



The Influence of Growth on Return on Assets: A Case Study of Nestle Pakistan

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Abstract

Objective: The investigation is focused arranged finding that whether Growth (Sales) and Liquidity has impact on Return on Asset (ROA) in FMCG particularly Nestle Pakistan. The study is focused on finding the liquidity as the firm must have sufficient liquidity items in order to meet the emergency condition as firm can easily achieve the hand on cash with profitable liquidity items whereas non liquidity item can lead to great damage to the organization.

Design: In this study secondary data has been collected from various annual financial statement of Nestle Pakistan from its website. The sample size is from 2005 to 2017. For the analysis three variables are considered such as return on asset growth in terms of sales and Liquidity ratio of the Nestle Pakistan. The various statistical techniques have been applied such as OLS Regression and Johnson co-integration for the conclusion of this study.

Findings: Findings of this study revealed that growth (sales) found to have positive and significant impact on return on asset of nestle Pakistan. Whereas, the liquidity has found to have insignificant influence ROA. The co-integration indicates that growth (sales) is found to have long run relationship but variable liquidity has no long run relationship with return on assets in context of nestle Pakistan.

Practical Implications: There are number of FMCG companies are operating Pakistan, they can use findings of this study in their future strategies for better profitability in context of Pakistan's operations.

Keywords: Growth (Sales), Liquidity, Return On Assets, Nestle Pakistan.

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INTRODUCTION

FMCG Global Prospective

Nestle Pakistan and Procter & Gamble are leading and fastest growing FMCG companies in the world. The rapid growth has been seen in this sector in recent year as because of the acquisition as well merger of different companies with each other as well due to the various economical and financial situation of the country. Because of E-commerce introduction in recent year it continues to engulf the profits of retailer as well as wholesalers in the global market environment and where as currency change in another issue which is changing continuously whereas geopolitical instability causes to hit the exports and imports with tariffs. Fast moving consumer are consumed in rapid manner and sold at low prize such as food which are packaged, beverages, OTC products as well other consuming items, as these products have short half life because of their rapid deterioration. Discounts are given on seasonal basis, packaging of the products is given a prime importance to FMCG products, in order to be successfully customers satisfying organization the company has to aware of both consumer's brand as well as their packaging and logistic material. Promotional activities are also of prime importance as the companies have to invest a lot in them. Hygienic products must be provided to the customers to become loyal and long lasting customers for that proper quality control laboratory must work efficiently in FMCG sectors. As the FMCG products are sold in large quantities their profit margin is marginal. Packaging must require

along with primary, secondary and tertiary packaging depending upon the type of products.

FMCG in Pakistan

FMCG products demand is increasing and various investment are carried out by different market segments such E Commerce. On the other hand, investment by various supplies and marketers clearly shows the importance and future of this market segment.

In Pakistan different FMCG companies currently operating are given below:

- Unilever Pakistan Ltd
- Procter and Gamble Pakistan Ltd
- Nestle Pakistan Ltd
- English Biscuits Manufacturers (Pakistan) Ltd
- Reckitt Benckiser Pakistan
- National Foods Ltd
- Colgate-Palmolive (Pakistan) Limited

Importance of FMCG Companies

Behind every global FMCG sector is the main reason as from household to supermarket to the retailers everywhere FMCG products are being sold. The sector is not only evolving the product innovation by investing in R&D but also it provides the carrier growth to various graduates form reputable universities. The major achievement of FMCG is the brand loyalty of the customers as well as employee



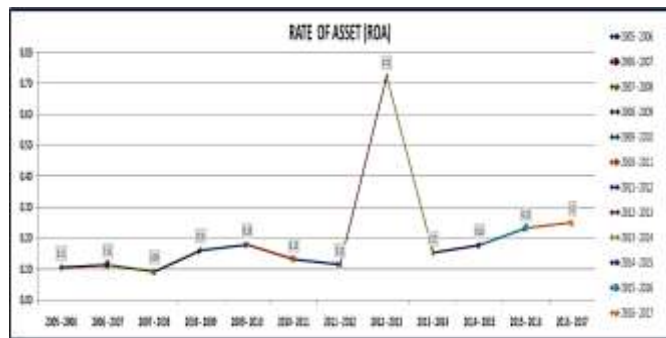
retention as many people left companies after some time but this is not so with the FMCG as these companies invest a lot in their Employees such as their training for future growth and opportunities. The product portfolio of FMCG is very big that satisfy a lot of customers. FMCG is one of the highest paid organizations in the world this cause the young generation to opt for these industries.

Nestle Pakistan’s Brief Introduction

The Nestle Pakistan is the largest food processing company that is Swiss origin, the registration of the company is from Karachi as well as Lahore stock exchange. It started operation in Pakistan since 1988. The headquartered of Nestle Pakistan is in Lahore. Nestle possess four operating factories. Two factories are established at Sheikhpura on the other hand Kabirwala are multi products producing factories. For the water bottles factories are established in Islamabad and Karachi. The Kabirwala factory is largest milk producing plant in the world. Nestle product sufficient products which are of high quality, which create customer trust and create a long lasting relationship between customers and firms.

1.5 Return on assets (ROA) of Nestle Pakistan

The data & Graph of Nestle ROA (Graph 1) is mentioned below



Graph 1. Nestle ROA
Source: Various Annual Reports Nestle Pakistan

From the graph it clearly represents that there is fluctuation in the return on assets (ROA) because of various factors involve such as growth, liquidity, Size and many other factors. In the graph there is consistent growth from year 2005 to 2012 where as in 2013 there boom in the return on assets this may be due to better performance of firm profitability that may be due to better growth and liquidity ratio but after 2013 there is sudden decline in the return of assets (ROA) because of decline in the cost-effectiveness ratio of the company subsequently the company is again beginning to rise means firm is again beginning to perform.

Liquidity Ratio of Nestle Pakistan

The data & Graph of Nestle Liquidity (Graph 2) is mentioned below



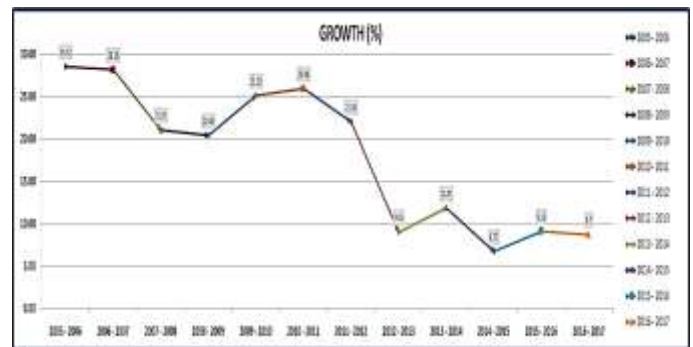
Graph 2. Nestle Liquidity
Source: Various Annual Reports Nestle Pakistan

In Graph 3 there is subsequent increase in liquidity ratio mean the firm has certain assets which it can easily utilized to convert them into

cash means firm has better liquidity assets where after sometime the liquidity decline means the firm has less liquidities assets which are required by firm during emergency as some time firms required such assets to overcome their deficits in order to remain sustainable in the market. Liquidity some has positive impact when required in emergency but sometime less liquidity assets lead to loss in company investment assets.

Growth of Nestle Pakistan

The data & Graph of Nestle Growth (Graph 3) is mentioned below



Graph 3. Nestle Growth
Source: Various Annual Reports Nestle Pakistan

In the above graph of growth there is fluctuation in the growth as in beginning firm has better growth but after time it declines consistently this may be because of less profitability or may the firm is expanding its business such as firm has launched some news brands in the market ,the other reason may be due to the increase in market competition as some new brands are providing tough competition to nestle brands .So in order to remain a profitable firm Nestle to increase its market growth that can be achieved by designing better marketing strategies to achieve the organizational goals.

EMPIRICAL LITERATURE REVIEW

Growth (Sales) and Return On Asset

Mappanyuki and Sari (2017), analyzed the impact of sales growth on company profitability such as ROA the study was carried out by taking survey of stock exchange market of Indonesia listed, the year taken from 2010 to 2013 for the study of relationship between growth and profitability ,the research methods utilized for the analysis of above mentioned variables is Multiple linear regression analysis & Descriptive quantitative analysis method are use in which the profitability was taken as dependable variable where as the growth was taken as independent variable. Sales growth ratio (SGR) has a strong influence on ROA and another variable that is net profit margin whereas profitability ROE has significant effect was also seen. Other studies must be conducted to see better result.

Nawaf and Salem (2015), studies the financial leverage impact on Company’s growth by taking different variables. The dependable variables were profitability such as (ROA) where as the independent variables were Growth. Sample data was collected from 12 Jordanian manufacturing companies which were highlighted on Amman Stock Exchange (ASE) for the period from 1995 to 2005 for the 10 years. The result of the research revealed that there was found to have both variables such as financial leverage and growth on profitability in terms of ROA in their respective companies.

COBAN (2014), conducted research by analyzing interaction between firm profitability in term of (ROA) and growth using the data of 137 listed manufacturing firms of Turkey between the period of (1997-2012) through the use system-GMM method the profit and growth margin were studied. The end result of the research indicated



that there is significant and positive relation between both studied variables such as profit and growth in terms of sales.

Kouser et al., (2012), studied association amongst companies and various variables such as profitability, size, and growth of non-financial companies that are noted on Karachi Stock Exchange (KSE). The samples data was collected from the 70 non-financial companies listed at (KSE) of Pakistan of the years from 2001-2010, the selection was on the basis of market capitalization. Panel data technique was used by 700 observations. The independent variables were growth was as dependable variables were return on assets. The result shows that there was strong impact of growth on return on assets. This papers represents that companies must focus on these variables for their survival in the market.

Gopinath (2012), used the link among the growth in terms of sales and profitability. The data used was of one hundred and forty-eight sample size from 1993 to 2005. The result showed that the progressive impact of growth on profits. The growth and profitability shows that the firm profitability is depended on the consistent growth of the firm.

Akihiko and Dongun (2011), carried out investigation on the interaction between firm profitability (ROA) and growth in terms of sales. The 1633 Japanese manufacturing firm were considered for data analysis and from 1987 to 2007). The results indicated that there is positive and significant correlation between both studied variables such as growth and profitability of the companies. Therefore, it is very necessary for the organizations to focus on their growth for the profitability of the company.

Serrasquero (2009), the empirical association between Portuguese company growth in context of sales and profitability in terms of ROA. The result revealed that from the research shows that the profitability in Portuguese companies is directly proportional to the growth. Growth obtained in Portuguese companies is the ultimate force which drives the company profitability.

Fitzsimmons et al., (2005), utilized the method of regression analysis to study relationship between growth in terms of sales and profitability in small size companies of Australia. The outcome showed that the firm profitability is due to the driving force that is growth. The smaller the proportion firms that pursue growth patten were definitely going to achieve the profitability for the firm in future years.

H1: The growth in terms of sales has influence on profitability (ROA) of Nestle Pakistan.

Liquidity and Return on Assets (ROA)

Vintila and Nenu (2016), in this study the liquidity and profitability are studied together. The companies used are the listed companies on Bucharest stock exchange. The data collected was of 10 years from 2005 to 2014 to identify the change and evolution that has occurred in recent years. Different research variable was used for the analysis of data graphical analysis method was utilized in the start in order to estimate the linkage between liquidity and financial leverage ratio. The study clearly revealed that significant relationship between the research variable such as liquidity and company performance in terms of ROA is found have negative and significant relationship with each other.

Khan (2015), Qismat used the Asian countries to analyze the effect of liquidity on return on asset (ROA). Research sample used in order to analyze data the companies which were on the panel of Karachi Stock Exchange from 2006 to 2011 from various financial statements of studied companies. The method for the study of data collected were regression and co relation method and data was analyzed closely. The result revealed that different variable use such as quick current ratio, growth and liquidity showed that are found to have highly significant influence on return on assets.

Nimer et al. (2015), carried out research for the purpose of analyzing influence of liquidity ratio with respect to profitability in terms of ROA of selected Jordanian banks. The study was conducted with the 15 Jordanians banks which were listed on Amman Stock Exchange (ASE) from 2005 to 2011. The results clearly show that

there is significant relationship between liquidity and profitability of the banks. It was identified that there was found to have significant association between both variables liquidity and ROA.

Rehman et al., (2015), the study was conducted between liquidity and firm profitability of 99 scheduled Tadawul SSE Saudi stock exchange companies and data were taken annually for the period of 2008 to 2012. The descriptive analysis method and correlation method were employed for the purpose of analysis overall it was observed that there was found to have significant association between both variables liquidity and ROA. the companies used in Saudi Arabia.

Kaur and Silky (2013), studied the relationship between variables that are liquidity and profitability ratio of the firm by selecting corporation of India cement factories. The method which was utilized for the research purpose is Regression analysis. The populations were the listed companies on NSE, the random sampling was chosen on the basis of profitability. Secondary data were used by taking information and materials from the internet source. The correlation analysis was used to determine to study effect of liquidity on return on assets (ROA) of the firm. From the result it was identified that liquidity ratio found to have negative association with ROA in context India cement factories.

Saleem and Rehman (2011), a study relationship between profitability and liquidity ratio evidence from the oil and gas companies of Pakistan..The data collected for the purpose of analysis was of 6 years .The regression analysis method was used and found that profitability (ROA) was highly effected by liquidity in this method ROA was dependable variables where as liquidity was independent variable .It was found that profitability was improved for some oil and gas companies that holds the liquid products and however there was point holding enough liquidity assets can lead to decrease in profitability .The results shows that if one increases the other decreases.

H2: The liquidity has negative influence on profitability (ROA) of Nestle Pakistan.

MATERIAL AND METHOD

Secondary Data Source

The data source utilized for the study is secondary data, this data is not collected by the current user himself it is collected by someone else. The source from which the secondary data can be collected are information gathered by government departments, records of organizations for other research purposes etc. Secondary data is not very expensive to collect and this is kind of a data which is easily available as compare to the primary data which involve the collection of research data directly from the respondents. Here the data is collected from annual financial report of Nestle Pakistan for the research purpose from 2005-2016.

DEPENDABLE VARIABLE

RETURN ON ASSETS (ROA)

Assets changes over time therefore average of overall asset has been taken. Return on assets is ratio but it is represented as percentage.

$$\text{Formula} = \text{Net Income} / \text{Total Assets}$$

INDEPENDENT VARIABLES

GROWTH

Increase in sales observed in consumer market segment over a specified period of time. The market growth of any product depend on the consumer mind as if the consumer does not adopt to high demand the product will lose its profitability in market share.

$$\text{Formula} = (\text{Current Sales} - \text{Base sales}) / \text{Base Sales}$$



LIQUIDITY

Liquidity shows how the asset or any security can quickly be converted to cash or sold in the market with affecting its price.

Formula= Current Assets / Current Liabilities

RESULTS AND DISCUSSION

Regression Analysis (OLS)

Table 1. IV OLS Regression

Variables	R-squared
LSALES	
LLIQ	0.446578

Dependent Variable: Return on Assets
Source: This Study

R-squared value indicates Table 1, the association among an estimated value of the independent variable and dependent variables. All mentioned independent variables such as log sales and log liquidity showed the R-value is in this study 44.6%. R-value also indicates overall fitness of model.

Coefficient

Table 2. IV Coefficient

Model	Beta Value	p-Value
(Constant)	-17.22796	
LSALES	0.879511	0.0276
LLIQ	1.481651	0.1852

Dependent Variable: ROA
Source: This Study

The OLS regression analysis suggested based on three values such as significant value, R-square and beta value the final findings of this study. Significant value suggests the level of influence studied independent variables on studied dependent variable. Value of beta indicates the relationship between both studied variables and whereas. Most of research scholars also suggest that R-square value indicates how much in percent the independent variable explain to dependent variable. In this research we conclude based on findings table 2, that the growth in terms of log sales (LSALES) is found to positive and significant influence on ROA. However, the log of liquidity is found to have insignificant impact (ROA).

Hypothesis Testing

Table 3. -IV Hypothesis Testing

Name of Independent variable	Hypothesis	Outcome
Growth (Sales)	H1	Accepted
Liquidity	H2	Rejected

As the above-mentioned table 3 shows, that the significant and positive impact of Growth (Sales) with dependent variable ROA, in regard the alternative hypothesis is accepted. But, there is insignificant impact of liquidity with ROA, in this case null hypotheses accepted in context of Nestle Pakistan.

Co-Integration

Table 4.

Independent Variable	P-value	Remarks (Long Run Relation)
Growth (Sales)	0.0129**	Yes
Liquidity	0.6820**	No

Dependent variable: ROA
Source: This Study

You can see the table # 04, sales for growth has long run relationship with ROA in regard of Nestle Pakistan due to p-value less

than 0.05 (0.0129). However, liquidity has no long run relationship with ROA in regard of Nestle Pakistan due to p-value greater than 0.05 (0.6820).

DISCUSSION ON RESULTS

H1: There is Impact of Growth In Term of Sales on Return on Assets In Nestle Pakistan.

The results of OLS Regression analysis revealed that in this case its alternative hypothesis is accepted ($P < 0.05 = 0.0276$) and Beta value is (0.879511). Based on both value it is found to have growth(sales) has positive and significant impact on (ROA) return on assets in Nestle Pakistan. Growth (sales) is very necessary for the company to achieve profitability as the firms achieve their goal by focusing on consistent growth. The consistent growth is the result of firm ability to evaluate their annual financial growth and focus on specific measures necessary to achieve those goals. The Johnson co-integration test also shows that variables growth (sales) has long run relation with company growth and profitability.

H2: There is Impact of Liquidity on Return on Assets in Nestle Pakistan.

The result of OLS Regression analysis revealed that in this its alternate hypothesis is rejected ($P < 0.05 = 0.1852$) and null hypothesis has been accepted. Its beta value is (1.481651). Based on both values it is found that liquidity ratio is insignificantly positive in response to Return on assets in the firm. The Johnson co-integration test also shows that liquidity has no long run relationship with the Return on assets or firm profitability. So overall it shows that very stakeholder has interest in liquidity to know whether the company can meet employee related obligations such as salary, pension, provident fund etc. So company must maintain adequate liquidity so that some portion can be given to stakeholders during emergency.

CONCLUSION

The key persistence of this study was to examined the profitability of the firm such as return on assets of Nestle Pakistan. In this analysis, two independent variables such as sales (Growth) and liquidity have an impact on dependable variable such return of assets (ROA) are considered. The finding of this study log sales (LSALES) and log liquidity (LLIQ) are found to have significant and positive impact on in this study's dependent variable return on assets (ROA).

This study revealed that if return on assets (ROA) decreases than these two variables such as growth (sales) and liquidity are not to be ignored. As if the productivity of the firm decreases the growth of the company also shrinkages ultimately leading to cause the firm to sells its assets for survival into market or chose acquisition or mergers with other firms for survival. Secondly Return on Asset has negative impact on liquidity because if the profitability of the firm decreases it should have certain liquidity assets to compensate the loss of the firm.

Recommendation

- Return on asset (ROA) should be closely monitored by every firm by following effective firm policies in all FMCG sectors of Pakistan.
- Firms should invest in those product portfolios which are profitable for the firm in long run as companies which have such products can survive easily in the highly competitive environment, the growth of the firms rely on such product portfolios.
- Liquidity items should be given prime focus as firm should have certain liquidity items in order to survive in case of emergency. The better the liquidity items in the firm the more the survival chances of the firm.



Future Recommendation

- Although the research provides valuable factual findings on return on assets and its independent variables some constraints must be examined when demonstrating the results for example year of data collection varied from country to country.
- It will be beneficial for the firms to expand future research in the other developing countries such as South East Asian countries and other European countries.
- Comparative analysis can be carried out between two FMCG companies in context of Pakistan such as Unilever and Nestle Pakistan etc,

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