

# Effect of Capital Structure on the Performance of Nigerian Listed Manufacturing Firms

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## Abstract

This research study investigated the effect of capital structure on the performance of Nigerian listed manufacturing firms from 2004-2013. This is to determine the overall impact of capital structure on corporate performance of Nigerian quoted firms by establishing the relationship that exists between the capital structure choices of firms in Nigeria and their return on assets, return on equity, sales growth and earnings per share (as proxies to measure corporate performance). For the purpose of this study, secondary data obtained from the Nigerian stock exchange fact book were utilized. Multiple regression were used as a tool of data analysis and result of the findings revealed that, capital structure has no significant effect on return on equity but has significant effect on return of assets, earnings per share and sales growth of listed manufacturing firms in Nigeria. It is therefore recommended that management of Nigerian quoted manufacturing firms should work very hard to optimize the capital structure of their quoted firms in order to increase the returns on equity, assets and earnings per share. They can do this through ensuring that their capital structure is optimal. It is also suggested that the Investors and stakeholders of quoted Manufacturing firms in Nigeria should also consider the leverage level of any firm before committing their hard earned money as the strength of a firm financing mix determine the quantum of their returns.

**Keywords:** Capital Structure, Manufacturing Firms, Nigeria

## Introduction

On a daily basis, we hear corporate officers, professional investors, and analysts discuss a company's capital structure. Many may not know what a capital structure is or why they should even concern themselves with this term, but the concept of capital structure is extremely important. Capital structure not only influences the return a company earns for its shareholders, but also whether the firm survives less fortunate economic shocks (Damodaran, 2001).

The capital structure of companies refers to the way in which the company is financed through a mix of debt and equity capital. It is the proportion of resources attributed to the firm through different sources, which may include internal and external finances (Brigham, 2007).

The means of financing employed for positive net present value projects has important implications on the corporation. The cumulative effect of these discrete financing decisions results in the capital structure of the firm, the composition of which has long been a focus of research in the corporate finance discipline. Capital structure represents the major claims to a corporation's assets. This includes the different types of equities and liabilities (Riahi, 1999). The debt-equity mix can take any of the following forms: 100% equity: 0% debt, 0% equity: 100% debt and X% equity: Y% debt. From these three alternatives, option one is that of the unlevered firm, that is, the firm shuns the advantage of leverage (if any). Option 2 is that of a firm that has no equity capital. This option may not actually be realistic or possible in the real life economic situation, because no provider of funds will invest his money in a firm without equity capital. This partially explains the term "trading on equity", that is, it is the equity element that present in the firm's capital structure that encourages the debt providers to give their scarce resources to the business. Option 3 is the most realistic one in that, it combines both a certain percentage of debt and equity in the capital structure and thus, the advantages of leverage (if any) is exploited. This mix of debt and equity has long been the subject of debate concerning its determination, evaluation and accounting (Adaramola and Sulaiman, 2005).

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 has been a major issue in financial economics ever since Modigliani and Miller showed in 1958 that

given frictionless markets, homogeneous expectations, capital structure decision of the firm is irrelevant. By relaxing the assumptions and analyzing their effects, theories seek to determine whether an optimal capital structure exists or not, and if so what could possibly be its determinants.

### **Statement of Problem**

A firm's capital structure refers to the mix of its financial liabilities. It has long been an important issue from the strategic management standpoint since it linked with a firm's ability to meet the demands of various stakeholders (Roy and Minfang, 2000). Debt and equity are the two major classes of liabilities, with debt holders and equity holders representing the two types of investors in the firm. Each of these is associated with different levels of risk, benefits, and control. While debt holders exert lower control, they earn a fixed rate of return and protected by contractual obligations with respect to their investment. Equity holders are the residual claimants, bearing most of the risk and have greater control over decisions.

An appropriate capital structure is a critical decision for any business organization. The decision is important not only because of the need to maximize returns to various organizational constituencies, but also because of the impact such a decision have on an organization's ability to deal with its competitive environment. The vital issue confronting managers today is how to choose the mix of debt and equity to achieve optimum capital structure that would minimize the firm's cost of capital and improves return to owners of the business. Financial managers make efforts to ascertain a particular combination that will maximize profitability and the firm's market value. According to Gitman (2003), it is generally believe that the value of a firm is maximized when its cost of capital is minimized. The kind of combination of debt and equity that will minimize the firms cost of capital and hence maximizes the firm's profitability and market value is the optimal capital structure. Unfortunately, financial managers do not have a well-defined formula that for taking decision on optimal capital structure.

A number of theories have been advance to explain the capital structure of firms. However, there is lack of consensus among researchers of financial management about the optimal capital structure. The variations in the various theories further make capital structure decisions crucial. Thus, capital structure decision is very critical, particularly in relation to performance of a firm in terms of profitability and value of the equity.

Following the work of Modigliani and Miller (1958) much research has been carried out in corporate finance to determine the influence of a firm's choice of capital structure on performance. The difficulty facing companies when structuring their finance is to determine its impact on performance, as the performance of the business is crucial to the value of the firm and consequently, its survival. Managers have numerous opportunities to exercise their discretion with respect to capital structure decisions. The capital structure employed may not be meant for value maximization of the firm but for protection of the manager's interest especially in organizations where company decision are dictated by managers and shares of the company closely held (Dimitris and Psillaki, 2008). Even where shares are not closely hold, owners of equity are generally large in number and an average shareholder controls a minute proportion of the shares of the firm. This gives rise to the tendency for such a shareholder to take less interest in the monitoring of managers who left themselves pursue interest different from owners of equity.

The difficulty-facing firms in Nigeria have to do more with the financing – whether to raise debt or equity capital. The issue of finance is so important that it has been identify as an immediate reason for business failing to start in the first place or to progress. From the foregoing, it is therefore important to understand how firm's financing choice affects their performance. It is evidently clear that both internal (firm specific) factors and external (macroeconomic) factors could be very important in explaining the performance of firms in an economy.

In Nigeria, investors and stakeholders appear not to look in detail the effect of capital structure in measuring their firm's performance as they may assume that attributions of capital structure are not relate to their firms value. Indeed, a well attribution of capital structure will lead to the success of firms. Hence, the issues of capital structure, which may influence the corporate performance of Nigerian firms, have to be resolved. In addition, the capital structure choice of a firm can lead to bankruptcy and have an adverse effect on the performance of the firm if not properly utilized. The research problem therefore is to find an appropriate mix of debts and equity through which a firm can increase its financial performance more efficiently and effectively.

Thus, the central point of this study is to assess the effect of capital structure on corporate performance in Nigeria.

### **Objectives of the Study**

The main objective of this study is to determine the effect of capital structure on corporate performance in Nigeria. Specifically, it seeks to:

- i. Ascertain the relationship between the capital structure and return on equity**
- ii. Determine the effect of capital structure on return on assets**

- iii. **Ascertain the effect of capital structure on earnings per share**
- iv. **Ascertain the contribution of capital structure of firms to sales growth**

### **Research Hypotheses**

In line with the objective of the study, the following hypotheses were been formulated in null form:

HO<sub>1</sub>: Capital structure has no significant impact on return on equity of quoted manufacturing firms.

HO<sub>2</sub>: Capital structure has no significant effect on the return on assets of quoted manufacturing firms.

HO<sub>3</sub>: Capital structure has no significant effect on earnings per share of quoted manufacturing firms.

HO<sub>4</sub>: Capital structure has no significant effect on sales growth of quoted manufacturing firms.

This study is importance to both researchers and business analysts as it looks into the realm of capital financing. This study adds to existing literatures to verify the claim of traditional theory of capital structure.

## **METHODOLOGY**

### **Introduction**

Research is a planned and systematic process of gathering, recording, analyzing and interpreting data for effective decision-making. It is the process of arriving at dependable solution to problems and can be consider as a systematic inquiry into events and situations in order to find solution to a societal problem, discover new knowledge, and also confirm or disapprove findings in previous studies Akuezilo, (1990).

In this chapter, the researchers examine and select the most appropriate method in generating the relevant data for the study. Discussions will be made regarding the research design, instrument, and source of data, population, sample size and method of analysis.

### **Research Design**

The survey design was used by the researcher, as the researcher does not in any way attempt to control or manipulate variable, but only create a situation that generates the required data for the study. This study utilized correlation design as it attempts to correlate the effect of capital structure on corporate performance of quoted Manufacturing firms in Nigeria using the four widely used proxies (i.e. Return on Equity, Return on Assets, Sales Growth, and Earnings per share) for measuring firm performance. It thus, attempts to establish the underlying facts about their relationship with leverage.

### **Population of the Study**

The population of this study consists of all Nigerian manufacturing companies that are listed on the Nigerian Stock Exchange (NSE). As at December 28, 2013, two hundred and thirty nine manufacturing firms that are listed on the Nigerian Stock Exchange. These two hundred and thirty nine (239) firms form our population.

The researchers' first picked all the publicly quoted firms comprising 239 firms in total from 32 subsectors, and then proceeded to eliminate firms which are categorized as financial institutions or whose businesses are financial in nature (95 firms),(55 firms) whose data were not up to date and (31 firms) from the service sector.

### **Sample Size**

From the population of 239 firms from 32 subsectors listed on the Nigerian Stock Exchange (NSE) market, a sample of 58 quoted manufacturing firms from 16 subsectors were purposively selected for the analysis. The study excludes companies from the financial and securities sector as their financial characteristics and use of leverage are substantially different from other companies. First, their leverage is strongly influenced by explicit investor insurance scheme such as deposit insurance and regulations such as the minimum capital requirements may directly affect their capital structure. Secondly, their debt-like liabilities are not strictly comparable to the debt issued by non-financial firms. Moreover, the balance sheets of the firms in the financial sectors (banks, insurance companies, mortgage companies, leasing, unit trust and funds, real estate, investment trust and other financial institutions) have a strikingly different structure from those of non-financial companies. As a result, the final sample set consists of a balanced panel of 58 manufacturing firms from 16 subsectors over a period of ten years. The below table show sectors category and sample of firms

**Table 1: Sectors Category and the Sample of Firms**

S/N	SECTORS CATEGORY	NO OF FIRMS SAMPLED
1	Agric/Agro Allied	5
2	Automobiles and Tyre	3
3	Breweries	5
4	Building Materials	4
5	Chemical and Paints	4
6	Computer and Office Equipment	3
7	Conglomerate	4
8	Emerging Market	4
9	Engineering Technology	4
10	Food/ Beverage and Tobacco	5
11	Industrial/Domestic Product	4
12	Machinery	3
13	Footwear	2
14	Packaging	4
15	Printing and Publishing	3
16	Textile	1
<b>Total</b>		<b>58</b>

Source: Nigerian Stock Exchange Fact Book 2014 (NSE)

### Sources and Method of Data Collection

There are two sources of data collection i.e. both primary and secondary sources of data collection. For the purpose of this study, only secondary method of data collection were utilized i.e. textbooks, annual reports, Journals, other published materials, Nigerian Stock Exchange fact books and the annual financial statements of the sampled firms for the periods 2004 to 2013.

### Technique of Data Analysis

The nature of the data collected determines the type of tool to be adopted for analysis. For the purpose of this study, multiple regression techniques were used as a tool of analysis. Capital structure which represented by leverage is the dependent variable and corporate performance represented by return on assets, Return on equity, Sales Growth, and Earnings per share of Nigerian quoted manufacturing firms that are listed on the Nigerian Stock Exchange (NSE), as at December 28, 2013. Therefore, the study has four independent variables and one dependent variable.

### Model Specification

In this research, for indication of type and intensity of relationship between dependent and independent quantitative variables, we use correlation and estimation of multiple regression models for hypotheses testing. In addition, analyzed the results based on statistical significance or insignificant coefficients. For this purpose, after determining the method that shows the most accurate estimation, by using the t statistic, we test the estimation coefficients of independent variables in regression models used to hypotheses.

The following general hypothesis used for this test:  $H_0: \beta = 0$   $H_1: \beta \neq 0$   $H_0$  hypothesis mean the independent variable coefficient is zero and in other words, there is no relationship between the changes in the tested dependent variable and independent variables. Here, the hypotheses are test in a 5% error level. If the p value <5%, the correlation is confirmed at 95% confidence level and otherwise is rejected. The model will also make use of other statistics such as: correlation coefficient(R), coefficient of determination ( $R^2$ ). The first one (R) is use to show the strength of relationship between the independent and dependent variables. While the second one ( $R^2$ ) is use to show the predictive power of the independent variable on the dependent variable. T-statistics is used for testing the statistical significance of the parameters, while F-statistics is used for testing the overall significance of the model and the Durbin- Watson (DW) test, is used to test the presence or otherwise of serial correlation.

The models used in testing the hypotheses of the study presented below

$$LEV = f(ROE, ROA, ESP \text{ and } SG \dots \dots \dots) \quad (1)$$

This functional relationship can be transform in econometric model.

$$LEV = b_0 + b_1ROE + b_2ROA + b_3ESP + b_4SG + \epsilon \dots \dots \dots \quad (2)$$

Where:

$LEV$  = Leverage

$b_0$  = intercept of the regression  
 $b_1$   $b_2$   $b_3$  and  $b_4$  = are the parameters to be estimated  
 $ROE$  = Return on Equity as independent variable  
 $ROA$  = Return on Assets as independent variable  
 $SG$  = Sales Growth as independent variable  
 $ESP$  = Earnings per Share as independent variable  
 $\epsilon$  = disturbance term or error term  
 $LVE$  = D/E (Ratio of Debt to equity as a dependent variable)

#### Variable Measurement

$$ROE = \frac{\text{Net Profit after Tax}}{\text{Average Share Holder Equity}}$$

This measure how much shareholder earn for its investment. Ratio indicates how profitable a company is by comparing its net income to average shareholders' equity. The higher the percentage, the more efficient equity holders fund is been utilized.

$$ROA = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

This shows how profitable a company's assets are in generating revenue. It states how much of earnings is been derived from each naira of assets an organization control.

#### Sales Growth

Sales growth ratio is a value to measure firm's growth condition and development ability. Higher ratio is good for firm performance.

$$\text{Sales Growth Ratio} = \frac{\text{Sales End of the Year} - \text{Sales Beginning of the Year}}{\text{Sales End of Last Year}}$$

OR

$$\text{Sales Growth} = \frac{\text{Current Month Sales} - \text{Last Month Sales}}{\text{Last Month Sales} \times 100}$$

#### Earnings per Share

Earnings per share (EPS) measure shareholders profitability by revealing how much profit a share generate with money shareholders have invested and calculated by this formula. Earnings per share = net earnings/number of shares

#### Leverage

The solvency ratio is used to denote the leverage measure, which explains the company's financial stability.

$$\text{Capital Structure} = \frac{\text{Total Debt}}{\text{Total Asset}}$$

#### RESULTS AND DISCUSSION

The aggregate values of both dependent and independent variables for the selected quoted manufacturing firms and within the period of the study are presented in table 2 below:



**Table 2: Aggregate Value of Dependent and Independent Variables**

	DEPENDENT VARIABLE	INDEPENDENT VARIABLE			
YEAR	LEV	ROE	ROA	ESP	SG
2004	22.95	5.06	4.12	0.16	3.95
2005	23.39	6.14	4.77	0.03	3.70
2006	15.47	6.72	5.96	0.05	4.17
2007	16.57	14.44	13.47	0.31	7.38
2008	7.85	3.98	3.96	0.55	7.83
2009	16.55	9.89	9.74	0.52	6.10
2010	17.77	5.91	5.69	0.24	10.31
2011	24.14	7.69	7.46	2.68	16.52
2012	22.32	8.10	7.59	3.19	16.61
2013	19.68	8.94	8.34	3.31	9.10

Source: Author Computation from Nigerian Stock Exchange Fact Book 2014

### Data Analysis

The study uses four independent variables for determining the aggregate effect of capital structure on corporate performance of Nigerian quoted manufacturing firms. These four explanatory variables are return on equity, return on assets, earnings per share and sales growth. The study hypothesizes significant effect between explanatory variables and capital structure in Naira. The regression results are presented in Table 4.2 below:

### Regression Analysis

Regression analysis is carried out to test the impact of capital structure on corporate performance. Here capital structure is the dependent variable and corporate performance is the independent variable. From these independent and dependent variables, the following relationships are formulated. Capital structure of the quoted manufacturing firms is dependent upon the corporate performance. Which show leverage is a function of performance.

Corporate performance is measured with the help of four ratios return on equity, return on assets, earnings per share and sales growth. Capital structure is measured through leverage ratio. The regression results are presented in Table 4.2 below:

**Table 4.2: Regression Result from Table 4.1 Above**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	30.704	4.932		6.225	.002
ROE	-.598	.417	-.357	-1.433	.211
ROA	1.554	.441	.919	3.522	.017
EPS	1.247	1.246	.344	1.001	.036
SG	.241	.345	.257	.699	.016

Dependent Variable: Lev

SOURCE: SPSS Printout of Multiple Regression computed from table 4.1 above.

**Table 4.3: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.871 <sup>a</sup>	.758	.564	3.27694	2.599

SOURCE: SPSS Printout of Multiple Regression computed from table 4.1 above.

### Test of Hypotheses

**Hypothesis One: Capital structure has no significant impact on return on equity of quoted manufacturing firms.**

A null hypothesis that capital structure has no significant influence on return on equity of Nigerian quoted manufacturing firms was formulated to ascertain whether Leverage has effect on return on equity of Nigerian quoted manufacturing firms or not. The hypothesis is tested and the regression result in table 4 reveals that coefficient of return on equity is -0.357 this indicate a negative relationship between ROE and leverage and that

for every N 1 naira increase in Leverage brings about 0.357k decrease in return on equity. The p- value for ROE (0.211) is greater than (0.05) significant level which indicates that it is not statistically significant. This means we accept the Null hypothesis by rejecting the alternative hypothesis and conclude that capital structure has no significant influence on return on equity of listed manufacturing firms in Nigeria.

**Hypothesis Two: Capital structure has no significant effect on return on assets of quoted manufacturing firms.**

A null hypothesis that capital structure has no significant influence on return on assets of Nigerian quoted manufacturing firms was formulated to ascertain whether Leverage has effect on return on equity of Nigerian quoted manufacturing firms or not. The hypothesis is tested and the regression result in table 4 reveals a positive correlation between Leverage and return on assets. The coefficient of return on assets is 0.919 this indicates a positive relationship between ROA and leverage. It corroborates the result of the regression model that Leverage is playing a significant role in measuring return on assets. The result of the model reveals that for every N 1 naira increase in Leverage brings about 0.919k increase in return on assets. The p- value for ROA (0.017) is less than (0.05) significant level which indicates that it is statistically significant. This means we reject the Null hypothesis and accepting alternative hypothesis and conclude that capital structure has significant influence on return on assets of listed manufacturing firms in Nigeria.

**Hypothesis Three: Capital structure has no significant effect on earnings per share of quoted manufacturing firms.**

A null hypothesis that capital structure has no significant influence on earnings per share of Nigerian quoted manufacturing firms was formulated to ascertain whether Leverage has influence on earnings per share of Nigerian quoted manufacturing firms or not. The hypothesis is tested and the regression result in table 4 above reveals a positive correlation between Leverage and earnings per share. The coefficient of Earnings per share is 0.344 this indicates a positive relationship between EPS and leverage. It corroborates the result of the regression model that Leverage is playing a significant role in measuring Earnings per share. The result of the model reveals that for every N 1 naira increase in Leverage brings about 0.344k increase in Earnings per share. The p- value for EPS (0.036) is less than (0.05) significant level which indicates that it is statistically significant. This means that we reject the Null hypothesis and accepting alternative hypothesis and conclude that there is a significant relationship between capital structure and earnings per share.

**Hypothesis Four: Capital structure has no significant effect on sales growth of quoted manufacturing firms.**

A null hypothesis that capital structure has no significant influence on sales growth of Nigerian quoted manufacturing firms was formulated to ascertain whether Leverage has effect on sales growth of Nigerian quoted manufacturing firms or not. The hypothesis is tested and the regression result in table 4 above reveals a positive correlation between Leverage and sales growth. The coefficient of sales growth is 0.257 this indicates a positive relationship between SG and leverage. The positive correlation and significant showing that between pair of Leverage and sales growth there is significant relationship. Also, it corroborates the result of the regression model that Leverage is playing a significant role in measuring sales growth. The result of the model reveals that for every N 1 naira increase in Leverage brings about 0.257k increases in sales growth. The p- value for SG (0.016) is less than (0.05) significant level which indicates that it is statistically significant. This means that we rejecting the Null hypothesis and accepting alternative hypothesis and conclude that there is a significant relationship between capital structure and sales growth.

**Discussion of Findings**

The analysis on the effect of capital structure on corporate performance is presented in table 4.3 above. The results obtained from the dynamic models indicate that the overall coefficient of determination ( $R^2$ ) shows that the equation has a good fit with 0.758 meaning that the coefficient of determination ( $R^2$ ) shows that Leverage occupies 76% in determining the value of return of equity, return on assets, earnings per share and sales growth while other contributors covered the remaining 24%. The higher the  $R^2$ , the higher the goodness of fit, the higher the goodness of fit the higher the reliability of the model.

The F-statistics and Durbin-Watson (DW) statistics also indicate that the regression equations are significant. The calculated F-statistics as shown in the table is 3.916 which is less than the tabulated F of 5.19 also p- value is 0.043 which is less than 0.05 per cent level of significant. Null hypothesis is rejected and we conclude that capital structure has significant influence on corporate performance. The DW statistics of 2.599 further indicates that the regression equation is free from the problem of autocorrelation. The implication of this is that the estimated equation can be relied upon in making valid inference about the influence of the explanatory variables on the corporate performance of Nigerian firms.

The results of regression suggest that coefficients for  $b_0$ ,  $b_2$ ,  $b_3$  and  $b_4$  are statistically significant means that capital structure has a significant influence on corporate performance of the Nigerian quoted manufacturing firms measured by return on asset, earnings per share and sales growth. This finding is consistent with the result

obtained from previous studies such as Akintoye, (2008), Aliu, (2007), Dare and Sola, (2010), Ong and Teh, (2011) and Onimisi, (2011). While hypothesis one shows that capital structure has no significant influence on return on equity of quoted manufacturing firms in Nigeria. This finding is consistent with the result obtained from previous studies such as Zeitun and Tian, (2007) and Pratheekanth, (2011).

Quoted manufacturing firms with good Leverage to reduce cost of capital and increase their turnover which ultimately improves their performance. The result implies that the more quoted manufacturing firms mix their equity and debt properly, the more return to be generated on equity, assets, earnings per share and sales growth. The study reveals that the performance indicators of the sampled quoted manufacturing firms can be explained by the influence of Leverage.

Ravid's (1985) argument that long term debt increases a firm's value which could be due to the lower ratio of long term debt in the capital structure of Nigerian companies. This findings support the pecking order theory of capital structure which suggests that profitable firms initially rely on less costly internally generated funds before looking out for external finances. It is therefore, expected that highly profitable Nigerian firms will require less debt finance. The statistically insignificant between leverage and ROE also suggests that there might be agency issues which may lead Nigerian firms to use higher than appropriate levels of debt in their capital structure thereby producing lower performance. The insignificant negative relationship further reflects that the stock market in the Nigerian economy is underdeveloped and is consistent with signs of underdeveloped stock market. Intuitively, upon taking a closer look at the results, there may be other reasons for this insignificant rather than the propositions of the pecking order hypothesis. It could be due to decisions by the firms to avoid underinvestment problems and mispricing of new projects. More so, listed firms in Nigeria are most times attracted by equity finance due to the substantial capital gains in the secondary market. Hence, there could be a little deviation from the reasons proposed by the pecking order theory.

Moreover, the firms in Nigeria are still operating under low optimum level of capital structure and due to this poor selection of capital structure, the financial performance of Nigeria firms is adversely affected. By keeping in view, the importance of this sector, it is suggested that the financial analysts and managers should emphasize on the optimum level of capital structure and efficient utilization and allocation of resources. This will help to achieve the targeted level of productive efficiency in manufacturing sector of Nigeria.

### Summary of Findings

Capital structure remains the most controversial issues in finance literature because of the dynamic nature of the mix of corporate financing, which mirrors many events and exogenous shocks to firm's activities. The purpose of this study is to determine the effect of capital structure on the performance of the Nigerian manufacturing firms. The study employed correlation design as it attempts to correlate the influence of capital structure on corporate performance of quoted Manufacturing firms in Nigeria using the four widely used proxies (i.e. Return on Equity, Return on Assets, Sales Growth, and Earnings per share) for measuring firm performance. It thus, attempts to establish the underlying facts about their relationship with leverage. Sample of 58 quoted manufacturing firms from 16 subsectors over a period of ten years were purposely selected for analysis.

The findings of this research are based on the result of the tested hypotheses. It is also based on the annual financial statement of the quoted manufacturing firms in Nigeria between the periods of 2004 to 2013. Multiple linear regressions are used for testing hypotheses. The result of the study reveals that

- i. The coefficient of return on equity is -0.357 this indicates a negative relationship between ROE and leverage and that for every N 1 naira increase in Leverage brings about 0.357k decrease in return on equity. The p- value for ROE (0.211) is greater than (0.05) significant level which indicates that it is not statistically significant.
- ii. The coefficient of return on assets is 0.919 this indicates a positive relationship between ROA and leverage. It corroborates the result of the regression model that Leverage is playing a significant role in measuring return on assets. The result of the model reveals that for every N 1 naira increase in Leverage brings about 0.919k increase in return on assets. The p- value for ROA (0.017) is less than (0.05) significant level which indicates that it is statistically significant.
- iii. The coefficient of Earnings per share is 0.344 this indicates a positive relationship between EPS and leverage. It corroborates the result of the regression model that Leverage is playing a significant role in measuring Earnings per share. The result of the model reveals that for every N 1 naira increase in Leverage brings about 0.344k increase in Earnings per share. The p- value for EPS (0.036) is less than (0.05) significant level which indicates that it is statistically significant.
- iv. The coefficient of sales growth is 0.257 this indicates a positive relationship between SG and leverage. The positive correlation and significant showing that between pair of Leverage and sales growth there is significant relationship. Also, it corroborates the result of the regression model that Leverage is playing a significant role in measuring sales growth. The result of the model reveals that for every N 1 naira increase in Leverage brings about 0.257k increases in sales growth. The p- value for SG (0.016)



is less than (0.05) significant level which indicates that it is statistically significant

### Conclusion

A remarkable difference between the capital structures of Nigerian firms. Nigerian firms presumably prefer short term finance and have substantially lower amounts of long term debt. This reveals that Nigerian firms rely heavily on short term financing rather than long term finance. This difference in long-versus short-term debt, to an extent, might limit the explanatory power of the capital structure theories in Nigeria. It suggests that the theoretical underpinnings of the observed correlations are still largely unresolved.

The study exposes the relationship that exists between the capital structure of firms and the overall organization performance. The capital structure is the mix of debt and equity finance by the firms.

The study revealed that most firms use equity finance at a far higher level than debt finance partly due to ignorance and the stringent policies of debt finance in Nigeria. The high cost of debt finance is another militating factor against the firm's debt finance usage. The high cost of debt finance made it inaccessible for expansion by the firms. The study discovered that in the Nigerian peculiar circumstance the suggested Modigliani and Miller 99% to 1% debt equity ratio cannot work, and in fact most firms finance by 99% to 1% of Equity to debt ratio. The study also revealed that the optimal capital structure orchestrated by Modigliani and Miller is impracticable and unattainable in the peculiar circumstances' of the firms in Nigeria. The return and the overall performance of the firms are influence by the capital structure mix.

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