory to illustrate the relational effect of profitability on firm value and the moderating effect of organisational culture.

Signaling Theory

Signaling theory of Spence (1973) assists in understanding how organisational culture moderate profitability and the value of the firm. Management actions according to this theory is a cue or signal to investors regarding the company's future prospects (Brigham & Houston, 2012). The signal relates to information on both the risk and return of the company in the nearest future. The often issuance of shares by a company, is a cue (signal) that the running of the company looked dim. The offer of a sale of new shares more often than usual, will make the share price decline, because issuing new shares may give negative cues which can depress the share price of the company's.

Usually a company with good prospects will want to avoid the sale of shares and seek other means to raise new capital, such as debt. Company with unfavorable prospects is likely to sell off its stake. This free information helps parties outside the company distinguish between companies' good and bad conditions. Rosiana et al. (2013) sees signaling theory as a corporate impulse that disclose information to external stockholders because information asymmetry occurs between management and external stockholders. The information presents an overview of the state of the company as it relates to the past, present and future considering the investment decisions that can influence the value and survival of the entity.

Stakeholder Theory

Stakeholder theory holds that the existence of a firm depends on all the firm's stakeholders. The theory holds that the firm operates to meet the interest of all stakeholders and not only for the interests of itself alone. Thus, it's existence is strongly influenced by the support of other stakeholders (Rosiana et al., 2013). Since the company cannot survive in isolation, it must depend on the various stakeholders which influences the company and the company in turn influences the decision of these stakeholders. Cultural traits from the various stakeholder can easily influence the running of the company just as the company's culture can also be passed to the various stakeholder such as employees, consumers, the community, government, and other parties. Therefore, to increase the firm value, the firm must pay attention to its stakeholders in every decision-making, and understand the prevailing environmental culture which must be aligned with the organisational culture.

Methodology

The study adopts panel data research design for the years 2009-2021. The population of the study comprises of listed cement manufacturing companies on the Nigerian Exchange namely Dangote Cement Plc, BUA cement and Lafarge Africa Plc as at June 2022. The sample comprises of the whole population because of it small number. Secondary data is employed using the annual reports of the samples firms and a simple regression analyses was used to test the study hypotheses. Table 1 shows the definitions and abbreviation of the variables and proxies.

Table 1.
Description of Variables

Variable/Proxies	Definition	Abbreviation
1. Firm Value;		FV
Tobin Q	$\frac{\text{Total market value of firm}}{\text{Total asset value of firm}}$	TQ
2. Organisational Culture;		OC
Board diversity	Ratio of expatriates to Nigeria directors	BDI
3. Profitability;		PF
Return on investment	$\frac{\text{(Gains on investment – Cost of investment)}}{\text{Cost of investment}}$	ROI

Field Survey, 2022

The dependent variable firm value (FV), mediating variable organisational culture (OC) and the independent variable profitability (PF) and their proxies obtained from the annual financial statement of the 3 sampled cement manufacturing companies are shown in table 1 above and demonstrated in the equations below.

$PF_{it} = f\,(ROI)_{it} + \mu_{it}$……………………………………………………………1
$OC_{it} = f\,(BDI)_{it} + \mu_{it}$……………………………………………………………2
$FV_{it} = f\,(TQ)_{it} + \mu_{it}$……………………………………………………………3

Three equations were developed to test hypothesis 1,2 and 3 in the study.
$TQ_{it} = \beta_o + \beta_1 ROI_{it} + \mu_{it}$
Ho$_1$: Profitability do not significantly influence firm value.
$TQ_{it} = \beta_o + \beta_1 BDI_{it} + \mu_{it}$
Ho$_2$: Organizational culture do not significantly influence firm value.
$TQ_{it} = \beta_o + \beta_1\,(BDI{*}ROI)_{it} + \mu_{it}$
Ho$_3$: Organizational culture do not significantly moderate the influence profitability on firm value.

Result and Analyses

This section presents the analysis of data collected from the financial statement and other reports of the companies under study. The descriptive statistics and normality test, correlation, and panel-data regression results are presented below. Data is presented as an appendix to the study.

Descriptive Statistics

The descriptive analysis for TQ, ROI and BDI is shown in table 2 below.

Table 2. ***Descriptive statistics and normality test***

Stats	TQ	ROI	BDI
N	39	39	39
Mean	.4808718	2.326846	.4234872
Min	-.042	-2.642	.143
Max	1.692	4.953	.643
Sd	.5360378	2.22847	.199066
Skewness	.6536334	-.798905	-.477161
kurtosis	2.088205	2.536543	1.449031

Stata 13 output, 2022

Table 2 shows that TQ i.e. firm value has a mean of 0.480, ROI with the highest mean of 2.326 and BDI (board diversity) with a mean of 0.423. The minimum and maximum values for TQ and ROI are relatively disperse at -0.042 to 1.692 and -2.642 to 4.953 respectively, while the minimum and maximum ratio of expatriate on the board of the companies under study is 0.643 and 0.143 respectively indicating that all companies' have other nationals on their board as shown in Table 2. The standard deviation of TQ, ROI and BDI from the mean is 0.536, 2.228 and 0.199 respectively, ROI is more spread out at 2.228 the highest value when compared to TQ and BDI at 0.536 and 0.199 standard deviation indicating a more tightly packed data set. The location and variability of the data distribution around the mean (i.e. skewness) for TQ, ROI and BDI is 0.653, -0.798 and -0.477 respectively and the level of peakedness (kurtosis) around the central mean is 2.088, 2.536 and 1.449 for TQ, ROI and BDI respectively indicating a normal distribution. Along similar contention, Kline (1998) and Pallant (2011) explained that the normality scores for variables both independent and dependent can be established given skewness values of (±3) and the kurtosis analysis revealed normality of data with output values of (±10) as recommended.

Correlations

The correlation analysis for the study is shown in table 3.

Table 3. *Correlation Analysis*

	TQ	ROI	BDI
TQ	1.0000		
ROI	0.5667	1.0000	
BDI	0.4645	0.2283	1.0000

Stata 13 output, 2022

Table 3 showed TQ have a positive correlation of 0.5667 and 0.4645 with ROI, and BDI respectively. Pallant (2011) contended that correlation in statistical analysis is aimed at providing a description of the linear relationship relating to strength and direction between variables. The correlation among the independent variables ROI and BDI is low at 0.2283, when compared to their relationship with the dependent variable thus, there is no multicollinearity between the independent variables used in the study. The Variation Inflation Factor (VIFs) was computed to test for multicollinearity. The VIF values range between 1.22 and 1.75 below the level of 10 as shown in (Neter, Kutner, Nachtsheim, & Wasserman, 1996), which confirms the absence of the multicollinearity problem.

1.3 Regression Analyses

Table 4. *Regression results*

Variable	Direct effect (**TQ**)		Direct effect (**TQ**)		Moderating effect (**TQ**)		Collinearity Statistics	
	Coef.	P-value	Coef.	P-value	Coef.	P-value	Tolerance	VIF
ROI	.1363	0.000*	-	-	-	-	0.573	1.75
BDI	-	-	1.2507	0.003*	-	-	0.819	1.22
ROI*BDI	-	-	-	-	.3173	0.000*	0.610	1.64
Count	39		39		39		-	-
Prob>F	0.0002*		0.0029*		0.0000*		-	-
R-squared	0.3211		0.2157		0.4765		-	-
Adj.R-squared	0.3027		0.1945		0.39304		-	-

Stata 13 output, 2022.

Notes: definitions are provided in Table 1.

** denote statistical significance at 5% levels*

Table 4 shows the regressed results of the effect of profitability (PF) on firm value (FV), the effect of organizational culture (OC) on firm value and the moderating effect of organizational culture on profitability and firm value.

Results and Discussion

Simple regression analysis was used to test if the profitability significantly predict firm value. The results of the regression indicated the predictor explained 32.1% of the variance, (F (1,37) =17.50, *p*<.0002). Thus return on investment significantly predicted profitability. The results in column 1 with a 0.0002 statistical significance at 5% level supports the first hypothesis profitability significantly influence firm value. In line with other empirical results that shows that profitability increases the value of the firm in the interim as in Husnan (2001), Salvatore (2005) and Mai (2006) that profitable firm overtime will have its share value go up because of many prospective shareholders willing to invest in the firm.

In column 2, the regression calculated to predict the effect of organisational culture (moderating variable) on firm value (TQ). The results showed a significant regression equation of (F (1,37) =10.18, p<.0029), which is in line with Baron and Kenny (1986) that the moderator variable should be able to predict the outcome variable that is the dependent varible. The results showed an R^2 of 0.2157, that is a 21% prediction of TQ, which is equal to (β= 1.2507, p<.0.003) of BDI. It showed that a diversified board with other nationals in the interim increase the value of the firm. Thus, a large number of expatriates on the board showed good organisational culture which can increase the firm value in the long term.

In the third Columns 3, which showed the third equation, profitability (PF) examined in terms of its power to predict firm value (FV) with organisational culture (OC) as moderator. Given the direct relationships between FV and PF as significant, and FV and OC as significant. The result with moderation also showed OC has a significant moderating effect (F (1,37) =33.68, p<.0000) with adjusted R of 47% as shown in Table 4, R^2 increased from both 0.3211 and 0.2157 to 0.4765. with a (β=1.2507, p<.0003). Added to the above results, organisational culture have a moderating effect on relationship between return on investment and firm value. The heteroskedasticity test on the moderating effect of ogranisational culture on the relationship between profitability and firm value releveled a low Chi square value of 0.034 with a high p-value of 0.5579 at 5% level. This means there is no heteroskedasticity problem associated with the data of the study. As a result of non-existence of heteroskedasticity the study did not conducted fixed and random effect models tests and then Hausman test.

Conclusion and Recommendations

Organisational cultural traits of the Nigerian cement industry is a cause for concern as they are crucial to financial performance and firm value of the sector. Cement industry should note that a higher score on culture dimensions will always result in better profitability and may also have a negative correlation if not well aligned. Based on our findings, the research concluded that profitability plays a positive significant role in improving the firm value of Nigerian cement manufacturing companies, also that organisational culture significantly predicts firm value and on the overall, it can conclusively say that organisational culture has significantly moderate the effect of profitability on firm value of the Nigerian cement manufacturing companies positively. The study therefore recommend that the Nigerian cement manufacturing companies should consider a higher percentage of expatriates on their board and also ensure other element of diversity such as gender, specialization and ethnicity, in order to improve managerial skills and have better and constant profit.

Understanding the business operations is critical when becoming involved in culture change interventions as revealed by the study that a firm rooted in good cultural practice will turn out profitable in the long-term. A diversified board is a way to start the use of culture as a tool for driving the entity to continue to be profitable for the various stakeholders. In conclusion organizational culture can influence the direction or movement of a firm in terms of profit making and the firm value.

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Appemdix

Firm	**Year**	**TQ**	**BDI**	**ROI**
BUA	2009	0.027	0.143	-1.683
BUA	2010	0.060	0.143	-0.427
BUA	2011	0.117	0.143	0.480
BUA	2012	0.066	0.143	2.996
BUA	2013	0.064	0.143	2.781
BUA	2014	0.047	0.250	3.512
BUA	2015	0.062	0.250	4.619
BUA	2016	0.027	0.143	-1.683
BUA	2017	0.060	0.143	-0.427
BUA	2018	0.117	0.143	0.480
BUA	2019	0.066	0.143	2.996
BUA	2020	0.064	0.143	2.781
BUA	2021	0.047	0.250	3.512
Dangote	2009	0.901	0.571	2.315
Dangote	2010	1.224	0.571	4.695
Dangote	2011	0.967	0.286	3.735
Dangote	2012	1.692	0.500	4.953
Dangote	2013	0.846	0.571	3.860
Dangote	2014	1.017	0.571	4.557
Dangote	2015	1.019	0.643	4.087
Dangote	2016	0.901	0.571	2.315
Dangote	2017	1.224	0.571	4.695
Dangote	2018	0.967	0.286	3.735

Dangote	2019	1.692	0.500	4.953
Dangote	2020	0.846	0.571	3.860
Dangote	2021	1.017	0.571	4.557
Lafrage	2009	1.019	0.643	4.087
Lafrage	2010	0.027	0.556	1.580
Lafrage	2011	-0.042	0.556	-2.642
Lafrage	2012	0.719	0.588	-0.486
Lafrage	2013	0.028	0.643	1.824
Lafrage	2014	0.040	0.563	2.565
Lafrage	2015	0.035	0.455	4.637
Lafrage	2016	1.019	0.643	4.087
Lafrage	2017	0.027	0.556	1.580
Lafrage	2018	-0.042	0.556	-2.642
Lafrage	2019	0.719	0.588	-0.486
Lafrage	2020	0.028	0.643	1.824
Lafrage	2021	0.040	0.563	2.565