



CAPITAL STRUCTURE AND SHAREHOLDERS' VALUE OF DEPOSIT MONEY BANKS IN NIGERIA

MGBATAOGU, IFEANYI S. (PhD)

DEPARTMENT OF FINANCE, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF PORT HARCOURT,
PORT HARCOURT.

EMAIL: IFEANYI.MGBATAOGU@UNIPORT.EDU.NG

MURRAY, EBIKE M. (PHD)

DEPARTMENT OF FINANCE AND BANKING, FACULTY OF MANAGEMENT SCIENCES UNIVERSITY OF PORT
HARCOURT BUSINESS SCHOOL, PORT HARCOURT.

&

THANKGOD, UBULOM D. (DBA)*

BRANCH MANAGER FIRST BANK OF NIGERIA PLC, OZORO, DELTA STATE. NIGERIA.

Abstract

The study sets out to empirically x-ray the nature of relationship between firms' capital structure and consequent effect on shareholders' value. Following previous studies, the study captures shareholders' value by profit after tax while the capital structure includes paid up capital, total debt securities, retained earnings and ratio of working capital. Relevant data were sourced from the Nigeria Stock Exchange Fact Books as well as the relevant annual reports of the select quoted deposit money banks. Descriptive statistics tools and econometric methodology of Ordinary Least Squares (OLS) as well as Granger Causality were employed for analysis of data. From the results of both descriptive and econometric analyses, it is clear that capital structure exerts significant influence on the shareholders' value of the corporate firms. From the results, it is observed that debt capital may not be an appropriate funding source for the operations of deposit money banks as the results consistently indicate a negative and significant relationship with the dependent variable, profit after tax. On the other hand, retained earnings proved to be a better funding source as it showed a positive influence on the earnings banks. This result is further corroborated by the Granger Causality estimates. Based on the findings, the study has established that earnings retention has a positive and significant relationship with profit after tax and concludes that nature and form of corporate funding impact heavily on the profitability and sustainability of the firm. To this end, the study recommends among others that it is necessary to retain part of the earnings to finance new investment capable of generating more wealth and having positive contributions to the shareholders. Again, it is established from the findings that increase in debt causes the decrease in performance of the companies because debt is expensive source of finance.

Key words: Capital Structure, Shareholders' value, financial performance, Panel data, Fixed effects, Deposit Money Banks

Introduction

The most appropriate goal of the corporate financial management is to maximize the shareholders' value by maximizing the firm value by way of effective and accurate financing decisions making. The firm's funding sources either the external or internal funds compositions roused the firm's mixture of capital structure's decision (Pinto, Joseph, Hawaldar & Quadras, 2020). Finance

theory dictates that the use of capital by a firm requires an opportunity cost to the fund provider as funds are diverted from earning a return on other investment that provided the same risk level. Since the fund providers have a lot of alternatives in the investment decisions in the financial market, they have to be compensated with a suitable return as benchmark for the fund's opportunity cost. Thus, in finance theory this benchmark is

widely known as cost of capital and unless a firm can gain in excess of its cost of capital, it will not add value to its investors' wealth.

The cost of capital signifies what a firm has to pay for the capital used to finance new investments (Khadka, 2006). In auxiliary, a careful approximation of a firm's specific capital structure and cost of capital is essential in specific investment decisions which lead to a discrepancy between accretion and erosion of shareholder value if as stated in the last paragraph, the firm does not gain in excess of cost of capital. In view of that, the analysis on the cost of capital raises a common focus in managerial accounting and financial management and is treated essentially in most textbooks on corporate finance, i.e. Gitman, (1994), Brigham and Gapenski, (1996). However, the capital structure puzzle in relations with firm value have been a considerable debate from both the finance managers and academicians for the last 50 years, predominantly since the publication of the articles by Modigliani and Miller (1958).

It is observed that the increase in value of firm and profitability not only increase the size of the company, but is also useful to increase the GDP of the country by resulting in economic increase and the people of the country get the benefit of it. The key function of corporate funding and cost of capital is to ascertain that firm has the ability to increase the size of the business and continue operating on a large scale, with potentials to remain sustainable. Eventually, it involves crucial decisions on multiple aspects including managing long term debts, retained earnings, asset management and capital management (Khan, 2012). Keeping this in view, corporate funding and managing the cost of capital have become one of the most important issues in the firms where

many financial executives strive to identify the appropriate level of cost of capital.

Thus, its requirement is having an impact on the shareholders' value in terms of profit after tax of the corporate firm because shareholders and investors analyses first to invest their money into business and it has also been pointed out that an effective capital budgeting has become an essential element of complete business strategy to generate Shareholder value, firm's value and profitability. For an investment to be valuable, Khan (2012) observed that the predictable capital return has to be higher than the capital cost because investors are expected to put their capitals to work in order to get maximum profit or return from the organization. Therefore, a firm should earn maximum profit so they can satisfy their shareholders and also be able to increase the value of the firm and ensure sustained profitable operations. Further, efficient capital budgeting increases organization's cash flows, retained earnings and size of the organization which in turn increase the GDP of the Country and return to Shareholder.

Some of the studies on capital structure and shareholders' value that centered on both Nigeria firms and firms abroad that we reviewed and which had different findings are as follows; Dao and Ta (2020), Pinto, Joseph, Hawaldar and Quadras (2020), Ndubuisi and Onyema (2019), Musa, Norhani, Redhwan (2019), Yinusa, O.G, Ismail, A., Yulia, R., and Olawale, L.S., (2019), Gambo, Abdul-Rahman, and Ahmad (2016), Akintoye (2008), Saidu, S. (2018), Abeywardhana (2016), Dada and Ghazali (2016), Kharabsheh, Mohammad and Zurigat (2017), Ganiyu, Adelopo, Rodionova and Samuel, (2019), Oyedokun, Job-Olatuji and Sanyaolu (2018), Igbinovia and Ogbeide (2019). The purpose of this study is to check whether or not a relationship exists between

different dimensions of corporate funding, known as capital structure and shareholders' value (maximization of shareholders fund, proper and efficient management of the firm resources and creating of good perception of the company to the investors) and in case such a relationship exists, and how strong the correlation is. Hence, this study therefore makes an attempt to analyze some dimensions in the area of capital structure from the viewpoints of corporate funding and its influence on earnings performance (profit after tax) of publicly quoted Nigerian Deposit Money Banks over 2008 to 2022 period.

Theoretical Framework and Empirical Review

The Pecking Order Theory

This theory proposed by Myers and Majluf (1984), claims that optimal capital structure does not exist. They argued that to reduce the problem of asymmetric information between firm managers and investors, a financial pecking order – a hierarchy of financing that begins with retained earnings, followed by debt and finally by new equity issue – should take place. Drawing from these facts, Mykhailo lavorskyi (2013) concluded that very profitable firms that generate sufficient cash flows will use less debt finance.

The Modigliani and Miller Theory

The Modigliani and Miller theory – also known as the irrelevance capital structure theory – suggested that managers and owners of firms are indifferent about their capital structure, because the value of the firm does not depend on its capital structure but on earnings ability of its assets. They assumed a world without taxes, and perfect markets without any transaction costs.

Empirical Literature Review

Dao and Ta (2020) aimed at providing insights on the relationship between capital structure and performance of the firm by employing meta-analytical approach to obtain a synthesized result out of controversial studies as well as the sources for such inconsistency. Using secondary data, the analysis is divided into two main parts with concerns to the overall strength of the relationship, the effect size and the potential paper-specific characteristics influencing the magnitude of impacts between leverage and firm performance (moderators of the relationship). Overall, a total number of 32 journals, reviews and school presses were selected besides online libraries and publishing platforms. There were 50 papers with 340 studies chosen from 2004 to 2019, of which data range from 1998 to 2017. Findings – Using Hedges et al. (1985,1988), descriptive and quantitative analysis have been conducted to confirm that corporate performance is negatively related to capital decisions, which inclines toward trade-off model with agency costs and pecking order theory. The estimation induces rather small effect size that implies sufficiently large sample size to be effectively investigated. In terms of moderator analysis, random-effects meta-regression models of three different techniques are used to increase the robustness in research findings, showing statistically significant elements as publication status, factor of industry and proxy of firm performance.

Pinto, Joseph, Hawaldar and Quadras (2020) analyzed the influence of capital structure on the financial performance of banks in India. The study covered a period of five years from 2011 to 2015 and 21 banks are selected for the study. The objectives of the study were to examine the impact of capital structure on the financial performance of banks and to analyze the interrelation

between financial leverage on the financial performance of banks. To measure the capital structure, debt to total assets ratio and debt to equity ratios were used and to measure the financial performance, return on capital employed (ROCE), net profit ratio (NP) and net interest margin (NIM) were used. Regression analysis has been carried out to test the impact of capital structure on profitability considering capital structure as an independent variable and profitability as the dependent variable. The results of the study indicated that the capital structure has a significant impact on the financial performance of the banks in India.

Ndubuisi and Onyema (2019), examined the effects of financial leverage on the profit growth in Nigeria using the total debt to capital ratio, debt to equity ratio, cost of debt, debt to asset ratio and long-term debt to capital ratios as proxies for financial leverage for a sample of 80 non-financial firms quoted on the Nigerian Stock Exchange over the period of 2000 to 2015. They analyzed the data using the panel data regression analysis model which includes the pooled regression model, fixed effect model and the random effect model. The choice of the appropriate model between Fixed Effect and Random Effect is made using the Hausman Test. In accordance with the research findings, they conclude that financial leverage has significant effect on the profit growth of firms in Nigeria and also that there exists a significant relationship between the inflation rate and profit growth but the relationship with the interest and exchange rates on financial leverage of quoted companies in Nigeria. The nature of the relationship differs from one another, a positive relationship was reported for the total debt to capital ratio, debt to asset ratio and long-term debt to capital ratios and a negative relationship for the debt-to-equity

ratio and the cost of debt. They recommend that every company quoted in Nigeria find the mix of debt-to-equity capital that best suits them which can become their optimal capital structure to be able to maximize profit at minimal cost.

Ndubuisi and Onyema (2019), also in another study analyzed the relationship between financial leverage and asset growth of 80 nonfinancial firms quoted on the Nigerian Stock Exchange over the period of 2000 to 2015. Financial leverage measures they used include the total debt to capital ratio, debt to equity ratio, cost of debt, debt to asset ratio and long-term debt to capital ratios. The panel regression analysis model which includes the pooled regression model, fixed effect model and the random effect model was used for data analysis with the Hausman Test for appropriate model choice. The result states that there is a significant relationship with all the financial leverage variables except the cost of debt. Asset growth also shows a significant negative relationship with all the control variables such as the interest rate, inflation rate and exchange rates. They recommend that quoted firms should employ financial leverage in such a way that the cost of debt does not outweigh its benefits as proposed by the tradeoff theory and also that financial decisions should be made in consonance with the prevailing inflation, interest and exchange rates by the management of quoted firms in Nigeria.

Yinusa, Ismail, Yulia, and Olawale (2019). in their paper examined the impact of capital structure on firm performance in Nigeria as well as test the possibility of non-monotonic relationship between capital structure and firm performance based on the prediction of the agency cost theory of capital structure when firm use debt financing excessively. The study used dynamic

panel model on panel data of 115 listed non-financial firms in Nigeria. Specifically, the paper employed the two step generalized method of moments (GMM) estimation method that recognizes the persistence of the dependent variable by including its lag value as an explanatory variable in the regression model. The major findings indicate statistically significant relationship exist between capital structure and firm performance particularly when debt financing is moderately employed. However, the paper found evidence of non-monotonic relationship between capital structure and firm performance when firms in Nigeria employed excessive debt financing which impinged on the performance of firms. The findings support the portability of the agency cost theory in the Nigeria context but with caution considering the facts that firms in Nigeria were largely finance through short term debt as against long term debt financing that was assumed in the agency cost theoretical proposition.

Musa, Norhani, and Redhwan, (2019), examined the combined impact of corporate governance and the structure of corporate capital in creating organizational value. Corporate governance mechanisms such as foreign ownership, women on board and the size of the board together with the debt capital as a measure of capital structure on market value added (MVA). The combined effect of corporate governance and capital structure presupposes the optimization of both concepts to enhance firm value. Hence, to create external value for corporate firms, the composition of the structure of capital in addition to corporate governance ultimately propel the market value of Nigerian manufacturing firms. Their empirical result revealed the impact of foreign ownership, women on board and board size on the measure of firm value. Capital structure has

no significant impact on firm value. The satisfaction of stakeholders is derivable from the external value created by the firm for owners and other relevant stakeholders. The underpinning theories of the study in this paper highlighted the stakeholder's theory and trade-off theory.

Ganiyu, Adelopo, Rodionova, and Samuel, (2019), examined the impact of capital structure on firm performance in Nigeria as well as test the possibility of non-monotonic relationship between capital structure and firm performance based on the prediction of the agency cost theory of capital structure when firm use debt financing excessively. They use dynamic panel model on panel data of 115 listed nonfinancial firms in Nigeria, and employ the two-step generalized method of moments (GMM) estimation method that recognizes the persistence of the dependent variable by including its lag value as an explanatory variable in the regression model. Their major findings indicate statistically significant relationship between capital structure and firm performance particularly when debt financing is moderately employed. However, they found evidence of non-monotonic relationship between capital structure and firm performance when firms in Nigeria employed excessive debt financing which impinged on the performance of firms. The findings support the portability of the agency cost theory in the Nigeria context but with caution considering the facts that firms in Nigeria were largely finance through short term debt as against long term debt financing that was assumed in the agency cost theoretical proposition.

Igbinovia, and Ogbeide, (2019), examined the relationship between capital structure and firm value of selected quoted manufacturing companies in Nigeria. In pursuance of this, a sample of fifteen (15)

randomly selected firms on the basis of data availability from the Nigerian Stock Exchange covering five sub-sectors were used for the study. The period for the study is six (6) years covering a period of 2012 to 2017. The data were analyzed using descriptive statistics, correlation analysis and Panel Ordinary Least Square (OLS) regression technique. Based on the data analyzed, the study revealed that leverage, tangibility of asset, profitability and age of a firm have significant relationship with firm value. However, the size of a firm has a negative and insignificant relationship with firm value of selected quoted manufacturing firms in Nigeria. Their study recommend that financial managers should institute sound, efficient and coherent capital structure management policies such that will enable them determine the right mix or combination of debt, equity or both that will enhance firms' value in Nigeria. Their study also recommends that firms should expand to a level it does not result to diseconomies of scale and the eventual fall in the value of the firm. Where the size becomes so large, strong and effective controlling and management structures should be put in place, particularly in the quest to gear up the firm's value.

Oyedokun, Job-Olatuji, and Sanyaolu, (2018), examined the effect of capital structure on the financial performance of firms in Nigerian manufacturing sector. The population of the study is all the listed manufacturing companies listed on the Nigerian Stock Exchange, a sample of 10 listed companies was selected. The research design adopted was ex-post facto using four models to analyse the impact of capital structure on firms' performance. The study used balanced panel data of 100 observations from the 10 listed companies for the periods ranging from 2007 - 2016. Descriptive statistics and regression were used as tools of analysis. Their findings reveal that there are

statistically significant and non- significant effects of capital structure on performance variables. Finally, the study recommends that manufacturing companies should adopt balanced capital structure strategy that will optimise company's performance and corporate value.

Saidu, (2018), investigated the effect and nature of relationship capital structure on financial performance of firms in Nigerian Pension Industry which is the most recent development in Nigeria's financial sector. The population of the study is filtered to obtain 16 Pension Fund Administrators licensed by the Pension Commission. The study employs unbalance panel data of 80 observations which are drawn from sixteen Pension Funds Administrators from 2007 to 2012. The empirical result based on the 16 Pension Funds Administrators shows that long term liability have significant positive impact on Return On Equity while short term liability have significant negative impact on ROE. Though long term liability is shown to have positive impact on Return On Asset, the result is however not significant. It is also found that most of the firms in the Nigerian pension industry use zero leverage and this limit the chance of each of the firm to expand their earnings. It is concluded that firms in the pension industry underperform due to their inability to use long term debt in their capital structures. Finally, it is recommended that Pension Fund Administrators should use debt in their capital structure so as to enhance their performances.

Abeywardhana (2016), investigated empirically the impact of capital structure on firm performance. His study examined the impact of capital structure on firm performance of manufacturing sector SMEs in UK for the period of 1998-2008. The authors hypothesize that there is a negative relationship between capital structure and

firm performance. To examine the association, the author ran a Pearson correlation and multiple regression analysis. Results of his study reveal that there is a significant negative relationship between leverage and firm performance (Return on Asset, Return On Capital Employed), strong negative relationship between liquidity and firm performance and highly significant positive relationship between size and the firm performance. The study concluded that firms which perform well do not rely on debt capital and they finance their operations from retained earnings and especially Small and Medium Enterprises have less access to external finance and face difficulties in borrowing funds. It is recommended that firm should establish the point at which the weighted average cost of capital is minimized and to maintain the optimal capital structure and thereby maximize the shareholders wealth.

Gambo, Abdul-Rahman, and Ahmad, (2016), investigated the impact of capital structure on firm performance in Nigeria from 2000 to 2010. They considered the impact of some key macroeconomic variables (gross domestic product and inflation) on firm performance. The traditional theory of capital structure was employed to determine the significance of leverage and macroeconomic variables on firm's performance. The study makes a comparative analysis of the selected firms which are classified into highly and lowly geared firms setting a leverage threshold of above 10% as being highly geared. A static panel analysis was used to achieve the objectives of the study. Using fixed effect regression estimation model, a relationship was established between performance (proxied by return on investment) and leverage of the firms over a period of ten years. The results provide strong evidence in support of the traditional

theory of capital structure which asserts that leverage is a significant determinant of firms' performance. A significant negative relationship is established between leverage and performance. From their findings, they recommended that firms should use more of equity than debt in financing their business activities, this is because in spite of the fact that the value of a business can be enhanced with debt capital, it gets to a point that it becomes detrimental. Each firm should establish with the aid of professional financial managers, that particular debt-equity mix that maximizes its value and minimizes its weighted average cost of capital.

Dada and Ghazali (2016), in their study examined the capital structure and firm performance in Nigeria. The study employed a sample size of 100 non-financial firms of listed Nigerian companies in the Nigerian Stock Exchange (NSE) for a period of 2010 to 2014. The annual financial statements have been examined using a panel data approach to analyse the empirical study. However, Tobin's Q and Return On Assets are used as a proxy for the firm performance. It was found out that assets turnover and, tangible have a positive and significant relationship with Tobin's Q. Also, risk maintains negative and significant relationship with Tobin's Q. Moreover, the age of a firm has negative and significant relationship with Return On Asset and Sales growth maintains positive and significant relationship with Return On Asset. Nonetheless, the finding of this study would go a long way to enhance the literature on capital structure and also the imperative for the non-financial companies in Nigeria in taking capital structure decisions as it is based on the most recent data cover the period of recession of 2008-2009 as being an adverse effect of recession on the Nigerian nonfinancial companies.

Akinyomi (2014) opined that capital structure decision is fundamental for the survival of business organizations. Previous researchers have reported conflicting results on the relationship between capital structure and performance. Thus, this study examines the effect of capital structure on firm performance in Nigeria. Data were obtained from annual reports of the companies from 2007-2011. Correlation analysis was employed in analyzing the data. The findings revealed that each of DC, DCE, SDTD and AGE is significantly and positively related to ROE. Meanwhile, LDC is significantly but negatively related to Return on Equity. Similarly, each of DC, DCE, SDTD and AGE is significantly and positively related to Return on Asset. However, LDC is significantly and negatively related to Return on Asset. The hypotheses tested confirmed that there is significant relationship between capital structure and financial performance using both Return on Asset and Return on Equity. The study contributes to the body of knowledge in financial management. Future researchers could carry out similar studies in small and medium scale industry. Key words: Performance, Firm Survival, Shareholders' Wealth, Capital Structure

Ghahroudi, Hoshino and Fakhræi (2019), investigated the influence of ownership/capital structure on the survival of firms on Iran's stock market from 2005 to 2015. Firm survival is measured in terms of the exit of the firm I in year T from among 484 firms listed in the Tehran Stock Exchange. They used a binary logistic regression method to test the hypotheses. Their results reveal a significant inverse relationship between capital structure and firm survival and between major ownership and firm survival on the stock market, as well as a significant direct relationship between institutional ownership and firm survival. Thus, firms with

a higher ratio of debt to assets have a higher probability of survival. However, those with a higher ratio of institutional ownership are less likely to survive.

Hussein, Muhannad and Mashhoor (2019), evaluated the influence of Capital Structure (CS) on the Financial Performance (FP) of listed companies on the Amman Stock Exchange (ASE) Jordan. An empirical model based on panel data obtained from 112 Jordanian listed companies between 2005 and 2017 is used to test correlation between capital structure and corporate performance to determine the statistical significance of the relationship. Their research findings show that the accounting performance measure that best explains the connection between capital structure and financial performance for all the companies listed on Amman Stock Exchange is Return on Assets (ROA). From this model, they concluded that firm size and asset growth have a significant positive impact on Return on Asset while short-term and total debt levels have a significant negative impact on Return on Asset for all the corporations listed on Amman Stock Exchange. The proxies for capital structure have the same effects on Return on Equity, in which case the effect of total debt is not statistically significant. Moreover, total debt has a statistically significant impact on earnings per share and Tobin's Q for all the sectors. Therefore, the research concludes that capital structure impacts on financial performance significantly.

Abdullah and Tursoy (2019), attempted to empirically examine the relationship between firm performance and capital structure. Their study sample consists of the non-financial firms listed in Germany during the period 1993–2016. The European stock market transition to International Financial Reporting Standards (IFRS) in 2005 is also considered as a shifting point that

might have influenced the extent of the relationship. They observed that more than 60% of the total assets of German non-financial firms are financed through debt, i.e. they are highly levered compared to similar countries. The results confirm a positive relationship between firm performance and capital structure. They also found that International Financial Reporting Standards adoption has led to increased firm performance of their sample, whereas it weakened the relationship between capital structure and firm performance. One plausible explanation for the positive association between capital structure and firm performance is the benefits of the tax shield and the lower costs of issuing debt compared to equity.

Ismail, (2019), analyzed how the capital structure of the publicly traded airport companies affects their profitability and market valuation. Using an unbalanced panel data sample of 29 publicly traded airports from 20 countries over the 1989-2017 period, their findings suggest that higher total and long-term leverage tend to decrease return on assets whereas they are positively associated with return on equity.

Maneerattanarungrot and Donkwa (2018), explored how performance, growth opportunity, tangible assets, risk, and liquidity affect firm's capital structure and how capital structure affects firm value. Structural equation modeling is used to analyze three accounting periods (2012-2014) of financial data from 315 firms listed on the Stock Exchange of Thailand. Their study finds that tangibility positively affects debt financing and liquidity, risk negatively affects debt financing, and debt financing has no effect on a firm value. Financial managers could use these results to develop their capital structure to support other operations within the firm. These results will also fill the

gap in both empirical and theoretical knowledge of debt financing's mediating role on the firms listed on the Stock Exchange of Thailand.

Uzliawati, Yuliana, Januarsi, and Santoso (2018) examine the influence of capital structure towards firm value. The sample of their research consists of 101 manufacture companies listed in the Indonesian Stock Exchange during the period 2012 – 2015. The results of their study indicate that the higher the capital structure with Debt-to-Equity Ratio (DER) and long-term Debt to Asset Ratio (LDAR) are indicators of a higher firm value, while lower long-term Debt to Equity Ratio is an indicator of a lower firm value. Their findings reveal positive correlation between Debt-to-Equity Ratio (DER) and Long-Term Debt to Asset Ratio (LDAR) to firm value, and a negative correlation of long-term Debt to Equity Ratio (LDER) to firm value. However, the capital structure with Debt to Asset Ratio (DAR) did not seem to have an influence on the firm value.

Vo and Ellis (2017), investigated the relationship between capital structure and shareholder value in Vietnam. They use accounting and stock market data for firms listed on the Ho Chi Minh City stock exchange during the period 2007–2013. Their analysis show a negative relation between financial leverage and shareholder value, indicative of a proportionately greater cost to debt financing than benefit for Vietnamese firms. Moreover, they find that only low leveraged firms are likely to create value for shareholders. Their study has implications for Vietnamese firm's preferred capital structure and for investors who contemplate to invest in Vietnamese stock markets.

Zhao and Ye (2019), using dynamic Generalized Method of Movement method with data from 2003 to 2015, proposed a

growth hypothesis of capital structure of Chinese firms, that is, higher growth leads to higher financial leverage. They further investigated the impact of external financing constraints on the relationship of growth and leverage, and shows that the firm with tighter financing constraints has a stronger relation between growth and leverage. Finally, the robustness test is conducted in the high-tech industries with financial constraints and high growth. The conclusions of this paper have important implications for both the listed firms and the market regulators.

Shah, Pitafi and Soomro (2019), in their study examined the nexus between capital structure and profitability of firms in the context of the Oil and Gas sector of Pakistan. The sample of this research is comprised of the top five top performing firms of the Oil and Gas sector for a period of ten years (2006-2015). Keeping in view the explanatory orientation of this research, quantitative research approach was employed. In order to achieve study objectives, the secondary data were extracted from the financial statements of the firms under study and data were analyzed through descriptive statistics and correlation coefficients. During data analysis, the profitability of the firm was measured in terms of Gross Profit Ratio (GPR), Return on Capital Employed (ROCE) and Return on Equity (ROE), whereas, the Capital Structure was measured in terms of Debt to Equity (D/E) ratio and Debt to Total Funds (D/TF) ratio. The findings drawn from this study revealed a negative linkage among various dimensions of Capital Structure of firms and their profitability potential in the context of the Oil and Gas sector of Pakistan. Their study findings corroborated that sample firms under study brought sudden changes in the composition of their debt and equity mix (capital structure) that significantly

threatened the profitability of firms. This study suggests that selected firms under study need to adopt consistent capital structure policies with a clear understanding of future profitability. Financial managers need to focus on developing prudent optimal capital structure and avoid making abrupt changes in the debt and equity mix of the firms.

Mohammadhosseini and Rajashekar (2019), desired to determine if a significant relationship existed between capital structure and financial performance in Tech Mahindra operating in the information technology sector which is listed on the Bombay Stock Exchange (BSE), over a period of 3 years (2016-2018). Panel Data Regression was the basis of their analysis. The indicators of capital structure were short-term debt, long-term debt; total equity and total debt, while Return on Equity (ROE) and Return on Assets (ROA) were the performance yardsticks.

Komarudin and Affandi (2019), study examined the effect of capital structure on firm value; firm characteristic on firm value with disposable income as moderator variable; the effect of profitability on firm value. The study was conducted in Indonesia Stock Exchange (IDX) with samples of retail firms listed on the Indonesia Stock Exchange in 2014 to 2016 as many as 21 retail firms. They used the method of Moderated Regression Analysis (MRA), classical assumption test and t test. The results showed that the capital structure didn't have a significant negative effect on firm value. Profitability had a significant positive effect on firm value. Firm characteristic didn't have a significant negative effect on firm value with disposable income as a moderator. The conclusion of research indicated that capital structure and profitability had a significant effect on firm value while firm characteristic with disposable income as moderator didn't have significant effect on firm value.

Yakzam (2019) in his paper investigated the relationship between capital structure and firm performance. The investigation has been performed using panel data procedure for a sample of 30 Malaysian listed companies on the Bursa Malaysia Stock exchange during 2010-2018. The study uses two performance measures return on asset (ROA) and return on equity (ROE) as dependent variables. The two capital structure measures (Debt Ratio and Debt Equity Ratio) as independent variables. Dividend per share and firm size is a control variable. The data were analyzed using descriptive analysis, Collinearity statistics, and regression to test the hypothesis. The data were divided into six sectors which are Financial, Energy, Utilities, Healthcare, Industrial and Consumer. The results indicate that firm performance for Energy, Utilities and Industrial Sectors, which is measured by return on asset (ROA) and return on equity (ROE) have negative relationship with debt ratio and debt equity ratio as independent variable while capital structure (debt equity ratio) for healthcare sector also have a negative relationship to the firm performance. However, the findings for Financial and Consumer sectors were contrast because there was a positive relation between firm performance and capital structure. In short, this study gives a better picture in showing the importance of capital structure that impacts firm performance.

MacCarthy and Ahulu (2019), examined the effect of capital structure on the firms' performance. They collected data from seventeen firms listed on the Ghana Stock Exchange from 2009 to 2018. A quantitative research technique was used to collect data to test two hypotheses. Panel data regression was employed to determine the effect of capital structure on firms' performance. Their study revealed that short-

term debt and total debt accounted for 67% and 76.3% respectively of capital used to finance the operations for the period. Furthermore, their study revealed that there is significant and negative relationship between capital structures and firms' performance. They concluded that firms should minimize the use of debt capital and rather concentrate on equity capital to finance their operations. The study recommends that firms should increase sales and invest in tangible assets to maximize the firms' performance.

Özcan (2019), analyzed how the capital structure of the publicly traded airport companies affects their profitability and market valuation. Using an unbalanced panel data sample of 29 publicly traded airports from 20 countries over the 1989-2017 periods. His findings suggest that higher total and long-term leverage tend to decrease return on assets whereas they are positively associated with return on equity.

Saurabh and Sharma (2019), studied the impact of capital structure or financial leverage on firm financial performance. They use sample size of 422 listed Indian manufacturing companies on Bombay Stock Exchange (BSE) to analyze the relationship between leverage and firm performance. A period of 10 years from 2003–2004 to 2012–2013 and annual financial standalone data were considered to analyze the leverage effect. Ratio analysis and panel data approach were applied to perform the empirical study. Return on asset, return on equity and Tobin's Q were used as the proxy for measuring the firm's financial performance. It was found that financial leverage has no impact on the firm's financial performance parameters of return on asset and Tobin's Q. However, it was negatively and significantly correlated with return on equity. Other independent variables like size, age, tangibility, sales

growth, asset turnover and ownership structure were significant determinants of a firm's financial performance in the Indian manufacturing sector. Thus, the findings of the study enhanced the literature on capital structure and relevant for the Indian manufacturing industry in taking its capital structure decisions as it is based on the most recent data and covers the period of both pre- and post-recession of 2008–2009. There was an adverse effect of recession on the financial performance of the Indian manufacturing firms.

Khodavandloo, Zakaria and Nassir (2017), investigated the relationship between Capital Structure and Firm Performance based on 45 listed companies involved in trading and services sector of the Bursa Malaysia, over three specific periods of financial crises, the pre-crisis (2004-2006), crisis (2007-2009), and post-crisis recovery (2010-2013). The study results indicate that financial leverage has a strong negative impact on firms' performance. Their results were stronger during the global financial crisis that began in 2007 and ended in 2009. They observed their result in both simple regression and cross-sectional analyses even after controlling for firm specific measures.

Mouna *et al.* (2017) employed Panel regression approach to investigate the impact of capital structure on firm's performance in Morocco. Hausmann test was utilized to examine the relationship between capital structure and firms' performance. The annual data was collected from Moroccan authority of capital market and Casablanca Stock Exchange official website; it covers a period of three years from 2014 to 2016 of 53 Moroccan companies. The results of this research conclude a significant effect of three explanatory variables out of three, debt ratio (DR) has negative significant effect on return on asset (ROA), debt equity ratio (DER) has

negative and significant impact on return on equity (ROE) and size has positive significant impact on firm performance using return on equity (ROE) as proxy. Therefore, the profitability of Moroccan firms decreases as much as level of leverage increase, Trade-off theory which assume a positive relationship between capital structure and firms' performance was rejected, financial risk of Moroccan companies was very high, as a consequence external financing should be reduced to improve the financial performance.

Akhtar, Zahir, Tareq, and Rabbi (2016,) investigated the effect of capital structure on the firm performance using Agency Cost Hypothesis and reverse causality hypothesis. Their study covered firms listed on the Karachi Stock Exchange under Textile Industry, from 2008-2012, Data Envelopment Analysis (DEA) was used to construct a frontier to measure firm efficiency. Efficiency risk hypothesis and franchise value hypothesis were tested to find out the effects between efficiency and leverage. The results suggest that ownership structure and leverage have positive relationship (efficiency risk hypothesis) between them. Agency cost hypothesis supports positive effect of leverage on efficiency. Convergence of interest, i.e.; concentrated ownership, has positive effect on firm performance.

Gwatidzo, Ntuli and Mlilo (2016) studied capital structure determinants in South Africa using data on 239 listed firms for the period 1996 to 2010. They found a significantly direct association between asset tangibility and leverage, and a significantly positive correlation between firm size and long-term debt and total-debt ratios. Equally, a negative interplay was found between tax and leverage. Though these findings were contrary to the Trade-off theory, they are consistent with the proposition of the

Pecking order theory as developed by Myers and Majluf (1984) and (Hasan *et al.*, 2014).

Gap in Literature

Most empirical studies about corporate financing limit financing only to the debt and equity form of corporate funding but out-rightly neglected other corporate funding avenues. Again, it has been argued that choice of capital structure influences corporate performance in various industries and it assists firms in maximizing the wealth potential of an organization (Pinto, Joseph, Hawaldar & Quadras (2020),). These arguments have been countered by researchers in related studies such as (Dao & Ta (2020), who argued that corporate funding and corporate performance have no significant positive relationship. These disagreements among researchers have created a gap, thus warranting further examination of the phenomenon especially in a developing country as Nigeria.

Methodology

Research Design

The study is an ex poste factor and used panel data from the financial statements of the quoted deposit money banks and also Nigerian stock exchange fact books as well as from other relevant sources.

Population of the Study

The population of the study comprised of all the listed commercial banks in the country which make up the bulk of companies in the financial sector on the Nigerian stock exchange.

Sampling Technique and Sample Size

The sampling technique utilized for this study is Purposive Sampling technique and the sample of study constitute all the quoted deposit money banks on the Nigerian Stock Exchange.

Data Collection Method

In carrying out this study, we collected secondary data for estimation mainly from the financial statement of the listed commercial banks. Data for this study were the annual time series data which will be presented in tables.

Operational Measures of Variable

The operational form of the variable is expressed as

Shareholders' Value = $f(\text{Capital Structure})$

$$\text{PAT} = \text{PCAP} + \text{REAR} + \text{DEBT} + \text{WCAP}$$

Where:

PAT = Profit After Tax

PCAP = Paid-up Capital

REAR = Retained Earnings

DEBT = Debt Securities

WCAP = Working Capital

Model Building and Specification

This study hypothesized that there is no significant relationship between financing decisions and shareholders' value of the listed commercial banks in Nigerian stock exchange. Thus, we express Earnings (proxied by profit after tax) as a function of corporate financing sources.

Corporate Earnings = $f(\text{Corporate financing sources})$

The econometric form of the model is stated as:

$$\text{PAT}_t = \alpha_0 + \alpha_1 \text{PCAP}_{t1} + \alpha_2 \text{REAR}_{t2} + \alpha_3 \text{DEBT}_{t3} + \alpha_4 \text{WCAP}_{t4} + \mu_t \quad (3.2)$$

Where;

PAT = Profit After Tax

PCAP = Paid-up Capital

REAR = Retained Earnings

DEBT = Debt Securities

WCAP = Working Capital

A Priori Expectation

Having established the theoretical relationship and linkage, we therefore summarize the a priori expectations thus; $\beta_1 > \text{or} < 0, \beta_2 > \text{or} < 0, \beta_3 > 0 \text{ and } \beta_4 > 0$

Methods of Data Analysis

The three (3) methods of data analysis used were the Unit Root, Multiple Regression Analysis and Granger Causality. The choice of our method of analysis stem from their suitability in dealing with problem relating to the effects on the dependent variable of several independent variables.

Data Presentation, Analysis and Discussion of Findings

Data Presentation

The study utilizes annual data from 2008 to 2022 and this is too large and

therefore presenting them in this chapter looks clumsy, hence, we present them in tables with appropriate title as appendix 2 on the appendix pages.

Descriptive Statistics

Table 4.1 reports some summary statistics that describe the distributional properties of the study variables. The statistics reported include mean, maximum, minimum, standard deviation, skewness and kurtosis. The table also shows the normality test based on Jarque and Bera (1981).

Table 4.1: Descriptive Statistics for the study variables

	PAT	PCAP	DEBT	REAR	WCAP
Mean	22.43000	0.454167	0.562500	0.309167	0.095000
Median	23.05000	0.460000	0.560000	0.310000	0.070000
Maximum	30.23000	0.480000	0.590000	0.340000	0.390000
Minimum	17.22000	0.400000	0.540000	0.280000	0.040000
Std. Dev.	4.153045	0.022747	0.017645	0.018809	0.094243
Skewness	0.308427	-1.073071	0.123136	-0.217797	2.861636
Kurtosis	1.987328	3.708120	1.503596	2.157454	9.546251
Jarque-Bera	10.703006	2.553679	1.149937	2.449813	37.80462
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Observations	12	12	12	12	12

Source: EViews output

The descriptive results in table 4.1 show that profit after tax (PAT) has an average value of 22.43 reaching maximum level of 30.23 respectively over the sample period. For the distribution of the data, the results indicate that profit after tax has positive skewness with coefficient of 0.31. Further, the Jarque-Bera statistic is substantially large with zero probability, indicating that the test of normality is highly significant. The null hypothesis of normal distribution is therefore rejected at 5% level of significance. Thus, we conclude that the data are normally distributed.

Similarly, the data for both Paid up Capital (PCAP) and Retained Earnings (REAR) have a

negatively skewed distribution, with skewness coefficients of -1.07 and -0.21 respectively. On the contrary, the data for Debt Securities (DEBT) and Working Capital (WCAP) all have positively skewed distribution, with positive skewness coefficients of 0.12 and 2.86 respectively indicating normally distributed data. Overall, the reduced difference between the maximum and minimum values for each data series suggests absence of or minimized presence of outliers in all the data series, which is good for further analysis as presence of outliers are most likely to affect the results.

Unit root/Nonstationarity Test

Tables 4.2 shows the Augmented Dickey-Fuller (ADF) unit root/nonstationarity test results for the study variables.

Table 4.2: ADF unit root test results

Variables	ADF-statistic	Test Critical Values	Order of Integration	Probability
PAT	-4.607382	1% level = -4.297073 5% level = -3.212696 10% level = -2.747676	I(1)	0.0064
PCAP	-6.382734	1% level = -4.297073 5% level = -3.212696 10% level = -2.747676	I(1)	0.0006
DEBT	-4.765531	1% level = -4.582648 5% level = -3.320969 10% level = -2.801384	I(1)	0.0081
REAR	-6.592106	1% level = -4.297073 5% level = -3.212696 10% level = -2.747676	I(1)	0.0083
WCAP	-6.011167	1% level = -4.297073 5% level = -3.212696 10% level = -2.747676	I(1)	0.0052

Source: EViews output

From Table 4.2 above, we observe that all the variables are stationary at first difference I(1) or integrated at order 1. The Augmented Dickey-Fuller (ADF) statistic for each of the variables is greater than the Test Critical Values and the associated probability estimates are all less than 0.05 significance

level. This now sets us up for the econometric analysis.

Presentation of Regression Model Estimates

Table 4.3 below shows estimates of Regression results for the Model 1.

$$PAT_t = \alpha_0 + \alpha_1 PCAP_{t1} + \alpha_2 DEBT_{t2} + \alpha_3 REAR_{t3} + \alpha_4 WCAP_{t4} + \mu_t$$

Table 4.3: Estimates of $PAT_t = \alpha_0 + \alpha_1 PCAP_{t1} + \alpha_2 DEBT_{t2} + \alpha_3 REAR_{t3} + \alpha_4 WCAP_{t4} + \mu_t$

Dependent Variable: D(PAT)

Method: Least Squares

Date: 09/24/24 Time: 16:55

Sample (adjusted): 2009 2022

Included observations: 11 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.646812	1.453579	-0.444979	0.6719
D(TETA)	40.41040	98.41226	0.410624	0.4969
D(TDTA)	-106.6057	147.4725	-0.722885	0.0045
D(RET)	3.681750	91.70916	-0.040146	0.0093
D(WCTA)	-19.36722	15.37089	-1.259993	0.6956
R-squared	0.721697	Mean dependent var	-0.577273	
Adjusted R-squared	0.710505	S.D. dependent var	3.755410	

S.E. of regression	3.992946	Akaike info criterion	5.909891
Sum squared resid	95.66172	Schwarz criterion	6.090752
Log likelihood	-27.50440	Hannan-Quinn criter.	5.795883
F-statistic	7.711402	Durbin-Watson stat	1.553914
Prob(F-statistic)	0.000000		

Source: Authors' computation using E-View

The regression estimation results show a coefficient of determination (R^2) of 0.710505, which implies that variations in all the explanatory variables account for about 71% of the variations in Profit After Tax (PAT), while the rest 29% of the variations is attributable to other variables not captured in the study. The results provide evidence that in the short run, some of the funding sources of the corporations are significant in explaining the variations in return on equity. From the results, Retained Earnings as well as total debt securities are significant in explaining variations in profit after tax. On the other hand, paid up capital as well as Working Capital failed the significance test.

The probability estimates of the relationship between retained earnings and

profit after tax is 0.0093 while that of total debt securities is 0.0045 both of which are less than 0.05, our preferred level of significance, establishing a significant relationship. On the other hand, the probability estimates of the relationship between paid up capital and profit after tax is 0.6719 and that between working capital is 0.6956. The probability estimates are greater than our preferred level of significance, (0.05) indicating an insignificant relationship. On the whole, the F-statistic is significant at 0.05 level, which implies a good line of fit while the Durbin-Watson statistic value of 1.553914 is within acceptable range and serves as evidence of absence of significant autocorrelation.

Presentation of Granger Causality Estimates

Table 4.4 below shows estimates of Granger Causality

Table 4.4: Pairwise Granger Causality Tests

Pairwise Granger Causality Tests
Date: 09/24/24 Time: 16:57
Sample: 2008 2022
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
D(PCAP) does not Granger Cause D(PAT)	12	0.99363	0.4463
D(PAT) does not Granger Cause D(PCAP)		4.58002	0.0924
D(DEBT) does not Granger Cause D(PAT)	12	0.17004	0.0177
D(PAT) does not Granger Cause D(DEBT)		0.56444	0.0073
D(REAR) does not Granger Cause D(PAT)	12	2.74827	0.0014
D(PAT) does not Granger Cause D(REAR)		0.22135	0.8106
D(WCAP) does not Granger Cause D(PAT)	12	1.09466	0.8494
D(PAT) does not Granger Cause D(WCAP)		21.3706	0.6082

Source: Author's Computation using E-VIEWS 10

The Granger causality estimation test result on the direction of causality shows that

there exists a significant bi-directional relationship between profit after tax and paid

up capital while a significant uni-directional relationship exists between profit after tax and retained earnings. The direction of causality flows from retained earnings profit after tax. On the other hand, profit after tax and paid-up capital as well as working capital are observed to exhibit no evidence of significant causal relationship at 0.05 level during the study period.

Discussion of Findings

The broad objective of this study as earlier mentioned is to empirically ascertain the nature of relationship that exists between corporate funding and deposit money bank's earnings performance in a developing country like Nigeria. From theoretical underpinning and previous works on the subject matter, several funding sources available to the corporate organization are included in the study to ascertain their strength in determining the profitability of the corporate firm with respect to Nigerian peculiar economic environment as a developing economy.

We proceed to discuss our findings on the relationship between each explained variable and the corresponding explanatory variable below:

The Relationship between Paid up capital and Profit After Tax of select quoted deposit money banks in Nigeria

We notice a positive but insignificant relationship between total paid up capital and profit after tax. The positive relationship between paid up capital and profit after tax of select quoted deposit money banks firms conform to the a priori expectation of maximizing the value of a firm.

The Relationship between Total Debt Securities and Profit After Tax of Select Quoted Deposit Money Banks in Nigeria.

Long-term debt was significantly and negatively related to the criterion variables in each of the models. The regression results show that if the amount of long-term debt increases then it will decrease the measures of earnings of the companies as captured in our study. The outcome is in consonance with pecking order theory that with the presence of asymmetric information, a firm is better financed by internally generated funds than external funds. Thus, the problems of asymmetric information might raise the cost of external finance, there in turn leading to credit rationing which may not be optimally obtained in transitory economies. Also, the findings of the study are consistent with other previous empirical studies underscored in the previous section. The performance of companies has reduced by using the debt because debt has increased the interest cost and reduced the income.

The negative effect is associated with high leverage ratio of Nigerian quoted firms as confirmed in descriptive analysis, and also frequent changes in debt capital of Nigerian quoted firms are highly associated with systematic depreciation of firms' assets attributed to high cost of debt financing. The findings as revealed in the regression results is also consistent with the findings of Nguyen and Nguyen (2015), Khan (2012); Onaolapo and Kajola (2010); El-Sayed (2009), Abor, J. (2005), amongst others. Theoretical body of knowledge argued that relatively large firms tend to be more diversified, less prone to bankruptcy, more highly leveraged and large firms pay less cost to finance their investment needs than small firms (Titman and Wessels, 1988).

The Relationship between Retained Earnings and Profit After Tax of Select Quoted Deposit Money Banks in Nigeria.

The result indicates highly significant positive effects of retained earnings to assets and the explained variables in each of the models. The retained earnings results are statistically significant at the 5% in every regression. The co-efficient in each regression are positive and significant at 5% level. The implication is that the firms with higher retained earnings per share are more likely to display sign of sustainable growth than firms with lower retained earnings per share. That is, the higher the retained earnings per share, the higher return.

This result supports the findings by Friend and Puckett (1964); Naamon (1989); Nishat (1992); Pradhan (2003); and Khan (2009), Zeitun and Tian (2007), Umar (2012) and Essays, UK. (2013), Hundal (1986), Beisland (2014), Muhammad Ali, (2012), Domains (2007), Khan and Zulfiqar (2012), Bali (2008), Joshi, (2012) while contradicts Harkavy (1953).

A study conducted by Kumar and Hundal (1986) and Beisland (2014) revealed that a positive relationship exists between retained earnings and stock prices. Muhammad Ali, T. (2012) stated that retained earnings have a substantial impact on firm value and shareholders' wealth. Domains, (2007) hypothesized that investors expect that growth of the company and stock prices are heavily depended on the high retention ratio. On the other hand, Khan and Zulfiqar, (2012) postulate that high retention ratio is not the only factor which influenced the company growth. In addition, Bali (2008) identifies a positive and significant relationship exists between expected returns, earnings and dividends. Joshi, R. (2012) stated that there is a positive and significant relationship of share prices with dividends and retained earnings.

The influence of working capital on profit after tax of select quoted deposit money banks in Nigeria.

From our findings, we observed a negative and insignificant relationship between working capital and profit after tax. There is no significant relationship between working capital and profit after tax of select quoted deposit money banks during the period of study.

Conclusions And Recommendations

Recognizing the importance of firms' decision on funding its operations and consequential impact on profitability and sustainability of the firm in the long run, the study sets out to investigate the effect of corporate funding on earnings performance of the deposit money banks in Nigeria. The Ordinary Least Square Multiple Regression as well as Granger Causality was employed to carry out econometric analysis. From the results of both descriptive and econometric analyses, it is clear that corporate funding exerts significant influence on earnings performance of the corporate firm. The result of the Regression analysis indicated that nature and form of corporate funding impact heavily on the profitability of the firm. From the result it is concluded that debt capital may not be an appropriate funding source for the operations of the deposit money banks as the results consistently indicate a negative and significant relationship with the dependent variable. On the other hand, retained earnings proved to be a better funding source as it showed a positive influence on the earnings variable of the firms. This result is further corroborated by the Granger Causality estimates. This research work presents fresh discoveries with regards to corporate funding and firms' earnings in a peculiar economic environment as Nigeria's. One major inference to be drawn

from the findings is that pecking order theory is seen to be most appropriate for deposit money banks' profitability and sustained earnings performance in Nigerian context.

Based on the findings, the study has established that earnings retention has a positive and significant relationship with returns of firms. To this end, the study recommends that it is necessary to retain part of the earnings to finance new investment capable of generating more wealth and having positive contributions to the shareholders.

Also, corporate managers should endeavour to make judicious and efficient use of earnings to increase investor returns and that firms should retain when there are investment opportunities with a positive net present value (NPV).

To the investors, the study recommends that they should monitor and ensure that undistributed profit/earnings are judiciously used to create value in return.

Also, investors are advised to invest in organizations which use retained earnings to finance investment opportunity and create value.

The increase in debt causes the decrease in performance of the companies because debt is expensive source of finance. So, the companies should rely on internal source of finance which is most reliable and cheapest source of finance. Companies should use the less level of debt because it decreases the performance of companies. The companies should use the optimal level of capital structure because high level of debt causes the insolvency risk of companies.

Further, in order to ensure conventional benefit of leverage ratios, there is need for Nigerian quoted firms to balance the trade-off between the benefits of debt and bankruptcy costs. This implies that a firm

needs to choose debt ratio at certain proportion to be better off

A policy or policies should be instituted by companies' regulatory bodies whereby a reasonable percentage of net profit is retained in the business. Since price-earnings and the earnings yield depends on the capitalization of present earnings. Earnings should therefore be retained and re-invested immediately into the business.

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