CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE OF LISTED FIRMS IN NIGERIA
(A Case Study of Manufacturing Firms)

BY

EDOH EJIROGHENE ELIZABETH
SBS/2012060184

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CERTIFICATION

We, The undersigned hereby certify that this project titled "Capital Structure and financial performance of listed firms in Nigeria was carried out by **Edoh Ejiroghene Elizabeth** with the Matric No**: SBS/2012060184** under the supervision in the Department of Accountancy, Auchi Polytechnic, Auchi, Edo State.

We therefore certify that the project is adequate both in scope and quality for the partial fulfillment of the requirements for the Award of Higher National Diploma (HND) in Accountancy.

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Dr. Akhalumeh, P.B **Date**
Project Supervisor

_____ _____

Mr. Abumere, D.I **Date**
Head of Department

DEDICATION

This project work is dedicated to Almighty God for His grace and guidance throughout the period of my studies.

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My unreserved gratitude and appreciation goes to God Almighty for m aking my dreams come true.

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Abstract

There exists divergence of opinion in literature on the relationship between capital structure and financial performance. This mix of opinions makes the direction of the relationship between liquidity and leverages to be controversial. Therefore, this study examined capital structure and financial performance of listed manufacturing firms in Nigeria. The specific objective of this study is to examine the extent to which liquidity af fect financial performance in manufacturing firms. The study formulated three hypotheses and findings were explicitly discussed. The study liquidity has significant impact on the financial performance of manufacturing firms in Nigeria. The study also found firm size has significant impact on financial performance of the firms. In view of the findings, it is recommended among others that the management of the selected companies should work very hard to increase the firm size of their capital structure, since it has positive impact on their financial performance. Also, the companies should reduce the level of liquidity and leverages in their capital structure components, because they affect their financial performance negatively.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The nature and degree of affiliation between capital structure and financial performance of fabricating firms have pulled in consideration within the writing of back. Capital structure includes the choice approximately the merger of the different sources of stores a firm employment to fund its operations and capital speculations. These sources incorporate the utilize of long-term liability back called liability financing, as well as favored stock and common stock too called equity financing. One of the foremost critical objectives of supervisors is to maximize shareholders riches through determination of the most excellent combination of assets for a company and maximization of the company's esteem by deciding where to contribute their assets.

Capital structure speaks to the major fight to a corporation's resource. This incorporates the distinctive sorts of values and liabilities (Riahi-Belkaoui, 1999). The debt-equity blend can take any of the taking after shapes: 100% value: 0% liability, 0% value: 100% liability; and X% value: Y% liability. From these three options, the primary choice is that of the unlevered firm, that is, the firm avoids the advantage of use (if any). Choice two is that of a firm that has no value capital. This choice may not really be practical or conceivable within the genuine life financial circumstance, since no supplier of stores will contribute cash in a firm without equity capital. This partway explains the term "trading on equity", that is, the value component that's display within the firm's capital structure that fortify the liability suppliers to grant their rare assets to the business. The third Choice is

the foremost reasonable one in that, it interfused both a certain rate of liability and value within

the capital structure and hence, the points of interest of use (in the event that any) is misused. This blend of liability and value has long been a subject of wrangle about in back writing concerning its assurance, assessment and bookkeeping.

Financial performance is the degree of how well a firm can utilize its resources from its essential business to create incomes. Erasmus (2008) famous that monetary execution measures like benefit and liquidity among others give a profitable instrument to stake holders which helps in assessing the past corporate execution and current position of a firm. Financial performance assessment are laid out to supply answers to a wide run of critical questions, a few of which incorporate whether the company has sufficient cash to meet all its commitments, is it creating adequate volume of deals to legitimize later venture. Capital structure is closely connected with money related execution (Tian & Zeitun, 2007). Money related execution can be measured by factors which include efficiency, productivity, development or, indeed, customers‟ satisfaction. These measures are related among each other. Estimation is one of the instruments which show the qualities, shortcomings, openings and dangers. Those estimations are return on venture (ROV), remaining wage (RW), gaining per share (GPS), profit surrender, return on resources (ROR),, development in deals, return on value (ROV) etc (Stanford, 2009).

One of the most variables that seem control the execution is capital structure. Since insolvency costs exist, breaking down returns happen with encourage utilize of debt in arrange to induce the benefits of assess finding and intrigued. In this manner, there's an appropriate capital structure past which increments in insolvency costs are higher than the negligible tax-sheltering benefits related with the extra substitution of liability for value. Firms are willing to maximize their execution, and minimize their financing

taken a toll, by keeping the suitable capital structure or the ideal capital structure.

Past studies about capital structure have utilized diverse intermediaries to measure financial execution. The measures habitually utilized within the writing in shape of proportions incorporate add up to liability to add up to resources, add up to liability to add up to value, brief term liability to add up to resources and long term liability to add up to resources. Add up to liability to add up to resources is the sum of liability utilized to back firm resources and other capital consumption that can progress ‟ execution. In this way, it is anticipated that expanding use components of a capital structure may increment the level of effectiveness and subsequently expanding their execution.

Directors who are able to distinguish the level of leverages as components of firms' capital structure are compensated by lessening taken a toll of fund subsequently maximizing the income (Zeitun & Tian, 2007). Add up to liability to add up to resources measures the sum of the whole funds provided by untouchables in connection to the overall resources of the fabricating firms in Nigeria. It appears the degree of cover for liabilitys of a company by add up to resources. It depicted the degree to which a commerce or speculator is utilizing the borrowed cash. By and large, speculators would incline toward moo proportion for all debts, because the lower the proportion the superior the bumper against the banks misfortunes within the occasion of liquidation. Most fabricating firms utilize liability to back their operation with the trust of moving forward their execution.

By doing so, a firm increment its use since it can contribute in trade operations without compounding its value. Total liability to add up to value is additionally anticipated to have an impact on a execution. Add up to liability

to add up to value evaluates the degree to which a firm is utilizing borrowed reserves. It appears the degree to which a fabricating firm is utilizing borrowed reserves in connection to its value. It underwear the dissolvability of the business and the degree of cover for outside liabilities. It too degree of a firm's use calculated by separating its add up to risk, by stockholders value, it demonstrates what size of value and liability a company is utilizing to back its resources (Ojo, 2012).

Add up to liability to add up to value could be a degree of how much a firm employments value and liability. Speculators lean toward the proportion to be lower; since the lower proportion the higher the level of firms financing that's being given by shareholders and the bigger the pad (edge of security) within the occasion of lessening resource values or by and large misfortunes. From the creditor's point of see, it is conceivable that liability to value makes a difference in understanding commerce chance administration techniques and how to decide the practicality of default related with firms execution see value capital as counting share-capital, share premium, saves and surpluses (held profit).

Short term liability to add up to resources is another thing in a firm's capital structure that influences its financial performance. Brief term liabilities to add up to resources influence the financial performance of a firm either contrarily or emphatically. Short-term liability to add up to resource measures the parallel short-term liabilities to add up to resources of a firm are to meet it basic over the bookkeeping period. A few researchers contend that the shorter the liability the superior the firm is progressing its execution.

Securing the relationship between long term liability to add up to resources and execution of different segments of an economy is imperative to all partners. Long-term liability to add up to resources measures the relative

weight of long-term liability to the capital structure (long-term financing) of the firm in long run. The level of long-term liability of a firm is additionally accepted to be one of the strengths anticipated to impact the execution of a firm. A manufacturing firm that encompasses a higher long-term liability as proposed by past considers would have small assets to require care of a few other targets and vice versa.

As firm capital is a questionable but pivotal asset for all fabricating firms, suppliers of fund are able to apply control over firms. Liability and value are the major classes of capital structure, with liability holders and value holders speaking to the two sorts of speculators in a firm. Each of them is related with diverse levels of control, benefits and chance. Whereas liability holders apply lower control, they win a settled rate of return and are secured by settlement commitments with regard to their venture. Value holders are the genuine proprietors of a firm, bearing most of the chance and correspondingly, have more prominent control over choices (Ali, 2010).

The utilization of liability in an organizations capital structure has both positive and negative impacts on its money related execution. Organizations that utilize an ideal sum of liability in their capital structure have enhanced firm esteem which is showed within the frame of expanded deals, effectiveness in generation and moo charges. Whereas with distinctive cases of sub culminate utilize of liability in their capital structure as a rule endure from a assortment of sicknesses which portrayed as installment of tall charges, tall extents of accounts payable, huge shortfalls within the firms cash stream and in a few cases corporate disintegration. In like manner Modigliani and Mill operator (2005) proposed that firms ought to consolidate more liabilitys in their capital structure in arrange to maximize the firm’s esteem which is showed through tall benefits, expanded share costs and proficiency in administration.

1.2 Statement of the problem

There has been a continuous wrangle on the issue of capital structure and financial performance of firms in Nigeria. This discussion is advance contracted down to recognizing which of the factors wrangled about is most persuasive in foreseeing and deciding the capital structure of gas companies. The choice of ideal capital structure of a fabricating firm is troublesome to decide. A firm must issue different securities in incalculable blend to come over specific combinations that can maximize its generally esteem which suggests ideal capital structure. Ideal capital structure moreover implies that with a least weighted-average taken a toll of capital, the esteem of a firm is maximized. According to Rahul (1997), Poor capital structure choices may lead to a conceivable reduction within the esteem determined from vital resources. Thus, the capability of a company in overseeing its arrangements is critical on the off chance that the firm is to realize picks up from its specialized assets. The nature and degree of relationship between capital structure and financial performance of firms have pulled in the consideration of numerous analysts. The studies, which are to a great extent outside based, have in any case uncovered clashing discoveries.

In Nigeria, most of the studies did not utilize other components on capital structure and financial performance. The studies which incorporate Bello and Onyesom (2005), Salawu (2007), Olokoyo (2012), Babalola (2012), Yinusa and Babalola (2012), Sabastian and Rapuluchukwu (2012) and Idode, Adeleke, Ogunlowo and Ashogbon (2014) have cleared out a hole that ought to be filled. For case, Salawu (2007), who considered the impact of capital structure on execution of chosen cited companies in Nigeria between 1990 and 2004 concentrated on brief term liability. His think about did not amplify to other shapes of financing, in this way the finding seem as it were be utilized within the setting of brief term liability financing.

This implies indeed inside the domain of debt financing; as it were the brief term angle of the liability was secured in his think about. In reality, a consider on capital structure is assumed to cover both sorts of liability financing. Babalola (2012) who moreover examined the impact of ideal capital structure on firm's execution in Nigeria between 2011 to 2020 utilizing tests of 10 fabricating firms, concentrated on add up to liability to add up to resources. His study prohibited the viewpoint of add up to debt to value, brief term liability to add up to resources and long term liability to add up to resources financing in spite of the reality that both sorts of liability financing are utilized by the tested banks.

Besides, the study of Yinusa and Babalola (2012) inspected the effect of money related administration on capital structure decision of ten (10) firms within the food and beverage division amid the period from 2008 to 2018. They utilized add up to debt to total resources proportion as intermediary of capital structure. The study did not cover other components or sorts of debt financing such as total debt to add up to value, brief- term liability and long-term debt.

1.3 Research Questions

The following are some of the research questions in this study which include:

(i) To what extent does liquidity affect financial performance in manufacturing firms?

(ii) To what extent does firm size affect financial performance in Nigerian firms?

(iii) To what extent does leverage affect financial performance in Nigerian firms?

1.4 Objectives of the Study

The overall objective of this study is to examine the impact of capital structure and financial performance of listed firms in Nigeria. Specifically, the study sought to:

i. Evaluate the extent to which liquidity affect financial performance in manufacturing firms.

ii. Examine the impact of firm size on financial performance in Nigerian firms.

iii. Assess the influence of leverage on financial performance in Nigerian firms.

1.5 Statement of Hypotheses

To achieve the above mentioned objectives, the following hypotheses were formulated.

$H0_1$: Liquidity has no significant impact on financial performance in financial performance in manufacturing firms.

$H0_2$: Firm size has no significant impact on financial performance in Nigerian firms.

$H0_3$: Leverage has no significant impact on financial performance in Nigerian firms.

1.6 Significance of the Study

The outcome of this study would contribute to the existing body of knowledge. Because, though there are a lot of studies on capital structure and financial performance around the globe, there is dearth of evidence using data on manufacturing industry in Nigeria. The outcome of the study would therefore serve as a reference material for subsequent researchers and would provide a basis for further research in this area.

It is hoped that the result of this study will be beneficial to both internal and external parties (i.e. managers in maximizing investors' return, owners in making an informed decision, creditors in ascertaining credit worthiness of a

firm. Government in making favorable financing policies etc), to improve on the GDP contribution by the manufacturing sector and also improve on employment rate once the sector is viable since the stake holders are interested in knowing the impact of such decisions on an organization performance.

Also, the government and its agencies will somehow benefit from this study because the study will highlight the need from its findings if necessary for the government to formulate more favorable financial and economic guidelines as the sector demands and this will sustain the operations in manufacturing firms in Nigeria, especially the potential firm yet to be quoted in the stock market and resultantly contributing to GDP of the nation which have been on the decline hitherto.

The results of this study would also be of benefit to managers, shareholders and creditors of in Nigeria firms. Managers would be placed on a sound footing to understand the effect of various financing mix on the operations of institutions. Shareholders would be able to make an informed decision with regard to their equity interest in relation to the debt financing options available to their firms, while creditors would be able to identify the manufacturing firms that are strong enough to settle their claim as at when due.

1.7 Scope of the Study

The study is designed to examine the impact of capital structure and financial performance in listed firms in Nigerian. The study covers the period of ten (10) years from 2011 to 2020. The study chooses some manufacturing firms as the case study because it covers the larger proportion of institution in Nigeria. The independent variables of the study are capital structure proxied by total debt to total assets, total debt to total equity, short-term debt to total assets and long-term debt to total assets, and the dependent variable is represented by financial performance proxied by return on assets. The period of the study is considered appropriate because it coincides with the period within which some manufacturing firms have been shut down due to the various government regulations in Nigeria.

1.8 Limitations of the Study

Lack of adequate accounting records for the period under reviewed has been the major limitation of this study. Moreover, shortage of latest reference books and literature on this area in Nigeria content has narrowed the study output.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.1.1 Capital Structure

The term capital structure refers to the percentage of capital (money) at work in a business by type. It is a mix of a company's long-term debt, specific short-term debt, common equity and preferred equity and it simply describes how a firm finances its overall operations and growth by using different sources of funds. Broadly speaking, there are two forms of capital: equity capital and debt capital. Each has its own benefits and drawbacks and a substantial part of wise financial management is attempting to find the optimal capital structure in terms of risk/reward payoff for shareholders. A firm's capital structure is then the composition or structure of its liabilities. For example, a firm that sells N30 billion in equity and N70 billion in debts is said to be 30% equity-financed and 70% debt-financed. The firm's ratio of debt to total financing, 70% is thus referred to as the firm's leverage which can also be described as its gearing ratio - the proportion of the capital employed of the firm which comes from outside of the business finance. Capital structure therefore describes the proportionate relationship between debt and equity. While debt is majorly made up of long term loans such as debenture, equity includes paid up share capital, share premium, reserves, and surplus or retained earnings.

Therefore, a company can finance its investments by debts and/or equity. The financial sector in Nigeria is characterized by a large number of firms operating in a largely deregulated and increasingly competitive environment. Hence, there are several studies that examine its impact on financial returns (Uremadu & Efobi, 2012) and impact on firm profitability (Dare & Sola, 2010; Osuji & Odita, 2012; Muritala, 2012; Ogebe, Ogebe &

Alewi, 2013; Amara & Bilal, 2014).

It is clear that capital structure is an important management decision as it greatly influences the owner's equity return, the owners' risks as well as the market value of the shares. In other words, how a firm is financed is very important not just to the managers of a firm but also to fund providers. This is because if a wrong mix of finance is employed, the profitability and survival of the business enterprise may be seriously affected; however, firms financing decisions involve a wide range of policy issues which may be outside the direct control of a firm's management. At the macro level, they have implications for capital market development, interest rate and security price determination, and regulation. At the micro level, such decisions affect capital structure, financial governance and company development (Tzelepis & Kuras, 2004).

2.1.1 Liquidity risk is a type of a risk when a company is unable to meet all current financial liabilities in due time because lack of availability of financial resources. The capital structure is one of the most studied topics in finances because of its strong dependency with company's performance. Since liquidity decisions directly connect to the debt structure of companies, every business needs to monitor its liquidity relationship with debt decision. Liquidity is a key financial indicator that measures whether the company has the ability to fulfil its debt commitments based on short term debt, long term debt, and the total debt ratios without incurring undesirable losses (Ghasemi & Razak, 2016). Liquidity is the ability of a firm to meet short term financial obligations via conversion of current asset into cash without suffering any loss (Akenga, 2017). Liquidity in companies implies dimensions; quantitative and qualitative. The quantitative aspect includes the ability of a firm to meet all present and potential demands on cash in a manner that minimise cost and maximize the value of the business. Liquidity

of a firm can be measured via the current ratio, quick ratio and cash conversion cycle.

Managers tend to be more risk averse than shareholders, they are aligned with debt holder interests to some extent. The use of debt incurs the risk of bankruptcy that is often described as increasing with the debt ratio. Excessively risk-averse managers would avoid lifting the debt ratio to the level that shareholders desire (Brisker & Wang, 2017).

2.1.2 Firm size of larger firms are more diversified and hence have lower variance of earnings, making them able to tolerate high debt ratios (Castanias, 1983; Titman and Wessels, 1988; Wald, 1999). Smaller firms, on the other hand, may find it relatively more costly to resolve information asymmetries with lenders, thus, may present lower debt ratios (Castanias, 1983). Lenders to larger firms are more likely to get repaid than lenders to smaller firms, reducing the agency costs associated with debt. Therefore, larger firms will have higher debts. Empirical evidence on the relationship between size and capital structure supports a positive relationship. Several works show a positive relationship between firm size and leverage (see Barclay and Smith, 1996; Friend and Lang, 1988; Barton et al., 1989; MacKie-Mason, 1990; Kim et al., 1998; Al-Sakran, 2001, Hovakimian et al., 2004). Their results suggest that smaller firms are more likely to use equity finance, while larger firms are more likely to issue debt rather than stock. Their results showed that the success rate for large firms applying for bank loans was higher than that of smaller firms. In a study of six African countries, Bigsten et al. (2000) also showed that about 64% of micro firms, 42% of small firms and 21% of medium firms appear constrained, while this is only 10% for the large firms. Cassar and Holmes (2003), Esperança et al. (2003), and Hall et al. (2004) found a positive association between firm size and long-term debt ratio, but a negative relationship between size and short-

term debt ratio.

2.1.3 Leverage can be defined as the ratio of total debt to net assets, where net assets are total assets minus accounts payable and other liabilities. Although this measure is not influenced by trade credit, it is affected by factors that may have nothing to do with financing. For example, assets held against pension liabilities may decrease this measure of leverage. Therefore, the effects of past financing decisions are probably best represented by the ratio of total debt to capital (defined as total debt plus equity) (Rajan & Zingales, 1995).

Based on the different theories on capital structure, a number of empirical studies have identified firm-level characteristics that affect the capital structure of firms. Among these characteristics are age of the firm, size of the firm, asset structure, profitability, growth, firm risk, tax and ownership structure.

2.1.1.1 Age of the firm

This serves as a standard measure of reputation in capital structure models. As a firm continues longer in business, it establishes itself as an ongoing business and therefore increases its capacity to take on more debt; hence age is positively related to debt. Before granting a loan, Firms tend to evaluate the creditworthiness of entrepreneurs as these are generally believed to pin high hopes on very risky projects promising high profitability. Petersen and Rajan (1994) found that older firms should have higher debt ratios since they should be higher quality firms. Hall et al. (2004) agreed that age is positively related to long-term debt but negatively related to short-term debt. Esperança et al. (2003), however, found that age is negatively related to both long-term and short-term debt. Green, Murinde and Suppakitjarak (2002) also found that age has a negative influence on the probability of incurring debt in the initial capital equation, and no impact in the additional capital

equation.

2.1.1.2 Asset structure

The degree to which the firm's assets are tangible should result in the firm having greater liquidation value (Titman and Wessels, 1988; Harris and Raviv, 1991). Bradley et al. (1984) assert that firms that invest heavily in tangible assets also have higher financial leverage since they borrow at lower interest rates if their debt is secured with such assets. It is believed that debt may be more readily used if there are durable assets to serve as collateral (Wedig et al., 1988). Booth et al. (2001) suggest that the relationship between tangible fixed assets and debt financing is related to the maturity structure of the debt. In such a situation, the level of tangible fixed assets may help firms to obtain more long-term debt, but the agency problems may become more severe with the more tangible fixed assets, because the information revealed about future profit is less in these firms. If this is the case, then it is likely to find a negative relationship between tangible fixed assets and debt ratio.

2.1.1.3 Profitability

The relationship between firm profitability and capital structure can be explained by the pecking order theory (POT) discussed above, which holds that firms prefer internal sources of finance to external sources. The order of the preference is from the one that is least sensitive (and least risky) to the one that is most sensitive (and most risky) that arise because of asymmetric information between financial insiders and less well informed market participants (Myers, 1984). By this token, profitable firms with access to retained profits can rely on them as opposed to depending on outside sources (debt). Murinde et al. (2004) observe that retentions are the principal source of finance. Titman and Wessels (1988) and Barton et al. (1989) agree that firms with high profit rates, all things being equal, would maintain relatively lower debt ratios since they are able to generate

such funds from internal sources.

2.1.1.4 Firm growth

Growth is likely to place a greater demand on internally generated funds and push the firm into borrowing (Hall et al., 2004). According to Marsh (1982), firms with high growth will capture relatively higher debt ratios. In the case of small firms with more concentrated ownership, it is expected that high growth firms will require more external financing and should display higher leverage (Heshmati, 2001). Aryeetey et al. (1994) maintain that growing SMEs appear more likely to use external finance – although it is difficult to determine whether finance induces growth or the opposite (or both). As enterprises grow through different stages, i.e., micro, small, medium and large scale, they are also expected to shift financing sources. They are first expected to move from internal sources to external sources (Aryeetey, 1998).

2.1.1.5 Firm risk

The level of risk is said to be one of the primary determinants of a firm's capital structure (Kale et al., 1991). The tax shelter-bankruptcy cost theory of capital structure determines a firm's optimal leverage as a function of business risk (Castanias, 1983). Given agency and bankruptcy costs, there are incentives for the firm not to fully utilize the tax benefits of 100% debt within the static framework model. The more likely a firm is exposed to such costs, the greater their incentive to reduce their level of debt within its capital structure. One firm variable that affects this exposure is the firm's operating risk; in that the more volatile the firm's earnings stream, the greater the chance of the firm defaulting and being exposed to such costs. According to Johnson (1997), firms with more volatile earnings growth may experience more situations in which cash flows are too low for debt service.

2.1.2 Financial Performance

The concept of financial performance is a controversial issue in finan ce due to its multidimensional meaning. In analyzing a firm's financial performance, emphasis should be made in formulating an adequate description of the concept of a financial performance. Measuring of firms' financial performance is one of the management strategic functions aimed at satisfying the interest of shareholders and other stakeholders in a company. Firm's performance appraisal involves a periodic and systematic evaluation of its operations to determine the achievements of the firm's objectives.

Almajali, (2012) captures that there are many measures of financial performance. For instance, return on sales reveals how much a company earns in relation to its sales, return on assets explain a firm's ability to make use of its assets and return on equity reveals what return investors take for their investments. Company's performance can be evaluated in three dimensions. The first dimension is company's productivity, or processing inputs into outputs efficiently. The second is profitability dimension, or the level to which company's earnings are bigger than its costs. The third dimension is market premium, or the level to which company's market value exceeds its book value. Firm performance from an accounting perspective hinges on profitability and performance of stocks in the capital market. The measures of firm performance based on literature can be broadly classified into two namely the market oriented measures and the accounting oriented measures. Some of the authors provide evidence that boards prefer accounting measures market to measures in evaluating managerial performance. Accounting based measure is adapted to measure performance in this study. Return on equity measures profitability by revealing how much profit a company generates with the money shareholders have invested. It is regarded as a hybrid measure of firm performance because it incorporates profit which is accounting based and

equity which is market based. Interestingly, return on equity is determined by dividing profit by equity.

2.1.3 Evaluation of Firm financial performance

The evaluation of a firm's performance requires the use of certain principles that may be either internal or external. Internal principles are the ability of a company to achieve its stated objectives, while external principles refer to the comparison of a company with its competitors in the industry in order to develop a good business strategy that will enable the firm compete favourably in the market. The existing researches on the relationship between capital structure and financial performance used different methods of measuring firms' financial performance. Most of the previous studies on firms" financial performance measured firm performance from the accounting based or market based methods of measuring company's financial performance. The most commonly used performance measures are accounting based which include: return on assets (ROA), return on equity (ROE), return on investment (ROI) and Tobin's Q.

2.1.4 The Nigerian Manufacturing Sector

The manufacturing sector of any economy is involved in the conversion of raw materials into finished consumer goods or producer or intermediate goods .Like other industrial activities, manufacturing creates avenues for employment, helps to boost agriculture, helps to diversify the economy, and serves as a viable means of foreign exchange earnings for the country. In addition, the sector also helps to minimize the risk of overdependence on foreign trade or imported goods. Manufacturing remains one of the most powerful engines for economic growth. It acts as a catalyst to transform the economic structure of countries. The potential benefits from the sector are even greater today particularly for emerging economies. With rapid technological change, sweeping liberalization and the increased defragmentation and international-

ization of production, manufacturing has become the main means for develop ing countries to benefit from globalization and bridge the income gap with the industrialized world. These potential benefits justify the importance of promoting manufacturing in the developing countries of which Nigeria is one. Lagos and its surroundings are home to about 60% of Nigeria's industrial base. Other key industrial centers are Kano, Ibadan and Kaduna. Nigeria's most important manufacturing industries include beverages, cement , cigarettes, food processing, textiles and detergents. Manufacturing activities in Nigeria has pass through four identifiable stages.

i. The pre-independence era–when manufacturing was limited to primary processing of raw materials for exports and the production of simple consumer items by foreign multinational corporations anxious to gain a foot hold in a growing market.

ii. The post-colonial era the 1960s characterized by more vigorous import substitution and the beginning of the decline of the export oriented processing of raw materials. The import substitution method adopted here never achieved the desired aim of reducing overdependence on imported goods. During this stage too, foreign ownership of manufacturing firms reached its peak.

iii. The decade of the 70s – remarkable and outstanding due to the discovery of commercial quantities of crude oil in the country. This phase saw government attempting to control the entire manufacturing process in the country but with little success. It also marked the initiation of the indigenization program in Nigeria.

iv. The last phase is that marked by declining government revenues due to volatile oil prices. According to the Bureau of Public Enterprise (BPE) (2006) activities in the Nigerian industrial and manufacturing sector can be classified into four groups, Multinational, National, Regional and Local. However, the Manufacturers Association of Nigeria has categorized its industries into Large, Medium and Small Scales in line with the National

Council of Industries (NCI) classification. According to Manufacturers Association of Nigeria (MAN) and Standard Organization of Nigeria (SON), classification of manufacturing sectors, the following products sectoral groups exist in Nigeria: Food, Beverages & Tobacco; Chemical and Pharmaceuticals ; Domestic and Industrial Plastic and Rubber; Basic Metal, Iron and Steel and Fabricated Metal Products; Pulp, Paper & Paper Products, Printing & Publishing; Electrical & Electronics; Textile, Wearing Apparel, Carpet, Leather & Footwear; Wood and Wood Products Including Furniture; Non-Metallic Mineral Products; Motor Vehicle & Miscellaneous Assembly.

2.1.5 Financial Leverage in Manufacturing Firms

Pandey, (2010) defines financial leverage as the use of the fixed charges sources of funds, such as debt and preference capital along with the owner's equity in the capital structure. Anetoh, V.C. (2016) views financial leverage as the ratio of total debt to total equity. Pandey (2010) opines that the leverage decision is a significant managerial decision because it influences the shareholder's return and risk and the market value of the firm. The ratio of debt-equity has implications for the shareholders' dividends and risk, this affect the cost of capital and the market value of the firm. Egungwu, (2010) observes that financial leverage occurs when a firm obtains financing for its investment from sources other than the firm's owners. He therefore sees financial leverage as the extent to which debt is used in a firm's financial structure or the ratio of total debt to total assets in respect of total value of the firm.

2.1.6 Consequences of Financial Leverage

Although there are two basic component of capital available to manu fact-uring firms in Nigeria, there is the danger of over dependent on one particularly external debt. Where financial leverage is not properly utilized and where the going concern of the firm is uncertain, borrowing could run a firm down due to the following reasons:

i. **Financial Distress:** Financial distress can take a business unawares and for a firm that is heavily indebted, it can ruin the business. Thus it is dangerous for a firm to depend so much on debt financing.

ii. **Bankruptcy Threats:** Bankruptcy is defined as a compulsory admini stra-tion of the estate of an insolvent 'person' by the court for the benefit of its creditors. Bankruptcy threats signify a potential inability of a firm to meet its external obligation. Where a firm is facing bankruptcy threats and is heavily indebted, such firm can be easily ruined and driven out of business.

iii. **Solvency Problem:** Solvency describes the ability of a firm to meet it financial obligation both long and short term. This is actually dependent on the streams of income that flows to the firm which can be affected by some many factors that are outside the direct control of the firm. Where a firm is unexpected hit by a factor that will reduce the inflow of incomes, the firm becomes unable to meet its projected financial obligations. Hence it is always advisable to utilize external finances with caution.

iv. **Risk of Default:** This describes a potential inability of a firm to pay back loans obtained. It can be due to so many factors such as economic fluctuations, unstable political conditions, changes in government policies, which prevents the firm to derive expected benefits from loans obtained.

2.2 Theoretical Review

Although there are numerous capital structure theories only two of the most capital structure theories will be reviewed for the purpose of this study which is Capital Structure Irrelevance Theory, and the Dynamic trade-off theory.

2.2.1. Capital Structure Irrelevance theory: The departure point for virtually all discussions on capital structure theory is Modigliani and miller's capital structure irrelevance theory first published in 1958. According to the theory the way in which a firm finances its assets (through the mix of debt and

equity) can have on the impact on the value of the firm. The value of the firm is derived by the productivity and quality of the assets in which the firm has invested. Consider the following abbreviated balance sheet. Considering the right hand side of the balance sheet the value of the firm (v) will remain same regardless of how the ratio between debt and equity is varied (Myers, 2001).

2.2.2 The Dynamic Trade-off Theory: Unlike the static trade-off theory, which implicitly assumes that firms always stay at target leverage by continuously adjusting leverage to the target, the dynamic version recognizes that financing friction make it sub optimal for firms to continuously adjust their leverage to the target, under the dynamic trade-off theory, firms weigh the benefit of adjusting their capital structures against the adjustment cost and make leverage adjustments only when the benefit outweighs the cost (ovtchinnikov,2010).Myers (1984) indicates that he is not fully satisfied with the explanation of dynamic trade-off theory insofar as frictions that prevent firms from staying at or near their ideal capital structure are not mentioned to be of first order concern in the static trade-off theory. Should cost be so large that it could serve force managers to take extended excursions away from their optimal capital structure, more time should be spend on understanding and explaining these frictions rather than refining the static trade-off theory (Myers, 1984).

2.3 Empirical Review

Firm performance is meaningfully affected by many factors and capital structure is one of the most important factors among them. The literature is replete with studies on the relationship between capital structure and corporate performance but with mix outcome. But (2010) study the relationship between corporate and financial management practice like capital decision, dividend policy, investment appraisal techniques, working capital management and financial performance measures in in Nigerian Firms. The result shows a positive

and significant relationship between financial management and corporate performance in Nigerian Firms.

2.3.1 Liquidity and Financial Performance

In India, the analysis of data collected from 82 pharmaceutical firms for ten years from 2008 to 2017 reveals that current liquidity ratio and quick ratio have a positive and significant effect on the performance (Return on Asset) (Yameen et al., 2019). Extant study in India shows that liquidity, profitability and solvency of a manufacturing firm were satisfactory (Maheswari, 2015). However, the analysis of South African banks using Autoregressive Distributed Lag andOrdinary least square shows a significant negative nexus between the liquidity and performance(Marozva, 2015). However, the author used a net interest margin to proxy profitability.Net profit margin is a very controversial measure of profitability, particularly when it is to be related to liquidity. Similarly, analysis of the relationship between liquidity and performance of Deposit money banks in Nigeria for five years reveals that liquidity mechanisms do not have a significant relationship with profitability both in the short run and long run.

Another study from Nigeria investigated the relationship between liquidity and corporate performance covering 20 years 1984 -2014 which is broader than the timeframe covered by using linear regression analsysis. (Obi-Nwosu et al., 2017). The study proxied liquidity by Cash reserve ratio, Liquidity ratio and loan to deposit ratio, and proxied performance by Shareholders' fund. The study found out that a significant negative short-term relationship exists between cash reserve ratio and performance, but an insignificant positive relationship between Loan to D Moroccan bank's performance is mainly determined by liquidity ratio.

Patjoshi (2016) examined liquidity management and financial performan ce of selected steel companies in India from 2010 to 2014 inclusive. The stud y measured liquidity in different dimensions comprising current ratio, liquid ratio, and inventory turnover ratio. At the same time, it proxied profitability by operating profit margin, net profit margin, return on total asset and return on investment. The correlation and regression results show that liquidity has a significant effect on performance.

Njure (2014) assessed the relationship between liquidity and profitability of nonfinancial companies listed in the Nairobi stock exchange. The ROA was used as a proxy for companies' profitability and the companies' liquidity was measured using the current ratio, quick ratio and the absolute liquid ratio. Correlation results reveal a significant weak positive relationship between liquidity and profitability among the listed nonfinancial companies in Kenya.

2.3.2 Firm size and Financial Performance

Ubesie and Okeke (2013) investigated the impact of firm size indicators on business value in Nigeria's manufacturing industry. Twenty three manufacturers listed on the Nigerian Stock Exchange made up the population surveyed. Seven companies were selected from the population. Secondary data, including a 10-year financial summary from 2005 to 2014, was edited from the annual financial statements of the selected companies. The data were analyzed in both the Pearson correlation test and multiple regression to test the formulated hypothesis. Analysis shows that total sales have a statistically negative impact on the company's net asset value, and total assets, company age, and number of employees have a statistically positive impact on net asset value.

Babalola (2013) investigated the impact of enterprise size on the financial performance of Nigerian enterprises. In this study, He used a panel dataset from 2000 to 2009 to analyze the impact of company size on the profitability of a

manufacturing firm listed on the Nigerian Stock Exchange. Profitability was measured on return on investment, and both total assets and total sales were used as company-wide proxies. According to the survey results, the size of the company has a positive impact on the profitability of Nigerian manufacturers in terms of both total assets and total sales.

Kintu and Ngugi (2013) studied the determinants of corporate hedging practices used by companies listed on the Nairobi Stock Exchange. The survey period was from 2008 to 2012. Regression model analysis was used to estimate that growth options, long-term leverage ratios, liquidity ratios, and cash flow volatility influence the hedging practices of companies listed on Nairobi Securities. Exchange.

Alternatively, Ebaid, (2009) evaluates the impact of capital structure choice on firm performance using a sample of non financial companies listed on Egyptian stock exchange market from 1997 to 2005 using Ordinary Least Square analysis of three accounting based majors corporate performance (ROE, ROA and Gross Profit Magin) His findings showed an insignificant relationship between all majors of capital structure and return on equity as well as Gross Profit Magin. The results were consistent with those of Mahira (2011) and Mumtaz et al (2013).

Fosberg and Ghosh (2006) in their research conducted on 1022 companies in the New York Stock Exchange (NYSE) and 244 companies in the America Stock Exchange (AMEX) using linear correlation analysis. He therefore concluded that the relationship between total debt and financial performance is negative. Houang and Song (2006) in the research conducted on 1200 Chinese companies during 1994 to 2003 concluded that leverage has negative relationship with financial performance.

Abdul (2010) examined the relationship between capital structure decisions and firm performance of the engineering sector of Pakistan. The results

showed that total debt to total assets has significant negative relationship with firm financial performance. Onaolapo and Kajola (2010) investigated the effect of capital structure on financial performance of companies listed on Nigeria Stock Exchange. The study was performed on 30 nonfinancial companies in 15 industry sectors for the period 2001 to 2007 using Correlation analysis method. The results showed that total debt to total assets ratio has significant negative effect on financial performance.

2.3.3 Leverage and Financial Performance

Margaritis and Psillaki (2010) studied a sample of French Firms from low to high growth industries using Anova Statistical Analysis to investigate the relationship between efficiency leverage and ownership structure. The study reveals that higher leverage is associated with improved efficiency over the entire range of observed data. Chowdhury and Chowdhury (2010) found out that strong positive correlation is evident from the empirical when stratified by industry. This can be an important policy suggestion for finance director because they can use debt to form optimal capital structure to maximize wealth of shareholders. The study used multiple regression analysis.

Osuji and Odita (2012) studied the impact of capital structure on the financial performance of Nigerian firms using a sample of 30 non-financial firms listed on the Nigerian Stock Exchange using One-sample Test analysis for the period 2004-2010. The results showed that total debt to total assets has significant negative impact on financial performance of the firms. Taiwo (2012) investigated the effect of capital structure on firm's performance in Nigeria using five-year annual data of 10 firms. The result of the Anova regression indicated a negative relationship between the explanatory and outcome variables.

Abbasali, Ali, Hamid and Kambiz (2012) investigated the impact of capital structure on the financial performance of companies listed in the Tehran

Stock Exchange using Ordinary Least Square with a sample of 400 firms from 2006 to 2010. The results suggested that there is a significant negative relationship between total debt to total asset and financial performance. Rasa and Jurgita (2012) studied the relationship of corporate governance decisions on capital structure and performance of Lithuanian food and beverages companies for the period 2005 to 2010 using coefficient value. The result revealed that total debt has strong negative relationship with financial performance of listed manufacturing firms in Lithuanian.

Gweyi and Karanja (2014) investigated the effect of financial leverage on firm performance of deposit taking savings and credit co-operative in Kenya. The study utilized secondary data sourced from financial statements of 40 savings and credit co-operative societies (SCCOS) sampled for the study from 2000 to 2012 using multiple analysis. The result showed perfect positive correlation between financial leverage surrogated by debt-equity ratio and performance measured by ROE and profit after tax. On the other hand, the result also revealed a weak positive correlation between debt-equity ratio and performance proxy by ROA and income growth. Innocent et al. (2014) conducted a study on the effect of financial leverage on financial performance: evidence from quoted pharmaceutical companies in Nigeria for the period 2001- 2012 using quota statistical Analysis. The results showed that debt ratio and debt-equity ratio have negative relationship with ROA, while interest coverage ratio has a positive relationship with ROA in Nigerian pharmaceutical industry.

Thaddeus and Chigbu (2012) studied the effect of financial leverage on bank performance using 6 banks from Nigeria. Multiple regression technique was used to establish whether relationship exist between financial leverage and performance of sampled banks. The findings show mixed results. While some banks reported positive relationship between leverage and performance, others revealed negative relationship between leverage and performance.

Laurent (2002) studied the relationship between leverage and corporate performance in France, Germany and Italy using Correlation Analysis. The study found mixed evidence depending on the country; while negative relationship was reported in Italy, the relationship between leverage and corporate performance is significantly positive in France and Germany. Akhtar, Javed, Maryam and Sadia (2012), examined the relationship between financial leverage and financial performance using 20 listed companies from the Fuel and Energy Sector of Pakistan during the period 2000- 2005 using Ordinary Least Square. The findings showed positive relationship between financial leverage and all measures of financial performance except ROA and dividend cover ratio. Akande (2013), applied the Ordinary Least Square (OLS) regression analysis on panel data collected from financial statements of 10 Nigerian firms over 20 years from 1991- 2010. The findings show that positive relationships exist between DC and ROE, EPS and DPS, while negative relationship exists between DC and ROA.

Gholamreg, Alireza and Alireza (2013) investigated the association between capital structure and financial performance of companies in Iran. The population of the study consists of 380 companies listed on Tehran Stock Exchange for 13 years from 2001 to 2013. To test the hypotheses, the pooled data regression method was used. F and T statistics were used to test the significance of patterns. The outcome of the study showed a significant negative relationship between total debt to total assets and financial performance. Roanne (2013) investigated the effect of capital structure on firm financial performance from 2003 to 2011 using multiple analysis. The result indicated a significant negative relationship between total debt to total assets and financial performance.

Maniagi, Mwalati, Ondiek, Mesiega and Ruto (2013) investigated the relationship between firm's capital structure and performance among a sample of 30 companies listed on Nigeria Stock Exchange for the period of 5 years, 2007 to 2011 using Anova Analyis. The results revealed that total debt to total assets ratio

significantly influence return on assets of listed firms in Nairobi. Waqas, Imran, Hafiz, Jawad and Zahid (2013) examined the determinants of financial performance of textile and food sector in Pakistan using non-parametric analysis. The result revealed that total debt to total assets has strongly negative relationship with financial performance at 5% level of significance. Appah, Okoroafor and Bariweni (2013) investigated the impact of capital structure on performance of 32 quoted firms in the Nigerian Stock Exchange for the period 2005 to 2011 using correlation analysis. They found that total debt to total assets has significant negative relationship with financial performance.

2.4 Summary of the Review

S/N	Author (s)	Date	Methods	Findings
1	Yameen et al.,	2019	Multiple regression	Current liquidity ratio and quick ratio have a positive and significant effect on the performance.
2	Maheswari,	2015	Autoregressive Regression Lag.	It shows that liquidity, profitability and solvency of a manufacturing firm were satisfactory performance is negative.
3	Marozva,	2015	Ordinary Regression Square	Net profit margin is a very controversial measure of profitability, particularly when it is to be related to liquidity.
4	Obi-Nwosu et al.	2017	Linear regression Analysis	The study found out that a significant negative short-term relationship exists between cash reserve ratio and performance, but an insignificant positive relationship between Loan to D Moroccan bank's performance is mainly determined by liquidity ratio.
5	Patjoshi	2016	Correlation regression	The results show that liquidity has a significant effect on performance

6	Njure	2014	Correlation Analysis	It revealed a significant Weak positive relations hip between liquidity and profitability among the listed nonfinancial companies in Kenya.
7	Ubesie and Okeke	2013	Pearson correlation t est and multiple regression	Analysis shows that total sales have a statistically negative impact on the company's net asset value, and total assets, company age, and number of employees have statistically positive impact on net asset value. .
8	Babalola	2013	Panel Dataset	The survey results, the size of the company has positive impact on the profitability of Nigerian manufacturers in terms both total assets and total sales.
9	Kintu and Ngugi	2013	Regression model analysis	Cash flow volatility influence the hedging practices of companies listed on Nairobi Securities. Exchange.
10	Ebaid	2009	Ordinary Least square	Findings showed an insignificant relationship between all majors of capital structure and return on equity as well as Gross Profit Magin.
11	Fosberg and Ghosh	2006	Linear correlation analysis	It was concluded that the relationship between total debt and financial performance is negative
12	Abdul	2010	Correlation analysis	The results showed that total debt to total assets ratio has significant negative effect on financial performance.
13	Margaritis and Psillaki	2010	Anova Statistical	The study reveals that higher leverage is associated with improved efficiency over the

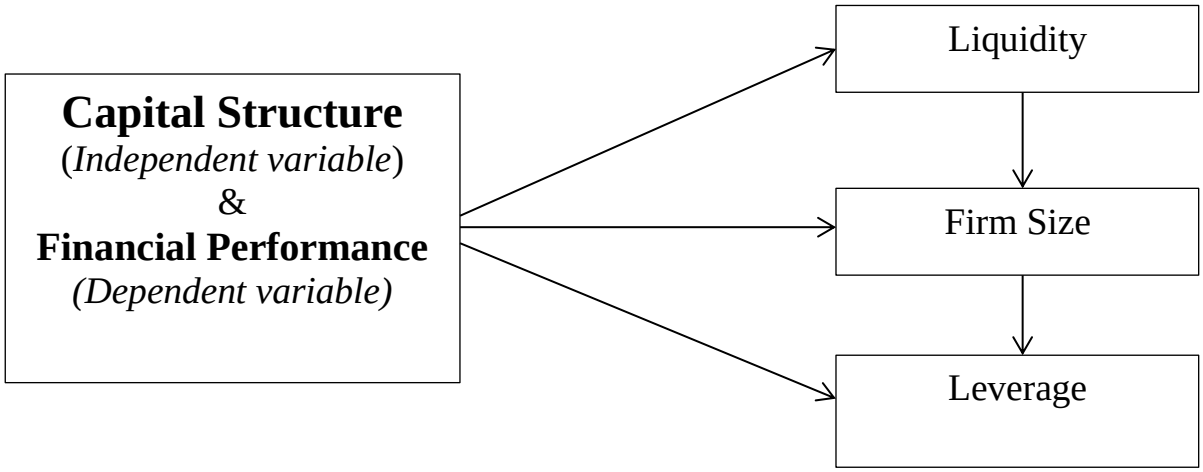
			Analysis	entire range of observed data .
14	Chowdhury and Chowdhury	2013	Multiple Regression Method	It was found out that strong positive correlation evident from the empirical when stratified by industry.
15	Osuji & Odita	2012	One sample Test Analysis	The results showed that tot debt to total assets has significa negative impact on financi performance of the firms.
16	Taiwo	2012	Anova regression	A negative relations hip between the explana- tory and outcome variables.
17	Abbasali, Ali, Hamid and Kambiz	2012	Ordinary Least Square	The results suggested that there is a significant negative relationship between total debt to total asset and financial performance.
18	Rasa and Jurgita	2012	Coefficient Value	The result revealed that total debt has strong negative relationship with financial performance of listed manufacturing firms i Lithuanian.
19	Gweyi and Karanja	2014	Multiple Analysis	The result showed Perfect positive correlation between financial leverage surrogated by debt-equity ratio and performance measure by ROE and profit after tax.
20	Innocent et al.	2014	Quota Analysis	The results showed that debt ratio and debt-equity ratio have negative relationshi with ROA.
21	Thaddeus and Chigbu	2012	Multiple regression Techniques	The findings show mixed results.
22	Laurent	2002	Correlation Analysis	The study found mixed evidence depending on the country; while nega tive relationship was reported i Italy, the relationship between leverage and corporate performance is

				significantly positive in France and Germany.
23	Akhtar, Javed, Maryam and Sadia	2012	Ordinary Least Square	The findings showed positive relationship between financial leverage and all measures financial performance except ROA and dividend cover ratio.
24	Akande	2012	Ordinary Least Square	The findings show that positive relationships exist between DC and ROE, EPS and DPS, while negative relationship exist between DC and ROA.
25	Gholamreg, Alireza and Alireza	2013	Pooled Data regression	The outcome of the stud showed significant negative relationship between total debt to total assets and financial performance
26	Roanne	2013	Multiple analysis	The result indicated a significan negative relationship between total debt to total assets and financial performance.
27	Maniagi, Mwalati, Ondiek, Mesiega and Ruto	2013	Anova Analysis	The results revealed that total debt to total assets ratio significantly influence return on assets of listed firms Nairobi.
28	Waqas, Imran, Hafiz, Jawad and Zahid	2013	Non-parametric analysis	The result revealed that total debt total assets has strongly negative relationship with financial performance at 5% level of significance.
29	Appah, Okoroafor and Bariweni	2013	Correlation Analysis	They found that total debt to total assets has significant negative relationship with financial performance.

2.5 Conceptual Framework

A conceptual framework describes the interconnections among variables and the elaboration of these variables. This study examines capital structure and finan cial performa-nce in listed firms in Nigeria. Capital structure is the independent variable while financial performance. Capital structure of the listed firms is

determined liquidity, (LIQ), Firm size (FSZ) and Leverage (LEV). This is presented in the diagram below:



CHAPTER THREE

RESEARCH METHOD

3.1 Research Design

The Ex post facto design has been adopted for this research. This is the research that is undertaken after the events have occurred. Asika (2002) has opined that Ex post facto research is a systematic empirical study in which the researcher does not in any way control or manipulates independent variables because the situation for the study already exists or has already taken place.

3.2 Description of Population of the study

The population of this study is all the companies listed on the Nigeria Stock Exchange as at 31st December 2021.

3.3 Sample Size

The sample size of this study was 6 companies, listed on the Nigeria Stock Exchange. These selected manufacturing firms includes: Guinness, UAC Nigeria Breweries, Nestle Nigeria, Unilever Nigeria, and Cadbury. The study covers a period of ten (10) years from 2011 to 2020.

3.4 Sampling Technique

The sample size of the study was determined using a Purposeful Random Sample was used to analyze the financial performance of listed firms in Nigeria as at 2011.

3.5 Source of Data collection

Data were sourced through secondary means such as journals, textbook s, official documents, periodicals and internet materials. Data generated for this study were analyzed using content analytical approach in order to identify the independent variables determinants. This study was purely qualitative in nature.

3.6 Method of Data Presentation

This study was estimated with the use of Ordinary Regression Statistic al Analysis (OLS). The ordinary regression issued because we desire to estimate the relationship that exist between the dependent and independent variables.

3.7 Model Specification

The regression models are as follows:

$ROA = \alpha + \beta_1 LQis + \beta_2 FSZ + \beta_3 LEV + \mu$.....equation (1)

$ROA = FP(LQ_1 = (Liquidity), + FSZ_2 = (Firm size) + LEV_3 (Leverage).$

Where:

ROA: Return on Assets,

LQ = Liquidity

FSZ: Firm size,

LEV: Leverage,

β1 , B4= Partial Slopes of the ordinary regression model

μ = Stochastic error term

β1, β2, β3 β3> 0

ε = Error term.

3.8 Measurement of variables

This study examines the relationship between capital structure and fina ncial perform-ance of listed firms in Nigeria. Capital structure is the independent variable while financial performance. Capital structure is proxy liquidity, (LIQ), Firm size (FSZ) and Leverage (LEV). These variables are used for the analysis to represent the significant relationship that exists between the independent and dependent variables of listed firms in Nigeria.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Presentation and Analysis of Data

Table 4.1 presents the summary of the descriptive statistics for the dependent and independent variables for two hundred and twelve (212) observations. It shows that performance measure has a mean value of about 0.4854 and a standard deviation of about 0.2855. The maximum value of the variable is 2.57 while the minimum is 0.07. The maximum values for all other variables are 33.98, 8.74 and 14.88, while the minimum for all the variables are 0.476, 5.25 and 0.0062 respectively.

For Leverage, mean value was 7.246 and standard deviation of 3.49. The corresponding values for the others are: Firm size, 7.399 and 0.801 respectively; Liquidity, 0.0.8958 and 1.131 respectively. The p-values of the skewness and kurtosis statistics show that nearly in all the cases the data are judged to be normally distributed at 5% level of significance.

Table 4.1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max	Pr(Skewness)	Pr(Kurtosis)	Prob>chi2
PFMC	212	.4854717	.2855182	.07	2.57	0.0000	0.0000	0.0000
LEV	212	7.246127	3.490557	.4755556	33.97778	0.0000	0.0000	0.0000
FRMS	212	7.399434	.801392 5	5.25	8.74	0.0002	0.8130	0.0021
LIQ	212	.8958487	1.130758	.0062174	14.88084	0.0000	0.0000	0.0000

Source: Researcher's Computation Using STATA

Table 4.2 : Correlation Matrix

	PFMC	LEV	FRMS	LIQ
PFMC	1.0000			
LEV	0.8760	1.0000		
FRMS	-0.2399	-0.2396	1.0000	
LIQ	-0.2758	-0.3682	0.1016	1.0000

Source: Researcher's Computation Using STATA

Table 4.2 shows that there are mixed correlations between the various variables used in the study. The table shows positive correlation between performance measure and leverage while the measure and the other variables are negatively correlated with performance. The table shows that no two of the explanatory variables are perfectly correlated or nearly so. Thus, the problem of multicolinearity is absent in this model.

4.2 Testing of Hypothesis

Test Statistic

The statistical tool used in testing the stated hypotheses is the regression test procedure which uses the individual significance test (t-test) and the overall significance test (chi-squared-test). The goodness of fit of the model is tested using the coefficient of determination. The estimation of these statistics is done using the STATA computer software.

Significance Level

The level of significance adopted in this study in testing the stated hypotheses of this study is 5%. This level is usually considered adequate for studies in management and other behavioural sciences.

Decision Rule

The critical p-value used in these tests is 0.05. Thus, the researcher accepts a given alternative hypothesis as being accepted if calculated p-value is less than or equal to 0.05, otherwise the researcher accepts the null hypothesis that there is no significant effect.

Variable	OLS Regression	ROBUST Regression
LEV	.0727(0.000)	0.000
FRMS	-.0116(0.342)	0.000
LIQ	.0138(0.128)	0.000
_cons	.0326(0.741)	0.000
F-Stat	233.32(0.0000)	458.00(0.0000)
N	212	207
VIF	1.14	
Heteroscedasticity	91.87(0.0000)	
R-Squared	0.7709	
Adj R-Squared	0.7676	

Table 4.3 shows that the explanatory variable does not account for much of the systematic variations in the dependent variable. The table shows very moderate value of R-squared of 0.7709.

This moderate value of the R-squared statistic suggests that these variables explain about 77% of the changes in the dependent variable. For the model, the p-value of the F statistic (0.000) shows that the model overall is suitable for estimating the stated model.

The VIF test (1.14) shows that there is the absence on multi-colinearity and so there is no need to drop any variable. Also, the heteroscedasticity is 91.87 with p-value of 0.0000, showing that there significant heteroscedasticity problem and so the need for a robust regression.

***Hypothesis* 1**

H_0: Liquidity has no significant effect on financial performance of manufacturing firms in Nigeria.

H_1: Liquidity has a significant effect on financial performance of manufacturi ng firms in Nigeria.

Computation

The test statistic is computed by STATA software and the results are as shown in Table 4.6.

Table 4.6: Regression Results on Revenue **Growth and Financial Statement Quality**

Variable	Coefficient	p-value
LIQ	-0.0463	0.000

Source: Extracted from STATA Computations

Decision

With a coefficient of -0.0463 the results indicate that Liquidity negatively impacts financial performance of manufacturing firms in Nigeria while the probability value of 0.000 indicates that the negative impact is significant because it is less than 0.05. This leads to the acceptance of the alternate hypothesis, thus rejecting the null hypothesis. The researcher accepts that Liquidity significantly affects financial performance of manufacturing firms in Nigeria.

Hypothesis II

H_o***:*** Firm size has no significant effect on financial performance of manufacturing firms in Nigeria.

$H_{1:}$ Firm size has a significant effect on financial performance of manufacturing firms in Nigeria.

Computation

The test statistic is computed by STATA software and the results are as shown in Table 4.4.

Table 4.4: Regression Results on Firm size and Return on Assets.

Variable	Coefficient	p-value
FRMS	-0.0330	0.000

Source: Extracted from STATA Computations

Decision

With a coefficient of -0.0330 the results indicate that firm size negatively impacts financial performance of manufacturing firms in Nigeria, while the probability value of 0.000 indicates that the negative impact is significant. This leads to the acceptance of the alternate hypothesis, thus the rejection of the null hypothesis. The researcher accepts that firm size does not significantly impact performance of listed deposit banks in Nigeria, and that such effect is negative.

***Hypothesis* III**

H_o: Leverage has no significant effect on financial performance of manufa c-turing firms in Nigeria.

H_1: Leverage has a significant effect on financial performance of manufac t-uring firms in Nigeria.

Computation

The test statistic is computed by STATA software and the results are as shown in Table 3.

Table 3: Regression Results on Leverage and Return on Assets

Variable	Coefficient	p-value
LEV	0.0613	0.000

Source: Extracted from STATA Computations

Decision

With a coefficient of 0.0613 the results indicate that leverage positively impacts return on assets, while the probability value of 0.000 indicates that the positive impact is significant. This leads to the rejection of the null hypothesis, thus acceptance of the alternate hypothesis that Leverage has a significant impact on financial performance of manufacturing firms in Nigeria, and the impact is positive.

4.3 Discussion of Findings

This study examined the relationships among the variables: e-banking, customer satisfaction, Nigerian economic growth, Nigerian business environment and e-transact; particularly the effect of e-banking on these variables.

The results indicate that almost all the variables are significantly normally distributed at 5% level of significance. The correlation matrix indicates the variables have mixed relationships. The results also indicate the absence of multi-colinearity.

Essentially, the findings of the study are: with a coefficient of -0.0463 the results indicate that Liquidity negatively impacts financial performance of manufacturing firms in Nigeria while the probability value of 0.000 indicates that the negative impact is significant because it is less than 0.05. This leads to the acceptance of the alternate hypothesis, thus rejecting the null hypothesis. The researcher accepts that Liquidity significantly affects financial performance of manufacturing firms in Nigeria. The result agrees with consistent with the findings of Maheswari (2015), Marozva (2015) and Patjoshi (2016), but was not consistent with the findings of Njure (2014), Odi-Nwosu et al. (2017). This inconclusiveness may have resulted from the existence of varying degrees of institutional backdrops.

Similarly, with a coefficient of -0.0330 the results indicate that firm size negatively impacts financial performance of manufacturing firms in Nigeria, while the probability value of 0.000 indicates that the negative impact is significant. This leads to the acceptance of the alternate hypothesis, thus the rejection of the null hypothesis. The researcher accepts that firm size does not significantly impact performance of listed deposit banks in Nigeria, and that

such effect is negative. The result agrees with the findings of Kintu and (2097), Ubesie and Okeke (2016), Bablola (2013) and Ebaide (2009) but not consistent with the findings of Abdul (2010) and Fosberg and Ghosh (2006).

And, with a coefficient of 0.0613 the results indicate that leverage positively impacts return on assets, while the probability value of 0.000 indicates that the positive impact is significant. This leads to the rejection of the null hypothesis, thus acceptance of the alternate hypothesis that Leverage has a significant impact on financial performance of manufacturing firms in Nigeria, and the impact is positive. The result agrees with the findings of Osuji and Odita (2012), Abbasali et al. (2012), Gholamreg et al. (2013) but not consistent with the finding of Thaddeus and Chigbu (2012). This might have been as a result of using different industrial sectors.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The findings include:

i. That Liquidity significantly affects financial performance of manufacturing firms in Nigeria the effect is positive.

ii. That firm size negatively impacts financial performance of manufacturing firms in Nigeria the negative effect is significant.

iii. That Leverage has a significant impact on financial performance of manufacturing firms in Nigeria, and the impact is positive.

5.2 Conclusion

This study examined capital structure and financial performance of listed firms in Nigeria. Findings were obtained from the reports of the selected manufacturing firms listed in Nigeria. Capital structure was used as a proxy for financial performance. Furthermore, liquidity, leverage and firm size were used as the control variables. From the analysis, it was shown that with liquidity has a coefficient value of -0.0463 which indicate that Liquidity negatively impacts financial performance of manufacturing firms in Nigeria while the probability value of 0.000 indicates that the negative impact is significant because it is less than 0.05. It was further revealed in the study that firm size negatively impacts financial performance of manufacturing firms in Nigeria with a coefficient of -0.0330 and probability value of 0.000. It was finally observed from the analysis that leverage positively impacts return on assets, with a probability value of 0.000 which indicates that the positive impact is significant.

5.3 Recommendations

The recommendations include:

i. It is recommended among others that the management of the selected companies should work hard to increase the firm size of their capital structure, since it has negative impact of manufacturing firms in Nigeria.

ii. The companies should reduce the level of liquidity affecting the manufacturing firms so as to ensure that the standard of the organization is maintained.

iii. Leverages have significant impact on financial performance of manufacturing firms in Nigeria as the fixed charges of funds has positive impact on their capital structure, thus, it has significant effect on financial performance.

5.4 Suggestions for further studies

Further research can be undertaken on capital structure and financial performance of listed firms in Nigeria. This will broaden our understanding of the extent to which capital structure impact on financial performance depending on the governance structures.

Furthermore, the relationship between capital structure and financial performance in manufacturing firms in Nigeria is going to be examined and explored. This is because capital structure is inbuilt in all systems in terms of value, attitudes and norms shared across members of the organization. This eventually affects financial performance. Therefore for manufacturing companies to succeed in Nigeria, the financial performance of organizations must be given a major priority and the predominant predictors should not be disregarded.

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Appendices

Variable	Obs	Mean	Std. Dev.	Min	Max	Pr(Skewness)	Pr(Kurtosis)	Prob>chi2
PFMC	212	.4854717	.2855182	.07	2.57	0.0000	0.0000	0.0000
LEV	212	7.246127	3.490557	.4755556	33.97778	0.0000	0.0000	0.0000
FRMS	212	7.399434	.8013925	5.25	8.74	0.0002	0.8130	0.0021
LIQ	212	.8958487	1.130758	.0062174	14.88084	0.0000	0.0000	0.0000

	PFMC	**LEV**	**FRMS**	**LIQ**
PFMC	1.0000			
LEV	0.8760	1.0000		
FRMS	-0.2399	-0.2396	1.0000	
LIQ	-0.2758	-0.3682	0.1016	1.0000

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
pfmc	212	0.0000	0.0000	.	0.0000
lev	212	0.0000	0.0000	.	0.0000
frms	212	0.0002	0.8130	12.38	0.0021
liq	212	0.0000	0.0000	.	0.0000

Source	SS	df	MS Number of obs =	212
			F(3, 208) =	233.32
Model	13.2603703	3	Prob > F =	0.0000
Residual	3.94048217	208	R-squared =	0.7709
			Adj R-squared =	0.7676
Total	17.2008525	211	Root MSE =	.13764
pfmc	Coef.	Std. Err.	t P>t [95% Conf.	Interval]
lev	.0726587	.0029921	24.28 0.000 .0667599	.0785575
frms	-.0116107	.01218	-0.95 0.342 -.0356227	.0124013
liq	.0137694	.009014	1.53 0.128 -.004001	.0315399
_cons	.0325547	.098513	0.33 0.741 -.1616571	.2267666

Variable	VIF	1/VIF
lev	1.21	0.823097
liq	1.16	0.864235
frms	1.06	0.942371
Mean VIF	1.14	

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of pfmc
chi2(1) = 91.87
Prob > chi2 = 0.0000

Robust	regression		Number	of obs =	211
		F(3,	207) =	458.00	
		Prob >	F =	0.0000	
pfmc Coef.	Std. Err.	t	P>t	Interval]	
lev .061332	.0021514	28.51	0.000	.0655735	
frms -.0330045	.0081333	-4.06	0.000	-.0169697	
liq -.0462664	.0123232	-3.75	0.000	-.0219713	
_cons .3294046	.0680142	4.84	0.000	.4634939	