

**FINANCING STRUCTURE AND FINANCIAL PERFORMANCE OF INDUSTRIALIZED FIRMS
IN THE NIGERIAN EXCHANGE GROUP****Ihenyen Joel Confidence (Ph.D) & Yalah Boloumbele****Department of Accounting, Niger Delta University, Wilberforce Island, Bayelsa State****ABSTRACT**

Decisions concerning the company's financial structure are heavily influenced by the financing arrangement. One of the main objectives of corporate financial management is to ensure that shareholders have the most money while keeping the cost of capital low. The research examines how Nigerian Exchange Group-listed industrial enterprises get funding and their financial health (NGX). The study employed an ex-post facto research design. The financial structure and financial performance of Nigerian listed industrialised enterprises were examined in this study. For the duration of the research (until December 31st, 2020), the NSE will receive yearly reports from twelve (12) industrial enterprises that are listed on the Nigerian Stock Exchange Group's fact book. There was adequate data on ten different industrial enterprises for the researchers to make their selections. For example, in a regression, (TPAYA) has a positive and non-statistically significant association with financial results. The regression is relevant since both (STDE) and (LTDE) show a positive and statistically significant association with financial success. According to the research, companies should pay more attention to choosing managers who can maximise shareholder value. Because investors are increasingly interested in maximising their wealth, managers must keep an eye on wealth maximisation.

Keywords: *Financing Structure, Financial Performance, Nigeria*

INTRODUCTION

Many other company finance decisions are influenced by the funding structure chosen. One of the many objectives of corporate finance management is to tip the scales in favor of maximizing of shareholder wealth while maintaining a low cost of capital. As a result, capital structure is one of the most powerful management instruments for lowering capital costs. Capital structure is optimum when the cost of capital is the lowest (Fisseha, 2010). A company's financial health is directly tied to the decisions made by its finance manager, who is tasked with determining the optimal mix of debt and equity for his organisation. Determine the company's financing structure, which includes both debt and equity, by analysing its financial statements (Shehu, 2019).

Long-term debt, particular short-term debt, common stock, preferred equity, and retained profits all make up the capital structure. The ability of a company to maximise shareholder value and wealth by generating optimal returns on its assets is used to measure its success. The risk-return relationship, as well as the rate of risk associated with various financing options, influence the financing decisions made by businesses (Abu-Rub, 2012). A company's capacity to address the requirements of a wide range of stakeholders is directly tied to its financial structure. The capital structure represents the primary claims on the assets of a business, and it includes a variety of equity and liability instruments (Babalola, 2018).

The mix of debt and equity used to finance a company's productive assets (operations), future growth, and other investments, according to Baker and Martin (2011), is known as the company's capital structure. The stakes for the company's long-term profitability are raised since it accounts for a significant portion of its overall capital expenditures. The value of a firm and, by extension, the wealth of its shareholders may be significantly impacted by the various debt ratios that can be selected among a number of financing sources. Businesses may raise money in several ways, such

as by reinvesting their own profits or by selling shares in the firm. One of the most influential factors in corporate financial policy has traditionally been the structure of a company's capital stock.

Nigerian listed industrial businesses' financial performance has been influenced by capital structure (Akinyomi, 2013; Agbo and Anand-Ku, 2019; Igbinovia, 2019; Agbo and Anande-Ku, 2019). To put it another way, we can not all agree on how much of an influence finance structure and financial performance are having on the economy. Examine the impact of the financing structure on the financial performance of Nigerian listed industrial companies between 2011 and 2020 using this information.

Literature Review

An investigation on the influence on Nigeria's corporate performance of the capital structure was conducted by Kalagbor, Okoba, and Amah (2021). It has been found that Nigerian businesses prefer to borrow money for the short term rather than for the long term. The Nigerian capital structure theory's explanatory capacity may be limited to some degree by the mismatch between long-term debt and short-term debt. Because the connections identified are still mostly unexplained, the company's financing choices need to be handled by specialists and competent employees in the future.

Adegbola, Tony, Damilola, Johnson and Damilola (2020) analysed eight Nigerian Deposit Money Banks between 2003 and 2018 to assess the impact of capital structure on profitability. Using data from the annual reports of many Nigerian deposit money banks listed on the NSE, regression was used to examine secondary data. Results showed that profitability and capital structure indicators (such as debt equity and leverage ratios) were linked (returns on equity). If you have too many debts and too little equity, you will see something like this (debt-equity ratio and leverage ratio).

Using a panel data set covering the years 2012 to 2017, Agbo and Anande-Ku (2019) investigate the capital structure determinants of Nigerian listed oil businesses. Regression analysis and OLS estimates were used to examine the role of firm size, growth, profitability, tangibility, earnings volatility, and non-debt tax shield in predicting capital structure. The financial health of Nigeria's publicly traded oil and gas businesses is closely linked to their capital structure. A significant portion of the oil and gas industry's funding is derived from debt, according to the study. Pecking order theory was also more prevalent than the static trade-off hypothesis, which had a moderate presence in the study. According to our findings, in the future,

Qayyum and Noreen gathered an eleven-bank sample between 2006 and 2016. (2019). Except for the size difference, the capital structures of both types of banks were almost identical. In both conventional and Islamic banks, ROA has been shown to be inversely associated with the capital structure. In contrast, both conventional and Islamic banks' ROE was positively connected with their capital structure. Two fresh results have emerged, although they concentrate on the financial industry rather than the traditional workplace.

Increases in short-term debt to assets boost default risks, whereas increases in long-term debt to assets reduce default risks, say Gul and Cho (2019). (2019). The authors claim that the size, tangibility, and interest coverage of a corporation have a significant impact on default risk. Several research by Vietnamese academics have addressed this issue, many of which have been published in scholarly publications.

Research on the impact of Nigerian businesses' capital structure on their performance has been conducted by Nigerians since 2007. The data was examined via the use of a correlation analysis. Researchers found a correlation between ROE and all of these characteristics. A negative influence of ROE on ROE may be shown in ROE's ROE. Similar to DC, DCE, SDTD, and AGE, ROA shows a positive correlation with ROA. ROA and LDC, on the other hand, have a troubled history together.

100 non-financial Nigerian companies' capital structure and performance were studied by Ajayi and Zahiruddin (2016) during a three-year period. The annual financial statements have been analysed utilising a panel data approach in order to undertake the empirical inquiry. But the firm's total performance is proxied by Tobin's Q and ROA. Tobin's Q has been shown to have a significant and positive association with asset turnover. There is also a difficult link between Tobin and risk. As a firm becomes older, its ROA suffers, but sales growth is favourably and strongly linked to it. As a result, the results of this research will considerably add to the body of knowledge on capital structures and the requirement for Nigerian non-financial enterprises to make capital structure choices based on current data, which spans the recessionary period from 2008–2009.

Igbinoia and Ogbeide (2019) evaluated the relationship between capital structure and corporate value for fifteen selected Nigerian listed companies between 2012 and 2017. Descriptive statistics, correlation analysis, and panel normal least squares regression were all used to analyse the data (OLS)... According to the research, characteristics such as debt, asset tangibility, profitability, and the age of the firm have a significant impact on a company's value. Having a robust, efficient, and consistent strategy for managing the capital structure will allow financial managers to select between debt and equity or both, the study's results show.

Mahmoud (2017) empirically researched the determinants of capital structure in Nigeria's manufacturing industry. The information was gathered from the factbook of the Nigerian Stock Exchange (NSE) for the period of 2012-2016. Probit is used to estimate conditional probability model analysis. Profitability, scale, liquidity, and leverage were shown to be adversely connected with corporate value, while growth potential, age, and tangibility were found to be positively correlated. The study concluded that, in order to attain the best capital structure, corporate regulators, boards of directors, and management should always consider the above aspects when making leveraged financing decisions.

METHODOLOGY

The study employed an ex-post facto research design. Finance structure and financial performance of Nigerian listed industrialised enterprises were examined in this study. Using the term "ex-post-facto" translates to "after the fact," which indicates that the event being studied has already occurred. It was thus necessary to choose a design since the data required for this investigation was already available.

Population of the study/ Sample size

There are twelve (12) companies included in the research whose annual reports have been filed to the Nigerian Stock Exchange Group (NGX) up to and including December 31st, 2020. Five (5) industrial businesses were selected for the research using a method called purposive sampling.

Sources of Data

The data for the study came from a different source. Secondary data was gathered from the Nigeria Stock Exchange Fact Book and the Annual Reports and Accounts of the selected sample companies for the years 2016 to 2020, when they were chosen.

Model Specification

The data analysis model used is shown here:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu$$

Where:

Y = performance measured by Return on asset

X_1 = Trade payable

X_2 = Short equity to total debt

X_3 = Long equity to total debt

$\beta_0 + \beta_1 + \beta_2 + \beta_3$ = the parameters that were estimated

μ = Error or random term

Thus, $ROA = \beta_0 + \beta_1 TRAR + \beta_2 SDE + \beta_3 LTDE + \mu$

Where:

ROA = Return on Asset

TRP = Trade receivable

SDE = Short Equity to total debt

LTDE = Long total debt to Equity

Result and Analysis

For the dependent and independent variables, the E-view provided descriptive statistics such as mean, standard deviation, and variance. Below are some stats to give you a better idea of the situation.

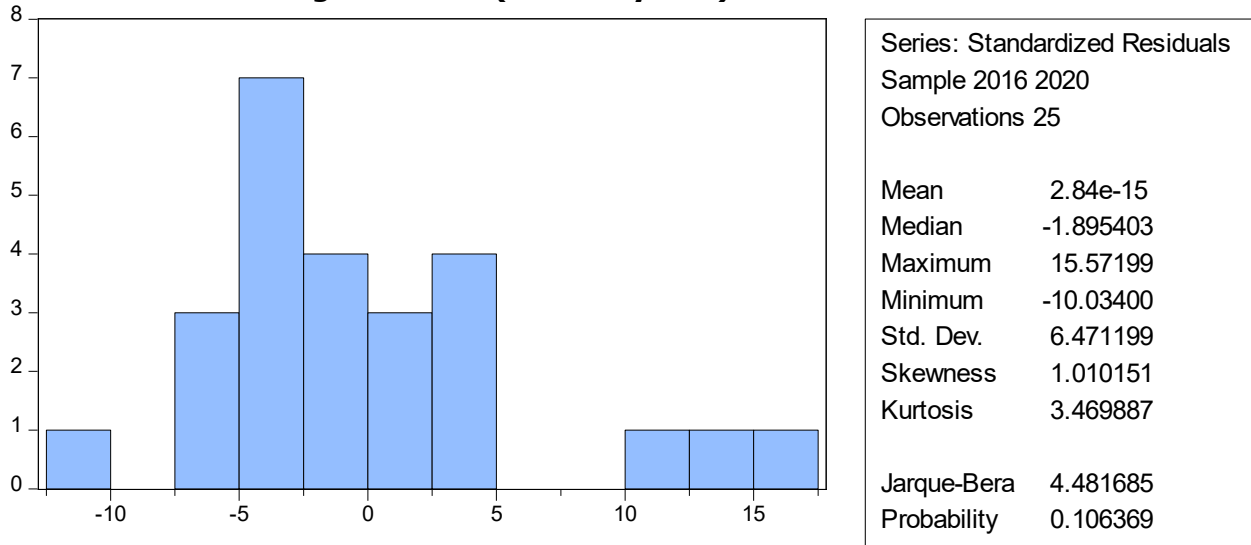
Table 1: Descriptive Statistics

	ROA	LDTE	SDE	TRAR
Mean	14.07846	1.390644	45.74006	12.14549
Median	11.44940	13.65800	33.52600	6.524100
Maximum	32.61510	118.6837	292.4277	37.62730
Minimum	2.937100	-430.4859	4.824700	1.719900
Std. Dev.	8.260488	92.93406	52.90218	11.06489
Skewness	1.112286	-4.171747	4.271610	0.839638
Kurtosis	3.223602	20.35617	20.54568	2.378124
Jarque-Bera	5.206999	386.3027	396.7057	3.340313
Probability	0.074014	0.000000	0.000000	0.188218
Sum	351.9615	34.76610	1143.501	303.6373
Sum Sq. Dev.	1637.656	207281.7	67167.38	2938.361
Observations	25	25	25	25

Source: Researcher Computation, 2022

The lowest and highest possible maximum and minimum values of ROA are -32.61510 & 2.937100, respectively. The standard deviation for ROA 8.260488, while for LTDE the lowest and highest possible values are both (-430.4859 & 118.6837) and mean value of respectively. ROA's standard deviation is also (3.218492). (83.82652). The SDE maximum and minimum values are (292.4277) and (4.824700). The mean value is (45.74006) and the standard deviation is (52.90218). There is a range of (1.719900) to (37.62730) for TRAR's minimum and maximum values, with a mean of (18.24248) and a standard deviation of (11.06489).

The descriptive statistics result showed that the variables (ROA, SDE and TRAR) are rightward skewed positively skewed. Therefore, we conclude the distribution to be approximately normal. The coefficient of the kurtosis of ROA and TRAR indicates mesokurtic given that the kurtosis values are approximately 3.00, relative to the normal; thus they are normally distributed. While LTDE and SDE indicated that the dataset has heavier tails than a normal distribution.

Table 2: Residual Diagnostic Test (Normality Test)

Source: E-view output, version 9

The diagram above shows the normality test which represent that the variables are leftwardly skewed. The Kurtosis measures the peakedness or flatness of the data relative to the normal distribution. The kurtosis coefficient of 3.469887 which indicates that the variables are flatly (Meskurtic) which is lesser than 3.

Table 3: Regression Result

Dependent Variable: ROA

Method: Panel Least Squares

Date: 02/20/22 Time: 22:57

Sample: 2016 2020

Periods included: 5

Cross-sections included: 5

Total panel (balanced) observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.726929	7.245477	-0.652397	0.5212
LDTE	0.201357	0.075546	2.665353	0.0145
SDE	0.405825	0.135073	3.004488	0.0068
TRAR	-0.003055	0.140516	-0.021741	0.9829
R-squared	0.386297	Mean dependent var	14.07846	
Adjusted R-squared	0.298625	S.D. dependent var	8.260488	
S.E. of regression	6.918003	Akaike info criterion	6.851778	
Sum squared resid	1005.034	Schwarz criterion	7.046798	
Log likelihood	-81.64722	Hannan-Quinn criter.	6.905868	
F-statistic	4.406171	Durbin-Watson stat	0.520594	
Prob(F-statistic)	0.014879			

Source: E-view output, version 9

Table 3 the adjusted coefficient of determination (R^2) value of 0.386397 shows that about 39% variation is jointly explained by Trade receivable, Short equity to total debt, Long total debt to equity, while 61% are explained by other factors that accounts for variation in return on asset. According to the F-statistic of 4.406171 and a probability value of 0.014879, the model is statistically significant at a 5 percent significance level as measured by the overall model significance test.

Discussion of Findings

Industrialized Nigerian enterprises' return on assets are favourably impacted by trade receivable (TRAR), although the effect is not statistically significant. This suggests that Nigerian industrial enterprises' performance is negatively impacted by trade receivable. Hence, the null hypothesis is rejected and the alternative is accepted. According to the findings of (Akinyomi, 2013; Ajayi, & Zahiruddin, 2016), there is a long-term association between returns on assets and trade receivable in Nigeria.

Short equity to total debt (SDE) in Nigeria had a positive influence on performance (ROA) with coefficients of 0.405825, and a significant probability value of 0.0068 on the financial performance of listed industrial enterprises in Nigeria. The ROA of Nigerian industrialised enterprises is favourably correlated with the ratio of short equity to total debt. Research shows that the results are in line with the study of (Akinyomi, 2013).

The research indicated that LTDE has a positive and statistically significant impact on the financial performance of industrialised enterprises. The study's conclusions are confirmed by the results (Akinyomi, 2013; Adegbola, et al., 2020).

CONCLUSION AND RECOMMENDATIONS

The study employed an ex-post facto research design. The study examined the relationship between financing structure and firm performance of Nigerian listed industrialised enterprises' from 2016-2020. As the term implies, "ex-post-facto" refers to events that have already occurred after the fact. It was thus necessary to choose a design since the data required for this investigation was already available. The study found that TRAR has a negative and non-statistically significant correlation with financial performance; It is noteworthy to note that SDE and LTDE have a statistically significant relationship with financial performance. The study recommended that companies should pay more attention to choosing managers who can maximise shareholder value, according a research. Managers must also keep a watch on this since investors are more interested than normal with maximising their wealth.

REFERENCES

- Abu-Rub, N. (2012). Capital Structure and Firm Performance: Evidence from Palestine Stock Exchange. *Journal of Money, Investment and Banking*, 23(1); 109-117, <https://doi.org/10.13189/jmib.2012.091201>.
- Adegbola, O. O., Tony, I. N., Damilola, E., Johnson, K. O. and Damilola, G. F. (2020). Capital structure and profitability: the case of Nigerian deposit money banks. *Banks and Bank Systems*, 15(4), 221-228. doi:10.21511/bbs.15(4).2020.18

- Agbo, A. & Anande-Ku, F. (2019). Determinants of capital structure of listed oil and gas firms in Nigeria. *Ae-Funai Journal of Accounting, Business And Finance*, 4(1); 112-120
- Ajayi, O. D. & Zahiruddin, B. G. (2016). The impact of capital structure on firm performance: Empirical Evidence from Nigeria. *IOSR Journal of Economics and Finance (IOSR-JEF)*, 7,(4); 23-30
- Akinyomi, O. J. (2013). Effect of capital structure on firm performance: Evidence from Nigerian manufacturing industry, *International Journal of Innovative Research and Studies*, 2(9); 469-480.
- Babalola Y. A. (2018). Triangulation analysis of capital structure and firms performance in Nigeria. East Ukrainian National University [Vol. Dahl] 91034 Lugansk, Ukraine
- Gambo, E. J., Ahmad, A., & Musa, A. M. (2016). Capital structure and firm in Nigeria content industry. *Archives of Business Research*, 4, 30-44.
- Gul, L. & Cho, Q. (2019). Determinants of trade credit: a comparative study of European SMEs. *International Small Business Journal*, 28(3), 215-233.
- Igbinovia, E. L. & Ogbeide, D. O. (2019). Capital Structure and Firm Value of Selected Quoted Manufacturing Firms in Nigeria. *Dutse Journal of Economics and Development Studies (DUJEDS)*, 7(2); 66-77.
- Kalagbor, G. K., Okoba, D. & Amah, C. (2021). Capital structure and performance of listed manufacturing firms in Nigeria. *Journal of Social and Administrative Sciences Studies*, 5(1); 112-120.
- Mahmoud, I. (2017). Capital structure and firm value in Nigerian listed manufacturing companies: An empirical investigation using Tobin's Q model. *International Journal of Innovative Research in Social Sciences & Strategic Management Techniques*, 4(2); 112-125.
- Qayyum, E. & Noreen, H. (2019). The impact of capital structure on firms' performance in Nigeria. *Munich Personal REPEC Archive (MPRA)*1-24.