CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

BY

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A RESEARCH SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE , FACULTY OF MANAGEMENTAND SOCIAL SCIENCES, FEDERAL UNIVERSITY GUSAU, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE DEGREE IN ACCOUNTING.

SEPTEMBER, 2021.

DECLARATION

I Aliyu Muhammad Muttaka with the registration number 1610201007 declare that; this study is the product of the research done by me under the supervision of Mallam Dr Aminu Abdullahi All sources and materials consulted have been duly acknowledged by way of reference.

ALIYU MUHAMMAD MUTTAKA
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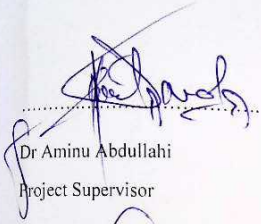
Sign/Date

CERTIFICATION

This research work titled "Impact of capital structure on the financial performance of listed money deposit banks in Nigeria", has been supervised, examined and recommended for acceptance for the award of Bachelor of Science (B.Sc.) degree in accounting in the department of accounting and finance, faculty of Management and Social Sciences, Federal University Gusau, Zamfara state.



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DEDICATION

This research work is dedicated to my beloved parents, especially to my late mother suwaiba Ibrahim and my beloved father Hon Muhammad muttaka rini , also to my wife farida Ibrahim and my one wonderful kids Abdul kayyum Aliyu and to the entire family of Muhammad Muttaka Rini for their support, love and care, also for their encouragement and guidance without which my educational career might not have been possible.

ACKNOWLEDGEMENTS

In the name of Allah (God) the Most Gracious, the most Merciful. The task of putting this project into shape calls for the support of many hands. First and foremost, I would like to thank Allah for keeping me alive, without which I would not exist to carryout this research work. May the peace and blessing of Almighty Allah be upon our Noble Prophet Muhammad (SAW), his household, his companion and those that follow his footsteps till the day of resurrection.

My special thanks goes to my supervisor, Dr. Aminu Abdullahi for all his supports guidance, tolerance and counseling giving to me during the course of my research work may Allah reward and bless him in all his endeavors. I must acknowledge with gratitude, the moral support and encouragement given to me by my father, Hon Muhammadu Muttaka Rini, And May Mother Suwaiba Ibrahim may Almighty Allah grant Them Aljannatul Firdaus.For his critical supervision to ensure that the project is up to acceptable standard. My special thanks goes to him Years before I started my high institution career. Alhaji kasim Muhammad Rini who has been given me financial support all the years. Malam Samaila Dannana for his academic support. Rukayya Muhammad Rini, a young Sister Sadiya Muhammad Muttaka I who pledges support whenever requested. Saadu Muhammad Rini , Kamila Imrana and Abdulmalik Abubakar Garkuwa who has been giving me advise and moral support throughout the course of the study, May Allah reward them all.This acknowledgement is incomplete without appreciating the role of my brothers and sisters; Sulaiman Mahe, Sanusi Hamza, Habibu Garba Gummi, Sufiyanu Labbo, Auwal Usman Ahmad.

I must at this juncture, send my sincere gratitude to my level co-ordinator in person Malam Usman Adam. Not forgetting my HOD AU Faruk,and friends also; Auwal Sabiu Giwa (peresdo), Comrade Tasieu Sanusi Hassan (Dan Kaura) Aminu Muhammad Mafara (Choice), Sani Usman A., Sahabi Abubakar Aliyu, Usman Ahmad (Ucybhadest). And Yusuf Saidu Rini who knows the values of education. May Allah bless us all in our entire endeavor.

Abstract

There exists divergence of opinion in literature on the relationship between capital structure and firms's financial performance. This mix of opinions makes the direction of the relationship between debt holders and equity holders to be controversial. Therefore, this study investigated the impact of capital structure on financial performance of listed deposit money banks in Nigeria. The study formulated four hypotheses and used generalized least square multiple regression to analyze the secondary data extracted from the annual reports and accounts of the sampled banks for the period 2015-2020. The study found that total debt and, short-term debt have significant impact on the financial performance of money deposit banks in Nigeria. The study also found that total debt to total equity has no significant effect on the financial performance of the firms. In view of the findings, it is recommended among others that the management of listed deposit money banks should work very hard to increase the short term debt to total assets component of their capital structure, since it has positive impact on their financial performance. Also, the firms should reduce the level of total debt to total assets and long term debt to total assets in their capital structure components, because they affect their financial performance negatively.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Capital structure is one of the essential decisions taken by the finance manager of a company in order to analyze the capital structure decision and determines the overall worth of capital through Which to measure the worth of the firm as well as the profitability of the firm. If firm wants to start a new business, It needs to determine the composition of its Capital and analysis as this would enable it to establish the worthiness of the business. The capital structure determinacy signifies indications that a firm possesses to ponder before preferring its capital structure. So, it is the duty of every firm to maximize its price/value and minimize its value of capital, whereas analyzing its capital structure. Capital structure mainly consists of debt, stock and preferred shares that issued to increase the revenue and to get revenue to numerous aspect of business of the firm, in other words, the capital structure is primarily a combination of debt and equity, (Vishnu Prasad G. 2019).

The Debt holders are the one who mainly look for the compensation for the interest and principle. They do not have much long-term commitment towards the firm but the equity holders will have a long-term attachment and commitment towards the firm, the firm would possess extra preserved earnings to finance their capital outflows so they will get a regular dividend from the company. Hence, the firm's capital structure plays vital impact on the financial performance of the firms. Finance leverage is measured because the quantitative relation of debt and equity that states the link between the borrowed and owner's funds. The main thing that a company must analyze is their ability to form cash from all the sources especially from their various business activities. Each and every firm wants to want to use their resource carefully and with that available resources they want to make their profit for the development of the company. The profit of the company in this context mainly says about the revenue over the expense of the company and it also explains the Overall companys performance . From the point of view of different banks, the commands of the banks and size of the banks mainly depends on the number of branches that a bank is operating. The revenue of the bank mainly analyses the potential, performance and profitability of the bank. In order to analyze the Profit and performance of the bank NP (net profit) is taken into account. Other that NIM, ROCE is also considered for

assessing the profitability of the firm. From 1963 onwards the economicperformance of Malaysia has been one of Asia's best (Vishnu Prasad G, 2019).

The fact that capital is of practical importance to corporate organizations cannot be overemphasized. It serves as the foundation and basis upon which corporate firms are laid and therefore operates. Capital serves to absorb losses and cost, ensures the multiplication of fixed assets and ultimately makes possible the achievement of sustainable growth through takeovers, mergers and acquisition arrangement (Atseye, 2013and Ogieva&Ogiemudia, 2019).

Choices with regards to financing are often times determined by a host of factors which may be interrelated and interconnected with the characteristics and features of the firm coupled with their institutional environments (Fan, 2012 and Osazee F. et. al 2019).The major sources of funds that firms could use to finance their operations may include internal fund (retained earnings), equity and debt. Most companies utilize a mix of debt and equity which of course makes up the capital structure (Nassar, 2016).

Fatoki and Waweru(2021), Investors and potential investors will be obliged to invest their hard-earned savings in a company that promised to make a return that will change their wealth position at a point in time. However, as sound as this objective is, it will be elusive if the hard-earned resources are not combined for optimum utilization. The essence of capital structure decision is to ensure the right combination of financing resources that will yield maximum return without necessarily hampering the interest of stakeholders.

Financing and investment are two major decision areas in a firm. In the financing decision the manager is concerned with determining the best financing mix or capital structure for his firm. Capital structure decision is the mix of debt and equity that a company uses to finance its business (Damodaran, 2001). Capital structure is the way a company finances its assets through the mixture of equity, debt or hybrid securities. According to Chechet and Olayiwola (2014) whether a business is newly born or it is ongoing, it requires fund to carry out its activities. This fund is referred to as capital. Capital therefore refers to the means of funding a business.

According to Kochhar (1997) and Ajayi and Obisesan (2020), poor capital structure decisions may lead to a possible reduction/loss in the value derived from strategic assets. Hence, the capability of a firm in managing its financial policies is important if the firm is to realize gains

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from its specialized resources. The raising of appropriate funds in an organization will aid the firm in its operation; hence, it is important for bank in Nigeria to know the debt□equity mix that gives effective and efficient performance after a good analysis of business operations and obligations.

An optimum capital structure is a critical decision for any organization. Indeed, any capital structure decision is important for the need to maximize returns for various organizational constituencies, and seemingly this decision has an organizational ability to deal with its competitive environment especially amongst different industries. Thus, one of the most critical issues facing financial managers is the relationship between capital structure, which is the mix of debt and equity financing and stock prices. In order to throw more light on this, and overcome this loophole, the present study mainly focuses on how far capital structure affects firm's performance of different industries and how these impacts differ among firms of different categories of industries.Abdulazeez M. (2020).

Financial performance is concerned with the determination of how well a company can utilize its assets from its principal course of the operation to create revenues. Erasmus in 2008 opined that financial performance parameters like profitability or liquidity among others offer a valuable mechanism to stakeholders that assist in assessing the previous financial performance and current position of a company. The evaluation of financial performance is intended to be responsible for answers to a wide range of essential questions which may include whether the entity has sufficient cash to address all its financial burdens, is it generating adequate size of sales to substantiate current investment. Tian, *et al.* (2007), argued that capital structure is linked closely with financial performance. Financial performance can be represented by parameters that involve profitability, productivity, growth or even satisfaction for customers. These parameters are related to each other. Financial measurement is one of the apparatuses which show the financial strength or opportunities and weakness or threats. Sanford (2009) stated that those measurements may include but not limited to return on investment (ROI), return on assets (ROA), return on equity (ROE), residual income (RI), earning per share (EPS), dividend yield, growth in sales, etc.

Firm Performance: The firm performance can be broadly defined as the ability to control and maintain investment, operational decisions and strategies that will help in the achievement of

business' stability and objective. Specifically, the financial performance of a firm is its capacity and ability to generate sustainable profits. Return on Assets (ROA) and Return on Equity (ROE) are commonly used to measure profitability (Chipa&Wamiori, 2017).

The majority of firms fail as a result of challenges facing managers and owners on financing decisions. This is because, most firms and organizations fail or perform poorly because of diverse challenges managers or owners face regarding financing decisions (Migliori et al., 2018). This Phenomenon gained considerable attention among financial economists after the formulation of Modigliani and Miller's (1958) capital structure irrelevance theory.

In other words, capital structure is the use of diverse sources of capital to finance the operations of a firm to achieve its strategic goals (Suardi& Noor, 2015). The choice of capital is, therefore, a critical financing decision, since it is directly linked to a firm's risk and return. This suggests that firms have the choice of using either equity or debt to finance their assets. However, Wu (2019) maintains that the best mix is the use of both debt and equity capital. Ibrahim and Zulkafli (2018) also maintain that several sources of finance are available to firms, but these sources can be organized into two, namely, internal and external finance sources. The external sources of financing consist of bond issuance and short- and long-term loans, whilst the internal sources of finance comprise equity stock, retained earnings, reserves, and preferred stock.

1.2 Statement of The Problem

There has been an ongoing debate on the issue of capital structure and financial performance of firms. This controversy is further narrowed down to identifying which of the variables debated is most influential in predicting and determining the capital structure of manufacturing firms. The choice of optimal capital structure of a firm is difficult to determine. A firm has to issue various securities in a countless mixture to come across particular combinations that can maximize its overall value which means optimal capital structure. Optimal capital structure also means that with a minimum weighted-average cost of capital, the value of a firm is maximized. According to Rahul (1997), poor capital structure decisions may lead to a possible reduction in the value derived from strategic assets. Hence, the capability of a company in managing its financial policies is important if the firm is to realize gains from its specialized resources. The nature and extent of relationship between capital structure and financial performance of firms have attracted

the attention of many researchers. The studies, which are largely foreign based, have however revealed conflicting findings.

In Nigeria, most of the studies did not use other components on capital structure and financial performance. The studies which include Bello and Onyesom (2005), Salawu (2007), Olokoyo (2012), Babalola (2012), Yinusa and Babalola (2012), Sabastian and Rapuluchukwu (2012) and Idode, Adeleke, Ogunlowo andAshogbon (2014) have left a gap that need to be filled. For example, Salawu (2007), who studied the effect of capital structure on financial performance of selected quoted companies in Nigeria between 1990 and 2004 concentrated on short term debt. His study did not extend to other forms of financing, thus the finding could only be used in the context of short term debt financing.

This means even within the purview of debt financing; only the short term aspect of the debt was covered in his study. In reality, a study on capital structure is supposed to cover both types of debt financing. Babalola (2012) who also studied the effect of optimal capital structure on firm"sperformance in Nigeria between 2000 to 2009 using samples of 10 firms, concentrated on total debt to total assets. His study excluded the aspect of total debt to equity, short term debt to total assets and long term debt to total assets financing despite the fact that both types of debt financing are used by the sampled firms. More so, his study and those of Bello and Onyesom (2005) and Olokoyo (2012) used Chi-square technique to analyze their data. Chi-square is considered deficient in terms of reflecting time variant and specific characteristic issues. Studies on capital structure and performance of firms are supposed to use parametric techniques that measure both time variant and specific characteristic issues.

Furthermore, the study of Yinusa and Babalola (2012) examined the impact of corporate governance on capital structure decision of ten (10) firms in the food and beverage sector during the period from 2000 to 2009. They used total debt to total assets ratio as proxy of capital structure. The study did not cover other components or types of debt financing such as total debt to total equity, short- term debt and long-term debt. Additionally, Sebastian and Rapuluchukwu (2012) that studied the impact of capital structure and liquidity on corporate returns of manufacturing firms between 2002 to 2006, focused on short-term debt, long-term debt and total debt without including total debt to total equity financing. The study failed to use total debt to total equity as variable of debt.

1.3 Research Questions

The study seeks to address the following questions:

1. To what extent does equity ratio affect Return on Asset?
2. To what extent does long term debt ratio of the firm impact on the Return on Asset?
3. What is the effect between asset tangibility ratio and Return on Asset?

1.4 Objective of the Study

The broad objective of this study is to ascertain the effect of capital structure on the financial performance of listed deposit money banks listed in the Nigerian stock exchange; while the specific objectives are to:

(i) Determine the effect of debt to total equity ratio on Return On Asset
(ii) Determine the effect of debt to total funds ratio on Return on asset
(iii) Determine the effect of asset tangibility ratio on Return on Asset

Research Hypothesis

In order to achieve the above objectives the following hypotheses were stated in null forms and will be subjected to empirical tests.

Ho1: There is no significant effect between debt to total equity ratio and Return on Assets.

Ho2: There is no significant effect between debt to total funds of the firms and Return on Assets.

Ho3: There is no significant effect between assets tangibility ratio and Return on Assets.

1.5 Significance of the study

The results of this study would be of benefit to managers, shareholders and creditors of manufacturing firms in Nigeria. Managers would be placed on a sound footing to understand the effect of various financing mix on the operations of their firms. 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 firms that are financially strong enough to settle their claim as at when due.

1.6 Scope and limitation:

The study is designed to examine the relationship between corporate capital structure Financial performance of listed deposit money banks in Nigeria. The study covers the period of six years from 2015 to 2020.

CHAPTER TWO
LITERATURE REVIEW

2.1 INTRODUCTION

This chapter entails reviewing of past work which are similar to this, considering their objectives, methodology and findings. In this chapter, Relevant conceptual, theoretical, and empirical literature related to the subject matter are reviewed in the chapter. The Literature is reviewed on the conceptual definition of Capital structure and the conceptual definition of financial performance.

2.2 CONCEPT OF CAPITAL STRUCTURE

Capital Structure: Capital structure is referred to as the combination of equity and debt which the firms use to finance their operations (Modigliani & Miller, 1958). It is a subset of the financial structure of a firm which is a combination of short and long-term sources of financing. According to Myers and Majluf (1984), capital structure is the choice of equity, debt or hybrid securities which the firms use to finance and promote their operational activities. According to Harris and Raviv (1991) capital structure is part of the solution to the challenge of underinvestment and overinvestment. Myers (2000) opined that capital structure is a mix of equity and debt securities used to finance real and nominal investment. Brendea (2018) posits that capital structure is the financing strategy of a long term nature used by corporate organizations while Nirajini and Priya (2013) defines capital structure as the process whereby corporate entities finance a mix of capital and liabilities on a long and short term basis.

Financial performance is a fundamental issue in the economic entities and all businesses must try to get the highest financial performance. There are many factors that affect the financial performance of a business. These factors may be either internal factors or external ones. Currently, there have been many studies proving the impact of capital structure on the financial performance of businesses, however the results are not the same. In addition, each business sector has its own characteristics as well as capital management, so the impactlevel is also much diversified.

Capital structure constitutes a substantial part of an organization and therefore, the way in which it is managed will have a significant impact on the profitability of the company concerned. A

financial expert, differentiated between capital structure and financial structure. He asserted that the various means used to raise funds represented the financial structure of the enterprise. He defined capital structure as the proportionate relationship between long-term debt and equity.

Capital structure is the combination or mixture of the company's equity and debt, which ensures financial stability, profit generation, growth and expansion. Views the capital structure of a company as the precise mixture of debt and equity used in financing the firm's operation. Capital structure means the approach a firm uses in financing their assets through the mixture of debt, and equity or hybrid securities. Hybrid securities in this content mean a group of securities that combine the elements of both debt and equity, which have fixed or floating rate of return, and the holder has the option of converting it into the underlying company's share. Capital structure is a mixture of a company's debt (long term and short term), Muhammad Usman (2019).

The financial decision of a firm is vital in determining the optimal capital structure mix. Measuring the firm managerial and financial prowess to adjust and direct its numerous leverages to maximize its value, growth, and generate optimum returns. Firms have a diverse level of leverage, the determination of the best mix to enhance performance by managers remains a puzzle to be solved in corporate finance theory and finance literature. The capital structure comprises long-term debt, specific short-term debt, common equity, preferred equity, and retained earnings. Firm performance is calculated by its capacity to generate optimum returns from its assets, maximize the value and wealth of the shareholders. The financing decisions of firms vary according to the rate of risk related to each financing option as well as the relationship between risk and return (Abu-Rub, 2012). Capital structure effect on firm performance varies proportionately in two ways; according to Desai, (2007) and Ayange (2020) highly leverage firms with similar risk level might have a higher cost of capital and leverage.

Capital structure decision is the mix of debt and equity that a company uses to finance its business (Damodaran, 2021). Capital structure has been a major issue in financial economics ever since Modigliani and Miller showed in 1958 that given frictionless markets, homogeneous expectations, the capital structure decision of the firm is irrelevant. The question firms are faced with is making a decision on the capital structure choice to use. The decision is crucial given that it has an effect on the financial performance of firms. The capital structure of a firm is generally the specific mix of debt and equity the firm uses to finance its operations (Abor, 2015).

It can also be defined as the extent to which a firm or investor is using the borrowed money to finance their business, being it long term shot term or total debt. According to (Joseph, 2018), is a measure of how much firms uses equity and debt to finance its asset. Scholars believe debt financing is better to internal financing because of the tax advantages associated with it (Nwaolisa&Chijinde, 2016).

The capital structure of a company lays the basis for the capital cost of the company. The costs of debt and equity depend on the market conditions prevailing and the choice the company exercises impacts its performance over the long term. The factors that influence the company's decision include the nature of its business, its reputation, the gestation period of its project, and the expected pattern of its cash flows. Given the cost differential between debt and equity and the tax benefits associated with debt, the capital structure decision will influence the company's performance. The capital structure is also influenced by the sector in which the company is operating. Keeping this in view, an attempt has been made in this paper to examine the relationship between a pharmaceutical company's capital structure and its financial performance. It will help the manager to make appropriate decisions on constructing a proper capital structure for a company.

According to Gupter (2020), the most important issues in corporate finance which has been in debate among many academicians, financial institutions and the companies is how to choose the ratio of debt to equity (debt means long term loan or debentures and equity includes paid up capital, share premium, and all reserves & surplus) and the mixture of short and long term maturities to do the makeup of the liabilities and stockholder's equity side of the balance sheet. Hence, it is a very critical decision to define the optimal capital structure. The decision regarding the optimal capital structure is very important because it affects the financial risk and, hence, the value of the company. The optimal capital structure is the mix of debt and equity that will have the minimum cost of capital and will maximize the value of the firm. Cost of capital is a combination of fixed interest paid to the debenture holders and the dividend paid to the equity share holders. Hence, we can say that the fixed cost is the key factor whether it is involved in production process or fixed financial charges. It should be kept low if the management is likely to confront an uncertain environment but how low or how high is the basic question. The market of the share is also be affected by the capital structure decision. The decision regarding the

capital structure is to be considered at different stages, initially at the time of its promotion and subsequently, at every time when the external funds have to be raised. A demand for raising funds generates a new capital structure which needs a critical analysis.

The concept of capital structure and its relationship to market value and performance has been a perplexing subject in corporate finance and accounting literature since the seminal work of Modigliani and Miller (1958). Modigliani and Miller (1958) argued that under very conservative conditions of ideal financial markets, homogeneous aspirations of investors, a tax-free economy, and no transaction costs, the capital structure is unrelated to the determination of firm valuation. According to this proposal, the worth of a company is determined by its actual properties, not by the combination of shares that it issues. If this plan does not hold certain arbitration procedures, a creditor will acquire the securities of an undervalued company and sell the shares of the overvalued firm in such a manner as to gain the same revenue streams. When buyers take advantage of these arbitrage possibilities, "the price of overvalued shares will fall and the price of undervalued hares will increase until all prices are equivalent.(Senan et al 2021).

2.2.1 Concept of Capital Structure

There have been several attempts to define Capital Structure, all of definitions explain the kinds of securities and the proportionate amounts that makeup capitalization. It is the mix of different sources of long-term sources such as equity shares, preference shares, debentures, long-term loans and retained earnings. One of these definitions for Gangeni (2006) that state the study of capital structure attempts to explain the mix of securities and financing sources used by corporations to finance real investment. The firm needs to make investments in order to at least remain in business, let alone display some growth. To finance these investments, the firms can use internal finance sources such as retained earnings and issuing shares for public or use external finance sources as a loans or bonds.

The term capital structure refers to the relationship between the various long-term sources financing such as equity capital, preference share capital and debt capital as Parmasivan et al. (2009). Capital structure is the permanent financing of the company represented primarily by long-term debt and equity and deciding the suitable capital structure is the important decision of the financial management because it is closely related to the value of the firm. Gitman et al. (2012) defined capital structure as the mix of long-term debt and equity maintained by the firm.

2.3 Components of Capital Structure

The capital structure of a firm consists of debt and equity. Debt is further classified into short and long term. Accounting and finance literature often discuss these components as ratio of total assets and of equity. The components are discussed hereunder.

2.3.1 Total Debt to Total Assets

The total debts to total assets measure the amount of the total funds provided by creditors in relation to the total assets of a firm. Generally, creditors would prefer low ratio for all debts because the lower the ratio the greater is the cushion against creditors losses in the event of liquidation. Total debt to total assets is a debt ratio that defines the total amount of debt relative to assets. This enables comparison of debt to be made across different companies. The higher the ratio the better degree of debt and consequently financial risk. This is a broad ratio that includes long term debt and short term debt (borrowings maturity within one year) as well as all tangible and intangible assets (Akinsulire, 2014).

Debt ratio is a solvency ratio that measures firm's total liabilities as a percentage of its total assets. In a sense, the debt ratio shows a company's ability to pay off its liabilities with its assets. In other words, this shows how many assets the company must sell in order to pay off all of its liabilities. This ratio also measures the financial debt of a company. Companies with higher levels of liabilities compared with assets are considered highly indebted and more risky for lenders. It helps investors and creditors analyses the overall debt burden on the company as well as a firm's ability to pay off its debt in the future especially during uncertain economic times. The debt ratio is calculated by dividing total liabilities by total assets. Both of these numbers can easily be found in the balance sheet. A lower debt ratio usually implies a more stable business with the potential of longevity because a company with lower ratio also has an overall debt posture. Each industry has its own benchmarks for debt, but 0.5 is reasonable ratio (Ojo, 2012)

The debt ratio is a fundamental solvency ratio because creditors are always concerned about being repaid. When companies borrow more money, their ratio increases and creditors will no longer loan them money. Companies with higher debt ratios are better off looking to equity financing to grow their operations. Debt ratios measure a firm's ability to repay long term debt. It is a financial ratio that indicates the percentage of a company's assets that are provided via debt. It is the ratio total debt, the sum of current liabilities and long term liabilities and total assets as

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well as the sum of current asset, fixed assets and other assets such as goodwill (Semiu& Collins, 2011).

2.2.2 Total Debt to Total Equity

Total debt to total equity ratios measure the proportion of creditors fund in relation to shareholders fund. Creditors would like this ratio to be lower; because the lower the ratio the higher the level of firm's financing that is being provided by shareholders and the larger the cushion (margin of protection) in the event of shrinking asset values or outright losses. This a measure of how much suppliers, lenders, creditors and obligors have committed to the company versus what shareholders have committed (Kurfi, 2003). Total debt to total equity refers to the ratio of debt to equity capital of a company. As a result of the payment of interest and repayment of principal amount of the debt, a large part of the firm's cash flow would decrease (Magpayo, 2011).

The debt to equity ratio shows the percentage of a company's financing that comes from creditors and investors. A higher debt to equity ratio indicates that more creditors financing (bank loans) is used than investors financing (shareholders). The debt to equity ratio is considered a balance sheet because all of the elements are reported on the statement of financial position. Each industry has different debt to equity ratio bench marks, as some industries tend to use more debt financing than others. A debt ratio of 0.5 means that there are half as many liabilities as there is equity. In order words, the assets of the company are funded 2 to 1 by investors to creditors. This means that investors own 66.6 cents on the dollar (Erasmus, 2008).

Companies with a higher debt to equity ratio are considered more risky to creditors and investors than companies with a lower ratio. Unlike equity financing, debt must be repaid to the lenders. Since debt financing also requires debt servicing or regular interest payments, debt can be a far cheaper form of financing than equity financing. Creditors view a higher debt to equity ratio as risky because it shows that investors have not funded the operations as much as creditors have. In other words, investors do not have as much skin in the game as the creditors do. This could mean that investors do not want to fund the business operations because the company is not performing well. Lack of performance might also be the reason why the company is seeking for extra debt financing (Stanford,

2009).

2.2.3 Short Term Debt to Total Assets

This measures how relative short-term debts to total asset of a firm are to be repaid within an accounting period. Some scholars argued that the shorter the debt the better the firm is in improving its performance. The short term debt to total assets ratio is a measure of the financial leverage of the company. It tells what percentage of the assets is financed by short term debt. Short term debt is debt due for repayment within or less than 12 months and is not included in the long term liabilities figure on the statement of financial position. It includes creditors and accruals (Akinyomi, 2013).Short term debt to total assets ratio is the ratio that represents the financial position of the company's ability to meet its current financial requirements. It shows the percentage of company assets that are financed with loans and other financial obligations that last over a year.

The short term debt ratio is calculated by dividing current liabilities by total assets. Both of these numbers can easily be found in the balance sheet. A lower debt ratio usually implies a more stable business with the potential of longevity because a company with lower ratio also has short term debt.

2.2.4 Long Term Debt to Total Assets

Long-term debt to total assets measures the relative weight of long-term debt to the capital structure (long-term financing) of a firm's long-term debt to- total assets. Long term debt to total assets ratio is the ratio that represents the financial position of the company's ability to meet its financial requirements. As this ratio is calculated yearly, decrease in the ratio would denote that the company is faring well, and is less dependent on debts for their business needs (Kurfi, 2003). The higher the level of long term debt, the more important it is for a company to have positive revenue and steady cash flow. It is very helpful for management to check its debt structure and determine its debt capacity (Akinsulire, 2014).

The long term debt to total assets ratio is a measure of the financial leverage of a company. Long term debt is debt due for repayment in over 12 months and is not included in the current liabilities figure on the balance sheet. It includes mortgages and long term leases, but not general trading liabilities (Akinyomi, 2013). A high ratio usually indicates a higher degree of business risk because the company must meet principal and interest obligations. Potential creditors are reluctant to give financing to a company with a high debt position. However, the

magnitude of debt depends on the type of business. For example, a bank may have a high debt ratio but its assets are generally liquid. A utility can afford a higher ratio than a manufacturer because its earnings are more stable (Khalaf, 2013).

2.2.5 Equity

Equity is the difference between the values of the assets/interest and the cost of the liabilities of something owned. In accounting context, shareholders' equity (stock holders equity, shareholders' funds, shareholders capital or similar terms) represents the equity of a company as divided among individual shareholders of common or preferred stock (Kurfi, 2003). Accounting shareholders are the cheapest risk bearers as they deal with the public. In financial accounting, owners" equity consists of the net asset which is the difference between the total assets of the entity and all its liabilities. Equity usually appears on the statement of financial position which is one of the four primary financial statements. The assets of an entity can be in tangible and intangible items. Intangible assets include items such as brand names, copy rights or goodwill. Tangible assets include land, equipment and cash (Akinsulire, 2014).

Equity is the residual interest in the assets of the entity after deducting all the liabilities (IASB frame work). Equity is what the owners of an entity have invested in an enterprise. It represents what the business owes to its owners. It is also a reflection of the capital left in the business after assets of the entity are used to pay off any outstanding liabilities. This is what the owners take home in the event of liquidation of the entity (Erasmus, 2008). Equity is the owners" value in an asset or group of assets. It is also refers to the value of the assets contributed by the owners. This is added to the total income earned and retained by the company to give the company's total equity value. This description of equity is correct but very simplistic. A more profound description is really that used by home owner, that is, owners" value in an asset or group of assets. It is calculated by total assets minus total liabilities

2.3 Concept of Financial Performance

A firm's financial performance is of importance to investors, stakeholders and the economy at large. Investors are interested in the returns for their investment. A business that is performing well can bring better reward to their investors. Financial performance of a firm can increase the income of its staff, rendering quality product or services to its customers and creating more goodwill in the environment it operates. A company that has good performance can generate

more returns which can lead to future opportunities that can in turn create employment and increase the wealth of people. Firm's performance is the ability of a firm to achieve its objectives resources. According to Rahul (1997) a company's performance is its ability to achieve its target objectives from its available resources.

Suleiman (2013) viewed a firm's performance as the result of a company's assessment or strategy on how well a company accomplished its goals and objectives. Financial performance provides a deductive measure of how well a company can use assets from business operations to generate revenue. Van Horn (2005) defined financial performance as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term according to Pandey (2001) is used as a general measure of the overall financial health of a business. Research on the firm's financial performance emanates from organizations theory and strategic management. The notion of financial performance is used to describe performance of an entity with the legal status of a company.

The concept of financial performance is a controversial issue in finance 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. 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 favorably 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.

Accounting based measurement of performance is the most popularly used Returns on Assets (ROA) was widely used as was found in the studies of Abbasali, Esfandiar, Milad and Mohammed (2012), Babalola (2012), Muhammad, Zaighum, Saeed and Muhammad (2012), Osuji and Odita (2012), Khalaf (2013) and Raheel, Shahnaz, Bashir and Umara (2013).

2.4 Review of Empirical Studies

This section provides some insights understanding of prior studies done by different authors in various countries at different periods in the area of capital structure and financial performance.

2. Asset Tangibility and financial performance.

Asset tangibility refers to the physical assets owned by a firm. They consist of a major part of a firm's total asset, such as land, buildings, etc. According to Hart and Moore (1994), and Liberti and Sturgess (2018), tangible assets are characterized by an undeniable low asymmetry of information when it comes to deriving their value, and hence they are very suitable to be used as collaterals in order to obtain external funds. Firms that are faced with limited tangible assets tend to encounter higher cost in raising external funds, and are forced to save up some internally generated funds for precautionary motives, which may lead to inefficient use of financial resources (Bates et al., 2009). In addition to that, since asset tangibility consist of an important part of collaterals, they may have a significant role in the economic growth of a country due to the fact that most corporate investments are oriented towards assets (Kiyotaki& Moore, 1997).

Empirically, some studies have investigated the possible relationship between firms' assets tangibility and financial performance. Sunder and Myers (1999) studied the impact of assets tangibility and some other factors such as growth, on the performance of firms. Using a sample of 157 firms between 1979 and 1981, the research concluded that there is a significant positive association between assets tangibility and both debt ratios and firm performance. Similarly, Pouraghajan et al. (2012) revealed that assets tangibility is positively related to the firm's performance measured by ROA and ROE in their sample of Iranian firms.

Although some studies have shown that there exist a positive link between assets tangibility and firm performance, some other studies has shown a no significant or negative relationship between assets tangibility and firm performance. This is the case for Zeitun and Tian (2007) for

example, where they included the possible relationship between assets tangibility and firm performance in their study of Jordanian firms. Their results indicated that a negative link exists between assets tangibility and firm's performance. Abbas et al. (2013) studied the factors that affect the performance of firms in Pakistan, and their results stipulates that there is no significant role played by assets tangibility in determining the performance of firms. Similar results were found by Mwangi and Birundu (2015), where they argue that no significant relationship exists between assets tangibility and firm performance in their sample of SMEs in Kenya. With that being said, there is somehow an inconclusive idea regarding the relation between asset tangibility and firm's performance.

Total Debt to Total Assets and Financial Performance

The total debts to total assets measure the amount of the total funds provided by creditors in relation to the total assets of a firm. Generally creditors would prefer low ratio for all debts because the lower the ratio the greater cushion against the creditors losses in the event of liquidation. There are different views in the literature as to the relationship between total debt to total assets and financial performance. 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. 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. 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. 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.

They found that total debt to total assets has significant negative relationship with financial performance.

In addition, Saeed et al (2013) studied the impact of capital structure on performance of listed banks in Pakistan for the period of 2007-2011. The finding showed that total debt to total assets has a strong positive relationship with financial performance. Akinyomi (2013) studied the effect of capital structure in Nigeria. Data was obtained from annual reports of the companies from 2007 to 2011. Correlation analysis was employed in analysis the data. The finding revealed that total debt to total assets has significant positive effect on financial performance. Jude (2013) studied the impact of capital structure on financial performance of 30 listed manufacturing firms in Sri Lanka from 2008 to 2012. The findings revealed that there was no significant relationship between total debt to total assets and financial performance. Abdullah (2014) investigated the impact of capital structure of 74 firms on financial performance in Saudi Arabia for the period 2004 to 2012. The result of the regression showed that total debt to total assets has significant relationship with financial performance.

Mwangi, Makau and Kosimbei (2014) investigated the relationship between capital structure and performance of 42 non-financial companies listed in the Nairobi Securities Exchange, Kenya. The study used panel data extracted from the annual reports and financial statements of the sampled listed firms, and employed random effects model and feasible generalized least square (FGLS). The results showed that total debt to total assets has significant negative relationship with to financial performance. Innocent, Ikechukwu and Nnagbogu (2014) conducted a study on the effect of financial leverage on financial performance of quoted pharmaceutical companies in Nigeria for the period 2001- 2012. The study utilized secondary data sourced from financial statements of three pharmaceutical companies. Descriptive statistics, Pearson correlation and multiple regressions were employed in order to determine the relationship between financial leverage variables and performance. The results showed that total debt to total assets has negative relationship with financial performance.

Almustapha (2014) investigated the relationship between capital structure and firm performance during and after the global financial crisis among Malaysian listed companies. The research used a panel data approach on a sample of 278 non-financial listed companies. The regression models revealed that total debt to total assets has a significant negative relationship

with financial performance. Maina and Ishmail (2014) examined the relationship between capital structure and financial performance of all the firms listed at

Nairobi Securities Exchange from 2002 to 2011. The result generated from the output of Gretl statistical software indicated a negative relationship between total debt to total assets and financial performance. Lawal, Edwin, Kiyanjui and Adisa (2014) studied the effect of capital structure on performance of manufacturing companies in Nigeria for the period 2003 to 2012. The result of the regression revealed a negative relationship between total debt to total assets and financial performance.

Furthermore, Harwood (2015) examined the effect of debt on the performance of commercial banks listed on Nairobi Securities Exchange. The study used longitudinal research design on 11 commercial banks and analyzed the data using SPSS version 16.0. The regression result revealed that total debt to total assets has negative relationship with firm performance. Aransiola and Oluwadetan (2015) examined the relationship between capital structure and profitability of quoted manufacturing companies in Nigeria. Using data extracted from the Nigerian Stock Exchange fact book and annual reports of the selected companies. The study showed that there is negative relationship between total debt to total assets ratio and financial performance. Mathanika, Virgina and Pavithithira (2015) investigated the impact of capital structure on firm value of listed manufacturing companies in Sri Lanka. Secondary data was extracted from the financial statements of 15 companies.

The result indicated that total debt to total assets has insignificant association with financial performance.

Short Term Debt to Total Assets and Financial Performance

This measures how relative short-term debts to total asset of a firm are to be repaid within an accounting period. Some scholars argued that the shorter the debt the better the firm is in improving its performance. Abdul (2010) examined the relationship between capital structure decisions and firm performance of the engineering sector in Pakistan. The results showed that short term debt to total assets has insignificant relationship with firm financial performance. Lorpev and Kwanum (2012) investigated the effect of capital structure on performance of manufacturing firms listed on Nigerian Stock Exchange. The study found insignificant relationship between short term debt to total assets and financial performance. Cengiz*et al* (2013)

also investigated the effect of capital structure decisions on firms" profitability in manufacturing sector in Turkey from 2005 to 2011. The findings showed a significant negative relationship between short-term debt and return on assets. Maniagi*et al* (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 2007 to 2011. The study revealed that short term debt has negative significant impact on financial performance.

Gholamreg*et al* (2013) investigated the association between capital structure and financial performance of 380 companies listed in Tehran Stock Exchange for the period 2001 to 2013. The result of the regression showed that short term debt to total assets has insignificant relationship with financial performance. Akinyomi (2013) studied the effect of capital structure on financial performance in Nigeria. Data was obtained from the annual reports of the sampled companies from 2007 to 2011. The result indicated a positive relationship between short term debt to total assets and financial performance. Appah*et al* (2013) examined the impact of capital structure on operating performance of quoted firms in the Nigerian Stock Exchange. They found that short term debt to total assets has significant negative relationship with financial performance.

Abdullah (2014) investigated the impact of capital structure on performance of 74 companies in Saudi Arabia the period 2004 to 2012. The result of the regression showed that short term debt to total assets has significant relationship with financial performance. Khalaf (2013) investigated the relationship between capital structure and firm performance across different industries using a sample of 45 manufacturing firms in Jordan for the period 2005 to 2009. The result revealed a negative and insignificant relationship between short term debt to total assets and financial performance. Amara and Bilal (2014) investigated the impact of capital structure on performance of 33 food companies listed on Karachi Stock Exchange for the period 2007 to 2012. The study revealed that there is no strong correlation between short term debt to total assets and financial performance.

Furthermore, Ngoc and Jeremy (2011) examined the relationship between firm characteristics, capital structure and operational performance of 427 companies listed on the Vietnamese Stock Exchange for the period 2007-2009. They found a significant negative relationship between short- term debt to total asset and return on asset. In addition, the study of

Heydar et al (2012) found that there is no significant relationship between short-term debt to total assets and financial performance of firms. Appah et al (2013) investigated the impact of capital structure on performance of 32 listed firms in the Nigerian Stock Exchange for the period 2005-2011. The study found a significant negative relationship between short-term debt to total assets and financial performance.

Maina and Kondongo (2013) examined the effect of debt-equity ratio on performance of firms listed at the Nairobi Securities Exchange for the period 2002- 2011. The results showed that short term debt to total assets has significant relationship with financial performance. Almustapha (2014) investigated the relationship between capital structure and firm performance during and after the global financial crisis among Malaysian listed companies. The research used a panel data approach on a sample of 278 non-financial listed companies. The regression models revealed that short debt to total assets has a significant negative relationship with financial performance.

Theoretical Framework

The pioneering work on capital structure theory emanates from Modigliani and Miller (1958). That theory provides the groundwork from which much other thinking later developed. Based on an arbitrage argument, Modigliani &Miller (1958) ascertained that with the existence of perfect capital market, the capital structure decisions would have no impact on the value of the firm. Arbitrage, they argued would ensure that an individual's exposure to risk would not change because home-made leverage was as good as corporate leverage. However, there was a reaction to Modigliani and Miller's irrelevance theory that questioned the applicability of arbitrage process and the assumptions they made of a risk-less world that are somehow unrealistic. The capital structure irrelevancy theory favors the neutrality of debts on firm performance no matter the amount of debts utilized.

In response to this and other criticisms, they modified their original hypothesis. Relaxing the assumption of zero taxation, they argued that levered firms will be more valued than unlevered firms due to the fact that debt is a tax-deductible expense. A firm's capital structure which is composed of debt and equity has proven to have an influence over performance. The theoretical background from which empirical studies are conducted is mainly drawn from the agency

hypothesis, the capital structure irrelevance theory, the pecking order theory, and the trade-off theory.

Pecking order theory

A pecking order framework is intended to explain variations in capital structure (Myers and Majluf 1984). The pecking order theory is characterized by the concept of information asymmetry prevailing among firm managers and shareholders (Frank &Goyal, 2009; Baker & Martin, 2011). Several scholars have nuanced the evidence within which there is an advance comprehension of firm activities by managers as compare to the external investors concerning the firm's future and prospects, hence manage efficiently for the good of all (Harrison &WisnuWidjaja, 2014; Boadi et al., 2015). Specifically, this theory exhorts the fact that internal funds are preferably used by firms contrarily to external funds that comes as a compliment to insufficient retained earnings (Myers, 1984; Myers &Majluf, 1984). Besides, the issue of external equity by firms could be viewed as a potential loss of control by the owners of the firm, which could be costly to the firm as a whole.

The information asymmetry that exists between corporate managers and shareholders is minimized by issuing debt (Lemmon &Zender, 2010). Managers with positive expectations about the future, whose stocks are undervalued, will opt for debt rather than equity since they believe their company is worth more than the current value. Hence, by issuing debt, firms will use the excess free cash flow to settle interest payments, instead of repurchasing shares which may be costly in case stock prices appreciate. However, managers may issue equity when they are not able to obtain more debt even if they believe that their stocks are undervalued (Lemmon &Zender, 2010). As the requirement for external financing will increase, the firm will work down the pecking order, starting with debt issuance, and finally to equity as a last resort (Myers &Majluf, 1984).

Nevertheless, the theory also lay emphasizes as concerns the choice of various finance opportunities in a situation where external funding is inevitable, as such investments should basically depend on lowest risks and relative costs (Myers, 1984; Boadi et al., 2015). Hence, for the pecking order theory performing companies that generate enormous earnings to be conserved are supposed to use minimal debts in their capital structure than the non-performing ones because they are capable of financing their investments with internal funds. As a result, the

relationship between debt level and firm's performance could be foreseen as empirically supported by Booth et al., (2001) and Fama& French (2002). As such, firms will prefer to issue debt as the primary option, then potentially issue equity as a last resort (Myers, 1984). In this theory, profitable and high earning firms are identified as those using fewer debts because they finance their investments with internal funds (Boadi et al., 2015). This is the reason why pecking order theory assumes a negative relation between financial leverage and firm performance.

Trade-off theory

The study of Modigliani and Miller (1968) ascertain that debt financing has benefits of tax shield as it encourages the deduction of interest expenses from the firm pre-tax income. It is through this that the trade-off theory stipulates that optimal capital structure can be determined by balancing the benefits and cost associated with debt financing. Hence, it may reduce the agency cost, threatening the firm of liquidation which can cause personal losses such as reduction in salaries, loss of reputation, perquisites among others, as a result this motivates managers to work efficiently and generate enough cash flow to pay interest payment (Grossman & Hart, 1982; Williams, 1987). Therefore, according to this theory firms that are more profitable have greater income to shield and thus are expected to indebt more to take tax advantages. Consequently, a positive link is to be attained between debt level and firm's profitability (i.e. performance).

Studies by Myers (1984) and Cornett and Travlos (1989) argued that even though firms can benefit from tax discount through an increment of their debt level, each firm is supposed to move toward their own optimal capital structure, which can mean either going in for more or less debt. Moreover, the negative incidences of leverage on the performance of firms are recognized by the trade-off theory. Thus, the payment of interest negatively affects firms' liquidity and financial performance, which increases the financial risk in terms of bankruptcy and insolvency (Myers, 1984; MacKay and Phillips, 2005; Brealey et al., 2008; Ross et al., 2013). More so, the advantages of debt financing are equally allowed for by the trade-off theory given that firm managers try to conciliate trade-off between debt benefits and debt costs. Elsewhere, the tax advantages should increase the firm performance (Margaritis&Psillaki, 2010). Although bankruptcy costs exist, some studies conclude that they are much smaller in relation to the tax savings. In this regards, the trade-off theory assumes a positive relationship between leverage

and firm performance, further confirmed by many researchers like Berger and Bonaccorsi di Patti (2006) and Fosu (2013).

Market timing theory

In a bit to criticize and challenge both pecking order and trade-off theory, Baker and Wurgler (2002) have developed lately the market timing theory. It suggests that companies issue new shares whenever they believe that the stock prices are overvalued and repurchase these shares or issue debt whenever the stock prices are undervalued or when the market is characterized with low interest rates (Graham & Harvey, 2001; Baker & Wurgler, 2002). Consequently, the resulting fluctuations that arise in the market have an influence on firms' choice of capital structure. The market timing theory equally supposes that economic actors are irrational (Baker & Wurgler, 2002). Hence, they supplied evidences that equity market timing has a predominant effect on the firm leverage. Indeed, a market timing measure is defined by weighted average of external capital needs over the past few years where the weights used are market to book values of the firms. They discovered that changes in leverage are strongly and positively related to their respective market timing measure, hence it was concluded that the capital structure of a firm is the cumulative outcome of the past attempts to time the equity market. Several literary backups support market timing theory in a supposition that manager of companies wait for the optimal or best market condition, that stocks' position ameliorate in the market before any new issuance, and also before issuing new stocks firms first of all optimize their performance (Jahanzeb et al, 2013). Indeed, based on the market conditions the market timing theory assumes that the relation between leverage and firm performance alters following the economic environment.

Though the above theories are often criticized, they remain among those that are often used due to the aforementioned reviews. On the whole, the agency theory focuses on the conflict of interest between managers, shareholders and creditors concerning financing decisions. Brealey, Myers and Allen (2006) suggests that the trade-off theory and the pecking order theory highlight the hierarchical and preferential use of some sources of financing starting from funds internally generated. From these various standpoints, it is useful to highlight some of the major empirical studies on the link between financial leverage and firm financial performance. However, based on previous studies, a relationship exists between a firm's financial performance and some

important characteristics such as the firm's size, age and assets tangibility. The following section discusses these in detail.

Literature Review

Mohammed & Hassan, (2015) investigated the impact of financing and evaluating the performance of companies in relation to debt and the optimal structure of debt. Finding revealed negative and significant relationship between financing through debt and performance, the result further revealed financing company with short or long term debt has a negative impact on firm's performance. The study recommended that investor should considered financing structure at the time of decision making when doing their analyses.

Prempeh, Sekyere&Asare, (2016) found that short term, long term and total debt has negative effect on firms performance, implication of this finding showed that firms uses more of debt to acquire asset which can easily be jeopardized in continually using more of debt to finance their operational activities. Furthermore, Nwaolisa&Chinjindu (2016), using ordinary least square (OLS) regression techniques, maintained that return on asset, return on equity, profit before tax and earnings per share are negatively associated with financial structure profitability of oil and gas firms. This finding implies that oil and gas firms in Nigeria use more of equity and debt in their operational activities. Mwangi, Willy & Patrick (2016), concluded in their study that financial structure affect the financial performance of the firms listed on the East Africa Securities exchange directly or indirectly.

Nwude, Itiri, Agbadua&Udeh (2016), observed in their research that debt structure has negative and significant impact on the performance of Nigeria quoted firms in the study period. This implies that manufacturing firms listed on Ghana stock exchange uses about 95% of debt to fund their operational activities. This finding support the work of Jeleel&Olayiwola (2017) who earlier related that firms leverage of listed chemical and paint firms in Nigeria mainly use debt in financing their business. The finding is further buttressed by Ikapel&Kajirwa (2017) who also argued that firms that use long term debt in their capital structure is likely to go into bankruptcy because proportion of long term debt negatively affects firm's financial performance and concluded firms should manage well the portfolio of its long term debt structure to minimize risk associated to long term debt. Harelimana (2017) conducted a study to finds out the effect of using debt to finance business, comparing the analyses between two banks in Kigali Rwanda

using comparative descriptive and correlative research design to achieve the stated objective. It was found that the level of debt positively impact on firm profitability of both banks after adding control variables to the analyses. The implication of this result showed that, there is a significant positive relationship between debt level and financial performance which indicated that, performance in terms of profitability, sustainability and liquidity has improved gradually.

Lenka (2017) investigated the relationship between business competitiveness using leverage and corporate performance. The study found significant negative effect on corporate performance using return on equity as indicators of corporate performance. The regression analyses further revealed negative relationship between the company profitability and use of debt in financing the business operation.

Ken-Ndubuisi, Ifechi&Onyema (2018) carried out a study between financial leverage and asset growth. The regression analysis indicate a significant negative relationship between leverage and asset growth, indicating that investing with leverage has negative influence on the asset growth of the firm. Joseph (2018) studies the effect of financial leverage on firm performance. The study revealed most businessmen in developed and developing country as well as limited liability companies preferred to run their business with their personal funds; donations, from family members and share capital respectively. The finding therefore revealed a mixed result. Omollo, Muturi, &Wanjare (2018) analyses the effects of debt indicators namely short term, long-term and total debt on firm financial performance using return on asset and return on equity as measurement of variables. The study empirically revealed that short-term, long-term and total debt negatively and significantly influence return on equity across all the used methods. This mixed result is in line with the study of Josehp (2018).

Gadzo&Asiamah (2018) found a negative relationship between the level of leverage and return on asset and positive relationship between return on equity and level of leverage of unlisted banks in Ghana. This result implies that any slight increase in leverage automatically lead to decrease on return on asset. The study recommended that bank industry in Ghana should strife as much as possible to develop policies that will inject more funds in the banking operational activities.

Pandey &Sahu (2019), documented impact of debt financing on firms performance using two different types of panel data estimation from 2009-2016. Result revealed positive effect between

agency cost and firm performance while positive impact was also found between firms performance and return on equity. This findings implies there will be a reduction of clashes of interest existing between the managers and owners of the firm to an extent because itallows managers act in the best interest of their principal. Gichuru, Kung'u&Gakobo (2019) established the impact of capital structure on profitability of government based deposit taking, saving and credit co-operatives in Kenya. Result revealed negative result in all the used variables, though the result was insignificant in relation to the firm's profitability. It was concluded by the researcher that mix of equity and debt that will minimize membership returns and wealth should be maintained in the firm.

MacCarthy&Ahulu (2019) examined whether capital structure affects firms performance in Ghana using panel data of listed firms on Ghana stock exchange from 2009-2018. The resultshowed a significant and negative effect between capital structure and firms performance. The study concluded firms should use equity capital to finance their operations that concentrating on the use of debt capital. Implication of this showed that every increase in debt financing lead to decrease on return on equity of the firm. Kenn-Ndubisi, Ifechi&Nweke (2019) empirically examine the effect of financial leverage on selected indicators of firm performance in Nigeria using total debt to capital ratio, debt to equity ratio as a proxy for financial leverage using pooled regression model, fixed effect model, random effect model and marginal model. Findings showed mixed result among the variables used in relations to negative and positive. The implication of this study finding is that some of the variables use does not have significant impact on the firm financial performance while some have negative influence on the performance financially.

Zaidi, Jais& Karim (2019) investigated the influence of debt financing on firms performance of consumer product industry in Malaysia for a period from 2001-2015. The finding revealed significant relationship between short and long term debt while insignificant relationship was found between account payable and firm size. The study concluded among others that size of the firm does not really matter on performance of the firms financially because it has no any effect on the firm profitability. This study is not different from the work of Chang, Batmunkh, Wong &Jargalsaikhan (2019) were negative association was also found between growth and leverage of the firm in Taiwan, Korea and Hongkang. Abubakar&Garba (2019) studied the relationship

between financial leverage and financial performance of quoted service firms in Nigeria. The result revealed a negative relationship between short term, debt ratio, long term, and total debt to equity. Which means any increase on the variable also trigger the interest payment?

Igbinovia&Ogbeide (2019) assesses the relationship between capital structure and firm value of the selected quoted manufacturing companies in Nigeria using the ordinary least square (OLS) on a sample of fifteen selected firm from 2012 to 2017. The study concluded that leverage, tangibility, profitability and age of the firm negatively and significantly impact firm values statistically. Therefore, firms in the sector should reduce their source of capital structure in relation to debt to finance their firm operational activities in other to avoid more debt Oladeji, Tolulope, Ikpefan&Olokoye (2015) empirically analyses the impact of capital structure on firm performance in Nigeria from 2003- 2012 using secondary data of six petroleum companies. The fixed effect estimation result revealed negative relationship between leverage and firm performance. The study concluded among others that industry should desist from relying on the use of more equity to finance their business

Apkarhuere, Eze&Unah (2015) found positive relationship between capital structure and retain earnings in their study effect of capital structure on retained earnings in oil and gas sector. Oke&Obalade (2015) carried out a study title Testing the validity of optimal capital structure theory in Nigeria listed oil and firms industry, were it was found that highly profitable firms uses more debt to fiancé their business because of the tax shield advantages and the little risk of bankruptcy that will be involved. These implied that Tax shield has a higher advantage in relation to interest attached to paying back period to the extent that low risk of bankruptcy will be experienced Cole, Yan &Hemley (2015) explored the relationship between capital structure and firm performance. Findings of the result revealed capital structure positive impacts return on asset and operating margin in the entire three sectors studied. The study concluded healthcareindustry should use debt to finance their business and seek alternative financing option in the energy sector were negative impact was found in relation to firms performance. Conceptual frame work is use in this study to describe the relationship between indebtedness and financial performance as found in the theories. These associations are summarized below as figure 1 indebtedness and its determinants.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology adopted for the study. The chapter analyses the method and sources of data collection, discusses the research design, population of the study, sample size and sampling techniques, statistical tool for data analysis, variables measurement, and model specification of the study. The chapter also highlights the robustness tests conducted on the data used for the study.

3.2 Research Design

Correlation research design was adopted based on positivism paradigm. This is because the study attempts to measure the relationship between capital structure and financial performance of listed deposit money banks in Nigeria. Correlation design does not only establish relationship between variables but show cause and effect relationship between dependent and independent variables.

3.3 Population and Sampling Procedure of the Study

The population of this study consists of all the deposit money banks listed on the Nigerian Stock Exchange as at December 2020. For the purpose of this study, stratified and random sampling techniques are used considering the sectorial grouping of firms in the stock market. The sample size of the study is six listed money deposit banks drawn from the defined population.

3.4 Sources and Method of Data Collection

This study used secondary sources of data. The data were obtained from the annual reports and accounts of the sampled deposit money banks and Nigerian Stock Exchange Fact Book. Secondary data were used due to the nature of the variables under study. Cross-sectional/time series data were extracted from the annual reports and accounts of the banks for the purpose of assessing the relationship between the variables of the study. Panel data were used in the study in order to detect and measure effect that cannot be simply observed by pure cross section or pure time series data. The data also suited the study dynamics of change and complicated behavioral pattern (Gujarati & Porter, 2009).

3.5 Technique of Data Analysis

Panel multiple regression was used to analyze the data in order to establish relationship between the variables. Multiple regression was considered appropriate in view of the fact that it helps in not only establishing relationship between variables, but shows the effect cause and effect relationship

3.6 Variables Measurement

The variables of the study consist of dependent variable, financial performance measured by return on assets (ROA), and independent variable, capital structure proxied by total debt to total assets (TDTA), total debt to total equity (TDTE), short-term debt to total assets (STTA), The measurement of the variables are contained in table 3.2

Table 3. 2: Variables Measurement and Definitions

	Nature of variable	Proxies	Variables measurement and source
Capital structure	Independent Variable	Total debt to total assets	Total liabilities/Total assets (Vishnu Prasad G, 2019)
		Asset tangibility	Fixed asset/total asset (N. Narsaiah, 2020)
		Total debt to total equity	Total liabilities/Total equity (Vishnu Prasad G, 2019)

		ROA	
Financial Performance	Dependent Variable		Earnings before interest and tax/Total assets (Abor 2008)

3.7 Models Specification

The model that will be used in testing the hypotheses of the study is presented below:

$$ROAit = \beta 0 + \beta 1TDTAit + \beta 2TDTEit + \beta 3TANit + \varepsilon it$$

CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter analyses and interprets the results obtained for the study. The chapter begins with descriptive statistics and correlation matrix. It then presents the regression results and discusses the findings in light of previous studies. The chapter concludes with highlight of the policy implications of the findings.

4.2 Descriptive Statistics

The summary of the descriptive statistics of the variables are presented in table 4.1.

The full results are contained in appendix (IIA).

Table 4.1 Descriptive Statistics

Variables	Min.	Max.	Mean	Std. Dev.
ROA	-5.265	14.573	0.2364194	1.268423
TDTA	0.043	19.6572	6.987807	7.151588
TDTE	0.030	72.755	8.203064	10.15754
STTA	0.110	56.932	1.747409	6.034367

SOURCE: Extract from STATA Output, 2021

Table 4.1 presents the descriptive statistics for the dependent and explanatory variables. From the table, return on assets has minimum and maximum values of -5.265 and 14.573 Respectively and the mean value of 0.2364 as well as the standard deviation value of 1.2684. The standard deviation of 1.2684 signifies that the data deviate from the mean value from both sides by 1.2684 implying that there is a wide dispersion of the data from the mean because standard deviation is higher than the mean value.

The table also shows that the mean of the total debt to total assets of the sampled firms is 6.9878 with standard deviation of 7.1516, and minimum and maximum values of 0.043 and 19.6572 respectively. This implies that the performance of the firms in terms of total debt to total assets is on average 6.9878, and the standard deviation value indicates that the total debt to total assets of the sampled firms deviates from the mean value from both sides by 7.1516, implying that there is significant dispersion of the data from the mean because the standard deviation is higher.

Moreover, the table shows that the mean of the total debt to total equity of the firms is 8.2031 with standard deviation of 10.1575. The minimum and maximum values are 0.030 and 72.755 respectively. This implies that total debt to total equity of the sampled firms is on average 8.2031, and the standard deviation value indicates that the value deviates from the mean from both sides by 10.1575, implying that there is significant dispersion of the data from the mean because the standard deviation is larger.

Finally, the table portrays that the short term debt to total assets has an average value of 1.7474 with standard deviation of 6.0344. The minimum and maximum values are 0.011 and 56.932 respectively. The standard deviation indicates that the value of short term debt to total assets of the firms deviates from the mean value from both sides by 6.0344. This further implies that there is widely dispersed data from the mean because the standard deviation is large.

4.3 Correlation Matrix

The correlation matrix explains the degree of relationship between the dependent and independent variables of the study as well as the independent variables among themselves. The summary of the associations among the variables of the study is presented in table 4.2, while the full result is attached as appendix (IIB)

Table 4.2 Correlation

Variables	ROA	TDTA	TDTE	LTTA	STTA
ROA	1				
TDTA	0.0191	1			
	(0.7958)				
TDTE	0.2323	-0.2766	1		
	(0.0014)	(0.0001)			
STTA	0.5110	0.2065	0.5706	0.4732	1
	(0.0000)	(0.0047)	(0.0000)	(0.0000)	

SOURCE: STATA Output, 2021

Table 4.2 reveals that total debt to total equity and short term debt to total assets of the firms are positively and strongly correlated with return on assets. The values of 0.2323 and 0.5110 of the variables indicated p-values of 0.0014 and 0.0000 that are all significant at 1% respectively. In contrast, total debt to total assets and long term debt to total assets respectively have positive relationship with return on assets that is not statistically significant.

The relationship of the independent variables among themselves indicates that total debt to total equity and total debt to total assets are negatively correlated among themselves. On the other hand, the relationship between short term debt to total assets and total debt to total assets, and total debt to total equity, short term debt to total assets and total debt to total equity, and short term debt to total assets are positively related among themselves.

4.4 Analysis of Regression Results and Discussion of Findings

Table 4.3 presents the summary of the fixed effect multiple regression results obtained while the full results are shown in appendix (IIE):

Table 4.3 Regression Results

Variables	Coefficient	T-Values	P-Values	Tolerance	VIF
Constant	0.5994104	2.58	0.011		
TDTA	-0.0550336	-2.19	0.030	0.721016	1.39
TDTE	-0.0206729	-0.94	0.348	0.465383	2.15
STTA	0.2017568	7.89	0.000	0.507822	1.97
R^2	0.4995				

Source: STATA Output, 2021

Table 4.3 shows that the functional relationship between the dependent and independent variables is:

ROA= 0.5994 - 0.0550TDTA -0.0207TDTE + 0.2018STTA

The table showed that total debt to total assets has negative significant impact on the financial performance of listed money deposit banks in Nigeria. This can be observed from the value of beta the coefficient of -0.0550336 with p-value of 0.030 indicating that the pvalue is statistically significant at 5%. This implies that total debt to total assets as one of the proxies of capital structure that significantly affect the financial performance of listed money deposit banks in Nigeria. The results serves as a basis for rejecting the first hypothesis, which states that total debt to total assets has no significant impact on the financial performance of listed money deposit banks in Nigeria. The result supports? the findings of Song (2006), Fosberg and Ghosh (2006), Zaitun and Tain (2007), Ebaid (2009), Mramor and Cringoji (2009), Heydar et al (2012) and Abolfazl et al (2013) who found that total debt to total assets is negatively and significantly associated with performance of firms and the findings of jude (2013) and Mathanika et al (2015) who found a positive insignificant relationship between total debt to total assets and financial performance.

The table also revealed that total debt to total equity has negative insignificant impact on the financial performance of listed money deposit banks in Nigeria. This can be seen from the value of the beta coefficient of -0.0206729 with p-value of 0.348 indicating that the p-value is not statistically significant. This implies that total debt to total equity does not have significant effect on the financial performance of the firms. The result could not provide sufficient evidence to reject the second hypothesis, which states that total debt to total equity has no significant impact on the financial performance of listed money deposit banks in Nigeria. This is in line with the findings of Cengiz, Yunus,andSukriye (2013) who reported negative insignificant relationship between total debt to total equity and firms" financial performance. The result is however in contrast with the findings of Gholamreg et al (2013), Sulieman (2013), Amara and Bilal (2014) and Maina and Ishmail (2014) who found that total debt to total equity is negatively and significantly associated with performance of firms and the findings of Heydar (2012), Karadeniz et al (2012), Simon and Afolabi (2012), Khalaf (2013) and Idode et al (2014) who found a positive significant relationship between total debt to total equity and financial performance.

Finally, the table revealed a value of beta coefficient of 0.2017568 with p-value of 0.000 for short term debt to total assets ratio. This signifies that short term debt to total assets has strong positive influence on the financial performance of listed money deposit banks in Nigeria at 1% level of significance. The result implies that short term debt to total assets increase the financial performance of the banks. The result provides evidence of rejecting the fourth hypothesis that assumed short-term debt to total assets has no significant impact on the performance of listed Money deposit banks in Nigeria. The result is in line with the findings of Akinyomi (2013), Maina and Kondongo (2013) and Abdullah (2014) who reported positive significant relationship between short-term debt to total assets ratio and firms" financial

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performance. The result is contrary to the findings of Abdul (2010), Lorpev and Kwanum (2012) and Khalaf (2013) who found that short-term debt to total assets is negatively and insignificantly associated with performance of firms.

Furthermore, the coefficient of determination R^2 which stands at 50% indicates the proportion of the total variation in dependent variable (return on assets) that is explained by the independent variables. This signifies that 50% of the total variation in financial performance of listed manufacturing firms in Nigeria is caused by the combined effect of the ratios of total debt to total assets, total debt to total equity, long term debt to total asset and short term debt to total assets; while the remaining 50% is caused by other factors not captured in the model of the study.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study was conducted to investigate the impact of capital structure on financial performance of listed deposit money banks in Nigeria. The study was divided into five chapters. The first chapter discussed the background issues, which led to developing four objectives and formulating three hypotheses for the research with a scope covering six (6) years, from 2015 to 2020. The review of conceptual literature and empirical studies on capital structure and financial performance was carried out. Also, the concept and measurement of firm performance was discussed as well as the review of the relationship between each of the proxies of the independent variables and the dependent variable. The theoretical framework that underpinned the study was also discussed.

Correlation research design was used in measuring the relationship among the variables of the study. Data was collected from secondary source through the annual reports and accounts of all sampled banks in Nigerian Stock Exchange that have complete financial records either on their website or in the office of the Nigerian Stock Exchange. Multiple regression was used to test the three hypotheses formulated by the study. The result of the descriptive statistics, correlation matrix and regression were presented, analysed and discussed in chapter four. The regression result could not provide sufficient evidence for the rejection of hypotheses two that hypothesized that total debt to total equity ratios have no significant impact on the financial performance of deposit money banks in Nigeria. The result however provided sufficient evidence for rejecting the first, third short term debt to total assets ratios. Finally, the chapter discussed the findings of the research in light of previous studies and highlighted the policy implications of the findings.

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5.2 Conclusion

The study found a negative significant association between total debt to total assets ratio and financial performance. It is therefore concluded that total debt to total asset is one of the variable of capital structure that contribute in influencing financial performance of listed money deposit banks in Nigeria.

In addition, the study found a negative insignificant association between total debt to total equity ratio and financial performance of listed deposit money banks in Nigeria. Thus, the study concluded that total debt to total equity is not one of the factors that influence the financial performance of listed deposit money banks in Nigeria.

More so, the study found a positive significant relationship between the ratio of short-term debt to total assets and the financial performance of listed deposit money banks in Nigeria. Thus, the study concluded that short- term debt to total asset is amongst the determinants of the financial performance of listed deposit money banks in Nigeria.

5.3 Recommendations

In line with the findings of the study, the following recommendations are made: (i) The management of Nigerian listed deposit money banks should work very hard to optimize the capital structure of their banks in order to increase their financial performance. They can do that through ensuring that their capital structure is optimal.

(ii) The Management of Nigerian deposit money banks should increase their commitments into short term debt to total asset in order to improve financial performance from their business operation. This is in line with the findings of this study that the short term debt of listed money deposit banks in Nigeria influences their financial performance positively.

(iii) The Management of Nigerian listed deposit money banks should be concerned about the level of their total debt to total equity, for better financial performance. This is because the findings of this study revealed a negative insignificant relationship the variables and financial performance.

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APPENDIX

Variables	Min.	Max.	Mean	Std. Dev.
ROA	-5.265	14.573	0.2364194	1.268423
TDTA	0.043	19.6572	6.987807	7.151588
TDTE	0.030	72.755	8.203064	10.15754
STTA	0.110	56.932	1.747409	6.034367

Source: Extract For STATA Out put 2021

Variables	ROA	TDTA	TDTE	LTTA	STTA
ROA	1				
TDTA	0.0191	1			
	(0.7958)				
TDTE	0.2323	-0.2766	1		
	(0.0014)	(0.0001)			
STTA	0.5110	0.2065	0.5706	0.4732	1
	(0.0000)	(0.0047)	(0.0000)	(0.0000)	

Source: Extract For STATA out put 2021

Variables	Coefficient	T-Values	P-Values	Tolerance	VIF
Constant	0.5994104	2.58	0.011		
TDTA	-0.0550336	-2.19	0.030	0.721016	1.39
TDTE	-0.0206729	-0.94	0.348	0.465383	2.15
STTA	0.2017568	7.89	0.000	0.507822	1.97

R^2	0.4995

Source Extract For STATA out put 2021