Capital Structure Decision and Firm Performance: Evidence from Non-Financial Firms in Nigeria

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Abstract: This paper investigates the effect of capital structure decisions on firm performance using a sample of 22listed Non-financial firms on the Nigerian Stock Exchange for a period of five years (2011 – 2015). The study examined the impact of STDTA, LTDTA, and TDTE (being the explanatory variables) on ROA and ROE, which represents the dependent variable while controlling for size, tangibility and Growth. The panel dataset were analysed using pooled, fixed effect and random effect models while Hausman's test were used to select the appropriate model. On the ROA model (panel A), the ratio of short term debt to total asset (STDTA) and total debt to total equity (TD/TE) have significant negative effect on performance. The ROE model (panel B) revealed that short-term debt to total asset (STDTA) and long-term debt to total asset (LTDTA) have significant positive effect on ROE while total debt to total equity (TD/TE) has significant negative effect. Firm size has significant positive effect in both models (ROA and ROE). This implies that, the inclusion of debt (both short term and long term) in the capital structure of a firm positively affect the equity shareholders in terms of firm performance while debt holder might be affected negatively.

Keywords: capital structure; financial performance; returns on equity; earnings per share; agency theory

JEL Classification: D22

1. Introduction

The quest for firms to expand their activities, maximise their shareholders' wealth and compete effectively in the industry where they operate cannot be over-emphasised. It is an undeniable fact that the going concern and the performance of a firm hinge on some important factors such as: qualified management board, pragmatic strategies, availability of finance, among others. Therefore, for firms to

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achieve their goals and objectives, taking into cognisance their limited resources, they necessarily need to strategize on how to finance their activities.

Basically, the sources of finance available to an entity include: equity, debt, and earnings. Equity refers to the fund invested into a firm by its shareholders, while debt is the fund sourced from other capital providers, which crystallised at a specified date. Earnings on the other hand, refer to the profit generated by a company in its business activities. However, since earnings may not always be sufficient for an organisation to run its activities due to tax and dividend dependability on it, hence, the major sources of fund available to a firm is equity and debt.

The maxim "quid pro quo" meaning something for something operates in the world of finance. Every provider of capital be it shareholders, bondholders or debenture holders are only willing to sacrifice their fund with the expectation of receiving either dividend or interest in return. Therefore, in taking financing decisions, decision makers need to establish the available sources of finance, the interest of the providers of such funds, its cost and benefits, the impact of those finance option on its overall activities, and most importantly the appropriate mix of all obtainable funds.

Capital structure simply refers to the proportion of debt and equity in the financial framework of a firm. Therefore, since capital structure is the mixture of equity and debt, a firm may be all equity (ungeared/unlevered); or a mix of equity and debt (geared/levered). Empirical evidences assert that firms will select the mix of debt and equity that maximises the value of the firm (Modigliani & Miller, 1958). When an organisation intends to expand its investments, the need to raise funds is inevitable, which may alter its capital structure.

An appropriate capital structure is a critical decision for any business organisation. The decision is important not only because of the need to maximise returns to various organisational stakeholders, but also because of the impact of such decision has on the survival of the business. Despite its theoretical appeal, researchers in corporate finance are yet to agree on the optimal level of capital structure; as well as the relationship between leverage and firm performance (Mykhailo, 2013). While some studies established a negative impact, others maintain that a positive impact exists. Due to the contradictory opinion of finance economists on the subject matter, this study is set to explore the impact of capital structure decision of managers on firms' performance, ala return on both capital and asset utilized.

The rest of the paper is organised as follows: section two contains theoretical and literature review, the next section discusses the methodology. The fourth section accounts for data analysis while section five concludes the paper.

2. Theoretical and Literature Review

Since the publication of the Modigliani and Miller's (1958) work titled "irrelevance theory of capital structure", the theory of corporate capital structure has been a study of interest to finance economists. Over the years, different theories of capital structure have been propounded which diverge from the assumption of perfect capital markets under which the "irrelevance model" is working. However, the commonest among these theories include; static trade-off theory, pecking order theory, and market timing theory. There is also a concern that agency cost affects the capital structure of a company.

2.1. Static Trade off Theory

Static trade-off theory asserts that there is a trade-off between the benefits of taking on more debt and the costs of higher indebtedness. The benefits of taking on debt (rather than equity) are mainly in the tax relief while the marginal costs of extra debt relate to the greater risks from financial distress. The theory therefore postulate that companies should have an optimal level of gearing and that the optimal gearing level for a company is reached at a point where the marginal benefits of taking on additional debt capital equals the marginal costs of taking on the extra debt. However, this theory have been criticised by several other theories on the basis that firms does not have an optimal gearing level.

2.2. Pecking Order Theory

Myers (1984) originated the theory. It attempts to criticise the static trade off theory, which hypothesise that firms have an optimal gearing level. Its progenitor opines that firms showed preference in choosing their sources of finance. The pecking order theory says the most preferred source of finance for firms is retained earnings follow by debt capital and lastly equity capital. The rationale behind this order is that, using retained earnings to finance investment is convenient and cheaper than any other sources of finance. However if retained earnings is unavailable or inadequate, debt capital will be used because of its relative tax advantage. The less preferred source of finance in the pecking order theory is equity capital this is because of the high cost involved in raising the capital.

2.3. Market Timing Theory

The market timing theory states that choice of financing method can be determine by the opportunities in the capital market and that these opportunities occurs as a result of asymmetry of information. Consequently, it is opined that management of companies should know when the future prospects for the company are better than investors are expecting, and when the prospects for the future are worse than investor expectation. Based on this privilege information, the theory suggests that management will therefore recognise occasions when the company's shares are

currently under-valued or over-valued. Hence, companies leverage on such information to issue new shares when they consider the share price to be over-valued and will consider share repurchases when they consider the share price to be under-valued. Taking advantage of opportunities in the market to issue new shares or buy back existing shares affects the gearing level. In sum, the theory posits that companies do not have a target optimal gearing level and that market opportunity and market timing determine their financing decisions often.

2.4. Theory of Agency Cost

This theory is originated by Jensen and Meckling (1976). The theory states that various interest groups, comprising of the company's shareholders, providers of debt capital and the management, affect the capital structure of a firm. According to this theory, each interest group has it preference and objectives; therefore, in choosing a method of finance, a balance must be strike in compensating the interest of the shareholders, debt providers and management. In conclusion, the agency cost theory only buttress the submission of the static trade off theory by submitting that "optimal" capital structure for a company is obtained by trading off not just the marginal benefits and marginal costs of extra debt but also by trading off the "agency costs" of additional debt and/or the "agency costs" of additional equity. In practice, such cost eventually diminish the net benefits or return available for distribution to business owners, thus, its barometer is set in terms of wealth of owners. The study therefore tests the veracity of Static trade off versus Agency Cost theories using Nigerian data.

2.5. Empirical Review

Based on the foregoing theories, several authors across the globe have made attempt to ascertain the impact of capital structure on firms' performance.

In Kenya, Lucy (2014) investigates the relationship between capital structure and performance of non-financial companies. The study employed an explanatory non-experimental research design using a sample of 42 non-financial companies in Nairobi Securities and Exchange for the period of 2006-2012. The study revealed that financial leverage had a statistically significant negative association with performance. The study recommended that managers of listed non-financial companies should reduce the reliance on long-term debt as a source of finance. Similarly in Nigeria, Osuji and Odita (2012) examines the impact of capital structure on financial performance of Nigerian firms using a sample of thirty non-financial firms listed on the Nigerian Stock Exchange during the seven (7) year period, from 2004 to 2014. Panel data for the selected firms were compiled and analysed using the ordinary least squares as a method of estimation. The result of their study showed that a firm's capital structure has a significantly negative impact on the firm's financial performance. Lawal *et al.* (2014) in their study of the effect of capital structure on firm's performance among sampled firms in the Nigerian

manufacturing industry, observed that capital structure variables are negatively related to firms performance they however recommend that firms should use more of equity than debt in financing their operation.

Mustafa and Osama (2013) also provide evidence from Jordon in their investigation of the impact of capital structure and corporate performance on 76 Jordanian firms for the period 2001-2006 using the multiple regression model represented by Ordinary Least Square (OLS) found that capital structure associated negatively and statistically with firm's performance. Their study also revealed that the impact of gearing on the performance of highly geared and lowly geared firms is insignificant. In addition to the foregoing, divers authors, Bokhtiar et al. (2014), Varun (2014), Onaolapo and Kajola (2010), Ebaid (2009), Shan and Khan (2007), Zeitan and Tian (2007), Haung and Song (2006), Deesomsak et al. (2004) and Gleason et al. (2000) have all concluded that capital structure statistically and negatively impact firm's performance, using the different methodologies and country data.

Conversely in Pakistan, Mubeen and Kalsoom (2014) in their investigation of the impact of capital structure on financial performance and shareholders' wealth sampling 155 firms in the Pakistan Textile Sector concluded that capital structure positively impact firms financial performance and shareholders' wealth. Similarly, in Sri Lanka, Nirajini and Priya (2013) also investigate the impact of capital structure on financial performance. The study employed correlation and multiple regression analysis. Their findings revealed that there is a positive relationship between capital structure and financial performance and that capital structure significantly affects performance. Other authors have also concluded that capital structure has a mixed effect on firms performance. (Zeitan & Tian, 2007)

Berger and Bonaccorsi (2006), in their study of the impact of capital structure on firm's performance concluded that neither higher leverage nor lower equity capital ratio are connected with higher profit efficiency for all range of data. Also, Phillips and Sipahioglu (2004) in their study of the impact of capital structure on firm's performance using the UK lodging firms as sample concluded that there is no significant link between capital structure and firm's performance.

3. Methodology

The nature of this research demands the use of quantitative research design including ex-post facto. The population of this study encompasses all non-financial firms listed on the Nigerian Stock Exchange (NSE) market, a sample of 22 quoted companies were purposively selected for this study. Data were extracted from audited annual reports and accounts of listed firms on the Nigerian Stock Exchange, which spanned between 2011 and 2015. Evaluation concentrated on

post global financial crisis period in which data was available. In order to capture the impact of capital structure on firm performance, we specify a model conforming to the agency theory; as previously specified by Berger and di Patti (2006) as well as Margaritis and Psillaki. (2007, 2010) It was based on the assumption that managers have zero shareholding in the firm. Otherwise, managers will have no incentives to take a low value projects, as they maximize their own wealth. Besides, we assume that managers want to avoid firm liquidation and prefer not to pay dividends to shareholders. The literature suggests many ways of measuring performance of the firm. Hammes and Chen (2004) used ROA as a measure of firm performance, since the basic accounting ratios are claimed to be improper indicators of firm performance.

Concomitantly, Ward and Price (2006), adopted return on equity as an appropriate measure of performance, since it reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. For the most part, the higher a company's return on equity compared to its industry, the better.

Hence, we specified the following Models;

$ROAit = \alpha_0 + \alpha_{1it}STD/TA + \alpha_{2it}LTD/TA + \alpha_{3it}D/E + \alpha_{4it}TANG + \alpha_{5it}GROWTH + \alpha_{6it}SIZE + \mu_{it}$ … 3.1 $ROEit = \alpha_0 + \alpha_{1it}STD/TA + \alpha_{2it}LTD/TA + \alpha_{3it}D/E + \alpha_{4it}TANG + \alpha_{5it}GROWTH + \alpha_{6it}SIZE + \mu_{it}$ … 3.2 α_0 is the constant, and α_1, α_2, α_3, α_4, α_5, α_6 are regression coefficients, while μ_{it} is the error term

Descriptive Variables:

Variables	Descriptive	Sign
Dependent Variable		
Financial Performance	Market Value of Equity	
	Net Asset Per Share	
Independent Variables		
Short term debt	The ratio of short term debt to total asset.	_
Long term debt	The ratio of long term debt to total asset.	_
Debt Equity	The ratio of debt to equity.	
Control Variables:		
Asset Tangibility	The ratio of non-current asset to total asset.	+
Growth	% change in the log of total asset	+
Size	Natural logarithms of total asset.	+

4. Analysis and Discussion of Result

Table 4.1. Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std Dev.	Skewness	Kurtosis	Obs
ROA	0.03	0.04	0.26	-1.20	0.19	-4.24	26.10	110
ROE	0.11	0.11	9.05	-9.81	1.36	-1.14	44.12	110
STDTA	0.43	0.38	2.74	0.10	0.29	4.69	35.66	110
LTDTA	0.19	0.15	0.58	0.01	0.13	1.05	3.59	110
D/E	1.99	1.34	19.46	-45.67	5.70	-4.68	47.30	110
TANG	0.57	0.59	0.98	0.05	0.21	-0.31	2.78	110
SIZE	7.56	7.56	9.05	6.36	0.69	0.27	2.20	110
GROWTH	-1.44	0.07	0.94	-11.91	111.25	-9.02	87.09	110

Source: Author's Computation

Table 4.1 above showed the variables used in the study. Analysis indicated the average ROA is 0.03, the minimum is -1.20, while the maximum is 0.26. The standard deviation is 0.19. Relatively, ROE shows a mean value of 0.11, the minimum is -9.81; maximum is 9.05 while the standard deviation is 1.36. Both ROA and ROE showed negative skewness while the variables are leptokurtic in nature. The negative minimum value is attributable to a firm with a loss in a period. This low performance can be traced to such factors as inadequacy of electricity, high interest rate and depreciation in exchange rate. The ratio of the STDTA shows a mean value of 0.43 while Long Term Debt to Total Assets (LTDTA) has a mean value of 0.19. Both STDTA and LTDTA indicated positive skewness and the variables are leptokurtic, that is, they are highly peaked. The ratio of debt/equity has the mean value of 1.99, implying that the proportion of debts in the sampled firm is high; this is supported with the kurtosis value of 47.30; a leptokurtic variable. The ratio of tangible assets to total assets has the mean value of 0.57 while the maximum is 0.98 and the minimum is 0.05, the variable is negatively skewed and has a low kurtosis, which implied a platykurtic variable with a low standard deviation. On the average, firms' size has an average value of 7.56 with a minimum and maximum of 9.05 and 6.36 respectively. The size of the firms is positively skewed with a low kurtosis value of 2.20, which implied a platykurtic variable. Finally, the mean value of the firm's growth is -1.44 with a minimum and maximum value of -11.91 and 0.94 respectively. The skewness of the firm's growth is -9.02 which implied negative skewness while the kurtosis stood at 87.09 depicting a leptokurtic variable.

Table 4.2. Correlation Matrix

	ROA	ROE	STDTA	LTDTA	D_E	TANG	SIZE	GROWTH
ROA	1.00							
ROE	0.39	1.00						
STDTA	-0.73	0.00	1.00					
LTDTA	0.10	0.06	-0.22	1.00				
DE	0.02	-0.66	-0.07	0.34	1.00			
TANG	0.00	0.08	-0.21	0.30	-0.14	1.00		
SIZE	0.35	0.01	-0.13	0.30	0.33	0.07	1.00	
GROWTH	0.02	0.01	0.07	0.10	0.03	-0.08	0.11	1.00

Source: Author's Computation

Table 4.2 shows the correlation matrix of the variables. LTDTA, DE, TANG, SIZE, and GROWTH are positively correlated with ROA; while STDTA is negatively correlated with ROA.DE has a negative correlation with ROE, while other variables showed a positive correlation.

4.3. Regression Analysis

In Panel A (the predictor is ROA), Hausman's test discriminate between the fixed and random effect models as presented in Table 4.3 below.

Table 4.3. Panel A - Hausman Test

Hausman Test – Panel A				
Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		9.523113	6	0.1462
Variable	Fixed	Random	Var(Diff.)	Prob.
STDTA	-0.39	-0.41	0.00	0.48
LTDTA	0.00	-0.02	0.01	0.76
D_E	-0.01	-0.01	0.00	0.06
TANG	0.01	-0.08	0.00	0.19
SIZE	0.08	0.09	0.01	0.84
GROWTH	0.00	0.00	0.00	0.30

The Hausman's chi-square statistics of 9.52 is not significant at 5%. Hence, it appears there is no correlation between the error term and one or more independent variables. Therefore, the random effect model is capable of generating more consistent estimate as against the fixed effect model. Thus, our discussion is based on the random effect model as presented in models 5 and 6 in Table 4.4.

Table 4.4. Panel A: Dependent Variable is ROA

	Pooled Model		Fixed Effect Model		Random effect Model	
	1	2	3	4	5	6
C	0.25* (0.03)	-0.34* (0.13)	0.23* (0.03)	-0.38 (0.62)	0.23* (0.03)	-0.43 (0.21)
STDTA	-0.47* 0.04	-0.48* (0.04)	-0.41* (0.04)	-0.39 (0.05)	-0.43* (0.04)	-0.41 (0.04)
LTDTA	-0.10 (0.11)	-0.11 (0.10)	-0.01 (0.14)	0.00 (0.15)	-0.01 (0.11)	-0.02 (0.12)
D/E	-0.00 (0.00)	-0.00** (0.00)	-0.01* (0.00)	-0.01 (0.00)	-0.01* (0.00)	-0.01* (0.00)
TANG		-0.16* (0.06)		0.01 (0.10)		-0.08 (0.07)
SIZE		0.09* (0.02)		0.08 (0.08)		0.09* (0.03)
GROWTH		0.00 (0.00)		-0.00 (0.00)		0.00 (0.00)
R Squared	0.52	0.65	0.85	0.85	0.56	0.60
Adj. R Squared	0.51	0.63	0.81	0.81	0.54	0.58
S.E Regression	0.13	0.11	0.08	0.08	0.09	0.08
F Statistics	39.17	31.91	20.73	18.02	45.24	26.40
Prob. Value	0.00	0.00	0.00	0.00	0.00	0.00
Observation	110	110	110	110	110	110

*N.B: figures in parentheses are standard errors. *significant at 1%, **significant at 5%,*

Table 4.4 above showed the pooled regression result in models 1 and 2. In model 1 above, STDTA has a significant negative effect on ROA while LTDTA and DE have insignificant negative relationship. This is consistent with the result of Bokhtiar et al. (2014) and Osuji & Odita (2012) which also reported that STDTA has a negative effect on ROA. Model 2 control for tangibility, size and growth. STDTA, D/E and Tangibility have negative significant effect on ROA, while Size has positive significant effect on ROA this is also evidence in Lucy (2014) and Mustafa (2013). Conversely, LTDTA has insignificant negative effect on ROA while Growth has insignificant positive effect on ROA

The fixed effect is depicted in models 3 and 4 in Table 4.4 above. In model 3, STDTA and D/E have negative significant effect on ROA, while LTDTA has negative insignificant effect on ROA. Model 4 control for tangibility, size and

growth. STDTA, D/E, growth have negative insignificant effect on ROA, while LTDTA, Tangibility and Size have a positive insignificant effect on ROA. This is consistent with prior studies.[1]

The random effect is captured by model 5 and 6 in Table 4.4 above. Model 5 revealed that STDTA and D/E have negative significant effect on ROA, while LTDTA has negative insignificant effect on ROA. However, the controlled model represented by model 6 reveals that D/E has a negative significant effect on ROA while size has a positive significant effect on ROA.

Table 4.5. Hausman Test – Panel B

Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		46.034520	6	0.0000
Variable	Fixed	Random	Var(Diff.)	Prob.
STDTA	1.25	0.08	0.13	0.00
LTDTA	4.87	3.49	1.49	0.26
D_E	-0.26	-0.21	0.00	0.00
TANG	0.24	-1.01	0.74	0.15
SIZE	1.31	0.43	0.56	0.24
GROWTH	0.00	0.00	0.00	0.80

In Panel B (the predictor is ROE) Hausman's test discriminates between the fixed and random effect models as presented in Table 4.5. The Hausman's chi-square statistics of 46.03 is significant at 5%. Hence, it appears there is correlation between the error term and one or more independent variables. Therefore, the fixed effect model is considered capable of generating more consistent estimate as against the fixed effect model. Thus, our discussion is based on the fixed effect model as presented in Table 4.5 and captured by models 3 and 4.

[1] See (Bokhtair, 2014; Osuji & Odita 2012).

Table 4.6. Panel B- Dependent Variable- ROE

	Pooled		Fixed Effect Model		Random Effect Model	
	1	2	3	4	5	6
C	-0.20 (0.23)	-2.82* (1.05)	-0.68** (0.32)	-10.91*** (5.92)	-0.20 (0.19)	-2.82* (0.91)
STDTA	0.12 (0.32)	0.08 (0.31)	0.99** (0.41)	1.25* (0.45)	0.12 (0.26)	0.08 (0.27)
LTDTA	3.30* (0.76)	3.49* (0.79)	4.64* (1.32)	4.87* (1.40)	3.30* (0.63)	3.49* (0.68)
D/E	-0.18* (0.02)	-0.21* (0.02)	-0.27* (0.02)	-0.26* (0.02)	-0.18* (0.01)	-0.21 (0.02)
TANG		-1.01** (0.46)		0.24 (0.94)		-1.01** (0.39)
SIZE		0.43* (0.14)		1.31** (0.76)		0.43** (0.12)
GROWTH		-0.00 (0.01)		-0.00 0.01		-0.00 (0.01)
R Squared	0.52	0.58	0.74	0.75	0.52	0.58
Adj. R Squared	0.51	0.55	0.66	0.67	0.51	0.55
S.E Regression	0.95	0.91	0.79	0.78	0.95	0.91
F Statistics	96.65	23.42	52.48	9.08	38.27	23.43
Prob. Value	0.00	0.00	0.00	0.00	0.00	0.00

*N.B: figures in parentheses are standard errors. *significant at 1%, **significant at 5%, ***significant at 10%*

Table 4.6 above showed the pooled regression result in models 1 and 2. In model 1 above, LTDTA has a significant positive effect on ROE while DE has significant negative relationship. This is consistent with the result of (Osuji & Odita, 2012) which also reported that LTDTA has a positive effect on ROE. Model 2 control for tangibility, size and growth. LTDTA and Size have positive significant effect on ROE at 5% significant level, while Debt to Equity and Tangibility has negative significant effect on ROE this is consistent with Mustafa (2013). However, the growth ratio reveals a negative insignificant effect on ROE.

The fixed effect analysis is depicted in models 3 and 4 above. Model 3 indicated that STDTA and LTDTA have positive significant effect on ROE, while D/E has negative significant effect on ROE. This is in part consistent with the result of (Osuji & Odita, 2012). Model 4 control for tangibility, size and growth. STDTA, LTDTA and Size have positive significant effect on ROE (Osuji & Odita, 2012;

Lawal et al., 2014), while D/E has a negative significant effect on ROE. However tangibility and growth shows a positive and negative insignificant effect respectively.

The random effect result is captured in model 5 and 6. In model 5 LTDTA have positive significant effect on ROE (Osuji & Odita, 2012), while D/E have a negative significant effect on ROE. The effect of STDTA is positive but insignificant. However, the controlled model represented by model 6 reveals that LTDTA and size have positive significant effect on ROE (Osuji, 2012; Lucy, 2014; Mustafa, 2013) while Tang has a negative significant effect on ROE (Mustafa, 2013). D/E and Growth shows a negative but insignificant effect on ROE. Lastly, the effect of STDTA is positive but insignificant.

5. Conclusion

Capital structure remains one of the most contentious issues in finance literature. This is however a resultant effect of the divergent conclusions of various theoretical and empirical submissions on the subject matter.

This paper examines the impact of capital structure decision on financial performance using a sample of twenty-two non- financial firms in Nigeria between 2011 and 2015. The study seeks to fill the gap in the existing literatures by combining both equity-based and naira-based performance variables to ascertain how impactful leverage is on firms' performance. In addition, the study also evaluates the validity of agency theory in the Nigeria context.

The result indicates that performance measured by ROE is moderately positively influenced by leverage, while ROA interaction with leverage indicates negative relationship. This implies that, the inclusion of debt (both short term and long term) in the capital structure of a firm positively affect the equity shareholders in terms of firm performance while debt holder might be affected negatively. The results indicate that owners as principal benefit marginally from leverage while management's (agent's) measure of performance with respect to owners (principal) capital correlates substantially with leverage. Implicitly, capital structure of firms impact financial performance (measures of agents) than the real wealth of owners using Nigerian data. These findings lend credence to the agency theory, but contrast the conclusion of Varun (2014) who studied the Indian firms and concludes that leverage has negative impact on firms' performance, however, it is consistent with Mubeen and Kalsoom (2014) which indicated capital structure to positively impact both firm performance and shareholders wealth using Pakistan data.

The results of this empirical study suggest that some of the insights from modern capital structure theories are applicable to Nigeria in that certain firm-specific

factors that are relevant for explaining capital structure and corporate performance in the developed economy are also relevant in Nigeria. The inefficiency of the Nigerian Capital Market may have indirectly influence the outcome of this study. This is because the capital structure theory envisaged corporate bond (long term debt) to be substantially utilized than money market based short term debt because the former is assumed to be cheaper than the latter, thus, more benefits to accrue to owners from its usage. The Nigerian Capital market needs reforms that will ensure reduction in its inefficiency and high volatility, as well as improved transparency. Thus, ensuring that performing firms are able to raised needed funds at moderate "agency" cost.

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