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ASSET MANAGEMENT AND PROFITABILITY OF LISTED COMMERCIAL BANKS IN NIGERIA

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Key words: *Asset Management, Current Asset Turnover Ratio, Fixed Asset Turnover Ratio, Profitability, Total Asset Turnover Ratio*

ABSTRACT

The objective of this study was to examine the effect of asset management on the profitability of listed commercial banks in Nigeria. The study specifically examined the effect of current asset turnover ratio, fixed asset turnover ratio and total asset turnover ratio on profitability of DMBs in Nigeria. The study adopted the ex-post facto research design because the event under investigation had already taken place. The population of the study was made up of 13 DMBs listed on the Nigerian Exchange Group. The sample size was delimited to 10 DMBs that had their annual reports online for the period of 2014-2023. Descriptive statistics such as mean and standard deviation were used in describing the nature of the data while ordinary least square regression was used to validate the hypotheses. The results showed that: current asset turnover ratio has a significant positive effect on the return on asset; fixed asset turnover ratio has a non-significant positive effect on the return on asset and total asset turnover ratio has a non-significant negative effect on the return on asset. Based on these findings, the study recommended that: banks should optimize the management of cash, accounts receivable, inventory, and other current assets to generate more revenue and improve profitability; banks should consider reevaluating their fixed asset investment decisions and ensure that they are using their fixed assets effectively to generate more revenue and reduce costs and banks may need to balance their asset allocation to ensure that their assets are generating the desired level of revenue and profits.

1. INTRODUCTION

The capacity of organizations, such as rapid banking corporations, to plan and manage their existing assets is connected to their going concern status (Charlie & Akpan, 2020). Firms' acquisition of assets, particularly non-current assets and current assets, is a means to an end since they are essential instruments for organizations' operational efficiency and value development (Abebe, 2022). Good organization management of current and noncurrent asset

investment is a critical component in the management of operational finances and performance of a bank (Al-Sadi & Al-Mamouri, 2022). Non-current assets are assets that are required for the production or sale of goods and services over a lengthy period of time whereas current asset are short-term investment that can be converted into cash easily (Wokeh, 2022). Since noncurrent assets are not kept for sale in the regular course of business, but rather to create revenue for the organization, banks will always require very substantial assets simply to do what it does, the same will be true for a power plant or cement manufacturing industry. According to Ibam (2018) a company's investment in asset is dependent to a large degree, on its line of business. Some businesses are more capital intensive than others. Firms in the natural resources such as brewery industry and other industry producers require a large amount of noncurrent asset investment and large capital equipment while, service companies and computer software producers need a relatively small amount of noncurrent assets (Wokeh, 2022).

The noncurrent and current assets are read from statement of financial position and include plant, property and equipment as depreciated (Abebe, 2022). According to Adebayo and Morakinyo (2016), excessive investment in current assets might result in idle cash that could be utilised to produce profit, but insufficient investment in current assets can disrupt operations and reduce the organization's profitability. Similarly, insufficient investment in non-current assets may increase operating inefficiencies, resulting in poor financial performance in the bank (Charlie & Akpan, 2020). Thus, the value and productivity of current asset allocation and management have a significant impact on the success of a company organisation (Saiti, Bacha, & Masih, 2014). If a firm is not judicious in the management of its present assets, whether current or noncurrent, it will result in low or negative corporate returns, and in certain situations, liquidation. As a result, managing bank assets in a bank is critical since it guarantees that operations operate smoothly. A company may have a high degree of financial performance but yet struggle to manage its assets properly (Maleya & Willy, 2013). An organization's success is primarily determined by how its resources are distributed and its capacity to adapt to a changing environment in order to fulfil defined objectives (Basri, 2023). When cash flow is tight, most commercial firms focus on controlling current assets by reducing inventory and recovering money owing to them by customers (Shukor, Ibrahim, Kaur, & Nor, 2019). Nonetheless, non-current assets in any organisation must be properly managed to guarantee that they are in excellent functioning order by examining and replacing them on a regular basis (Abebe, 2022). When such a procedure is not followed correctly, it results in the misallocation of resources, which has been taken over

by dishonest employees or management, resulting in the failure to meet company objectives (Wokeh, 2022).

The difference between a highly capitalised business and one based primarily on creative assets is that in the event of failure, the capital-intensive company will still have significant assets that can be converted into real money, whereas a concept-based enterprise will fail when its art is no longer popular, leaving behind a few computers and furniture. As a result, investors utilise financial performance variables such as return on investment, return on equity, return on assets, profitability, earning per share and so on as one of various methods of analysing a firm within an industry, comparing it to others who follow the same standards. Returns on noncurrent assets like property, plant and equipment vary greatly among banks. According to Lewis, (2019), every industry is different in the type of operating asset it has and the level of asset required for operation. It is the primary concern of banking organization to give significant attention to financial performance, because of its implications to business existence. High performance reflects management effectiveness and efficiency in making use of bank's resources and thus in turn contributes to the country's economy at large. Low return on investment is caused by inefficient use of noncurrent and current assets. Also, a low return on investment is a sign of ineffectiveness and inefficiency of the asset usage (Basri, 2023). Because noncurrent assets are like the structure and current assets are like flesh, a lack of noncurrent assets leads to a lack of productive activities. However, the flesh cannot exist without the framework. Noncurrent assets are the productive engine of a manufacturing firm. The problem of appropriate level of investment on noncurrent assets to current assets in banking firms in Nigeria is vital because more current assets can create high liquidity, surplus cash and high liquidity impairs profitability. Likewise, the problem of proper evaluation of investment on noncurrent assets is necessary because investment cannot be taken on the hunch, hence investment analysis is very necessary before assets are acquired for income yielding (Wokeh, 2022). Non-current assets of a bank are investments that should yield appropriate returns, since the aim of every business is to maximize shareholder's wealth. Managers are unable to determine this fact and cannot state definitively if additions to non-current assets have any influence on the organization's performance (Abebe, 2022).

Company establishments all around the world are always confronted with foreseeable obstacles while remaining relevant to their environment. Businesses are expected to grow by consistently making profits, increasing turnover, expanding their customer base, and engaging in corporate social responsibility (Basri, 2023). As a result, the growth of a business entity is

dependent on a variety of factors, one of which is the firm's ability to use its non-current assets to generate income and meet its obligations on time. Some of the reasons given for the collapse of many organisations are lack of qualified asset managers, inefficient use of the assets employed, lack of maintenance culture, low turnover, inadequate planning for replacement of assets as at when due or outright purchase as the case may be (Osundina, 2020). Ogundipe, Idowu and Ogundipe, (2012) posited that an improper management of an organisations assets will result to the difficulties of the firms continued operations which will also affect the market value of such company. Workshops on training courses have been conducted to guarantee correct use of these non-current assets in terms of operations, maintenance, and risk. Regulations on how assets should be allocated to maximise profits have also been passed on a regular basis, but these and others have failed. Many organisations neglect to analyse their investments in non-current assets in their effort to enhance performance. This is regrettable since an organisation owns and maintains its assets has the ability to improve the overall company entity as well as create value for shareholders (Wokeh, 2022). Since it is the desire of organisations to continually generate desirable income that covers cost and still make reasonable profits, this study tends to investigate the effects of asset management on return on assets of listed deposit money banks in Nigeria. This study will contribute to the body of knowledge because already existing studies did not examine the joint effect of current asset turnover ratio, fixed asset turnover ratio and total asset turnover ratio on the return on asset of Nigerian banking sector.

1.1 Objectives

The main objective of this study is to examine the effect of asset management on the profitability of listed banks in Nigeria. The specific objectives are to;

1. ascertain the effect of current asset turnover ratio on the return on asset of listed banks in Nigeria.
2. investigate the effect of fixed asset turnover ratio on the return on asset of listed banks in Nigeria.
3. ascertain the effect total asset turnover ratio on the return on asset of listed banks in Nigeria.

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1.2 Hypotheses

H_{01}: Current asset turnover ratio has no significant effect on the return on asset of listed banks in Nigeria.

H_{02}: Fixed asset turnover ratio has no significant effect on the return on asset of listed banks in Nigeria.

H_{03}: Total asset turnover ratio has no significant effect on the return on asset of listed banks in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Effective Asset Management

Effective asset management is crucial for a firm to achieve profitability. A firm's profitability is determined by the revenue it generates from its assets minus its operating expenses and loan losses (Olaoye & Ayodele, 2019). Thus, the more effectively a bank manages its assets, the greater its profitability (Oghenekohwo, Anastesia & Moses, 2019). Effective asset management starts with evaluating the current asset turnover ratio, which measures the bank's ability to generate revenue from its total assets (Al-Sadi & Al-Mamouri, 2022). This ratio shows how much revenue a bank generates for each dollar of assets. Banks with high asset turnover ratios generate more revenue per dollar of assets and, thus, are more profitable. Another ratio used to evaluate a bank's asset management effectiveness is the fixed asset turnover ratio, which measures the bank's ability to generate revenue from its fixed assets. This ratio measures how effectively the bank uses its buildings, equipment, and other long-term assets to generate revenue (Purba & Bimantara, 2020). The total asset turnover ratio is another critical ratio used to assess a bank's asset management effectiveness. This ratio measures the bank's ability to generate revenue from all of its assets, including both fixed and current assets.

A high total asset turnover ratio indicates that a bank is efficiently using all of its assets to generate revenue, leading to higher profitability. Effective asset management can also improve a bank's efficiency ratio, which is a measure of its operating expenses relative to its revenue (Banamtuan, Zuhroh & Sihwahjoeni, 2020). By minimizing non-interest expenses, such as rent, salaries, and advertising costs, banks can reduce their operating expenses and increase their profitability. In summary, effective asset management is crucial for a bank to achieve profitability. Every firm can improve their profitability by managing their assets effectively, generating more revenue from their operations, reducing costs, and minimizing

risks (Oghenekohwo, Anastesia & Moses, 2019). The current asset turnover ratio, fixed asset turnover ratio, and total asset turnover ratio are all essential metrics used to evaluate a bank's asset management effectiveness. By improving these ratios and reducing operating expenses, banks can increase their profitability and provide greater value to their shareholders.

2.2 Empirical Review

Basri (2023) conducted a study on the relationship between asset structure and the performance of manufacturing companies listed on the Indonesia Stock Exchange and found that asset structure had a negative and insignificant impact on the stock performance. Using multiple regression, Wokeh (2022) explored the relationship between non-current assets and financial performance in listed deposit money banks in Nigeria. The research showed a negative and insignificant relationship between property, plant, and equipment and return on assets of listed deposit money banks in Nigeria. Moreover, the study revealed a positive but insignificant relationship between property, plant, and equipment and return on equity of listed deposit money banks in Nigeria.

Abebe (2022) similarly examined the effect of asset and liability management on the financial performance of microfinance institutions in sub-Saharan African region. Applying the regression analysis, the study showed that the composition of assets and liabilities has both positive and negative effects on the returns of the MFIs in the sample. In the same vein, Olonite and Okoro (2021) examined the relationship between asset structure and financial performance of construction firms in Nigeria and found that fixed asset have a positive and significant impact on return on asset. Also, the study found that current asset have positive and significant impact on earnings per share. Using a panel regression analysis, Olopade (2021) examined the effect of non-current asset on the organizational performance of listed fast moving consumer goods firm in Nigeria and found that profit after tax have significant relationship with additions to non-current asset while turnover have no significant relationship with additions to non-current asset of the selects firms. Likewise, there is no significant relationship between return on asset and additions to non-current asset.

Banamtuan, Zuhroh and Sihwahjoeni (2020) analyzed the effect of Asset Management on stock prices through Return on Investments (ROI) in Indonesia. The path analysis was applied to find that management of asset significantly influences ROI and stock prices. Similarly, Sarafa and Joshua (2020) examined the effect of asset efficiency on the financial performance of quoted manufacturing firms in Nigeria. They applied least square multiple regression and

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found that asset efficiency has positive effect on the financial performance of manufacturing firms in Nigeria. Purba and Bimantara (2020) in the same vein conducted a study to examine the impact of asset management on financial performance. Using the Panel Data Regression Analysis, they found that fixed asset turnover had a positive and significant effect on ROA. Using pooled multiple regression techniques

Charlie and Akpan (2020) examined the influence of tangible and intangible assets ratio on the performance of Deposit Money Banks (DMBs) in Nigeria and found ratio of tangible to the intangible asset has a significant negative effect on ROA of DMBs in Nigeria. Olaoye and Ayodele (2019) also examined the relationship between asset management and performance of selected quoted firms in Nigeria using pooled OLS and found that current assets exert insignificant positive impact on profit after tax, noncurrent assets exert significant positive impact on profit after tax, and debt-equity ratio on the other hand exerts insignificant negative impact on profit after tax.

3. MATERIAL AND METHOD

This study adopted *ex-post facto* research design. The study population consists of thirteen banks listed on the Nigerian exchange group from which a sample size of ten (10) banks was selected for the analysis based on availability of complete required data. Each of the banks had fulfilled their obligation in publishing of annual reports for the years 2014-2023. The selected banks were; Access Bank Plc, Fidelity Bank Plc, Guaranty Trust Bank Plc, Union Bank of Nigeria Plc, United Bank of Africa Plc, Zenith Bank Plc, Ecobank Nigeria Plc, Sterling Bank Plc, Unity Bank Plc and Wema Bank Plc. Data collected were analyzed using descriptive statistics and ordinary least square regression. The estimates from OLS analysis provided basis for test of hypotheses. Current Asset Turnover Ratio was measured as the ratio of revenue to current asset of the bank, Fixed Asset Turnover Ratio as the ratio of revenue to non-current asset of the bank, Total Asset Turnover Ratio as the ratio of revenue to total asset of the bank and Return on Asset as the ratio of earnings after tax to total assets of the banks.

The model specified in this study was based on empirical studies on the effect of Asset management on profitability of banks in Nigeria which covered the period of 2014 to 2023. The model is stated as:

$ROA_{it} = \beta_0 + \beta_1 CATR_{it} + \beta_2 FATR_{it} + \beta_3 TATR_{it} + \varepsilon$……Eqn 1.

Where:

ROA = Return on Asset

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ε = Error term

CATR = Current Asset Turnover Ratio

FATR = Fixed Asset Turnover Ratio

TATR = Total Asset Turnover Ratio

β_o = Regression intercept

β_1 = Parameters

4. RESULT AND DISCUSSIONS

4.1 Data Analysis

4.1.1 Descriptive Statistics

The descriptive statistics is shown below in Table 1.

Table 1 Descriptive Statistics

	ROA	CATR	FATR	TATR
Mean	0.015600	0.160852	0.447209	0.106775
Median	0.011936	0.157453	0.334526	0.108612
Maximum	0.061537	0.387909	2.102094	0.186476
Minimum	-0.095318	-0.478166	-0.112393	-0.091003
Std. Dev.	0.019312	0.088585	0.308853	0.033621
Skewness	-1.845407	-3.362375	2.059871	-2.013649
Kurtosis	14.47315	28.79248	10.21350	14.17483
Jarque-Bera	605.2302	2960.310	287.5288	587.8998
Probability	0.000000	0.000000	0.000000	0.000000
Sum	1.559996	16.08519	44.72088	10.67753
Sum Sq. Dev.	0.036921	0.776875	9.443641	0.111908
Observations	100	100	100	100

Source: Eviews 10 Analysis Output (2024)

ROA: The mean ROA of listed banks in Nigeria is 0.0156, with a maximum value of 0.0615 and a minimum value of -0.0953. The standard deviation of ROA is 0.0193, indicating that the ROA values are relatively tightly clustered around the mean. The skewness of ROA is negative (-1.845), indicating that the distribution is skewed to the left. The kurtosis value of 14.473 suggests that the distribution of ROA is leptokurtic, meaning that it has more outliers and heavier tails than a normal distribution. The Jarque-Bera test statistic of 605.23 and associated p-value of 0.000 suggest that the distribution of ROA is not normal.

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CATR: The mean CATR for listed banks in Nigeria is 0.1609, with a maximum value of 0.3879 and a minimum value of -0.4782. The standard deviation of CATR is 0.0886, indicating that the CATR values are relatively tightly clustered around the mean. The skewness of CATR is negative (-3.362), indicating that the distribution is highly skewed to the left. The kurtosis value of 28.792 suggests that the distribution of CATR is highly leptokurtic, meaning that it has many outliers and heavier tails than a normal distribution. The Jarque-Bera test statistic of 2960.31 and associated p-value of 0.000 suggest that the distribution of CATR is not normal.

FATR: The mean FATR for listed banks in Nigeria is 0.4472, with a maximum value of 2.1021 and a minimum value of -0.1124. The standard deviation of FATR is 0.3089, indicating that the FATR values are relatively widely dispersed around the mean. The skewness of FATR is positive (2.059), indicating that the distribution is highly skewed to the right. The kurtosis value of 10.214 suggests that the distribution of FATR is leptokurtic, meaning that it has more outliers and heavier tails than a normal distribution. The Jarque-Bera test statistic of 287.53 and associated p-value of 0.000 suggest that the distribution of FATR is not normal.

TATR: The mean TATR for listed banks in Nigeria is 0.1068, with a maximum value of 0.1865 and a minimum value of -0.0910. The standard deviation of TATR is 0.0336, indicating that the TATR values are relatively tightly clustered around the mean. The skewness of TATR is negative (-2.014), indicating that the distribution is highly skewed to the left. The kurtosis value of 14.175 suggests that the distribution of TATR is leptokurtic, meaning that it has more outliers and heavier tails than a normal distribution. The Jarque-Bera test statistic of 587.90 and associated p-value of 0.000 suggest that the distribution of TATR is not normal.

JOURNAL OF GLOBAL ACCOUNTING
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https://journals.unizik.edu.ng/joga

4.2 Test of Hypotheses

Table 2 OLS Regression Analysis Result

Dependent Variable: ROA

Method: Least Squares

Date: 07/06/24 Time: 11:28

Sample: 1 100

Included observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CATR	0.136444	0.036562	3.731883	0.0003
FATR	0.008181	0.007072	1.156808	0.2502
TATR	-0.104390	0.103150	-1.012027	0.3141
C	0.001140	0.006000	0.190028	0.8497

R-squared	0.241819	Mean dependent var	0.015600
Adjusted R-squared	0.218125	S.D. dependent var	0.019312
S.E. of regression	0.017076	Akaike info criterion	-5.263108
Sum squared resid	0.027993	Schwarz criterion	-5.158901
Log likelihood	267.1554	Hannan-Quinn criter.	-5.220934
F-statistic	10.20626	Durbin-Watson stat	0.913996
Prob(F-statistic)	0.000007		

Source: Eviews 10 Analysis Output (2024)

Table 2 shows the results of the regression analysis that examined the effect of asset turnover ratios on the return on assets (ROA) of listed banks in Nigeria. The regression coefficients for each of the independent variables (current asset turnover ratio, fixed asset turnover ratio, and total asset turnover ratio) indicate how much the dependent variable (ROA) is expected to change when the corresponding independent variable is increased by one unit, holding other independent variables constant.

The R-squared value of 0.241819 indicates that the independent variables collectively explain about 24% of the variation in the dependent variable. The adjusted R-squared value of 0.218125 takes into account the number of independent variables in the model and is slightly lower than the R-squared value. The F-statistic of 10.20626 and probability value of 0.000007 indicate that the regression model as a whole is statistically significant, indicating that at least

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one independent variable has a statistically significant relationship with the dependent variable.

4.2.1 Hypothesis I

H_{01}: Current asset turnover ratio has no significant effect on the return on asset of listed banks in Nigeria.

The coefficient for current asset turnover ratio is 0.136444, which means that a one unit increase in CATR is associated with a 0.136444 unit increase in ROA, holding other variables constant. This coefficient is statistically significant at the 0.05 level, with a probability value of 0.0003. Therefore, current asset turnover ratio has a significant positive effect on the return on asset of listed banks in Nigeria (*p*-value = 0.0003). This means that when listed banks in Nigeria have a higher CATR, they tend to generate more profits from their current assets relative to the total amount of current assets they hold. This could be due to the fact that a higher CATR indicates that the bank is efficiently using its current assets to generate revenue and income, which in turn leads to higher profitability. This result agrees with those of Olonite and Okoro (2021) but disagreed with the findings of Mawih (2013) that realised no significant effect.

4.2.2 Hypothesis II

H_{02}: Fixed asset turnover ratio has no significant effect on the return on asset of listed banks in Nigeria.

The coefficient for fixed asset turnover ratio is 0.008181, which means that a one unit increase in FATR is associated with a 0.008181 unit increase in ROA, holding other variables constant. However, this coefficient is not statistically significant at the 0.05 level, with a probability value of 0.2502. Thus, fixed asset turnover ratio has a non-significant positive effect on the return on asset of listed banks in Nigeria (*p*-value = 0.2502). This suggests that when listed banks in Nigeria have a higher FATR, they tend to generate more profits from their fixed assets relative to the total amount of fixed assets they hold, but this effect is not statistically significant. This could be due to the fact that fixed assets, such as buildings and equipment, may be less liquid and more difficult to convert to cash quickly, which could affect their impact on profitability. Similar result was also found by Wokeh (2022); Olopade (2021); Sarafa and Joshua (2020); Purba and Bimantara (2020); Oliver, Ugbor and Chukwuani (2017); Ubesie and Ogbonna (2013) and Mawih (2013).

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4.2.3 Hypothesis III

H_{03}: Total asset turnover ratio has no significant effect on the return on asset of listed banks in Nigeria.

The coefficient for total asset turnover ratio is -0.104390, which means that a one unit increase in TATR is associated with a -0.104390 unit decrease in ROA, holding other variables constant. However, this coefficient is not statistically significant at the 0.05 level, with a probability value of 0.3141. Therefore, total asset turnover ratio has a non-significant negative effect on the return on asset of listed banks in Nigeria (*p*-value = 0.3141). This suggests that when listed banks in Nigeria have a higher TATR, they tend to generate lower profits relative to the total amount of assets they hold, but this effect is not statistically significant. This could be due to the fact that a higher TATR may indicate that the bank is growing its assets quickly, but at the expense of profitability. Additionally, a higher TATR may also indicate that the bank is taking on more risk in its asset portfolio, which could also affect profitability. This result corroborates the findings of Basri (2023); and Sarafa and Joshua (2020) which found similar negative and non-significant effects, respectively.

CONCLUSION AND RECOMMENDATION

The findings of the study suggest that listed banks in Nigeria can improve their profitability by focusing on improving their current asset turnover ratio. This means that the banks should strive to use their current assets more efficiently to generate more revenue, while maintaining an optimal level of liquidity. One way to improve the current asset turnover ratio is by optimizing cash management practices. This may involve reducing idle cash balances, accelerating the collection of accounts receivable, and improving inventory management. Additionally, banks may also consider investing in short-term investments such as money market funds to earn higher returns on their idle cash. On the other hand, a higher fixed asset turnover ratio indicates that a company is generating more revenue per unit of fixed assets. The finding that the fixed asset turnover ratio has a non-significant positive effect on the return on asset of listed banks in Nigeria means that there is a weak relationship between the two variables. It is possible that some banks are using their fixed assets more efficiently to generate revenue, but this is not a significant enough factor to impact their overall return on asset. However, while the study found that the total asset turnover ratio has a non-significant negative effect on the return on asset, this does not mean that banks should ignore this ratio altogether. Increasing the total asset turnover ratio may lead to higher revenue generation, but

it may also increase the risk of losses due to the higher level of assets being managed. Thus, it is important for banks to be mindful of the potential risks and trade-offs associated with increasing the total asset turnover ratio. In summary, the findings suggest that banks in Nigeria realise better financial results when they prioritize improving their current asset turnover ratio and fixed asset turnover ratio, while also considering the potential risks associated with increasing their total asset turnover ratio. By doing so, banks can improve their profitability and achieve sustainable growth in the long term.

The study recommended that banks should focus on managing their current assets effectively which may include optimizing the management of cash, accounts receivable, inventory, and other current assets to generate more revenue and improve profitability; Banks should consider reevaluating their fixed asset investment decisions and ensure that they are using their fixed assets effectively to generate more revenue and reduce costs; Banks may need to balance their asset allocation to ensure that their assets are generating the desired level of revenue and profits.

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