

The Influence of Financing Mix on Corporate Performance in Nigeria: A Disaggregated Approach

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Abstract

This paper investigates the influence of Financing Mix (Capital Structure) on Corporate Performance in Nigeria using a disaggregated approach. To carry out this research we employed a disaggregated approach using sample of twenty seven firms listed on the Nigerian Stock Exchange during the seventeen-year period, 1996- 2013 and a model with the necessary policy variables was constructed. Panel data for the selected firms are generated and analyzed using Ordinary Least Squares (OLS) as a method of estimation. Our result reveals that a firm's capital structure represented by Debt Ratio, DR has a significantly negative impact on the Return on Asset (ROA) and Return on Equity (ROE) (firm's performance proxies). Also the relationship between ROA and firm's asset tangibility is negative and significant at 1% level being wrongly signed, against a priori expectations. This shows that firms with high ratio of tangibility have a lower financial performance ratio. The results also show that the size and growth of firm are correctly signed consistent with Myers and Majluf (1984). The study by these findings indicate consistency with previous empirical studies and provide evidence in support of Agency cost theory. The author recommended among others that firms should identify other relevant factors that influence corporate performance other than debt. Such factors as Corporate governance, quality management, Size of the firm, Tangibility, growth etc. It is also necessary that firms understand their conditions, analyze their debt capacities, look at the need to maintain comparability with firms in the same industry before making the final decision regarding their capital structure; and especially when presented with attractive new growth opportunities.

Keywords: Capital structure, corporate performance, debt, equity.

INTRODUCTION

Capital structure is the means by which an organization is financed. It is the mix of debt and equity capital maintained by a firm. The extant literature is awash with theories on capital structure since the seminal work of Modigliani and Miller (1958). Other capital structure theories like the Static Trade-off theory, the Pecking Order theory and the Agency theory have been used to investigate the determinants of capital structure of organizations. How an organization is financed is of paramount importance to both the managers of firms and providers of funds. This is because if a wrong mix of finance is employed, the performance and survival of the business enterprise may be seriously affected.

The ability of quoted companies to combine the use of debt and equity optimally in their capital structure is very important if it wants to achieve its goal of increase in share prices, value and growth, and avoid bankruptcy, financial distress and prey to corporate raiders. A cursory look at quoted companies in Nigeria reveals large differences in capital structure. There is also growing predictions of bankruptcy, financial distress and restructuring. This could be caused by wrong combinations and mismanagement of debt and equity among others. Some firms therefore become more risky than others and as a result rational and informed investor purchase the securities of one firm and not the other.

Arguments have been generated in studies designed to test the relationship between capital structure and corporate performance; the Trade off, Agency cost or the Pecking order theory, best describes the financing choices of corporations. Shyam-Sunder and Myers (1999) provide evidence suggesting the pecking order theory is a good first order description of the financing behaviour of firms. Chirinko and Singha (2000) use three examples to illustrate potential problems with using the Shyam-Sunder and Myers test to evaluate the pecking order theory. Frank and Goyal (2003) argue that none of the predictions of the pecking order theory hold when a broad sample of firms and a longer time series is used. Fama and French

(2002) find that short time variation in earnings and investment is mostly absorbed by debt, as predicted by the pecking order, but that the pecking order has other failings (namely significant equity issues by small growth firms).

To date, the empirical investigations that sought to examine the influence of capital structure on corporate performance are limited and inconclusive, but virtually no sufficient work has been done in the literature in Nigeria, apart from a limited amount of empirical research on the pecking order hypothesis for example, Olatundun (2002). An attempt was made by Akintoye (2008) who in his study used 10 Nigerian firms and also based his own conclusions on financial ratios as indicators of capital structure. Onaolapo and Kajola (2010) also did a study on capital structure with only non-financial firms. Therefore their conclusions lacked the empirical evidence applied to the financial sector on which this research is based.

This objective of this paper is to contribute to the debate on the relationship between capital structure and corporate performance from the agency cost theory perspective using data of twenty-seven firms listed on the Nigeria Stock Exchange (NSE) covering the periods 1996 to 2013. It seeks to provide answer to the question, “does capital structure affect corporate performance of firms?” The rest of the paper will be organized as follows:

THEORETICAL AND EMPIRICAL LITERATURE

Modigliani and Miller's (MM) famous 1958 article launched an overwhelming amount of research on capital structure. Since then various capital structure theories have evolved to explain the financing decision of firms. The Modigliani Miller theory with its modifications is based on the assumption of a perfect capital market. This is followed by the tradeoff theory, which emanated from the works of De Angelo and Masulis (1980). According to the theory, the tax advantage of debt will be traded off against the cost of financial distress. This trade-off results in an optimal capital structure. The third theory is the pecking order theory. This theory implies that firms prefer being financed using retained earnings, followed by debt, and finally by equity (see Myers and Majluf, 1984). The agency theory which is associated with the works of Jensen and Meckling (1976) is also reviewed. These alternative theories lead to different conclusions regarding the influence of capital structure decisions on corporate financing choice.

The financial structure of an enterprise is shown on the left hand side (liabilities plus equity) of the balance sheet. Traditionally, short-term borrowings are excluded from the list of methods of financing the firm's capital expenditure, and therefore, the long-term claims are said to form the capital structure of the enterprise. Equity includes paid-up share capital, share premium and reserves, and surplus (retained earnings). The company will have to plan its capital structure initially at the time of its promotion. Subsequently, whenever funds have to be raised to finance investment, a capital structure decisions is involved.

Pandey (2001) is of the opinion that under favourable economic conditions, the earnings per share increases with leverage. But leverage also increases the financial risk of the shareholders. As a result it cannot be stated definitely whether or not the value of the firm will increase with leverage. The capital structure decision can affect the value of the firm either by changing the expected earnings or the cost of capital or both. Leverage cannot change the total expected earnings of the firm, but it can affect the residue earnings of the shareholders. The effect of leverage on the cost of capital is not very clear. There exist conflicting theories on the relationship between capital structure and the value of the firm.

Modigliani and Miller Theory

The background to the modern debate on corporate capital structure derives from Modigliani and Miller (MM, 1958). MM's work overturned the traditional view of corporate finance. According to the traditional approach the cost of capital declines and the value of the firm increases within leverage up to a prudent debt level and after reaching the optimum point (minimum cost of capital or maximum value of the firm), leverage causes the cost of capital to increase and the value of the firm to decline. In other words the traditional view brings with the observation that debt is generally cheaper than equity as a source of investment finance. Hence, a firm can lower its average cost of capital by increasing its debt relative to equity (i.e. its leverage), provided the firm's cost of debt and equity remain constant. However, this process cannot be extended indefinitely because, in reality, higher levels of debt increase the likelihood of default resulting in debt holders and shareholders each demanding greater returns on their capital. Therefore, the cost of capital schedule (r) is u-shaped when plotted against leverage, with the cost of debt and equity both rising at an increasing rate as bankruptcy risk increases. The corresponding company market value schedule

is an inverted u-shape. Optimal leverage occurs where r is minimized and the value of the firm is maximized.

Campbell (2000) opined that the market value of a levered firm equals the market value of an unlevered firm plus the present value of interest tax shields. He assumed that the debt is perpetual. The implication is that the value of the firm is maximized when it is financed entirely by debt. This is not a very attractive implication for the theory with corporate taxes. Clearly, no firm is financed 100% by debt. Peyser (1999) in his opinion, state obviously that if the firm is unlikely to earn taxable profits, the effective tax shield is small. As a result it should not borrow. Campbell (2000) also considers that, since the stockholders bear the cost that arises from the conflicts of interest, they have an incentive to minimize the agency costs.

The Trade-off Theory

The trade-off theory of capital structure predicts that firms will choose their mix of debt and equity financing to balance the cost and benefits of debt. It should however be realized that a company cannot continuously minimize its overall cost of capital by employing debt. A point or range is reached beyond which debt becomes more expensive because of the increased risk (financial distress) of excessive debt to creditors as well to shareholders. When the degree of leverage increases, the risk of creditors increases, and they demand a higher interest rate and do not grant loan to the company at all, once its debt has reached a particular level. Further the excessive amount of debt makes the shareholders position very risky. This has the effect of increasing the cost of equity. Thus up to a point the overall cost of capital decreases with debt, but beyond that point the cost of capital would start increasing and, therefore, it would not be advantageous to employ debt further. So, there is a combination of debt and equity, which minimizes the firm's average cost of capital and maximizes the market value per share.

According to the trade-off theory, the tax advantage of debt will be traded off against the costs of financial distress. Firms for which the tax advantage is lower (e.g. firms with non-debt tax shields) and firms with higher costs of financial distress (e.g. firms with more volatile earnings) will have lower leverage (De Angelo and Masulis, 1980). As debt financing causes monitoring by lenders and reduces the free cash flow, debt can be used as an instrument to align the interests of managers and shareholders (Jensen and Meckling (1976), Jensen (1986)). However, debt financing may also cause conflicts of interests between shareholders and creditors, which could e.g. lead to sub-optimal investment policies (see Myers, 1977). Ross (1977) states that a well chosen mix of debt and equity financing minimizes total agency costs, and maximize firm value.

Pecking Order Theory

The major prediction of the model is that firms will not have a target or optimal capital structure, but will instead follow a pecking order of incremental financing choices that places internally generated funds at the top of the order, followed by debt issues, and finally, only when the firm reaches its "debt capacity" new equity financing. Myers and Majluf (1984) opined that this theory is based upon costs derived from asymmetric information between managers and the market and the idea that trade-off theory costs and benefits to debt financing are of second order importance when compared to the costs of issuing new securities. The development of a Pecking order based upon costs of adverse selection requires an adhoc specification of the manager's incentive contract and a limitation on the types of financing strategies that may be pursued (Dybrig and Zender, 1991). Despite the theoretical criticisms, the pecking order theory remains one of the predominant theories of incremental financing choice. In a recent set of papers, tests designed to distinguish between these competing theories have been considered.

Agency Theory

The seminal work on agency theory and capital structure is Jensen and Meckling (1976); the main extensions of the seminal work include: Ross (1977), Fama (1980, 1990), Arrow (1985) and Jensen and Meckling (1992). Here a particular single owner-firm wishes to finance projects in excess of the firm's internal resources. The firm has two options; to issue equity or debt. If the firm issues equity, the owner-manager's fractional interest within the firm decreases. This increases the incentives for an owner-manager to undertake excessive peck consumption since the costs to the owner of such activities have been lowered as a result of a reduction in his fractional interest. However, in the presence of efficient markets, which

incorporate expectations, external investors anticipate such actions by the owner-manager of the firm (James, 1999). Accordingly, the price of new equity is discounted to take into account the monitoring costs of external shareholders. Under these circumstances, the owner-manager would prefer to finance new projects using debt rather than equity. However, issuing debt to finance investment also incurs agency costs. These arise as a result of the conflict of interest between external lenders and the owner-manager.

Conflicts between Equity-holders and Managers

The conflict between equity holders and managers takes several distinct forms. The first, pointed out by Jensen and Meckling (1976), is that managers prefer to have greater perquisite levels and lower effort levels, provided that they do not have to pay for these through lower wages or by a lower market value of their personal equity holdings. A second arises because managers may prefer short-term projects, which produce early results and enhance their reputation quickly, rather than more profitable long-term projects (on this point, see Masulis (1988). Third, managers may prefer less risky investments and lower leverage to lessen the probability of bankruptcy (Hunsaker, 1999). Fourth, managers will wish to minimize the likelihood of employment termination. As this increases with changes in corporate control, management may resist takeover, irrespective of their effect on shareholder value (Garvey and Hanka, 1999). Managers and shareholders may also disagree over a firm's operating decisions: Harris and Raviv (1990) observe that managers will typically wish to continue operating the firm even if liquidation is preferred by shareholders; managers may also prefer to invest all available funds even if shareholders want to be paid dividends.

As Hunsaker (1999) points out, an increase in leverage also increases the risk of bankruptcy, and therefore limits management's consumption of perquisites. Other vehicles for removing shareholder – manager conflicts include the provision of incentive – compatible managerial contracts, and the role of the managerial labour market in exerting discipline on managerial behaviour. However, Jensen and Meckling (1976) and Myers and Majluf (1984) argue that management can still be disciplined by the use of convertible debt. Convertibles reduce very specific projects since, in the event of failure (liquidation), the amount realized will be very low. Thus, leverage should decrease as the degree of asset specificity rises.

Empirical Literature

Modigliani and Miller (MM, 1958), startled the academic community by providing, under a restrictive set of assumptions including zero taxes, that capital structure is irrelevant, that is according to their original article, a firm's value is not affected by its financing mix. Later, MM (1963) added corporate taxes to their capital structure irrelevance model and reached the conclusion that capital structure does matter, and that firms should use 100 percent debt financing in order to maximize firm's value.

However, Brigham and Gapenski (1996) argue that an optimal capital structure can be attained if there exist a tax sheltering benefits provided an increase in debt level is equal to the bankruptcy costs. They suggest that managers of the firm should be able to identify when the optimal capital structure is attained and try to maintain it at that level. This is the point at which the financing costs and the cost of capital (WACC) are minimized, thereby increasing firm value and performance.

Jensen and Meckling (1976) argue that managers do not always run the firm to maximize returns to shareholders. As a result of this, managers may adopt non-profitable investments, even though the outcome is likely to be losses for shareholders. They tend to use the free cash flow available to fulfill their personal interest instead of investing in positive Net Present Value projects that would benefit the shareholders. Jensen (1986) argues that the agency cost is likely to exacerbate in the presence of free cash flow in the firm.

In order to mitigate this agency conflict, Pinegar and Wilbricht (1989) argued that capital structure can be used through increasing the debt level and without causing any radical increase in agency costs. This will force the managers to invest in profitable ventures that will be of benefit to the shareholders. If they decide to invest in non-profitable projects and they are unable to pay the interest due to debt holders, the debt holders can force the firm to liquidation and managers will lose their decision rights or possibly their employment.

Empirical supports for the relationship between capital structure and firm performance from the agency perspective are many and in support of negative relationship. Zeitun and Tian (2007), using 167 Jordanian companies over fifteen year period (1989-2003), found that a firm's capital structure has a

significant negative impact on the firm's performance indicators, in both the accounting and market measures.

In their cross-sectional study of the determinants of capital structure, Rajan and Zingales (1995) examine the extent to which at the level of the individual firm; the capital structure may be explained by four key factors, namely; market-to-book, size, profitability, tangibility. Their analysis is performed upon a firm – level sample from each of the countries, and although the results of their regression analysis differ slightly across countries, they appear to uncover some fairly strong conclusions.

The market-to-book ratio is used by Rajan and Zingales as a proxy for the level of growth opportunities available to the enterprise. This is in common with most studies, which tend to apply proxies, rather than valuation models to estimate growth opportunities. Rajan and Zingales suggest that, this is consistent with the theoretical predictions of Jensen and Meckling (1976) on agency theory, and the work of Myers (1977), who argues that, due to information asymmetries, companies with high gearing would have a tendency to pass up, while companies with large amounts of investment opportunities (also known as growth options) would tend to have low gearing ratios.

However, the empirical evidence regarding the relationship between gearing and growth opportunities is rather mixed. While Titman and Wessels (1988) find a negative correlation, Kester (1986) does not find support for the predicted negative relationship between growth opportunities and gearing. Despite this controversy, however Rajan and Zingales (1995) uncovered evidence of negative correlation between market-to-book and gearing for all countries. This is thus consistent with the hypothesis of Jensen and Meckling (1976), Myers (1977), and lends weight to the notion that companies with high level of growth opportunities can be expected to have low levels of gearing.

Secondly, Rajan and Zingales include size (which is proxy by the natural logarithm for sales) in their cross-sectional analysis. There is no clear theory to provide expectations as to the effect which size should have on gearing. Rajan and Zingales (1995), state that “The effect of size on equilibrium leverage is more ambiguous. Large firms tend to be more diversified and fail less often, so size (computed as the Logarithm of net sales) may be an inverse proxy for the probability of bankruptcy.” In addition, larger companies are more likely to have a credit rating and thus have access to non-bank debt financing, which is usually unavailable to smaller companies. While the a prior empirical evidence with regard to the relationship between size and gearing is rather mixed, Rajan and Zingales find gearing for companies positively related to sales as hypothesized.

Thirdly, consistent with Toy, Arthur, Richard and Theo (1974), Kester (1986) and Titman (1984) Rajan and Zingales find profitability to be negatively related to gearing. They noted however, that the analysis is effectively performed as an estimation of a reduced analysis, such a result masks the underlying demand and supply interaction, which is likely taking place. Although on the supply side one would expect that more profitability would have better access to debt, the demand for debt may be negatively related to profits.

Modigliani and Miller (1963) argue that, due to tax deductibility of interest payments, companies may prefer debt to equity. This will suggest that highly profitable firms would choose to have high levels of debt in order to obtain attractive tax shields. However, Modigliani and Miller's (1963) arguments has been criticized on the effects of personal taxation. Moreover, De Angelo and Masulis (1980) argue that interest tax shield be unimportant to companies with other tax shields, such as depreciation. And also hypothesis regarding the relationship between profitability and gearing relates to Myers and Majluf (1984) and Myers (1984) pecking order theory. Based on asymmetric information, they predict that companies will prefer internal to external capital. Consequently, companies with high levels of profits will prefer to finance investments with retained earnings than by the raising of debt finance. The finding of Rajan and Zingales of a negative relationship between gearing and profitability is consistent with Myers pecking order theory.

Shyam–Sunder and Myers (1999) introduced a test of pecking order theory of capital structure. Their test is based upon the prediction of what type of financing is used to fill the “financing deficit”. The financing deficit is defined, using the cash flow identity, as the growth in assets less the growth in current liabilities (except the current portion of long-term debt), less the growth in retained earnings. According to the identity, this deficit must be “filled” by the net sale of new securities. They further argue that, except for firms at or near their debt capacity, the pecking order predicts that the deficits will be filled entirely with new debt issues. Myers (1984) noted that the asymmetric information which recognizes that firm managers

have better information than most investors postulates that there is a perfect pecking order of financing; first with retained earnings (including depreciation), then debt, and as a last resort only, new common stock.

METHODOLOGY

Sources of Data

This research relies basically on secondary data sourced from the Nigerian Stock Exchange Fact book, Journals, Reports, among others. A major challenge to the study is the fact that most of the data were not available for some companies for some period, thereby reducing the number of companies to 27.

Model Specification

Our models were developed to capture the objective of the study. Because of the nature of the study, the analytical tool used was the single equation, involving the use of the ordinary least squares (OLS) multiple regression technique. The model made use of ROA (Return on Asset) and ROE (Return on Equity) proxies for measurement of firm's performance. The only independent (explanatory) variable in this study is the Debt Ratio (DR). It serves as the proxy for capital structure. However, a number of variables were included which have been found by a large number of studies to influence the firm's profitability (firm performance) such as firm's Size (SIZE); Asset Tangibility (TANG); and Growth Opportunity (GROW); we therefore needed to include them as controlled variables in the model, which are treated in the same way as independent variables.

Thus, the general model for this study, as is mostly found in the extant literature is represented by;

$$Y = \alpha_0 + \alpha_1 Di + \beta_2 Z2i + \text{eit} \quad (1)$$

Where; y is the dependent variable; Di is the explanatory variable; Z2 is the controllable variable; α_1 and β_2 are the coefficients of the explanatory and controllable variables, respectively; eit is the error term. It has zero mean, constant variance and non-auto correlated. Specifically, when the above model is adopted here, equation (1) above can be written as:

Models

$$\text{ROA} = \alpha_0 + \alpha_1 \text{DR} + \alpha_2 \text{TANG} + \alpha_3 \text{SIZE} + \alpha_4 \text{GROW} + \text{eit} \quad (1)$$

$$\text{ROE} = \beta_0 + \beta_1 \text{DR} + \beta_2 \text{TANG} + \beta_3 \text{SIZE} + \beta_4 \text{GROW} + \text{eit} \quad (2)$$

$$\text{ROA} = \text{Profit after tax} / \text{Total assets} \quad (1)$$

$$\text{ROE} = \text{Profit after tax} / \text{Total number of ordinary shares in issue} \quad (2)$$

$$\text{Debt Ratio} = \text{Total Debt} / \text{Total Asset} \quad (3)$$

$$\text{Size} = \text{Natural logarithm of total assets} \quad (4)$$

$$\text{Asset Tangibility} = \text{Net Fixed Assets} / \text{Total Asset} \quad (5)$$

$$\text{Growth} = \text{Change in the natural logarithm of total assets} \quad (6)$$

Explanations of Equations of the Model

This section explains the equations in the model to show the linkages or functional relationships between the dependent and the independent variables.

Debt Ratio (DR): The A priori expectation according to the agency cost theory is that higher leverage would lower agency costs, reduce inefficiency and thereby lead to improvement in firm's performance. Increasing the leverage ratio should result in lower agency costs outside equity and improve firm performance, all things being equal. Hence we expect an inverse relationship between leverage (DR) and firm performance.

Asset Tangibility: The a priori expectation here is a positive relationship between asset tangibility and firm performance. Asset Tangibility is considered to be one of the major determinants of firm's performance. The most common argument in the literature favours a positive relationship between asset tangibility and performance. Mackie- Mason (1990) concludes that a firm with high fraction of plant and equipment (tangible assets) in the asset base made the debt choice more likely and influences the firm performance. Akintoye (2008) argues that a firm which retains large investments in tangible assets will have smaller costs of financial distress than a firm that relies on intangible assets.

Size: We also expect a positive relationship between firm's size and its performance. The size of a firm is considered to be an important determinant of firm's profitability. Size serves as a proxy for firm's size. Larger firms can enjoy economies of scale and these can favourably impact on profitability.

Growth opportunities: We expect a positive relationship between growth opportunities and firm's performance. The extant literature considers growth opportunities available to a firm as an important determinant of firm's performance, hence the introduction of a controlled variable, GROW, a proxy for growth opportunities in this study.

Method of Estimation

The ordinary least squares method of estimation was used to test 30 quoted companies in Nigeria drawn from 18 different industries for better representation between 2001 and 2013. The co-efficient of the explanatory and controllable variables (α_1 β_7) can be estimated by the use of OLS technique. Panel data methodology is adopted in this study. This combines simultaneously cross-section and time series data. Thus, there is need to check for the level of stationary of the data. This is done by the use of Unit Root test.

RESULTS AND DISCUSSIONS

This section presents the empirical results of the OLS estimates of the parameter coefficients of the model. This is shown in Table 4.1 below, with a set of two equations. The t-values of the estimates are arranged directly below their corresponding estimates in bracket, while the standard errors are arranged directly beneath their corresponding t-values. This is the order of arrangement in these results. The t-test is conducted using a two-tailed approach. We should note that the t-test is formally the same as the standard error test. The Durbin –Watson (DW) statistics, the F-test, student t-test, the standard error of the regressions (SER), Coefficient of multiple determination (R^2) and adjusted coefficient of determination ($\bar{R}^2$) are other necessary statistics presented. The adjusted R^2 measures the overall goodness of fit of the regression plane; the higher R^2 , the better the goodness of fit. F-statistic is used to test the significance of R^2 , while (DW) statistic is used to test for the first – order auto correlation of the random variable.

Equation 1

$$\begin{aligned} ROA &= \alpha_0 + \alpha_1 DR + \alpha_2 TANG + \alpha_3 SIZE + \alpha_4 GROW + \text{eit} (1) \\ ROA &= -21.6675 - 0.00312 DR + 0.141 TANG + 0.0022 SIZE + 0.048 GROWTH_2 \\ &\quad (-3.25237) * \quad (-0.176096) \quad (0.310591) \quad (3.70166) * \quad (1.62490) \\ &\quad 6.66205 \quad 0.0000149429 \quad 0.000735395 \quad 0.526309 \quad 0.00380098 \end{aligned}$$

$$R^2 = 0.193716, \bar{R}^2 = 0.179964, F\text{-ratio} = 3.60386, DW = 1.69765$$

Equation 2

$$\begin{aligned} ROE &= \beta_0 + \beta_1 DR + \beta_2 TANG + \beta_3 SIZE + \beta_4 GROW + \text{eit} (1) \\ ROE &= -18.8462 - 0.018652 DR + 0.046687 TANG + 0.64075 SIZE + 0.321548 GROWTH_2 \\ &\quad (-3.09656) * \quad (-0.17978) *** \quad (0.733236) \quad (3.82783) *** \quad (0.465944) \\ &\quad 6.08616 \quad 0.044623 \quad 0.063672 \quad 0.428637 \quad 0.010206 \end{aligned}$$

$$R^2 = 0.145915, \bar{R}^2 = 0.088976, F\text{-ratio} = 2.56266, DW = 1.46932$$

In equation 1 and 2, we established a negative relationship between ROA and ROE (Performance proxies) with the only explanatory variable (DR) being significance at 1% level. The negative and significant relationship between Capital structure and corporate performance provides support for the

Agency Theory. Hypothesis 1 posits that capital structure does not influence corporate performance. We therefore reject the hypothesis. It suggests that due to agency conflicts between a firm's stakeholders, firms tend to over-leveraged themselves and this leads to negative financial performance. This outcome is consistent with the findings of previous studies such as Zeitun and Tian (2007), Akintoye (2008), Onaolapo and Kajola (2010) among others.

Asset Tangibility is wrongly signed, against a priori expectations. The relationship between ROA and firm's asset tangibility is negative and significant at 1% level. This shows that firms with high ratio of tangibility have a lower financial performance ratio. However, the relationship between ROE and asset tangibility is positive but not significant. Hypothesis 2 posits that firm's asset tangibility does not influence corporate performance. We therefore reject the hypothesis. It provides salient evidence that the sampled firms were not able to utilize their fixed asset composition in the total asset judiciously to impact on their performance.

The results also show that the size and growth of firm are correctly signed consistent with the pecking order theory by Myers and Majliff (1984). The relationship between ROA and size of the firm is positive but not significant. But in the case of ROE and the size of firm, the relationship is positive and significant at 1% level. The outcome of the study confirms this hypothesis when ROE is used as a firm performance proxy. Thus, firm's size is an important determinant of firm's financial performance. The outcome is consistent with the findings of previous writers such as Gleason et al (2000) and Zeitun and Tian (2007).

Also although Growth is correctly signed being positive, but the relationship between the two performance measures (ROA and ROE) and growth opportunity is not significant. Our hypothesis 3 posits that Size and Growth of firm do not influence corporate performance. We therefore accept the hypothesis on the ground of its non- significance. Therefore, growth opportunity is not a major determinant in our sampled firms.

The constant term which is the autonomous leverage though negatively signed instead of being positive is statistically significant at five per cent level. Again the constant term shows that the autonomous performance, that is, ROA when all other explanatory variables are fixed, decreases by 15.9142 per cent.

The goodness of fit is not very impressive with adjusted $R^2=14$ per cent. This means that 19 per cent of the variation in ROA is explained by the variation in the explanatory variables only. F-test confirms that adjusted R^2 is significantly different from zero, which implies that at least some of the estimated coefficients are statistically reliable. We equally test for first-order serial correlation in the disturbance term and find that with our DW value of 1.69, there is no auto correlation in the test at one per cent level

CONCLUSION

In this study, our intention was not to develop any new theoretical results or provide new evidence. Rather, the intention was to test using relevant policy variables on the influence of capital structure on corporate performance in Nigeria; and also to stimulate further research in an aspect of the Modigliani and Miller (1958) theorem that has largely been ignored in the past 20 years especially in Nigeria: specifically, the capital structure irrelevant hypothesis and perfect capital markets. The leading conclusion is that the firm's capital structure is an important determinant of firm's financial performance and the direction of the relationship is reverse. The outcome provides evidence in support of the agency cost hypothesis. This is evident by the statistical significance of the capital structure (DR) during the period of study.

The study, against theoretical expectations, provides evidence of a negative and significant relationship between asset tangibility and ROA as a measure of performance in the two models. The implication of this is that the sampled firms were not able to utilize the fixed asset composition of their total assets judiciously to impact positively on their firms' performance. However, it provides evidence that asset tangibility is a major determinant of firm's performance. This is consistent with results found by Hall, Hutchinson and Michaels (2000) in a study of 3000 noted U.K. companies. Again, demonstration of this result failed to provide evidence that growth opportunity is a determinant of firm's performance in the two proxies of corporate performance for ROA and ROE models. This is directly contradictory to the startling prediction of the famous Modigliani-Miller hypothesis. The characteristic capital market imperfections in the country could be an explanation for this.

Finally, the findings reported in this work must be accepted with some reservations. The reservations are especially due to measurement problems inherent in the figures contained in the financial statements of firms in a country where accounting and auditing standards appear commensurate with the

less developed nature of the whole economy. This notwithstanding, however we still feel that the findings help to throw light on the objectives of the study.

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