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Social and External Capitals and Growth Strategies of Firms: Do Investment Opportunity Mediate in the Relationship?

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Abstract:
This study assessed the mediating effect in the relationship between social and external capitals and growth strategies of listed non-finance firms in Nigeria. A total of seventy-five (75) firms were studied during the period 2012-2019.Secondary data of social and external capitals, growth strategies, and investment opportunities were obtained from the annual reports and accounts of the firms. Data obtained were analyzed using both the descriptive (mean, median, minimum and maximum values, standard deviation, kurtosis and skewedness); pre-estimation results (correlation matrix, fixed and random effects, and structural equation modeling); and post-estimation results (variance inflation factor, and Hausman specification test). The random effect result showed that while firms' social and external capital positively relate with growth strategies, the structural equation modeling result revealed that investment opportunity mediates in the relationship between social and external capitals and growth strategies of the studied listed non-finance firms in Nigeria. Given the findings of the study, it was recommended among others that firms should increase their level of investments so as to further enhance their growth strategies and social and external capitals; investments should be targeted at the physical assets of the firm. More so, management of firms should increase the level of social capitals as it has been proven that social capital positively affects growth strategies of firms.

Keywords: *Social capital, External capital, Growth strategies, Intellectual capital, Investment Opportunity*

1. Introduction

In recent times, social and external capitals play a fundamental role in creating an atmosphere for firms' expansion and competitive advantage (Wafa & Javaria, 2018; and Hussinki, Ritala, Vanhala & Kianto, 2017). This view is further reinforced by the resource-based theory which accentuates that firms with valuable/scarce resources are more probable to obtain sustainable competitive advantage. These resources can enable firms improve processes, maintain contact with customers and suppliers, and produce greater innovation (Maciková, Smorada, Dorčák, Beug, Markoviˇc, 2018; and Jardon & Martos, 2012).

The place of intellectual capitals (social and external) become more vital for organizations in that there is a switch from economy based on tangible goods to intangible assets (Maciková, *et al,* , 2018; Isabel & Bailoa, 2017; and Jardon & Martos, 2012). Regardless, of the shift towards intellectual capital-intensive economy, traditional accounting practices has continued to focus more on the physical assets of firms in financial statements, excluding intellectual capitals like social and external. Fortunately, social and external capitals belong to the group of assets known as intangible for the reason that they represent those intrinsic qualities of people which cannot be seen but which are imperative for success and survival of a firm.

Although there is a broad body of knowledge that social and external capitals have positive effects on firms' performance and growth strategies (see Hoang, Bui & Nguyen, 2018; Xu & Wang, 2018; and Rezvan, Merhrdad & Mohammed, 2016), the notion of whether investment opportunities mediate the relationship between intellectual capital and growth strategies of firms remain an issue under contention, given the dearth of empirical evidences to confirm or refute this contention in the Nigerian context.

Investment opportunity is one of the two (2) constituents of firm value which characterizes the value of growth options or future potential investment. Investment opportunity according to Hussinki, Ritala, Vanhala&Kianto (2017) are vital to sustainability of firms and ultimately, the nation's economic growth process. Moreover, with the widespread recognition of social and external capital as drivers of growth strategies, most empirical models only focused on three components of intellectual capital namely social, structural and human without due attentiveness on external capital well as the mediating role of investment opportunities.

The need to incorporate external capital as a major component of intellectual capital and the moderating role of investment opportunities, calls for further research. Consequently, this study attempts to bridge the gap in accounting

literature by examining whether investment opportunities mediate in the relationship between social and external capitals and growth strategies of listed firms on the Nigerian Exchange Group (NEG).

2. Literature Review and Theoretical Framework

2.1. Social Capital (SOC)

The concept of social capital (SOC) came into prominence as a result of the flow of goods and services in the business chain. SOC according to Kaya, Sahin and Gurson (2010) refer to the value of relations with institutions and individuals who are likely to be customers and suppliers and expressing the loyalty of the customers to the firm. Nahapiet and Ghosal (1998) opined that SOC is the knowledge embedded within interactions among individuals and relationship networks. This clearly suggests that in order to have a sustained SOC, firms must engage in investment activities in customers just as they invest in employees and process.

SOC is also defined as the sum of actual and potential resources entrenched within, available through, and derived from network of relationship possessed by a social unit (Adler & Kwon, 2002; and Leana & Pil, 2006). It is also seen as a set of assets that play a fundamental role in value creation (Schiuma & Lerro, 2008). Stevenson and Radin (2009) asserted that SOC is an investment in social relation with expected returns. SOC is usually compared with the human capital in numerous respects. For instance, a firm cannot own customers like the way they cannot own humans, but a firm and its customers can develop SOC, especially those in their possession. A firm's SOC enhances the quality of strategy, group and richness of information exchange among members in a team (Subramaniam & Youndt, 2005).

Consequently, SOC have the tendency to increase cooperation in an organization, given the fact that organizations can be regarded as social agent. In this study, SOC was measured as the revenue minus cost of revenue divided by the total asset minus intangible assets; this measurement considers the efficiency of SOC.

2.2. External Capital (EXC)

In literature, external capital (EXC) is viewed as a major component of intellectual capitals. According to Subramaniam and Youndt (2005), EXC refers to the knowledge entrenched within, available and used by interactions among employees and their networks of inter-relationship. Isaac, Herremans and Klein (2009) asserted that EXC represents a dimension of intellectual capital that is composed of connections with others within or outside a firm, thus leading to value creation. The major components of EXC as suggested by Cuganesan (2005); and Kong (2008) are trademarks, brand value, cooperation, license agreements, relationships with customers/suppliers, corporate social responsibility (CSR) and customer loyalty among others.

Kocoglu, Imamoglu and Ince (2009) stressed that EXC is vital to a firm since it acts as a multiplying element that creates value for a firm by connecting all elements of intellectual capital with other external stakeholders. Despite the vital role played by intellectual capital, studies on EXC are relatively scanty as there are abundant empirical evidences on other components of intellectual capitals like human, social and structural capitals. In this study, EXC was measured as the amount spent on CSR (social disclosure index; capitals spent on external bodies like social donations/gifting, customer and complaints).

2.3. Investment Opportunities (IOP)

Investment opportunities (IOP) according to Youndt, Subramaniam and Snell (2004) enable the creation and dissemination of knowledge from and across dispersed and globalized sources as well as the enhancement of growth strategies. IOP implies creating the possibilities of investment in intellectual capital to augment organizational growth. Several studies regard IOP as a contributing factor and also play a mediating role towards ensuring an enhanced growth strategy and improved intellectual capital (Youndt, Subramaniam & Snell, 2004; and Kostopoulos, Bozionelos & Syrigos, 2015).

Studies like Hatzichronoglou (2013); and Czarnitzki, Thorwarth (2012) have shown that investment in intellectual capital is much higher in advanced than in low technology firms (non-finance firms). In this study, IOP was measured using cash dividend yield in percentage; this is computed as cash dividend paid divided by market capitalization.

2.4. Growth Strategies

Practically, growth is vital to all firms not withstanding their sizes. Some of the rationale for growth strategy is aimed at attracting and keeping quality management, enhancing competitive advantage, meeting consumers' needs, increasing productivity, market share and business performance among others (Ojukwu, 2006). For firms to achieve growth strategies, the processes of the firm must be improved; these strategies may entail operational problems, achieved benefits, business target, quality product and services, which are aimed at attracting and retaining customers.

Akomea-Bonsu and Sampong (2012) showed that growth strategies of firms are usually more influenced by operational problems, achieved benefits, and business target. In specifics, growth is a function of summation of achieved benefits, targets, and performance excluding operational problems. The level of reduced effect of operational problems shows a negative indicator on growth; hence they are deducted from the sum of other three indicators (achieved benefits, targets and performance).

Notably, one of the vital subcomponents of growth strategy is the level of achieved performance, which in the views of Hoang, *et al,* (2018); and Xu and Wang (2018) can be determined by revenue growth rate of the firm over a period. The use of revenue growth rate is vital in assessing firms' growth strategies because when firms are able to

efficiently realize their growth strategies, they expect to see an increase in the growth rate of revenue (Rezvan, *et.al*, 2016; and Hoang, *et al*, 2018).

In this study, growth strategy was measured via revenue growth rate. Revenue growth rate is computed as current year revenue minus prior year revenue divided by prior year revenue; this measure of growth strategy is similar to those used in the studies of Egbu (2004); Huang and Liu (2005); and Enweroke (2018).

2.5. Theoretical Framework

This study is anchored on the resource-based theory (RBT) propounded by Wernerfelt (1984). RBT is viewed as a tool for assessing the strategic resources available to a firm. RBT argued that the development of intellectual capital is a vital means of attaining strategic growth and performance (Wernerfelt, 1984). RBT emphasizes that a firm's intellectual capital is valuable when it is able to enhance strategies aimed at improving its efficiency and effectiveness (Cao & Wang, 2015). RBT explains that in order to attain sustainable advantage and growth, it is vital for firms to focus on both its tangible and intangible assets; this implies that the strategic resources of a firm is capable of generating growth strategies and competitive advantage which can manifest in terms of greater performance, profits, sales, market share as well as investment opportunities.

The criticism associated with RBT is that the theory fails to show other resources aside the strategic resources capable of promoting growth strategies of the firm. However, the theory addresses that strategic resource like intellectual capital aids growth strategy and competitive advantage. The significance of RBT to the current study is that it fits the description of strategic assets since it is valuable, poorly imitable, and rare.

From the perspective of RBT, predicting intellectual capital-investment opportunities and growth strategies linkage is very much within the feasible parameters. Specifically, this study proposes that intellectual capital (social and external) and investment opportunities may affect the growth strategies of firms. Thus, strategic intangible resources such as intellectual capital resulting from the skills, knowledge, processes, information systems and customer relationships are very vital in the non-financial sector.

3. Research Methods

This study examined the mediating effect in the relationship between social and external capitals and growth strategies of non-finance firms in Nigeria. Thus, the quantitative research design was employed. The population of the study consists of all listed non-finance firms as at 31st December, 2019. As at 31st December, 2019, there are ninety-one (91) non-finance firms listed on the floor of the Nigerian Exchange Group (NSG); thus the population of the study is made up of the 91 non-finance firms.

Using the Taro-Yamane sampling size determination formula, a sample size of seventy-five (75) non-finance firms was obtained. Secondary data was obtained from the NSG Factbook and Annual Reports and Accounts of the listed non-finance firms from 2012-2019. The choice of period is based on the improvements in financial reporting across the globe as a result of the transition to the International Financial Reporting Standards (IFRSs) as well as the increased demands for quality financial reporting in the most capital markets of the world.

Social and external was measured given the submissions of Kostopoulos, *et al.* (2015), while in the views of Rezvan, Merhrdad and Mohammed (2016), growth strategy can be measured using revenue growth. Given the above, the empirical model of the study is given as:

$$REVG = F(EXC, SOC) \quad (3.1)$$

Where: REVG: revenue growth rate; EXC: external capital; SOC: social capital; Eq. 3.1 was expanded to reflect the linear equation model:

$$REVG_{it} = \beta_0 + \beta_1 EXC_{it} + \beta_2 SOC_{it} + \varepsilon_{it} \quad (3.2)$$

Where; β_0-β_{it} are parametric constants; and with time; ε $error$ term. The analysis was done as follows: descriptive (mean, standard deviation, minimum and maximum values; correlation); post-estimation (variance inflation factor); and inferential (fixed and random effects; and Hausman specification tests). To capture the mediating effect of investment opportunities, equations 3.3 was estimated.

$$REVG_{it} = \beta_0 + \beta_1 EXC_{it} + \beta_2 SOC_{it} + \beta_3 IOP_{it} + \varepsilon_{it} \quad (3.3)$$

Where; IOP is the investment opportunities. RBT argued that the development of intellectual capital is a vital means of attaining strategic growth (Wernerfelt, 1984). We expect every parameter according to RBT to intuitively appear to have appealing signs at 5% significant level; this means that by *a priori* $\beta_1, \beta_2, \beta_3 0$.

S/N	Variables	Measurement
1.	Social Capital (SOC)	Social capital efficiency ratio, measured as revenue minus cost of revenue divided by total asset minus intangible assets
2.	External Capital (EXC)	Amount spent on CSR (social disclosure index; capitals spent on external bodies like social donations/gifting, customer and complaints) expressed as a ratio.
3	Investment Opportunities (IOP)	Cash dividend yield in percentage, computed as cash dividend paid divided by market capitalization
4	Growth Strategies (REVG)	Revenue growth in percentage, computed as current year revenue minus previous year revenue divided by previous year revenue.

Table 1: Measurement of Variables
Source: Compiled by the Researcher, 2021

4. Results and Discussions

Statistics	REVG	SOC	EXC	IOP
Mean	10.08015	.236422	2.6381	3.2134
Median	4.5829	.203800	.713100	1.5865
Maximum	1354.255	5.8538	60.8526	51.7242
Minimum	-100	-1.6089	0	0
Std. Dev.	76.8696	.303959	6.0393	4.7262
Skewness	11.5212	10.4075	5.8088	4.2565
Kurtosis	179.1533	201.558	46.1036	37.483
Counts	587	591	591	586

Table 2: Descriptive Statistics of the Variables
Source: Computed by Researcher, via STATA 13.0 Software

Presented in Table 2 is the descriptive statistics of dependent variable (growth strategies – revg); independent variables (social capital – soc; and external capital – exc); and mediating variable investment opportunities (IOP). It can be seen that none of the variables showed negative average values due to the characteristics of the periods covered (2012-2019), which is due to the impact of disclosure requirements by non-finance firms driven by IFRS. Yearly standard deviation values range from 76.8696 (*revg*), .303959 (*soc*), 6.0393 (*exc*), 6.4246 and 4.7262 (IOP*).* The yearly standard deviation values were not too dispersed from each other; except *revg*; an indication that the studied non-finance firms' external and social capital, investment opportunities and growth strategies are closely related.

Again, all panel data series (*revg, soc, exc* and *iop*), showed non-zero skewness; variables of *revg* (11.5212)*, soc(*10.4075)*, extc(*5.8088) and *iop*(4.2565) were skewed to the right as shown by the positive values. Impliedly, while growth strategies moved in similar direction with social, external and investment opportunities. Besides, all the variables have a normal distribution as shown in kurtosis values, which are above three (Gujarati, 2003); this suggests that all the variables are normally distributed.

Variables	revg	soc	exc	iop
revg	1.0000			
soc	0.5917	1.0000		
exc	-0.0091	0.3175	1.0000	
iop	-0.0291	0.0988	0.4470	1.0000

Table 3: Correlation Matrix of the Variables
Source: Computed by Researcher, via STATA 13.0 Software

Table 3 shows the correlation matrix; the results showed that correlation between *soc,)* and revenue growth strategies *(revg)* are positive while exc and investment opportunities are negative; an indication that external capital negatively relates with investment opportunities. Also, the Pearson correlation coefficient did not exceed the maximum benchmark of 0.9, as suggested by Gujarati (2003). This indicates the absence of multicollinearity among pairs of the independent variables.

Variables	VIF	1/VIF
soc	2.00	0.499224
exc	1.42	0.705018
iop	1.26	0.791962
Mean VIF	1.56	

Table 4: Variance Inflation Factor Result
Source: Computed by Researcher, via STATA 13.0 Software

Table 4 showed the Variance Inflation Factor (VIF); the mean VIF = 1.56, which is less than the accepted VIF value of 10.0, indicating the absence of multicollinearity problem in the empirical model. Impliedly, the formulated models of social and external capitals, and growth strategies, mediated by investment opportunities are void of econometric problems.

Variables	SOC	EXC
FIXED EFFECTS		
Coefficient t_ Statistics Prob._t	156.6399 (13.60) {0.000}	-2.68659 (-6.13) {0.000}
No. of Obs. = 580; F(3, 568) = 64.30; Prob.>F (0.0000); R^2 (within) = 0.3991; R^2 (between) = 0.1638; R^2 (overall) = 0.3944		
RANDOM EFFECTS		
Coefficient t_ Statistics Prob._t	157.0541 (14.08) {0.000}	-2.667004 (-6.11) {0.000}
No. of Obs. = 580; Wald Chi2(2) = 78.32; Prob.>F (0.0000); R^2 (within) = 0.3991; R^2 (between) = 0.1614; R^2 (overall) = 0.3944		

Table 5: Fixed and Random Effects Results
Hausman=0.8722; Note: T & Z -Statistics and Their Respective Probabilities Are Represented In () and {}
*Where: *** Represents 1% & ** Represent 5% Level of Significance*
Source: Researcher's Computation, 2021 Via STATA

Table 5 showed that the model has higher beta coefficient when RE is employed; the RE beta coefficient are *soc* (157.0541), and *exc*(-2.667004), which is higher than FE. The Hausman specification result showed that random effect model was appropriate for use (0.8722); this implies acceptance of the null hypothesis since p-value was insignificant at 5% level. Again, the t-test results (RE) confirm that social (*soc)* and external *(exc)* capitals are significant in explaining the variation in growth strategies of listed non-finance firms in Nigeria. Nevertheless, R^2 is 0.3944 (RE); impliedly, intellectual capitals components explained about 39.44% variation in growth strategies of listed non-finance firms.

Fit Indicator(s)	Coefficients	Remark
Goodness of Fit Statistics (GFI)	0.98	Significant
Adjusted Goodness of Fit Statistic (AGFI)	0.96	Significant
Comparative Fit Index (CFI)	0.96	Significant
Root Mean Square Residual (RMR)	0.03	Significant
Root Mean Square Error of Approximation (RMSEA)	0.07	Significant

Table 6: Fit Indicators
Source: Researchers' Computation, 2021 via STATA 13.0

The result (Table 6) showed that the measurement model provides an absolute fit to data with goodness of fit statistic(*GFI*)=*.98*; adjusted goodness of fit statistic(*AGFI*)=*.96*; comparative fit index(*CFI*)=*.96*, root mean residual(*RMR*)=*.03*, root mean square error of approximation (*RMSEA*)= *.07*. The *GFI*, *AGFI* and *CFI* beat the suggested benchmark of 0.90, and RMSEA value is below the benchmark value of 0.08. Impliedly, the approach employed for modeling the moderating effect of investment opportunities in the relationship between intellectual capitals and growth strategies fit properly

	Coef.	OIM Std. Err.	z	P>/z/	[95% Conf. Interval)	
Structural						
scc<-						
iop	0.006493	0.002724	2.38	0.017	0.001154	0.011832
_cons	0.218280	0.015281	14.28	0.000	0.188330	0.248230
exc<-						
iop	0.587648	0.048957	12.00	0.000	0.4916951	0.683601
_cons	0.835629	0.274638	3.04	0.002	0.2973488	1.373911
revg <-						
iop	-0.482529	0.690807	-0.70	0.485	-1.836485	0.871427
_cons	12.08811	3.875319	3.12	0.002	4.4926220	19.68359

Table 7: Test of Models of Structural Equation Modeling (SEM)
Source: Researchers' Computation, 2021 via STATA 13.0; LR Test of Model vs. sat.:chi2 = 14107.44; Prob.>chi2=0.0000

The result (Table 7) provides evidence that social capital (*soc = 2.38 p>/z/=0.017),* external capital (*exc = 12.00 p>/z/=0.000* are moderated by investment opportunities positively. This implies that when non-finance firms adequately invest and manage social and external capital growth strategies are positively affected.

The study adapts the models of Kostopoulos, et.al (2011); and Rezvan, et.al (2016) by affixing investment opportunities as a mediating variable to ascertain the mediating relationship between social and external capitals and growth strategies. First, descriptive result showed that intellectual capital component (*soc)* and revenue growth strategies *(revg)* are positive while other components (*exc* and *revg)* are negatively related. Overall, the results suggest that social and external capitals are correlated with growth strategies and that investment opportunities play a mediate role in the relationship. These findings in part corroborate with the results of Hamzah and Ismail (2007); Kocoglu, *et al* (2009); Czarnitzki and Thorwarth (2012); Hatzichronoglou (2013); Isabel and Bailoa (2017); and Hoang, *et al,* (2018).

5. Conclusion and Recommendations

In Nigeria, there has been unprecedented increase in growth strategies of firms as a result of increased investment in physical asset as opposed to intellectual capitals (social and external). Perhaps, the decline in social and external capitals may be linked with the conventional accounting practices which place emphasis on disclosure of physical assets without much concern for intangible capitals (external and social). While investments in social and external capitals are gradually increasing, numerous firms are still faced with the issue of how intellectual capitals can be harnessed so as to promote growth strategies.

Interestingly, the findings of the mediating effect of investment opportunities in the relationship between social and external capitals and growth strategies seems to be novel in the accounting literature, as there are scanty studies that have examined the mediating effect of investment opportunities in the relationship between social and external capitals and growth strategies, particularly of listed non-finance firms in Nigeria. Given the analysis, it was found that social and external capitals are correlated with growth strategies and more so, investment opportunities play a mediate role in the relationship.

On the basis of the findings, it was recommended that firms need to increase their level of investments to enhance their growth strategies and social and external capitals; investments should be targeted at the physical assets of the firm. Furthermore, management of firm should increase the level of social capitals as it has been proven that social capital positively affects growth strategies of firms. Again, the focus of firms should be targeted at increasing the level of external capital by way of promoting their contribution on corporate social responsibility.

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